

Notes to the Financial Statements

for the Year Ended 30 June 2004

Note 1: Budget estimates

The Estimate and Forecast information for the year is extracted from the *Estimates of Appropriations* approved by Parliament, the changes made in conjunction with the *Supplementary Estimates* approved by Parliament, and the aggregate budget estimates, all of which are unaudited.

	2003-04 Main Budget Estimates \$000	2003-04 Supplementary Estimates Changes \$000	2003-04 Final Estimates (Forecast) \$000
Revenue			
Crown	5,371	266	5,637
Other	34,540	(871)	33,669
Total Revenue	<u>39,911</u>	<u>(605)</u>	<u>39,306</u>
Expenses			
Personnel costs	19,027	(222)	18,805
Operating costs	19,130	(418)	18,712
Depreciation	1,181	49	1,230
Capital charge	305	-	305
Total Expenses	<u>39,643</u>	<u>(591)</u>	<u>39,052</u>
Surplus	<u>268</u>	<u>(14)</u>	<u>254</u>

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Note 2: Crown revenue

Revenue is provided by the Crown to meet the costs of the Office in assisting Parliament in its role of ensuring accountability for public resources. The services provided to Parliament include reports to Parliament and other constituencies, reports and advice to Select Committees, responding to taxpayer and ratepayer enquiries, advice to government bodies and other agencies, and administering the provisions of the Local Authorities (Members' Interests) Act 1968.

Note 3: Other revenue

2002-03 Actual \$000		2003-04 Actual \$000	2003-04 Forecast* \$000
6,331	Audit fees - departments	7,343	6,947
27,933	Audit fees - other	27,822	26,718
104	Miscellaneous	10	4
34,368	Total Other Revenue	35,175	33,669

* See comment in Note 1 on page 154.

Note 4: Operating costs

Operating costs include:

2002-03 Actual \$000		2003-04 Actual \$000	2003-04 Forecast* \$000
21	Loss/(profit) on sale of physical assets	36	-
-	Write-off of physical assets	60	-
	Increase/(decrease) in provision for doubtful		
(50)	receivables	161	-
58	Fees to auditors for audits of the financial statements	58	58
6	Fees to auditors for other services provided	8	4
9	Overdraft interest cost	-	-
427	Equipment lease costs	452	395
-	Lease asset write down provision	259	-
1,471	Property lease costs	1,488	1,568
12,075	Fees paid to contracted auditors	12,861	12,075

* See comment in Note 1 on page 154.

Note 5: Depreciation charge

2002-03 Actual \$000		2003-04 Actual \$000	2003-04 Forecast* \$000
234	Furniture and Fittings	130	283
744	Office Equipment	723	812
122	Motor Vehicles	103	135
1,100	Total Depreciation Charge	956	1,230

* See comment in Note 1 on page 154.

Note 6: Capital charge

The Office pays a capital charge to the Crown on its average taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2004 was 8.5 percent (2003 – 8.5 percent).

During the financial year the Office continued to participate in a pilot differential capital charge scheme. Under the scheme, interest earned on cash bank balances and term deposits (at 5.1%) was offset against the capital charge. For the year ended 30 June 2004, the capital charge reduced by \$107,000 (2003 – \$32,000) as a result of the scheme.

Note 7: Surplus payment due to the Crown

The Office is not permitted to retain operating surpluses under the Public Finance Act 1989. Thus, the surplus for the year of \$158,452 (2003 – \$151,393) is fully repayable to the Crown.

If there is an operating deficit, any interest received and any profit made on the sale of a physical asset are both returned to the Crown.

30/6/03 Actual \$000		30/6/04 Actual \$000
151	Surplus	158
151	Total Provision for Payment to the Crown	158

Note 8: Overdraft facility

The Office has the use of an overdraft facility to manage its seasonal cashflows during the second half of the financial year. The overdraft limit is \$500,000, and interest is charged on the daily balance at Westpac Banking Corporation's Prime Lending Rate.

During this financial year, no funds were drawn down under the facility (2003 – \$409,000).

Note 9: Receivables

30/6/03 Actual \$000		30/6/04 Actual \$000
3,757	Trade receivables	3,389
(172)	Provision for doubtful receivables	(333)
<u>3,585</u>	<i>Net Trade Receivables</i>	<u>3,056</u>
93	Other receivables	8
<u><u>3,678</u></u>	Total Receivables	<u><u>3,064</u></u>

Note 10: Physical assets

30/6/03 Actual \$000		30/6/04 Actual \$000
FREEHOLD ASSETS		
Furniture and Fittings		
1,947	At cost	2,040
(1,732)	Accumulated depreciation	(1,857)
<u>215</u>	<i>Furniture and Fittings at Net Carrying Value</i>	<u>183</u>
Office Equipment		
4,381	At cost	4,838
(3,079)	Accumulated depreciation	(3,546)
<u>1,302</u>	<i>Office Equipment at Net Carrying Value</i>	<u>1,292</u>
Motor Vehicles		
674	At cost	726
(154)	Accumulated depreciation	(148)
<u>520</u>	<i>Motor Vehicles at Net Carrying Value</i>	<u>578</u>
LEASEHOLD ASSETS		
Office Equipment		
-	At cost less write-down	167
<u>2,037</u>	Total Physical Assets at Net Carrying Value	<u>2,220</u>

The Office has recognised assets under finance lease arrangements for the first time as at 30 June 2004. Accordingly, there is no depreciation charge for this financial year.

As the Office has decided to withdraw from the leases, and is systematically replacing the leased assets with capital purchases, the asset values have been diminished. The provision for writing down the asset values is disclosed in Note 4.

