



Performance audit report

## How government departments monitor Crown entities





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# How government departments monitor Crown entities

This is an independent assurance  
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## Auditor-General's overview

This report describes how well three government departments – the Department of Internal Affairs, the Ministry for Culture and Heritage, and the Ministry of Economic Development – support Ministers in meeting their responsibilities for selected autonomous Crown entities, Crown agents, and independent Crown entities. This is the second of three reports looking at how particular categories of Crown entity are monitored.<sup>1</sup>

Crown entities are part of the machinery of executive government for which Ministers are responsible to Parliament. They are established by statute, separate from the core government departments, to carry out a wide variety of public services and functions. They are funded in a variety of ways, but often receive some public money.

A wide range of organisations are included in the legal definition of Crown entities in the Crown Entities Act 2004 (the Act). In practice, the term “Crown entities” is commonly used to refer to the group comprising autonomous Crown entities, Crown agents, and independent Crown entities.

Ministers have broad political responsibility to Parliament and to the public for the activities of the Crown entities in their portfolios. The Act sets out the formal mechanisms that responsible Ministers can use to influence Crown entities. These include making or recommending appointments to the board of a Crown entity in their portfolio, and participating in the process of setting and monitoring the entity's strategic direction and targets. Responsible Ministers are also usually involved in making decisions about the funding for a Crown entity. The Act specifies the extent of control the responsible Minister has over autonomous Crown entities, Crown agents, and independent Crown entities.

Typically, a government department provides support to the responsible Minister to help them manage their broad responsibility for the Crown entity and to ensure that the Minister meets their statutory obligations.

Monitoring is a mixture of broad support for the relationship between the Minister and the Crown entity (usually focused on the relationship with the chairperson of the board), scanning for emerging issues or risks that might require response, and day-to-day work (such as monitoring an entity's performance, reviewing an entity's financial planning, and carrying out board appointment processes).

The monitoring department will usually also have policy responsibility for the general area in which the entity works and for the legislation that establishes the entity. Therefore, the broader aspects of the department's monitoring role will often overlap with its policy work.

<sup>1</sup> In 2008, I reported on the Ministry of Education's monitoring of school boards of trustees. The third report (planned for 2010) will cover the Tertiary Education Commission's monitoring of tertiary education institutions.

Drawing on the range of guidance material and discussion about the role of Crown entities and departments in our system of government, we see the following attributes as important if a department is to be effective in its monitoring role:

- Working relationships that enable communication with the Minister, the chairperson and board of the entity, and the entity's management. The relationships need to be strong enough to enable free and frank discussion to flow, when necessary, on emerging issues and risks. The department is often an important intermediary between the Minister and these representatives from the entities.
- Good overall sector knowledge, so that the department can alert the entity to more general issues that may affect the entity, connect the entity with other parts of the sector when necessary, and can be independently aware of emerging issues and risks. This aspect overlaps with the department's policy responsibilities.
- Mechanisms for carrying out day-to-day work. These mechanisms should ensure that the department is able to provide the responsible Minister with timely advice to make well-informed decisions about the Crown entity and to meet their statutory obligations.

We take the view that a department that is managing its day-to-day tasks well is more likely to be able to identify and respond to risks effectively, and to be better placed to support the Minister's general responsibility to Parliament for the entity. If a monitoring department does the basic tasks well, it is more likely to have routine information readily available and a reasonable working knowledge of the Crown entity and its challenges.

The main focus of my staff's audit work was to examine how well the selected departments carried out their day-to-day monitoring tasks and whether they had effective systems in place to support their Minister.

This report does not comment directly on the overall quality of the working relationships that the departments had with the responsible Minister and the chairperson, board, and management of each Crown entity. However, my staff have sought views about aspects of these working relationships from the chairpersons and chief executives of 10 Crown entities that the departments monitor, and from staff from Ministers' offices. In many cases, the views of the chairpersons and chief executives (or their representatives) of the entities are included in this report.



## Our findings

Overall, the three departments were reasonably positioned to support their Ministers through their monitoring work. However, there is clear room for improvement. All three departments did some aspects of their monitoring work well, but fell short of what I expected in other aspects.

The Ministry for Culture and Heritage and the Ministry of Economic Development carried out most of the monitoring activities that I expected. However, there was room for them to improve the effectiveness or efficiency of much of their work.

The Department of Internal Affairs carried out only some of the monitoring work I expected. However, in 2008, its monitoring team started putting in place systems to help improve how they carry out monitoring work. It is likely to take some time to establish a full complement of the systems the monitoring team needs, because the team members are responsible for a significant amount of work in addition to monitoring Crown entities.

Each department had different strengths. For example, the Ministry for Culture and Heritage showed good practices in carrying out board appointment work and providing ongoing support to board members. The Ministry of Economic Development had guidance to assist monitoring staff, and recently adopted a good internal reporting practice. The Department of Internal Affairs provided clear, succinct information in its briefings to the Minister about his legislative responsibilities.

There were some common areas that the departments need to address. For example, my staff found that, although the departments carried out some reviews of the financial planning of Crown entities, they seldom had clear information about the robustness of the planning. Many Crown entities receive significant sums of public money and/or are responsible for significant public assets. It should be very clear how departments know about, or intend to check, the robustness of each entity's financial planning, and what assurance or advice they are expected to provide to the Minister about this.

Other common areas that the departments needed to improve were:

- clarifying roles and responsibilities for monitoring each Crown entity;
- using information about issues and risks to inform their monitoring work;
- providing relevant, timely advice to Ministers about each Crown entity's statement of intent and its financial and non-financial performance; and
- working with Crown entities on specific monitoring work, so that the work could be carried out in a timely and efficient way.

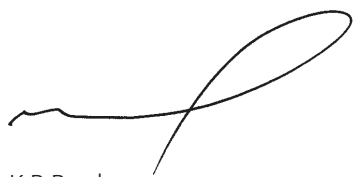
In many instances, it will be difficult for departments, on their own, to improve the way they carry out monitoring activities. Some improvements will require support and agreement from Ministers and each Crown entity's board and management about expectations and information flows. I expect the departments to take the lead in carrying out this work, and encourage these parties to support the departments in maximising the usefulness of their monitoring activities.

### Focus of our recommendations

Although this report identifies a number of areas where the departments can improve their monitoring activities, the recommendations focus on fundamental areas that one or more of the departments need to address.

Many other departments also carry out monitoring work to support Ministers. I hope that the observations and recommendations in this report will assist them in considering how to best carry out their work.

I thank the staff of the Department of Internal Affairs, the Ministry for Culture and Heritage, and the Ministry of Economic Development for providing my staff with a high level of help and co-operation during this audit. I also thank the representatives from the Crown entities, and staff from the State Services Commission, the Treasury, and Ministers' offices for providing my staff with their views on the departments' monitoring work.



K B Brady  
Controller and Auditor-General

8 June 2009

## Our recommendations

Our recommendations are listed in the order that they appear in the text of this report. The recommendations focus on fundamental areas that one or more of the departments need to address. We acknowledge that some of the departments are doing some of these things already.

We recommend that the departments:

1. have a clear and documented understanding of the monitoring role they have for each Crown entity and the responsibilities they have in fulfilling this role;
2. record clear and accessible information about significant issues and risks specific to Crown entities in a way that is useful to inform their monitoring work, and review this information regularly;
3. have a clear means of taking account of each Crown entity's issues and risks when they plan and carry out monitoring work;
4. have clear information about when and how they intend to review each Crown entity's financial planning and related matters;
5. identify, and act on, work they can do to improve the effectiveness, efficiency, and timeliness of the preparation of each Crown entity's statement of intent. This work should consider:
  - how the statement of intent is prepared; and
  - what information and assurance the Minister needs about the statement of intent;
6. carry out work to improve the timeliness of information they provide to the Minister about each Crown entity's performance;
7. set out performance information within briefings to the Minister clearly and consistently, so that it is easy to see whether there are any actual or potential performance issues for the entity;
8. plan carefully before they start board appointment processes, taking into account the steps and timing required for the appointment and any contextual information relevant for that appointment; and
9. provide clear advice to board candidates about the information they must disclose under the Crown Entities Act 2004, and collect all the information needed to carry out the appointment checks required by the Act.



# Part 1

## Introduction

- 1.1 In this Part, we discuss:
- governance and monitoring of Crown entities;
  - the purpose of our audit;
  - our audit expectations;
  - how we carried out the audit; and
  - what we did not audit.

### Governance and monitoring of Crown entities

#### What is a Crown entity?

- 1.2 Crown entities are bodies established by statute to be responsible for carrying out important public services or functions. They are funded in a variety of ways, but often receive some public money. Some Crown entities are responsible for publicly owned assets.
- 1.3 There are five categories of Crown entities.<sup>1</sup> In this report we comment only on the statutory entity category – that is, autonomous Crown entities, Crown agents, and independent Crown entities. When we use the term “Crown entity” in this report, we are referring only to statutory entities.

#### Governance arrangements for Crown entities

- 1.4 The Crown Entities Act 2004 (the Act) provides a framework for establishing, governing, and monitoring Crown entities.
- 1.5 Each Crown entity has a board (or equivalent) and a responsible Minister – both have responsibilities under the Act. Appendix 1 shows the governance arrangements for Crown entities, including some responsibilities that the Crown entity and the responsible Minister have under the Act.

#### The role of the monitoring department

- 1.6 The responsible Minister may ask a department to do work to support them in carrying out their functions and duties in relation to a Crown entity, including ensuring that they meet their statutory obligations. In this case, the department is usually referred to as a monitoring department in respect of this work, and the work it carries out is referred to in this report as monitoring work.
- 1.7 Monitoring work is a mixture of broad support for the relationship between the Minister and the Crown entity (usually focused on the relationship with the chairperson of the entity’s board), scanning for emerging issues or risks that

<sup>1</sup> The categories are: statutory entities, Crown entity companies, Crown entity subsidiaries, school boards of trustees, and tertiary education institutions.

might require response, and day-to-day work (such as monitoring the entity's performance, reviewing the entity's financial planning, and carrying out board appointment processes).

- 1.8 In 2007, the Treasury published information<sup>2</sup> that showed that 15 departments monitored 83 Crown entities. In a few cases, a Crown entity was monitored by more than one department. Fourteen of the departments monitored one to nine Crown entities. The Ministry of Health monitored 29 Crown entities. Twenty-one of these were district health boards.

## The purpose of our audit

- 1.9 Crown entities can be significant within a Minister's portfolio, particularly when the level of public funding and the entity's functions and services are taken into account. Ministers rely on monitoring departments to provide advice about many aspects of an entity's performance, and to support them in their role as responsible Minister.
- 1.10 The role of Crown entities in the machinery of government, and their accountability through Ministers to Parliament, has long been a matter of debate and concern. Legislative reform was carried out in 2004, with the passage of the Act, to improve the governance and accountability of Crown entities. This was accompanied by a renewed focus on the role of the monitoring department, resulting in the Treasury and the State Services Commission (SSC) producing guidelines on the work that departments should be doing.
- 1.11 Four years after the Act was passed, we wanted to know how well departments were supporting Ministers in carrying out monitoring activities.
- 1.12 We carried out a performance audit to provide assurance that selected monitoring departments have effective mechanisms to support responsible Ministers with their responsibilities for Crown entities, including their specific functions under the Act.
- 1.13 The departments we selected were the Department of Internal Affairs (DIA), the Ministry for Culture and Heritage (MCH), and the Ministry of Economic Development (MED). In this report we refer to these three agencies as "the departments".
- 1.14 Appendix 2 sets out information about the departments, including the Crown entities they are responsible for monitoring.

<sup>2</sup> The Treasury (2007), *Financial Obligations in the Crown Entities Act 2004: Application to Crown Entities and PFA Schedule 4 Organisations* (v1.2).

- 1.15 The main areas our audit looked at were the roles and responsibilities for Ministers, Crown entities, and monitoring departments and how the departments:
- identified issues and risks for the Crown entities;
  - planned and provided guidance for monitoring activities;
  - reviewed the financial planning of Crown entities;
  - provided advice on the statements of intent (SOI) for Crown entities;
  - reviewed and reported on the performance of Crown entities; and
  - carried out board appointments processes.

