

# VOTE *Audit*

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# *Audit*

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## Overview

Appropriations sought for Vote Audit in 2002/03 total \$44.557 million. This will be applied as follows:

- \$5.505 million (12.4% of the Vote) on the Controller and Auditor-General undertaking his constitutional function in assisting Parliament in its role of ensuring accountability for public resources.
- \$0.313 million (0.7% of the Vote) on exercising the Controller function, under the Public Finance Act 1989, to act as a monitor on behalf of Parliament and to control the issue of funds from the Crown bank account.
- \$6.718 million (15.1% of the Vote) on providing audit services to public entities that have not been allocated to audit service providers by a contestable process.
- \$31.521 million (70.7% of the Vote) on providing audit services to public entities that have been awarded to private sector auditors or Audit New Zealand through a competitive tender process or under the threat of competition, and other assurance services provided by Audit New Zealand at the request of audited entities.
- \$0.500 million (1.1% of the Vote) on repaying the principal on an overdraft facility.

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

## Footnotes

- Note 1**                    The Office of the Auditor-General is an Office of Parliament under the Public Finance Act 1989 and is referred to subsequently as "The Audit Office".
- 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.
- Note 3**                    The "Other" appropriation is for expenses incurred pursuant to section 10 of the Public Finance Act 1989.

# Audit

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VOTE MINISTER: The Speaker of the House

ADMINISTERING DEPARTMENT: Office of the Auditor-General (note 1)

The Speaker is the Responsible Minister for the Auditor-General

## Part A - Statement of Objectives and Trends

### Part A1 - Objectives for Vote Audit

#### *Outcomes*

The Audit Office exists as a constitutional safeguard to maintain the financial integrity of New Zealand's parliamentary system of government. The Audit Office plays a key part in the system of checks and balances between Parliament and public entities:

- Public entities are *accountable* to Parliament and to other constituencies for their use of the resources and powers conferred by Parliament.
- The Audit Office provides *assurance* to Parliament and to other constituencies that the entities are operating, and accounting for their performance, in a manner consistent with Parliament's intentions. The Office also seeks to foster *improvement* in their performance and accountability.

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

If the Audit Office has done a good job:

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

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

- Government and public entities will effect *improvements* in public sector performance and accountability in areas where the Office has advised that there is potential for improvement.

The appropriations in Vote Audit are to provide the means for the Audit Office to fulfil its constitutional functions.

#### *Outputs from Vote Audit*

The outcomes identified will be achieved by providing:

- reports and advice to Parliament and other constituencies on matters of significance arising from audits, or in relation to financial management and accountability in the public sector

- assurance that all funds released from the Crown bank account are for purposes for which there is an appropriation and which are lawful
- audit and other assurance services to public sector organisations.

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

## **Part A2 - Trends in Vote Audit**

Appropriation levels for outputs supplied by the Audit Office have increased from \$38.103 million in 1997/98 to \$44.557 million (GST inclusive) in 2002/03.

Since 1992/93, when the Office commenced systematically placing audits into a contestable environment, the Audit Office has been organisationally divided into two parts to more clearly differentiate its role as:

- auditing contractor, standard setter and advisor to Parliament (Office of the Auditor-General)
- audit service provider (Audit New Zealand).

Over the period 1995 to 1997, as the overseas market for additional professional resources used to supplement staff during the peak workload period declined, and the expectations of audited entities for added value services grew, the Audit Office adopted the strategy of maintaining staff numbers and generating additional work in the off-peak period. This strategy has 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 Audit 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 Office of the Auditor-General (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.

The OAG met these demands by achieving savings, increasing productivity, and shifting resources into strategic research, information management, and increased reporting. The main effect of shifting these resources was to reduce the OAG's capacity to undertake special studies and to respond to some types of major enquiry.

In order for the Audit 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 on-going increases in demand, Parliament increased the appropriation levels from 2001/02 onwards.

During 2001/02 the Audit Office 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 Audit Office to operate an overdraft facility to assist Audit New Zealand to better manage its seasonal cash flows. A new appropriation of \$0.500 million for the repayment of the principal was introduced.

## Trends in Vote Audit - Summary of Appropriations and Crown Revenue

Types of Appropriation	1997/98	1998/99	1999/2000	2000/01	2001/02		2002/03 Appropriations to be Used				2003/04	2004/05	2005/06
	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
							Annual \$000	Other \$000	Annual \$000	Other \$000			
<b>Operating Flows</b>													
Classes of Outputs to be Supplied	38,103	37,587	38,975	39,979	43,502	43,502	12,041	32,016	-	-	44,057	44,513	44,513
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-
Other Expenses	-	466	-	-	-	-	-	-	-	-	-	-	-
<b>Capital Flows</b>													
Capital Contributions	-	-	-	1,200	3,586	3,586	-	-	-	-	-	-	-
Purchase or Development of Capital Assets	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-
Repayment of Debt	-	-	-	-	500	500	N/A	N/A	500	-	500	500	500
<b>Total Appropriations</b>	38,103	38,053	38,975	41,179	47,588	47,588	12,041	32,016	500	-	44,557	45,013	45,013
<b>Total Crown Revenue and Receipts</b>	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-

