

# *Performance Information for Appropriations*

## *Vote Audit*

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MINISTER(S) RESPONSIBLE FOR APPROPRIATIONS: Speaker of the House of Representatives (M78)

ADMINISTERING DEPARTMENT: Controller and Auditor-General

MINISTER RESPONSIBLE FOR CONTROLLER AND AUDITOR-GENERAL: Speaker of the House of Representatives

## Part 1 - Summary of the Vote

### Part 1.1 - Overview of the Vote

The Speaker of the House is responsible for appropriations in the Vote for the 2009/10 financial year covering the following:

- a total of nearly \$10 million for the Controller and Auditor-General supporting 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 public entities
- a total of nearly \$63 million for providing audit services to public entities, and other audit-related assurance services.

Details of these appropriations are set out in Parts 2-6 below.

### Part 1.2 - High-Level Objectives of the Vote

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.

#### Objectives of the Vote

Outcome and Intermediate Outcomes	Objective and Output Classes
Building trust in the public sector: <ul style="list-style-type: none"> <li>• Authority: Activities have been carried out, and accountability requirements observed, within the authority granted by Parliament.</li> <li>• Waste: Taxpayers' dollars and public resources are not wasted. Governance and management arrangements ensure that resources are obtained and applied in an efficient and economical manner.</li> <li>• Probity: Public entities meet Parliament's and the public's expectations of an appropriate standard of behaviour.</li> <li>• Performance: Services and activities are carried out effectively, achieving their intentions and their desired effect on outcomes or objectives.</li> <li>• Accountability: Public entities give full and accurate public accounts.</li> </ul>	Independent advice and assurance through our output classes: <ul style="list-style-type: none"> <li>• audit and assurance services</li> <li>• supporting accountability to Parliament, and</li> <li>• performance audits and inquiries.</li> </ul>

The Controller and Auditor-General (the Auditor-General) is an Officer of Parliament. The Public Audit Act 2001 sets out his mandate and responsibilities. The Auditor-General is independent of executive government and Parliament in discharging the functions of the statutory office, but answerable to Parliament for his stewardship of the public resources entrusted to him.

In New Zealand's system of government, public sector organisations are accountable to Parliament for their use of the public resources and powers that Parliament has conferred on them. Parliament has also legislated to require 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. The Auditor-General is required by statute to provide this independent assurance to both Parliament and the public.

The Office's desired overall outcome is building trust in the public sector. Our purpose is to give independent assurance to Parliament and the public about whether public entities are:

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

Our outcome measure of trust in the effectiveness and efficiency of the public sector is that New Zealand's Transparency International Corruption Perception index score over the next three years is maintained or improved. In 2008, New Zealand's score was 9.3 on a 10-point scale, meaning it ranked first equal on the index with Denmark and Sweden.

The Auditor-General helps build trust in the public sector by providing independent assurance and advice to Parliament and the public that governance and management arrangements are suitable to address five key areas - our intermediate outcomes.

The information necessary to provide this independent advice and assurance is gathered through the Office's output classes. These output classes are:

- **Audit and assurance services** - performing of audit and related assurance services as required or authorised by statute. The Auditor-General is required to audit the financial statements of the Government, public entities' financial statements and other information that must be audited. The Auditor-General is also enabled to perform other services reasonable and appropriate for an auditor to perform and to audit other quasi-public entities.
- **Supporting accountability to Parliament** - reporting to Parliament and others as appropriate on matters arising from annual and appropriation audits, reporting to and advising select committees, and advising other agencies on the requirements of parliamentary and related accountability systems, to support Parliament in its holding the executive to account for its use of public resources.
- **Performance audits and inquiries** - undertaking and reporting on performance audits and inquiries relating to public entities under the Public Audit Act 2001 and to responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities Members' Interests Act 1968.