### Our audit expectations

- 1.16 We prepared detailed audit expectations. These were closely aligned with guidance in a Cabinet Circular<sup>3</sup> and in the Treasury and SSC document *Guidance to Departments in Relation to Crown Entities*. Our audit expectations related to the main areas for our audit (see paragraph 1.15).

### How we carried out the audit

- 1.17 We assessed each of the three selected departments against our audit expectations. We did this by selecting some of the Crown entities that each department is responsible for monitoring. We selected 10 Crown entities – four monitored by MCH, four monitored by MED, and two monitored by DIA. Appendix 3 sets out information about the 10 Crown entities we selected.
- 1.18 For each Crown entity we:
- interviewed the department’s staff with monitoring responsibility;
  - met with the Crown entity’s chairperson, chief executive, and/or their nominated representative;
  - met with, or sought comments from, a staff member from the responsible Minister’s office; and
  - reviewed the department’s monitoring documents for the entity.
- 1.19 We also met with staff from the Treasury and SSC, who oversaw aspects of each department’s monitoring activities.

<sup>3</sup> Department of the Prime Minister and Cabinet (2006), CO (06) 5, *Ministers’ Roles and Responsibilities in Relation to Crown Entities*.

## What we did not audit

- 1.20 We did not review how the departments carried out their policy work. We did not review the monitoring of any other Crown entities or the work of other monitoring departments.
- 1.21 We did not review how well the boards of Crown entities were carrying out governance activities, or how well individual Crown entities were performing.
- 1.22 We did not assess whether the departments met detailed guidance prepared by other agencies. For example, we did not assess whether departments met the requirements of the *Board Appointment and Induction Guidelines*.<sup>4</sup>

4 State Services Commission (2006), *Board Appointment and Induction Guidelines*.



## Part 2

# Roles and responsibilities

- 2.1 In this Part, we describe the roles and responsibilities of monitoring departments and discuss:
- information and agreements about roles and responsibilities;
  - information provided to the responsible Minister about their responsibilities; and
  - the importance of relationships between the monitoring department and the Crown entity.

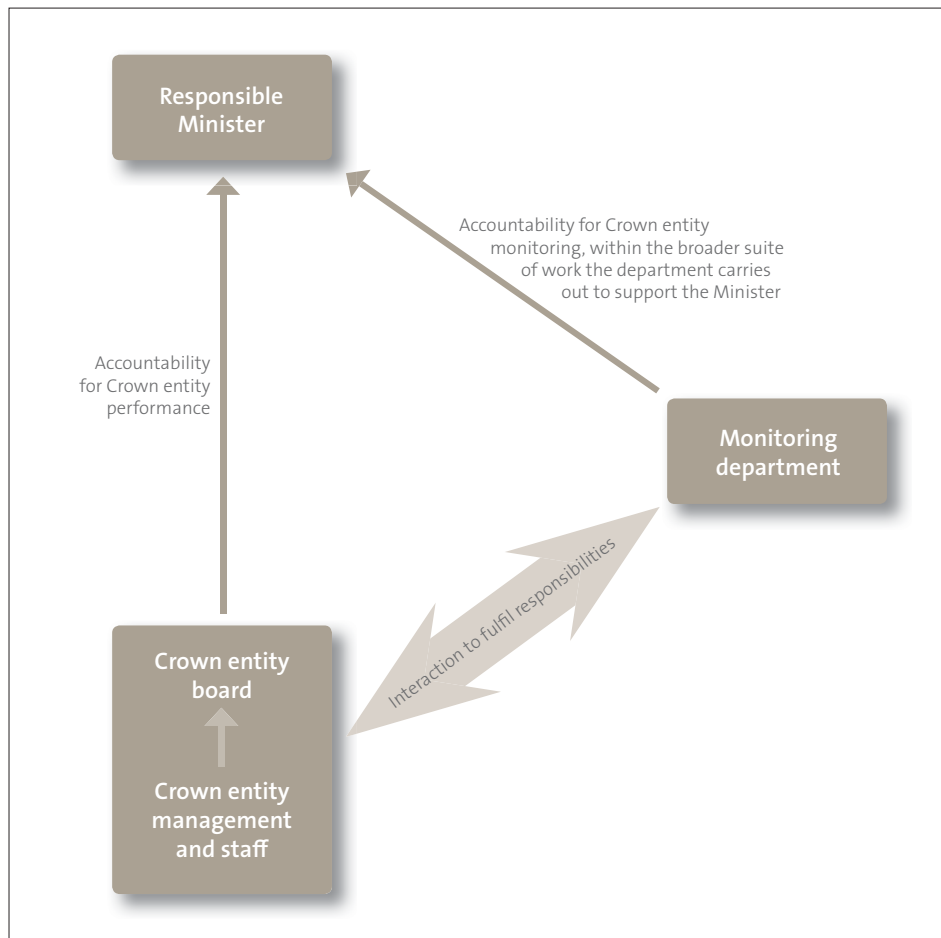
### Key messages

- 2.2 In most cases, information about the roles and responsibilities of monitoring departments was not clear. We recommend that the departments have a clear and documented understanding of their roles and responsibilities.
- 2.3 Formal agreements between Ministers and Crown entities set out their roles and responsibilities, and included information about the broad role of the monitoring departments. However, representatives from four Crown entities told us that a lack of clarity about the monitoring department's role created difficulties for them.
- 2.4 DIA was good at providing the Minister with information about his statutory responsibilities within written briefings about Crown entity matters. This is an area that MED and MCH could improve on.
- 2.5 The departments and representatives from four Crown entities told us that they placed a high value on having an effective relationship between the monitoring department and the Crown entity.

### About roles and responsibilities

- 2.6 Monitoring departments and the board of a Crown entity (with the support of the entity's management and staff) each are accountable to the responsible Minister. In carrying out their responsibilities, they must also interact with each other. A diagram of these relationships is set out in Figure 1.

**Figure 1**  
The relationship between the responsible Minister, the Crown entity, and the monitoring department



- 2.7 It is important that each of the three parties has a clear understanding of their roles and responsibilities, and how this relates to the roles and responsibilities of those they interact with. This helps to avoid confusion about, or duplication of, roles.
- 2.8 Because monitoring departments and Crown entities need to work together, the nature of the relationships between the two parties is also important.

## Information and agreements about roles and responsibilities

### **Roles and responsibilities of monitoring departments should be clearer.**

- 2.9 Roles and responsibilities of the departments and Crown entities were recorded in:
- information that departments held about their roles and responsibilities; and
  - output agreements and memoranda of understanding between responsible Ministers and Crown entities.

### **Information departments held about their roles and responsibilities**

- 2.10 In most cases, the departments did not hold all the information we expected about their roles and responsibilities for the monitoring of Crown entities.
- 2.11 We reviewed information that the departments held about their roles and responsibilities within:
- public documents, such as their SOI and the *Estimates of Appropriations*;
  - any output agreement between the responsible Ministers and the departments; and
  - other documents.
- 2.12 The departments' SOIs set out high-level information about their role in monitoring Crown entities. The high-level nature of this information was in keeping with these types of documents. However, this information often could have been clearer – for example, one department identified within its SOI only some of the Crown entities it was responsible for monitoring.
- 2.13 MED's 2008/09 output agreement and performance information supporting the *Estimates of Appropriations* provided a good description about the broad types of monitoring activities that MED intended to carry out for each Crown entity.
- 2.14 Departments and Ministers need to determine the level of detail included in these documents each year. In this case, the information in the *Estimates of Appropriations* was particularly useful because it was the main way in which MED identified the broad types of monitoring activities that it intended to carry out for the selected Crown entities for the 2008/09 financial year.
- 2.15 MED had internal monitoring plans for two Crown entities we looked at. The monitoring plans set out clear, up-to-date information about MED's role and responsibilities. They also distinguished between particular tasks for the time frame each plan covered and the usual monitoring tasks that MED intended to

carry out each year. We discuss further aspects of these plans in paragraphs 4.12-4.14. The plans were particularly useful because they provided staff with clear information about the scope of their responsibilities.

- 2.16 MCH and DIA did not have clear information about their roles and responsibilities for monitoring Crown entities in 2008/09.<sup>1</sup> The information they had did not always cover the scope of work that their staff actually carried out, was sometimes vague, and was seldom comprehensive. In our view, this was not sufficient to give staff a clear picture of their responsibilities.
- 2.17 DIA told us that it frequently used guidance from central agencies for Ministers and monitoring departments on roles and responsibilities when it carried out its monitoring work. This guidance is useful to assist departments' staff to decide how to approach monitoring activities. However, there are many areas where departments need to carry out their own work (or clarify with Ministers) to define the scope of their monitoring role and the responsibilities that staff are expected to carry out.
- 2.18 A clear, up-to-date record of the monitoring responsibilities, together with clear information about the monitoring department's role, would assist staff to:
- understand the scope of the monitoring work they are expected to carry out;
  - plan for monitoring work;
  - approach monitoring tasks with a view to fulfilling their monitoring role; and
  - check that they have carried out the monitoring tasks they needed to do.
- 2.19 Departments should check that this information is consistent with that agreed with the responsible Minister in any output agreement, or summarised within public documents.

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### **Recommendation 1**

We recommend that the departments have a clear and documented understanding of the monitoring role they have for each Crown entity and the responsibilities they have in fulfilling this role.

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### **Output agreements and memoranda of understanding between responsible Ministers and Crown entities**

- 2.20 Nine of the ten Crown entities we looked at had an output agreement or a memorandum of understanding with the responsible Minister. The agreements or memoranda included clear information about the roles and responsibilities of

<sup>1</sup> Information that MCH had to guide its monitoring work for the 2007/08 financial year had provided a good description of the broad types of activities that it intended to carry out in that year.

each entity and the responsible Minister. Most of the agreements or memoranda noted the broad role of the monitoring department.

- 2.21 The departments were involved in preparing the agreements or memoranda, either by preparing them directly or by providing advice to the responsible Minister about them.
- 2.22 Setting out information about roles and responsibilities within agreements or memoranda is a practical approach. It is in keeping with the statutory purpose of an output agreement for a Crown entity, which is to:
- ... assist a Minister and a Crown entity to clarify, align, and manage their respective expectations and responsibilities in relation to the funding and production of certain outputs, including the particular standards, terms, and conditions under which the Crown entity will deliver and be paid for the specified outputs.<sup>2</sup>*
- 2.23 We were pleased that the departments were involved in preparing the output agreements and memoranda. It provided them with an opportunity to check that the information about the roles of the Crown entity, responsible Minister, and monitoring department was clear.

**Do representatives from Crown entities think that roles and responsibilities are clear?**

- 2.24 Representatives from Crown entities we spoke with had different views about whether roles and responsibilities of the departments and Crown entities were clear. Representatives from three entities thought that they were. Representatives from four entities told us that a lack of clarity about the monitoring department's role created difficulties for them.
- 2.25 For example, a representative from one Crown entity said that lack of clarity in the monitoring arrangements meant that board members were unsure about whether they were there to make decisions or to follow the monitoring department's lead.
- 2.26 A representative from another Crown entity told us that they had several different relationships with the monitoring department. For example, the department purchased services from the entity as well as having responsibility for monitoring it. The representative told us that the department could adversely affect the entity's performance through some of these relationships, but that the department did not take account of this in carrying out its monitoring work.
- 2.27 These comments show that the departments need to carry out further work so that Crown entities are clear about the monitoring department's role.

<sup>2</sup> Section 170(2) of the Crown Entities Act 2004.

## Information provided to the responsible Minister about their responsibilities

**MCH and MED could provide more information on an ongoing basis to each Minister about the Minister's responsibilities. DIA did this work well.**

- 2.28 The departments briefed responsible Ministers after the 2005 and 2008 general elections on the Crown entities that the Ministers were responsible for. The written briefings set out useful information about the role and functions of the Crown entities, the roles and responsibilities of the Minister, and issues for the Minister to be aware of.
- 2.29 DIA provided the responsible Minister with ongoing information about his responsibilities by setting out this information at the beginning of briefing documents that they prepared for him on various matters (for example, on SOIs, board appointments for Crown entities, and budget processes). The information that DIA prepared was clear and useful, and usually identified whether the requirement was a legislative one.
- 2.30 MED provided some ongoing information to Ministers about their responsibilities for the selected Crown entities within briefing documents. MCH seldom provided information to responsible Ministers about their legislative responsibilities within written briefings on matters where they could have. This was partly because, at the time of the audit, they considered some Ministers to be well established in their roles and familiar with their responsibilities.
- 2.31 Ministers have various statutory obligations in respect of Crown entities that they are responsible for. For example, the responsible Minister must present the entity's SOI to the House of Representatives within a specific time frame. Monitoring departments play a major role in ensuring that Ministers are aware of what they need to do to meet these obligations.

