

FINAL REPORT OF THE
**BUILDING
INDUSTRY
AUTHORITY**

PRESENTED TO THE HOUSE OF
REPRESENTATIVES PURSUANT
TO SECTION 44 OF THE PUBLIC
FINANCE ACT 1989.

FOR THE FIVE MONTH PERIOD
ENDED 29 NOVEMBER.

2004

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CHAIRMAN'S REPORT



This is the final report of the Building Industry Authority (BIA).

Due to the dissolution of the BIA, this 'Annual Report' covers the period 1 July 2004 to 29 November 2004 only. Under the Building Act 2004, the functions and responsibilities of the BIA transferred to the Chief Executive of the Department of Building and Housing on 29 November 2004.

This was a major event in the history of building control in New Zealand. But, when I reflect on the period under review in this report and the last several years as a whole, we have seen a number of other important events, and significant change.

The BIA has taken a lead role in driving this sector change, much of which occurred as a response to the weathertightness problem. While systemic problems brought to a head by weathertightness are still to be fully addressed, we can say the industry is stronger and public confidence in it has begun to be rebuilt.

This rebuilding has occurred because there has been a response from all parties – central and local government, industry and consumers. Importantly, from the BIA's perspective, we have considerably strengthened our relationship with the territorial authorities. Robust and effective control of a performance-based building control regime requires that relationship to work well.

In the last 2 to 3 years our focus has been on rebuilding the BIA following the weathertightness issue, in particular on strengthening the regulatory regime for the protection of consumers and in building relationships with industry and our local government partners.

Most of the final Authority members were in place for at least 2 years and were at the heart of this change process. They played important roles in developing the technical response to the weather-tightness problem, in building the capacity of the regulator and in preparing for the transition of the functions of the BIA to the new Department. I thank the Authority members for their enormous contribution over this period and their wise counsel to me as Chair. I also acknowledge the very significant contribution of the BIA staff during this time.

While weathertightness and related matters have dominated the BIA in recent years, the BIA's history extends more than a decade and includes the bedding-in of the 1991 Building Act and the then new performance-based regulatory regime. I would like to acknowledge the contribution of past Authority members and staff in this.

CHAIRMAN'S REPORT CONTINUED

We have handed the regulatory baton to the Department of Building and Housing with some important work completed, but there remains a lot to do – particularly in implementing the new measures in the Building Act 2004. We have confidence that the Department will continue to actively work with the sector to improve outcomes for New Zealanders and for the construction and building sector.

Barry Brown

Chairman

CHIEF EXECUTIVE'S REPORT



The 5-month period covered by this report was primarily focused on core business for the BIA and preparation for the transition of the organisation into a new government department. Significant work was undertaken around development of the Building Code, guiding and monitoring the application of the Code and implementation preparation for the Building Act 2004.

DEVELOPMENT OF THE BUILDING CODE

Weathertightness – Changes to the Acceptable Solution for External Moisture (E2/AS1) were made at the end of June 2004. However, the period under review saw focused activity in bedding down the new requirements, which are a significant step in the technical response to the weathertightness issue. This included a range of activities to communicate the reason and nature of the changes to E2/AS1 to the industry and to territorial authorities, and in guiding the implementation of the changes.

A nationwide seminar series to industry introducing the changes attracted more than 3000 people. This was extremely encouraging and indicated the significance of the changes and the seriousness with which they have been taken by the sector. In keeping with our intent to provide guidance to support the successful implementation of these changes, a Weathertightness Risk Guide was prepared for building officials, which was also supported by 21 workshops throughout the country.

A draft guidance document, *Assessing Alternative Solutions*, was published for consultation. This was developed in response to recommendations contained in the *Overview Group Report on the Weathertightness of Buildings* (the 'Hunn Report') and the *Weathertightness of Buildings in New Zealand Report* of the Government Administration committee.

Fire – Good progress was made on the technical work programme in the fire area. Proposed changes to the Approved Document for Fire Safety Clauses were put out for public comment. The proposals addressed concerns around the risks relating to the evacuation of early childhood centres in the event of a fire emergency. Changes to the minimum fire ratings for fire separation were also proposed, as were revisions to take into account changes to relevant New Zealand Standards.

A consultation document was developed supporting the adoption of the International Fire Engineering Guidelines. These guidelines are a collaborative project between the US, Canada, Australia and New Zealand. They aim to strengthen fire engineering design by setting out clear processes for designing for fire safety from conceptual stages through to the demolition of a building.

Structure – The BIA and the Institution of Professional Engineers (IPENZ) developed a series of six Practice Advisories about design and construction standards in structural engineering. These were designed to address technical concerns and substandard practices.

CHIEF EXECUTIVE'S REPORT CONTINUED

GUIDING AND MONITORING THE APPLICATION OF THE CODE

Certifier registration – The BIA continued to work closely during this period with private building certifiers. The review of the building certifier scheme of insurance was progressed, with the BIA recommending a revised Performance Specification be issued for consultation.

During the period, the BIA also deregistered Approved Building Certifiers following a formal finding the company had been negligent and was incompetent to act as a building certifier. Active customer files were transferred to territorial authorities for completion. While this process inevitably caused disruption to some customers, the generally positive response from territorial authorities and those whose building projects were affected allowed a smooth and rapid transfer of the work.

Determinations – A new structure was implemented with resources dedicated to producing determinations. During the period, the BIA continued to receive large numbers of determinations focused on weathertightness. Significant guidance around these determinations has also been provided to territorial authorities that are now working within well defined precedents.

BUILDING ACT 2004

An important focus for the organisation during this period was preparation for the implementation of the Building Act 2004 and the transfer of the functions of the BIA to the new Department. As a result of this work, the BIA is well positioned for its move into a government department.

Advisory panels – As part of the preparation for the move to a government department, the BIA established four technical advisory panels covering fire, access for people with disabilities, structure and the building envelope. These panels will provide another avenue of advice to the new Department on building control matters.

