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Public Trust First Report
For the period 1 March 2002 to 30 June 2002

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Purpose

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This Report has been prepared to meet the requirements of:

- Section 40 of the Public Trust Act 2001
- Part V of the Public Finance Act 1989; and
- The Statement of Intent of Public Trust.

The report covers the activities for the period 1 March 2002 to 30 June 2002.

Chairman's Report

Public Trust was established as a Crown entity under the Public Trust Act 2001 on 1 March 2002 to take over the role and undertakings of the Public Trustee and the Public Trust Office. This is the first report of Public Trust and covers the four months from 1 March 2002 to 30 June 2002.

Because of the net deficit reported, the Board has been very active and given significant consideration to both the operating and strategic positions of Public Trust. The Board has adopted the vision proposed by management and supported the initiatives outlined in the Chief Executive's report.

Following the recently completed strategic review, Public Trust's Strategic Plan was accepted by the Minister Responsible for Public Trust and the Minister of Finance.

Upon establishment of Public Trust, the Board introduced governance disciplines at an appropriate level with strict controls on delegated authorities, commitments to capital expenditure and standing committees. Standing committees consist of an Audit, Finance and Risk Management Committee, a Due Diligence Committee, an Investment Committee, a Human Resources Committee and a Social Responsibility Committee. Special project committees have been formed as required.

On behalf of the Board I wish to thank the staff for their sustained efforts and commitment which are very much appreciated. Public Trust is very dependent upon the goodwill of the staff and it will be their dedication and continued efforts that will ensure the future success of Public Trust.



Peter J M Taylor

CHAIRMAN

Chief Executive's Report

The net deficit is \$1,373,000 for the four months ended 30 June 2002 compared with the budgeted deficit of \$268,000. This unfavourable result compared with budget primarily reflects:

- Unbudgeted restructuring costs for the centralisation of the back office functions of \$540,000.
- Budgeted management fees on the Group Investment Funds of \$450,000 unable to be charged because of the delay in the legislation.
- Lower estate administration fees not yet offset by an increase in the number of estates managed.

Management continued to give considerable effort to determine the appropriate business strategy for taking Public Trust forward. The Board adopted a Strategic Plan in which it approved our vision to be "the steward of choice for New Zealanders". This will require a change in focus from that of the writing of wills to estate management and trustee services.

During the period there have been steps undertaken to improve the financial performance and meet our social responsibility obligations. These include:

- Introduction of a new fee structure for estate administration services to lower fees to competitive levels.
- Launch of an online wills service to improve our accessibility to the general public.
- Launch of an innovative scheme to enable customers to prepay estate administration fees.
- Increased presence in and management focus on the Auckland market.
- Introduction of a more commercial culture into the organisation.

In addition to these initiatives, Public Trust has two extra sources of revenue to assist it to return to profitability. From 1 March 2002 Public Trust has received a payment from the Crown for the delivery of its non-commercial services in accordance with a Memorandum of Understanding with the Minister responsible for Public Trust, and from mid July 2002 management fees have been charged to those Group Investment Funds which were previously exempt from such charges.

Our immediate task is to deliver performance and return Public Trust to profitability as soon as possible, balanced with the need to continue to invest in Public Trust's long-term future. This has been and continues to be a busy time for the Public Trust team, and I thank them for their work.



Tim Sole

CHIEF EXECUTIVE

Statement of Responsibility for the period 1 March 2002 to 30 June 2002

The Board and management of Public Trust accepts responsibility for the preparation of the Financial Statements. The judgments applied in the preparation of the Financial Statements are given in the Statement of Accounting Policies.

The Board and management of Public Trust accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Board and management of Public Trust, the Financial Statements for the period from 1 March 2002 to 30 June 2002, fairly reflect the financial position, results of operations and cash flows of Public Trust.



Peter J M Taylor
CHAIRMAN



Tim Sole
CHIEF EXECUTIVE

Statement of Financial Position as at 30 June 2002

	notes	Actual	Group	Actual	Parent	Actual
		Jun 2002	Budget	Feb 2002	Actual	Actual
		\$000	\$000	\$000	Jun 2002	Feb 2002
					\$000	\$000
■ ASSETS						
Cash and bank		6,750		2,001	6,748	1,995
Money market deposits at call		5,680		15,785	5,680	15,785
Interest bearing securities	1	198,880		134,871	198,880	134,871
Advances to clients		7,135		3,315	7,135	3,315
Accrued income		985		1,430	985	1,430
Trade debtors	2	3,173		2,515	2,829	2,242
Sundry debtors	3	486		694	315	553
Investments in managed funds		90,880		145,878	90,880	145,878
Advances secured by mortgage	4	165,200		163,745	165,200	163,745
Total financial assets		479,169	491,362	470,234	478,652	469,814
Prepayments		704	800	608	704	608
Property, plant & equipment	5	7,892	8,454	8,277	7,892	8,277
Intangibles	6	5,175	5,190	5,398	-	-
Sums due from subsidiary		-	-	-	-	317
Investment in subsidiary	7	-	-	-	7,203	7,134
		492,940	505,806	484,517	494,451	486,150
■ LIABILITIES						
Liability to clients		311,219		324,228	311,219	324,228
Liability to clients - term deposits		131,284		108,379	131,284	108,379
Accrued interest		1,716		1,573	1,716	1,573
Total liabilities to clients		444,219	454,994	434,180	444,219	434,180
Trade creditors		1,963	2,471	2,842	1,931	2,826
Other creditors	8	1,068	-	704	1,068	704
Provisions for employee entitlements	9	5,028	5,270	4,690	5,028	4,690
Other provisions	10	1,861	-	1,927	1,861	1,927
Loan from subsidiary		-	-	-	1,543	1,649
Total liabilities		454,139	462,735	444,343	455,650	445,976
Equity		38,801	43,071	40,174	38,801	40,174
Total liabilities plus equity		492,940	505,806	484,517	494,451	486,150



Peter Taylor
DIRECTOR

Date: 27th September 2002



Liz Coutts
DIRECTOR

Date: 27th September 2002

The Statement of Accounting Policies and Notes to the Financial Statements form part of this financial statement.

