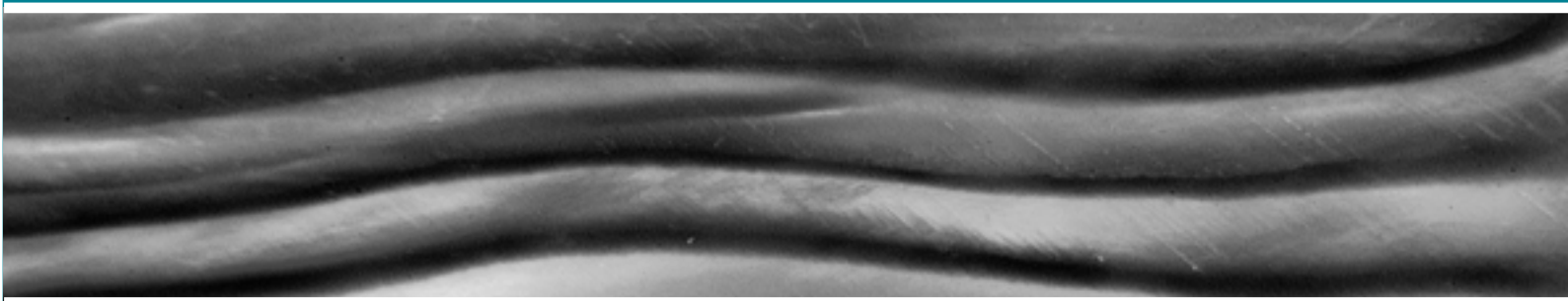


## PART FIVE

# Departmental financial statements



# Statement of accounting policies

for the year ended 30 June 2005

## Reporting entity

Inland Revenue is a government department as defined by the Public Finance Act 1989. These are the financial statements of Inland Revenue prepared pursuant to the Public Finance Act 1989. In addition, Inland Revenue has reported the trust monies which it administers.

## Measurement system

These financial statements have been prepared on the basis of historical cost unless otherwise stated.

## Accounting policies

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

### Budget figures

The budget figures are those presented in the Main Estimates and those amended by the Supplementary Estimates and transfers made by Order in Council under the Public Finance Act 1989.

### Revenue

Inland Revenue derives revenue through the provision of outputs to the Crown, other government departments, and for services to third parties. Such revenue is recognised when earned and is reported in the financial period it relates to.

### Cost allocations

Inland Revenue uses an integrated cost allocation process to derive the cost of its outputs. This process involves the initial costing of business processes followed by the full costing of outputs.

Business processes represent the key functional activities within the department. These business processes are used to capture direct costs.

Direct personnel costs are charged to business processes, based on actual hours and standard activity rates. Other related direct costs, including depreciation, are allocated to business processes, based on actual hours and relevant activity drivers. Premises costs are charged to business processes based on a combined floor space and actual hours allocation.

Business process costs are allocated to outputs based on specific historical activity drivers for each business process.

Indirect information technology costs are assigned to specific service categories and allocated to outputs based on system usage drivers.

Other indirect costs and corporate overheads that cannot be directly attributed to a business process are apportioned to outputs based on planned business process activity allocations to outputs.

### Debtors and receivables

Receivables are recorded at estimated realisable value, after providing for doubtful and uncollectable debts.

## Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Inland Revenue leases office premises, computer hardware and office equipment. Inland Revenue has no leases classified as finance leases.

## Fixed assets

The cost of a fixed asset is the value of consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use. The capitalisation thresholds are:

- |                                    |                   |
|------------------------------------|-------------------|
| • Computers                        | All               |
| • Software – developed             | \$50,000 and over |
| • Software – purchased             | \$5,000 and over  |
| • Set-up of a new site or activity | \$20,000 and over |
| • Other assets                     | \$2,000 and over  |
| • Grouped assets                   | \$20,000 and over |

Any write-down of an item to its recoverable amount is recognised in the *Statement of financial performance*.

Assets under construction represent the costs of assets under development. The cost comprises direct labour, material purchased and overheads, if appropriate. There are currently two categories:

- Leasehold improvements
- Software/IT equipment

When assets under construction are completed and become operational, they are recognised as fixed assets and depreciated over their useful lives.

