

# Notes to the Financial Statements

## for the year ended 30 June 2005

### 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.

	2004-05 Main budget estimates \$000	2004-05 Supplementary estimate changes \$000	2004-05 Final forecast estimates \$000	2004-05 Estimated actuals (forecast) \$000
<b>Revenue</b>				
Crown	8,084	99	8,183	8,183
Other	33,325	506	33,831	33,831
Total revenue	<u>41,409</u>	<u>605</u>	<u>42,014</u>	<u>42,014</u>
<b>Expenses</b>				
Personnel costs	20,135	(293)	19,842	19,542
Operating costs	19,158	1,389	20,547	20,147
Depreciation	1,575	(419)	1,156	1,156
Capital charge	287	(65)	222	222
Total expenses	<u>41,155</u>	<u>612</u>	<u>41,767</u>	<u>41,067</u>
<b>Surplus</b>	<u><b>254</b></u>	<u><b>(7)</b></u>	<u><b>247</b></u>	<u><b>947</b></u>

Forecasts represent the estimated actuals prepared in March 2005 as part of the 2006 Central Government budget process. The figures are unaudited.

### Note 2: Crown revenue

The Crown provides revenue 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, administering the provisions of the Local Authorities (Members' Interests) Act 1968, and writing a history of the Audit Office.

### Note 3: Other revenue

	2004-05 actual \$000	2004-05 forecast* \$000	2003-04 actual \$000
Audit fees - departments	7,841	6,947	7,343
Audit fees - other	27,459	26,880	27,822
Miscellaneous	2	4	10
<b>Total other revenue</b>	<u><b>35,302</b></u>	<u><b>33,831</b></u>	<u><b>35,175</b></u>

\* See note 1 on page 88.

## Note 4: Operating costs

Operating costs include:

	2004-05 actual \$000	2004-05 forecast*	2003-04 actual \$000
Loss on sale of physical assets	61	-	36
Write-off of physical assets	-	-	60
Increase in provision for doubtful receivables	89	-	161
Fees to auditors for the audit of the office's financial statements	73	73	58
Fees to auditors for other services provided to the office	2	2	8
Finance lease costs	102	102	-
Equipment lease costs	69	69	452
Property lease costs	1,588	1,568	1,488
Fees paid to contracted auditors for audits of public entities	13,223	12,861	12,861

\* See note 1 on page 88.

## Note 5: Depreciation charge

	2004-05 actual \$000	2004-05 forecast*	2003-04 actual \$000
Furniture and fittings	147	173	130
Office equipment	98	116	110
IT hardware	314	231	136
IT software	365	486	477
Motor vehicles	198	150	103
<b>Total depreciation charge</b>	<b>1,122</b>	<b>1,156</b>	<b>956</b>

\* See note 1 on page 88.

## 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 2005 was 8.0 percent (in 2004, it was 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 2005, the capital charge reduced by \$200,000 (in 2004, it reduced by \$107,000) because 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 \$775,146 is repayable to the Crown.

	30 June 2005 actual \$000	30 June 2004 actual \$000
Surplus	776	158
<b>Total provision for payment to the Crown</b>	<b>776</b>	<b>158</b>

## Note 8: Overdraft facility

The office has the use of an overdraft facility to manage its seasonal cash flows 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 (and none were drawn down in 2003-04).

## Note 9: Receivables

	30 June 2005 actual \$000	30 June 2004 actual \$000
Trade receivables	3,937	3,389
Provision for doubtful receivables	(422)	(333)
Net trade receivables	3,515	3,056
Crown debtor	106	-
Other receivables	12	8
<b>Total receivables</b>	<b>3,633</b>	<b>3,064</b>

## Note 10: Physical assets

	30 June 2005 actual \$000	30 June 2004 actual \$000
<b>Freehold assets</b>		
<b>Furniture and fittings</b>		
At cost	2,543	2,040
Accumulated depreciation	(1,811)	(1,857)
<i>Furniture and fittings at net carrying value</i>	<u>732</u>	<u>183</u>
<b>Office equipment</b>		
At cost	1,067	1,011
Accumulated depreciation	(899)	(840)
<i>Office equipment at net carrying value</i>	<u>168</u>	<u>171</u>
<b>IT hardware</b>		
At cost	1,428	1,466
Accumulated depreciation	(1,062)	(973)
<i>IT hardware at net carrying value</i>	<u>366</u>	<u>493</u>
<b>IT software</b>		
At cost	2,529	2,361
Accumulated depreciation	(2,096)	(1,733)
<i>IT software at net carrying value</i>	<u>433</u>	<u>628</u>
<b>Motor vehicles</b>		
At cost	826	726
Accumulated depreciation	(225)	(148)
<i>Motor vehicles at net carrying value</i>	<u>601</u>	<u>578</u>
<b>Leased assets</b>		
<b>IT hardware</b>		
At cost	426	426
Provision for write-down	(259)	(259)
At cost less write-down	167	167
Accumulated depreciation	(120)	-
<i>Leasehold office equipment at net carrying value</i>	<u>47</u>	<u>167</u>
<b>Total physical assets at net carrying value</b>	<u><u>2,347</u></u>	<u><u>2,220</u></u>

