



# Statement of Accounting Policies

## **Reporting Entity**

These are the prospective financial statements of the Auditor-General, prepared in accordance with sections 41(1) and 45F of the Public Finance Act 1989.

The Auditor-General is a corporation sole established by section 10(1) of the Public Audit Act 2001, and is an officer of Parliament for the purpose of the Public Finance Act 1989.

The Auditor-General's activities include work undertaken by the Office of the Auditor-General and Audit New Zealand (referred to collectively as "the Office"), and Audit Service Providers (private sector auditors appointed by the Auditor-General).

## **Measurement Base**

The prospective financial statements have been prepared on a historical cost basis.

## **Accounting Policies**

### *Revenue*

The Office derives revenue from the Crown for outputs provided to Parliament, from audit fees for services to third parties, and from other assurance work undertaken by Audit New Zealand at the request of audited entities.

While Crown revenue is recognised evenly over the financial year, all other revenue earned by the Office of the Auditor-General and Audit New Zealand is recognised when time is charged to a client during an accounting period.

Revenue, in the form of the actual audit fees charged to entities, is recognised from Audit Service Providers in the period that the Office of the Auditor-General is notified of the audit completion.

### *Expenses*

The remuneration of the Auditor-General and the Deputy Auditor-General, which are a charge against a permanent appropriation in terms of clause 5 of Schedule 3 of the Public Audit Act 2001, are recognised as expenses of the Office.



## Output Cost Allocation

### Definitions

- *Direct costs* are those costs, which are directly attributable to a single output.
- *Indirect costs* are all other costs. These costs include: payroll costs; variable cost such as travel; and operating overheads such as property costs, depreciation, and capital charges.

### Method of Assigning Costs to Output Classes

- Direct costs that can readily be identified with a single output are assigned directly to the relevant output class. For example, the cost of audits carried out by contract audit service providers is charged directly to Output Class D3 – Provision of Audit and Other Assurance Services.
- Indirect costs are allocated according to the proportion of direct labour costs charged to a particular activity.

### Receivables and Work in Progress

Receivables and work in progress are stated at estimated realisable value, after providing for non-recoverable amounts.

### Leases

The Office leases office premises and office equipment.

### Finance leases

Leases which effectively transfer to the Office substantially all the risks and benefits incident to ownership of the leased items are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leases assets and the corresponding lease liabilities are recognised in the Statement of Prospective Financial Position. Each lease payment is allocated between the liability and finance expense and the leased assets are depreciated on the same basis as other assets.

The only leases classified as finance leases are of laptop computers.

# FORECAST FINANCIAL STATEMENTS FOR 2005-06



THREE

## **Operating leases**

Where substantially all of the risks and rewards of ownership are retained by the lessor, leases are classified as operating leases. Operating leases costs are expensed on a systematic basis over the period of the lease.

## **Physical Assets**

The initial cost of a physical asset is the value of the consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

All physical assets costing more than \$500 are capitalised.

## **Depreciation**

Depreciation of physical assets is provided on a straight-line basis so as to allocate the cost of the assets, less their residual value, over their expected useful lives. The estimated useful lives are:

Furniture and fittings	4 years
Office equipment –	
Computer hardware and software	2.5-5 years
Other office equipment	4 years
Motor vehicles	5-7.5 years

## **Provision for Employee Entitlements**

Annual leave and time off in lieu of overtime worked are recognised as they accrue to employees based on current rates of pay. Long service leave and retiring/resigning leave are recognised on an actuarial basis. In calculating the present value of the estimated future cash outflows, the assumptions used in valuing the Government Superannuation Fund liability have been adopted.

## **Foreign Currency**

Foreign currency transactions, relating primarily to subscriptions and travel, are paid for at the New Zealand dollar exchange rate at the date of the transaction.



## *Financial Instruments*

Financial instruments primarily comprise bank balances, receivables and payables which are recognised in the Statement of Prospective Financial Position. Revenue and expenses in relation to all financial instruments are recognised in the Statement of Prospective Financial Performance.

## *Goods and Services Tax (GST)*

Amounts in the financial statements are reported exclusive of GST, except for Payables and Receivables in the Statement of Prospective Financial Position, which are GST-inclusive.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Payables or Receivables (as appropriate).

## *Income Tax*

The Auditor-General is exempt from the payment of income tax in terms of section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

## *Changes In Accounting Policies*

There have been no changes in accounting policies, including cost allocation accounting policies, from those contained in the annual financial statements of the Auditor-General for the year ended 30 June 2004 as laid before the House of Representatives under section 37 of the Public Audit Act 2001.