

The Audit Office
Private Box 3928, Wellington
Telephone (04) 917 1500
e-mail: reports@oag.govt.nz
web site: www.oag.govt.nz



# Report of the Controller and Auditor-General

on

Tumuaki o te Mana Arotake

## Central Government: Results of the 2001-02 Audits

Presented to the House of Representatives pursuant to section 20 of the Public Audit Act 2001





Rt Hon Jonathan Hunt Speaker House of Representatives WELLINGTON

#### Mr Speaker

I am pleased to forward this report to you for presentation to the House of Representatives pursuant to section 20 of the Public Audit Act 2001.

Yours sincerely

K B Brady Controller and Auditor-General

Wellington 30 May 2003



#### CONTENTS

B.29[03a]

#### **Contents**

		Page
Int	troduction	7
1	The 2001-02 Audited Financial Statements of the Government	9
2	Government Departments – Results of the 2001-02 Audits	23
3	Non-standard Audit Reports Issued	33
4	Accountability for the Crown's Investment in Air New Zealand Limited	45
5	Accident Compensation Corporation – Investment Policies and Practices	49
6	Reducing Social Inequalities: Monitoring of Funding for Capacity Building	61
7	Accountability Information on Student Loans – Has It Improved?	75
8	Status of Follow-up Action on Previous Reports	95



#### Introduction

This report serves two broad purposes:

- it constitutes our "annual report" on the audits for 2001-02 of the Crown and its sub-entities mainly as reflected in the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2002* (parliamentary paper B.11, 2002); and
- it brings to attention a number of other matters (related both directly and indirectly to events occurring in the financial year 2001-02) that we believe warrant consideration by Parliament.

**Part One** deals with the Government's *Financial Statements* as audited and presented to the House (pages 9-22). Specific topics addressed include:

- valuation of certain assets;
- consolidating the financial results and financial position of certain sub-entities;
- · consolidating investments in subsidiaries; and
- some specific accounting issues.

**Part Two** deals with the results of our audits of government departments for the year ended 30 June 2002 (pages 23-32). We include our usual:

- commentary on the audit opinions on the departments' financial reports; and
- assessments of the departments' financial and service performance management.

#### INTRODUCTION

**Part Three** (pages 33-43) sets out details of the non-standard audit reports we issued during the period 1 July 2001 to 31 December 2002 on the financial reports of:

- entities that are part of the Crown reporting entity; and
- other public entities not within the local government portfolio.

**Part Four** describes the limited nature of the accountability to Parliament for the Crown's investment in Air New Zealand Limited (pages 45-48).

**Part Five** provides an updated commentary on the investment policies and practices of the Accident Compensation Corporation (pages 49-59).

**Part Six** sets out the relevant departments' progress in their administration and evaluation of funding provided for capacity building under the Reducing Social Inequalities programme (pages 61-74).

**Part Seven** describes the results of our follow-up review of the quality of accountability information on student loans (pages 75-94).

**Part Eight** gives the current status of follow-up action on previous reports we have made to Parliament (pages 95-128).



#### One

## The 2001-02 Audited **Financial Statements** of the Government





B.29[03a]

1.1 The Audit Office issued its audit report on the Financial Statements of the Government of New Zealand for the Year Ended 30 June 2002 (the Financial Statements) on 13 September 2002. This is the same date on which the Treasurer and Minister of Finance, and the Secretary to the Treasury, signed their Statement of Responsibility for the Financial Statements.

#### **Unqualified Opinion Issued**

- 1.2 The audit report appears on pages 18-19 of the *Financial Statements*. The report includes our unqualified opinion that those statements:
  - comply with generally accepted accounting practice; and
  - fairly reflect -
    - the results of operations and cash flows for the year ended 30 June 2002; and
    - the financial position as at 30 June 2002.
- 1.3 As in previous years, the Treasury has provided a comprehensive commentary on the financial performance and position, which is presented on pages 6-15 of the *Financial Statements*.
- 1.4 In addition to that commentary, we draw attention to the following significant items reflected in the reported results.

#### **Valuation Issues**

#### Department of Conservation Assets

1.5 In our 2001 report, we drew attention to the Department of Conservation (DOC) not having included visitor assets (such as huts and tracks) in the valuation of the Conservation Estate.<sup>1</sup> During 2001-02, DOC completed a

<sup>1</sup> Central Government: Results of the 2000-01 Audits, parliamentary paper B.29[01b], pages 13-14.

- valuation of these assets and obtained a capital contribution from the Crown to bring the assets into its statement of financial position.
- 1.6 Using the transitional provisions of FRS-3 *Accounting for Property, Plant and Equipment*, the visitor assets were recognised at a value of \$197 million in the *Financial Statements* as an adjustment to equity and in DOC's own financial report. In our opinion, that value was less than it should have been. The difference was not material to the *Financial Statements*, but was material to DOC's financial report.<sup>2</sup>
- 1.7 During the 2001-02 audit, a further omission was identified the value of boundary fences on the Crown Conservation Estate. This omission entailed a mixture of ownership and valuation implications that were not resolved in time for the value of the fences to be recognised in the *Financial Statements* as at 30 June 2002. The omission is reported in Note 11 to the *Financial Statements* (page 79).
- 1.8 For the same reason, no value for the fences was recognised in DOC's financial report.<sup>3</sup>
- 1.9 We understand that DOC will be undertaking an exercise to collect information on fences that will allow accurate recording and valuation of these assets. Ownership issues will also need to be resolved. This exercise must be completed in time to recognise these assets in the 2002-03 *Financial Statements*. If this is not achieved, the omission has the potential to affect our audit opinion on those *Financial Statements*.
- 1.10 Another significant issue that arose in the 2002 audit was the valuation of national parks, which were valued using the 30 June 2002 rateable valuations. Under FRS-3, rateable valuations are acceptable only if an independent valuer has confirmed the basis of valuation as appropriate. The valuer's confirmation was received in the final days before finalising the 2001-02 *Financial Statements*. However, the valuer identified duplicate assets in the rateable valuation records, which resulted in a late adjustment to reduce the carrying value of the national parks by \$200 million.

<sup>2</sup> Consequently, our audit opinion on DOC's financial report was qualified accordingly. See more detailed comment in paragraph 2.6 on page 26.

<sup>3</sup> Our audit opinion on DOC's financial report was qualified on this account as well.

B.29[03a]

1.11 We have recommended that the Treasury work with DOC to ensure that asset ownership and valuation issues are resolved for the 2002-03 *Financial Statements*. We also recommended that the Treasury review DOC's capability to address these issues.

## Crown Research Institute Databases and Reference Collections

- 1.12 Crown Research Institute (CRI) databases and reference collections are held and managed by CRIs but are included in neither their nor the Crown's statement of financial position (they were transferred from the Crown to the CRIs at nil value in 1992). There are issues relating to the ownership and valuation of these assets. Insufficient information was available in order to provide a reliable value of these assets for recognition in the 2001-02 Financial Statements. Additional disclosure is made in Note 11 to the Financial Statements drawing attention to the non-recognition of these assets (page 79).
- 1.13 It is important that the valuation and ownership issues affecting these assets are resolved to enable them to be accurately recorded in the 2002-03 financial statements of CRIs and the Crown. We will continue to monitor progress in recognising the assets during 2002-03.

#### Auckland Rail Corridor

1.14 We reviewed the accounting treatment to record the acquisition by the Crown of the Auckland rail corridor lease and associated infrastructural assets. Our discussions with the Treasury disclosed that the Crown's intentions for these assets are unclear at this stage and the Crown is considering a range of options. We concluded that there was insufficient evidence of impairment to require a write-down of the carrying value of the asset of \$81 million at 30 June 2002. Further disclosure on this has been provided in Note 11 to the *Financial Statements* (page 79).

1.15 The accounting treatment will need to reflect the final intentions of the Crown and we have asked the Treasury to keep us informed. When sufficient certainty is reached on those intentions, the accounting treatment of the existing \$81 million asset can be determined.

## Tertiary Education Institutions – Crown-owned Land and Buildings

- 1.16 We identified a question of asset valuation affecting tertiary education institutions' Crown-owned land and buildings that needed to be addressed early in the 2002-03 year. These assets had been revalued to rateable value in prior years and were due for revaluation at 31 December 2002. The appropriate valuation methodology to be used as at that date needed careful consideration.
- 1.17 We recommended that the Treasury work with the Ministry of Education to ensure that these assets were valued in accordance with FRS-3.

#### **Consolidation Issues**

## Preparation for Full Consolidation – General Observations

1.18 For 2001-02, significant additional reporting requirements were put in place for Crown entities and State-owned Enterprises (SOEs) to enable the Treasury to produce financial statements on both the modified equity basis and the full consolidation basis (for 1 July 2002 opening balances and full consolidation comparatives for the 2002-03 *Financial Statements*). Meeting these additional reporting requirements within the tight timetable required for production of the *Financial Statements* posed significant challenges for entities and their auditors. In general, the additional reporting went well – the exception was district health boards (see paragraphs 1.24-1.28).

B.29[03a]

- 1.19 The implementation of line-by-line consolidation for Crown entities and SOEs in 2002-03 means that these entities will need to provide information for the *Financial Statements* on a basis consistent with Crown accounting policies. We have discussed the implications of this requirement with the Treasury, with particular reference to entities such as district health boards that do not currently revalue land and buildings and will need to do so at 30 June 2003.
- 1.20 We will continue to work with the Treasury to ensure that the transition to fully consolidated *Financial Statements* goes as smoothly as possible for all involved.

#### Consolidation of Tertiary Education Institutions

- 1.21 We are concerned that the status of tertiary education institutions (TEIs) in terms of Crown control (and, therefore, consolidation into the *Financial Statements* under FRS-37 *Consolidating Investments in Subsidiaries*) has not been resolved. We were involved in discussions with the Treasury on this matter in November 2001.
- 1.22 The matter is complex and the inability of the Crown and the TEIs to reach consensus on it reflects the lack of clarity about the nature of the legislative relationship between the Crown and TEIs (especially universities) and how the relationship is to be interpreted under FRS-37. While we appreciate the difficulty in resolving the matter, we are concerned about the impact on the 2002-03 *Financial Statements* if it is not resolved.
- 1.23 The Treasury has initiated discussions with parties concerned in order to make progress and take the necessary action to resolve this matter.

#### Ministry of Health – Consolidation of District Health Boards

1.24 We encountered problems in obtaining assurance over the accuracy of the consolidated results of the district health boards (DHBs). This information is consolidated

and reported to the Treasury by the Ministry of Health (the Ministry), based on information reported to the Ministry by the individual DHBs. The main problems that arose were:

- Treasury reporting templates not being completed properly by DHBs to include all information required for the *Financial Statements* (e.g. commitments and inter-entity transactions); and
- a lack of appropriate quality control by the Ministry (and the DHBs themselves) over the information reported by individual DHBs.
- 1.25 Although we were able to gain assurance that the DHB information needed for the *Financial Statements* on a modified equity basis was materially correct, we have not been able to gain assurance as to the accuracy of the other information needed for full consolidation purposes. We will work with the Treasury to gain the assurance we need to be satisfied as to the accuracy of the opening full consolidation position and the comparative figures to be used in the 2002-03 *Financial Statements*.
- 1.26 A further issue that arose was how reporting for the Treasury was handled from a DHB governance perspective. Some DHB boards signed off the Treasury reporting; others did not. This contributed to delays in reporting.
- 1.27 There appears to be a problem with the timing and accuracy of reporting by DHBs. We noted some variances between the initial reporting of results by DHBs and consolidation clearance, that indicate a need for greater attention and leadership in DHB reporting.
- 1.28 We have recommended that the processes used to collect the consolidation information be reviewed to ensure that DHB reporting is timely and accurate for *Financial Statements* reporting purposes.

B.29[03a]

#### Financial Reporting Standard No. 37: Consolidating Investments in Subsidiaries

- 1.29 FRS-37 will come into effect for the 30 June 2003 *Financial Statements*, and is a main impetus behind the switch to fully consolidated financial statements. One major impact of FRS-37 will be in clarifying which entities are under the "control" of the Crown and, therefore, need to be consolidated in the *Financial Statements*.
- 1.30 From the work done to date on full consolidation, the outstanding issues that remain relate to whether the Crown controls TEIs (see paragraphs 1.21-1.23) and the National Provident Fund.
- 1.31 There are likely to be other entities that meet the definition of "control" and may need to be brought into the *Financial Statements* as Crown-controlled entities as opposed to entities controlled directly by Crown entities and State-owned Enterprises that will be incorporated in the *Financial Statements* through the audited consolidated returns from the individual entities.
- 1.32 Crown-controlled entities will be entities controlled by Government departments or Ministers; for example:
  - New Zealand Historic Places Trust
  - New Zealand Council for Educational Research
  - Armed Forces Canteen Council
  - Various trusts with trustees appointed by Ministers (such as the National Pacific Radio Trust).
- 1.33 The Treasury will need to ensure that all Crown-controlled entities are identified and that procedures are established to incorporate the financial results of these entities in the 2002-03 *Financial Statements*.



- 1.34 We have been identifying entities that meet the definition of a "public entity" under the Public Audit Act 2001 (the Public Audit Act definition includes consideration of control under FRS-37). We will work with the Treasury to identify Crown-controlled entities and (wherever possible) share information as to entities likely to be controlled.
- 1.35 We have recommended to the Treasury that it conduct a complete review of Crown-controlled entities for consolidation into the 2002-03 *Financial Statements*.

#### Other Issues

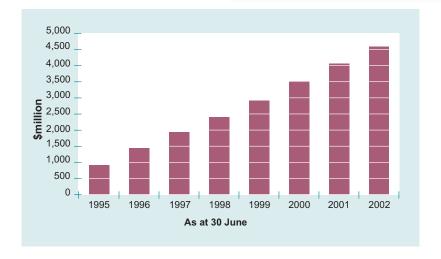
#### Student Loan Debt Valuation

- 1.36 In our 2001 report we again raised concerns as to the valuation of the outstanding balance of student loan debt and, in particular, the methodology used to determine how much represents doubtful debts.<sup>4</sup> We recommended that the Treasury change to an actuarial basis of valuation as soon as possible.
- 1.37 Although an actuarial valuation of student loan debt is not yet available, substantial progress was made during 2001-02. A review of the current methodology to determine doubtful debts was completed which concluded that, as at 30 June 2002, the provision for doubtful debts should be increased from 10% to 11.4%. We were satisfied with the review process and an adjustment was made in the *Financial Statements*, increasing the provision by \$75 million.
- 1.38 The inter-departmental steering committee continued to operate, and we understand that the Department of Statistics is currently working on a database that will integrate the information to allow an actuarial valuation to be undertaken. We understand the target is to have this information ready for the 2002-03 *Financial Statements*, and the intention is to disclose the actuarial valuation in those statements.

<sup>4</sup> Central Government: Results of the 2000-01 Audits, parliamentary paper B.29[01b], pages 12-13.