MOVING FORWARD

While the period under review was relatively short, the volume of work undertaken by the organisation and milestones achieved were significant. I would like to thank the staff of the BIA who worked under considerable pressure and demonstrated outstanding professionalism during this period. The BIA has also been ably supported by the building industry and building and construction sector more generally. This level of engagement and support is fundamental to the successful operations of a building regulator and has been welcomed by all staff. I also thank the Authority members for their significant efforts in ensuring New Zealanders get well built buildings that meet their needs.

John Ryan

Chief Executive

STATEMENT OF RESPONSIBILITY

Pursuant to section 42 of the Public Finance Act 1989, management accepts responsibility for:

- the preparation of the financial statements for the Building Industry Authority and for the judgments used therein
- establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In the opinion of the management, the financial statements of the Building Industry Authority for the period ended 29 November 2004, set out on pages 17 to 30, fairly reflect the financial position and operations of the Building Industry Authority.

Barry Brown

Chairman (as at 29 November 2004)

Building Industry Authority

5 October 2005

John Ryan

Chief Executive (as at 29 November 2004)

Building Industry Authority

5 October 2005

Katrina Bach

Chief Executive

Department of Building and Housing

5 October 2005

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004

The statement of service performance is an annual plan; however, due to the dissolution of the BIA on 29 November 2004, this is a report on progress for a 5-month (July to November 2004) period only, meaning a number of outputs continued to be work in progress at the time of reporting.

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 1: MAINTAIN AND PROACTIVELY UPDATE BUILDING CONTROLS – OPERATIONS GROUP		
Output 1.1: Research Needs		
Research projects commissioned into: 1. weathertightness 2. energy efficiency		In progress. Weathertightness research project: The BRANZ research house is built and the panels testing different materials and cavity options set up for scientific measurement. The programme to investigate the durability of Douglas fir is in preparation.
Four Sector Advisory Panels established	Proposed Advisory Panels: <ul style="list-style-type: none"> • Fire • Structural • Building Envelope • Access 	Completed. All advisory panels established. The Fire and Access Advisory Panels have met.
The BIA is a recognised part of a national and international research network and participates in appropriate conferences and forums	Including: <ul style="list-style-type: none"> • Australian Building Codes Board (ABCB) • Inter-Jurisdictional Regulatory Collaboration Committee (IRCC) 	Ongoing. Active participation is continuing with both the ABCB and the IRCC. New Zealand is now the secretariat for the IRCC. The Trans-Tasman Building Regulatory Reform Council has agreed to further cooperation between the ABCB and the New Zealand regulator on research, code review and product certification.

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 2: MAINTAIN AND PROACTIVELY UPDATE BUILDING CONTROLS – OPERATIONS GROUP CONTINUED		
Output 1.2: Review Building Controls		
<p>Complete 11 reviews</p> <p>Approve and publish the outcome of seven Approved Document review projects</p>		<p>In progress.</p> <p>Work progressing on a number of review projects, including:</p> <ul style="list-style-type: none"> • Energy Efficiency • Safety in Day Care Centres • Minimum Fire Ratings • Amended Fire Standards • International Fire Engineering Guidelines • Structural Standard amendments • Lighting for Emergency • Structural Loading and Concrete Standards • Structural Slender Concrete Walls • Torch-on Membranes.
<p>Guidance document projects – four to be initiated and two will be completed in 2004/05 in the areas of:</p> <ul style="list-style-type: none"> • structural • weathertightness 		<p>In progress.</p> <p>The guidance document <i>Assessing Alternative Solutions</i> was released for public comment in November 2004.</p> <p><i>Timber Treatment Requirements – Notes for Builders</i> booklet issued in September 2004 in association with Standards New Zealand, with more than 85,000 copies distributed.</p> <p>Six structural Practice Advisories prepared and peer reviewed, ready for release.</p>

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 2: PROVIDE GUIDANCE ON THE APPLICATION OF THE BUILDING CODE – BUILDING INDUSTRY PERFORMANCE		
Output 2.1: Administer private certifiers scheme		
Certifiers renewed in a timely and efficient manner		Ongoing. Nine renewals undertaken in a timely and efficient manner since 1 July 2004.
All certifier renewals decided within 30 days of their renewal date		Ongoing. All renewals were decided within 30 days of the renewal date.
Output 2.2: Review the scheme of insurance for certifiers		
Review completed by 31 October 2004		Completed. The review was completed and the BIA recommended a proposed new Performance Specification for building certifier insurance.
Outcomes implemented by 31 March 2005		In progress.
Output 2.3: Manage complaints		
Timeliness of complaint investigation and resolution	Complaint handling will be undertaken in conjunction with initiatives to identify, communicate and enforce appropriate operating standards	Ongoing. Six complaint investigations progressed during the period. <ul style="list-style-type: none"> • Two did not progress past the investigation stage when the certifiers involved both ceased trading. • One was concluded with no further action taken. • One resulted in Approved Building Certifiers being deregistered by the BIA. • One progressed to inquiry stage, where a decision was deferred until after their ability to act as a private building certifier expired. • One investigation is still under way.

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 2: PROVIDE GUIDANCE ON THE APPLICATION OF THE BUILDING CODE – BUILDING INDUSTRY PERFORMANCE CONTINUED		
Output 2.4: Conduct technical reviews		
<p>Territorial authorities (TAs):</p> <ul style="list-style-type: none"> • four new reviews and three follow-up reviews completed • findings reported to territorial authority CEOs <p>Private certifiers:</p> <ul style="list-style-type: none"> • two new reviews and two follow-up reviews completed 	<p>This work will make a significant contribution to:</p> <ul style="list-style-type: none"> • the design and transition to the building consent authority (BCA) scheme proposed in the Building Act • territorial authorities understanding the changes and resourcing needed to run a best-practice building controls function <p>The review outcomes will be used to:</p> <ul style="list-style-type: none"> • inform priority monitoring of territorial authorities and risk areas • inform development of a new BCA system • raise the profile of technical reviews 	<p>In progress.</p> <p>Three new technical reviews initiated:</p> <ul style="list-style-type: none"> • Manukau City Council • Franklin District Council • Queenstown Lakes District Council. <p>One follow-up review completed for Dunedin City.</p> <p>One new private building certifier review completed:</p> <ul style="list-style-type: none"> • Compass Building Certifiers. <p>Several private building certifiers voluntarily ceased trading during this period, primarily as a result of anticipating the phasing out of the private building certifier regime under the Building Act 2004. As a result, reviews planned for these private building certifiers did not proceed and further reviews were not scheduled.</p>
Output 2.5: Incentivise specifiers and BCAs		
<p>Information published on seven completed reviews of building controls to specifiers, territorial authorities, certifiers and key industry stakeholders</p>	<p>This work will inform, and share knowledge across, territorial authorities.</p>	<p>In progress.</p> <p>Information provided on a number of reviews completed in 2003/04, in particular explaining weathertightness changes and requirements which included:</p> <ul style="list-style-type: none"> • preparation and presentation of three seminars on B2 and E2 • weathertightness risk assessment guide • weathertightness risk workshop series • six 'Principles of Weather-tightness' two-day courses for building officials and private building certifiers with approximately 3000 attendees.