## Part 1.3 - Trends in the Vote

### Summary of Financial Activity

	2004/05	2005/06	2006/07	2007/08	2008/09		2009/10			2010/11	2011/12	2012/13
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budgeted \$000	Estimated Actual \$000	Departmental Transactions Budget \$000	Non- Departmental Transactions Budget \$000	Total Budget \$000	Estimated \$000	Estimated \$000	Estimated \$000
<b>Appropriations</b>												
Output Expenses	42,709	51,700	67,345	67,162	71,804	71,654	71,925	-	71,925	68,780	78,682	76,136
Benefits and Other Unrequited Expenses	-	-	-	-	-	-	N/A	-	-	-	-	-
Borrowing Expenses	-	-	-	-	-	-	-	-	-	-	-	-
Other Expenses	-	-	-	699	716	716	716	-	716	716	716	716
Capital Expenditure	1,519	1,510	1,222	779	1,634	1,634	1,057	-	1,057	1,052	905	1,000
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	N/A	-	-	-	-
<b>Total Appropriations</b>	<b>44,228</b>	<b>53,210</b>	<b>68,567</b>	<b>68,640</b>	<b>74,154</b>	<b>74,004</b>	<b>73,698</b>	<b>-</b>	<b>73,698</b>	<b>70,548</b>	<b>80,303</b>	<b>77,852</b>
<b>Crown Revenue and Capital Receipts</b>												
Tax Revenue	-	-	-	-	-	-	N/A	-	-	-	-	-
Non-Tax Revenue	-	-	-	-	-	-	N/A	-	-	-	-	-
Capital Receipts	-	-	-	-	-	-	N/A	-	-	-	-	-
<b>Total Crown Revenue and Capital Receipts</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>N/A</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Analysis of Significant Trends

### *Audit and Assurance Services Output Expenses*

In 2005/06 increases in 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.

In 2006/07 increases in appropriations were approved to allow for an accounting treatment change which moved to a stage of completion basis of accounting for contracted audit service provider transactions. Additional appropriations were also approved to cover additional audit activity and fee increases. The drivers for these increases were the increased complexity of audits due to the adoption of International Financial Reporting Standards (IFRS), and input cost increases largely arising from worldwide shortages of qualified auditing staff.

In 2007/08 increases in appropriations were approved to allow for further costs associated with IFRS conversion audits, which are larger than earlier anticipated, particularly for Local Government and Council controlled entities.

Long-Term Council Community Plans are audited on a three-year cycle. The first round of these audits were completed in 2005/06, and a second round was undertaken in 2008/09. 2011/12 also allows for the fees associated with these audits.

## Part 2 - Details and Expected Performance for Output Expenses

### Part 2.1 - Departmental Output Expenses

#### Intended Impacts, Outcomes and Objectives

Intended Impacts, Outcomes or Objectives of Appropriations	Appropriations
<p>The responsiveness of public entities to their statutory public reporting obligations and their response to findings resulting from audits demonstrate the commitment of public entities to effective, efficient and accountable service delivery. Effectiveness, efficiency and accountability are foundations for trust in the public sector. Therefore the intended impacts of the appropriation are that:</p> <ul style="list-style-type: none"> <li>• The number of public entities' audited financial reports issued within statutory timeframes is improved or maintained.</li> <li>• The number of public entities' audited financial reports containing qualified opinions is reduced or maintained.</li> <li>• Public entities' acceptance of Audit New Zealand's management letter recommendations is improved (or at least maintained).</li> <li>• Central Government entities' management control environment, financial information and service performance information systems and controls are improved or maintained.</li> </ul>	Audit and Assurance Services
<p>Through annual audit, performance audit, and inquiry work, the Auditor-General has a broad overview of public entities both individually and throughout sectors. The Office supports Parliament in holding the executive to account for its use of public resources through:</p> <ul style="list-style-type: none"> <li>• Parliamentary services - reporting to Parliament and others as appropriate on matters arising from annual and appropriation audits, reporting to and advising select committees, and advising other agencies on the requirements of parliamentary and related accountability systems.</li> <li>• The Controller function of the Controller and Auditor-General - providing independent assurance to Parliament that expenses and capital expenditure of departments and Offices of Parliament have been incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority. Through this output the Office provides for the accountability of departments and Offices of Parliament for the use of funds appropriated to them within the authority granted by Parliament.</li> </ul> <p>Performance and accountability are foundations for trust in the public sector. Therefore the intended impact of the appropriation is that:</p> <ul style="list-style-type: none"> <li>• Select committees confirm that the Office's advice assists them in Estimates of Appropriation and financial review examinations.</li> <li>• Expenses and capital expenditure of departments and Offices of Parliament are incurred for purposes that are lawful and within the scope, amount, and period of the appropriation or other authority. Where there is a breach or suspected breach, actions are taken in accordance with the Auditor-General's powers and auditing standards, and the Memorandum of Understanding with the Treasury.</li> </ul>	Supporting Accountability to Parliament

