

Introduction

- 2.1 This article reports on the results of the 2001-02 audits of 43 government departments.¹ 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.²
- 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.

1 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.

2 "Generally accepted accounting practice" is defined in section 2(1) of the Public Finance Act 1989.

GOVERNMENT DEPARTMENTS – RESULTS OF THE 2001-02 AUDITS

- 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*

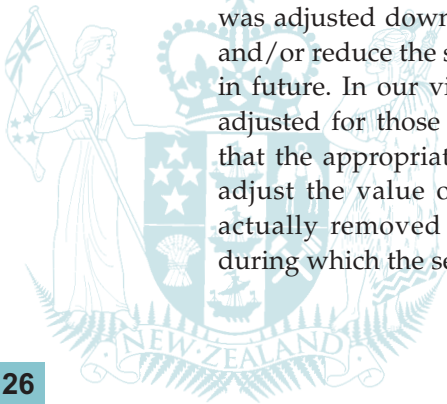
Year Ended 30 June	2002	2001	2000	1999	1998	1997
Unqualified opinions	42	44	43	42	44	42
Qualifications regarding statements of service performance	-	-	-	-	-	1
Qualifications regarding other issues	1	-	-	-	-	3
Total audit opinions issued	43	44	43	42	44	46

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.



- 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.

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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	Excellent		Good		Satisfactory		Just Adequate		Not Adequate		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	No.
FCS	18	42	19	44	5	12	1	0	0	0	43	43
FMIS	18	42	21	49	4	9	0	0	0	0	43	43
FMCE	20	47	15	35	8	19	0	0	0	0	43	43
SPIS	11	26	22	51	10	23	0	0	0	0	43	43
SPMCE	18	42	20	47	5	12	0	0	0	0	43	43
Totals	85	40	97	45	32	15	1	0	0	0	215	215
	85	39	101	46	30	14	4	2	0	0	220	220
	74	34	107	50	34	16	0	0	0	0	215	215

Key

- Financial Control Systems
- Financial Management Information Systems
- Financial Management Control Environment
- Service Performance Information Systems
- Service Performance Management Control Environment

*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	14	187	9	210
%	6.7	89.0	4.3	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.