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 2: PROVIDE GUIDANCE ON THE APPLICATION OF THE BUILDING CODE – BUILDING INDUSTRY PERFORMANCE CONTINUED		
Output 2.6: Improve territorial authorities' and certifiers' performance		
<p>Work undertaken with five territorial authorities and three private building certifiers prior to following up the findings of the technical reviews</p> <p>Guidance material completed and distributed to territorial authorities on:</p> <ul style="list-style-type: none"> • alternative solutions • accessibility • Producer Statements 	<p>This work will make a significant contribution to:</p> <ul style="list-style-type: none"> – the design of and transition to the BCA scheme specified in the Building Act 2004 – territorial authorities' understanding of the changes and resourcing needed to run a best-practice building controls regime 	<p>In progress.</p> <p>Findings from previous reviews advised to Auckland and Christchurch councils.</p> <p>This work has been integrated with Building Act implementation tasks and directed at all building officials rather than specific territorial authorities.</p> <p>The guidance document <i>Assessing Alternative Solutions</i> was released for public comment.</p> <p>An Accessibility Module was completed.</p> <p>A project to provide guidance on Producer Statements was commenced.</p>
Output 2.7: Product Accreditation		
<p>Maintain existing Accreditation scheme. (As the current scheme is ceasing, no measures are proposed.)</p>	<p>Subject to the transition provisions of the new Product Certification Scheme</p>	<p>In progress.</p> <p>Applications received under the existing scheme were processed as received.</p>
Output 2.8: Issue Determinations		
<p>Sixty-day turnaround time from receipt of final documentation to draft Determination being issued to the parties</p>	<p>This area is subject to increases in active volumes</p> <p>Supported by:</p> <ul style="list-style-type: none"> • working with Auckland territorial authorities • active information programme to territorial authorities • improved internal processes 	<p>Systems and structures were implemented to move towards achieving the 60-day turnaround target for applications received after 31 March 2005. These included:</p> <ul style="list-style-type: none"> • appointment of new staff for determinations function • development of management systems to monitor the determinations process • appointment of more assessors to help with weathertightness determinations. <p>Regular meetings have been held with territorial authorities to help them manage issues relating to issuing code compliance certificates for buildings with monolithic cladding.</p>

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 2: PROVIDE GUIDANCE ON THE APPLICATION OF THE BUILDING CODE – BUILDING INDUSTRY PERFORMANCE CONTINUED		
Output 2.9: Industry information and education programmes		
Major BIA work programme of identified industry issues supported by the provision of information or education programmes	<p>Includes:</p> <ul style="list-style-type: none"> • updates on Code reviews • media releases • stakeholder liaison <p>This function is reactive and the reporting will be based on the plans developed for specific information and education initiatives</p>	<p>Work programme of the BIA supported by:</p> <ul style="list-style-type: none"> • BIA Updates (electronic communication to approximately 1800 industry stakeholders) used to support all major announcements and Code reviews, on-sent to target of approximately 5000 stakeholders • media releases issued for important issues such the deregistration/closure of certifiers • new website www.building.govt.nz developed to communicate changes to the Building Act 2004 • regular meetings held with key education suppliers and partners, Standards New Zealand, BCITO and BRANZ.
Assessment questionnaires completed for all education programmes	Questionnaires will focus on timeliness, quality, relevance and completeness	<p>All attendees at the E2 seminars were surveyed and relevance of material, timeliness and quality of presentations and handout material were all rated highly.</p> <p>A survey format for smaller seminars and to evaluate training conducted for building officials is in development.</p>

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 3: OVERSEE PERFORMANCE OF BUILDING CONTROLS		
Output 3.1: Establish industry performance reporting		
Performance Measurement Framework developed that enables gathering and evaluation of industry performance data		<p>In progress.</p> <p>A framework for collecting, analysing and reporting performance information relating to new buildings was established.</p> <p>This framework provides the basis for the current quarterly reporting process.</p>
Output 3.2: Implement industry performance reporting		
Performance data gathered		<p>In progress.</p> <p>A process was established to obtain data from a wide number of sources. These sources include: Statistics New Zealand; the Reserve Bank; a variety of building industry organisations; BIA technical reviews; Determinations.</p>
Industry Performance Reports issued quarterly		<p>The performance report for the June quarter was completed and published on the BIA website and in hard copy from October 2004.</p>
Major performance issues for building controls identified in Quarterly Reports		<p>A range of industry issues has been raised through the performance monitoring and quarterly reporting processes. The significant issues recently highlighted include:</p> <ul style="list-style-type: none"> • the ongoing impact of high levels of building activity on the building sector • variable progress on addressing building quality issues across the industry, although significant progress has been made on weathertightness matters • the need for the territorial authorities and private building certifiers to raise their building controls quality standards.