B.29[03a]

Figure 1.1 Student Loan Debt 1995-2002



- 1.39 Figure 1.1 above represents student loan debt in net terms, after writing off bad debts and making a provision for doubtful debts. Total loans outstanding at 30 June 2002 were \$5,386 million, and provisions for doubtful debts and interest write-offs were \$637 million giving a net loan asset value of \$4,749 million.
- 1.40 The movement in the debt and further information on the provisions is outlined on page 67 of the *Financial Statements*.
- 1.41 We discuss the subject of accountability information about student loans in Part 7 on pages 75-94.

Financial Reporting Standard No.15: Provisions, Contingent Liabilities and Contingent Assets

1.42 In our 2001 report, we highlighted the need for the *Financial Statements* to comply with the new Financial Reporting Standard No. 15: *Provisions, Contingent Liabilities and Contingent Assets* (FRS-15), and in particular the need to identify and account for environmental obligations with respect to landholdings.<sup>5</sup>

- 1.43 In general, we were satisfied with the work done to identify and account for environmental obligations. We note, however, that some departments (such as Land Information New Zealand) used a pilot study to extrapolate information for recognition in the 2001-02 Financial Statements, The identification of liabilities will be an ongoing process as departments continue to refine their data sets.
- 1.44 An aspect about which we have remaining concern is the accounting for liabilities for cleaning up abandoned contaminated land ("orphan sites"). We understand that the current approach adopted by the Ministry for the Environment to account for orphan sites is to recognise a liability for the annual amount of funding provided to the local authority when the funding agreement for cleaning up the site is signed with the relevant local authority. In our view, under FRS-15 the liability for the full (not just annual) agreed contribution should be recognised when the obligation (actual or constructive) arises. We are having discussions with the Ministry for the Environment to resolve this matter.
- 1.45 We have recommended to the Treasury that it maintain an active interest in the resolution of how orphan sites should be accounted for. We will continue to monitor progress in 2002-03.

#### Accounting for Financial Instruments

- 1.46 There are a number of respects in which the Crown's financial reporting policies and disclosures for financial instruments need to be reviewed to ensure that they take account of international accounting developments while also continuing to comply with generally accepted accounting practice. In particular, the following matters have been raised as requiring consideration:
  - netting off receivables and payables in asset and liability swap balances;
  - netting off off-balance sheet instruments' revaluations against the principal values of balance sheet items;

B.29[03a]

- inconsistencies between the accounting treatment of foreign currency debt (at modified historical cost) and foreign currency assets (at market value);
- whether all tactical trading activities should be reported on a mark-to-market basis; and
- whether swap establishment fees should be amortised rather than expensed.
- 1.47 We understand that the Treasury and its New Zealand Debt Management Office are planning to review the Crown's accounting policies for financial instruments during 2002-03. This review will need to take into account developments in standards on accounting for financial instruments.
- 1.48 We have recommended that the review of the accounting treatment for financial instruments be undertaken as soon as possible and completed in time for amended treatments to be used in the 2002-03 *Financial Statements*.

#### Net Present Values and Discounting Methodologies

- 1.49 A number of government departments are responsible for sizeable debt (asset) portfolios where the debts are of such a nature that collection takes place over a significant period of time. Student loan debt is one example of this and, as discussed above, progress is being made in determining the valuation of the student loan debt on an actuarial basis.
- 1.50 There are, however, other sizeable debts valued on a historical cost basis with no adjustment for the financial impacts of a potentially lengthy collection period (i.e. they are not accounted for at net present value). Examples of large debt balances where it may be appropriate to discount for the time value of money include:
  - Ministry of Social Development \$800 million Crown debt (e.g. benefit recoveries); and
  - Department for Courts \$315 million of unpaid fines.

1.51 We have recommended that the Treasury provide guidance on the discounting of assets and liabilities to ensure consistent treatment in the 2002-03 *Financial Statements* and beyond.

#### Trust Money

- 1.52 The *Financial Statements* include a Statement of Trust Money (pages 51-52) as required by section 27 of the Public Finance Act 1989. We believe that, to comply with generally accepted accounting practice, some of the trust money receipts and payments should be accounted for in the Crown Statement of Financial Performance, and that the balances of some of the funds should be included in the Crown Statement of Financial Position.
- 1.53 We have recommended to the Treasury that it review the Statement of Trust Money and provide guidance to departments as to the type of funds that are appropriately disclosed as trust money.

#### Air New Zealand Limited

1.54 We reviewed the accounting treatment to record the acquisition of the majority stake in Air New Zealand Limited by the Crown (see Part Four on pages 45-48), including goodwill. We also reviewed the adjustments made to Air New Zealand's financial statements to comply with Crown accounting policies. There were no major issues raised as a result of our review.



#### Two

## Government Departments – Results of the 2001-02 Audits





B.29[03a]

#### Introduction

- 2.1 This article reports on the results of the 2001-02 audits of 43 government departments. Its purpose is to inform Parliament of the assurance given by the audits in relation to:
  - the quality of financial reports; and
  - the financial and performance management of departments.

#### **Audit Opinions Issued**

- 2.2 The Public Finance Act 1989 (the Act) specifies departments' responsibilities in fulfilling the requirements for general purpose financial reporting. Sections 34A(3) and 35(3) of the Act require departments to prepare their financial statements in accordance with generally accepted accounting practice.<sup>2</sup>
- 2.3 The Act also sets out the responsibility of the Audit Office to issue an audit opinion on the financial statements of each department (section 38).
- 2.4 To form an opinion on the financial statements of departments, our audits are conducted in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. The audits are planned and performed so as to obtain all the information and explanations considered necessary in order to provide sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statements, whether caused by fraud or error. In forming our opinion, we also evaluate the overall adequacy of the presentation of information in the financial statements.

<sup>1</sup> Comprising the 46 Departments and Offices of Parliament listed on page 100 of the Financial Statements, excluding the Audit Office (which does not audit itself) and the two Security and Intelligence Departments.

<sup>2 &</sup>quot;Generally accepted accounting practice" is defined in section 2(1) of the Public Finance Act 1989.

2.5 Of the 43 government departments audited, 42 received audit reports containing an unqualified audit opinion. See Figure 2.1 below.

Figure 2.1 Analysis of Audit Opinions 1997-2002

Year Ended 30 June	2002	2001	2000	1999	1998	1997
Unqualified opinions	42	44	43	42	44	42
Qualifications regarding statements of service performance	-	-	-	-	-	1
Qualifications regarding other issues	1	-	-	-	-	3
Total audit opinions issued	43	44	43	42	44	46

The total number of departments reduced to 43 in 2002, due to amalgamation of the Department of Work and Income into the Ministry of Social Development.

## Department of Conservation – Qualified Audit Opinion

- 2.6 The audit report on the financial statements of the Department of Conservation for the year ended 30 June 2002 was qualified in respect of the following two matters:
  - Visitor assets The value at which the Department recognises visitor assets in its financial statements was adjusted downwards to reflect its plans to remove, and/or reduce the service level of, certain of those assets in future. In our view, the value should not have been adjusted for those reasons at 30 June 2002. We believe that the appropriate accounting treatment would be to adjust the value of those assets at the time they are actually removed from use, and/or over the period during which the service level of the assets is reduced.

B.29[03a]

- Fencing assets The Department did not recognise fencing assets in its financial statements; nor the associated depreciation expense and capital charge.
- 2.7 The Department has established a joint working party with the Treasury to resolve the issues that led to the 2002 qualifications, so that the audit opinion on the Crown's 2002-03 financial statements is not affected and that any qualifications relating to the Department's financial statements are minimised. It is not yet clear whether the qualifications described in the previous paragraph will need to be repeated in the audit report on the Department's financial statements for the 2002-03 year.

## Financial and Service Performance Management

- 2.8 In 1994, we began reporting our assessments of certain aspects of management to the chief executive and to stakeholders in each department (such as the responsible minister and the select committee which conducts the financial review of the department).
- 2.9 While conducting the annual audit, our auditors examine aspects of financial management and service performance management. The purpose of this exercise is to identify specific areas of management where there are weaknesses, and to make recommendations to eliminate those weaknesses.

#### Financial Management

- 2.10 We assess the following aspects of financial management:
  - Financial control systems the systems for monitoring expenditure and the management of assets.
  - Financial management information systems the systems for recording, reporting and protecting financial information.
  - Financial management control environment management's attitude, policies and practices for overseeing and controlling financial performance.

#### Service Performance Management

- 2.11 Aspects of the management of service performance that we assess and report fall into two broad areas:
  - Service performance information and information systems –
     This covers the adequacy of monitoring and control systems for service performance information, the accuracy of the information produced by those systems, and whether the performance measures in the statement of service performance are being used as a management tool.
  - Service performance management control environment –
     This covers the existence of quality assurance procedures, the adequacy of operational policies and decisions, and the extent to which self-review of non-financial performance is taking place.

#### The Rating System

2.12 The rating system we use is as follows:

Assessment Term	Further Explanation
Excellent	Works very well. No scope for cost beneficial improvement identified.
Good	Works well; few or minor improvements only needed to rate as excellent. We would have recommended improvements only where benefits exceeded costs.
Satisfactory	Works well enough, but improvements desirable. We would have recommended improvements (while having regard for costs and benefits) to be made during the coming year.
Just Adequate	Does work, but not at all well. We would have recommended improvements to be made as soon as possible continued on opposite page.

B.29[03a]

Assessment Term	Further Explanation
Not Adequate	Does not work; needs complete review. We would have recommended major improvements to be made urgently.
Not Applicable	Not examined or assessed. Comments should explain why.

#### The Results

- 2.13 We assessed management in each of the 43 departments. A summary of the assessments (215 in total 5 for each department) is given in Figure 2.2 on the next page.
- 2.14 The 85 assessments of "Excellent" (40%) remain at the same level as the previous year.
- 2.15 The combined total of 182 assessments (85%) that were either "Excellent" or "Good" is also about the same as the previous year. This could indicate that, after marked improvements in 1998 and 1999, the standards of management and performance being assessed are approaching a level from which further improvement will be slight.
- 2.16 One assessment of "Just Adequate" was issued. This was an improvement from four in the previous year.
- 2.17 We compared our assessments for 2001-02 with the 2000-01 assessments for each of the 42 departments where the comparison is possible. The overall results for those 42 departments are summarised in Figure 2.3 on page 31.

Figure 2.2

Summary of Assessments of Aspects of Financial Management and Service Performance Management in Departments for 2001-02

Aspect Assessed	Exce	llent	Good	pc	Satisfa	ctory	Just	it ofe	Not	Total
	No.	%	No.	%	No.	%	No.	%	No.	No.
FCS	18	42	19	44	2	12	~	0	0	43
FMIS	9	42	21	49	4	6	0	0	0	43
FMCE	20	47	15	35	œ	19	0	0	0	43
SPIS	=	26	22	51	10	23	0	0	0	43
SPMCE	9	42	20	47	2	12	0	0	0	43
Totals 2002	85	40	97	45	32	15	_	0	0	215
2001	85	39	101	46	30	14	4	7	0	220
2000	74	34	107	20	34	16	0	0	0	215

**Key** FCS

- Financial Control Systems

- Financial Management Information Systems FMCE FMIS

- Financial Management Control Environment

- Service Performance Information Systems SPIS

SPMCE - Service Performance Management Control Environment

B.29[03a]

Figure 2.3
Assessments for 2001-02 Compared to 2000-01

Aspect Assessed*	Higher	Same	Lower	Total
FCS	1	40	1	42
FMIS	0	40	2	42
FMCE	2	38	2	42
SPIS	7	33	2	42
SPMCE	4	36	2	42
Totals %	<b>14</b> 6.7	<b>187</b> 89.0	<b>9</b> 4.3	<b>210</b> 100

- \* See Figure 2.2 for key to abbreviations.
- 2.18 The noteworthy features of the results shown in Figure 2.3 are:
  - A significant majority (89%) of the assessments were maintained at the level of the previous year. This mirrors the virtually unchanged proportion of assessments that were either "Excellent" or "Good" referred to in paragraph 2.15 on page 29.
  - 14 of the assessments (6.7%) were higher in 2001-02 than in 2000-01.
  - 9 of the assessments (4.3%) were lower than in 2000-01.
- 2.19 The fact that 14 assessments were better in the 2001-02 year compared with 9 that were lower points to overall improvement in departments. As we observed last year, the ongoing trend to higher assessments does restrict the scope for improvements of the same magnitude as previously.

- 2.20 While theoretically possible, for a variety of reasons it is in practice difficult for all departments to attain a rating of "Excellent" for all aspects assessed. Such reasons may include:
  - periodic restructuring;
  - complexity of departmental operations; and
  - sheer size of operations.
- 2.21 Our auditors will nevertheless be continuing to assist and encourage departments to make improvements, through management letters. For their part, chief executives and their staff will no doubt be motivated to continue striving for improvements.
- 2.22 We have now reported our assessments of management performance to Parliament and its select committees for each of the past nine years. Our assessments have often been of considerable interest to select committees when conducting their financial reviews of departments.
- 2.23 Departments vary greatly in terms of size and organisational structure. When we first reported results of the assessments to select committees, we took care to alert committees to those differences and urged them not to make comparisons between departments without being mindful of considerations (such as those mentioned in paragraph 2.20 above) which could explain reported differences in performance. Caution should continue to be exercised in using the assessments.
- 2.24 We are currently reviewing the five assessment aspects to ensure that they remain consistent with departments' reporting requirements. In future, our assessment of management performance is likely to extend to other parts of the public sector.

#### **Three**

## Non-standard **Audit Reports Issued**

The Board of Trustees has failed to comply with section 67 of the Breach of Borrowing Authority Education Act 1989 in that no authority has been sought from the Minister orrowing which, in aggregate, involves repayments of excess of one-tenth of the Board's operational The extent of the unauthorised borrowing is of Educatio Limited Control Over Revenue interest ar activities assesse/

Control over the receipt of exhibition donations, prior to those receipts beinno practical audit procedures to control.

Financial Statements Prepared on the Disestablishment Basis In forming our opinion attention is drawn to the Statement of Accounting

This

Policies Coins Concern Assumptions paragraph on page 24 income and d there are

IN TOTALING OUR OPINION STREET, ASSUMPTIONS PARAGRAPH ON PAGE 24.

Policies, Going Concern Assumptions paragraph been needed.

Paragraph states that the financial statements have been paragraph. Poncies, Going Concern Assumptions paragraph on Page 14. Inis

Paragraph states that the financial statements have been prepared in the financial statements have been paragraph states that the mancial statements have been prepared on a in the hacie of the hasis and that there has been no change hacie of the hacie for accepte and highlitries. We concident the hacie for accepte and highlitries. disestablishment basis and that there has been no change in the basis of measurement basis for assets and liabilities. We consider the basis for the polytochnic ac its consider measurement basis for the polytochnic ac its constant to be appropriate for the polytochnic. measurement basis for assets and naturness. We consider the basis of preparation to be appropriate for the Polytechnic, as its operation of the preparation to be appropriate for the polytechnic on the preparation to be appropriate for the polytechnic on the preparation to be appropriate for the polytechnic on the preparation to be appropriate for the polytechnic on the preparation to be appropriate for the polytechnic on the preparation to be appropriate for the polytechnic on the preparation to be appropriate for the polytechnic on the preparation to be appropriate for the polytechnic on the polytechnic of the po preparation to be appropriate for the rotytectinic, as its operations have been incorporated into a successor organisation on 1 April 2002 in a successor organisation on 1 April 2002 in the accordance with a contract order details.

accordance with a statutory order dated 17 December 2001.

limited



B.29[03a]

- 3.1 Last year, we resumed reporting on the non-standard audit reports issued on the annual financial reports of local authorities.<sup>1</sup>
- 3.2 This article resumes our reporting of the non-standard audit reports issued during the period 1 July 2001 to 31 December 2002 on the financial reports of:
  - entities that are part of the Crown reporting entity<sup>2</sup>; and
  - other public entities not within the local government portfolio.