Statement of Movements in Equity for the period 1 March 2002 to 30 June 2002

	notes	Group		Parent	
		Actual Jun 2002 \$000	Budget Jun 2002 \$000	Actual Feb 2002 \$000	Actual Jun 2002 \$000
Equity at the beginning of the period		-	-	72,230	-
Net surplus (deficit) after tax		(1,373)	(268)	(7,056)	(1,373)
Total recognised revenues & expenses for the period		(1,373)	(268)	(7,056)	(1,373)
Distributions to the Crown during the period		-	-	(25,000)	-
Contribution by the Crown	14	40,174	43,339	-	40,174
Equity at the end of the period		38,801	43,071	40,174	38,801

This Statement of Movements in Equity is for a four month period ending on 30 June 2002. The comparative is for an eight month period ending on 28 February 2002.

The Statement of Accounting Policies and Notes to the Financial Statements form part of this financial statement.

Statement of Financial Performance for the period 1 March 2002 to 30 June 2002

		Actual	Group	Actual	Actual	Parent
		Jun 2002	Budget	Feb 2002	Jun 2002	Actual
	notes	\$000	\$000	\$000	\$000	\$000
■ REVENUE						
Income from financial instruments						
Interest from interest bearing securities		3,176		7,755	3,175	7,753
Interest from advances secured by mortgage		3,825		5,044	3,825	5,044
Distributions from managed funds		1,948		5,463	1,948	5,463
		8,949		18,262	8,948	18,260
Interest expense		5,312		11,194	5,312	11,194
		3,637	4,086	7,068	3,636	7,066
Other operating revenue		10,630	10,901	23,157	10,325	22,541
Crown revenue		1,507	1,374	-	1,507	-
Income before operating expenses		15,774	16,361	30,225	15,468	29,607
■ EXPENSE						
Operating costs		15,058	14,524	31,551	15,043	31,515
Operating lease costs		1,153	1,293	3,192	1,153	3,192
Depreciation		733	589	2,221	733	2,221
Net losses on disposals of property, plant & equipment		132	-	56	132	56
Impairment losses		-	-	433	-	433
Amortisation of goodwill		223	223	445	223	1,278
		17,299	16,629	37,898	17,284	38,695
Net gains (losses) on investments		152	-	617	152	617
Equity accounted earnings		-	-	-	291	582
Net surplus (deficit) for the period	15-17	(1,373)	(268)	(7,056)	(1,373)	(7,889)

The Statement of Accounting Policies and Notes to the Financial Statements form part of this financial statement.

This Statement and the Statement of Cash Flows is for a four month period ending on 30 June 2002. The comparative is for an eight month period ending on 28 February 2002.

Statement of Cash Flows for the period 1 March 2002 to 30 June 2002

		Group		Parent		
	notes	Actual Jun 2002 \$000	Budget Jun 2002 \$000	Actual Feb 2002 \$000	Actual Jun 2002 \$000	Actual Feb 2002 \$000
■ CASH FLOWS FROM OPERATING ACTIVITIES						
Cash was provided from:						
Fees and other income		11,474		23,931	11,260	23,262
Dividends		1,996		5,843	1,996	5,842
Interest		7,535		13,146	7,535	13,144
		21,005		42,920	20,791	42,248
Cash was applied to:						
Operating expenses		15,823		33,477	15,852	33,396
Interest		5,308		10,887	5,308	10,887
Taxation		30		141	-	-
GST		129		94	120	93
		21,290		44,599	21,280	44,376
Net cash flows from operating activities	17	(285)	1,398	(1,679)	(489)	(2,128)
■ CASH FLOWS FROM INVESTING ACTIVITIES						
Cash was provided from:						
Sale of property, plant & equipment		-	-	106	-	106
Net flows from trading & settlement of investments		-	-	20,479	-	20,479
		-	-	20,585	-	20,585
Cash was applied to:						
Purchase of property, plant & equipment		649	434	488	649	488
Net flows from trading & settlement of investments		4,362	21,124	-	4,362	-
		5,011	21,558	488	5,011	488
Net cash flows from investing activities		(5,011)	(21,558)	20,097	(5,011)	20,097
■ CASH FLOWS FROM FINANCING ACTIVITIES						
Cash was provided from:						
Net receipts from clients		10,045	20,814	4,589	10,253	5,037
Cash was applied to:						
Distributions to owner		-	-	25,000	-	25,000
		-	-	25,000	-	25,000
Net cash flows from financing activities		10,045	20,814	(20,411)	10,253	(19,963)
Net (decrease) increase in cash		4,749	654	(1,993)	4,753	(1,994)
Cash at beginning of period		2,001	2,001	3,994	1,995	3,989
Cash at end of period		6,750	2,655	2,001	6,748	1,995

This Statement of Accounting Policies and Notes to the Financial Statements form part of this financial statement.