## Importance of relationships between monitoring departments and Crown entities

**Good relationships between monitoring departments and Crown entities are important.**

- 2.32 A professional, open relationship between Crown entities and monitoring departments assists departments in collecting the information they need for their monitoring work. It also allows them to have free and frank discussions about issues and risks when necessary. This sort of relationship is also important from a Crown entity's perspective, so that they can be confident in discussing issues with the department.

- 2.33 The departments told us that an important part of their monitoring work was having a good relationship with the Crown entities they monitor. This relationship allowed them to have regular contact, open discussions, and good sharing of information with the entities. The departments also told us that having a good relationship was particularly important for managing risks.
- 2.34 It was clear that MED had carefully considered how it would have an open and productive relationship with one Crown entity it monitored. MED had documented when and how it needed to be formally involved with the entity. In our view, this information was useful for staff to have a clear understanding of how they were expected to liaise with the entity. It was also useful because it meant staff knew who to refer issues to within the department and Crown entity if they needed to be escalated.

#### **Crown entities' views on relationships**

- 2.35 Representatives from four Crown entities told us that having an open and constructive relationship with the monitoring department was important for them.
- 2.36 Representatives from three Crown entities told us that the monitoring department left them to carry out their business when things were going well and got involved only when they needed to. They told us that this approach worked well for them.





## Part 3

# Identifying issues and risks

- 3.1 Responsible Ministers need timely information about significant issues and risks for Crown entities so they can decide whether they need to take action to address them. A Crown entity's board and monitoring department each have a role in ensuring that the Minister receives this information.
- 3.2 Although each Crown entity's board must take an active role in identifying and managing risks for the entity, departments are expected to scan for issues and risks for the Crown entity in the course of their monitoring work, and any policy or wider sector work. As discussed in Part 2, monitoring departments and Crown entities need to have relationships that allow them to discuss issues and risks in a free and frank way when necessary.
- 3.3 Monitoring departments need to have clear information about the significant issues and risks specific to each Crown entity, which they have gathered in the course of their work, so it can be communicated internally when necessary. Departments need this information to help them identify and prioritise the focus of their monitoring work.
- 3.4 In this Part, we set out our findings about how the departments:
- identified and recorded issues and risks for Crown entities; and
  - kept the responsible Minister informed about issues and risks.

### Key messages

- 3.5 MED collated information about significant issues and risks for each of the selected Crown entities through its internal reporting initiative.
- 3.6 DIA and MCH did not record information about significant issues and risks for the selected Crown entities. The work they carried out to identify issues and risks and advise the responsible Minister about them was usually informal. This meant that it was not clear whether DIA and MCH had a thorough understanding of issues and risks for the selected entities.
- 3.7 This Part contains one recommendation – that departments record clear and accessible information about issues and risks for Crown entities in a way that is useful to inform their monitoring work.

## Identifying and recording issues and risks for Crown entities

### **Departments need to have clear, up-to-date information about significant issues and risks for Crown entities.**

- 3.8 In 2008, MED collated information about selected Crown entities through its internal reporting initiative (see paragraphs 7.32-7.35). The reports commented on significant issues and risks for each Crown entity. The format of the reports resulted in information that was brief, focused, easy to understand, and a record for staff to refer to. MED has started updating this information.
- 3.9 MED carried out further, regular risk assessment work for one Crown entity that it monitors. MED recorded issues within the monitoring plan for the entity, and had a checklist to help staff carry out a strategic assessment of the entity's performance. Information about issues and risks for the entity were also recorded in a standardised format and discussed internally among members of the monitoring team each month.
- 3.10 MCH and DIA did not have a clear or formal approach for identifying and recording risks for specific Crown entities. Therefore, they did not hold clear information about the strengths and weaknesses, significant issues, risks, and challenges of the Crown entities, either for the short or long term.
- 3.11 DIA had a system to store correspondence about particular issues for the Crown entities. They told us that this helped them manage current issues and risks.
- 3.12 MCH and DIA told us that the amount of attention they gave each Crown entity was based on the risk associated with that entity, or whether there was significant room for the entity to improve its performance. However, they did not formally record decisions about the relative risk or priority of Crown entities, so these decisions were not transparent.
- 3.13 The departments told us that they consider and manage risk informally in a variety of ways. They told us that they do this within policy work, through discussions with monitoring staff and Crown entities, and by having open, "no-surprises" relationships with the entities.
- 3.14 In our view, departments need clear, up-to-date information about significant issues and risks associated with each Crown entity. This information should help departments ensure that their monitoring activities take these risks into account. For example, if a department identified that a Crown entity was at risk for some reason, the department might plan to review and report on certain information from the entity more frequently, or in greater depth, than usual.

- 3.15 In Part 7, we discuss the need for departments to better target how they review and report on each Crown entity's performance, and to have greater consistency in the way they approach this. Decisions about what information is important for review purposes are likely to help staff in identifying where areas of risk may lie.
- 3.16 A standard approach to assessing risks (for example, reviewing the entity's financial position or considering the value of its assets) may help staff to identify and assess risks. MED's internal reporting initiative is an example of this.
- 3.17 A standard approach to assessing risks may also help the departments to prioritise their monitoring activities, especially if their staff need to monitor more than one Crown entity.

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**Recommendation 2**

We recommend that the departments record clear and accessible information about significant issues and risks specific to Crown entities in a way that is useful to inform their monitoring work, and review this information regularly.

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**Identifying general risks associated with monitoring Crown entities**

- 3.18 MED had identified some generic risks associated with monitoring Crown entities. It had identified strategies to mitigate some of these risks.

**Understanding each Crown entity's issues and business**

- 3.19 It is important that monitoring departments understand each Crown entity's business and significant issues as part of their work in identifying and managing risk. Representatives from three Crown entities told us that it was critical for the department to have a good understanding of their issues and business.
- 3.20 Representatives from Crown entities that we spoke with had different views about whether their monitoring department had a good understanding of their issues and business. Representatives from three Crown entities were positive about the monitoring department's level of understanding.
- 3.21 A representative from one Crown entity expressed concern to us about the monitoring department's level of understanding. These concerns included the department's lack of understanding of the entity's critical issues and capability.

## Keeping responsible Ministers informed about issues and risks

### **Advice provided to Ministers about each Crown entity's issues and risks was often informal.**

- 3.22 The departments told us that they kept responsible Ministers informed about risks and emerging issues for Crown entities mainly through informal discussions. These discussions were seldom recorded.
- 3.23 We saw some evidence of the departments providing responsible Ministers with written briefings on issues and risks for Crown entities.
- 3.24 MCH had clear records of its advice to the Ministers about day-to-day issues and risks for Crown entities. It provided responsible Ministers with fortnightly written briefings setting out day-to-day issues for Crown entities.
- 3.25 DIA provided the responsible Minister with weekly status reports that included information and updates on monitoring activities for Crown entities.
- 3.26 We saw limited evidence of MCH and DIA providing responsible Ministers with advice about strategic issues and risks for Crown entities.
- 3.27 We saw some evidence of MED providing advice to Ministers within briefing papers of strategic issues and risks for the selected Crown entities.

## Part 4

# Planning and guidance for monitoring activities

- 4.1 Monitoring of Crown entities can involve a wide variety of tasks. Some of these need to be carried out so that the Minister can meet their statutory obligations. Others may provide the Minister with assurance or advice about specific matters in relation to the Crown entity.
- 4.2 It is important that departments carefully plan the monitoring work that they intend to carry out. This is necessary to ensure that their work is focused on supporting the responsible Minister, covers the matters it needs to, and can be carried out in a timely way. In deciding the focus of their monitoring work, departments must consider issues and risks for each Crown entity.
- 4.3 As some monitoring activities have specific, detailed requirements or involve specialised skills, staff may need guidance to help them carry out these activities.
- 4.4 In this Part, we discuss how the departments:
- planned for monitoring activities; and
  - provided guidance to help staff carry out monitoring activities.

### Key messages

- 4.5 We make one recommendation in this Part about departments taking account of each Crown entity's issues and risks when they plan and carry out monitoring work.
- 4.6 In most cases, the departments did not use information about issues and risks to help them plan and prioritise monitoring work. The main exception to this was the work that MED carried out linking information about issues with its work programme for two Crown entities it monitored. We identified a number of benefits resulting from this work.
- 4.7 The departments had carried out some work to plan when they would carry out monitoring activities. This included sharing information about when particular outputs were due from Crown entities.
- 4.8 MED had prepared comprehensive guidance to help staff carry out their monitoring activities. This is good practice.

## Planning for monitoring activities

**The departments could plan more comprehensively to provide a better focus for monitoring activities.**

### Using information about issues and risks to plan and carry out monitoring work

- 4.9 The departments could improve the way they use information about each Crown entity's issues and risks in planning and carrying out their monitoring activities.
- 4.10 In most cases, it was not clear whether or how the departments were using information about the issues and risks for Crown entities to direct the way they carried out monitoring activities.
- 4.11 In one example, which we discuss below, a department did not take action in response to significant problems.

#### **Example 1**

##### **Lack of planning to address issues and risks**

We saw one example where a monitoring department\* had identified significant problems in a Crown entity's governance and operations that would take some time to address. The department advised the responsible Minister of the findings. The Minister asked the entity to take action to address the problems. The entity carried out some of this work.

The department took no action to monitor whether the entity addressed the problems. We saw no evidence of the department identifying the entity as a "high-risk" or "high-priority organisation", requiring closer monitoring attention than usual. We saw no evidence of the department assessing the extent to which the entity had addressed the problems.

A better course of action would have been for the department to form a clear view on how it would monitor and report to the Minister on the entity's progress in addressing the problems, and to carry out this work.

\* This is a report commenting on the departments' performance, not the Crown entities'. To protect the anonymity of the Crown entity in this example we have not identified the department.

- 4.12 By comparison, MED carried out work linking information about each Crown entity's issues with MED's work programme for two of the entities it monitored. It had a monitoring plan for each entity for the 2008/09 financial year. The plans set out information about issues for the entity and used this to provide a clear focus for monitoring activities. Each plan described how tasks would be carried out, and included reference information about the entity and the fit between the entity's strategic direction and government policy.
- 4.13 In our view, the plans were useful because they provided staff with an overview of what MED was trying to achieve and enabled staff to plan monitoring activities

more effectively. Specifying a one-year time frame for the plan was practical, because it complemented other annual processes for MED and the Crown entity, and suggested that the plan would be reviewed at least annually.

- 4.14 Documents that MED prepared for entities that it had monitoring plans for had a sense of consistency and purpose. One of the plans, and the information resulting from it, showed that staff who were monitoring the Crown entity had a clear view of how they wanted to improve their monitoring activities and were doing so.
- 4.15 DIA had made good progress in preparing monitoring plans for the Crown entities we reviewed. This work included useful background information about the entities. We encourage DIA to continue with this work.
- 4.16 Where the departments did not have an established plan, the monitoring activities for a Crown entity often appeared to be disconnected from each other and carried out only as a compliance exercise. It was also difficult to determine whether staff had a common understanding of significant issues for the entity and any monitoring priorities that resulted from these issues.
- 4.17 Departments may wish to plan monitoring work through means other than an entity-specific monitoring plan. Regardless of the method they choose, it is important that they have a clear means of taking account of each Crown entity's issues and risks when they plan and carry out monitoring work.

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**Recommendation 3**

We recommend that the departments have a clear means of taking account of each Crown entity's issues and risks when they plan and carry out monitoring work.

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**Planning when monitoring activities will be carried out**

- 4.18 The departments carried out some work to plan when they would carry out monitoring activities and to share this information with Crown entities.
- 4.19 All the departments had a schedule of dates for important monitoring milestones or tasks – for example, when a Crown entity's quarterly reports were due, or when meetings between the responsible Minister and the Crown entity were scheduled.
- 4.20 The schedule of dates was often included in the output agreement or memorandum of understanding between the responsible Minister and the Crown entity. This information was brief and usually set out dates for when the entity would provide the monitoring department with particular information (for example, performance reports).