The Office's liability at 30 June 2004 in respect of the future lease payments is disclosed in Note 14. The Office is currently negotiating with the lessor to ascertain the future value of the lease payments.

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Note 11: Payables and accruals

30/6/03 Actual \$000		30/6/04 Actual \$000
1,612	Trade payables	1,720
578	Revenue in advance	1,047
79	Accruals	105
<u>2,269</u>	Total Payables and Accruals	<u>2,872</u>

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Note 12: Provision for employee entitlements

30/6/03 Actual \$000		30/6/04 Actual \$000
	Current Liabilities	
1,168	Annual leave	1,167
49	Long service leave	45
45	Time off in lieu of overtime worked	34
919	Salary and other accruals	780
19	Retiring leave	50
<u>2,200</u>	<i>Total Current Liabilities</i>	<u>2,076</u>
	Non-current Liabilities	
92	Long service leave	87
727	Retiring/resigning leave	708
<u>819</u>	<i>Total Non-current Liabilities</i>	<u>795</u>
<u>3,019</u>	Total Provision for Employee Entitlements	<u>2,871</u>

Note 13: Property lease liabilities

Property lease liabilities consist of the unamortised value of lease inducements received.

30/6/03 Actual \$000		30/6/04 Actual \$000
84	Current Liabilities (Payables and accruals)	108
167	Non-current Liabilities	110
251	Total Property Lease Liabilities	218

Note 14: Finance lease liabilities

30/6/03 Actual \$000		30/6/04 Actual \$000
	Finance Leases	
-	- current	251
-	- non-current	175
-	Total	426
	Repayable as follows	
-	One to two years	502
-	Two to five years	-
-		502
-	Future finance charges	(76)
-	Recognised as a liability	426

The effective interest rate on the finance lease is 6.5%. Ownership of the asset remains with the lessor.

The Office's IT leases were reviewed during the year with the result that they have been determined to be finance leases. In accordance with SSAP-18 *Accounting For Leases and Hire Purchase Contracts*, the present value of future lease payments as at 30 June 2004 has been recognised as a liability, and an

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equivalent amount, representing the future service potential arising from the use of the equipment, has been recognised as an asset. The Office's liability in respect of future lease payments was previously included in the Statement of Commitments. As the recognition was effected as at 30 June 2004, the total rental payments for the year have been recognised in the Statement of Financial Performance and have not been apportioned between the principal and finance charge elements.

Under the Public Finance Act 1989, entering into financing lease arrangements is deemed to be raising a loan, which requires the approval of the Minister of Finance under the Public Audit Act 2001. The Office has received the Minister's approval for these leases.

Note 15: Reconciliation of Surplus to Net Cash Flow from Operating Activities

This reconciliation discloses the non-cash adjustments applied to the Surplus reported in the Statement of Financial Performance on page 146 to arrive at the Net Cash Flow from Operating Activities disclosed in the Statement of Cash Flows on page 149.

2002-03 Actual \$000		2003-04 Actual \$000	2003-04 Forecast* \$000
151	Surplus	158	254
	Non-cash Items		
1,100	Depreciation	956	1,230
-	Write-off of physical assets	60	-
-	Write-down of leased assets	259	-
1,100	Total Non-cash Items	1,275	1,230
	Working Capital Movements		
(126)	(Increase)/decrease in prepayments	(191)	54
257	(Increase)/decrease in receivables	614	28
253	(Increase)/decrease in work in progress	530	52
554	(Decrease)/increase in payables	603	(236)
75	(Decrease)/increase in employee entitlements	(124)	(60)
-	(Decrease)/increase in property lease liabilities	24	-
1,013	Total Net Working Capital Movements	1,456	(162)
	Investing Activity Items		
21	Loss/(profit) on sale of physical assets	36	-
21	Total Investing Activity Items	36	-
	Other Items		
(41)	Increase/(decrease) in non-current employee entitlements	(24)	41
(84)	Increase/(decrease) in non-current property lease liabilities	(57)	(84)
(125)	Total Other Items	(81)	(43)
2,160	Net Cash Flow from Operating Activities	2,844	1,279

* See comment in Note 1 on page 154.

Note 16: Financial instruments

The Office is a party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, receivables and payables.

Credit risk

In the normal course of its business, the Office incurs credit risk from receivables and from transactions with financial institutions and the New Zealand Debt Management Office of the Treasury.

The Office has no significant concentrations of credit risk. No collateral or security is held or given to support financial instruments.

Interest rate risk

The Office has no interest rate risk, as all cash funds that earn interest are managed as part of the Crown's banking arrangements.

Currency risk

The Office has no exposure to currency risk, as all financial instruments are in New Zealand dollars.

Fair values

The estimated fair values of all financial assets and liabilities are equivalent to the carrying amounts disclosed in the Statement of Financial Position.

Note 17: Related party information

Some 14% of the Office's revenue is provided by the Crown directly (see Note 2 on page 155) and a further 18% indirectly through fees for the audit of Government departments (see Note 3 on page 155). These transactions are conducted on an arm's-length basis.

In addition to these audit transactions, the Office enters into numerous other transactions with entities controlled by the Crown. These transactions are also on an arm's-length basis. Related party disclosures have not been made for transactions conducted at arm's-length.

**Note 18: Office accommodation statistics**

The following statistics for the year ended 30 June 2004 are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

<i>30/6/03</i>		<i>30/6/04</i>
<i>Actual</i>		<i>Actual</i>
<i>\$000</i>		<i>\$000</i>
6305m ²	Area	6125m ²
248	Number of staff	231
25m ²	Space allocation per person	27m ²
\$1,517,455	Total costs of leased office accommodation	\$1,575,146
\$5,002	Rent costs per person	\$5,838
\$262	Utility costs per person	\$291
-	Vacant accommodation	-