Statement of Commitments as at 30 June 2002

Commitments to be met by Public Trust are as follows:

Operating Lease Commitments

	Group		Parent	
	Jun 2002	Feb 2002	Jun 2002	Feb 2002
	\$000	\$000	\$000	\$000
Payable within 1 year	3,671	4,704	3,671	4,704
Payable within 1-2 years	2,781	3,118	2,781	3,118
Payable within 2-5 years	2,793	3,795	2,793	3,795
Payable after 5 years	343	402	343	402
	9,589	12,019	9,589	12,019

Other Commitments

Public Trust has contracted to pay \$138,000 for capital expenditure within the next year (Feb 2002: \$Nil).

Public Trust, in accordance with its mortgage lending, has commitments to provide funding under undrawn revolving credit facilities to a value of \$4 million (Feb 2002: \$4million).

Statement of Contingent Liabilities as at 30 June 2002

Taxation

Residual uncertainties as to the taxation effects of the dissolution of the Public Trust Office by the Public Trust Act 2001 are under discussion with Inland Revenue. The estimated potential liability is \$2 million, together with any applicable additional charges (February 2002: \$2 million plus additional charges).

Statement of Accounting Policies for the period 1 March 2002 to 30 June 2002

REPORTING ENTITY AND STATUTORY BASIS FOR REPORTING

These are the first financial statements of Public Trust, a body corporate established by the Public Trust Act 2001 on 1 March 2002. The Public Trust Act 2001 defines Public Trust to be a Crown entity for the purposes of the Public Finance Act 1989. Accordingly, Public Trust is subject to Part V of the Public Finance Act 1989 which requires Public Trust to prepare its financial report in accordance with the specifications within that Part of the Act, including in compliance with generally accepted accounting practice as defined by that Act.

Because Public Trust is an issuer, it is also subject to the Financial Reporting Act 1993. The financial statements of Public Trust are therefore required to comply with generally accepted accounting practice, as defined by the Financial Reporting Act 1993.

Public Trust comprises the legal entity as defined by the Public Trust Act 2001 and its significant subsidiary and includes those liabilities defined as the Common Fund by section 48 of the Public Trust Act 2001. The activities and assets of the Group Investment Funds and Public Trust Investment Funds managed by Public Trust are not included except to the extent that Public Trust invested in those funds on its own account. Similarly, the assets managed for individual trusts, except for cash held in the Common Fund, are not included.

MEASUREMENT BASIS

Historic cost and fair value accounting measurement bases have been applied in the preparation of this financial report.

REPORTING PERIOD

The reporting period is for the 4 months from 1 March 2002 to 30 June 2002.

COMPARATIVES

Comparatives are for the 8 months from 1 July 2001 to 28 February 2002. These comparatives are not those applying to Public Trust but to its predecessor, the Public Trust Office. Public Trust is subject to the requirements of the Public Finance Act 1989 and certain other state sector requirements for the first time. Consequently, remuneration of employees is presented without comparatives, and comparatives in respect to tax have been omitted because the tax position was not carried forward to Public Trust from the Public Trust Office. Some debtor and creditor balances have been reclassified to conform to current year presentation.

ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include Public Trust (the parent) and its significant subsidiary, New Zealand Permanent Trustees Limited, accounted for using the purchase method. This entails a line-by-line aggregation of the financial statements and the elimination of intra-group transactions and balances.

Goodwill arising on consolidation

Goodwill is amortised in equal annual instalments over the period expected to benefit, which is 10 years. The resultant carrying value is subject to an impairment review to ensure that the carrying value does not exceed the recoverable amount.

Investment in subsidiary

The parent's investment in its significant subsidiary is accounted for using the equity method of accounting. This entails recognising the parent's share of increases in post acquisition equity and amortising goodwill arising on acquisition over a 10 year period.

Statement of Accounting Policies for the period 1 March 2002 to 30 June 2002

ASSETS

Investments

Investments in interest bearing securities and managed funds are carried at fair value.

Advances secured by mortgages and other advances to clients

Advances secured by mortgage and other advances are carried at the face value of principal outstanding plus interest added to principal less general and specific provision. Interest arising not yet added to principal, excluding that related to delinquent loans, is accrued as at balance date.

A general provision is made to estimate declines in recoverable amounts incurred but not yet known.

Where acquired mortgages have been purchased at a discount or premium, that discount or premium is amortised on a yield to maturity basis.

Accrued income

Short-term accruals are interest or distributions from managed funds arising not yet received or added to principal.

Trade and other debtors

Trade debtors, in the main, represent certain claims for estate administration services where payment is not due until an uncertain point in the future. The timing of the future cash flows have been estimated and discounted accordingly. Other trade debtors represent short term fees invoiced or about to be invoiced but not yet settled and are carried at cash settlement value.

Property, plant & equipment

Property, plant & equipment is recorded initially at the cost necessary to bring each item into working condition. Until property, plant and equipment is brought into a workable condition costs are accumulated as capital work in progress. At the point the asset is operational the cost, less estimated residual value, is depreciated in equal annual instalments across the asset's useful life. Property, plant & equipment are treated as funded from equity, accordingly no interest cost from financial liabilities is attributed to the relevant cost.

In the case of fixtures and fittings installed in leasehold properties useful lives are considered to correspond to the contractual term of the relevant lease. No account is taken of rights of renewal. Useful lives are assessed annually to ensure they remain appropriate and are adjusted as is necessary.

Useful economic lives are as follows:

Plant, vehicles, furniture and fittings	3-10 years
EDP equipment and software	3-5 years

Statement of Accounting Policies for the period 1 March 2002 to 30 June 2002

LIABILITIES

General

Other than as specified, liabilities are recognised when the goods and services to which they relate are received or as statutory obligations arise. Such liabilities are carried at the amount of cash required to settle those liabilities. Commitments, where the value of the goods or services yet to be received is approximately equal to the consideration to be paid, are not recognised, but are disclosed in the Statement of Commitments where material.