- 4.21 It was practical to include the schedule of dates in output agreements or memoranda of understanding. Doing so provided the Crown entity, the responsible Minister, and the monitoring department with a common understanding of when outputs were expected or meetings were likely to be, and they could plan for them.
- 4.22 In Parts 5, 6, and 8 (where we discuss financial planning, SOIs, and board appointments processes), we comment on the operational planning or processes that the departments had for carrying out specific monitoring activities. In most cases, the planning or processes could be improved. Within each Part, we have made recommendations or suggestions for improvements.

## Providing guidance to help staff carry out monitoring activities

### **MED provided comprehensive guidance to help staff carry out monitoring activities.**

- 4.23 Monitoring of Crown entities encompasses a wide range of activities. Each activity requires detailed knowledge and is sometimes carried out infrequently. This means that easily accessible guidance is important for staff to plan and carry out particular tasks (for example, board appointments processes). Such guidance can help staff gain a better understanding of what is involved in the monitoring of Crown entities.
- 4.24 MED had a manual to help staff carry out general monitoring activities for Crown entities. It also ran occasional workshops for staff about particular monitoring activities. The information in MED's manual and the workshops were a good way of capturing and providing guidance to staff to help with their monitoring activities, particularly because monitoring staff were located in different business units throughout the department. We encourage DIA and MCH to consider preparing guidance to help staff carry out their monitoring activities.



## Part 5

# Financial planning of Crown entities

- 5.1 It is important that responsible Ministers receive clear advice about the robustness of each Crown entity's financial planning. This includes advice about each entity's funding and whether:
- the financial planning provides a suitable base for monitoring the entity's financial performance;
  - the work the entity is doing (or proposes to do) provides value for money; and
  - there are any concerns about the Crown entity's financial planning that need to be addressed.
- 5.2 When we refer to financial planning in this Part, we mean the budgetary information that each Crown entity prepares and uses to make decisions. This includes information that an entity presents in its SOI about the work it plans to carry out and how much this will cost.
- 5.3 In this Part, we describe funding arrangements and budget bids for Crown entities. We discuss:
- the scope of the departments' responsibilities for reviewing the financial planning of Crown entities;
  - the work that the departments carried out to review the financial planning of Crown entities;
  - how MCH and MED provided advice to Crown entities on budget bids; and
  - DIA's review of the fire service levy.

### Key messages

- 5.4 It was not clear what work the departments were expected to carry out to review the financial planning of Crown entities, including reviewing whether the financial planning represented value for money. We recommend that the departments have clear information about when and how they intend to review an entity's financial planning.
- 5.5 The departments seldom had clear information about the robustness of each Crown entity's financial planning. This was partly because they often looked at only some aspects of each entity's performance. This meant that the departments were often not well placed to provide Ministers with advice about the quality of each entity's financial planning, whether the entity's work would provide value for money, or whether the entity's financial planning would provide a suitable base for monitoring the entity's financial performance.

- 5.6 Some specific work that MED and MCH carried out was to review the budget bids from Crown entities. Some specific work that DIA carried out was to review the fire service levy. In some cases, it was difficult to tell how thoroughly each department carried out this work. The timeliness of MED and MCH's reviews of budget bids could be improved with better planning.

### **Funding arrangements for Crown entities**

- 5.7 The selected Crown entities were funded in various ways. Figure 2 sets out a summary of the funding arrangements.
- 5.8 Most of the selected Crown entities received funding from the Crown through appropriations that the relevant monitoring department administered. The main way their funding can be varied is by a change in the amount of the appropriation. Crown entities are usually able to make a budget bid for an increase in funding to carry out additional activities or for capital expenditure.
- 5.9 Our review of the departments' files shows that the selected Crown entities that MED and MCH monitor have each made budget bids for additional funding at least once in the last three years, but the selected entities that DIA monitors have not.
- 5.10 DIA has reviewed the level of funding the New Zealand Fire Service receives through the fire service levy. We comment on this work in paragraphs 5.36-5.42.
- 5.11 DIA has also started reviewing fee regulations for the Office of Film and Literature Classification (OFLC). This may result in a change in the level of funding that OFLC receives. We have not reviewed the work that DIA has carried out looking at the fee regulations.

**Figure 2**  
Funding arrangements for the selected Crown entities

Monitoring department	Crown entity	Total income for the entity in 2007/08	Funding arrangements
DIA	New Zealand Fire Service Commission	\$294.5m	Main funding is by a levy on insured property
DIA	Office of Film and Literature Classification	\$3.6m	Funded by revenue from the Crown and fees for services
MCH	Arts Council of New Zealand Toi Aotearoa (Creative New Zealand)	\$45.0m	The main sources of funding are revenue from the Crown and grants from the New Zealand Lottery Grants Board
MCH	Broadcasting Commission (New Zealand on Air)	\$116.2m	Main funding is by revenue from the Crown
MCH	Museum of New Zealand Te Papa Tongarewa	\$43.7m	Main funding is by revenue from the Crown and commercial revenue
MCH	Sport and Recreation New Zealand	\$105.3m	The main sources of funding are revenue from the Crown and grants from the New Zealand Lottery Grants Board
MED	Electricity Commission	\$114.2m	Main funding is revenue from the Crown (Crown reimbursed through a levy on the electricity industry)
MED	New Zealand Tourism Board	\$90.9m	Main funding (\$75.1 million in 2007/08) is revenue from the Crown
MED	Securities Commission	\$10.1m	Main funding is revenue from the Crown
MED	Standards Council (Standards New Zealand)	\$8.5m	Self-funded – for example, by sale of documents, contracts for service, membership, royalty income
<b>Total income</b>		<b>\$832.0m</b>	

## Scope of the departments' responsibilities for reviewing the financial planning of Crown entities

**The departments' responsibilities for reviewing the financial planning of Crown entities need to be clearer.**

- 5.12 It was often difficult for us to determine what work the departments were expected to carry out, if any, to review a Crown entity's financial planning and related matters – for example, whether the work the entity did, or planned to do, represented value for money. The departments' output agreements, monitoring plans, or date schedules contained little or no information about the work that was expected.
- 5.13 Vague wording within output agreements – for example, “This output involves the provision of policy advice on matters relating to ... the performance of and appointments to Crown entities” – meant staff could put a variety of interpretations on what work, if any, needed to be done to review the entity's financial planning.
- 5.14 Most of the Crown entities we selected receive millions of dollars of public money and/or are responsible for significant public assets. It should be very clear how the departments know about, or intend to check, the robustness of each entity's financial planning.
- 5.15 In Part 2, we made a recommendation about the departments having clear information about their responsibilities. The departments should also have clear information about the work they carry out in reviewing each Crown entity's financial planning.

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### **Recommendation 4**

We recommend that the departments have clear information about when and how they intend to review each Crown entity's financial planning and related matters.

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## Departments reviewing the financial planning of Crown entities

**The departments reviewed the financial planning of Crown entities. The level of work was variable, and conclusions about financial planning were not always clear.**

### Reviewing the financial planning of Crown entities

- 5.16 Each department had carried out, or intended to carry out, some work reviewing the financial planning of the selected Crown entities, or related matters such as the effectiveness of each entity's spending.
- 5.17 It was difficult for us to determine what the departments' views were on the quality of each Crown entity's financial planning, or whether the work the entity carried out represented value for money. This was partly because the departments' reviews of financial planning were usually limited to specific aspects of an entity's work and it was not clear what proportion of the entity's work these aspects were.
- 5.18 We have not been able to form a view about the quality of the reviews that the departments have carried out. This is because:
- the scope, depth, and methodology of the reviews differed significantly – even within the same department;
  - some work did not appear to be part of a considered programme of evaluation for each entity, but rather as isolated pieces of work;
  - the departments have not always set out conclusions about review results; and
  - at the time of our audit, some of the departments were only partly through their reviews.
- 5.19 We question whether the departments were able to provide assurance to Ministers that public funding of Crown entities would or did represent value for money. We could not see evidence that they had assessed this or drawn conclusions about it based on their reviews.

### Advice about the financial planning of Crown entities

- 5.20 When the departments reviewed a Crown entity's financial planning, they usually advised the Minister about the findings from their work.
- 5.21 Their advice sometimes, but not always, set out clear conclusions and recommended a clear course of action when necessary. We expect that advice on financial planning would always include this type of information.

## Providing advice to Crown entities on budget bids

### **The departments need a clearer process for working with Crown entities on budget bids.**

- 5.22 From a Crown entity's perspective, there are two parts to the process of making a budget bid.
- 5.23 In the first part, the Crown entity prepares a bid and provides a final version of it to the relevant department. The final version of the bid must follow a standard template that is issued by the Treasury.
- 5.24 The Crown entity is not involved in the second part of the process, but the monitoring department is. The Treasury leads the second part of the process, which looks at all appropriations, including any changes resulting from budget bids. The department liaises with the Treasury during this part of the process. The results are decisions about how the Government intends to spend public money. The final decisions are set out in the Budget.
- 5.25 Usually, information in the Budget remains confidential until it is tabled in Parliament. However, for the 2009 Budget, Cabinet could authorise the chief executive of a monitoring department to provide the Crown entity's chairperson or chief executive on a "budget-in-confidence-until-budget-day basis" about budget decisions that would directly affect the Crown entity's planning and preparation of its SOI.

### **Planning for budget bids**

- 5.26 In the last three years, the selected entities that MED and MCH monitor have made budget bids (see Example 2), but the selected entities that DIA monitors have not.

#### **Example 2**

##### **MCH and MED's reviews of Crown entities' budget bids**

A subset of the financial planning that Crown entities may carry out, which departments need to review, is preparing information for budget bids.

Our review of MCH and MED's files showed that each of the selected entities that they monitor has made at least one bid for additional funding within the last three years.

MCH and MED reviewed these budget bids from the entities.

In several cases, it was difficult to determine how thorough the reviews were. However, we saw two cases where MCH analysed the information in the budget bid in detail.

MCH and MED advised the Ministers about budget bids from Crown entities. Their advice included clear information to help the Minister to make a decision about the bid.

- 5.27 MED and MCH did not have a clear timetable for when they needed to interact with Crown entities during the first part of the process of preparing a budget bid.
- 5.28 We saw only one case where MED had provided a clear timetable to an entity that set out when exchanges of information would need to happen so that the entity could prepare its bid on time. Even then, MED provided the entity with this information at short notice.
- 5.29 MCH carried out some work to advise entities about the necessary timing for preparing budget bids. This was through conversations, rather than written advice.
- 5.30 In our view, monitoring departments need to plan when information exchanges need to happen between their staff and the Crown entity so that budget bids are ready on time. In our view, departments should be able to carry out most of this planning, even if they are waiting for advice from the Treasury about templates, and about dates for the second part of the process.
- 5.31 Providing Crown entities with clear information about when information must be exchanged means that the entity's board members and staff can plan for preparing and scrutinising budget bid information.
- 5.32 We saw one example where a Crown entity asked a department for information to help with budgets. The department could have anticipated the query and provided this information in a proactive rather than reactive way, if it had done some planning earlier.
- 5.33 We saw one example where a department had to review and comment on the budget bids from Crown entities at short notice. Clearer time lines and milestones for the first part of the process would have given staff more notice of when this needed to happen.
- 5.34 Representatives from four Crown entities told us that they found the procedure for exchanging information with departments about budget bids unclear. Their main concern was a lack of clarity about how decisions were made during the second part of the process. The confidential nature of Budget decisions means that ways of addressing this concern are limited. However, departments could prepare clear, written advice for Crown entities about how the second part of the process works in general, and advise the entities when they expect to provide them with advice on any bid they make.

## The Department of Internal Affairs' review of the fire service levy

### **Documenting the processes for reviewing the fire service levy would assist DIA's staff.**

- 5.35 The fire service levy is the main source of income for the New Zealand Fire Service Commission. The Minister of Internal Affairs must review the fire service levy each year.

### **Advice to the Minister of Internal Affairs about the fire service levy**

- 5.36 In the period we looked at (2006, 2007, and 2008), DIA had reviewed the fire service levy each year and prepared advice for the Minister about it. Although DIA prepared the advice, its records did not always show that it had provided the advice to the Minister.
- 5.37 Section 48(4) of the Fire Service Act 1975 sets out matters that the Minister must have regard to when they review the fire service levy. The advice DIA prepared for the Minister showed that DIA knew of this requirement. In two of the three years we looked at, the advice set out this requirement explicitly.

