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 Office 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, Audit New Zealand, and contracted audit service providers.

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 the audit of public entities' financial statements, and from other assurance work carried out by Audit New Zealand at the request of public entities.

Crown revenue is recognised in the period to which it relates. Audit fee and other assurance revenue earned by the Office of the Auditor-General and Audit New Zealand is recognised as the work progresses and time is allocated within work in progress to public entities.

Audit fee revenue from audits carried out by contracted Audit Service Providers is recognised in the period that the Office of the Auditor-General is notified of the audits' completion. Contracted Audit Service Providers invoice and collect audit fees directly from public entities.

Expenses

Fees paid to contracted Audit Service Providers are recognised in the period that the Office of the Auditor-General was notified of the audit completion. Contracted Audit Service invoice and collect audit fees directly from public entities.

Revenue in advance

Revenue in advance is recognised where invoiced audit fees exceed the value of time allocated within work in progress to public entities.

Output cost allocation

Definitions

Direct costs are those costs that are directly attributable to a single output.

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 contracted Audit Service Providers is charged directly to Output Class: Provision of Audit and Assurance Services.

Indirect costs are all other costs. These costs include: paroll costs; variable costs such as travel; and operating overheads such as property costs, depreciation, and capital charges.

Indirect costs are allocated according to the time 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

Leases which effectively transfer to the organisation substantially all the risks and benefits incidental 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 leased 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.

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

Physical assets

Physical assets are recoded at cost, which is the value of the consideration given to acquire or create the asset, plus any directly attributable costs of bringing the asset into working condition for its intended use.

All physical assets costing more than $1,000 are capitalised.

Depreciation

Depreciation of physical assets is provided on a straight-line basis 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 2.5 – 5 years
- IT hardware 2.5 – 5 years
- IT software 2.5 – 5 years
- Motor vehicles 3 – 4 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 or 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 recorded 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.
- Figures in the Prospective Appropriations Statement, which include GST unless noted.

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 organisation is exempt from paying income tax in terms of section 43 of the Public Audit Act 2001. Accordingly, no charge for income tax has been provided for.

Commitments

Future payments are disclosed as commitments at the point at which a contractual obligation arises. Commitments relating to employment contracts are not disclosed unless they had vested at balance date, in which case they are reflected in the item “Provision for employee entitlements” in the Statement of Prospective Financial Position.

Contingent liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Changes in accounting policies

There have been no changes in accounting policies from those contained in the last audited financial statements.