Liabilities to clients

These represent Public Trust's liabilities for estate funds invested in the Common Fund and are carried at the amount of cash required to settle those obligations.

Provisions for employee entitlements

Provision is made for annual leave in accordance with the accumulated entitlement as at the balance date. This is carried at the cash amount necessary to settle the obligation. No allowance is made for non-vesting obligations such as sick leave.

Provision is made for long service leave and retirement benefits on an actuarial basis. Projected cash flows are estimated in accordance with both national and entity experience. Resultant projected cash flows are discounted in accordance with the risk free rate as they align with the term structure of interest rates.

Other provisions

The vacant space provision represents gross rentals payable on premises' leases, less rentals receivable from sub-leases, discounted in accordance with the risk free rate.

All other provisions are recognised when Public Trust becomes obligated, at the amount of cash estimated as necessary to settle the obligation or defend legal action.

Derivatives

Interest rate swaps and forward rate agreements are specifically entered into to modify the interest rate character of designated interest bearing assets so as to align the interest rate character with that corresponding to the interest bearing liabilities. These contracts are therefore accounted for on the same basis as the asset to which they relate.

Where interest bearing securities are accounted for at fair value, so too are the related derivatives.

Where fixed interest rate mortgages have related derivatives, the derivatives are carried at cost.

Leases

Leases where substantially all the risks and rewards of ownership do not transfer to Public Trust are treated as operating leases. Subject to the vacant space provision such leases are recognised as costs when payments are made.

Statement of Accounting Policies for the period 1 March 2002 to 30 June 2002

Tax

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effect of timing differences calculated using the rate of tax at which the liability, if any, will be paid.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits arising from income tax losses, is only recognised if there is a virtual certainty of realisation.

Budget figures

The budget included in the financial statements is based on financial projections presented in the Strategic Review recommended by the Public Trust Office Modernisation Board and adopted by the Public Trust Board.

Changes in accounting policy

The opening balances of Public Trust are the same balances as were transferred from the disestablished Public Trust Office. The accounting policies applied in the period to 30 June 2002 are the same as those applied in the preparation of the Final Report of the Public Trust Office.

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

	note	Group		Parent	
		Jun 2002	Feb 2002	Jun 2002	Feb 2002
■ NOTE 1 INTEREST BEARING SECURITIES		\$000	\$000	\$000	\$000
Local authorities		6,988	3,834	6,988	3,834
Banks		75,278	63,249	75,278	63,249
Government Stock		48,210	-	48,210	-
State owned enterprises		24,130	22,172	24,130	22,172
Mortgage backed securities		12,504	11,343	12,504	11,343
Corporate bonds		32,412	34,606	32,412	34,606
Derivative liabilities	13	(642)	(333)	(642)	(333)
		198,880	134,871	198,880	134,871
■ NOTE 2 TRADE DEBTORS					
Crown		419	-	419	-
Debtors of uncertain timing		1,460	1,478	1,460	1,478
Other		1,294	1,037	950	764
		3,173	2,515	2,829	2,242
■ NOTE 3 SUNDRY DEBTORS					
GST		-	208	-	208
Income tax refund due		171	141	-	-
Other tax refunds due		273	241	273	241
Other		42	104	42	104
		486	694	315	553
■ NOTE 4 ADVANCES SECURED BY MORTGAGE					
Gross value		165,619	164,133	165,619	164,133
General provision		(419)	(388)	(419)	(388)
		165,200	163,745	165,200	163,745
General provision					
Opening balance		388	252	388	252
Charge for period		31	136	31	136
		-		-	-
Closing balance		419	388	419	388

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

	Group		Parent	
	Jun 2002	Feb 2002	Jun 2002	Feb 2002
	\$000	\$000	\$000	\$000
■ NOTE 5 PROPERTY, PLANT & EQUIPMENT				
Plant, vehicles, furniture & fittings				
Cost	12,541	13,844	12,541	13,844
Accumulated depreciation	(7,222)	(8,444)	(7,222)	(8,444)
	5,319	5,400	5,319	5,400
EDP equipment & software				
Cost	10,805	11,765	10,805	11,765
Accumulated depreciation	(9,024)	(9,747)	(9,024)	(9,747)
	1,781	2,018	1,781	2,018
	7,100	7,418	7,100	7,418
Capital work in progress				
Opening balance	859	1,400	859	1,400
Transfers to EDP equipment & software	(211)	(108)	(211)	(108)
Additions during period	144	-	144	-
Impairment write downs	-	(433)	-	(433)
	792	859	792	859
Total property plant & equipment	7,892	8,277	7,892	8,277

■ NOTE 6 INTANGIBLES

Goodwill arising on acquisition	6,676	6,676
Opening accumulated amortisation	(1,278)	(833)
Charge for period	(223)	(445)
Closing accumulated amortisation	(1,501)	(1,278)
Closing Goodwill	5,175	5,398

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

		Group	Parent
	note	Jun 2002	Feb 2002
■ NOTE 7 INVESTMENT IN SUBSIDIARY		\$000	\$000
			Percent held
			Jun 2002
			Feb 2002
New Zealand Permanent Trustees Limited			100%
New Zealand Permanent Trustees Limited provides trustee and supervisory services.			
Analysis of investment			
Original investment			7,831
Less: equity at date of acquisition			(1,155)
Goodwill			6,676
Less: amortised to date	6		(1,278)
			5,175
Add: net assets at end of period			
Net assets at beginning of period			1,736
Earnings arising in the period			292
			2,028
Carrying value at end of period			7,203
			7,134