### **Planning for reviewing the fire service levy**

- 5.38 Regardless of whether the fire service levy is to be changed, DIA needs to carry out a number of steps to review the levy effectively. As part of this work, it will need information from the New Zealand Fire Service Commission.
- 5.39 We saw evidence that DIA was aware of the information it needed to collect, and collected some of this information early. However, DIA had not documented a process for collecting the information it required to review the levy, covering when and how it should collect the information. It would be useful for DIA to do so. This could help work planning for the year. If new staff had to work on reviewing the levy, a documented process would help them in becoming familiar with the process.
- 5.40 If a decision is made to change the levy, DIA will need to ensure that a number of further steps are carried out in a timely way for the change to be implemented.
- 5.41 In 2006 and 2007, DIA advised the Minister, in June of each year, to leave the levy unchanged.
- 5.42 A decision was made to increase the levy for the 2008/09 financial year. DIA prepared a plan of the steps it needed to follow to ensure that the levy was changed in a timely way.



## Part 6

# Advice on statements of intent

- 6.1 The Act directs responsible Ministers to participate in the process of setting the entity's strategic directions and targets. One of the main ways that a Minister can do this is by providing advice to the Crown entity as it prepares its SOI.
- 6.2 In this Part, we describe SOIs and discuss:
- planning for SOIs;
  - advice that monitoring departments provided while Crown entities prepared their SOIs; and
  - year-on-year improvements within each Crown entity's SOI.

### Key messages

- 6.3 The departments carried out many of the basic activities we expected – for example, preparing letters of expectations and written briefings for the Minister on each Crown entity's SOI. However, each department could improve the timeliness and/or the quality of this work.
- 6.4 This Part contains one recommendation. It relates to our overall view that the departments could improve the effectiveness, efficiency, and timeliness of the preparation of each Crown entity's SOI by greater consideration of:
- how the SOI is prepared; and
  - the information and assurance that the Minister needs about the SOI.
- 6.5 We were concerned that the departments seldom provided advice to the Minister about whether a Crown entity's SOI would provide a base for assessing the entity's performance.

### About statements of intent

- 6.6 Each Crown entity must prepare an SOI each year. Section 138 of the Act sets out the purpose of an SOI:

*The purpose of a statement of intent is to promote the public accountability of a Crown entity by—*

- (a) enabling the Crown to participate in the process of setting the Crown entity's medium-term intentions and undertakings;*
- (b) setting out for the House of Representatives those intentions and undertakings;*
- (c) providing a base against which the Crown entity's actual performance can later be assessed.*

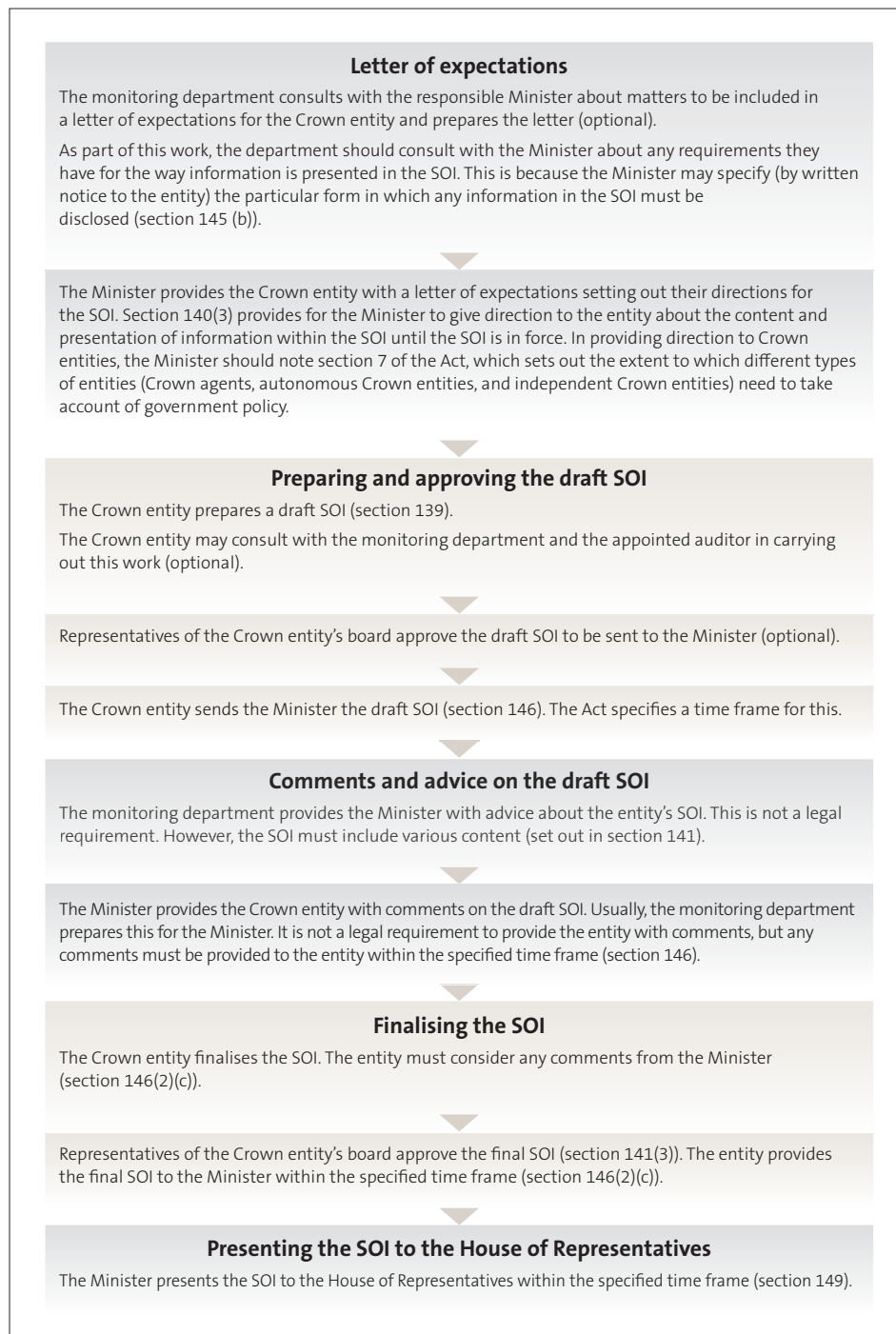
- 6.7 The Act sets out the required content of the SOI and the roles and responsibilities of the Crown entity and the responsible Minister for preparing the SOI and presenting it to the House of Representatives. To meet these requirements, particular activities must be carried out in a specific sequence.
- 6.8 Departments are encouraged to carry out further non-legislative work to support Ministers in providing direction to the Crown entity on its SOI, by preparing a letter of expectations for the entity.
- 6.9 Figure 3 summarises the legislative and non-legislative steps for preparing a Crown entity's SOI. We prepared this diagram to help us assess the work that the departments did to support the responsible Minister in carrying out their legislative functions and responsibilities in relation to the entity's SOI.
- 6.10 In 2007, the Government introduced a requirement that Crown entities prepare their SOI in time for presentation to the House of Representatives the day after Budget day, unless there were reasons why it was not practical to do so. Crown entities were encouraged to meet this requirement in 2008 and were expected to meet this requirement from 2009 onwards.

## Planning for statements of intent

### **Departments can do more work to help Crown entities prepare their SOI in a timely and efficient way.**

- 6.11 Figure 3 shows that there is a sequence of steps that must be followed to prepare a Crown entity's SOI. Some of the steps are optional. Some of the steps involve the entity's board representatives, the monitoring department, or the responsible Minister.
- 6.12 We expected that monitoring departments would work with each Crown entity to prepare the entity's SOI in a timely and efficient way, and to ensure that the entity had a clear understanding of the process involved in preparing the SOI early on in the financial year.
- 6.13 MCH had made a good start in doing this by including a schedule of dates and responsibilities about preparing SOIs within each Crown entity's output agreement or memorandum of understanding for 2008/09. MED was less advanced, but included some information about the requirements for preparing SOIs within each entity's output agreement or memorandum of understanding for 2008/09 – one entity had a schedule of dates and responsibilities, and two entities had a date for when the draft SOI needed to be provided to the Minister.

**Figure 3**  
**Steps for preparing a Crown entity's statement of intent, including some legislative requirements under the Crown Entities Act 2004**



- 6.14 At the start of the 2008/09 financial year, DIA drafted a process for preparing one Crown entity's 2009-2012 SOI so that it would meet the new non-legislative requirement to present the SOI to the House of Representatives on the day following Budget day (see paragraph 6.10). This information referred to legislative requirements and set out where there was room for task deadlines to be flexible. DIA shared this information with the entity in December 2008.
- 6.15 The detail of this information was in keeping with our expectations. It was a good example of a department carrying out early careful planning to help the entity prepare its SOI in a timely and efficient way. However, in our view, their work would have been enhanced by sharing the information with the entity earlier.
- 6.16 In 2008, one of the departments encountered some difficulties when two entities it monitored were late preparing their draft SOIs for the Ministers. The department had a short time frame to review each draft SOI and provide comment on it to the Minister.
- 6.17 In one case, the Minister was reluctant to request the Crown entity to make any changes to the SOI because the legislative time frame for completing the SOI and presenting it to the House of Representatives was tight. In the other case, information on file suggests that the draft SOI was not prepared within the statutory time frame.
- 6.18 Both of these situations are undesirable. Although the Crown entities have played a part in this, it highlights the importance of monitoring departments working with Crown entities to help them prepare their SOI in a timely and efficient way. Crown entities need to have a clear understanding of the process involved in preparing the SOI. We encourage the departments to continue to improve their work in this area.

### Advice that monitoring departments provided while Crown entities prepared their statements of intent

#### **Departments can improve the timeliness and content of some of the advice they provide to Crown entities while they prepare their SOI.**

- 6.19 The following sub-headings correspond to Figure 3. We do not comment on the work that each Crown entity did to finalise their SOI or that the responsible Minister did in presenting the SOI to the House of Representatives.
- 6.20 The departments provided the responsible Ministers and Crown entities with advice during the preparation of their SOI. This work could be more effective if the departments improved the timeliness and content of some of the advice they provide.

### Letter of expectations

- 6.21 In the 2007/08 financial year, MED and DIA prepared a letter of expectations for each responsible Minister to send to the relevant Crown entities, setting out the Minister's priorities, to help the entity prepare its SOI for 2008-11. MCH prepared a similar letter for one of the four entities we selected.
- 6.22 The departments provided the letters to the Minister between December 2007 and March 2008.
- 6.23 It is not a legislative requirement to prepare a letter of expectations. However, this is a clear and practical way for Ministers to provide direction to a Crown entity about its strategic direction (or to summarise any previous discussions about the entity's direction), particularly in the context of preparing an SOI.
- 6.24 In some cases, the letter of expectations would be more effective if the departments prepared it earlier in the financial year. It is likely that Crown entities will have made significant progress in preparing their SOI by early March in order to meet statutory time frames and the requirement we refer to in paragraph 6.10. If an entity receives the letter of expectations after it has spent time preparing its SOI, there is the risk that the entity may need to revisit the strategic planning that the SOI is based on. This is an area that monitoring departments need to take account of when planning for an entity's SOI.

### Preparing and approving the draft statement of intent

- 6.25 We did not review the work that Crown entities carried out to prepare their draft SOI.
- 6.26 In many cases, the monitoring department and the Crown entity communicated about the SOI as it was drafted. This approach allowed the department to advise the Crown entity early about areas where it could improve the SOI.
- 6.27 Representatives from four Crown entities each commented positively about the interaction they had with the monitoring department about their SOI.

### Comments and advice on the draft statement of intent

- 6.28 The departments prepared a written briefing for the responsible Minister on the 2008-11 SOIs for nine of the 10 Crown entities. These briefings did not always include the information we expected.

### **Does information in the SOI provide a base for measuring a Crown entity's performance?**

- 6.29 In most cases, written briefings did not include advice to the responsible Minister about whether information within the draft SOI provided a satisfactory base for monitoring the Crown entity's performance. Briefings should include this

information because one of the legislative reasons why an entity must prepare an SOI is to provide a base against which the entity's performance can be assessed.