## Why Are We Reporting This Information?

- 3.3 An audit report is addressed to the readers of an entity's financial report. However, all public entities are in one sense or another creatures of statute and, therefore, also accountable to Parliament. We consider it important to draw Parliament's attention to the range of matters which give rise to non-standard audit reports.
- 3.4 In each case, the issues underlying a non-standard audit report are drawn to the attention of the entity and discussed with its governing body.



<sup>1</sup> Local Government: Results of the 2000-01 Audits, parliamentary paper B.29[02c], 2002, pages 30-37.

<sup>2</sup> The entities that comprised the Crown reporting entity at 30 June 2002 are listed on pages 100-101 of the *Financial Statements* for 2001-02, parliamentary paper B.11, 2002.

## What Is a Non-standard Audit Report?

- 3.5 A non-standard audit report is one in which the auditor has:
  - qualified the audit opinion due to a disagreement or a limitation on scope;
  - drawn attention to a breach of law; or
  - drawn attention to a fundamental uncertainty.<sup>3</sup>
- 3.6 There are three types of qualified audit opinion, as explained in paragraphs 3.7-3.10. Attention is drawn to a breach of law or a fundamental uncertainty in an explanatory paragraph that is included in the audit report in such a way that it cannot be mistaken for a qualification of the opinion.

#### "Adverse" Opinion

- 3.7 An "adverse" opinion is expressed when there is disagreement between the auditor and the entity about the treatment or disclosure of a matter in the financial report and, in the auditor's judgement, the treatment or disclosure is so material or pervasive that the report is seriously misleading.
- 3.8 Expression of an "adverse" opinion creates the most serious type of non-standard audit report and happens only rarely.

<sup>3</sup> The Insitute of Chartered Accountants of New Zealand Auditing Standard No. 702

The Audit Report on an Attest Audit (AS-702) outlines in what circumstances an auditor can:

Issue 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

<sup>-</sup> in the auditor's judgement, the effect of the matter is or may be material.

In an explanatory paragraph separate from the opinion, draw attention to a failure to comply with a particular law.

In an explanatory paragraph separate from the opinion, draw attention to a fundamental uncertainty about the outcome of a future event.

B.29[03a]

#### "Disclaimer of Opinion"

3.9 A "disclaimer of opinion" is expressed when the possible effect of a limitation on the scope of the auditor's examination is so material or pervasive that the auditor has not been able to obtain sufficient evidence to support, and accordingly is unable to express, an opinion on the financial report.

#### "Except-for" Opinion

- 3.10 An "except-for" opinion is expressed when the auditor concludes that either:
  - the possible effect of a limitation on the scope of the auditor's examination is or may be material but is not so significant as to require a "disclaimer of opinion" – in which case the opinion is qualified by using the words "except for the effects of any adjustments that might have been found necessary" had the limitation not affected the evidence available to the auditor; or
  - the effect of the treatment or disclosure of a matter with which the auditor disagrees is or may be material but is not, in the auditor's judgement, so significant as to require an "adverse" opinion – in which case the opinion is qualified by using the words "except for the effects of" the matter giving rise to the disagreement.

#### Explanatory Paragraph

- 3.11 In certain circumstances, it may be appropriate for the auditor to include in the audit report additional comment, by way of an explanatory paragraph, to draw attention to a matter that is regarded as relevant to a proper understanding of the basis of opinion on the financial report.
- 3.12 For example, it could be relevant to draw attention to the entity having breached its statutory obligations, or to a fundamental uncertainty which might make the going concern assumption inappropriate. Inclusion of an explanatory paragraph tends to be the most common type of non-standard audit report.

## **Summary of the Non-standard Audit Reports Issued**

3.13 The following summary covers non-standard audit reports issued during the 18-month period 1 July 2001 to 31 December 2002 and outlines the nature of those reports.

### "Adverse" Opinions

Class of Entity	No. of Entities	Reason for Opinion
State-owned Enterprise	14	The auditor disagreed with the accounting treatment of recording provisions for claims and litigation relating to the previous operations of the business. The provisions did not have the essential characteristics of a liability as outlined in the <i>Statement of Concepts</i> <sup>5</sup> .
Crown Entity (Education)	1	The use of the going concern basis to prepare the financial report was inappropriate because the entity was ceasing to exist.
Maori Trust Board	1	There was uncertainty about the carrying value of a number of investments and uncertainty about the collectability of a number of debts, loans, and advances. Provisions had not been made to reflect impairment in the carrying value of these items.  There was a lack of disclosure about contingent liabilities arising from an Inland Revenue Department tax audit of a subsidiary company.  continued on opposite page.

<sup>4</sup> For financial reports for two years.

<sup>5</sup> Institute of Chartered Accountants of New Zealand: Statement of Concepts for General Purpose Financial Reporting.

# THREE

#### **NON-STANDARD AUDIT REPORTS ISSUED**

B.29[03a]

Class of Entity	No. of Entities	Reason for Opinion
Maori Trust Board continued.		The auditor had issued an adverse audit opinion on the and was therefore unable to provide any assurance on comparative figures.
Crown Entity subsidiary	2	The auditor disagreed with the use of the going concern basis to prepare the financial statements.

## "Disclaimers of Opinion"

There were no "disclaimers of opinion" issued during the period.

... continued on next page.



#### **NON-STANDARD AUDIT REPORTS ISSUED**

## "Except-for" Opinions

Class of Entity	No. of Entities	Reason for Opinion
Crown Entity	1	The auditor disagreed with the entity recognising a grant as a liability, because the terms of the grant did not have the essential characteristics to make it a liability as outlined in the Statement of Concepts.
District Health Board subsidiary	2	The auditor was unable to verify some material revenues, due to limited control over those revenues.
Maori Trust Board	1	The auditor was unable to verify the valuation of the Board's investment in another entity.
Maori Trust Board subsidiary	26	The auditor disagreed with the Board recording a provision for certain services. The provision did not have the essential characteristics of a liability as outlined in the Statement of Concepts.
Maori Trust Board	17	The Board did not consolidate its subsidiaries into group accounts as required by SSAP-8.  The audit report for the third year included an explanatory paragraph drawing attention to the fact that Board funds had been misappropriated during the year, some of which had been recovered and recognised as revenue.  continued on opposite page.

<sup>6</sup> In both cases, for financial reports for two years.

<sup>7</sup> For financial reports for three years.

### **NON-STANDARD AUDIT REPORTS ISSUED**

Class of Entity	No. of Entities	Reason for Opinion
District Health Board	1	The Board did not revalue its buildings at component level, as required by FRS-3.
Education (R.E.A.P.*)	1	The auditor was unable to obtain independent confirmation or sufficient audit evidence to determine the accuracy of the figures presented in the statement of service performance.
Education (R.E.A.P.)	1	The auditor was unable to locate some of the accounting records, and some funds were misappropriated during the year. As a result, the auditor was unable to establish with certainty the amount of the misappropriated funds, and was unable to obtain sufficient evidence to substantiate certain revenue items.
Education (R.E.A.P.)	1	No budgeted figures were provided in the statement of financial position, which is a breach of statutory reporting requirements.
Government Department	1	The auditor disagreed with the Department's valuation of certain fixed assets. In addition, the Department did not recognise other material fixed assets or the associated depreciation expense and capital charge in the financial statements, as required by FRS-3. See paragraphs 2.6-2.7 on pages 26-27

<sup>\*</sup> Rural Education Activity Programme.

#### **NON-STANDARD AUDIT REPORTS ISSUED**

## Explanatory Paragraphs

Class of Entity	No. of Entities	Reason for Opinion
Crown Entity (Education)	1	The auditor drew attention to the uncertainty surrounding the entity's proposed disestablishment, and use of the going concern basis in preparing the financial report.
Statutory Body	2 <sup>8</sup>	The going concern basis was not used in preparing the financial report.*
Statutory Body	1	The auditor drew attention to the uncertainty over the future status of the entity.
Polytechnic	1	The going concern basis was not used in preparing the financial report.*
Polytechnic subsidiary	<b>2</b> <sup>9</sup>	The going concern was basis not used in preparing the financial report.*
District Health Board subsidiary	2	The going concern basis was not used in preparing the financial report.*
Health and Hospital Company	1	The going concern basis was not used in preparing the financial report.*
Health and Hospital Company	5	The company was dissolved, and the assets and liabilities vested in a successor District Health Board.
State-owned Enterprise	2	The going concern basis was not used in preparing the financial report.* continued on opposite page.

<sup>8</sup> In one case, for financial reports for four years.

<sup>9</sup> In one case, for financial reports for three years.

# THREE

### **NON-STANDARD AUDIT REPORTS ISSUED**

Class of Entity	No. of Entities	Reason for Opinion
Crown Entity	4	The going concern basis was not used in preparing the financial report. * In addition, for one entity the auditor drew attention to the uncertainty concerning the final payment required to relinquish an ongoing lease obligation.
Government Department	1	The going concern basis was not used in preparing the financial report.*
Crown Entity (Education)	2	The going concern basis was not used in preparing the financial report.*
Education (Misc.)	1	The going concern basis was not used in preparing the financial report.*
Producer Board	1	The going concern basis was not used in preparing the financial report.*

<sup>\*</sup> Justified, because in each case the entity was ceasing to exist.



## Four

# Accountability for the Crown's Investment in Air New Zealand Limited

# A Flight Plan.

Arrest Report \$100.



Financial Statements.

Fig the year noded 80 Juny 2000

- \*----
- St. Automatic Science, Supp.
- ----
- \* ----





#### ACCOUNTABILITY FOR THE CROWN'S INVESTMENT IN AIR NEW ZEALAND LIMITED

- 4.1 Several members of Parliament have expressed concern to us about the extent of accountability to Parliament for the Crown's investment in Air New Zealand Limited (Air New Zealand). In response to these concerns, we compare the nature of that accountability with the accountability for other entities within 'the Crown reporting entity'.
- 4.2 The Crown owns an 82% stake in Air New Zealand through the investment of a total of \$892 million in January 2002. Because that stake represents a controlling interest, the financial interest of the Crown in Air New Zealand is consolidated in the *Financial Statements* in the same manner as State-owned Enterprises and Crown Entities.<sup>2</sup>
- 4.3 Air New Zealand remains a company established under the Companies Act 1993 and publicly listed on the New Zealand Stock Exchange. But it is neither a State-owned Enterprise nor a Crown entity and, as a result, it is unique when compared to other entities within the Crown reporting entity.
- 4.4 Air New Zealand is the only company publicly listed on the Stock Exchange in which the Crown has an interest. Particular Stock Exchange listing requirements limit the Crown's ability to make information available and act upon it.
- 4.5 A consequence is that Air New Zealand is subject to none of the accountability requirements to Parliament laid down in:
  - the Public Finance Act 1989;
  - the State-Owned Enterprises Act 1986; or
  - any other entity- or sector-specific legislation.

<sup>1</sup> A full list of these entities as at 30 June 2002 is given on pages 100-101 of the Financial Statements, parliamentary paper B.11, 2002.

<sup>2</sup> Ibid., pages 70-71.

## ACCOUNTABILITY FOR THE CROWN'S INVESTMENT IN AIR NEW ZEALAND LIMITED

- 4.6 Another consequence is that Air New Zealand is not automatically subject to an annual financial review of its performance and current operations. For this to happen, the House would need to resolve that Air New Zealand is a "public organisation" for the purposes of Standing Orders.
- 4.7 In summary, Air New Zealand has no direct accountability to Parliament.
- 4.8 Nevertheless, the Auditor-General is the auditor of Air New Zealand under the Public Audit Act 2001, because it is a "public entity" under that Act as a result of the Crown's controlling interest. Thus, the Auditor-General can report to Parliament any matter of his choosing arising from the exercise of his functions, duties, and powers as auditor.
- 4.9 As shareholding Minister on behalf of the Crown, the Minister of Finance is accountable to Parliament in that capacity. It would be possible for Parliament to examine the Minister in relation to the Crown's investment in Air New Zealand, but not in relation to the company's operations or performance.
- 4.10 The Treasury provides the Minister with ownership and investment advice.
- 4.11 Parliament may wish to consider the appropriateness of these accountability arrangements.



## Five

## Accident Compensation Corporation – Investment Policies and Practices





B.29[03a]

In 2001 we reported on the Accident Compensation Corporation's (ACC) Investment Policies and Practices<sup>1</sup>. The article set out how much ACC invested, where the funds were invested, how investments were chosen, and how ACC managed the investments from an operational and governance perspective.

We concluded that ACC had an active approach to managing investment of its funds, compared to other funds held by the Crown. This active approach resulted in strong investment returns, but invariably presented greater risks that ACC had managed well.

This article reports on ACC's investment performance for the year ended 30 June 2002. It also discusses ACC's hedging policy and notes that ACC made a \$100 million hedging gain in 2001-02, which largely offset a \$142 million loss on New Zealand and offshore investments.

#### **How Much Is Invested**

#### **Current Investments**

- 5.1 As at 30 June 2002, ACC had \$3,600 million worth of investments and, during the year, earned \$129 million of net investment income, comprising \$176 million in interest and dividends, a \$42 million net loss on debt and equity investments, and investment expenses of \$5 million.
- 5.2 Figure 5.1 on the next page shows the growth in ACC's investments over the last six years.

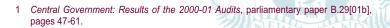
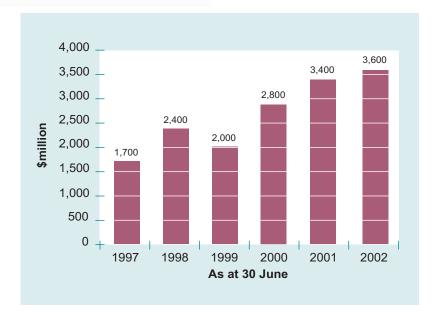


Figure 5.1 Total Investments 1997-2002



5.3 Figure 5.1 shows that investments have increased from \$1,700 million at 30 June 1997 to \$3,600 million at 30 June 2002. The decrease in 1999 was due to the closure of the Employers' Account for 12 months, as a result of the introduction of the Accident Insurance Act 1998. The Act stopped ACC from providing accident insurance in the workplace.