■ NOTE 8 OTHER CREDITORS

Withholding taxes payable	271	260	271	260
GST	41	-	41	-
Fee reversals	200	358	200	358
Employee Salaries	556	86	556	86
	1,068	704	1,068	704

■ NOTE 9 PROVISIONS FOR EMPLOYEE ENTITLEMENTS

Annual leave	1,576	1,381	1,576	1,381
Long service leave	2,996	2,989	2,996	2,989
At risk salaries	456	320	456	320
	5,028	4,690	5,028	4,690

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 10 OTHER PROVISIONS	Group		Parent	
	Jun 2002 \$000	Feb 2002 \$000	Jun 2002 \$000	Feb 2002 \$000
<i>Restructuring</i>				
Opening balance	450	412	450	412
Additions during the period	542	341	542	341
Amount used during the period (cash paid)	(185)	(238)	(185)	(238)
Reversal of provision not used	-	(65)	-	(65)
Closing balance	807	450	807	450
<i>Remedial work & litigation</i>				
Opening balance	827	146	827	146
Gross up for debit balance	-	120	-	120
Restated	827	266	827	266
Additions during the period	115	717	115	717
Amount used during the period (cash paid)	(274)	(64)	(274)	(64)
Reversal of provision not used	(114)	(92)	(114)	(92)
Closing balance	554	827	554	827
<i>Vacant space</i>				
Opening balance	650	982	650	982
Amount used during the period (cash paid)	(51)	(124)	(51)	(124)
Reversal of provision not used	(96)	(64)	(96)	(64)
Discount	(3)	(144)	(3)	(144)
Closing balance	500	650	500	650
Total	1,861	1,927	1,861	1,927

The restructuring provision relates primarily to the termination of employment. It is expected that the sums provided will be paid within one year.

The remedial work and litigation provision relates to a number of matters where fault or alleged fault has been found with Public Trust’s service delivery. Given the nature of the legal process final resolution may take a number of years.

The vacant space provision recognises the cost of leases of surplus premises through to the conclusion of the leases. The final lease expires in 2011.

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 11 RE-PRICING MATURITY AND INTEREST RATE MANAGEMENT

	Effective interest rate	Total	6 months or less	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years
Group June 2002		\$000	\$000	\$000	\$000	\$000	\$000
Assets							
Cash and bank	2.50%	6,750	6,750	-	-	-	-
Money market deposits at call	5.55%	5,680	5,680	-	-	-	-
Interest bearing securities	5.14%	198,880	113,055	59,091	13,204	13,530	-
Advances to clients	9.40%	7,135	7,135	-	-	-	-
Investments in managed funds	5.95%	90,880	90,880	-	-	-	-
Advances secured by mortgage	7.43%	165,200	116,810	24,410	15,148	8,832	-
Other financial assets (inc. tax)	n/a	4,644	4,644	-	-	-	-
		479,169	344,954	83,501	28,352	22,362	-
Liabilities							
Liability to clients	3.56%	311,219	299,235	4,410	7,574	-	-
Liability to clients - term deposits	5.21%	131,284	103,789	27,495	-	-	-
Accrued interest	n/a	1,716	1,443	273	-	-	-
		444,219	404,467	32,178	7,574	-	-
Derivatives							
Interest rate swaps & FRA's		-	44,773	(7,670)	(21,978)	(15,125)	-
Re-pricing gap		34,950	(14,740)	43,653	(1,200)	7,237	-
Group February 2002							
Assets							
Cash and bank	2.50%	2,001	2,001	-	-	-	-
Money market deposits at call	4.80%	15,785	15,785	-	-	-	-
Interest bearing securities	5.45%	134,871	111,500	18,362	-	5,009	-
Advances to clients	6.11%	3,315	3,315	-	-	-	-
Investments in managed funds	5.62%	145,878	145,878	-	-	-	-
Advances secured by mortgage	6.92%	163,745	130,840	16,982	7,370	8,553	-
Other financial assets (inc. tax)	n/a	4,639	4,639	-	-	-	-
		470,234	413,958	35,344	7,370	13,562	-
Liabilities							
Liability to clients	3.03%	324,228	317,273	6,955	-	-	-
Liability to clients - term deposits	4.79%	108,379	91,798	16,581	-	-	-
Accrued interest	n/a	1,573	-	-	-	-	1,573
		434,180	409,071	23,536	-	-	1,573
Derivatives							
Interest rate swaps & FRA's		-	13,629	5,132	(6,960)	(11,801)	-
Re-pricing gap		36,054	18,516	16,940	410	1,761	(1,573)

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 11 RE-PRICING MATURITY AND INTEREST RATE MANAGEMENT (CONTINUED)