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 **CONTINUED**

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 4: INFORM CONSUMERS AND OTHER STAKEHOLDERS		
Output 4.1: Education strategy		
Completed and initiated in December 2004	<p>Will be closely linked to the Building Act Implementation programme</p> <p>Particular focus on the needs of building officials</p>	<p>Completed.</p> <p>The education strategy for building officials is complete. This includes development of a national qualifications framework for building officials, identification of a preferred training provider and a recognition of current competencies package.</p> <p>A substantial education programme to support the Building Act implementation was also drafted.</p> <p>Continuing Professional Development (CPD) initiatives include a Memorandum of Understanding (MOU) with BRANZ to partner at least one BRANZ seminar series per year.</p>
Output 4.2: Two to three year Communications Plan		
Developed and initiated Year one Communications Plan milestones achieved	The Communications Plan will increase quality, awareness and access to information for stakeholders, including consumers	<p>In progress.</p> <p>Substantial work was undertaken to increase the accuracy of and to verify stakeholder databases, to develop project and programme communication plans for the Building Act 2004 implementation and to identify target audiences and stakeholders.</p>
Output 4.3: Consumer information		
Launch ConsumerBuild website by 30 November 2004	<p>Includes:</p> <ul style="list-style-type: none"> • developing ConsumerBuild (the BIA/Consumers' Institute website for consumers) • use of unpaid media to promote the website • advertising 	The ConsumerBuild website was completed in November 2004 and officially launched on 2 December 2004.

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 5: BUILDING ACT IMPLEMENTATION		
Output 5.1: Building Code Review		
Consultation on societal and Building Code user requirements initiated by 31 March 2005	This is the planned full review of the Building Code under the Building Act 2004	In progress. Consultation, in the form of stakeholder workshops, was undertaken in Wellington on 4 and 5 November 2004.
Building Code analysis and proposal documentation completed by 30 March 2005 and reported on	The milestone dates were subject to sign-off of the project scope and project plan and the passage of the Building Act 2004	In progress.
Output 5.2: Develop Accreditation scheme for BCAs		
Accreditation guidelines issued to territorial authorities and private building certifiers for consultation by 31 December 2004		A consultation paper, <i>Proposed Accreditation Requirements for Building Consent Authorities</i> was developed by the BIA and published by the Department following the dissolution of the BIA in December 2004.
Regulation defining Accreditation standards and criteria by 30 June 2005		In progress.
Output 5.3: Product Accreditation		
Design new Product Certification Scheme: <ul style="list-style-type: none"> • standards and criteria documented for new Product Certification Scheme completed by 31 August 		In progress. Discussion document on standards and for accreditation as a Product Certification Body was circulated for review and consultation. Sign-off has been deferred until the full package with the regulations has been finalised.
<ul style="list-style-type: none"> • regulations consultation commenced November 2004 		Completed. Consultation commenced in November 2004.
<ul style="list-style-type: none"> • scheme uptake strategy agreed with the ABCB by 30 November 2004 		In progress. Negotiation and consultation with the ABCB is continuing.
<ul style="list-style-type: none"> • regulations drafted for approval by 31 March 2005 		Yet to commence.

STATEMENT OF SERVICE PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004 **CONTINUED**

ACTIONS AND MEASURES	COMMENTS	PROGRESS AND RESULTS
OUTPUT CLASS 5: BUILDING ACT IMPLEMENTATION CONTINUED		
Output 5.4: Consumer information		
Awareness of key changes to the Building Act and building controls regime and the implications for consumers. Survey completed as part of BAI programme		Survey not conducted. The Joint Building Controls Task Force made up of a number of TAs is currently being used as a reference group to determine consumer needs.
OTHER ACTIVITIES		
Weathertightness Litigation		
Manage the cases where the BIA has been joined as a party	The BIA has been joined as a party in eight cases in the High Court and one case in the District Court relating to leaky buildings	In progress. No trial dates for substantive hearings have yet been fixed. The BIA has applied to the High Court to strike out the claims against the BIA in four of the cases. The first case was heard in November.
Weathertight Homes Resolution Service (WHRS)		
	The BIA has also been cited in 65 WHRS claims	The BIA has declined to enter mediation on the WHRS claims. The BIA has not been required to attend any adjudication hearings.

SUMMARY OF EXPENDITURE BY OUTPUT FOR THE PERIOD ENDED 29 NOVEMBER 2004

12 months \$ to 30 June 2004		5 months \$ to 29 Nov 2004	Budget \$ 29 Nov 2004
Maintain and Proactively Update Building Controls			
2,738,613	Programmes and Projects	1,060,460	1,276,235
1,219,745	Operating and Overhead Costs	407,952	492,345
3,958,358		1,468,412	1,768,580
Provide Guidance on the Application of the Building Code			
677,565	Programmes and Projects	1,821,848	1,792,946
301,779	Operating and Overhead Costs	700,853	691,681
979,344		2,522,701	2,484,627
Oversee Administration of Building Controls			
2,179,350	Programmes and Projects	21,555	27,720
970,656	Operating and Overhead Costs	8,292	10,694
3,150,006		29,847	38,414
Inform Consumers and Other Stakeholders			
321,071	Programmes and Projects	126,742	131,564
143,001	Operating and Overhead Costs	48,757	50,755
464,072		175,499	182,319
Building Act Implementation			
589,904	Programmes and Projects	1,076,382	967,493
262,736	Operating and Overhead Costs	414,078	373,239
852,640		1,490,460	1,340,732
Weathertightness Litigation			
1,118,059	Programmes and Projects	568,283	467,716
497,970	Operating and Overhead Costs	218,615	180,435
(1,109,533)	LESS: Crown Funding	(420,801)	(452,716)
506,496		366,097	195,435
9,910,917	Total Expenditure	6,053,016	6,010,107
6,515,029	Total Expenditure on Projects and Programmes	4,254,469	4,210,958
3,395,888	Total Operating and Overhead Costs	1,798,547	1,799,149
9,910,917	Net Cost of Services	6,053,016	6,010,107

STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 29 NOVEMBER 2004

12 months \$ to 30 June 2004		Note	5 months \$ to 29 Nov 2004	Budget \$ 29 Nov 2004
Income				
5,650,394	Building Consent Levies		2,537,506	2,561,839
21,771	Interest on Deposits		10,020	16,019
5,672,165	Total Operating Income		2,547,526	2,577,858
Expenses				
(9,910,917)	Net Cost of Services	1	(6,053,016)	(6,010,107)
(4,238,752)	Net Operating Deficit for the Period		(3,505,490)	(3,432,249)
450,740	Investment Income on Invested Funds	6	271,378	254,752
(3,788,012)	Net Deficit for the Period		(3,234,112)	(3,177,497)