#### Future Growth

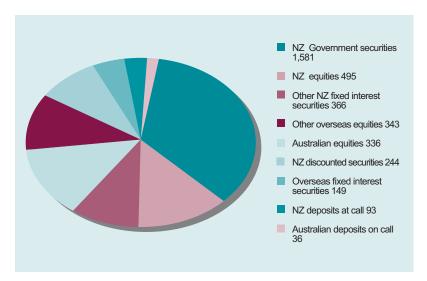
ACC investments are expected to increase significantly over the next 10 years – to more than \$8,000 million. Broadly, this is because ACC now collects sufficient premiums each year to pay for all costs associated with injuries – regardless of whether the costs of the injury are incurred in the short or long term. This is known as a fully-funded regime.

B.29[03a]

#### Where the Funds are Invested

5.5 Figure 5.2 below sets out where ACC has invested its funds.

Figure 5.2 Investment Portfolio as at 30 June 2002 (\$million)



5.6 Compared to other institutions, ACC invests a larger portion of its funds in New Zealand investment markets. We explained the reasons for this in our 2001 article (see Footnote 1 on page 51).



#### **Investment Returns for 2001-02**

- 5.7 The net investment returns of \$129 million were \$121 million below the budgeted returns of \$250 million. The main reason for the lower-than-expected returns was the decline in world equity markets during the year.
- 5.8 Although below budget, the overall return was good considering the decline in world equity markets. A number of factors contributed to the result, including:
  - that ACC invested a relatively large percentage of its funds in New Zealand investment markets;
  - the resilience of the Australian equity markets; and
  - a \$100 million hedging gain (see paragraphs 5.14-5.22).

### **Returns Against Benchmark**

- 5.9 In our 2001 report we stated that, because investment markets are volatile and unpredictable, ACC's practice is not to set a specific monetary level of return on investments. Rather, relative performance is measured by reference to a recognised market benchmark. We also set out how market benchmarks work.<sup>2</sup>
- 5.10 Figure 5.3 on the next page sets out the investment returns, measured against the relevant benchmarks, for 2001-02. The returns have generally exceeded benchmark rates.
- 5.11 ACC's target was to achieve at least benchmark rates of return for 2001-02 and for the average of the previous three years. Returns exceeded targets for eight out of 10 benchmarks for 2001-02, and for six out of eight benchmarks for the average of the last three years.

B.29[03a]

Figure 5.3
Returns from Investments

Category of	2001-02		Average 1999-2000 to 2001-02			
Investment	Return %	Bench- mark %		Return %	Bench- mark %	
NZ Cash Portfolio NZ Equity	5.71	5.46	<b>V</b>	6.06	5.90	~
Portfolio Australian Equity Portfolio	1.66	(2.67)	<i>V</i>	11.05 n/a	2.93 n/a	<i>V</i>
Reserves Cash NZ Bonds	5.43 7.81	5.40 7.32	V	5.87 7.68	5.85 6.71	V
NZ Listed Property	18.37	14.38	V	n/a	n/a	·
NZ Index Linked Bond Portfolio	8.10	8.16	Х	7.86	8.05	X
Offshore Bonds Offshore Equity –	6.24	10.59	X	6.78	8.63	Х
Developed Offshore Equity –	(19.53)	(22.24)	~	(3.76)	(7.41)	~
Emerging	(10.61)	(16.60)	<b>V</b>	1.26	(3.53)	•

<sup>=</sup> Actual return has met or exceeded ACC's benchmark rate of return.

The source for the data is ACC's 2001-02 Annual Report.

X = Actual return was less than ACC's benchmark rate of return.n/a = not applicable.

### **Equity Investments**

- 5.12 Of note are ACC's returns on both New Zealand and offshore equity investments. In 2001-02 the New Zealand equity portfolio returned 4.37% compared with a benchmark return of 2.73%. Moreover, the average return for the last three years was 11.05% compared to a three-year benchmark return of 2.93%. These are good returns, and support ACC's confidence in outperforming the New Zealand equity market benchmark.
- 5.13 Secondly, both the Offshore Equity Developed and Offshore Equity Emerging portfolios suffered negative returns of -19.53% and -10.61%, respectively. The result was not unexpected, given the decline in world equity markets during the 2001-02 year, but it is pleasing to note that ACC's losses were below those reflected in the relevant benchmarks. It was able to "limit the damage".

## **2001-02 Hedging**

### The Results of Hedging

- 5.14 There are good reasons for ACC entering into foreign exchange contracts. First, hedging asset values allows ACC to invest funds offshore without taking any significant exposure to movements in foreign exchange rates. Any foreign exchange losses on the value of offshore investment assets will tend to be covered by gains in the associated exchange hedges.
- 5.15 Secondly, ACC's obligations to claimants are paid in New Zealand dollars, but the majority of its investments are in overseas currencies. Accordingly, there is the risk that the value of ACC's offshore investments will vary depending on the fluctuation of the New Zealand dollar relative to its New Zealand dollar liabilities. Foreign exchange contracts provide ACC with the opportunity to reduce or eliminate exchange rate variances by allowing it to convert foreign currency gains into New Zealand dollars at a pre-determined rate.

# FIVE

## ACCIDENT COMPENSATION CORPORATION – INVESTMENT POLICIES AND PRACTICES

- 5.16 Included in the \$42 million realised and unrealised debt and equity loss, was a currency hedging gain of about \$100 million. This means the actual losses suffered were \$142 million, with the final result being improved by the \$100 million hedging gain.
- 5.17 ACC "hedges" the majority (see paragraph 5.20) of its foreign currency assets. It does this through a series of forward foreign exchange contracts (usually monthly or three-monthly contracts) under which ACC agrees to buy or sell a quantity of foreign currency at a fixed rate for delivery at an agreed date. The forward rate of exchange is set at the time of the agreement.
- 5.18 Depending on the movement in the New Zealand dollar exchange rate in comparison with the agreed contract exchange rate, a gain or loss on the contract arises.
- 5.19 For example, on 1 May 2003, a person enters a forward foreign exchange contract whereby they agree to buy \$US100 on 30 June 2003 at a fixed rate of US\$0.60 = NZ\$1 a total of NZ\$167. However, at the date of settlement on 30 June, the actual exchange rate was US\$0.50 = NZ\$1. Thus, if the person had left buying the US\$100 until then, it would have cost NZ\$200. The person can be said to have made an exchange rate gain of the difference, i.e. NZ\$200 NZ\$167 = NZ\$33 (disregarding the cost of the contract).
- 5.20 In 2001-02, ACC made about \$100 million on these contracts. As at 30 June 2002, ACC had forward foreign exchange contracts for about \$678 million about 78% of total offshore investments of \$865 million.
- 5.21 The exchange rate gains generated by ACC occurred because the ACC's investment team took a view that the New Zealand dollar would not fall as rapidly over the long-term as was implied by forward foreign exchange markets. This view accounts for ACC hedging a relatively high percentage of its offshore assets. So far, that view has proved correct. However, should it be incorrect, then there is a risk that ACC will experience exchange rate losses.

5.22 ACC would expect to lose money on hedging if the New Zealand dollar fell by more than 3% over a year against a basket of foreign currencies dominated by the United States dollar, Euro, British pound, Japanese yen, and Australian dollar.

#### Managing Risk

- 5.23 We have previously warned of the dangers associated with government organisations entering forward foreign exchange contracts and have said that, where these contracts exist, it is critical that the relevant Boards have policies in place to minimise their long-term foreign exchange risks.<sup>3</sup> In particular, when managing foreign exchange risks, Boards need to:
  - Set out their objectives as to what they are aiming to manage, and why.
  - Ensure that policies and procedures are sufficiently detailed to give effect to the objectives.
  - Require that they receive sufficient information to enable them to understand clearly and fully the exposure that their entity has to foreign exchange risk. This information should include known and anticipated changes in business conditions and the effect that these could have on the entity's exposure.
  - Require that, where the policies are not being complied with, the Board be advised immediately of the extent of the exposure as well as an action plan to ensure a return to compliance.
  - Provide for a suitably qualified external party to periodically review the policies. This review should include a comparison with other participants in their industry, as well as current trends in foreign exchange management. Any changes to the policies should be subject to detailed analysis in the light of any known or anticipated changes in business conditions.

<sup>3</sup> How Are State-Owned Enterprises Managing Foreign Exchange Risk?, parliamentary paper B.29[99a], pages 89-104.

- The dangers of taking forward foreign exchange 5.24 contracts are more particular to organisations hedging future export receipts or import-related costs. In those circumstances, there will often be a much higher degree of uncertainty as to what the underlying foreign exchange exposure will be, and how it might correlate to other factors such as commodity prices. Indeed, not entering foreign exchange contracts may be the more risky position when foreign assets are involved.
- 5.25 While acknowledging this distinction, it is important that all organisations undertaking hedging operations, including ACC, have sound policies and procedures in place to limit the adverse consequences that may arise from hedging. We are satisfied that ACC has such policies and procedures.



## Six

## Reducing Social Inequalities: Monitoring of Funding for Capacity Building





B.29[03a]

This article reports on the distribution of responsibility for administering capacity-building funds under the Reducing Social Inequalities programme<sup>1</sup>, and looks at progress to evaluate the implementation of capacity-building initiatives. We intend to report to Parliament next year on progress to evaluate outcomes of the initiatives.

## **Capacity Building**

- 6.1 The Government's Reducing Social Inequalities programme, as announced in Budget 2000, comprises a package of 33 initiatives to address social inequalities experienced by Māori and Pacific peoples. The programme funding is in addition to the core resources allocated to government agencies to target social inequality.
- 6.2 A key part of the programme is capacity building, which aims to assist Māori and Pacific communities to have the ability to achieve their goals. The assistance is provided through a mix of funding, information, services and support programmes.
- 6.3 In Budget 2000, \$112.7 million was appropriated over four years for targeted capacity-building initiatives.

## **Status of Capacity-building Initiatives**

- 6.4 Since the programme was announced, some questions about capacity building have arisen, including:
  - Which departments now have responsibility for administration of capacity-building funds?
  - What is being done to find out how well capacitybuilding initiatives have been implemented?
  - Are departments evaluating the effectiveness of capacity-building initiatives for Māori and Pacific communities?

<sup>1</sup> The Reducing Social Inequalities programme was formerly called the "Closing the Gaps" programme.

6.5 These questions can be answered in specific cases by referring to the annual reports of the relevant departments. However, there is a lack of easily accessible information on the overall status of capacity building. This has given rise to speculation about how well the funding has been managed, and what the initiatives have achieved.

## **Our Approach**

- 6.6 Given the above considerations, we have:
  - Identified which departments were allocated capacity-building funds, the purpose of the funds, and in which Votes those funds were appropriated. (We sourced this information from the original media statements released to the public in Budget 2000, and from the Estimates of Appropriations).
  - Asked the departments about their plans to evaluate:
    - implementation of capacity-building initiatives; and
    - outcomes of capacity-building initiatives.
- 6.7 Because the departments are at varying stages in carrying out their plans (see paragraph 6.10 on pages 73-74), we have not assessed the evaluation frameworks; nor drawn any conclusions about the quality or comprehensiveness of the evaluation approaches.
- 6.8 The departments' progress is summarised in Figure 6.1.



B.29[03a]

.. continued on next page. Implementation evaluation – completed by 30 September the implementation process to Overall evaluation will involve: developed, and is expected to be completed by the end **Evaluation Frameworks:** feeding back information into participative process with CYF has been carrying out Both evaluations will be process evaluations and Outcome evaluation – a framework is being a framework is being developed through a of June 2003; and Status improve delivery. providers. Targeted Capacity-building Funding – Current Administration and Evaluation Status (\$000 GST-inc) Commitment 2000-01 to Funding 2003-04 14,052 development fund including iwi social services - innovations fund for original proposals. Purpose Provide a workforce development **Initiative** workforce provider wi and Māori Family Services Services (CYF) Department of and Relevant **Department** Child, Youth and Family Vote Child, Figure 6.1 Vote Youth and

Evaluation Frameworks: Status	The evaluation is to be carried out by the Ministry of Social Development, using the resources appropriated for the purpose (see Vote Social Development below):  • The evaluation framework was expected to be completed by mid-May 2003;  • A report on the development and early implementation of the Fund is expected by September 2003;  • A final evaluation report, including implementation of years 3 and 4 funding, is expected in June 2004.
Funding Commitment 2000-01 to 2003-04 (\$000 GST-inc)	3,110
Purpose	Build the capacity of Pacific community-based organisations.
Initiative	Pacific Peoples' Provider Development Fund
Department and Relevant Vote	Department of Child, Youth and Family Services (CYF) Vote Child, Youth and Family Services continued.

## XIS

## REDUCING SOCIAL INEQUALITIES: MONITORING OF FUNDING FOR CAPACITY BUILDING

		B.29[03
Evaluation Frameworks: Status	An evaluation framework was put in place for the following capacity-building initiatives: Māori land development, Māori local partnership, Māori organisational development, Māori Women's Leadership and Pacific organisational development.  The evaluation has three phases:  a process evaluation (Completed: September 2001 to February 2002):	<ul> <li>a short-term outcomes evaluation (July to December 2002); and</li> <li>a medium-term outcomes evaluation (July to December 2003).</li> </ul>
Funding Commitment 2000-01 to 2003-04 (\$000 GST-inc)	20,467	6,931
Purpose	Capacity building for Māori, assisting whānau, hapū, iwi and Māori communities to identify needs and develop initiatives.  To work at a local level with Māori, to realise the economic potential of under- or nonutilised multiply-owned Māori land by funding feasibility studies, and to assist with the implementation of solutions that provide economic benefits and local employment opportunities.	Develop and strengthen organisational capacity and capability of Pacific peoples' community groups.
Initiative	Māori economic and organ- isational development	Pacific peoples' organi- sational development
Department and Relevant Vote	Department of Labour Vote Employment	

Evaluation Frameworks: Status	The Department provides Māori Women's Development Incorporated (a private sector provider) \$2 million per annum from this funding stream.  The provider submits sixmonthly reports to the Department.  No evaluations are planned at present.	This initiative will be evaluated using the evaluation framework applying to the Māori land development, Māori local partnership, Māori organisational development, and Pacific organisational development above).
Funding Commitment 2000-01 to 2003-04 (\$000 GST-inc)	6,000 (13,968 was allocated in Budget 2000; the other 7,968 is applied to Māori Women's Leadership – see below)	7,968
Purpose	To assist Māori women to access financial assistance and support to enter into or expand their business. Includes enterprise training skills, leadership training, mentoring, advice, support and information to Māori women, as well as some capital finance.	Assistance for organisations to identify and develop potential Māori women leaders, whose development will contribute to their organisation's capacity.
Initiative	Māori Women's Development Fund	Māori Women's Leadership (was part of Māori Women's Develop- ment)
Department and Relevant Vote	Department of Labour Vote Employment continued.	

