

VOTE *Audit*

Audit

Overview

Appropriations sought for Vote Audit in 2006/07 total \$51.201 million. This will be applied as follows:

- \$9.143 million (17.9% of the Vote) on the Controller and Auditor-General assisting Parliament in its role of ensuring accountability for public resources, including advice to Select Committees and other bodies, undertaking the Controller function, plus undertaking and reporting on performance audits and inquiries relating to central and local government entities.
- \$42.058 million (82.1% of the Vote) on providing audit services to public entities by Audit New Zealand and private sector audit providers, and other audit-related assurance services provided by Audit New Zealand at the request of audited entities.

Details of how the appropriations are to be applied appear in Parts B1 and C of this Vote.

Terms and Definitions Used

OAG Office of the Controller and Auditor-General

Footnotes

Note 1 The Office of the Controller and Auditor-General is an Office of Parliament under the Public Finance Act 1989.

Note 2 The "Other" appropriation is for the remuneration expenses for both the Controller and Auditor-General and the Deputy incurred pursuant to clause 5 of the third schedule of the Public Audit Act 2001.

Minister Portfolio Table

78 Speaker of the House

Audit

VOTE MINISTER: The Speaker of the House

ADMINISTERING DEPARTMENT: Office of the Controller and Auditor-General (Note 1)

The Speaker of the House is the Responsible Minister for the Controller and Auditor-General

Part A - Statement of Objectives and Trends

Part A1 - Objectives for Vote

Outcomes

The Office of the Controller and Auditor-General is a statutory office created by Parliament in the Public Audit Act 2001. The Office exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government. The Controller and Auditor-General (the Auditor-General) is an officer of Parliament, and in that capacity is independent of the executive government and Parliament in discharging the functions of the office, but answerable to Parliament for his stewardship of the public resources entrusted to him.

In New Zealand's system of government, Parliament is supreme - all authority for governmental activity ultimately stems from Parliament. Public sector organisations are therefore accountable to Parliament for their use of the public resources and powers that it has conferred on them.

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

Through his work the Auditor-General seeks to "maintain and enhance trust in an effective and efficient public sector".

"Trust" is where Parliament and the public know whether public entities (including central and local government entities) are:

- carrying out their activities effectively, efficiently, and appropriately
- using public funds wisely, and
- reporting their performance accurately -

and know that if this is not the case the Auditor-General will tell them.

"An effective and efficient public sector" is one in which public entities operate effectively and efficiently, and with a focus on continual improvement and innovation.

In order to achieve the desired situation the Auditor-General delivers the following activities:

- annual audits
- the controller function and the appropriation audit
- advice to Parliament
- inquiries
- advice and liaison
- working with the profession
- wider assurance work
- performance audits and other studies
- international liaison and involvement
- research and development.

Output Expenses

The appropriations in Vote Audit are the means for the Auditor-General to provide these activities.

These activities are reflected in the three output classes forming Vote Audit (refer to Part C).

Part A2 - Trends in Vote

Appropriation levels for outputs supplied by the Auditor-General have increased from \$36.808 million in 2001/02 to \$51.201 million in 2006/07.

Since 1992/93 the Office has been organisationally divided into two parts to more clearly differentiate its role as:

- auditing contractor, standard setter and advisor to Parliament (OAG)
- audit service provider (Audit New Zealand).

Over the period 1995 to 1997 the Auditor-General adopted the strategy of maintaining staff numbers and generating additional work in the off-peak period. This strategy resulted in increases in output appropriations funded from third-party revenue. In 1998/99, to provide flexibility to minimise the fiscal and policy risks associated with this strategy, the contested audit services appropriation was moved to a Mode B net appropriation basis, whereby the Office can incur expenses up to the level of revenue generated through the provision of audit services.

To further assist Audit New Zealand to remain a competitive participant in the contested public audit market and enhance its competence in the audit of public organisations, the Office received a \$1.2 million capital contribution in 2000/01 for the selection, purchase and implementation of computer-based audit support tools.