## Part B - Statement of Appropriations

### Part B1 - Details of Appropriations

Appropriations	2001/02			2002/03		
	Vote		Estimated Actual	Vote		Description of 2002/03 Appropriations
	Annual \$000	Other \$000		Annual \$000	Other \$000	
<b>Departmental Output Classes (Mode B Gross)</b>						
D1 Reports and Advice Arising from the Exercise of the Function of the Legislative Auditor (see note 2)	4,831	495	4,831	495	5,010	495
D2 Certification of Authority to Release Funds from the Crown Bank Account	305	-	305	-	313	-
D3 Provision of Non-Contested Audit Services	6,665	-	6,665	-	6,718	-
<b>Total Appropriations for Departmental Output Classes (Mode B Gross)</b>	11,801	495	11,801	495	12,041	495
<b>Departmental Output Classes (Mode B Net)</b>						
D4 Provision of Contested Audit and Assurance Services (see note 3)	-	31,206	-	31,206	-	31,521



<b>Total Appropriations for Departmental Output Classes (Mode B Net)</b>	-	31,206	-	31,206	-	31,521
<b>Capital Contributions to the Department</b>						
Capital Investment	3,586	-	3,586	-	-	This appropriation accommodated the transfer of assets and liabilities from the Audit department to the new Officer of Parliament established under the Public Audit Act 2001.
<b>Total Appropriations for Capital Contributions to the Department</b>	3,586	-	3,586	-	-	
<b>Repayment of Debt</b>						
Overdraft Repayment	500	-	500	-	500	This appropriation provides for the repayment of principal on an overdraft facility.
<b>Total Appropriations for Repayment of Debt</b>	500	-	500	-	500	
<b>Total Appropriations</b>	15,887	31,701	15,887	31,701	12,541	32,016

## Part C - Explanation of Appropriations for Output Classes

### Part C1 - Departmental Output Classes

The Audit Office 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 Audit Office as to how it should discharge its statutory duties. Thus, the explanation of the appropriations for Vote Audit reflects the Controller and 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.

#### *Output Class D1 - Reports and Advice Arising from the Exercise of the Function of the Legislative Auditor*

This class of output relates to the Audit Office undertaking its constitutional function in assisting Parliament in its role of ensuring accountability for public resources. It consists of:

- reporting to Parliament and other constituencies on matters arising from annual audits, programmed performance audits, and unprogrammed enquiries
- reporting to and advising select committees to assist in their reviews of performance, Estimates examinations, or other inquiries for which assistance is sought
- reporting the results of annual financial report audits to portfolio Ministers
- responding to inquiries from taxpayers, ratepayers and Members of Parliament
- administering the provisions of the Local Authorities (Members' Interests) Act 1968
- advising government bodies and other agencies on auditing, accountability and financial management in the public sector.

#### Cost

Year	Cost GST incl \$000	Cost GST excl \$000	Total Revenue GST excl \$000	Revenue Crown GST excl \$000	Revenue Other GST excl \$000
2002/03	5,505	4,947	4,957	4,942	15
2001/02	5,326	4,788	4,797	4,782	15

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

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

#### Cost

Year	Cost GST incl \$000	Cost GST excl \$000	Total Revenue GST excl \$000	Revenue Crown GST excl \$000	Revenue Other GST excl \$000
2002/03	313	278	278	278	-
2001/02	305	271	271	271	-

### *Output Class D3 - Provision of Non-Contested Audit Services*

This class of output relates to the provision of audit services to public entities that have not been allocated to audit service providers by a contestable process. These are audits of national sensitivity; or where the Auditor-General considers that subjecting particular audits to contestability at this time is potentially too disruptive to the entity; or those audits which have yet to be subject to competitive tender. The Office of the Auditor-General has established standards by which audits will be carried out. The two significant outputs in this output class are audit reports on financial statements (including financial and non-financial information) and reports to the management and governing bodies of the entity on issues arising from the audit (management reports).

#### Cost

Year	Cost GST incl \$000	Cost GST excl \$000	Total Revenue GST excl \$000	Revenue Crown GST excl \$000	Revenue Other GST excl \$000
2002/03	6,718	5,963	6,042	100	5,942
2001/02	6,665	5,906	6,074	100	5,974

### *Output Class D4 - Provision of Contested Audit and Assurance Services*

This class of output relates to providing public entities with audit services awarded to private sector auditors or Audit New Zealand through a competitive tender process or under the threat of competition. 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

<b>Year</b>	<b>Cost GST incl \$000</b>	<b>Cost GST excl \$000</b>	<b>Total Revenue GST excl \$000</b>	<b>Revenue Crown GST excl \$000</b>	<b>Revenue Other GST excl \$000</b>
2002/03	31,521	27,999	28,177	-	28,177
2001/02	31,206	27,728	27,821	-	27,821

## Part E - Explanation of Appropriations for Capital Flows

### *Net Worth of Entities Owned*

#### **Statement of Estimated and Forecast Net Worth**

	<b>Balance Date</b>	<b>Estimated Net Worth 2002 \$ million</b>	<b>Forecast Net Worth 2003 \$ million</b>
Office of the Auditor-General	30 June	3.586	3.586