- 6.30 The clearest example we saw of a written briefing providing advice to the Minister whether the SOI provided a satisfactory base for monitoring the Crown entity's performance was a briefing for a 2007-10 SOI. The briefing stated:

*The [monitoring department] considers that [the entity] has developed an SOI that provides a reasonable basis for funding and monitoring of performance.*

#### **Does the SOI meet the requirements of the Crown Entities Act 2004?**

- 6.31 Five of the nine written briefings advised the responsible Minister clearly about whether the SOI included information required by the Act. MCH did not provide advice to responsible Ministers about this.

- 6.32 The Act sets out the minimum basic requirements that SOIs must meet. Departments responsible for advising the Minister on a Crown entity's draft SOI should clearly state whether the requirements have been met, and whether any action needs to be taken.

#### **Comments for the Crown entity**

- 6.33 In most cases, the monitoring department prepared a letter for the Minister to send to the Crown entity, noting that they received the SOI and setting out any comments on the draft SOI. This is good practice because it provides a clear record for the entity and the Minister of any comments the entity had to take account of under section 146(2)(c) of the Act.

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#### **Recommendation 5**

We recommend that the departments identify, and act on, work they can do to improve the effectiveness, efficiency, and timeliness of the preparation of each Crown entity's statement of intent. This work should consider:

- how the statement of intent is prepared; and
  - what information and assurance the Minister needs about the statement of intent.
-

## Year-on-year improvement of each Crown entity's statement of intent

### **Departments could provide clearer advice on the overall quality of each Crown entity's SOI.**

- 6.34 We reviewed the advice that the departments provided to the responsible Minister and each Crown entity on the entity's SOI for at least two of the last three financial years. We did this to see whether the departments had identified and communicated how entities could improve the quality of their SOIs.
- 6.35 In many cases, written briefings and advice set out areas where the entity could carry out further work to prepare a better quality SOI in the following year. This is good practice because it provides a record for the department and the entity to refer to when they start planning for the next SOI.
- 6.36 However, briefings to Ministers that we reviewed seldom provided clear advice on what the department's views were on the overall quality of each Crown entity's SOI. This made it difficult for us to determine whether an entity would need to carry out a significant amount of work to improve its SOI.
- 6.37 It is important for departments to form a view about the overall quality of the SOI and communicate it to the Minister and the Crown entity. This could help the Minister in setting performance expectations for the entity to improve its SOI. It could also help the department in identifying early on if there are any activities it needs to carry out to help the entity meet these performance expectations.
- 6.38 The chairperson of one Crown entity told us that it was difficult to continue to improve the SOI because the non-legislative requirements for preparing the SOI change each year.





## Part 7

# Reviewing and reporting on the performance of Crown entities

- 7.1 The responsible Minister needs clear information about a Crown entity's performance for assurance purposes or to have early warning of any performance issues and risks so they can take action to address them.
- 7.2 Thorough reviews of each Crown entity's performance can provide departments with a rich source of information to help them carry out other tasks. For example, a department's review of a Crown entity's financial performance should inform its review of, and advice about, the entity's financial planning.
- 7.3 In this Part, we set out our findings about:
- briefings to responsible Ministers about the performance reports of Crown entities;
  - standardised reports about the performance of Crown entities; and
  - monitoring and reporting on cross-sector activity.

### Key messages

- 7.4 We make two recommendations about how the departments can improve the way they review and report on the performance of Crown entities.
- 7.5 Typically, the departments provided the responsible Ministers with information about a Crown entity's performance more than two months after the end of a performance review period. The information they provided was not always clear or set out in a consistent way.
- 7.6 In many cases, information provided to the responsible Minister did not set out the monitoring department's conclusions or overall view on the Crown entity's performance or significant issues it faced.
- 7.7 The 2007 requirement for monitoring departments to report to a Cabinet committee on the performance of some Crown entities (including several entities we selected) using a standard format has been valuable. It has resulted in succinct, clear information and conclusions about the financial and non-financial performance of those entities.
- 7.8 MED has adopted this standard format for internal reports on all Crown entities it monitors. This has resulted in clearer information about the performance of these Crown entities. We commend MED for this initiative.

## Briefings to responsible Ministers about the performance reports of Crown entities

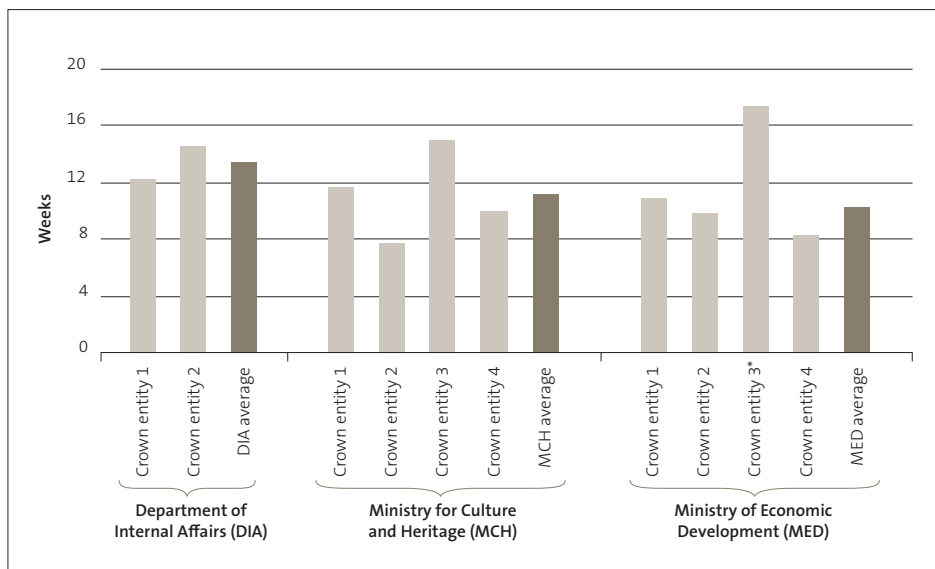
### **Ministers often do not receive clear and timely information about the performance of Crown entities from the departments.**

- 7.9 The 10 selected Crown entities must each prepare regular performance reports for the responsible Ministers. For nine of the 10 entities, the reporting requirement was part of their output agreement or memorandum of understanding with the responsible Minister.
- 7.10 All the Crown entities prepared performance reports, most of which were long and included detailed information. Representatives from three Crown entities told us that they saw little value in preparing the performance reports. The chairperson of one Crown entity told us that the board did not use the performance reports and that it relied on other performance reporting.
- 7.11 The departments reviewed and reported on a Crown entity's performance and results mainly by preparing a written briefing to the responsible Minister on the entity's performance report. MCH and DIA carried out this work regularly for the entities we looked at. MED carried out this work regularly for three of the Crown entities we looked at. It did not carry out this work for the other entity that we looked at.

### **Timeliness of briefings**

- 7.12 There was often a delay between the end of the performance reporting period for the Crown entity and the department preparing a briefing for the Minister on the entity's performance. The delay was usually two to three months. The shortest delay we saw was five weeks – the longest, nearly seven months.
- 7.13 Part of the reason for the delay may have been because Crown entities were typically expected to deliver performance reports 4-8 weeks after the end of each reporting period.
- 7.14 Figure 4 shows the average time between the end of a reporting period and the monitoring department preparing a written briefing for the Minister on the entity's performance results for that period.

**Figure 4**  
Average time between the end of a reporting period and the monitoring department preparing a briefing for the Minister



\* Note: There was only one briefing on MED's file for this Crown entity.

- 7.15 It is undesirable to have a long delay between the end of a reporting period and the department preparing a briefing. It could result in a delay in detecting and addressing any performance issues and risks. It may also mean that the Minister does not have all the information they need when having a routine catch-up meeting with the Crown entity's chairperson.
- 7.16 We are concerned that some of the departments were providing their written briefings to Ministers very late. We question what value a Minister will get from a performance briefing that is more than three months old. Most Crown entities must prepare a performance report every quarter. This means that a briefing that is more than three months old is likely to reach the Minister at, or after, the time that the entity's next performance report is due.

**Recommendation 6**

We recommend that the departments carry out work to improve the timeliness of information they provide to the Minister about each Crown entity's performance.

## Content of briefings

- 7.17 In many cases, written briefings did not set out the monitoring department's conclusions or overall view on the Crown entity's performance. Briefings usually set out information about detailed aspects of the entity's performance.

### **Are Crown entities on schedule to deliver results specified within the statement of intent?**

- 7.18 Each Crown entity must prepare an SOI. One of the reasons it must do so is to provide a base against which the entity's performance can be assessed. We expected that the departments' briefings would provide clear information about whether entities were on schedule to meet the targets and outcomes in their SOIs. Figure 5 shows whether briefings usually included this information. Briefings for only one of the selected 10 entities set out this information clearly.
- 7.19 All of the departments can improve the reporting of this information. It is important that they do so, so the Minister has clear information about actual or potential performance issues.

### **Clarity and consistency of briefing information**

- 7.20 The clearest briefings we saw followed a standard template, and presented financial and non-financial information about the entity's performance in a table. They included a "traffic-light" judgement about whether performance was satisfactory – both overall, and for specific performance areas. This was very effective because performance information was clear and easy to understand (see also paragraphs 7.27-7.29).
- 7.21 The standard format made it easy for staff to see what types of information the report needed to include.
- 7.22 There was far less consistency in other reporting formats we saw. Each department's briefings for a Crown entity presented information differently from one briefing to the next. Some briefings used different headings, followed a different structure, and/or reported information in a different way. For example, briefings on one entity reported on its performance as "year to date" in some briefings and "rolling average over last 12 months" in others. Another set of briefings presented information about variances differently – sometimes as a percentage, sometimes as a dollar figure.
- 7.23 Inconsistent reporting meant that the departments did not always have a good benchmark or review trends of a Crown entity's performance. This suggests that the departments did not review how the entity's performance had changed from one quarter to the next.

**Figure 5**  
Clarity of departments' briefings on the performance of Crown entities

Monitoring department	Crown entity	Clear information?*	Comment
Department of Internal Affairs	Crown entity 1	Partly	There was some financial tracking for the quarter. DIA has started to comment on non-financial performance.
	Crown entity 2	Yes, usually	Older briefings have detailed information about financial performance. There was less information in recent briefings.
Ministry for Culture and Heritage	Crown entity 1	Partly	There was a statement about overall performance. It is not clear whether this covers both financial and non-financial performance.  We question the rigour of MCH's assessment.
	Crown entity 2	Partly	
	Crown entity 3	Partly	There was clear information about tracking of non-financial performance. Information about financial performance was not clear.
	Crown entity 4	Yes	
Ministry of Economic Development	Crown entity 1	Partly	There was a statement about overall performance. It was not clear whether this covers both financial and non-financial performance.  The full-year briefing included clear information about performance over the year and included useful trend information.
	Crown entity 2	Partly	Briefings provided qualitative information about activities carried out, noting outputs or deliverables that were not on track. Some information about financial performance was included. There was no statement about overall performance.
	Crown entity 3	No	MED prepared one briefing for the Minister on the entity's performance. This included some information about aspects of the entity's financial and non-financial performance. There was no statement about overall performance.
	Crown entity 4	No	There was very limited information about non-financial performance. Although briefings discussed aspects of financial performance, there were no clear conclusions about overall financial performance.

\* Was there clear information about whether the entity is on schedule to meet targets and outcomes within the SOI?

- 7.24 Some briefings used text rather than tables to present information about actual performance against what had been planned. This was effective when commenting on overall performance or a key performance measure. However, when multiple measures were commented on (particularly financial information), it was difficult to understand how the entity was performing and where any issues existed.

#### **Anticipating future performance issues**

- 7.25 Most briefings were not forward-looking. The departments seldom drew information together in briefings to reach conclusions about significant issues facing a Crown entity or environmental changes that could affect the entity's future performance.
- 7.26 The main exception we saw for this was briefings that MED prepared for one Crown entity that it monitors. The briefings included brief comments about external issues that could affect the entity's future performance. The briefings also noted actions that would improve MED's monitoring performance, or the way the entity's performance was reported.

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#### **Recommendation 7**

We recommend that the departments set out performance information within briefings to the Minister clearly and consistently, so that it is easy to see whether there are any actual or potential performance issues for the entity.