## Depreciation

Depreciation is provided on a straight-line basis on all fixed assets, other than assets under construction. The rates of depreciation will write off the cost of the assets to the estimated residual value over the useful life of the assets.

The useful lives of major classes of assets have been estimated as follows:

- |                          |             |
|--------------------------|-------------|
| • Motor vehicles         | 5 years     |
| • IT equipment           | 3 – 5 years |
| • Office equipment       | 5 years     |
| • Furniture              | 7 years     |
| • Leasehold improvements | 5 – 7 years |
| • Software               | 5 – 7 years |

All fixed assets other than motor vehicles are assumed to have no residual value. Motor vehicles are assumed to have a 30% residual value.

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease, or the estimated remaining useful lives of the improvements, whichever is shorter.

Assets under construction are not depreciated. The total cost of a capital project is transferred to the appropriate asset class on its completion and then depreciated.

## Employee entitlements

Provision is made for Inland Revenue's liability for annual, long-service and retirement leave, and time off in lieu. Annual leave, time off in lieu and other entitlements that are expected to be settled within 12 months of reporting date are measured at nominal values on an actual entitlement basis at current rates of pay.

Entitlements that are payable beyond 12 months, such as long-service leave and retiring leave, have been calculated on an actuarial basis, based on the present value of expected future entitlements.

## Statement of cash flows

*Cash* means cash balances on hand, and held in bank accounts.

*Operating activities* include cash received from all income sources of Inland Revenue, and record the cash payments made for the supply of goods and services.

*Investing activities* relate to the acquisition and disposal of non-current assets.

*Financing activities* comprise capital injections by or repayment of capital to the Crown.

## Financial instruments

Inland Revenue is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, debtors, creditors and foreign currency forward exchange contracts. Inland Revenue enters into the foreign currency forward exchange contracts to hedge currency transactions. Apart from foreign currency forward exchange contracts, all financial instruments are recognised in the *Statement of financial position* and all revenues and expenses in relation to financial instruments are recognised in the *Statement of financial performance*. Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair values.

## Foreign currency

Foreign currency transactions are converted into New Zealand dollars at the exchange rate at the date of the transaction. Where a foreign currency forward exchange contract has been used to establish the price of a transaction, the forward rate specified in that foreign exchange contract is used to convert that transaction to New Zealand dollars. Consequently, no exchange gain or loss resulting from the difference between the forward exchange contract rate and the spot exchange rate on date of settlement is recognised.

## Goods and services tax (GST)

The *Statement of unappropriated departmental expenditure* and the *Statement of departmental expenditure and appropriations* are GST-inclusive. The *Statement of financial position* is GST-exclusive, except for creditors and payables, and debtors and receivables, which are GST-inclusive. All other financial statements and notes are GST-exclusive.

The amount of GST owing to or from Inland Revenue at balance date, being the difference between output GST and input GST, is included in creditors and payables or debtors and receivables (as appropriate).

## Taxation

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1994. Accordingly, no charge for income tax has been provided for.

## Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that they are equally unperformed obligations.

### Contingent assets and liabilities

Departmental contingent assets and liabilities are recognised in the *Statement of contingent assets* and *Statement of contingent liabilities* at the point at which the contingency is evident.

### Taxpayers' funds

This is the Crown's net investment in Inland Revenue.

### Comparatives

Certain comparative information has been reclassified to conform with the current year's presentation.

### Changes in accounting policies

There have been no changes in accounting policies and cost allocation policies since the date of the last audited financial statements. All policies have been applied on a basis consistent with the previous year.