STATEMENT OF MOVEMENTS IN ACCUMULATED FUNDS FOR THE PERIOD ENDED 29 NOVEMBER 2004

12 months \$ to 30 June 2004			5 months \$ to 29 Nov 2004	Budget \$ 29 Nov 2004
(3,788,011)	Net Deficit for the Period		(3,234,112)	(3,177,497)
(3,788,011)	Total Recognised Revenues and Expenses for the Period		(3,234,112)	(3,177,497)
11,993,020	Accumulated Funds at Start of the Period		11,705,009	11,705,009
3,500,000	Crown Capital Contributions		500,000	500,000
11,705,009	Accumulated Funds at End of the Period		8,970,897	9,027,512

STATEMENT OF COSTS OF SERVICES FOR THE PERIOD ENDED 29 NOVEMBER 2004

12 months \$ to 30 June 2004		Note	5 months \$ to 29 Nov 2004	Budget \$ 29 Nov 2004
Personnel Costs				
2,457,135	Staff Salaries and Wages	10	1,325,362	1,457,372
179,782	Staff Recruitment and Training		167,255	237,557
221,834	Members' Fees	8	123,034	102,642
2,858,751			1,615,651	1,797,571
Other Costs				
145,625	Education and Training		290,957	334,649
3,568,608	Programmes and Projects		2,544,987	2,163,537
267,782	Travel and Accommodation		180,133	191,603
589,239	Printing and Stationery		281,423	401,771
13,324	Auditors' Remuneration		33,311	2,680
52,586	Agent Compliance Assurance		–	–
<i>Depreciation</i>				
88,124	– Office Equipment		70,691	52,683
14,722	– Furniture and Fittings		14,214	29,038
17,124	– Leasehold Improvements		10,506	12,899
223,702	Office Accommodation		142,884	106,681
5,188	Bank Charges		944	1,906
143,632	Information Technology and Telecommunications		99,892	100,816
20,691	Postage and Couriers		18,370	5,790
1,614,389	Administration Support		596,003	702,737
66,035	Other Administration Costs		50,363	47,122
130,033	Insurance		54,454	47,196
99,129	Library Services, Magazines and Subscriptions		35,025	29,591
6,650	Maintenance and Repairs		18,252	10,807
1,117,375	Weathertightness Litigation Costs		445,607	454,146
11,042,709	Total Expenditure	1	6,503,667	6,493,223
(40,723)	LESS Cost and Fee Recoveries		(29,850)	(30,400)
(887)	Royalties and Document Sales		–	–
(1,109,533)	Crown Funding of Weathertightness Litigation		(420,801)	(452,716)
(1,151,143)			(450,651)	(483,116)
9,891,566	Total Expenditure Net of Recoveries		6,053,016	6,010,107
19,351	ADD Work in Progress – Opening		–	–
–	LESS Work in Progress – Closing		–	–
9,910,917	Net Cost of Services		6,053,016	6,010,107

STATEMENT OF FINANCIAL POSITION AS AT 29 NOVEMBER 2004

Actual \$ as at 30 June 2004		Note	Actual \$ as at 29 Nov 2004	Budget \$ 29 Nov 2004
Accumulated Funds				
1,342,363	Retained Surplus/(Deficit)		(2,163,126)	(2,089,885)
6,862,646	Levy Reserve		7,134,023	7,117,397
3,500,000	Crown Capital Contributions		4,000,000	4,000,000
11,705,009	Total Accumulated Funds	5	8,970,897	9,027,512
Current Assets				
665,295	Cash at Bank		107,480	497,366
97,972	GST Receivable		249,449	80,000
1,164,888	Debtors		605,438	150,000
103,194	Prepayments		–	–
10,993,702	Invested Funds	4	8,499,674	8,748,453
13,025,051	Total Current Assets		9,462,041	9,475,819
Current Liabilities				
1,017,120	Accounts Payable		92,192	265,406
169,999	Employee Entitlements		178,482	185,000
737,960	Accrued Expenses		1,224,522	1,008,319
1,925,079	Total Current Liabilities		1,495,196	1,458,725
11,099,972	Working Capital		7,966,845	8,017,094
605,037	Fixed Assets	2	1,004,052	1,010,418
11,705,009	Net Assets		8,970,897	9,027,512

STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 29 NOVEMBER 2004

12 months \$ to 30 June 2004	Note	5 month \$ to 29 Nov 2004	Budget \$ 29 Nov 2004
Cash Flow from Operating Activities			
Cash was provided from:			
21,771	Interest and Other Income	10,020	16,019
887	Sales of Publications	–	–
40,723	Cost Recoveries	1,029,118	1,498,004
5,595,039	Consent Levies	2,518,490	2,561,839
5,658,420		3,557,628	4,075,862
Cash was disbursed to:			
(7,485,704)	Net Payments to Suppliers	(5,341,141)	(4,963,221)
(221,834)	Payments for Members' Fees	(113,719)	(102,642)
(2,618,863)	Payments for Personnel Costs	(1,517,791)	(1,677,928)
(10,326,401)		(6,972,651)	(6,743,791)
(4,667,981)	Net Cash Flow from Operating Activities	(3,415,023)	(2,667,929)
Cash Flow from Financing Activities			
Cash was provided from:			
3,500,000	Capital Contribution from the Crown	500,000	500,000
–	Receipt of Certifier Bonds	86,228	–
3,500,000	Net Cash Flow from Financing Activities	586,228	500,000
Cash Flow from Investing Activities			
Cash was provided from:			
2,000,000	Sale of Fixed Interest Funds	2,765,406	2,500,000
480,625	Investment Income	271,378	254,751
2,480,625		3,036,784	2,754,751
Cash was applied to:			
(508,843)	Purchase of Fixed Assets	(494,426)	(500,000)
(480,616)	Purchase of Fixed Interest Funds	(271,378)	(254,751)
(33,436)	Funds Management Fees	–	–
(1,022,895)		(765,804)	(754,751)
1,457,730	Net Cash Flow from Investing Activities	2,270,980	2,000,000
289,749	Net Increase/(Decrease) in Cash	(557,185)	(167,929)
375,545	Opening Cash	665,295	665,295
665,295	Closing Cash	107,480	497,366
Cash and Bank Comprise:			
100	Petty Cash	100	100
13,833	Bank of New Zealand – Cheque Account	39,471	25,000
651,362	Bank of New Zealand – Money Market on Call	67,909	472,266
665,295		7	107,480
			497,366

