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AUDIT NEW ZEALAND 4  
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Dear Barry

## 2005/06 DEPARTMENTAL INTERNAL CONTROL EVALUATION: DEPARTMENT OF CORRECTIONS

### 1 INTRODUCTION

Under the Public Finance Act 1989 the Secretary to Treasury is required to prepare the Financial Statements of the Government ("FSG") and to attest to specific aspects of these statements. In order to fulfil these obligations the Treasury requires sufficient assurance about the operation of the financial management system across all Crown activities, so as to have confidence that the figures reported in the FSG are meaningful in describing the financial dimension of the Crown's activities.

In order to obtain this assurance the Treasury has engaged Audit New Zealand to evaluate aspects of Corrections internal control environment against a series of control elements and criteria. This report summarises the results of our review.

### 2 SCOPE OF WORK AND RESPONSIBILITIES

The scope of our work included audit testing as part of our ordinary audit process and completion of the Treasury Departmental Internal Control Evaluation ("DICE") questionnaire.

Our assessments are based on the outcome of our audit testing and the results of our discussions with Corrections staff and management. Our review should not be relied upon to detect every instance of internal control weakness, fraud or irregularity. The implementation and maintenance of strong systems of internal control is the responsibility of the management of Corrections.

### 3 OVERALL RESULT

Overall, Corrections was assessed as having a rating of 4.17 (2004/05: 4.17 or "Good"). The score achieved is out of a possible 5.00.

Appendix One summarises our evaluation of each of the financial management elements considered as part of this exercise and includes the prior year's scores as a means of comparison. Reference should also be made to the assessment scale contained in Appendix Two.

Department requested additional funding of \$140 million (30%) for Spring Hill and Otago. The Department can point to reasons for the increased costs, but we are unable to conclude, on the basis of the evidence we have seen, that the Steering Group (and thus the Department) were fully aware of the escalating costs during the early part of 2005/06. We note that the 7 August 2006 report by the State Services Commissioner noted that initial indications of a substantial cost increase were first signalled to the Minister of Corrections in August 2005 at which point work on the target out turn costs was well underway. He suggested that where cost estimates are uncertain (as was the case with this project), it would be appropriate to indicate a range of possible cost estimates and, moreover, indicate the level of uncertainty attaching to the estimates.

- Target outturn costs have not been agreed in a timely manner. Whilst we recognise that the RPDP project is complex, that CWA represented a new way of working and that there were valid reasons why some delay in agreeing target out turn costs was inevitable, nevertheless \$47.1 million (over 60%) of total costs had been paid to contractors before target out turn costs were finally agreed.



### Context

The Department's most significant project is the Regional Prison Development Project (RPDP), a nearly \$1 billion million project for the construction of four new correction facilities at Ngawha, Auckland, Spring Hill and Otago. RPDP involves a new way of working through a collaborative working agreement (CWA) where target out turn costs (TOC) are used to agree the overall costs of the project.

In our management report for 2004/05 issued in October 2005 we noted the progress being made on the project. We specifically referred to a report that had been completed by our Specialist Assurance Service in June 2005, which identified 56 recommendations in the following areas:

- The quality of analysis and reporting to support decision-making.
- Project procedures and documentation.
- Governance and accountability arrangements.
- Staffing and key person risks.
- The management of the Collaborative Working Arrangements (CWA) and the Department's interaction with them.

We noted in our October 2005 management report that the Department had responded positively to the recommendations made and in particular was:

- Changing the governance structure, including the appointment of a new matrix manager, terms of reference and membership of the RPDP steering group.
- Reviewing the organisation structure and roles within RPDP, with a view towards segregating construction, commissioning and programme management office to improve integration management, reporting and information flows, and issues and risk management.