	Effective interest rate	Total \$000	6 months or less \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 5 years \$000	Over 5 years \$000
Parent June 2002							
Assets							
Cash and bank	2.50%	6,748	6,748	-	-	-	-
Money market deposits at call	5.55%	5,680	5,680	-	-	-	-
Interest bearing securities	5.14%	198,880	113,055	59,091	13,204	13,530	-
Advances to clients	9.40%	7,135	7,135	-	-	-	-
Investments in managed funds	5.95%	90,880	90,880	-	-	-	-
Advances secured by mortgage	7.43%	165,200	116,810	24,410	15,148	8,832	-
Other financial assets (inc. tax)	n/a	4,129	4,129	-	-	-	-
		478,652	344,437	83,501	28,352	22,362	-
Liabilities							
Liability to clients	3.56%	311,219	299,235	4,410	7,574	-	-
Liability to clients - term deposits	5.21%	131,284	103,789	27,495	-	-	-
Accrued interest	n/a	1,716	1,443	273	-	-	-
		444,219	404,467	32,178	7,574	-	-
Derivatives							
Interest rate swaps & FRA's		-	44,773	(7,670)	(21,978)	(15,125)	-
Re-pricing gap		34,433	(15,257)	43,653	(1,200)	7,237	-
Parent February 2002							
Assets							
Cash and bank	2.50%	1,995	1,995	-	-	-	-
Money market deposits at call	4.80%	15,785	15,785	-	-	-	-
Interest bearing securities	5.45%	134,871	111,500	18,362	-	5,009	-
Advances to clients	6.11%	3,315	3,315	-	-	-	-
Investments in managed funds	5.62%	145,878	145,878	-	-	-	-
Advances secured by mortgage	6.92%	163,745	130,840	16,982	7,370	8,553	-
Other financial assets (inc. tax)	n/a	4,225	4,225	-	-	-	-
		469,814	413,538	35,344	7,370	13,562	-
Liabilities							
Liability to clients	3.03%	324,228	317,273	6,955	-	-	-
Liability to clients - term deposits	4.79%	108,379	91,798	16,581	-	-	-
Accrued interest	n/a	1,573	-	-	-	-	1,573
		434,180	409,071	23,536	-	-	1,573
Derivatives							
Interest rate swaps & FRA's		-	13,629	5,132	(6,960)	(11,801)	-
Re-pricing gap		35,634	18,096	16,940	410	1,761	(1,573)

The effective interest rate is the weighted average of market yields at period end, stated net of derivative instruments where applicable.

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 11 RE-PRICING MATURITY AND INTEREST RATE MANAGEMENT (CONTINUED)

Interest rate risk is managed, subject to liquidity and credit risk requirements, by matching the interest rate characteristics of financial liabilities to those of financial assets. Where no natural match can be established, interest rate swaps and forward rate agreements are entered into to create a hedge.

■ NOTE 12 CREDIT RISK

	Group		Parent	
	Jun 2002 \$000	Feb 2002 \$000	Jun 2002 \$000	Feb 2002 \$000
Public Trust had exposures to the following sectors:				
Real estate mortgages secured by underwriting agreement	62,068	69,316	62,068	69,316
Real estate mortgages & mortgage backed securities	116,145	106,104	116,145	106,104
Advances to clients	7,135	3,315	7,135	3,315
Local authorities	7,173	3,834	7,173	3,834
Registered banks	87,064	81,329	87,063	81,323
State owned enterprises	24,130	22,172	24,130	22,172
New Zealand Government	48,211	-	48,211	-
New Zealand corporates	32,412	34,606	32,412	34,606
Other financial markets (via Public Trust managed funds)	91,071	146,117	91,071	146,117
Receivables	3,760	3,441	3,245	3,027
	479,169	470,234	478,652	469,814

Credit policy

Advances secured by mortgage are secured by a first mortgage charge over freehold property. Loans extended do not exceed at the time of making the loan:

- 90% of the value of residential properties
- 66% of the value of commercial properties
- 50% of the value of rural properties

Where a residential loan exceeds 80% of the valuation, the mortgage security is supplemented by Mortgage Lenders Insurance.

Advances to clients are secured by an assignment of their interest in the estate assets against which the advance is made, or by an unregistered charge over an asset the title to which is held by Public Trust.

Mortgage backed securities are investment products where sums invested are secured over property and by underwriting arrangements. All other investments are senior, unsecured obligations invested with institutions meeting set credit criteria.

Concentration of credit risk

There was one credit exposure to a registered bank between \$25 and \$30 million at balance date. There were two exposures to registered banks between \$15 and \$20 million. There was one exposure to a Corporate with an A+ rating between \$10 and \$15 million. A sum of \$48 million was invested with the Government of New Zealand but this is not considered to represent a credit risk.

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 13 FAIR VALUE

Cash and bank, Money market deposits at call, Advances to clients, Accrued income, Trade debtors (see note 2), Sundry debtors (see note 3), Trade creditors, Other creditors (see note 8), Provisions for employee entitlements (see note 9), Other provisions (see note 10), Loan from subsidiary (parent)

All these financial instruments are at call or are able to be settled in the short term. Accordingly, all these items are carried at cash settlement value. Due to the short-term nature of the instruments there is no material difference between the face value and fair value.

Trade Debtors: Debtors of uncertain timing, Vacant space provision, Long Service Leave provision
These financial instruments have been discounted to present value and therefore are shown at fair value.

Interest bearing securities and Investments in managed funds
These financial instruments are valued at fair value.

Advances secured by mortgages and other advances to clients

Mortgages and other advances to clients are financial instruments to be held to maturity and carried at cost. There is no active market in such instruments. Accordingly, there is no point of reference from which to establish a reliable measure of fair value.

Liabilities to Clients

The fair value of liabilities to clients at call is equivalent to face value which is the carrying value. There is no commonly accepted method of fair valuing term liabilities of the character of Public Trust's term deposits. Consequently, there is no reliable method for determining their fair value.

Derivatives

Public Trust enters into interest rate contracts so as to align the interest rate maturity profile of its interest bearing liabilities and assets. In doing so Public Trust acquires bonds with associated interest rate contracts. Where these contracts are liabilities, they are off-set by commensurate asset value in interest bearing securities. Where the liabilities are carried at fair value, it is the net of the discounted value of the fixed interest coupon Public Trust is required to pay and the floating interest rate income Public Trust will receive under these contracts.