# Statement of financial performance

for the year ended 30 June 2005

Actual		Notes	Actual	Main	Supp
2004			2005	Estimates	Estimates
\$000			\$000	2005	2005
				\$000	\$000
	<b>Revenue</b>				
375,729	Crown		405,194	406,214	405,194
25,183	Other	1	25,273	26,502	27,835
<b>400,912</b>	<b>Total operating revenues</b>		<b>430,467</b>	<b>432,716</b>	<b>433,029</b>
	<b>Expenditure</b>				
245,110	Personnel expenses	2	264,907	266,475	262,535
122,246	Operating expenses	3	126,170	126,419	128,648
29,551	Depreciation expense	4	31,186	32,823	34,823
7,651	Capital charge	5	7,023	6,999	7,023
59	Loss on sale of fixed assets		73	0	0
<b>404,617</b>	<b>Total operating expenses</b>		<b>429,359</b>	<b>432,716</b>	<b>433,029</b>
<b>(3,705)</b>	<b>Net surplus/(deficit)</b>		<b>1,108</b>	<b>0</b>	<b>0</b>

The accompanying accounting policies and notes form part of these financial statements.

# Statement of movements in equity

for the year ended 30 June 2005

Actual	Notes	Actual	Main	Supp
2004		2005	Estimates	Estimates
\$000		\$000	2005	2005
			\$000	\$000
(3,705)	Surplus/(deficit) for year	1,108	0	0
<b>(3,705)</b>	<b>Total recognised revenues and expenses for year</b>	<b>1,108</b>	<b>0</b>	<b>0</b>
90,008	Equity at start of year	87,793	86,998	87,793
1,490	Capital contributions	8,099	8,099	8,099
0	Repayment of capital to the Crown	0	0	0
0	Provision for repayment of surplus to the Crown	(1,108)	0	0
<b>87,793</b>	<b>Equity at end of year</b>	<b>95,892</b>	<b>95,097</b>	<b>95,892</b>

The accompanying accounting policies and notes form part of these financial statements.

# Statement of financial position

as at 30 June 2005

Actual	Notes	Actual	Main	Supp
2004		2005	Estimates	Estimates
\$000		\$000	2005	2005
			\$000	\$000
	<b>Taxpayers' funds</b>			
87,793	Taxpayers' funds	95,892	95,097	95,892
<b>87,793</b>	<b>Total taxpayers' funds</b>	<b>95,892</b>	<b>95,097</b>	<b>95,892</b>
	Represented by:			
	<b>Current assets</b>			
13,687	Cash	26,591	17,528	9,922
7,389	Prepayments	1,565	7,500	3,000
36,166	Debtor Crown	22,000	36,166	22,000
5,558	Debtors and receivables	3,194	2,887	2,837
62,800	<b>Total current assets</b>	<b>53,350</b>	<b>64,081</b>	<b>37,759</b>
	<b>Non-current assets</b>			
88,751	Fixed assets	108,379	90,000	114,644
88,751	<b>Total non-current assets</b>	<b>108,379</b>	<b>90,000</b>	<b>114,644</b>
<b>151,551</b>	<b>Total assets</b>	<b>161,729</b>	<b>154,081</b>	<b>152,403</b>
	<b>Current liabilities</b>			
21,788	Creditors and payables	21,291	20,645	17,898
0	Provision for repayment of surplus to the Crown	1,108	0	0
14,218	Provision for employee entitlements	14,091	12,875	12,875
2,257	Provision for restructuring expenses	1,053	701	722
38,263	<b>Total current liabilities</b>	<b>37,543</b>	<b>34,221</b>	<b>31,495</b>
	<b>Non-current liabilities</b>			
23,297	Provision for employee entitlements	26,931	23,540	23,540
2,198	Provision for restructuring expenses	1,363	1,223	1,476
25,495	<b>Total non-current liabilities</b>	<b>28,294</b>	<b>24,763</b>	<b>25,016</b>
<b>63,758</b>	<b>Total liabilities</b>	<b>65,837</b>	<b>58,984</b>	<b>56,511</b>
<b>87,793</b>	<b>Net assets</b>	<b>95,892</b>	<b>95,097</b>	<b>95,892</b>

The accompanying accounting policies and notes form part of these financial statements.

