

- 1.001 The Audit Office issued its audit report on the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2000*¹ (the *Financial Statements*) on 8 September 2000. This is the same date on which the Treasurer and Minister of Finance, and the Secretary to the Treasury, signed their Statement of Responsibility for the *Financial Statements*.

Unqualified Opinion Issued

- 1.002 The audit report appears on pages 18-19 of the *Financial Statements*. The report includes our unqualified opinion that those statements:
- *comply with generally accepted accounting practice; and*
 - *fairly reflect –*
 - *the results of operations and cash flows for the year ended 30 June 2000; and*
 - *the financial position as at 30 June 2000.*
- 1.003 As in previous years, the Treasury has provided a comprehensive commentary on the financial performance and position, which is presented on pages 6-16 of the *Financial Statements*.
- 1.004 In addition to that commentary, we draw attention to the following significant items reflected in the reported results.

Urban State Highways – Who Should Account for Them?

- 1.005 Last year we reported the need for urban state highways to be accounted for in the *Financial Statements*, and that we would work with the Treasury and Transit New Zealand (TNZ) with a view to resolving the issue by 30 June 2000.²

1 Parliamentary paper B.11.

2 *Fifth Report for 1999*, parliamentary paper B.29[99e], pages 13-14.

- 1.006 TNZ has legal opinions that indicate that the Crown owns rural state highways and motorways and local authorities own urban state highways. The latter have a value based on depreciated replacement cost of approximately \$1,300 million.
- 1.007 However, many local authorities do not account for urban state highways within their financial statements because TNZ fully funds the state highway network and, in their view, TNZ effectively has control of the asset. At present, many of these roads are not accounted for in either the Crown's or local authorities' financial statements.
- 1.008 With the expected issue in late-2000 or early-2001 of a Financial Reporting Standard on Accounting for Property, Plant, and Equipment (see also paragraph 1.010 below), changes may be required to valuation methodologies presently applied to roading. Again, we will work with TNZ and the Treasury to resolve any issues arising.
- 1.009 As a result of discussions between the three parties, and a further review of the information needed to reliably record an opening balance for the value of urban state highways in the *Financial Statements*, it has been agreed to defer first recognition of these assets until 30 June 2001.

Accounting for Property, Plant, and Equipment, and Other Valuation Issues

- 1.010 We believe that progress needs to be made on a number of matters as a result of the expected issue of a Financial Reporting Standard on Accounting for Property, Plant, and Equipment, and the pending move to full consolidation of SOEs and Crown entities in the *Financial Statements*. These matters include:

- Consistently applying throughout the Crown reporting entity the "fair value" approach to valuing assets that we anticipate the Financial Reporting Standard will advocate.

- Reviewing the various valuation methodologies that are in use to ensure consistency among the components that make up the Crown reporting entity. The unfunded liability balances of the Accident Compensation Corporation and the Government Superannuation Fund are two examples that have already been addressed.

Provisions, Contingent Liabilities, and Contingent Assets

- 1.011 The recent approval of a Financial Reporting Standard on Provisions, Contingent Liabilities, and Contingent Assets³ has significant implications for the accounting treatment of such items. Every organisation making up the Crown reporting entity will need to ensure that their accounting policies and treatments comply with the standard for the year ending 30 June 2002.
- 1.012 We raised this issue last year in the context of environmental liabilities⁴ (such as the cost of cleaning up contaminated sites). We asked our auditors to discuss it with Crown reporting entities and local authorities, the results of which indicate that local authorities have a greater awareness of (that is, identifying, quantifying, and recording) potential environmental liabilities than Crown reporting entities.
- 1.013 Our concerns for Crown reporting entities are that:
- individual entities may not have identified all of the environmental provisions and contingencies for which they are responsible that will collectively flow through to the *Financial Statements*; and
 - the Crown may have residual environmental obligations that have not yet been identified.
- 1.014 We understand that the Treasury will be issuing guidance to Crown reporting entities on the impact of the proposed Financial Reporting Standard. For our part, we will continue to have our auditors work closely with individual entities in order to assist future compliance with the standard.

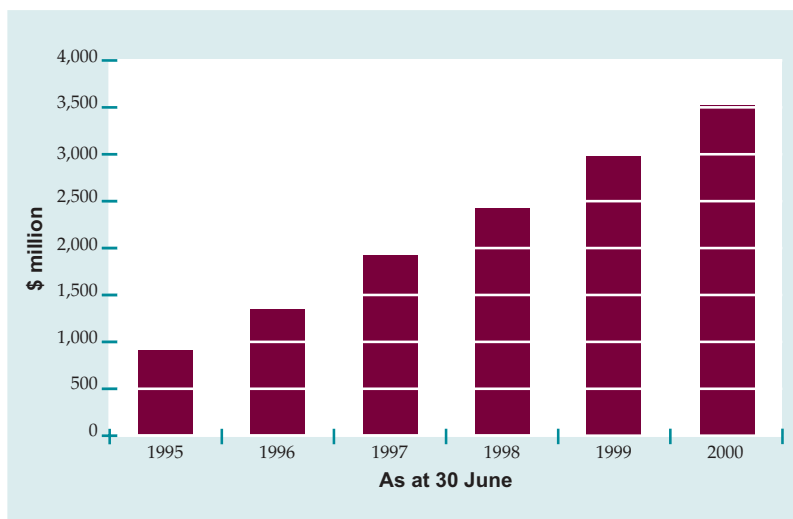
3 FRS-15: *Provisions, Contingent Liabilities and Contingent Assets*, November 2000.

4 *Fifth Report for 1999*, page 14.

Student Loan Debt

- 1.015 Current and former tertiary students owed the Crown \$3,523 million (after providing for doubtful debts) as at 30 June 2000. This asset is shown under Advances in the Crown's Statement of Financial Position and is analysed in Note 7 to the *Financial Statements*.⁵
- 1.016 Outstanding student loan debt is a significant asset for the Crown that has grown rapidly, as illustrated in Figure 1.1.

Figure 1.1
Student Loan Debt 1995-2000



- 1.017 Total student loan debt is projected to grow at a similar rate in future years. Last year we raised questions as to the level and extent of information – such as profiles of the age, individual amounts outstanding, and expected maturities – that it is appropriate to disclose. We discuss our answers to those questions on pages 59-62.

⁵ *Financial Statements*, parliamentary paper B.11, 2000, pages 23 and 63 respectively.

Full Consolidation

- 1.018 As discussed in previous years, we anticipate that the Crown's exemption from having to prepare fully consolidated financial statements will be removed when the new Financial Reporting Standard on Consolidation of Investments in Subsidiaries is promulgated early in 2001.
- 1.019 The Treasury and the Audit Office are giving continuing consideration to the implications of full consolidation from the financial reporting and auditing perspectives.