Intended Impacts, Outcomes or Objectives of Appropriations	Appropriations
<p>The Public Audit Act 2001 provides the Auditor-General discretion to undertake performance audits and inquiries to examine matters concerning a public entities' use of resources, including:</p> <ul style="list-style-type: none"> <li>the extent to which activities are carried out effectively and efficiently</li> <li>compliance with statutory obligations</li> <li>any acts or omissions to determine whether waste has resulted or may result</li> <li>any act or omission showing or appearing to show a lack of probity or financial prudence by a public entity or its members, office holders, and employees.</li> </ul> <p>The Auditor-General must also respond to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities Members' Interests Act 1968.</p> <p>Accountable, effectively and efficiently performing public entities that operate within their authority and according to high ethical standards are foundations for trust in the public sector. Therefore the intended impact of the appropriation is that:</p> <ul style="list-style-type: none"> <li>entities accept or respond to the recommendations made in the Auditor-General's performance audits</li> <li>entities take action in response to concerns identified in inquiry reports.</li> </ul>	<p>Performance Audits and Inquiries and Responsibilities under the Local Authorities Members' Interests Act 1968</p>

## Audit and Assurance Services RDA (M78)

### *Scope of Appropriation*

This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute. The Auditor-General is required to audit the financial statements of the Government, public entities' financial statements and other information that must be audited. The Auditor-General is also enabled to perform other services reasonable and appropriate for an auditor to perform and to audit other quasi-public entities.

### *Expenses and Revenue*

	2008/09		2009/10
	Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	62,607	62,607	62,728
Revenue from Crown	-	-	-
Revenue from Other	62,607	62,607	62,728

### *Output Performance Measures and Standards*

	2008/09		2009/10
	Budgeted Standard	Estimated Actual Standard	Budget Standard
Outstanding audit reports at 30 June 2010 are not due to inaction on our part.	Less than 10% due to inaction on the Office's part.	Less than 10% due to inaction on the Office's part.	Less than 10% due to inaction on the Office's part.
Management reports are issued on a timely basis.	Within six weeks of issuing the audit report.	Within six weeks of issuing the audit report.	Within six weeks of issuing the audit report.

Performance Measures	2008/09		2009/10
	Budgeted Standard	Estimated Actual Standard	Budget Standard
Outstanding LTCCP audit opinions at 30 June 2009 are not due to inaction on our part and LTCCP management reports are issued on a timely basis.	No outstanding opinions due to inaction on the Office's part. Management reports issued within six weeks of issuing the audit report.	No outstanding opinions due to inaction on the Office's part. Management reports issued within six weeks of issuing the audit report.	N/A as LTCCP audits occur every third year.
Client satisfaction survey results show that respondents are satisfied with the quality of audit work (including the expertise of staff and the quality of the entities' relationships with their audit service provider).	75% satisfaction rate overall.	75% satisfaction rate overall.	75% satisfaction rate overall.
Quality assurance reviews for all appointed auditors are completed during a three-year period.	95% of auditors reviewed in the year achieve a result of "satisfactory" or better.	95% of auditors reviewed in the year achieve a result of "satisfactory" or better.	95% of auditors reviewed in the year achieve a result of "satisfactory" or better.
The methods and systems used to allocate and tender audits, and monitor the reasonableness of audit fees are objective and provide properly for probity.	Confirmed by an annual independent review of our processes. The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.	Confirmed by an annual independent review of our processes. The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.	Confirmed by an annual independent review of our processes. The Officers of Parliament Committee accepts any significant proposals for an appropriation increase in audit fees and expenses.