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## **Standardised reports about the performance of Crown entities**

**Standard reporting requirements for the performance of Crown entities resulted in better quality reporting.**

### **Departments reporting to a Cabinet committee about the performance of Crown entities**

- 7.27 In 2007, Cabinet introduced a requirement for departments to report to them every six months on the performance of selected Crown entities, using a common reporting format. The decision to introduce this requirement arose from the findings of a review of monitoring work for Crown entities commissioned by the Treasury and SSC in 2006.
- 7.28 Two of the three departments we reviewed were required to report to a Cabinet committee on the performance of at least one Crown entity they monitored.

- 7.29 The reports that the departments prepared set out succinct, clear information about each entity's financial and non-financial performance and significant issues that the entity faced. Overall, the quality and presentation of information within the reports was far more sophisticated and easier to understand than information we had seen in regular briefings to Ministers on each entity's performance. This was partly facilitated by the standard report template, which specified the type of information that departments needed to report.
- 7.30 The introduction of the standardised reporting has been valuable. It has resulted in significantly improved reports to Ministers on the performance of some Crown entities. The standard report format means information for various Crown entities can be readily compared, and that common issues and trends for Crown entities are likely to be easier to identify.
- 7.31 The departments could improve their reports by using the information in them to draw conclusions about any significant issues or risks for the capability and governance of the entity. The reports we saw included factual information about aspects of the entity's capability and governance, but did not include conclusions about any related issues and risks.

### **The Ministry of Economic Development's internal reporting initiative**

- 7.32 In 2008, MED prepared internal reports about the Crown entities it monitors using the report template for six-monthly reports to the Cabinet committee. MED did this to help its senior management team to better understand and discuss issues about Crown entities. MED intends to continue this initiative and has started preparing further internal reports using a standard report template.
- 7.33 The reports that MED prepared for the Crown entities we selected set out succinct, clear information about each entity's financial and non-financial performance and significant issues that the entity faced in the same way as the reports we discussed in paragraph 7.29.
- 7.34 It is likely that this initiative has improved MED's capability in monitoring Crown entities.
- 7.35 This reporting was the clearest example we saw of MED's staff using performance information to draw out strategic issues and important messages about a Crown entity. It also meant that they had information to compare the relative size and performance of Crown entities.

## Monitoring and reporting on cross-sector activity

### **The departments did not monitor or report on cross-sector activity.**

- 7.36 MED and MCH each monitor groups of two or more Crown entities that form sectors or part of a sector of government-funded agencies. For example, MCH monitors several Crown entities that are part of the arts and cultural heritage sector. MED monitors two Crown entities that are part of the energy sector.
- 7.37 Neither MED nor MCH had an explicit agreement with responsible Ministers to monitor and report on how well Crown entities within a sector were working together.
- 7.38 MED's output agreement with responsible Ministers included several leadership and co-ordination activities intended to result in some co-ordination of Crown entities and other government agencies within sectors.
- 7.39 It is desirable for monitoring departments to give Ministers a clear description of how Crown entities are working together. Whether the departments carry out the work to provide this information may depend on whether the Minister expects them to do so. If they do, this should be explicit within output agreements or detailed information (such as appendices or monitoring plans).



## Part 8

# Making board appointments

- 8.1 Ministers have a statutory responsibility for appointing, or recommending the appointment of, board members for the Crown entities within their portfolio.
- 8.2 Having a cohesive board with the right mix of skills, experience, and knowledge is a fundamental requirement for achieving good performance within a Crown entity. The role of departments that are asked to support Ministers in identifying and appointing board members is an important one.
- 8.3 In this Part, we discuss how the departments:
- planned for appointment processes;
  - identified knowledge, skills, and experience required on the board;
  - collected disclosure information from board candidates;
  - inducted new board members; and
  - provided ongoing support to board members and chief executives of Crown entities.

### Key messages

- 8.4 Each department needed to carry out various tasks in supporting the responsible Minister to identify and appoint board members. Many of these tasks required close attention to detail.
- 8.5 MCH performed well against our expectations. MCH's documents that we reviewed showed attention to detail and early planning of appointment processes. MCH also provided ongoing support to board members and chief executives of Crown entities.
- 8.6 MED and DIA need to improve their planning, including attention to detail for appointment processes. In a few cases, appointments were made late, or particular details of appointment processes were overlooked.
- 8.7 We have made two recommendations in this Part. They relate to carefully planning appointment processes, advising candidates of the requirements for information disclosure, and collecting all the disclosure information to carry out the checks required by the Act.

### Planning for appointment processes

**In a few cases, MED and DIA did not carry out satisfactory planning for appointment processes.**

- 8.8 Identifying and appointing candidates to the board of a Crown entity usually involves consulting with a range of parties as well as various other activities. Most of this work needs to be carried out in a particular sequence of steps. The SSC has

prepared a guidance document<sup>1</sup> to help those with responsibility for carrying out this work.

- 8.9 These requirements mean that those tasked with carrying out appointment processes, including monitoring departments, need to plan carefully so that requirements are met.
- 8.10 We identified several cases where DIA and MED did not carry out board appointment processes effectively or efficiently because they did not do enough planning.
- 8.11 In one case, DIA did not identify that a board member's term had ended until nearly five months after the event. DIA has put in place a system to better monitor the end of board members' terms for each Crown entity and other agencies that it monitors.
- 8.12 In two other cases, MED started the appointment process early, but did not progress it as quickly as it needed to. In one case, this resulted in the appointment narrowly missing the period of restraint before a general election. In the second case, it meant that there was a gap of about thirteen months between the end of a board member's term and their reappointment.
- 8.13 None of the situations described in paragraphs 8.11-8.12 are desirable. They introduce a risk that statutory requirements for the number of board members are not met. Delays between board members finishing and their successors starting may result, for a time, in an increased workload for a smaller number of board members, and a reduced set of competencies on the board.
- 8.14 In several of these cases, MED and DIA were fortunate that board members agreed to stay on the board (section 32 of the Act provides for a member to stay in office after the expiry of their term of office, and sets out the circumstances in which this may happen).

### **Taking the period of restraint into account when planning for board appointments**

- 8.15 By convention, successive governments have sought to avoid making significant appointments during the period of restraint – usually the three months leading up to a general election.
- 8.16 MED and DIA did not take the period of restraint into account when planning appointment processes. This meant that appointment processes were not as efficient as they could have been.

1 State Services Commission (2006), *Board Appointment and Induction Guidelines*.

- 8.17 MED started and made good progress on an appointment before it realised that the appointment would be made during the period of restraint. MED continued with the appointment, but the board member was appointed for only one year, which is a shorter term than the maximum allowable term.
- 8.18 If MED had identified at the outset that the appointment would be made during the period of restraint, it could have asked the outgoing board member to stay in office until after the election and then started the appointment process. This may have been more efficient than running two appointment processes in two years, and would have meant that MED avoided processing an appointment during the period of restraint.
- 8.19 For one of the Crown entities that DIA monitors, a board member's term expired during the period of restraint in 2005. The member agreed to remain in the position until an appointment process could be started after the election. When DIA arranged the member's reappointment, the new term expired during the period of restraint before the 2008 General Election. Therefore, once again, DIA had to delay the appointment process and ask the member to stay longer in the position. DIA could have avoided this by arranging a shorter term for the board member.
- 8.20 Monitoring departments need to consider when general elections are likely to be held, and take this into account when planning and carrying out board appointment processes.

### **How the Ministry for Culture and Heritage plans for appointment processes**

- 8.21 MCH has been proactive in starting planning for board appointment processes early. We saw several cases where MCH had started the process of identifying candidates and advising the Minister early, and had also set out time frames for the appointment process.
- 8.22 The documents we reviewed showed good attention to detail during the planning of appointment processes. For example, MCH took the period of restraint into account when planning appointment work for 2008. It also considered diversity requirements for board appointments early on in appointment processes.
- 8.23 MCH has a dedicated staff resource for carrying out board appointment processes, and appointment terms typically end in June and July. Therefore, it can carry out the same appointment task (for example, consulting with other agencies about diversity on boards; inducting new board members) for several board members, rather than one at a time. Information we reviewed showed that MCH was using this opportunity to be efficient in carrying out its monitoring work.

### Crown entities' views about board appointment processes

- 8.24 Representatives from Crown entities we spoke with had different views about whether the departments carried out board appointment processes effectively. Representatives from three of the Crown entities thought their monitoring department generally did a good job with this.
- 8.25 Representatives from two Crown entities said that there had been some issues with timeliness of appointments. We also saw information on file showing that the chairperson of one Crown entity's board had noted concern about the late start of a new board member. A representative from another Crown entity told us that they had concerns with the monitoring department's planning for board appointments because half the terms of the entity's board members were due to end in 2009.
- 8.26 It is important that departments monitor when appointment terms are due to end. They need to start planning for the processes of appointing a Crown entity's board members early so that board can continue to operate effectively with the appropriate number of members.

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#### Recommendation 8

We recommend that the departments plan carefully before they start board appointment processes, taking into account the steps and timing required for the appointment and any contextual information relevant for that appointment.

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### Identifying knowledge, skills, and experience required on the board

**The departments did some work to assess the knowledge, skills, and experience needed on boards, but the quality of this work varied.**

- 8.27 When monitoring departments are asked to identify candidates for a Crown entity's board, they need to consider:
- the knowledge, skills, and experience that are needed on the board for it to be effective;
  - the mix of knowledge, skills, and experience on the existing board;
  - any legislative requirements for promoting diversity in the board membership; and
  - any legislative requirements that prescribe specific attributes of board members (for example, the Securities Commission board must include a barrister or solicitor of at least seven years' practice).

- 8.28 It is also desirable for monitoring departments to consult with the responsible Minister and the Crown entity's chairperson about the qualities they want in board candidates. This is because the Minister has the ultimate responsibility for appointing, or recommending the appointment of, board members. The chairperson is likely to have the clearest understanding of how well the board is performing.
- 8.29 The departments carried out some of the work we expected in identifying requirements for new board members. In most cases, they had at least identified the knowledge, skills, and experience required for board members. The departments had sometimes sought information from the chairpersons about this, and sometimes provided advice to the responsible Minister. We saw evidence that the departments were aware of the legislative requirements that set out the skills that board members must have. We also saw examples of the departments consulting with other agencies (for example, Te Puni Kōkiri and the Ministry of Women's Affairs) about diversity requirements for board memberships.
- 8.30 The departments had done some work to take this information into account when considering candidates for board appointments. The quality of this work was variable. In the best examples, the records contained a clear assessment of the skills and knowledge gaps on the boards. These records are likely to help the departments in considering future board appointments.

## Collecting disclosure information from board candidates

### **MED and DIA did not always collect all the disclosure information they needed to.**

- 8.31 Under the Act, board candidates must provide the responsible Minister with information about their eligibility to be a board member, and information about actual and potential interests they have in matters relating to the Crown entity. This requirement applies to new candidates and to existing board members seeking reappointment.
- 8.32 We saw evidence that MCH and MED sought information from board candidates in keeping with the requirements of the Act. DIA sought some, but not all, of the information required under the Act.
- 8.33 In many cases, the departments provided the candidates with details of the legal requirements about the necessary disclosures. This is good practice, which we encourage departments to always follow.
- 8.34 MED encountered some problems obtaining relevant information about a candidate's interests for one of the entities we reviewed. It was not able to collect all the information it needed to meet the requirements of the Act.

- 8.35 The disclosure provisions of the Act form basic checks to help identify and manage any potential conflicts of interest, and to be transparent. The quality of the public record and the information provided to the Minister can become significant. Therefore, it is important that MED and DIA collect all the information needed to carry out the checks required by the Act.

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**Recommendation 9**

We recommend that the departments provide clear advice to board candidates about the information they must disclose under the Crown Entities Act 2004, and collect all the information needed to carry out the appointment checks required by the Act.