## XIS

## REDUCING SOCIAL INEQUALITIES: MONITORING OF FUNDING FOR CAPACITY BUILDING

Evaluation Frameworks: Status	This was departmental funding (i.e. not for distribution to communities). A research project was completed in the 2000-01 financial year, which examined Kura Kaupapa Māori teacher registration and qualifications. It also considered teacher supply. Not all the appropriation was used.	An implementation evaluation was completed in 2001. An evaluation framework was completed in 2002. An impact evaluation is currently under way which will provide evidence:  • on whether capacity building is achieving its objectives; continued on next page.
Funding Commitment 2000-01 to 2003-04 (\$000 GST-inc)	275 (one-year funding)	8,625
Purpose	Training needs analysis of Kura Kaupapa Māori teachers.	Increased funding to provide hapū, iwi and Māori organisations with ability to assess strengths, weaknesses/ preparation of development plans.
Initiative	Needs analysis for registration of Kura Kaupapa Māori teachers	Capacity assessment
Department and Relevant Vote	Ministry of Education Vote Education	Te Puni Kōkiri (TPK) – Ministry of Māori Development Vote Māori Affairs

Evaluation Frameworks: Status	continued from previous page.  to assist with future decisions on the continuation of the programme; and  on the range and extent of the capacity-building outcomes achieved. It is expected that the impact evaluation will be completed by 30 June 2003.	This funding was for departmental purposes, to increase the capability of the Ministry to administer regional operations.
Funding Commitment 2000-01 to 2003-04 (\$000 GST-inc)	27,500	12,250
Purpose	Additional funding to implement initiatives in response to assesments provided by communities.	Increased operating funding to improve capacity of TPK.
Initiative	Capacity building	Organisa- tional capacity
Department and Relevant Vote	Te Puni Kōkiri (TPK) – Ministry of Māori Development Vote Māori Affairs continued.	

### XIS

### REDUCING SOCIAL INEQUALITIES: MONITORING OF FUNDING FOR CAPACITY BUILDING

B.29[03a]

		B.29[0
Evaluation Frameworks: Status	An implementation evaluation has been completed. An interim outcome evaluation report was completed by the end of February 2003. A process evaluation report was due in April/May 2003. A final evaluation report (process and outcome) is due by the end of October 2003.	This is to be used to evaluate the Pacific Peoples' Provider Development Fund (see under, Department of Child, Youth and Family Services).
Funding Commitment 2000-01 to 2003-04 (\$000 GST-inc)	3,000 (three-year funding)	225 (two-year funding)
Purpose	Assisting whānau, hapū, iwi and Māori communities to identify their needs and support communities to develop their capacity.	Monitor and evaluate the development fund, to determine the success of this initiative in improving outcomes for Pacific children and young people and their families.
Initiative	Investing in Māori communities (Whānau Development Project)	Evaluation of Pacific Peoples' Provider Development Fund
Department and Relevant Vote	Ministry of Social Development Vote Social Development	

### REDUCING SOCIAL INEQUALITIES: MONITORING OF FUNDING FOR CAPACITY BUILDING

Evaluation Frameworks: Status	An evaluation strategy is being finalised, and will be used for evaluating Pacific Capacity Building as implemented by:  • other departments; and • the Ministry.  The evaluation schedule is: • evaluators will be engaged in early-2003; • the implementation evaluation is expected by the end of 2003; and • the outcomes evaluation is expected by the end of 2003;	
Funding Commitment 2000-01 to 2003-04 (\$000 GST-inc)	2,252	\$112,665
Purpose	Establishment of Pacific community workers to assist in the implementation of capacity building.  (This funding is now located in the Ministry's policy advice output class.)	Total
Initiative	Pacific Island community workers	
Department and Relevant Vote	Ministry of Pacific Island Affairs Vote Pacific Island Affairs	

### REDUCING SOCIAL INEQUALITIES: MONITORING OF FUNDING FOR CAPACITY BUILDING

B.29[03a]

#### **Our Observations**

- 6.9 Some general observations can be made from our findings:
  - The Department of Labour and the Ministry of Social Development administer the capacity-building funds that were being administered by the Department of Work and Income when Budget 2000 was announced.
  - In Budget 2001, Vote Employment (managed by the Department of Labour) was also allocated \$1.2 million over three years, for Pacific Women's Leadership. The evaluation framework for Pacific Peoples Organisational Development also applies to this additional funding.
  - Capacity-building funding administered by the Ministry
    of Pacific Island Affairs was used in 2000-01 for Pacific
    Island community workers, who helped to initiate the
    Programmes of Action for Pacific Capacity Building.
    It was used from 2001-02 to increase the Ministry's
    policy advice capacity to progress the Programmes of
    Action initiatives through the policy phase. Performance
    in respect to this funding is captured by the annual
    report of the Ministry.
  - Funding for the Organisational Capacity of Te Puni Kokiri was departmental funding (i.e. not for distribution to communities). Performance in respect of this funding is reported in the annual report of Te Puni Kokiri.
- 6.10 Progress in evaluating capacity-building initiatives is mixed:
  - The Department of Labour has established an evaluation framework for both implementation and outcomes. It also completed in early-2002 an evaluation of the process used to distribute its capacity-building funds. No evaluation is planned at present for the Māori Women's Development Fund (which funds the activities of Māori Women's Development Incorporated).

### REDUCING SOCIAL INEQUALITIES: MONITORING OF FUNDING FOR CAPACITY BUILDING

- Te Puni Kokiri has completed an implementation evaluation of its capacity-building programme and has established an evaluation framework. The Ministry is currently tendering for external contractors to provide a qualitative evaluation of projects funded through the programme.
- The Ministry of Social Development has an implementation framework for the programmes it administers, and is developing a framework for evaluation of the Pacific Peoples Provider Development Fund (administered by the Department of Child, Youth and Family Services).
- The Department of Child, Youth and Family Services and the Ministry of Pacific Island Affairs are in the process of developing frameworks to evaluate the implementation of their capacity-building initiatives, and the outcomes.

#### **Concluding Comments**

- 6.11 The Reducing Social Inequalities programme is in its third year and, in respect of capacity-building initiatives, three departments have established evaluation frameworks. The other departments that administer capacity-building funds are developing frameworks for evaluating the implementation and outcomes of capacity-building initiatives.
- 6.12 We are pleased that some evaluations will be completed in 2003, and that the remainder will be completed by the end of 2004.
- 6.13 We encourage the departments to release the findings of their evaluations to the public. This will help increase public understanding of the management of the capacity-building initiatives, and their impact on communities.
- 6.14 The evaluation deadlines listed in Figure 6.1 on pages 65-72, are a useful indication of the current intentions of the departments. We will be watching with interest the rollout of the evaluations, and intend to report to Parliament again next year on progress to evaluate outcomes of the programme's capacity-building initiatives.

### Seven

# Accountability Information on Student Loans – Has It Improved?





B.29[03a]

#### Introduction

- 7.1 On 23 May 2000 we presented our report *Student Loan Scheme Publicly Available Information*<sup>1</sup> to the Education and Science Committee. In that report we looked at:
  - the Student Loan Scheme (the Scheme);
  - those who have a stake in the scheme either as borrowers or administrators, or those who otherwise expect some accountability for the scheme;
  - what their information requirements are; and
  - whether, in our view, those requirements were being met.
- 7.2 We did not look at the effectiveness of the Scheme in achieving its stated purpose.
- 7.3 The purpose of this article is to report what action has been taken to address the key findings and implement the recommendations in our 2000 report.

#### Summary of Our 2000 Report

#### What Did We Find?

#### 7.4 We found that:

- Although key stakeholders received adequate information on the current financial position of the Scheme at an aggregate level there were shortcomings in publicly available information. In particular –
  - limited information on the fiscal risks attached to the Scheme; and
  - lack of information on the impact of the Scheme on intended and unintended socio-economic outcomes.

- The valuation of the student loan debt needed to be reviewed especially in the light of the expected adoption of the net present value ("fair value") model for valuation (see paragraphs 1.36-1.40 on pages 18-19).
- The following related capability and accountability issues needed to be addressed to provide better public accountability information –
  - fragmented responsibility for the Scheme as a whole;
  - lack of focus of strategic policy advice and research;
  - shortcomings in data collection, analysis, and exchange;
  - shortcomings in forecasting;
  - lack of the system's responsiveness to change; and
  - gaps in service to borrowers.

#### What Did We Recommend?

- 7.5 We made 16 recommendations that fall into the following two broad areas:
  - 1 Reporting requirements, which included –
  - the **financial position** of the Scheme (2 recommendations see paragraphs 7.6-7.14);
  - **fiscal risks** attached to the Scheme (2 recommendations see paragraphs 7.15-7.20); and
  - better measures of the financial performance and outcomes (both intended and unintended) of the Scheme (4 recommendations see paragraphs 7.21-7.33).
  - 2 Capability and accountability issues, which included –
  - reviewing the **fragmented responsibilities** of the various agencies<sup>2</sup> involved in the Scheme (2 recommendations see paragraphs 7.34-7.42);
  - lack of focus around strategic policy advice and research in relation to the Scheme (2 recommendations see paragraphs 7.43-7.48);

<sup>2</sup> The Ministry of Education, the Ministry of Social Development, and the Inland Revenue Department.

B.29[03a]

- shortcomings in **data collection**, **analysis**, **and exchange** (3 recommendations see paragraphs 7.49-7.59); and
- gaps in **service to borrowers** (1 recommendation see paragraphs 7.60-7.68).

#### **Reporting Requirements**

#### The Financial Position

- 7.6 In 2000, we recommended:
  - reporting more regularly for example, reporting at quarterly intervals as stated in the original Government decision on reporting on the Scheme; and
  - having the annual financial reports audited and presented to the House within the time required for departmental annual reports (sections 35-39 of the Public Finance Act 1989).
- 7.7 We made these recommendations on the basis that the financial reporting framework approved by the Cabinet in 1995 required the Ministry of Education (MoE) to publish a quarterly report on the financial status of the Scheme. This requirement is also in line with government departments producing quarterly financial reports to their Ministers.
- 7.8 The Student Loan Scheme Annual Report (the Annual Report) published by the MoE was the key accountability report on the Scheme. However, there was no statutory requirement for this report to be:
  - presented to the House;
  - produced within a certain time; or
  - audited.
- 7.9 We considered that, because of the large sum of money involved, there should be some requirement that Parliament be advised in a timely manner of the financial status of the Scheme, and that the report should be audited to give assurance that the information reported could be relied upon.

- 7.10 In this review we found that full financial status reporting is still not being done on a quarterly basis. The MoE considers that, because Ministry of Social Development (StudyLink) borrowing data is transferred to the Inland Revenue Department (IRD) only once a year and interest write-offs are calculated annually, the financial performance and position of the scheme would not be accurately reflected on a quarterly basis.
- 7.11 The MoE notes that quarterly transaction reports are published on departmental web sites, and the combination of these reports and the detailed quarterly monitoring and forecasting report cover much of what was sought by the Government in 1995 and (in many areas) goes beyond what was requested.
- 7.12 We consider that the MoE needs to regularise the existing situation in relation to quarterly reporting by taking the matter back to Cabinet.
- 7.13 An inter-agency steering group handles the collation of the *Annual Report* and this process appears to be working well. The information contained in the *Annual Report* has continued to improve since our 2000 review and includes more information than the format agreed by the Government in 1995.
- 7.14 The *Annual Report* for the year ended 30 June 2002 (which was presented to the House on 8 October 2002) includes a full set of financial statements including statements of revenue and expenditure, assets, and cash flows. The financial statements have been audited and an unqualified opinion expressed (which means that they comply with generally accepted accounting practice) on 25 September 2002.

#### Fiscal Risks

#### 7.15 In 2000 we recommended that:

- more information on fiscal risk should be included in reports to Ministers and Parliament;
- the agency responsible for managing the fiscal risks of the Scheme regularly reviews the Crown's credit risk from the Scheme; and

B.29[03a]

- an interim response be devised (until fair value methodology is adopted) to the issue of lack of appropriation for debt write-offs.
- 7.16 We made these recommendations on the basis that the degree of credit risk (which relates to the collectability of debt) on the student loan debt was not clear, and there was no evidence that debt recovery figures were reviewed on a regular basis.
- 7.17 Lack of information made it difficult to assess bad debts, and to adequately value the student loan debt in the Crown's Statement of Financial Position.
- 7.18 In addition, the maximum level of individual debt had increased significantly from the original estimates, with about a dozen students having debts in excess of \$100,000.
- 7.19 In this review we found that the most significant fiscal risk in relation to the Scheme is still the provision for doubtful debts. The MoE, in consultation with the Treasury and the IRD, had reviewed the provision for doubtful debts<sup>3</sup>, which was then checked by an independent consultant and reflected in the Crown's *Financial Statements* for the year ended 30 June 2002. The provision was set at 11.4% for 2001-02. The basis of the calculation, the assumptions on which it is based, and the effect of a 1% shift which will have a \$50 million impact on the provision is clearly shown in the *Annual Report* to 30 June 2002.
- 7.20 In future, an actuarial valuation or fair valuation of the student loan debt will be undertaken. It is intended that the valuation will be available for the year ending 30 June 2003. This valuation will be updated annually and will be used to "test" the reasonableness of the provision for doubtful debts. The actuarial valuation will also be shown by way of a note to the Crown's *Financial Statements* to offer fuller explanation of the debt.

<sup>3</sup> The provision for doubtful debts effectively allows for the amount of debt that potentially will not be collectable – for example, future write-offs due to students dying before their loans are repaid, loans discharged due to bankruptcy, and debt that will not be repaid due to borrowers not reaching the income threshold for making repayments.

### Measures of Financial Performance and Outcomes

#### 7.21 In 2000 we recommended:

- including in reports to Ministers and Parliament

   especially the Annual Report more information
   on financial projections and financial performance,
   and more detailed analysis of past uptake and
   repayment patterns;
- including in financial forecasts for the Scheme assumptions and risk assessments;
- creating and reporting against a set of indicators for the financial performance of the Scheme; and
- creating and reporting against a set of coherent and assessable outcome indicators for the Scheme

   including both intended and unintended outcomes.
- 7.22 We made these recommendations on the basis that the 3-year forecast of the student loan debt in the Annual Report showed only a single estimate of the student loan debt outstanding (rather than a range of estimates) with little in the way of support or assumptions. We considered that lack of any detailed publicly reported long-term forecasts had led to a number of queries from stakeholders about the future expected size of the student loan debt and when it would reach equilibrium. There was a lack of publicly available information on how forecasts were modelled and why they changed and, therefore, a lack of understanding of the forecasts.
- 7.23 We also noted that the impact of the Scheme on the participation rate was not known although the purpose of the Scheme is to support the participation of all New Zealanders in tertiary education by providing access to finance for tuition fees and other education-related costs on a non-selective basis.