## Audit and Assurance Services (M78)

### *Scope of Appropriation*

This appropriation is limited to the performance of audit and related assurance services as required or authorised by statute for smaller entities such as cemetery trusts and reserve boards.

### *Expenses and Revenue*

	2008/09		2009/10
	Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	150	150	150
Revenue from Crown	150	150	150
Revenue from Other	-	-	-

### Output performance measures and standards

Refer to the output performance measures and standards which apply to the main audit and assurance services output class, above.



## Statutory Auditor Function MCOA (M78)

### *Scope of Appropriation*

#### **Performance Audits and Inquiries**

This output class is limited to undertaking and reporting on performance audits and inquiries relating to public entities under the Public Audit Act 2001 and responding to requests for approvals in relation to pecuniary interest questions regulated by the Local Authorities Members' Interests Act 1968.

#### **Supporting Accountability to Parliament**

This output class is limited to reporting to Parliament and others as appropriate on matters arising from annual and appropriation audits, reporting to and advising select committees, and advising other agencies on the requirements of parliamentary and related accountability systems, to support Parliament in its holding the executive to account for its use of public resources.

### *Explanation for Use of Multi-Class Output Expense Appropriation*

The basis for this multiclass output appropriation is the two output classes use the same resources and contribute to the same outcome.

### *Expenses and Revenue*

	2008/09		2009/10
	Budgeted \$000	Estimated Actual \$000	Budget \$000
<b>Total Appropriation</b>	9,047	8,897	9,047
Performance Audits and Inquiries	6,587	6,437	6,587
Supporting Accountability to Parliament	2,460	2,460	2,460
<b>Revenue from Crown</b>	9,047	9,047	9,047
Performance Audits and Inquiries	6,587	6,587	6,587
Supporting Accountability to Parliament	2,460	2,460	2,460
<b>Revenue from Other</b>	-	-	-
Performance Audits and Inquiries	-	-	-
Supporting Accountability to Parliament	-	-	-

### *Output Performance Measures and Standards*

	2008/09		2009/10
	Budgeted Standard	Estimated Actual Standard	Budget Standard
Performance Measures			
<b>Supporting Accountability to Parliament - Parliamentary Services</b>			
Reports and advice are given to select committees and Ministers.	At least 2 days before an examination, unless otherwise agreed.	At least 2 days before an examination, unless otherwise agreed.	At least 2 days before an examination, unless otherwise agreed.

	2008/09		2009/10
	Budgeted Standard	Estimated Actual Standard	Budget Standard
Performance Measures			
Estimates and Ministerial reports meet the relevant standards and procedures, including that reports are consistent in their framework and approach and are peer reviewed in draft (see Note 1).	Confirmed by internal review of a sample of financial review, Estimates, and Ministerial reports.	Confirmed by internal review of a sample of financial review, Estimates, and Ministerial reports.	Confirmed by internal review of a sample of financial review, Estimates, and Ministerial reports.
Select committee members we survey rate the quality and usefulness of the advice they receive from us as 4 or better on a scale of 1 to 5.	At least 85%	At least 85%	At least 85%
<b>Supporting Accountability to Parliament - Controller Function</b>			
Monthly statements provided by the Treasury are reviewed for the period September to June inclusive.	Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.	Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.	Advice of issues arising and action to be taken is provided to the Treasury and appointed auditors within five working days of receipt of the statement.
Office policies, procedures, and standards in relation to the Controller Function have been applied appropriately (see Note 1).	Confirmed by internal quality assurance review.	Confirmed by internal quality assurance review.	Confirmed by internal quality assurance review.
<b>Performance Audits and Inquiries - Performance Audits</b>			
Completion of reports on matters arising from performance audits and special studies, and inquiries.	19 - 21	19 - 21	19 - 21
Select committees and other stakeholders are satisfied with the proposed work programme of performance audits and special studies.	As indicated by feedback on our draft work programme.	As indicated by feedback on our draft work programme.	As indicated by feedback on our draft work programme.
Stakeholders we survey rate the quality and usefulness of performance audit reports (relevant to their sector or interest) as 4 or better on a scale of 1 to 5.	At least 85%	At least 85%	At least 85%
Our performance audit methodology reflects good practice for carrying out such audits.	Assessed every 2nd year by the National Audit Office of Australia through a review of 2 of our performance audits. A review is scheduled for this year.	Assessed every 2nd year by the National Audit Office of Australia through a review of 2 of our performance audits. A review is scheduled for this year.	Assessed every 2nd year by the National Audit Office of Australia through a review of 2 of our performance audits. The next review is scheduled for 2010/11
Performance audit reports meet quality expectations in terms of the sufficiency of administrative and management context, the report structure, presentation, and format (including use of graphics and statistics), and the rigour of the methodology used and the balance, reasonableness of the methodology used and the resulting conclusions and recommendations.	Confirmed by independent internal quality assurance reviews on 2 selected performance audit reports.	Confirmed by independent internal quality assurance reviews on 2 selected performance audit reports.	Confirmed by independent internal quality assurance reviews on 2 selected performance audit reports.
Appropriate systems and controls are in place and reports are prepared in keeping with the performance audit methodology (see Note 1).	Confirmed by internal review of a selection of performance audit reports	Confirmed by internal review of a selection of performance audit reports	Confirmed by internal review of a selection of performance audit reports