# Statement of cash flows

for the year ended 30 June 2005

Actual	Notes	Actual	Main	Supp
2004		2005	Estimates	Estimates
\$000		\$000	2005	2005
			\$000	\$000
<b>Cash flows – operating activities</b>				
Cash provided from:				
Supply of outputs to				
385,729		419,360	406,214	419,360
1,231		2,916	1,484	2,817
21,100		24,721	25,018	25,018
<u>408,060</u>		<u>446,997</u>	<u>432,716</u>	<u>447,195</u>
Cash was disbursed for:				
Cost of producing outputs				
241,673		265,716	262,477	267,786
123,909		118,758	131,407	122,442
(1,175)		(190)	0	1,091
7,651		7,023	6,999	7,023
<u>372,058</u>		<u>391,307</u>	<u>400,883</u>	<u>398,342</u>
<b>36,002</b>	<b>Net cash inflow/(outflow) from operating activities</b>	<b>55,690</b>	<b>31,833</b>	<b>48,853</b>
	11			
<b>Cash flows – investing activities</b>				
Cash provided from:				
204		45	0	0
Cash disbursed for:				
33,491		50,930	35,716	60,717
<b>(33,287)</b>	<b>Net cash inflow/(outflow) from investing activities</b>	<b>(50,885)</b>	<b>(35,716)</b>	<b>(60,717)</b>
<b>Cash flows – financing activities</b>				
Cash provided from:				
1,490		8,099	8,099	8,099
Cash disbursed for:				
1,857		0	0	0
0		0	0	0
<u>1,857</u>		<u>0</u>	<u>0</u>	<u>0</u>
<b>(367)</b>	<b>Net cash inflow/(outflow) from financing activities</b>	<b>8,099</b>	<b>8,099</b>	<b>8,099</b>
2,348	Net inc/(dec) in cash held	12,904	4,216	(3,765)
11,339	Opening cash	13,687	13,312	13,687
<b>13,687</b>	<b>Closing cash</b>	<b>26,591</b>	<b>17,528</b>	<b>9,922</b>

The accompanying accounting policies and notes form part of these financial statements.

# Statement of commitments

as at 30 June 2005

Actual		Actual	Main	Supp
2004		2005	Estimates	Estimates
\$000		\$000	2005	2005
			\$000	\$000
	<b>Capital commitments</b>			
	<i>Equipment</i>			
1,001	Less than one year	1,512	512	512
<b>1,001</b>	<b>Total capital commitments</b>	<b>1,512</b>	<b>512</b>	<b>512</b>
	<b>Operating commitments</b>			
	<i>Non-cancellable accommodation leases</i>			
21,164	Less than one year	23,710	19,294	19,294
14,232	One to two years	21,659	16,490	16,490
22,382	Two to five years	30,535	29,099	29,099
2,512	Over five years	3,313	34,689	34,689
<b>60,290</b>	<b>Total accommodation commitments</b>	<b>79,217</b>	<b>99,572</b>	<b>99,572</b>
	<i>Other non-cancellable leases</i>			
25,110	Less than one year	8,436	12,096	12,096
12,127	One to two years	7,865	0	0
0	Two to five years	23,596	0	0
0	Over five years	7,865	0	0
<b>37,237</b>	<b>Total other lease commitments</b>	<b>47,762</b>	<b>12,096</b>	<b>12,096</b>
	<i>Non-cancellable contracts for the supply of goods and services</i>			
8,083	Less than one year	20,114	6,919	6,919
1,845	One to two years	445	241	241
150	Two to five years	648	0	0
0	Over five years	270	0	0
<b>10,078</b>	<b>Total supply commitments</b>	<b>21,477</b>	<b>7,160</b>	<b>7,160</b>
<b>107,605</b>	<b>Total operating commitments</b>	<b>148,456</b>	<b>118,828</b>	<b>118,828</b>
<b>108,606</b>	<b>Total commitments</b>	<b>149,968</b>	<b>119,340</b>	<b>119,340</b>

The accompanying accounting policies and notes form part of these financial statements.

Operating leases include lease payments for premises, computer and IT equipment, telephone exchange systems and office equipment.

Inland Revenue has long-term leases on its premises at many locations throughout New Zealand. The annual lease payments are subject to regular reviews and the amounts disclosed as future commitments are based on the current rental rates.

Commitments for non-cancellable accommodation leases include commitments for the surplus space as a result of organisational restructuring. Provision has been made in the financial statements for the expected net expenses for the duration of the lease in respect of this surplus space.

