

VOTE *Audit*

Audit

Overview

Appropriations sought for Vote Audit in 2004/05 total \$46.759 million. This will be applied as follows:

- \$8.649 million (18.5% 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.
- \$162,000 (0.3% 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.
- \$4.622 million (9.9% of the Vote) on providing audit services to public entities that have not been allocated to audit service providers by a contestable process.
- \$32.826 million (70.2% 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 allocated by the Auditor-General, and other assurance services provided by Audit New Zealand at the request of audited entities.
- \$500,000 (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.

Terms and Definitions Used

OAG Office of the Auditor-General

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

VOTE MINISTER: The Speaker of the House

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

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

Part A - Statement of Objectives and Trends

Part A1 - Objectives for Vote Audit

Outcomes

The Office of 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 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 rates. As an Officer of Parliament, the Auditor-General provides this independent assurance to both Parliament and the public.

The desired situation the Auditor-General aims to create as the direct result of his work is where there is:

- independent assurance that public entities are acting legally, ethically, and with probity
- advice to improve public entity operations
- parliamentary control of expenditure.

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

- annual audits
- controller function
- advice to Parliament
- inquiries

- advice and liaison
- working with the profession
- wider assurance work
- performance audits
- international liaison and involvement
- research and development.

Output Classes

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

These activities 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 \$38.975 million in 1999/2000 to \$46.759 million (GST inclusive) in 2004/05.

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 (OAG)
- audit service provider (Audit New Zealand).

Over the period 1995 to 1997 the Audit Office 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 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 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 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 \$500,000 for the repayment of the principal was introduced.

From 2004/05 the Audit Office will receive 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.

Reconciliation of New Initiatives to Appropriations

		\$000 increase/(decrease)				
Initiative	Appropriations as shown in Part B	2003/04	2004/05	2005/06	2006/07	2007/08
New Strategic Business Plan 2005/09	Departmental Output Class - Reports and Advice Arising from the Exercise of the Function of the Legislative Auditor	-	2,495	3,516	3,516	-
	Departmental Output Class - Provision of Non-Contested Audit Services		290	290	245	
	Departmental Output Class - Provision of Contested Audit and Assurance Services		728	728	728	
Total Initiatives		-	3,513	4,534	4,489	-

Trends in Vote Audit - Summary of Appropriations and Crown Revenue

	1999/2000	2000/01	2001/02	2002/03	2003/04		2004/05 Appropriations to be Used					2005/06	2006/07	2007/08
					Budget	Estimated	By the Department Administering the Vote		For Non-Departmental Transactions					
Types of Appropriation	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Actual \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	Total \$000	Estimated \$000	Estimated \$000	Estimated \$000
Operating Flows														
Classes of Outputs to be Supplied	38,975	39,979	41,433	44,447	43,894	43,894	12,852	33,407	-	-	46,259	47,183	47,154	47,154
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Borrowing Expenses	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Flows														
Capital Contributions	-	1,200	-	-	-	-	-	-	-	-	-	-	-	-
Purchase or Development of Capital Assets	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Repayment of Debt	-	-	-	409	500	500	N/A	N/A	500	-	500	500	500	500
Total Appropriations	38,975	41,179	41,433	44,856	44,394	44,394	12,852	33,407	500	-	46,759	47,683	47,654	47,654
Total Crown Revenue and Receipts	-	-	-	-	-	-	N/A	N/A	N/A	N/A	-	-	-	-

Part B - Statement of Appropriations

Part B1 - Details of Appropriations

	2003/04				2004/05		
	Vote		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	Description of 2004/05 Appropriations
Departmental Output Classes (Mode B Gross)							
Reports and Advice Arising from the Exercise of the Function of the Legislative Auditor	5,287	581	5,287	581	8,068	581	The Auditor-General undertaking his constitutional function in assisting Parliament in its role of ensuring accountability for public resources. The change reflects additional performance audits, a research and development capability, enhanced capacity for inquiries, and a reforecast of activity (see Note 2).
Certification of Authority to Release Funds from the Crown Bank Account	293	-	293	-	162	-	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. The change reflects a reforecast of activity.
Provision of Non-Contested Audit Services	4,533	-	4,533	-	4,622	-	The provision of audit services that have not been allocated to audit service providers by a contestable process. The change reflects a reforecast of activity.
Total Appropriations for Departmental Output Classes (Mode B Gross)	10,113	581	10,113	581	12,852	581	

Part B1 - Details of Appropriations (continued)

	2003/04				2004/05		
	Vote		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	Description of 2004/05 Appropriations
Departmental Output Classes (Mode B Net)							
Provision of Contested Audit and Assurance Services	-	33,200	-	33,200	-	32,826	Undertaking those audits or audit-related services awarded to private sector auditors or Audit New Zealand through a competitive tender process or allocated by the Auditor-General, and other assurance services provided by Audit New Zealand at the request of audited entities. The change reflects a reforecast of activity (see Note 3).
Total Appropriations for Departmental Output Classes (Mode B Net)	-	33,200	-	33,200	-	32,826	
Repayment of Debt							
Overdraft Repayment	500	-	500	-	500	-	Provides for the repayment of principal on an overdraft facility.
Total Appropriations for Repayment of Debt	500	-	500	-	500	-	
Total Appropriations	10,613	33,781	10,613	33,781	13,352	33,407	

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 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.

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
- hosting the Commonwealth Auditors-General conference in 2005
- developing a history of the Audit Office.

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
2004/05	8,649	7,752	7,754	7,750	4
2003/04	5,868	5,280	5,281	5,277	4

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
2004/05	162	144	144	144	-
2003/04	293	260	260	260	-

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 those audits that have not been subject to a 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
2004/05	4,622	4,098	4,190	190	4,000
2003/04	4,533	4,006	4,214	100	4,114

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 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 incl \$000	Cost GST excl \$000	Total Revenue GST excl \$000	Revenue Crown GST excl \$000	Revenue Other GST excl \$000
2004/05	32,826	29,161	29,321	-	29,321
2003/04	33,200	29,506	29,551	-	29,551

Part E - Explanation of Appropriations for Capital Flows

Net Worth of Entities Owned

Statement of Estimated and Forecast Net Worth

	Balance Date	Estimated Net Worth 2004 \$ million	Forecast Net Worth 2005 \$ million
Office of the Auditor-General	30 June	3.586	3.586