Performance Measures	2008/09		2009/10
	Budgeted Standard	Estimated Actual Standard	Budget Standard
<b>Performance Audits and Inquiries - Inquiries</b>			
Our findings on inquiries are reported to the relevant parties on a timely basis.	Within 3 months for 80% of "routine" inquiries, within 6 months for 80% of "sensitive" inquiries, and within 12 months for 80% of "major" inquiries.	Within 3 months for 80% of "routine" inquiries, within 6 months for 80% of "sensitive" inquiries, and within 12 months for 80% of "major" inquiries.	Within 3 months for 80% of "routine" inquiries, within 6 months for 80% of "sensitive" inquiries, and within 12 months for 80% of "major" inquiries.
Inquiries under the Local Authorities (Members' Interests) Act 1968 are completed within 30 working days.	80%	80%	80%
Responses to requests for inquiries and our administering of the Local Authorities (Members' Interests) Act 1968 requests are undertaken in accordance with relevant policies, procedures, and standards (see Note 1).	Confirmed by internal quality assurance review.	Confirmed by internal quality assurance review.	Confirmed by internal quality assurance review.

Note 1 - The nature, extent, and frequency of the quality assurance review is determined based on risk. The review is carried out during a three-year period.

## Part 5 - Details and Expected Results for Other Expenses

### Part 5.1 - Departmental Other Expenses

#### Remuneration of Auditor-General and Deputy Auditor-General PLA (M78)

##### *Scope of Appropriation*

This appropriation is limited to remuneration expenses for both the Auditor-General and the Deputy Auditor-General as authorised by clause 5 of the Third Schedule of the Public Audit Act 2001.

##### *Expenses*

	2008/09		2009/10
	Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	716	716	716

## Part 6 - Details and Expected Results for Capital Expenditure

### Part 6.1 - Departmental Capital Expenditure

#### Controller and Auditor-General - Capital Expenditure PLA (M78)

##### *Scope of Appropriation*

This appropriation is limited to the purchase or development of assets by and for the use of the Controller and Auditor-General, as authorised by section 24(1) of the Public Finance Act 1989.

##### *Capital Expenditure*

	2008/09		2009/10
	Budgeted \$000	Estimated Actual \$000	Budget \$000
Forests/Agricultural	-	-	-
Land	-	-	-
Property, Plant and Equipment	407	407	511
Intangibles	843	843	150
Other	384	384	396
<b>Total Appropriation</b>	<b>1,634</b>	<b>1,634</b>	<b>1,057</b>

##### *Reasons for Change in Appropriation*

Budgets for 2008/09 included replacement of significant computer systems.