Inland Revenue has entered into non-cancellable contracts for computer maintenance and other contracts for goods and services.

# Statement of contingent assets

as at 30 June 2005

Actual 2004 \$000		Actual 2005 \$000
49	Legal proceedings and disputes	0
<b>49</b>	<b>Total contingent assets</b>	<b>0</b>

The accompanying accounting policies and notes form part of these financial statements.

# Statement of contingent liabilities

as at 30 June 2005

Actual 2004 \$000		Actual 2005 \$000
96	Personal grievances	185
295	Legal proceedings and disputes	981
242	Other contingent liabilities	0
<b>633</b>	<b>Total contingent liabilities</b>	<b>1,166</b>

The department is involved in a large number of legal proceedings and disputes. The majority of these court cases relate to tax prosecutions, debt collection cases and insolvency matters. The expected value of the contingent liability is calculated using an outcome probability model that weighs the total potential liability against outcome probabilities. Independent confirmation on the liability has been ascertained for most significant cases, but not for the larger number of smaller cases where the cost of confirmation outweighs the benefit.

The accompanying accounting policies and notes form part of these financial statements.

# Statement of unappropriated departmental expenditure

for the year ended 30 June 2005

Inland Revenue incurred no unappropriated expenditure to 30 June 2005 (2004, nil).

# Statement of departmental expenditure and appropriations

for the year ended 30 June 2005

(figures are GST-inclusive, where applicable)

Actual 2004 \$000		Actual 2005 \$000	Final voted* 2005 \$000
	<b>Vote: Revenue</b>		
	<i>Appropriations for output classes</i>		
11,091	Policy advice	10,826	10,832
7,408	Adjudication and Rulings	7,208	7,270
107,665	Information services	117,755	117,867
65,780	Revenue assessment and collection	64,603	65,118
66,780	Management of debt and outstanding returns	69,845	70,705
110,297	Taxpayer audit	123,021	124,637
62,479	Assessment and collection of child support	66,847	67,666
23,231	Collection of ACC levies	23,063	23,063
<b>454,731</b>	<b>Total</b>	<b>483,168</b>	<b>487,158</b>

\* This includes adjustments made in the Supplementary Estimates and transfers under the Public Finance Act.

The accompanying accounting policies and notes form part of these financial statements.

## Transfers under section 5 Public Finance Act

	Supp Estimates 2005 \$000	Section 5 transfers 2005 \$000	Final voted* 2005 \$000
<b>Vote: Revenue</b>			
<i>Appropriations for output classes</i>			
Policy advice	10,945	(113)	10,832
Adjudication and Rulings	7,270	0	7,270
Information services	117,642	225	117,867
Revenue assessment and collection	64,724	394	65,118
Management of debt and outstanding returns	71,155	(450)	70,705
Taxpayer audit	124,356	281	124,637
Assessment and collection of child support	68,003	(337)	67,666
Collection of ACC levies	23,063	0	23,063
<b>Net adjustment</b>	<b>487,158</b>	<b>0</b>	<b>487,158</b>

\* This includes adjustments made in the Supplementary Estimates and transfers under the Public Finance Act.

The accompanying accounting policies and notes form part of these financial statements.

# Statement of trust monies

for the year ended 30 June 2005

	As at 1 July 2004 \$000	Contribution \$000	Distribution \$000	As at 30 June 2005 \$000
Child support	1,091	143,475	(134,459)	10,107
Child support – reciprocal agreements	98	4,904	(4,873)	129
<b>Total</b>	<b>1,189</b>	<b>148,379</b>	<b>(139,332)</b>	<b>10,236</b>

This trust account was established in accordance with sections 67, 68 and 139 of the Child Support Act 1991.

Inland Revenue administers this trust account for amounts collected from non-custodial parents and the subsequent child support payments that are paid to the custodial parents.

The accompanying accounting policies and notes form part of these financial statements.