**RECONCILIATION OF NET DEFICIT WITH NET CASH FLOWS FROM OPERATING ACTIVITIES
FOR THE PERIOD ENDED 29 NOVEMBER 2004**

12 months \$ to 30 June 2004		Note	5 months \$ to 29 Nov 2004	Budget \$ 29 Nov 2004
(4,238,752)	Net Operating Deficit for the Period		(3,505,490)	(3,432,249)
Add Non-Cash items				
119,970	Depreciation and Loss on Disposal of Fixed Assets		95,411	94,620
(4,118,782)			(3,410,079)	(3,337,629)
Add/(Less) Movements in Working Capital Items:				
(47,757)	Decrease/(Increase) in GST Receivable		(151,477)	17,972
(1,164,888)	Decrease/(Increase) in Accrued Income		559,451	1,014,888
19,351	Decrease/(Increase) in Work in Progress		–	–
(36,308)	Decrease/(Increase) in Prepayments		103,194	103,194
(87,826)	(Decrease)/Increase in Creditors, PAYE and Withholding Tax		(1,017,120)	(751,714)
39,241	(Decrease)/Increase in Employee Entitlements		8,483	15,001
728,988	(Decrease)/Increase in Accrued Expenses		492,525	270,359
(549,199)			(4,944)	669,700
(4,667,981)	Net Cash Flow from Operating Activities		(3,415,023)	(2,667,929)

STATEMENT OF ACCOUNTING POLICIES FOR THE PERIOD ENDED 29 NOVEMBER 2004**REPORTING ENTITY**

The Building Industry Authority (the BIA) is a Crown entity as defined in the Public Finance Act 1989. It was established under the Building Act 1991.

STATUTORY BASE

The financial statements are prepared pursuant to section 42 of the Public Finance Act 1989, and cover all the activities of the BIA as set out in the Statement of Intent 2004/05.

MEASUREMENT BASE

The financial statements have not been prepared on a going concern basis as the BIA was disestablished on 30 November following the commencement of the Building Act 2004 (enacted on 24 August 2004). There has been no change to the measurement base – all rights, assets, liabilities and debts to the Crown were transferred to the Department of Building and Housing at net book value on that commencement. Accordingly, the measurement basis adopted is that of historical cost.

ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of financial performance and financial position, have been applied.

Budget

The budget figures are derived from the Estimates of Expenditure and Supplementary Estimates as approved by the Minister of Commerce.

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the BIA for the preparation of the financial statements. The budget figures presented are the BIA's reforecast figures adopted for the 5-month period ending 29 November 2004.

Revenue

The BIA derives revenue from a levy on building consents paid by building owners on the value of building consents issued at \$0.65 per \$1000 of the value of building work above \$20,000. The levy is collected by territorial authorities (TAs) on behalf of the BIA and paid in the month following collection of the levy. The Building Act allows for TAs to deduct a 3 percent commission from the levies collected on behalf of the BIA. The BIA recognises the net amount collected as revenue in the month that it is received from the TAs.

The BIA derives investment income (interest and gains on market values of securities) from deposits held with registered banks in New Zealand using surplus levies collected and retained surpluses accumulated since 1992 and interest earned thereon.

Funding the Current Year Operating Deficit

The BIA has power under the Building Act 1991 to offset a deficit in any year with any surplus carried forward from the preceding year. The reported operating deficit for the period ending 29 November 2004 represents a direct charge against the retained surpluses and reserves accumulated since 30 June 1994.

STATEMENT OF ACCOUNTING POLICIES FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED**Cost Allocation**

The Cost of Services Statement, as reported in the Statement of Service Performance, reports the net cost of services for the outputs of the BIA and is represented by the costs of providing the output.

The BIA has derived the net cost of service for each output using the following cost allocation system.

- 1 Direct costs, which are those costs directly attributable to an output, are charged to outputs wherever possible.
- 2 Overheads are allocated to outputs proportionate to the actual direct costs allocated to outputs. Overheads are those costs that cannot be identified in an economically feasible manner with a specific output.

Work in Progress

Work in progress is stated at the lower of cost and net realisable value. Work in progress includes materials and a portion of labour appropriate to the stage of completion attained.

Operating Leases

The BIA leases office premises and some office equipment, mainly furniture. As all the risks of ownership are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed in the period in which they are incurred.

Depreciation

Fixed assets are valued at cost less accumulated depreciation. They are depreciated as follows:

Leasehold Improvements	11.11%–20% SL
Office Equipment	40% DV
Furniture and Fittings	20%–33% DV

All fixed assets are expected to have no residual value. The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease.

Taxation*Income Tax*

The BIA is a Public Authority and is exempt from paying income tax in accordance with the Income Tax Act 1994 and the Building Act 1991.

Fringe Benefit Tax

Fringe benefit tax is payable on all fringe benefits.

Goods and Services Tax (GST)

All revenue and expense transactions have been recorded net of GST. With the exception of Receivables and Accounts Payable, which are stated inclusive of GST, all assets and liabilities have been stated net of GST.

Employee Entitlements

Provision is made in respect of the BIA's liability for annual leave and retirement leave. Annual leave is recognised when it accrues to employees.

STATEMENT OF ACCOUNTING POLICIES FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED**Financial Instruments**

The BIA is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors and accounts payable. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance. Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

Statement of Cash Flows

The following are definitions of the terms used in the Statement of Cash Flows.

- Cash means coins, notes, current accounts and short-term deposits held from time to time with the Bank of New Zealand.
- Operating activities include cash received from all income sources of the BIA and record the cash payments made for the supply of goods and services.
- Investing activities are those activities relating to the acquisition and disposal of non-current assets.
- Financing activities are those activities that result in changes to equity or debt.

COMPARATIVE FIGURES

Comparative figures are for the year ending 30 June 2004. These have not been restated to be comparable with the current reporting period 1 July 2004 to 29 November 2004.