	Group & Parent			Group & Parent		
	June 02			Feb 02		
	Carrying Value	Fair Value	Notional Value	Carrying Value	Fair Value	Notional Value
	\$000	\$000	\$000	\$000	\$000	\$000
Related to interest bearing securities						
Interest rate swap liabilities	631	631	26,000	368	368	18,761
Forward rate agreement liabilities	11	11	5,000	(35)	(35)	30,500
	642	642	31,000	333	333	49,261
Related to mortgages						
Interest rate swap assets	-	56	18,773	-	-	-

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 14 CONTRIBUTION BY THE CROWN

On 1 March 2002 the Public Trust Office was disestablished by the Public Trust Act 2001. Upon disestablishment section 149 of the Act vested the assets and liabilities of the Public Trust Office in the newly established Public Trust. Accordingly, the closing equity of the Public Trust Office represents a contribution by the Crown.

■ NOTE 15 REVENUES ARISING AND EXPENSES INCURRED IN ARRIVING AT NET DEFICIT

In addition to the items on the face of the Statement of Financial Performance, net deficit is stated after charging or crediting the following:

	Group		Parent	
	Jun 2002	Feb 2002	Jun 2002	Feb 2002
	\$000	\$000	\$000	\$000
Audit fees	104	162	94	155
Other fees paid to auditors	17	2	17	-
Directors' remuneration	57	15	57	-
Bad debts				
Movement in general provision	31	136	31	136
Recovery of debt previously written off	-	(31)	-	(31)
Net charge	31	105	31	105
Remuneration	9,602	19,725	9,602	19,725
Modernisation cost	166	1,154	166	1,154
Accelerated depreciation	-	155	-	155
<i>Depreciation:</i>				
Plant, vehicles, furniture & fittings	255	971	255	971
EDP equipment & software	478	1,250	478	1,250
	733	2,221	733	2,221
<i>Effects of changes in accounting policy:</i>				
Discounting of long term deferred charges	-	460	-	460
Discounting of vacant space obligations	-	(144)	-	(144)
Expenditure on information technology not capitalised	-	408	-	408
<i>Amortisation of intangible:</i>				
Backlog arising from change in accounting policy			-	833
Current year charge			223	445
			223	1,278
<i>Gains (losses) on investments:</i>				
Realised gains (losses)	48	(2,571)	48	(2,571)
Less: unrealised loss from prior year	(12)	3,176	(12)	3,176
Realised gains (losses) from disposal of securities	36	605	36	605
Unrealised gains (losses) from revaluing securities	116	12	116	12
	152	617	152	617

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 15 REVENUES ARISING AND EXPENSES INCURRED IN ARRIVING AT NET DEFICIT (CONTINUED)

	Group		Parent	
	Jun 2002	Feb 2002	Jun 2002	Feb 2002
	\$000	\$000	\$000	\$000
Total operating revenue:				
Total interest and distributions	8,949	18,262	8,948	18,260
Total fee and other revenues	12,137	23,157	11,832	22,541
	21,086	41,419	20,780	40,801

Sale value of financial assets is not distinguished from maturities and therefore the revenue from such disposals is not included in operating revenue.

Employee remuneration:

The Chief Executive is the only employee who has earned more than \$100,000 during the four months under review. Public Trust expects the following outcome for annual remuneration:

Annualised remuneration band	Number of employees
\$100,000 to \$109,999	6
\$110,000 to \$119,999	10
\$120,000 to \$129,999	3
\$130,000 to \$139,999	2
\$140,000 to \$149,999	1
\$160,000 to \$169,999	1
\$170,000 to \$179,999	2
\$300,000 to \$309,999	1

■ NOTE 16 TAX

	Group	Parent
	Jun 2002	Jun 2002
	\$000	\$000
Operating deficit before tax	(1,373)	(1,373)
Income tax at 33%	(453)	(453)
<i>Add/(deduct) tax effect of permanent differences</i>		
Non-deductible expenses	2	2
Net effect of imputation credits	-	-
Tax effect of timing differences not recognised	242	146
Tax effect of losses not recognised	209	209
Set-off of inter-entity losses	-	96
	-	-

At balance date the imputation credits available to the owner of Public Trust were, through indirect interest in a subsidiary, \$30,000.

Public Trust has not recognised tax losses to a value of \$924,000, the tax effect of which amounts to \$305,000.

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 17 RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Group		Parent	
	Jun 2002 \$000	Feb 2002 \$000	Jun 2002 \$000	Feb 2002 \$000
Reconciliation of operating surplus to net cash flow from operating activities				
Net deficit	(1,373)	(7,056)	(1,373)	(7,889)
<i>Items relating to property, plant & equipment</i>				
Depreciation	733	2,221	733	2,221
Loss on sale of property, plant & equipment	132	56	132	56
Impairment losses	-	433	-	433
GST on capital creditor	(21)	(1)	(21)	(1)
<i>Items relating to investment in subsidiary</i>				
Amortisation of goodwill	223	445	223	1,278
Equity accounted earnings	-	-	(291)	(582)
<i>Items relating to investments</i>				
Realised (gains) losses on disposal of investments	(36)	(605)	(36)	(605)
Unrealised (gains) losses on investments	(116)	(12)	(116)	(12)
Amortisation of premiums & discounts	302	266	302	266
Change in general provision for doubtful debts	31	136	31	136
<i>Other items</i>				
(Increase)/Decrease in Inventory	-	64	-	64
Increase)/Decrease in Accrued income	445	1,076	445	1,076
(Increase)/Decrease in Trade debtors	(658)	186	(585)	143
(Increase)/Decrease in Sundry debtors	208	(287)	238	(163)
(Increase)/Decrease in Prepayments	(96)	(326)	(96)	(245)
Increase/(Decrease) in Trade creditors (see note below)	(689)	304	(705)	275
Increase/(Decrease) in Accrued Interest	(6)	47	(6)	47
Increase/(Decrease) in Other creditors	364	618	364	618
Increase/(Decrease) in Provisions for employee entitlements	338	489	338	489
Increase/(Decrease) in Other provisions	(66)	267	(66)	267
Net cash flows from operating activities	(285)	(1,679)	(489)	(2,128)
Trade creditors				
Trade creditors movement per balance sheet	(879)		(895)	
Less: movement of capital creditors	190		190	
	(689)		(705)	