# Notes to the financial statements

for the year ended 30 June 2005

## Note 1: Other revenue

Actual 2004 \$000		Actual 2005 \$000
20,650	Agency fee (Accident Compensation Corporation)	20,500
1,342	Supply of information to other agencies	1,393
263	State Sector Retirement Savings Scheme	1,324
1,570	Court cost recovery	1,099
935	Rulings	620
419	Rental recovery	327
4	Other	10
<b>25,183</b>	<b>Total other revenue</b>	<b>25,273</b>

## Note 2: Personnel expenses

Actual 2004 \$000		Actual 2005 \$000
216,439	Salaries and wages	238,145
10,870	Contractors and temporary staff	12,256
7,158	Retiring and long-service leave	4,790
2,783	Superannuation	3,773
898	Bonuses	735
1,124	ACC levies	720
5,838	Other	4,488
<b>245,110</b>	<b>Total personnel expenses</b>	<b>264,907</b>

**Note 3: Operating expenses**

<b>Actual 2004 \$000</b>		<b>Actual 2005 \$000</b>
35,907	Information technology costs	30,506
19,853	Operating lease rentals	21,189
16,061	Communication	18,158
10,641	Office supplies	10,181
8,438	Legal expenses	9,353
7,289	Services	7,736
6,231	Travel and transport	7,174
6,269	Training and employee-related	6,880
5,326	Premises costs	6,217
3,433	Consultants	3,899
1,543	Advertising and publicity	2,776
1,077	Equipment maintenance	1,121
850	Audit fees for audit of the financial statements	850
35	Bad debts written off	564
(51)	Inc/(dec) in provision for doubtful debts	(239)
(822)	Inc/(dec) in provision for restructuring	(403)
166	Other operating expenses	208
<b>122,246</b>	<b>Total operating expenses</b>	<b>126,170</b>

**Note 4: Depreciation**

<b>Actual 2004 \$000</b>		<b>Actual 2005 \$000</b>
15,695	Software	16,792
6,917	IT equipment	7,668
4,061	Leasehold improvements	4,172
2,039	Office equipment	1,902
429	Furniture	353
410	Motor vehicles	299
<b>29,551</b>	<b>Total depreciation expense</b>	<b>31,186</b>

## Note 5: Capital charge

The department pays a capital charge to the Crown on taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2005 was 8% (2004, 8.5%).

## Note 6: Debtors and receivables

Actual 2004 \$000		Actual 2005 \$000
5,711	Other receivables	3,585
(153)	Less provision for doubtful debts	(391)
<b>5,558</b>	<b>Total debtors and receivables</b>	<b>3,194</b>

## Note 7: Fixed assets

	At cost 2004 \$000	Accumulated depreciation 2004 \$000	Net book value 2004 \$000	At cost 2005 \$000	Accumulated depreciation 2005 \$000	Net book value 2005 \$000
Software	261,768	226,446	35,322	287,822	239,067	48,755
IT equipment	47,041	32,275	14,766	47,970	32,024	15,946
Leasehold improvements	50,673	37,556	13,117	53,459	41,726	11,733
Office equipment	18,889	13,749	5,140	19,591	14,647	4,944
Motor vehicles	4,759	2,694	2,065	5,707	2,921	2,786
Furniture	4,579	3,632	947	5,150	3,925	1,225
Assets under construction (software/IT equipment)	15,829	0	15,829	19,280	0	19,280
Assets under construction (leasehold improvements)	1,565	0	1,565	3,710	0	3,710
<b>Total</b>	<b>405,103</b>	<b>316,352</b>	<b>88,751</b>	<b>442,689</b>	<b>334,310</b>	<b>108,379</b>

**Note 8: Creditors and payables**

<b>Actual 2004 \$000</b>		<b>Actual 2005 \$000</b>
4,300	Accounts payable	6,366
433	Accrued expenses – employees	1,523
13,514	Accrued expenses – other	9,672
3,541	GST payable	3,730
<b>21,788</b>	<b>Total creditors and payables</b>	<b>21,291</b>

**Note 9: Provision for employee entitlements****Movements in provision**

<b>Actual 2004 \$000</b>		<b>Actual 2005 \$000</b>
29,605	Opening balance	37,515
25,440	Additional provisions made during the year	25,902
(17,508)	Charged against provision for the year	(22,313)
(22)	Unused amounts reversed during the year	(82)
<b>37,515</b>	<b>Closing balance</b>	<b>41,022</b>