B.29[03a]

- 7.24 In addition, apart from reference in the MoE's AC Nielsen report that there was evidence of students choosing "more cost effective options" i.e. "courses that are shorter, more practical and with more external outcomes" there has been no research by MoE on the:
  - impact of study costs and student loans on choice of study;
  - relationship between fees, allowances, subsidies to tertiary education providers, and the demand for student loans; and
  - impact of student debt on life choices such as marriage and family, and the ability to raise further loans, invest, or save for retirement.
- 7.25 In this review we found that the *Annual Report* still includes only a few of the key assumptions underlying the financial forecasts in particular, participation and income growth. The TESLA model<sup>4</sup>, however, is built on a broader range of assumptions than these for example, assumptions are made about: inflation, determinants of borrowing and repayment, and distribution patterns of individuals' borrowing and repayment history. These assumptions and an assessment of their validity over time should be included in the *Annual Report*.
- 7.26 In relation to outcome indicators, the joint Ministers approved a set of "best possible" socio-economic indicators. At the time it was recognised that the use of these indicators would depend on the data set available and that most of the socio-economic indicators would be impossible to calculate without full data integration (see paragraph 7.68 on page 93). The outcome indicators include:
  - repayments, income, total debt and expected repayment profiles by ethnicity, course, decile and location of secondary school, tertiary education provider, and occupation of borrower;

<sup>4</sup> The 'TESLA model' is the Tertiary Education Student Loan Analysis. It generates a profile of borrowers based on demographic statistics and historic aggregate Student Loan Scheme data obtained from the agencies administering the Scheme.

- effect of loans on study choice;
- the proportion of borrowers going overseas, those that return within certain times and those overseas who repay their loans; and
- the proportion of borrowers who enter employment and stay in employment.
- 7.27 These indicators do not address the unintended future outcomes of the Scheme.
- 7.28 The MoE considers that reporting on most of the indicators is dependent on finalising the data integration, and that reporting on some indicators (such as the effect of loans on study choice) is not possible with any level of precision as it is not possible to control many other variables. The MoE also has concerns about the extent to which it is possible to conduct robust qualitative research on this sort of topic.
- 7.29 However, the MoE acknowledges that it is possible to conduct research on the relationship between student loan debt and some factors outside tertiary eduction. The recent analysis by Scobie and Gibson<sup>5</sup> of the Household Savings Survey dataset is an example. This study looked at a number of issues including explaining the differences in individual wealth, ethnic differences in the level of observed net wealth, and the impact of the Scheme.
- 7.30 The MoE has access to a large amount of data about student loans and we consider that, although difficult, more analysis needs to be done, having regard to any methodological constraints. The results obtained from such analysis could be used to research and compare the impacts of the Scheme over time.
- 7.31 In addition, in May 2002 the MoE conducted a reader survey to determine what information the readers would like to be included in the *Annual Report*. The survey resulted in the inclusion of information on:
  - student loan uptake;
  - Grant M. Scobie, and John K. Gibson, *Individual Net Wealth in New Zealand:* A Preliminary Analysis Based on a New Survey, the Treasury, 2002. The work in relation to the Scheme focused on non-partnered individuals and sought to test seven hypotheses about the impact of student loan debt on mortgages, total value of property assets, and the number of children.

B.29[03a]

- fees borrowed by provider type;
- background on enrolments/participation trends;
- tertiary education sector international comparatives;
   and
- further demographic data on borrowers.

#### **Capability and Accountability Issues**

#### Fragmented Responsibilities

#### 7.32 In 2000 we recommended:

- reviewing the current fragmentation of responsibilities for the Scheme; and
- considering (as part of that review) the suggestion of establishing a separate agency (with the appropriate specialist skills) with overall responsibility for strategic risk management of the Scheme and for financial reporting on the Scheme.
- 7.33 We made these recommendations on the basis that, although the fiscal risks were significant, the management of them was not clearly the responsibility of any particular agency or group of agencies. Individual agencies had "administrative" responsibility for uptake and collection, and for rules about eligibility and entitlement, but responsibility for managing the fiscal risks attaching to the Scheme as a whole was not clear.
- 7.34 We noted that the Crown did not manage the Scheme as a separate fund, which made it difficult to assess the Scheme's financial performance. Furthermore, it was unlikely that the agencies currently responsible for administering the Scheme had the appropriate specialist skills to manage such a fund.

- 7.35 It was suggested to us during the course of our review that one option for improved strategic risk management could be the establishment of a separate agency (or separate unit within an existing agency).
- 7.36 In this review we found that no agency has yet been given the overall responsibility for the Scheme. An August 2001 officials' report to the Joint Ministers said that:
  - The issue of a stand-alone agency was considered but rejected on the basis that the costs of establishing a separate agency would outweigh the benefits.
  - The main benefits of having a separate agency were seen to be better incentives for debt collection and improved collation of information.
  - However, it was noted that there had been no issues with IRD's performance in relation to debt collection, and an integrated data set (which was at that time being established) would improve the collation of information.
- 7.37 The protocol entered into between the MoE, the Ministry of Social Development (MSD), and the IRD in 1999 remains the key mechanism to govern agency responsibilities, including responsibilities for the strategic and operational policy. The protocol defines the scope of policy issues relating to student allowances and student loans, and clarifies the practicalities of the day-to-day working relationship among the parties.
- 7.38 An annex to the protocol (Annex D) has been drafted to clarify the allocation of responsibility for producing the *Annual Report*. Overall responsibility for co-ordination and production of the report lies with the MoE, with oversight exercised through an inter-agency steering group.
- 7.39 A review group of representatives from each agency meets 2-3 times each year to discuss the protocol and how the relationships are being managed under the protocol. It was agreed late last year to update the protocol to reflect changes to entities (the creation of the MSD from the Department of Work and Income and Ministry of Social Policy; and the creation of the Tertiary Education Commission) and their roles, and to redefine existing descriptions to better reflect what has changed.

B.29[03a]

- 7.40 There is no formal agreement that assigns overall responsibility for management of the fisical risks attaching to the Scheme as a whole. We consider that this aspect could be included in the protocol.
- 7.41 The parties to the protocol consider that agreement under the protocol should be restricted to policy and delivery responsibilities, and that the Treasury (which is not a party to the protocol) has an over-riding responsibility for management of the risks relating to significant items in the Crown's Statement of Financial Position including the Scheme debt. However, the fact that the protocol parties hold that view does not, in our opinion, constitute a formal assignment of responsibility for management of the fiscal risks attaching to the Scheme. We believe that, if not in the protocol, overall responsibility for management of the fiscal risks should be assigned by some other formal mechanism.

#### Strategic Policy Advice and Research

#### 7.42 In 2000 we recommended:

- clarifying the responsibility of the MoE for strategic policy advice on the Scheme – including the purpose and role of research (and its adequate resourcing) and what reporting obligations are included; and
- that the MoE commission research on the areas of socio-economic impact where there is no information.
- 7.43 We made these recommendations on the basis that the MoE was responsible for strategic policy on the Scheme. The MoE was therefore responsible for collecting adequate information for the purposes of policy advice, costing of that advice, and financial management of the Scheme including sufficient information for the Treasury to analyse the Crown's Statement of Financial Position.
- 7.44 In practice the MoE's activities had been limited to the current work programme which then involved reviewing the interest rate methodology and dealing with a number of minor anomalies.

- 7.45 The objectives of the MoE's research strategy were not clear. This was of concern because the research role is critical to the quality of policy advice.
- 7.46 The MoE had not commissioned any research on the socio-economic impact of student debt.
- 7.47 In this review we found that the MoE has not given consideration to any broader future outcomes of student loan debt. The MoE accepts that it is responsible for strategic advice on student loans, but its advice has been primarily focussed on issues of "equity, integrity and public perception" and on the impacts of the loan scheme on the tertiary education sector students, providers, participation, etc.

#### Data Collection, Analysis, and Exchange

#### 7.48 In 2000 we recommended:

- clarifying other agencies' accountability for collecting and exchanging data for monitoring against socioeconomic indictors – to ensure that those agencies supply the appropriate information in a timely manner;
- that Statistics New Zealand undertake a trial integration of selected datasets relating to the Scheme with a view to providing statistics to inform strategic policy, financial risk management, financial reporting, and forecasting; and
- directing officials of the relevant agencies to resolve the data exchange issues hindering analysis of the impact of the Scheme.
- 7.49 We made these recommendations on the basis that the systems of the agencies that were responsible for administering the Scheme were focused on processing uptake of loans or collection of debt, rather than collecting data to enable analysis for policy purposes. This situation was primarily due to a lack of clear accountability for obtaining, analysing, and reporting information for policy analysis purposes. Consequently, departmental performance was assessed against various processing

B.29[03a]

- measures, with no agency being accountable for ensuring that the overall outcomes of the Scheme were met.
- 7.50 Effective policy analysis and evaluation, costing and production of student loan statistics require access to and, most usefully, matching of unit record data. This requires data exchange between agencies responsible for administering the Scheme particularly from the MSD and the IRD to the MoE, because the MoE is responsible for forecasting and strategic policy advice.
- 7.51 No arrangements have yet been put in place to exchange data at the level required to adequately support strategic policy advice, strategic risk management, forecasting, and financial reporting.
- 7.52 We considered that the matching of data from the IRD, the MoE and the MSD at a unit record level would significantly increase the capacity to carry out research on the effects of the Scheme. It is technically feasible to integrate data across agencies.
- 7.53 In this review we found that a feasibility study was completed in May 2001. Privacy, logistical, and data issues around data integration were resolved by April 2002 at which time Cabinet approved funding for the establishment of the integrated dataset.
- 7.54 Work proceeded on merging educational data from the MoE and data on student loans from the MSD with income and loan data from the IRD at an individual student level to establish the integrated dataset.
- 7.55 An inter-agency Service Level Agreement for the integrated dataset on student loan borrowers was negotiated between the IRD, MoE, MSD and Statistics New Zealand (SNZ). The purpose of this agreement was to confirm a process for SNZ to establish, maintain, and annually update an integrated dataset on student loan borrowers, and to confirm each agency's responsibilities within this process. SNZ has integrated MoE data on tertiary enrolments, MSD and student Loans Account Manager data (which is held by IRD) on borrowings, and IRD data on loan repayments and incomes. SNZ is the custodian of the integrated dataset.

- 7.56 The MoE has told us that it anticipates that the data integration will also enable more detailed information to be reported in future *Annual Reports*. The MoE intends to analyse the data for the effects of the Scheme on tertiary study, and subsequent employment and income. It intends to cover the following topic areas:
  - Tertiary study and student debt looking at the levels of debt for different student groups, the debt for different courses of study, and the level of debt written off.
  - Student loan debt repayments establishing the difference in repayment profiles for different groups and courses of study.
  - Students who go overseas looking at numbers going overseas, the numbers returning, how many are repaying their debt while away, and whether their demographic characteristics differ.
  - Income earnings for students establishing the poststudy income level (compared to non-borrowers of the same age), differences in income for different groups and different courses of study and how these compare with non-borrowers and those without tertiary qualifications, and the effective income profile of students after repayments.
  - Borrowing, participation, and achievement in tertiary education – analysing how participation has changed for different groups and different courses of study, how different groups differ in their use of the Scheme, differences in completion rates for borrowers and nonborrowers for different groups or courses of study, and the proportion of borrowers who never complete a qualification.
  - Borrowing and employment assessing what proportion of borrowers enter employment and stay in employment, and the proportion of borrowers working in the fields they studied for.

B.29[03a]

- 7.57 On 31 March 2003, an officials group led by SNZ reported to the Minister of Statistics and the Associate Minister of Education (Tertiary Education) on options for expanding the integrated data set to topics outside student loans. The group identified three topics that are viewed as priorities for expansion Student Allowances, Training Incentive Allowances, and graduate outcomes and destinations.
- 7.58 The MoE has been given full access to MSD's information analysis platform (IAP) and uses the data from this source to forecast loans and allowances expenditure for MSD as well as to provide information to underpin policy advice. The MoE considers that IAP is essential to the analysis of the uptake of loans and the analysis of loans by component.

#### Service to Borrowers

- 7.59 **In 2000 we recommended** revising the information for students to ensure that they receive adequate information on repayment choices and the potential impact of having a student loan.
- 7.60 We made this recommendation on the basis that no budgetary information was offered to students other than a "budget planner" in the booklet provided to students applying for a loan which helps students calculate how much to borrow, not how long it will take to repay the loan nor the impact on their ability to raise other finance post-study.
- 7.61 In addition, students and other stakeholders did not receive information on the extent to which undertaking tertiary study may increase their future income (and, consequently, their ability to repay their student loan debt). Past estimates of the difference in lifetime earnings had not been based on comparable groups of school-leavers.

#### 7.62 We considered that:

- students needed more effective assistance in calculating the benefit of faster repayment through voluntary payments; and
- borrowers poorly understood the obligation to make repayments when overseas (and the penalties incurred for not doing so), although the IRD had a booklet available on the subject.
- 7.63 In this review we found that good electronic linkages had been established between the IRD, MSD (StudyLink) and MoE web sites and that (combined) the three sites offer comprehensive advice to students on the Scheme including what a loan is, how to apply for one, how the loan is repaid, and obligations for repayment when overseas.
- 7.64 There have also been some improvements in the information booklet published jointly by StudyLink and IRD, in that it now:
  - encourages students to consider, before taking out a loan, whether they could finance their studies without a loan and to understand what's involved in paying back a loan;
  - clearly advises the student to borrow only as much as they need and to pay back the loan as fast as they can;
  - includes an example to illustrate the effects that borrowing less and paying back extra has on the length of the repayment period and the amount of interest paid; and
  - has the budget planner near the front of the booklet (where previously it was at the back), which helps the student to calculate how much they need to borrow.
- 7.65 The booklet could, however, be improved further by including a link to the IRD repayment calculator as well as a manual version in the booklet with the budget planner.

B.29[03a]

- 7.66 The IRD has also told us that it has taken steps to encourage those with the ability to make voluntary repayments to do so through, for example, on-screen advertisements in cinemas.
- 7.67 The MoE also has a loan estimator this can be found at http://www.minedu.govt.nz/goto/studentloans.

#### What Still Has To Be Done?

- 7.68 In our view, good progress has been made in some areas improved financial reporting and the progress towards the integrated dataset. However:
  - Approval has been given to fund the actuarial valuation.
    The MoE needs to ensure that this project proceeds
    and that the current method of provisioning for doubtful
    debts is tested against the actuarial valuation and any
    differences explained.
  - Further progress needs to be made in relation to providing additional information and explanation of forecasts, ranges, assumptions, and analysis of fiscal risks.
  - The next stage in development of the integrated dataset the analysis of the data for research and policy work and improved reporting on the Scheme by the MoE, the IRD and MSD will be just as, if not more, important than the first stage. This use of the data needs to be monitored and evaluated by an inter-agency group to ensure that the benefits of the project are being achieved.
  - Progress needs to be made in relation to clarifying a complete, feasible set of socio-economic indicators.
     If the MoE does not consider that it is the appropriate agency to either undertake or commission research in this area, another agency needs to be allocated this task. An inter-agency group may need to be established to ensure that progress is made.
  - The service to borrowers could be further improved by establishing a better link to the repayment calculator, and by providing more information on future incomes resulting from study.

- 7.69 We note that the following key questions may not be able to be answered, even with data integration:
  - the impact that student loans have on future ability to raise a mortgage or buy a car, the decision to have children, and the ability to save for retirement; or
  - the impact on participation and study choice analysed by gender, ethnicity, and socio-economic group.
- 7.70 Some questions, which can be answered from data integration, may not be answered for some time. Research is needed to address such questions in the meantime.