From 1997, demands upon the resources of the OAG have increased as a result of:

- developments in the extent and importance of select committee scrutiny under MMP
- greater public demand for more complex and extensive Audit Office inquiries
- increasing calls on the Office to advise other public entities, and government and professional bodies, on current issues.

In order for the Office to cope with an increased workload arising from the extended mandate associated with the passing of the Public Audit Act 2001, and to meet these ongoing increases in demand, Parliament increased the appropriation levels from 2001/02 onwards.

During 2001/02 the Auditor-General received a capital contribution of \$3.586 million to accommodate the transfer of assets and liabilities from the Audit department to the new Officer of Parliament established under the Public Audit Act 2001.

In addition, in 2001/02 the Minister of Finance granted approval for the Auditor-General to operate an overdraft facility to assist Audit New Zealand to better manage its seasonal cash flows. A new appropriation of \$500,000 for the repayment of the principal was introduced.

From 2004/05 the Auditor-General received additional appropriation, as a result of an extensive strategic business planning exercise, to implement an enhanced annual audit function, an increased inquiries capability, more performance audits, and the development of a research and development capability.

In 2005/06 additional appropriations were approved for additional expenditure arising from increased audit fees agreed with entities in contract negotiations and new entities, the introduction of audits of Long-Term Council Community Plans, International Financial Reporting Standards audit requirements, and changes in activity levels within Audit New Zealand.

From 2006/07 a new output class structure was introduced including a multi-class output appropriation for Crown funded activities that will make the Office's activities more transparent while also encouraging an outcome focus.

Part B - Statement of Appropriations

Summary of Financial Activity

	2001/02	2002/03	2003/04	2004/05	2005/06		2006/07 Appropriations to be Used				2007/08	2008/09	2009/10	
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Estimated Actual \$000	By the Department Administering the Vote		For Non-Departmental Transactions		Total \$000	Estimated \$000	Estimated \$000	Estimated \$000
							Annual \$000	Other \$000	Annual \$000	Other \$000				
Appropriations														
Output Expenses	36,808	39,548	40,654	42,709	52,974	52,974	50,565	636	-	-	51,201	42,802	42,811	42,811
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Expenditure	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
Total Appropriations	36,808	39,548	40,654	42,709	52,974	52,974	50,565	636	-	-	51,201	42,802	42,811	42,811
Crown Revenue and Receipts														
Tax Revenue	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Non-Tax Revenue	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Capital Receipts	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-
Total Crown Revenue and Receipts	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-

Part B1 - Details of Appropriations

Appropriations	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Departmental Output Expenses (General)							
Certification of Authority to Release Funds from the Crown Bank Account (M78)	91	-	91	-	-	-	- The provision of independent assurance to Parliament that expenses or capital expenditure by departments and offices of Parliament have been incurred for purposes that are lawful and within the scope, amount and period of appropriation, or other authority.
Legislative Auditor MCOA							Basis: These output expenses use the same resources and contribute to the same outcome.
Parliamentary Services	-	-	-	-	2,212	636	Assisting Parliament in its role of ensuring accountability for public resources, including advice to Select Committees and other bodies, and undertaking the Controller Function.
Performance Audits and Inquiries	-	-	-	-	6,295	-	Undertaking and reporting on performance audits and inquiries relating to central and local government entities.
Legislative Auditor (M78)	-	-	-	-	8,507	636	
Provision of Audit and Assurance Services (M78)	44,098	-	44,098	-	42,058	-	- The provision of audit services to public entities by Audit New Zealand and private sector audit providers, and audit-related assurance services undertaken by Audit New Zealand at the request of audited entities.
Reports and Advice Arising from the Exercise of the Function of the Legislative Auditor (M78)	8,149	636	8,149	636	-	-	- The Auditor-General undertaking his constitutional function in assisting Parliament in its role of ensuring accountability for public resources.
Total Departmental Output Expenses (General)	52,338	636	52,338	636	50,565	636	
Total Appropriations	52,338	636	52,338	636	50,565	636	

Part C - Explanation of Appropriations for Output Expenses

Part C1 - Departmental Output Expenses

The Auditor-General is independent of the Government and is accountable to Parliament. While the Speaker is the Vote Minister for the purposes of appropriations, the Speaker's role in relation to Offices of Parliament is not the same as that of Ministers of the Crown in relation to their departments.