**Employee entitlement provision**

<b>Actual 2004 \$000</b>		<b>Actual 2005 \$000</b>
	<b>Current liabilities</b>	
10,827	Annual leave provision	12,732
608	Long-service leave provision	659
767	Retiring leave	606
142	Time off in lieu	85
1,874	Other	9
<b>14,218</b>	<b>Total current portion</b>	<b>14,091</b>
	<b>Non-current liabilities</b>	
4,557	Long-service leave	4,847
18,740	Retiring leave	22,084
<b>23,297</b>	<b>Total non-current portion</b>	<b>26,931</b>
<b>37,515</b>	<b>Total employee entitlement provision</b>	<b>41,022</b>

## Note 10: Provision for restructuring expenses

### Movements in provision

Actual 2004 \$000		Actual 2005 \$000
7,570	Opening balance	4,455
(822)	Inc/(dec) in provision during the year	403
(2,293)	Charged against provision for the year	(2,442)
<b>4,455</b>	<b>Closing balance</b>	<b>2,416</b>

### Restructuring provision

Actual 2004 \$000		Actual 2005 \$000
	<b>Current liabilities</b>	
1,457	Net expenses on surplus space leased under non-cancellable operating leases	523
800	Restructuring expenses	530
<u>2,257</u>	<b>Total current portion</b>	<u>1,053</u>
	<b>Non-current liabilities</b>	
2,198	Net expenses on surplus space leased under non-cancellable operating leases	1,363
<u>2,198</u>	<b>Total non-current portion</b>	<u>1,363</u>
<b>4,455</b>	<b>Total restructuring provision</b>	<b>2,416</b>

**Note 11: Reconciliation of net surplus to net cash flow from operating activities**

Actual 2004 \$000		Actual 2005 \$000
(3,705)	Net surplus/(deficit)	1,108
	<b>Add non-cash items</b>	
29,551	Depreciation	31,186
5,652	Inc/(dec) in non-current employee entitlements	3,634
(2,263)	Inc/(dec) in non-current restructuring expenses	(835)
32,940	Total non-cash items	33,985
	<b>Add/(less) working capital movements</b>	
(2,852)	(Inc)/dec in debtors and receivables	2,364
(522)	(Inc)/dec in prepayments	5,824
10,000	(Inc)/dec in debtor Crown	14,166
(1,324)	Inc/(dec) in creditors and payables	(499)
2,258	Inc/(dec) in current employee entitlements	(127)
(852)	Inc/(dec) in current restructuring expenses	(1,204)
6,708	Working capital movements – net	20,524
	<b>Add/(less) investing activity items</b>	
59	Net loss on sale of fixed assets	73
59	Total investing activity items	73
36,002	Net cash inflow/(outflow) from operating activities	55,690

**Note 12: Financial instruments**

Inland Revenue is party to financial instruments as part of its everyday operations. These include instruments such as bank balances, accounts receivable, accounts payable and foreign currency forward exchange contracts.

**Credit risk**

Credit risk is the risk that a third party will default on its obligations to Inland Revenue, causing the department to incur a loss. In the normal course of its business, Inland Revenue incurs credit risk from trade debtors.

Inland Revenue does not require any collateral or security to support financial instruments with financial institutions that Inland Revenue deals with, or with the New Zealand Debt Management Office, as these entities have high credit ratings. For its other financial instruments, Inland Revenue does not have significant concentrations of credit risk.

**Fair value**

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the *Statement of financial position*.

**Currency risk**

Currency risk is the risk that debtor or creditor amounts due in foreign currency, will fluctuate because of changes in foreign exchange rates. Inland Revenue uses foreign currency forward exchange contracts to manage foreign exchange exposures where single foreign exchange transactions exceed \$NZ100,000, or the transaction exposure for an individual currency exceeds \$NZ100,000.

## Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could impact on the return on investments or the cost of borrowing. Inland Revenue has no significant exposure to interest rate risk on its financial instruments.