CHANGES IN ACCOUNTING POLICIES

There are no changes in accounting policies. All accounting policies have been applied on a consistent basis with the previous year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 29 NOVEMBER 2004

NOTE 1: APPROVED EXPENDITURE

Ministers approved net operating expenditure of \$15,878,677 in July 2004 for the financial year ending 30 June 2005 contained in the 2004/05 SOI. Additional expenditure of \$4,754,000 was approved for responding to litigation claims in the High Court, District Court and through the Weathertight Homes Resolution Service during the year. The Crown has agreed to meet all expenditure incurred by the BIA in responding to these claims.

NOTE 2: FIXED ASSETS

Actual \$ 30 June 2004		Actual \$ 29 Nov 2004	Budget \$ 29 Nov 2004
	Office Equipment		
589,269	Cost	840,983	840,983
(220,305)	LESS: Accumulated Depreciation	(290,996)	(284,630)
368,964	Book Value	549,987	556,353
	Furniture and Fittings		
240,821	Cost	435,538	435,538
(136,746)	Accumulated Depreciation	(150,959)	(150,959)
104,075	Book Value	284,579	284,579
	Leasehold Improvements		
162,512	Cost	210,506	210,506
(30,514)	Accumulated Depreciation	(41,020)	(41,020)
131,998	Book Value	169,486	169,486
605,037	Total Fixed Assets	1,004,052	1,010,418

NOTE 3: FINANCIAL INSTRUMENTS

The BIA is party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, investments, accounts receivable and trade creditors.

Credit Risk

Credit risk is the risk that a third party will default on its obligations to the BIA, causing the BIA to incur a loss. In the normal course of its business, the BIA incurs credit risk from trade debtors and transactions with financial institutions. The BIA does not require any collateral or security to support financial instruments with financial institutions that the BIA deals with, as these entities have high credit ratings. For its other financial instruments, the BIA does not have significant concentrations of credit risk.

Fair Value

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED**Currency Risk**

The BIA does not hold any foreign currency, financial instruments or have any exposures. From time to time the BIA purchases foreign currency for payment of overseas subscriptions and travel-related costs. These purchases are immaterial to the overall results and transacted at the rates applicable at the date of the transaction.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could impact on the return on investments or the cost of borrowing. The BIA has exposure to interest rate risk on its investment financial instruments.

The Building Act gives the BIA powers to borrow funds or raise a loan without ministerial approval; however, no such loans have been raised. Accordingly there is no interest rate exposure for funds borrowed.

NOTE 4: INVESTED FUNDS

Investments controlled by the BIA are invested in line with the BIA's investment strategy. Investments were held with the following counterparties at 29 November. Investments are valued at book value.

30 June 2004 \$	Current	29 Nov 2004 \$
2,500,962	Bank of New Zealand	8,499,674
2,500,810	National Bank of New Zealand	–
2,500,812	Westpac	–
2,481,799	Kiwibank	–
1,009,319	ASB Bank	–
10,993,702		8,499,674

NOTE 5: ACCUMULATED FUNDS

30 June 2004 \$		29 Nov 2004 \$	29 Nov 2004 Budget \$
	Levy Reserve		
6,378,470	Opening Balance	6,862,646	6,862,646
484,176	Transfer to/(from) Levy Reserve During the Period	271,378	254,751
6,862,646	Closing Balance	7,134,024	7,117,397
	Retained Surpluses		
5,614,550	Opening Balance	1,342,363	1,342,363
(4,272,187)	Transfer to/(from) Retained Surplus During the Period	(3,505,490)	(3,432,248)
1,342,363	Closing Balance	(2,163,127)	(2,089,885)
3,500,000	Crown Capital Contributions	4,000,000	4,000,000
11,705,009	Total Accumulated Funds	8,970,897	9,027,512

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

Levy Reserve

The Levy Reserve represents the uncommitted surplus from payment of levies to the BIA in excess of net estimates of expenditure, as approved by the Ministers of Commerce and Finance.

Retained Surplus

The Retained Surpluses represent the uncommitted surpluses from non-levy income to the BIA.

NOTE 6: INVESTMENT INCOME ON INVESTED FUNDS

12 months to 30 June 2004 \$		5 months to 29 Nov 2004 \$
677,926	Interest Income	271,378
3,551	Accrued Interest Income	–
46,917	Realised gains on investments	–
(244,022)	Realised losses on investments	–
484,372	Total Direct Investment Income	271,378
(33,632)	LESS: Funds Management Fees	–
450,740	Net Investment Income	271,378

NOTE 7: CASH AT BANK

30 June 2004 \$		29 Nov 2004 \$
100	Petty Cash	100
13,834	Bank of New Zealand – Cheque Account	9,471
–	Bank of New Zealand – Certifier Bonds Account	86,228
651,361	Bank of New Zealand – Money Market on Call	11,681
665,295		107,480

NOTE 8: PAYMENTS TO AUTHORITY MEMBERS

12 months to 30 June 2004 \$	Member	Board Position	5 months to 29 Nov 2004 \$
92,091	B J Brown	Presiding Member	39,978
41,675	P K Broughton	Member	26,325
41,506	J Hill	Member	22,183
29,929	A Pickering	Member	20,433
16,633	A King	Member	4,800

NOTE 9: RELATED PARTY TRANSACTIONS

The Building Industry Authority is a Crown entity. Crown entities are expected to give effect to government policy. The BIA enters into transactions with other government departments, Crown agencies and state-owned enterprises on an arm's-length basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

NOTE 10: REMUNERATION RANGES OF EMPLOYEES

12 months to 30 June 2004 \$		5 months to 29 Nov 2004 \$	
Number of Employees	Remuneration Range \$	Number of Employees	
3	100,000 – 109,999		–
1	110,000 – 119,999		–
1	120,000 – 129,999		–
2	130,000 – 139,999		–
–	140,000 – 149,999		–

This table reflects actual amounts paid during the period.