The Speaker cannot contract with or direct the Auditor-General as to how it should discharge its statutory duties. Thus, the explanation of the appropriations for Vote Audit reflects the Auditor-General's perspective of the outputs that will be delivered to Parliament from Vote Audit. The appropriations in this Vote were commended to the Governor-General by the House of Representatives in an address on the recommendation of the Officers of Parliament Committee.

Legislative Auditor MCOA

This multi-class output appropriation relates to the Auditor-General undertaking his constitutional function in assisting Parliament in its role of ensuring accountability for public resources. The basis for the multi-class output appropriation is the two output classes use the same resources and contribute to the same outcome.

Parliamentary Services

This output involves assisting Parliament in its role of ensuring accountability for public resources. The significant outputs in this output class are:

- reports to Parliament and other constituencies on matters arising from annual audits
- reports to and advising select committees to assist in their reviews of performance, Estimates examinations, or other inquiries for which the Auditor-General's assistance is sought
- reports the results of annual financial report audits to portfolio Ministers
- advice to government bodies and other agencies on auditing, accountability and financial management in the public sector
- the Controller function and appropriation audit
- developing a history of the Office.

Cost

Year	Cost \$000	Total Revenue \$000	Revenue Crown \$000	Revenue Other \$000
2006/07	2,848	2,849	2,849	-
2005/06	-	-	-	-

Performance Audits and Inquiries

This class of output relates to the Auditor-General undertaking and reporting on performance audits and inquiries relating to central and local government entities.

Cost

Year	Cost \$000	Total Revenue \$000	Revenue Crown \$000	Revenue Other \$000
2006/07	6,295	6,295	6,295	-
2005/06	-	-	-	-

Provision of Audit and Assurance Services

This class of output relates to providing public entities with audit services by private sector audit providers or Audit New Zealand as allocated by the Auditor-General under the "Audit Resourcing Model". The Office of the Auditor-General has established standards by which audits will be carried out. The three significant outputs in this output class are audit reports on financial statements (including financial and non-financial information); reports to the management and governing bodies of the entity on issues arising from the audit (management reports); and other assurance work undertaken by Audit New Zealand at the request of audited entities.

Cost

Year	Cost GST excl \$000	Total Revenue GST excl \$000	Revenue Crown GST excl \$000	Revenue Other GST excl \$000
2006/07	42,058	42,312	150	42,162
2005/06	44,098	44,305	190	44,115

Part E - Explanation of Capital Flows

Part E1 - Explanation of Movements in Departmental Net Asset Schedules

Details of Net Asset Schedule for Office of the Controller and Auditor-General	Estimated Actual 2005/06 \$000	Projected 2006/07 \$000	Explanation of Projected Movements in 2006/07
Opening Balance	3,586	3,586	
Capital Injections	-	-	
Capital Withdrawals	-	-	
Surplus to be Retained (Deficit Incurred)	-	-	
Other Movements	-	-	
Closing Balance	3,586	3,586	

Part G - Statement of Reconciliations

Part G1 - Changes in Appropriation Categories

In 2006/07, a new multi-class output appropriation has been established that includes the output classes Parliamentary Services and Performance Audits and Inquiries.

2005/06 Cumulative Vote in Old (2005/06) Structure	\$000	Structure Changes	\$000	Cumulative Vote in New (2006/07) Structure	2005/06 \$000	2006/07 \$000
Departmental Output Expenses						
Reports and Advice Arising from the Exercise of the Function of the Legislative Auditor	8,785	Transferred to Legislative MCOA	(8,785)			
Certification of Authority to Release Funds from the Crown Bank Account	91	Transferred to Legislative MCOA	(91)			
	-	Legislative Auditor MCOA	8,876	Legislative Auditor MCOA	8,876	9,143
Other Output Classes	44,098			Other Output Classes	44,098	42,058
Total Appropriations for Departmental Output Expenses	52,974				52,974	51,201