### Eight

## Status of Follow-up Action on Previous Reports





B.29[03a]

- 8.1 The Audit Office produces reports on a broad range of topics and issues across the public sector. Parliament is our primary audience for these reports. By their nature, however, these reports are usually focused on the Executive. This focus may be on:
  - single agencies; or
  - multiple agencies; and/or
  - central agencies (the Treasury, the State Services Commission, and the Department of the Prime Minister and Cabinet).
- 8.2 For formal consideration of our reports by the House, we have been reliant until recently on relevant subject Select Committees taking the opportunity to consider the reports and deciding whether they want to ask for a Government response.
- 8.3 The Officials Policy Committee (comprising the chief executives of the three central agencies) has also considered the need for a government response to our reports.
- 8.4 Both of these mechanisms have been informal. Nevertheless, they formed a basis to complete the "accountability loop" between:
  - Audit Office reports;
  - Parliamentary scrutiny of our reports; and
  - Government responses.
- 8.5 Towards the end of 2000, however, the Finance and Expenditure Committee (FEC) of that time established a subcommittee specifically to deal with Audit Office reports. We welcomed this initiative, although the subcommittee met on only two occasions. The current FEC has not established a like subcommittee.

- 8.6 Under current committee arrangements, we see the ideal process for dealing with our reports being as follows:
  - Audit Office reports are tabled in Parliament;
  - relevant subject Select Committees receive a briefing from us and consider the reports;
  - Select Committees are also briefed by affected agencies;
  - Select Committees may report to the House and may recommend that a Government response be requested;
  - Government responses are developed and actioned; and
  - we provide periodic status reports on where Audit Office reports are in this process.
- 8.7 The following pages give a brief analysis of each of our reports for the last four years. It follows the same format as the article we published on this topic last year<sup>1</sup>, with updated comments where appropriate. We have not included our reports on local government issues, or on one-off inquiries of the moment, except where there is a remaining parliamentary interest.



B.29[03a]

#### **Title of Report**

New Zealand Defence Force:
Deployment to East Timor –
Performance of the Health Support Services

Date Presented

14 February 2003

#### **Brief Description**

In November 2001, we issued our report on the New Zealand Defence Force's deployment to East Timor<sup>2</sup>, which took place in 1999. That report looked at how the NZDF planned for the East Timor operation, prepared a joint force, and subsequently deployed that force to East Timor. This report examines the contribution of the variety of professionals from all three services (Navy, Army and Air Force) who provided health support to the East Timor deployment.

#### Key Findings

The health support services played a crucial role in the East Timor operation by:

- assisting in the preparation of personnel for deployment;
- providing health care and support in theatre; and
- providing post-deployment health care and support when personnel returned to New Zealand.

Recommendations made to the NZDF include:

- upgrading the poor medical record system;
- completing the review of health support services' structure and resourcing;
- addressing shortages of health care personnel;
- · reviewing the supply system for medical items; and
- improving the focus on preventative and environmental health.

<sup>2</sup> New Zealand Defence Force: Deployment to East Timor, ISBN 0-477-02886-1, November 2001.

#### Select Committee Scrutiny

The Foreign Affairs, Defence and Trade Committee considered this report in March 2003.

#### Government Response

The NZDF has accepted the recommendations in the report. The most significant outstanding recomendations, which relate to a computerised medical records system and resolving the structure and resourcing of the health support services, are included in the Key Priorities of the NZDF 2003-04 Output Plan.

#### Issues Outstanding

We will maintain an active interest in the issues we have identified for consideration by the NZDF and will consider doing a follow-up audit of these issues in 2004.

#### **Title of Report**

### Department of Conservation: Administration of the Conservation Services Programme

#### Date Presented

23 December 2002

#### **Brief Description**

We decided to conduct an inquiry into the administration of the conservation services programme as a result of a complaint from a body that represents the interests of its shareholding fishing companies and associations. The complaint was supported by specific case studies illustrating the body's concerns about the way that the Department of Conservation manages the conservation services programme. Because of the mechanism for funding the cost of the programme and for recovering the cost from commercial fishers, our inquiry extended to the Ministry of Fisheries.

B.29[03a]

#### **Key Findings**

We made a number of findings and recommendations covering:

- research into the black petrel;
- research into the New Zealand sea lion;
- consulting on the conservation services plan;
- information on over- and under-recovery of costs;
- management of the observer programme;
- a strategic plan for the conservation services programme;
- accountability for the conservation services programme; and
- implementing the results of conservation services research.

#### Select Committee Scrutiny

The Primary Production Committee considered this report in March 2003, and has indicated that it will be raising the report's recommendations with the Ministry of Fisheries and the Department of Conservation.

#### Government Response

We discussed the report with the Ministry of Fisheries and the Department of Conservation. The Ministry is developing a response to the issues raised.

#### **Issues Outstanding**

We will maintain an active interest in the findings and recommendations that we made by reviewing progress made in the annual audits of the Department of Conservation and the Ministry of Fisheries.



#### **Title of Report**

New Zealand Defence Force:
Deployment to East Timor –
Performance of the Helicopter Detachment

#### Date Presented

23 December 2002

#### **Brief Description**

In November 2001, we issued our report on the New Zealand Defence Force's deployment to East Timor. That report looked at how the NZDF planned for the East Timor operation, prepared a joint force, and subsequently deployed that force to East Timor. This report examines the contribution of the Royal New Zealand Air Force helicopter detachment for the East Timor operation.

#### Key Findings

In our opinion, the detachment performed well in East Timor and has made a valuable contribution to the military effort. The success of the operation owed a lot to the standard of planning and preparation conducted in early- to mid-1999.

We make a number of recommendations covering:

- planning and preparing;
- critical capabilities;
- self-sufficiency;
- performance in theatre;
- learning lessons;
- sustainability;
- reporting preparedness;
- maintaining the Iroquois helicopters; and
- joint training.

B.29[03a]

#### Select Committee Scrutiny

The Foreign Affairs, Defence and Trade Committee considered this report in March 2003.

#### Government Response

The NZDF has indicated that many of our recommendations have already been or soon will be implemented, while others reflect the reality of maintaining outputs with limited resources, and conducting military operations overseas with a minimal civil infrastructure.

#### Issues Outstanding

We will conduct a follow-up audit of the various recommendations that we made in this report.

#### **Title of Report**

#### Ministry of Agriculture and Forestry: Management of Biosecurity Risks

#### Date Presented

27 November 2002

#### **Brief Description**

In this report, we assess how MAF manages terrestrial biosecurity risks. We also examined seven case studies as illustrations of MAF's application of biosecurity risk policies and procedures, and identified areas where we think improvements can be made.<sup>3</sup> One case study, on the management of the southern salt-marsh mosquito incursion, examines the role of the Ministry of Health.<sup>4</sup>

#### **Key Findings**

- New Zealand's biosecurity arrangements are among the best in the world.
- Roles and responsibilities have been unclear, but departments have been developing a framework to allocate responsibility and improve co-ordination.
- 3 Management of Biosecurity Risks: Case Studies, ISBN 0-477-02899-3, December 2002
- 4 Ibid., pages 27-55.

- There is currently no clear accountability for the biosecurity programme as a whole.
- There is a lack of clear and agreed goals and outcomes for biosecurity activities.
- There is little systematic analysis of the relative benefits and costs of the different components of the biosecurity programme.
- There is no agreed common framework for deciding the allocation of resources to deal with specific threats.
- Further work is required to improve qualitative assessments of risks and to increase consistency and transparency of assessment methods.
- MAF Biosecurity has groups that work relatively independently of one another, and are therefore unlikely to be making the best use of collective capability.
- Workload pressure in both MAF Biosecurity and other key agencies sometimes results in important work being deferred or slowed.
- There is not a high level of assurance that sufficient expert resources could be made available quickly and comprehensively, for example for a large emergency incursion response.

#### Select Committee Scrutiny

The Primary Production Committee was briefed on this report in November 2002.

#### Government Response

- Recommendations were integrated into the Biosecurity Strategy.
- MAF is developing a plan to address the issues raised, and this will be monitored in the annual audit and financial review processes.
- A Biosecurity Strategy working party is developing and implementing a workplan based on our recommendations and those in other biosecurity-related reports.

B.29[03a]

• An inter-departmental group is doing across-government work on the issues.

#### Issues Outstanding

We will maintain an active interest in the findings and recommendations throughout our annual audit process in 2003 and consider the need for a further follow-up report later in 2003.

#### **Title of Report**

#### Central Government and Other Issues 2001-025

#### Date Presented

28 June 2002

#### **Brief Description**

This report completes the matters that we wished to bring to Parliament's attention – principally relating to the central government portion of our auditing portfolio – arising from our activities in 2000-01.

#### **Key Findings**

Our report covered a range of topics:

- public sector progress towards an e-society;
- strategic human resource management;
- accountability 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.

#### Select Committee Scrutiny

The relevant agencies have considered our reports, and are currently working on the issues raised.

#### Government Response

None.

#### Issues Outstanding

We will maintain an active interest in all of the issues covered in this report and consider the need to further report progress later in 2003.

#### **Title of Report**

#### Severance Payments in the Public Sector

#### Date Presented

27 May 2002

#### **Brief Description**

This report was prompted by a number of agreements between public sector employers and their staff, under which an employee agreed to resign in return for a payment of compensation and an undertaking of confidentiality.

#### Key Findings

We have identified a number of common themes in the cases we looked at. Some involved failures of process – for example, a failure to seek comprehensive legal advice. Others involved defects in substance – for example, unjustifiably high non-taxed compensatory payments. Such failings can expose a public sector employer to intense criticism if details of the settlement are made public. Many of them result, we believe, from an inadequate appreciation of the risks that employers in general – and those in the public sector in particular – face when deciding to enter into an employment settlement rather than dismissing the employee and defending any personal grievance that the employee may raise.

B.29[03a]

#### Select Committee Scrutiny

None.

#### Government Response

None in particular. However, there is good awareness of this report and its recommendations.

#### Issues Outstanding

We believe the report provides a useful framework for employers in the public sector to use, particularly taking a principled approach to employment settlements. We will maintain an active interest in employment settlements in the annual audits that we undertake.

## Title of Report

# Bringing Down the Road Toll: The Speed Camera Programme

Date Presented

1 May 2002

### **Brief Description**

Our report considered whether speed cameras are being used effectively and efficiently, generating the maximum road safety benefits and contributing to bringing the road toll down. As part of our examination, we were keen to find out how speed camera programmes are operated in jurisdictions similar to New Zealand.

## Key Findings

We concluded that, within the current limitations and operating rules, the Police generally have effective management practices and processes in place for the speed camera programme. We found there was scope to improve for the targeting speed camera resources and to enhance existing delivery and administration of the programme. There were further findings and recommendations covering:

- allocation of speed camera resources;
- · camera deployment;
- processing infringements; and
- asset management.

#### Select Committee Scrutiny

None.

### Government Response

As a result of the report, the National Road Safety Committee formed the Speed Management Working Group in November 2002 to consider our recommendations. The Group includes representatives from the Police, Land Transport Safety Authority, Ministry of Transport, Local Government New Zealand, Transit New Zealand, Transfund New Zealand and Accident Compensation Corporation.

### The Group will:

- review the amount of resources allocated to the Police for the speed camera programme;
- consider options for more flexible use of existing camera resources;
- analyse the merits of purchasing additional cameras;
   and
- consider the benefits of applying demerit points to offences detected by speed cameras.

A final report with recommendations is expected by August 2003.

## Issues Outstanding

We will conduct a follow-up of our recommendations later in 2003.

B.29[03a]

## **Title of Report**

# Purchasing Primary Health Care Provided in General Practice

#### Date Presented

14 March 2002

### **Brief Description**

As the basis for the report, we examined the historical development of State funding and purchasing of primary health care.

### **Key Findings**

We had a number of findings covering:

- purchaser capability;
- information;
- funding;
- contracting;
- monitoring;
- evaluation; and
- purchaser accountability.

# Select Committee Scrutiny

The Health Committee considered this report in September 2002.

#### Government Response

None.

### Issues Outstanding

The responsibility for purchasing primary health care has now moved from the Ministry of Health to District Health Boards. We will maintain an active interest in how District Health Boards are performing in this regard over the next few years.

## **Title of Report**

## New Zealand Defence Force: Deployment to East Timor

#### Date Presented

15 November 2001

## Brief Description

Our report describes and assesses the systems used by the NZDF to:

- plan for a military operation;
- prepare a joint force; and
- deploy that force to East Timor.

We also examined the systems by which the NZDF has reviewed its military practice and processes in the light of the East Timor experience; and we assessed the extent to which the NZDF has identified lessons for future contingencies and implemented necessary changes.

## Select Committee Scrutiny

The Foreign Affairs, Defence and Trade Committee has considered this report.

#### Government Response

Not required.

#### **Issues Outstanding**

There are no issues outstanding. We have subsequently presented two further reports about specific components of the joint force:

- Performance of the Helicopter Detachment (see pages 102-103);
   and
- Performance of the Health Support Services (see pages 99-100).

B.29[03a]

## **Title of Report**

# The Police: Dealing with Dwelling Burglary

#### Date Presented

13 September 2001

### **Brief Description**

The purpose of this report is to provide Parliament with information on what the Police are doing about dwelling burglaries, including how the Police measure their performance.

## **Key Findings**

The process for investigating burglary is broadly similar throughout the Police, but we found variations in practice at a local level. The reasons for these variations are not always clearly stated or argued.

There is potential for the Police to:

- evaluate new and alternative approaches and share good practice in crime prevention between areas;
- make greater and better use of science and information technology; and
- improve their measuring and monitoring of performance in relation to dwelling burglary.

## Select Committee Scrutiny

The Law and Order Committee considered this report as part of its 2000-01 Financial Review of the Police.

# Government Response

The Police welcomed our report. The thrust of the key recommendations has been implemented. In particular, the report included a proposal that the Police consider the use of data envelopment analysis as one tool to help identify better-performing districts (and so learn from them). Such an exercise has been conducted on a pilot basis, in collaboration with the Treasury, and is likely to be repeated.

### Issues Outstanding

We will conduct a follow-up of this report in the next 18 months.

## **Title of Report**

## **Providing and Caring for School Property**

#### Date Presented

5 September 2001

### **Brief Description**

This report assesses the Ministry of Education's performance in managing the school property portfolio. We concentrated on:

- the management arrangements in place between the Ministry and School Boards of Trustees; and
- systems and processes for managing (including funding) the provision and maintenance of school property.

#### **Key Findings**

#### **Capital Works**

We conclude that the Ministry is:

- taking positive steps with respect to planning and funding capital works which aim to meet the needs of schools and students; and
- ensuring that the provision of property is well planned and appropriate.

These steps represent a substantial improvement on what was found in previous reviews.

#### Maintenance

We are less satisfied with the arrangements for maintenance. The Ministry is responsible for ensuring that School Boards of Trustees meet their responsibility to ensure that schools are properly maintained.

B.29[03a]

In our view, the Ministry needs to significantly improve the information it has about the maintenance that Boards are undertaking and the condition of the school estate. We suggest that better information can be obtained through enhancement to the current property management framework.