NOTE 11: COMMITMENTS

Operating Lease Commitments

30 June 2004 \$		29 Nov 2004 \$	
173,437	Not later than 1 year		157,274
144,566	1–2 years		136,917
387,805	2–5 years		387,805
107,665	Greater than 5 years		35,888

NOTE 12: CONTINGENCIES

Liabilities

The BIA is one of a number of defendants in lawsuits alleging negligence on the part of the BIA regarding its performance on weathertightness issues.

High Court and District Court

The BIA has been joined as a party in eight cases in the High Court and one case in the District Court relating to leaky buildings. In four of the cases the BIA decided to apply to the High Court to strike out the claims. These applications to strike out have not yet been resolved.

The legal processes of discovery, dealing with preliminary matters, filing briefs, etc, are ongoing. In two of the cases, there are fixtures provisionally set down for October 2006 and April 2007. No other fixtures are set down as yet.

Two cases were settled during 2004 and another was discontinued. The terms of the settlement are confidential; however, the BIA is able to say that it did not accept any liability and did not contribute to the settlement.

The total of quantified claims is \$39.3m. Notwithstanding the outcomes of the claims, should the BIA be found to be liable, the amounts payable will depend on the amounts paid by other defendants who are also held to be liable. It is therefore not currently possible to quantify the BIA's contingent liabilities for these cases.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 29 NOVEMBER 2004 CONTINUED

Weathertight Homes Resolution Service (WHRS)

The BIA has also been joined to 65 WHRS cases. In 11 of these cases either the claimant or the territorial authority has withdrawn its claim, or the claim has been struck out. Of the remaining WHRS cases the BIA has declined to join mediation on the claims. Five of the claims involving the BIA have proceeded from mediation to adjudication. In three of these cases the Adjudicator has either struck out the BIA or the claim against the BIA has been withdrawn. In one case, the BIA remains as the only respondent. No fixtures have been set to date for the remaining cases. The total quantum of claims is unknown.

Disputes Tribunal

In a hearing of a claim brought by a building owner against the BIA, the Tribunal found that it did not have the jurisdiction to hear the complaint.

The BIA had no direct involvement with any of the buildings concerned. The outcome of the claims essentially depends on questions of law relating to the BIA's performance of its statutory duties. The BIA considers that it has at all times performed those duties properly. In the absence of decided cases on the relevant questions of law there is no certainty as to the outcome of the claims.

The BIA considers that other proceedings are likely to be brought against it either in the High Court or in the District Court, or under the Weathertight Homes Resolution Services Act 2002. The Building Act 2004 provides that any proceedings to which the BIA is/or becomes a party, whether before or after 29 November 2004, may be commenced, completed or enforced against the Crown.

Assets

The BIA has made a claim under its professional indemnity insurance policy for indemnity (including for costs incurred) in relation to litigation against the BIA for weathertightness and leaky building issues which were current to 29 November 2004.

The insurance cover is for \$10m for any one claim with unlimited cover in respect of indemnity for defence costs. The BIA has incurred \$1.563m of litigation defence costs. The BIA's insurer has accepted the BIA's claim in principle and is receiving current billings for all cases. The likely quantum of any recovery is subject to review of the costs and the cases to which they relate.

NOTE 13: SIGNIFICANT EVENTS AFTER BALANCE DATE

As outlined in the Measurement Base in the Statement of Accounting Policies, the BIA was disestablished following the commencement of the Building Act 2004 on 30 November 2004. The Building Act 2004 repealed the Building Act 1991 and introduces a new regulatory framework for building work, building practitioners, and product certification and accreditation.

On that date the BIA was absorbed into the Department of Building and Housing. All rights, assets, liabilities and debts that the BIA had as at 29 November were transferred to the Crown on 30 November 2004.

AUDIT REPORT



BDO SPICERS
Chartered Accountants & Advisers

TO THE READERS OF THE BUILDING INDUSTRY AUTHORITY'S FINANCIAL STATEMENTS FOR THE PERIOD ENDED 29 NOVEMBER 2004

The Auditor-General is the auditor of the Building Industry Authority. The Auditor-General has appointed me, Rhys Barlow, using the staff and resources of BDO Spicers, to carry out the audit of the financial statements and performance information of the Building Industry Authority, on his behalf, for the period ended 29 November 2004.

Unqualified Opinion

In our opinion:

- the financial statements of the Building Industry Authority on pages 17 to 30, that are prepared on a disestablishment basis:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Building Industry Authority's financial position as at 29 November 2004;
 - the results of its operations and cash flows for the period ended on that date; and
 - its service performance achievements measured against the performance targets adopted for the period ended on that date.
- the performance information of the Building Industry Authority on pages 7 to 16 fairly reflects the achievements measured against the performance targets adopted for the period ended 29 November 2004.

The audit was completed on 5 October 2005, and is the date at which our opinion is expressed.

The basis of our opinion, which refers to the financial statements being appropriately prepared on a disestablishment basis, is explained below. In addition, we outline the responsibilities of the Board and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board;
- confirming period-end balances;

AUDIT REPORT CONTINUED



- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

The financial statements are appropriately prepared on a disestablishment basis

In forming our opinion, we considered the accounting policy on page 23 about the financial statements being prepared on a disestablishment basis. We consider the disestablishment basis to be appropriate as the Building Industry Authority closed its business on 29 November 2004.

Fundamental Uncertainty – Potential Outcome of Litigation

In forming our unqualified opinion, we have considered the adequacy of the disclosures in note 12 of the financial statements about the potential outcome of litigation. The Building Industry Authority is one of a number of defendants in lawsuits alleging negligence on the part of the Building Industry Authority regarding its performance on weathertightness issues. The outcome of the lawsuits is uncertain. The financial statements do not include any adjustment that would result from the potential outcome of the lawsuits.

Responsibilities of the Board and the Auditor

The Board is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements and performance information must fairly reflect the financial position of the Building Industry Authority as at 29 November 2004. They must also fairly reflect the results of its operations and cash flows and service performance achievements for the period ended on that date. The Board is also responsible for preparing performance information that fairly reflects service performance achievements for the period ended 29 November 2004. The Board's responsibilities arise from the Public Finance Act 1989 and Building Act 1991.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 43(1) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Building Industry Authority.

Rhys Barlow

BDO Spicers

On behalf of the Auditor-General

Wellington, New Zealand

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