Under the Public Finance Act 1989 Inland Revenue cannot raise a loan without ministerial approval and no such loans have been raised. Accordingly, there is no interest rate exposure for funds borrowed.

## Note 13: Related party information

Inland Revenue is a wholly owned entity of the Crown. The government significantly influences the roles of Inland Revenue as well as being its major source of revenue.

Inland Revenue enters into numerous transactions with other government departments, Crown agencies and state-owned enterprises on an arm's length basis. Where those parties are acting in the course of their normal dealings with Inland Revenue, related party disclosures have not been made for transactions of this nature.

Apart from those transactions described above, Inland Revenue has not entered into any related party transactions.

## Note 14: Major budget variations

### Statement of financial performance

There were no significant budget variations between the Main Estimates and the Supplementary Estimates budget figures in the *Statement of financial performance*.

### Statement of financial position

There were some significant budget variations between the Main Estimates and the Supplementary Estimates budget figures in the *Statement of financial position*:

- *Cash* was lower than Main Estimates by \$7.606 million (43%)
- *Debtor Crown* was lower than Main Estimates by \$14.166 million (39%)
- *Fixed assets* were higher than Main Estimates by \$24.644 million (27%).

These significant variations were all due to a decision to purchase mainframe hardware and software, following a review of our mainframe outsourcing contract.

There were also some significant budget variations between Actual and the Supplementary Estimates in the *Statement of financial position*:

- *Cash* was higher than budget by \$16.669 million (168%). This was due to deferred capital spending, a reduction in income from court cost recoveries and rulings, and a reduction in prepayments.
- *Fixed assets* were lower than budget by \$6.265 million (5%). This was due to deferred capital spending on laptops, motor vehicles, and information technology projects.
- *Creditors and payables* were higher than budget by \$3.393 million (19%). This was due to an increase in GST payable, accrued liabilities to non-departments, and an increase in provisions and payables to departments.

### Statement of commitments

There was a significant budget variation between Actual and the Supplementary Estimates in the *Statement of commitments*:

- Total commitments were higher than budget by \$30.628 million (26%). This was due to a contract extension to our EDS Mainframe and Telecom Network Services contracts and a new TelstraClear contract.

## **Note 15: New Zealand International Financial Reporting Standards**

In August 2003, the Government announced that New Zealand International Financial Reporting Standards (NZ IFRS) would be used to prepare Crown financial statements as part of the 2007 Budget. This means that comparative information for the year ending 30 June 2007 and the opening *Statement of financial position* as at 1 July 2006 will need to be restated so that they comply with NZ IFRS.

In preparation for this conversion, a project is currently under way to assess the potential impacts on the Departmental financial statements.

## **Note 16: Events after balance date**

No events have occurred between the balance date and date of signing these financial statements that materially affect the financial statements.

# Summary of departmental financial results

for the year ended 30 June

	Unit	Actual 2005	Actual 2004	Actual 2003
<b>Operating results</b>				
Revenue: Third parties	\$000	25,273	25,183	28,616
Output expenses	\$000	429,359	404,617	382,362
Operating surplus before capital charge	\$000	8,131	3,946	9,509
Net surplus/(deficit)	\$000	1,108	(3,705)	1,858
<b>Working capital</b>				
Liquid ratio		1.38	1.45	1.50
Current ratio		1.42	1.59	1.68
Average payment period of trade creditors	Days	19.82	26.57	29.27
<b>Resource utilisation</b>				
<i>Physical assets</i>				
Physical assets as % of total assets	%	67%	59%	56%
Additions as % of physical assets	%	47%	38%	29%
<i>Taxpayers' funds</i>				
Level at year end	\$000	95,892	87,793	90,008
Taxpayers' funds as % of total assets	%	59%	58%	59%
<b>Forecast net cash flows</b>				
Surplus/(deficit) from operating activities	\$000	55,690	36,002	19,606
Surplus/(deficit) from investing activities	\$000	(50,885)	(33,287)	(24,170)
Surplus/(deficit) from financing activities	\$000	8,099	(367)	(1,974)
<b>Net increase/(decrease) in cash held</b>	<b>\$000</b>	<b>12,904</b>	<b>2,348</b>	<b>(6,538)</b>