## Note 11: Payables and accruals

	30 June 2005 actual \$000	30 June 2004 actual \$000
Trade payables	1,964	1,720
Revenue in advance	1,282	1,047
Accruals	285	105
<b>Total payables and accruals</b>	<b><u>3,531</u></b>	<b><u>2,872</u></b>

## Note 12: Provision for employee entitlements

	30 June 2005 actual \$000	30 June 2004 actual \$000
<b>Current liabilities</b>		
Annual leave	1,237	1,167
Long service leave	52	45
Time off in lieu of overtime worked	63	34
Salary and other accruals	836	780
Retiring leave	303	50
<i>Total current liabilities</i>	<b><u>2,491</u></b>	<b><u>2,076</u></b>
<b>Non-current liabilities</b>		
Long service leave	75	87
Retiring/resigning leave	379	708
<i>Total non-current liabilities</i>	<b><u>454</u></b>	<b><u>795</u></b>
<b>Total provision for employee entitlements</b>	<b><u>2,945</u></b>	<b><u>2,871</u></b>

## Note 13: Property lease liabilities

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

	30 June 2005 actual \$000	30 June 2004 actual \$000
Current liabilities (payables and accruals)	111	108
Non-current liabilities	-	110
<b>Total property lease liabilities</b>	<b><u>111</u></b>	<b><u>218</u></b>

## Note 14: Finance lease liabilities

	30 June 2005 actual \$000	30 June 2004 actual \$000
<b>Finance leases</b>		
Current	162	251
Non-current	-	175
<b>Total</b>	<b>162</b>	<b>426</b>
Repayable as follows		
One to 2 years	171	502
2 to 5 years	-	-
	171	502
Future finance charges	(9)	(76)
<b>Recognised as a liability</b>	<b>162</b>	<b>426</b>

The office leases laptop computers and the effective interest rate on the finance lease is 6.5%. Ownership of the asset remains with the lessor.

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 80, to arrive at the net cash flow from operating activities disclosed in the Statement of Cash Flows on page 83.

	2004-05 actual \$000	2004-05 forecast* \$000	2003-04 actual \$000
<b>Surplus</b>	<b>776</b>	<b>947</b>	<b>158</b>
<b>Non-cash items</b>			
Depreciation	1,122	1,156	956
Write-off of physical assets	-	-	60
Write-down of leased assets	-	-	259
<i>Total net non-cash items</i>	<b>1,122</b>	<b>1,156</b>	<b>1,275</b>
<b>Working capital movements</b>			
(Increase)/decrease in prepayments	147	245	(191)
(Increase)/decrease in receivables	(569)	14	614
(Increase)/decrease in work in progress	842	122	530
(Decrease)/increase in payables	659	318	603
(Decrease)/increase in employee entitlements	415	64	(124)
(Decrease)/increase in property lease liabilities	3	(24)	24
<i>Total net working capital movements</i>	<b>1,497</b>	<b>739</b>	<b>1,456</b>
<b>Investing activity items</b>			
Loss/(profit) on sale of physical assets	61	-	36
<i>Total investing activity items</i>	<b>61</b>	<b>-</b>	<b>36</b>
<b>Other items</b>			
Increase/(decrease) in non-current employee entitlements	(341)	65	(24)
Increase/(decrease) in non-current property lease liabilities	(110)	(110)	(57)
<i>Total other items</i>	<b>(451)</b>	<b>(45)</b>	<b>(81)</b>
<b>Net cash flow from operating activities</b>	<b>3,005</b>	<b>2,797</b>	<b>2,844</b>

\* See note 1 on page 88.

## 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

The Crown provides 18.8% of the office's revenue directly (see note 2 on page 88), and a further 18% is provided indirectly through fees for the audit of Government departments (see note 3 on page 88). Also, the office obtains revenue through fees for the audit of other public entities included in the financial statements of the Government of New Zealand.

The revenue provided by the Crown is for the operation of the office, including the provision of outputs to Parliament, which is provided within a normal supplier/recipient relationship.

Fees for the audit of public entities, including Government departments, are charged on a commercial basis at "arm's-length".

There are numerous other transactions the office enters into with entities controlled by the Crown – for example, travel with Air New Zealand and postage with New Zealand Post. All of these other transactions are carried out on a commercial basis at "arm's-length".



## Note 18: Office accommodation statistics

The following statistics are provided in accordance with directives issued by the Government to chief executives in 1991 on the management of departmental accommodation.

	30 June 2005 actual	30 June 2004 actual
Area	6,522m <sup>2</sup>	6,125m <sup>2</sup>
Number of staff	244	231
Space allocation per person	27m <sup>2</sup>	27m <sup>2</sup>
Total costs of leased office accommodation	\$1,707,863	\$1,575,146
Rent costs per person	\$5,907	\$5,838
Utility costs per person	\$376	\$291
Vacant accommodation	-	-