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## Inducting new board members

### **DIA could do more work to ensure that new board members receive induction information.**

- 8.36 New board members for Crown entities may be unfamiliar with government requirements, processes and procedures, the functions of the entity, and their duties as a board member. Monitoring departments need to ensure that new board members receive induction information about these matters and the Minister's expectations of them.
- 8.37 In most of the cases that we reviewed, MCH and MED had ensured that new members of each Crown entity's board had received induction information covering much of the information we expected. For example, MCH had been involved in running induction workshops for new board members.
- 8.38 DIA carried out little work to ensure that new board members received induction information. This is an area that it could improve on.
- 8.39 In one case, MED prepared letters of expectations from the Minister to new board members. The letters clearly set out each member's role, the Minister's expectations for their appointment term, and some work the Minister wanted them to carry out in the short term. The letters focused on making improvements within the Crown entity. We commend MED for this work.
- 8.40 Representatives from six of the selected Crown entities told us that they saw inducting new board members as their own responsibility. This is not an unreasonable expectation, because the entity and the board should have the best first-hand knowledge of the entity and the board's working style. However, monitoring departments may be better positioned to provide information to new

board members about monitoring arrangements and government requirements, processes, and procedures for Crown entities. We expect monitoring departments to ensure that it is clear who is responsible for providing the different elements of induction information to new members, and that the information covers all the areas it needs to.

### **Providing ongoing support to board members and chief executives of Crown entities**

#### **MCH provided considerable ongoing support to board members and the chief executive of each Crown entity.**

- 8.41 MCH has provided ongoing support to assist the board members of Crown entities in their governance role. For example, it has a dedicated internet site for board members to access information on governance, including an online manual about governance issues. It has also prepared newsletters for board members on governance issues.
- 8.42 We were told that MCH organises monthly meetings for the chief executives of Crown entities.
- 8.43 We received very favourable comments from some chief executives and chairpersons about the work MCH does to induct and support board members and to facilitate meetings of chief executives.
- 8.44 It is clear that MCH has put much effort into providing ongoing support to the chairpersons and chief executives of the Crown entities it monitors. In doing so, MCH has documented a substantial amount of in-house knowledge on governance matters within its manual and newsletters. This places MCH in a strong position to continue providing responsible Ministers with support on governance matters. We commend MCH for this work.

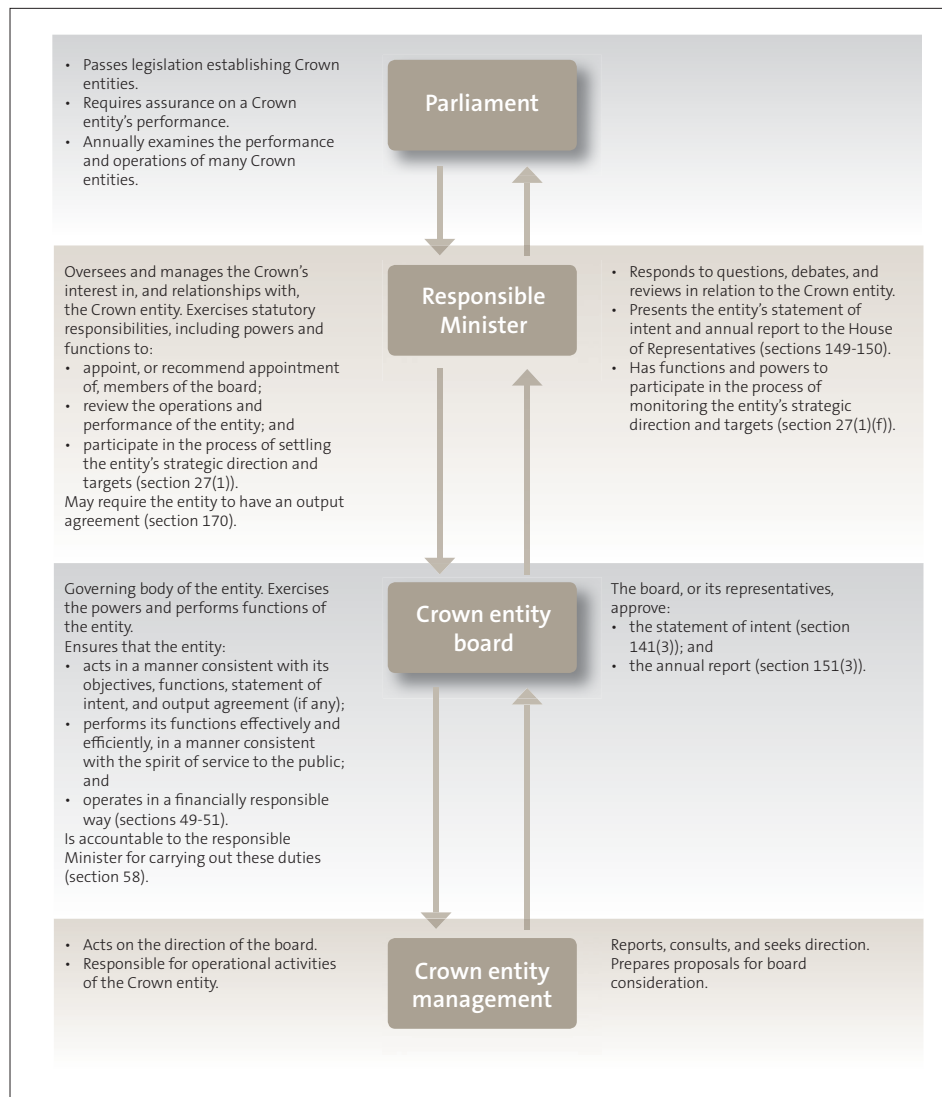




# Appendix 1

## Governance arrangements for Crown entities

Statutory references in this figure are to the Crown Entities Act 2004.





## Appendix 2

# About the departments

### Department of Internal Affairs

The Crown entity monitoring team at the Department of Internal Affairs (DIA) comprises of a manager and two staff members. All three staff members started working at DIA in 2008. The team is also responsible for appointments to about 40 other organisations, such as community trusts.

DIA is responsible for monitoring three Crown entities (see Figure 6).

**Figure 6**  
Crown entities that DIA monitors and their responsible Ministers

Crown entity	Responsible Minister
Charities Commission	Minister for the Community and Voluntary Sector
New Zealand Fire Service Commission*	Minister of Internal Affairs
Office of Film and Literature Classification*	Minister of Internal Affairs

\* Entity selected for this audit.

### Ministry for Culture and Heritage

The Ministry for Culture and Heritage (MCH) has two teams of staff that are responsible for monitoring Crown entities. They are the Agency Group and the Broadcasting Unit. MCH is responsible for monitoring nine Crown entities (see Figure 7) and 10 other agencies.

**Figure 7**  
Crown entities that MCH monitors and their responsible Ministers

Crown entity	Responsible Minister
Arts Council of New Zealand Toi Aotearoa (Creative New Zealand)*	Minister for Arts, Culture and Heritage
Broadcasting Commission (New Zealand on Air)*	Minister of Broadcasting
Broadcasting Standards Authority	Minister of Broadcasting
Drug Free Sport New Zealand	Minister for Sport and Recreation
Museum of New Zealand Te Papa Tongarewa*	Minister for Arts, Culture and Heritage
New Zealand Film Commission	Minister for Arts, Culture and Heritage
New Zealand Historic Places Trust (Pouhere Taonga)	Minister for Arts, Culture and Heritage
New Zealand Symphony Orchestra	Minister for Arts, Culture and Heritage
Sport and Recreation New Zealand*	Minister for Sport and Recreation

\* Entity selected for this audit.

## Ministry of Economic Development

Crown entity monitoring work at the Ministry of Economic Development (MED) is carried out in individual business units throughout the department.

MED is responsible for monitoring 10 Crown entities (see Figure 8).

**Figure 8**

### Crown entities that MED monitors and their responsible Ministers

Crown entity	Responsible Minister
Accounting Standards Review Board	Minister of Commerce
Commerce Commission	Minister of Commerce
Electricity Commission*	Minister of Energy
Energy Efficiency and Conservation Authority	Minister of Energy
New Zealand Tourism Board*	Minister of Tourism
New Zealand Trade and Enterprise	Minister of Trade
Securities Commission*	Minister of Commerce
Standards Council (Standards New Zealand)*	Minister of Commerce
Takeovers Panel	Minister of Commerce
Testing Laboratory Registration Council	Minister of Commerce

\* Entity selected for this audit.

## Appendix 3

# About the 10 selected Crown entities

### Department of Internal Affairs

#### New Zealand Fire Service Commission

<b>Entity type</b>	Crown agent
<b>Responsible Minister</b>	Minister of Internal Affairs
<b>Establishing legislation</b>	Fire Service Act 1975
<b>Main functions</b>	Governance and operation of the fire service, co-ordination of fire safety throughout New Zealand
<b>Number of board members</b>	5

#### Office of Film and Literature Classification

<b>Entity type</b>	Independent Crown entity
<b>Responsible Minister</b>	Minister of Internal Affairs
<b>Establishing legislation</b>	Films, Videos, and Publications Classification Act 1993
<b>Main functions</b>	Provide and communicate impartial classification decisions and information about censorship
<b>Number of board members</b>	2

### Ministry for Culture and Heritage

#### Arts Council of New Zealand Toi Aotearoa (Creative New Zealand)

<b>Entity type</b>	Autonomous Crown entity
<b>Responsible Minister</b>	Minister of Arts, Culture and Heritage
<b>Establishing legislation</b>	Arts Council of New Zealand Toi Aotearoa Act 1994
<b>Main functions</b>	National development agency for the arts, promote and invest resources in the arts
<b>Number of board members</b>	7

#### Broadcasting Commission (New Zealand on Air)

<b>Entity type</b>	Autonomous Crown entity
<b>Responsible Minister</b>	Minister of Broadcasting
<b>Establishing legislation</b>	Broadcasting Act 1989
<b>Main functions</b>	Funding agency to support local content on radio and television
<b>Number of board members</b>	3-6

## Museum of New Zealand Te Papa Tongarewa

<b>Entity type</b>	Autonomous Crown entity
<b>Responsible Minister</b>	Minister of Arts, Culture and Heritage
<b>Establishing legislation</b>	Museum of New Zealand Te Papa Tongarewa Act 1992
<b>Main functions</b>	Control and maintain the national museum
<b>Number of board members</b>	6-8

## Sport and Recreation New Zealand

<b>Entity type</b>	Crown agent
<b>Responsible Minister</b>	Minister for Sport and Recreation
<b>Establishing legislation</b>	Sport and Recreation New Zealand Act 2002
<b>Main functions</b>	Promote, encourage, and support physical recreation and sport in New Zealand
<b>Number of board members</b>	5-9

## Ministry of Economic Development

### Electricity Commission

<b>Entity type</b>	Crown agent
<b>Responsible Minister</b>	Minister of Energy
<b>Establishing legislation</b>	Electricity Act 1992
<b>Main functions</b>	Ensure that electricity is produced and delivered to all consumers, promote efficient use of electricity
<b>Number of board members</b>	5-9

### New Zealand Tourism Board (Tourism New Zealand)

<b>Entity type</b>	Crown agent
<b>Responsible Minister</b>	Minister of Tourism
<b>Establishing legislation</b>	New Zealand Tourism Board Act 1991
<b>Main functions</b>	Market New Zealand offshore as a tourist destination
<b>Number of board members</b>	5-9

### Securities Commission

<b>Entity type</b>	Independent Crown entity
<b>Responsible Minister</b>	Minister of Commerce
<b>Establishing legislation</b>	Securities Act 1978
<b>Main functions</b>	Regulate investments, foster capital investment in New Zealand
<b>Number of board members</b>	5-11

### Standards Council (Standards New Zealand)

<b>Entity type</b>	Autonomous Crown entity
<b>Responsible Minister</b>	Minister of Commerce
<b>Establishing legislation</b>	Standards Act 1988
<b>Main functions</b>	Develop and distribute standards solutions
<b>Number of board members</b>	12









# Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Inquiry into immigration matters
- Central government: Results of the 2007/08 audits
- Annual Plan 2009/10
- Workforce planning in Crown Research Institutes
- Draft annual plan 2009/10
- Performance audits from 2007: Follow-up report
- Department of Corrections: Managing offenders on parole
- Housing New Zealand Corporation: Maintenance of state housing
- Annual Report 2007/08
- Ministry of Health: Monitoring the progress of the Primary Health Care Strategy
- Ministry of Education: Supporting professional development for teachers
- Inquiry into the West Coast Development Trust
- Maintaining and renewing the rail network
- Reporting the progress of defence acquisition projects
- Ministry of Education: Monitoring and supporting school boards of trustees
- Charging fees for public sector goods and services
- The Auditor-General's observations on the quality of performance reporting
- Local government: Results of the 2006/07 audits
- Procurement guidance for public entities
- Public sector purchases, grants, and gifts: Managing funding arrangements with external parties

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