#### Select Committee Scrutiny

The Education and Science Committee considered our report on 13 December 2001, and raised the issues in the report on the same day within its financial review hearing of the Ministry of Education.

#### Government Response

The Ministry of Education was introducing a revised property funding mechanism.

### Issues Outstanding

We will report progress on our recommendations later in 2003.

# **Title of Report**

# Ministry of Defence: Acquisition of Light Armoured Vehicles and Light Operating Vehicles

#### Date Presented

22 August 2001

### **Brief Description**

This report is about the acquisition of two types of new vehicle for the New Zealand Army:

- light armoured vehicles; and
- light operating vehicles.

### Key Findings

# Our views on the light armoured vehicle (LAVIII) acquisition:

- from the start, the project was poorly defined;
- the changing project definition also led to lack of clarity on the number of vehicles required;
- the approach to research of the market for this purchase was, in our view, deficient;
- use of essential criteria restricted the scope of competition;
- there was no strategic management of the project;
- in at least two instances the Ministry of Defence (MoD) failed to consult appropriately;
- relationships between the MoD, the New Zealand Defence Force (NZDF) and Army were dysfunctional;
- pursuit of the project diverged considerably from Cabinet approvals in a number of respects;
- the longer the acquisition was delayed, the more expensive it became;
- there was insufficient documentation of some key decisions; and
- the significant capability requirements associated with acquisition of 105 LAVIIIs were inadequately assessed before the decision to acquire the vehicles.

### Our views on the light operating vehicle acquisition:

- the use of essential criteria restricted scope for competition;
- the approach to research of the market for this purchase was, in our view, deficient;
- there was no strategic management of the project; and
- relationships between the MoD, the NZDF and Army were dysfunctional.

B.29[03a]

### Select Committee Scrutiny

Both the Foreign Affairs, Defence and Trade Committee and the Finance and Expenditure Committee have received briefings on this report.

#### Government Response

The Government conducted an inquiry into the management and relationship issues that we drew attention to.

### Issues Outstanding

We will conduct a follow-up of some specific issues arising from this report in 2003-04.

## Title of Report

# Parliamentary Salaries, Allowances and Other Entitlements: Final Report

#### Date Presented

24 July 2001

### **Brief Description**

This report sets out our detailed review of the regime for setting and administering salaries, allowances and other entitlements for MPs and Ministers. As a result of our review, we now believe that the current arrangements are inadequate and are in need of change.

## **Key Findings**

In our view, there needs to be a more coherent, principled regime to ensure that:

- the policies, systems and procedures applying to this expenditure are soundly based, transparent, effective and efficient; and
- they are clearly seen to be so by the public.

We advocate five guiding principles in order to improve the overall regime, as follows:

- there needs to be a clear distinction between remuneration and expense reimbursement;
- an independent body should determine all remuneration and expenses to be reimbursed;
- designated agencies should be responsible for paying remuneration and reimbursing expenses;
- all remuneration should be taxed on the same basis as that of an ordinary employee; and
- the independent body should have overall ownership of the system for setting and paying remuneration.

#### Select Committee Scrutiny

The Parliamentary Service Commission considered our report and established an independent advisory panel to report back to the Commission in early-2002. The panel's recommendations were referred to the parliamentary parties for consideration, and which in turn provided their comments to the Commission. The Commission accepted the findings of the panel, and legislation to give effect to the recommendations was prepared. The final legislation – the Remuneration Authority (Members of Parliament) Amendment Act 2002 – took a different course.

#### Government Response

Not applicable.



B.29[03a]

## **Title of Report**

# Reporting Public Sector Performance

#### Date Presented

31 July 2001

### **Brief Description**

This report is about how performance reporting in the public sector can be improved. We believe that stakeholders are not getting the best information they could on how public entities are performing.

## **Key Findings**

The report builds on our 1999 report: *The Accountability of Executive Government to Parliament.*<sup>6</sup> We suggest that the development of a common measurement and reporting framework is a critical task, and all elements of performance should be taken into consideration.

### Select Committee Scrutiny

None.

### Government Response

See below.

#### **Issues Outstanding**

While there has been no specific Government response, there is currently a range of initiatives across government departments, under the Managing for Outcomes umbrella. These initiatives will take a number of years to fully develop, and present major challenges for our Office.

We published on our web site a Second Edition of this report, incorporating certain case studies, in February 2002.

### **Title of Report**

## Meeting International Environmental Obligations

#### Date Presented

8 May 2001

### **Brief Description**

This report sets out the results of our examination of New Zealand's approach in respect of four specific multilateral environmental accords.

### Key Findings

Our findings show uneven levels of implementation of New Zealand's obligations under the four multi-lateral environmental agreements (MEAs) that we examined:

- The Montreal Protocol on Substances that Deplete the Ozone Layer (the Montreal Protocol) has been the most successfully implemented.
- New Zealand's international obligations under the *Convention on Trade in Endangered Species of Fauna and Flora (CITES)* are also being successfully fulfilled.
- New Zealand is generally meeting the specific obligations of the *Convention on Wetlands of International Importance* (the *Ramsar Convention*), but the measures taken have:
  - failed to arrest the continuing degradation of wetlands; and
  - failed to achieve the desired outcome of stemming the progressive encroachment on and loss of wetlands now and in the future.
- New Zealand has met most of its international obligations under the *United Nations Framework Convention on Climate Change (FCCC)* and its *Kyoto Protocol*, except the adoption of effective national greenhouse gas policies to mitigate climate changes.

B.29[03a]

### Select Committee Scrutiny

The report has been considered by the Local Government and Environment Committee.

#### Government Response

We have received a government response that covers our recommendations.

- The response agrees with most of our recommendations, especially for future MEAs to enhance or ensure New Zealand's successful implementation and ongoing compliance.
- Departments believe our report will be a useful guide for the future, but applying our recommendations retrospectively for existing MEAs will sometimes be "not straightforward".
- Departments feel there are difficulties in implementing several recommendations in regard to:
  - Joint reporting to Parliament where more than one agency is involved in contributing to meeting New Zealand's obligations; and
  - Identifying total Crown expenditure in a joint report.

## **Issues Outstanding**

Some of our recommendations have been implemented by the departments concerned. We will do a formal follow-up within the next 18 months.



## **Title of Report**

# Civil Aviation Authority Safety Audits – Follow-up Audit

#### Date Presented

20 December 2000

## Brief Description

This report sets out the results of our follow-up audit of the Civil Aviation Authority's conduct of safety audits of operators in the civil aviation industry.

### **Key Findings**

While there has been a downward trend in the overall New Zealand aviation accident rate over the last 10 years, New Zealand's accident rate is higher than rates in the UK, USA and Australia.

The CAA needs to do further work in risk analysis and the application of its audit resources amongst the various types of operators in the civil aviation industry.

## Select Committee Scrutiny

The Transport and Industrial Relations Committee considered our report in early-2001, and followed up aspects of the report at CAA's financial review.

### Government Response

None.

### Issues Outstanding

The issues raised in our report are of concern given that this was a follow-up of a 1997 study. We will conduct a further follow-up study in 2003-04.

B.29[03a]

## **Title of Report**

# Central Government: Results of the 1999-2000 Audits<sup>7</sup>

#### Date Presented

20 December 2000

### **Brief Description**

This report included articles on:

- the 1999-2000 audited financial statements of the government;
- government departments results of the 1999-2000 audits;
- compliance with Cabinet expenditure delegations;
- departmental reporting on "closing the gaps";
- managing employee fraud;
- funding arrangements with non-government organisations;
- disclosing fiscal risks on defence capital projects;
- student loan debt; and
- supplementary estimates for 1999-2000.

### Key Findings

A wide range of issues have been canvassed in this multi-subject report.

# Select Committee Scrutiny

The Finance and Expenditure Subcommittee has considered this report.

### Government Response

The Treasury maintains a register of issues raised in these types of reports, and has taken action where appropriate.

## Issues Outstanding

A range of issues as outlined in the above brief description remain live. We will maintain an active interest in monitoring developments in this regard.

## **Title of Report**

## Student Loan Scheme – Publicly Available Accountability Information

Date Presented (to Select Committee)

23 May 2000

#### **Brief Description**

This report is about:

- the student loan scheme:
- those who have a stake in the scheme either as borrowers or administrators, or those who otherwise expect some accountability for the scheme;
- what the information requirements are; and
- whether, in our view, those requirements are being met.

#### Key Findings

In our view, key stakeholders receive adequate information on the current financial position of the scheme at an aggregate level. However, we believe that there are the following shortcomings in public accountability information:

- limited information on the fiscal risks attached to the scheme; and
- lack of information on the impact of the scheme on the intended and unintended socio-economic outcomes.

The adequacy of valuation of student loan debt also needs to be reviewed, especially in the light of the expected move to a net present value model for valuation.

B.29[03a]

In our opinion, the following related capability and accountability issues need to be addressed to provide better public accountability information:

- fragmented responsibility for the scheme as a whole;
- lack of focus of strategic policy advice and research;
- shortcomings in data collection analysis and exchange;
- shortcomings in forecasting;
- lack of systems responsiveness to change; and
- gaps in service to borrowers.

### Select Committee Scrutiny

The Education and Science Committee considered this report in 2000.

#### Government Response

There was a comprehensive government response in 2001.

### **Issues Outstanding**

We have conducted a follow-up report (see pages 75-94 of this report).

# **Title of Report**

# Governance and Oversight of Large Information Technology Projects

#### Date Published

5 May 2000

## **Brief Description**

This report is about the governance and oversight of large information technology projects in the public sector. The report was in response to a number of highly publicised difficulties with public sector IT projects. The problems have included failure to deliver what was required and major cost over-runs.

### Key Findings

We discuss:

- basic governance structures for IT projects;
- how IT projects actual happen; and
- reasons for success and failure.

Each part of the report raises issues for consideration, summarised in a set of questions which we believe that chief executives, ministers, and select committee members should ask with respect to any large IT projects they are involved with.

### Select Committee Scrutiny

Most select committees have taken an interest in this report, and we gave briefings to a number of them.

### Government Response

The Government has released guidelines on managing large IT projects.

## Issues Outstanding

There are no issues in particular. However, we will continue to maintain an active interest in the governance and oversight of large IT projects.

# Title of Report

# First Report for 20008

Date Presented

21 March 2000

#### **Brief Description**

#### **Health Sector**

This report contains several articles in the health sector, including:

<sup>8</sup> Parliamentary paper B.29[00a].

B.29[03a]

- a review of the financial condition of hospital and health services;
- capital purchasing by hospital and health services; and
- electronic claiming of pharmaceutical subsidies and dispensing fees.

#### **School Boards of Trustees**

We discuss what we see as difficulties – both for School Boards of Trustees and for the Audit Office – with the accountability requirements of the Public Finance Act 1989 and the Education Act 1989, and we suggest some possible changes.

#### **Impact Evaluation**

This article demonstrates the value of impact evaluation as a practical tool to enhance the quality of decision-making by the Government and Parliament.

#### Select Committee Scrutiny

The article on Impact Evaluation was considered by the Finance and Expenditure Committee in 2000.

#### Government Response

There has been no response to the School Boards of Trustees and Health articles. The article on Impact Evaluation received a Government response.

#### Issues Outstanding

The issues raised in relation to School Boards of Trustees remain current. Similarly, Impact Evaluation is an on-going issue. We will take an active interest in developments.



## **Title of Report**

## Fifth Report for 19999

### Date Presented

21 December 1999

### Brief Description

This report includes articles on:

- the 1998-99 audited financial statements of the Government;
- government departments results of the 1998-99 audits;
- maintaining standards of financial management during organisational change; and
- New Zealand Customs Service collection of excise duty.

### **Key Findings**

A range of issues arising out of the 1998-99 audits in the Crown sector.

#### Select Committee Scrutiny

The Finance and Expenditure Committee considered our report in late-1999.

#### Government Response

None required.

#### Issues Outstanding

The issues raised in the article on maintaining standards of financial management during organisational change remain current and relevant.

<sup>9</sup> Parliamentary paper B.29[99e].

B.29[03a]

## **Title of Report**

# Information Requirements for the Sustainable Management of Fisheries<sup>10</sup>

Date Presented

21 December 1999

### **Brief Description**

This report is about:

- the information required to achieve stable management of the fisheries resource within a healthy aquatic eco-system; and
- the extent to which relevant and adequate information is actually being used to manage the country's fisheries within a sustainable framework.

### **Key Findings**

We examined the information available for 44 of the 257 fish stocks. The species within those 44 fish stocks represent 60% of the value of all fish caught in New Zealand's exclusive economic zone.

In our view, the Ministry is unable to be certain if 31 of those fish stocks are being utilised to their potential or, in some cases, being utilised sustainably at all. For those 31 fish stocks, we believe that there are significant gaps in information required by the 1996 Fisheries Act for sustainable utilisation of fisheries.

We conclude, therefore, that the Ministry manages most fish stocks without being sure if this management is sustainable. Because of the lack of information, the Ministry also cannot be sure that the catch levels that are established allow for fisheries to be utilised to their potential. This conclusion is similar to that reached by the Audit Office and the Parliamentary Commissioner for the Environment in 1990.

## Select Committee Scrutiny

The Primary Production Committee considered our report in 2000.

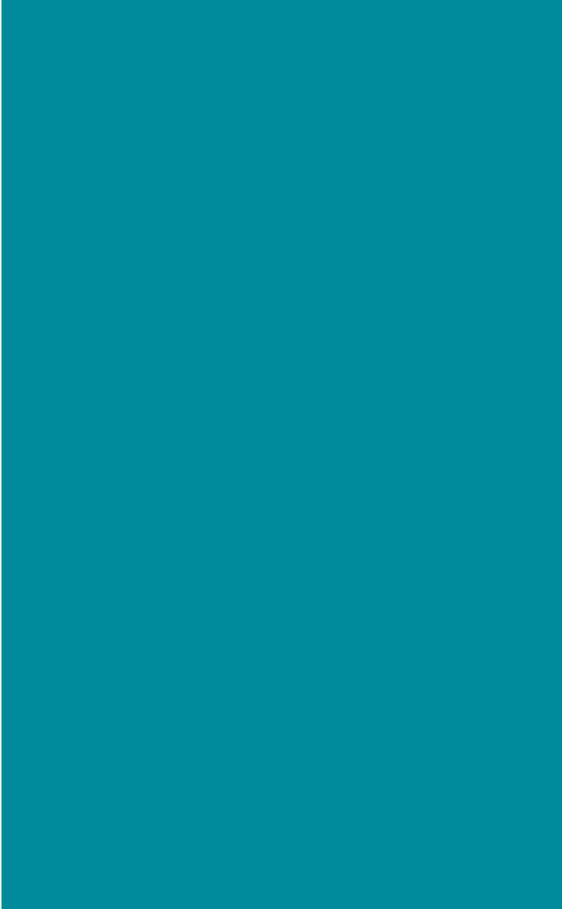
# Government Response

None.

## Issues Outstanding

The majority of issues we raised in our report remain current. We are likely to conduct a follow-up audit in the next year.







# **Controller and Auditor-General**

Tumuaki o te Mana Arotake

Central Government: Results of the 2001-02 Audits