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 18 RELATED PARTIES

By virtue of ownership the Crown is considered to have significant influence over Public Trust. Accordingly the Crown and all of its related parties are related parties of the Public Trust. Transactions with all of these related parties are pervasive and it is not practical to isolate and report on them. All such transactions are carried out on an “arm’s length” basis.

The investment vehicle in which the investment described as ‘Investment in managed funds’ is considered to be a related party because Public Trust manages the relevant fund and owns 90% of the sums invested by the fund and, thereby, is considered to have significant influence. The balances are as given in the Statement of Financial Position. The income is described as ‘Distributions of managed funds’ in the Statement of Financial Performance.

Public Trust, as parent, owns all of the shares of New Zealand Permanent Trustees Limited. Accordingly, Public Trust has significant influence with that company and both entities are therefore related parties. Balances due from and by that company are given on the Statement of Financial Position. Public Trust supplies all facilities to the company for which it charged \$179,000 in management fees (February 2002: \$324,000).

■ NOTE 19 SEGMENTAL REPORTING

Public Trust operates predominantly in the business of managing estates and other trusts. Public Trust engages in related businesses such as trustee services; management of investment funds and the taking of deposits.

■ NOTE 20 CONTINGENT ASSETS

Public Trust does not recognise such asset as may arise in work performed not yet billed to estates or other clients. No systems are available to allow such an asset, if one exists, to be reliably measured. The Board of Public Trust will investigate the validity of measuring and recognising such an asset in the future.

Notes to the Financial Statements for the period 1 March 2002 to 30 June 2002

■ NOTE 21 COMPARISON OF BUDGET TO ACTUAL

Budgeted equity contribution from the Crown

The assets and liabilities vested in Public Trust were transferred from the closing Public Trust Office Statement of Financial Position. It was anticipated that the net effect would be \$43.1 million. Between the time of presenting the Statement of Intent and the finalisation of the Public Trust Office's final Statement of Financial position, there was significant adjustment of carrying values in the course of its preparation. Consequently, net assets and liabilities vested amounted to \$40.2 million.

Income shortfall

Investment income is lower than budget, which is partly due to liabilities to clients being less than expected. Fee income is less than budget, which reflects the effect of price reductions, which have not been off-set by anticipated increases in volumes of business. These variances are partially compensated for by marginally higher Crown revenue than anticipated and gains on investments.

Expenses

The Board has approved a plan, which requires the business to be restructured to achieve growth in the Auckland market. This resulted in an additional unanticipated charge of \$540,000.

Statements of Service Performance for the Period 1 March 2002 to 30 June 2002

OUTPUT CLASS: PROVISION OF PROTECTIVE FIDUCIARY SERVICES

Description

This Output class covers the following outputs, and associated activities and services:

- Advice to New Zealanders on the benefits of will making and the preparation of a will if so requested.
- Administration, audit and advice services pursuant to the Protection of Personal and Property Rights Act 1988 where charges to the recipient, if any, will not meet the costs of the service.
- Advice and research by Public Trust relating to enquiries on behalf of incapacitated persons on matters relevant to the Protection of Personal and Property Rights Act 1988.
- Administration of small and/or complex estates for which charges will not cover cost.
- Representation, audit, review, administration of the assets and rights of missing, unknown or incapable owners arising from Parts 7 and 8 of the Public Trust Act 2001 and several other statutes that represent a public function for which Public Trust has no prospect of being paid or charges are insufficient to cover the costs.

THE CONTRIBUTION OF PUBLIC TRUST TO THE ACHIEVEMENT OF GOVERNMENT GOALS

In April 2001 the Government published a revised set of key goals to guide public sector policy and performance. Public Trust makes a contribution to a number of these goals.

In particular, the outputs the Minister purchases from Public Trust contribute to the two Government goals noted below:

1. *Grow an Inclusive, Innovative Economy for the Benefit of All:* Develop an economy that adapts to change, provides opportunities and increases employment, and while reducing inequalities, increases incomes for all New Zealanders.
 - the provision of free, impartial and expert advice on the benefits of will making, and assistance with the preparation of wills, contributes towards an adaptable economy by encouraging and facilitating the smooth and effective inter-generational transfer of property by all New Zealanders.
2. *Restore Trust in Government and Provide Strong Social Services:* Restore in government by working in partnership with communities, providing strong social services for all, building safe communities, and promoting community development, keeping faith with the electorate, working constructively in Parliament and promoting a strong and effective public service.
 - the provision of administration, audit and advisory services for the disadvantaged, irrespective of their ability to pay, contributes to the provision of strong social services and the building of safer communities.

Public Trust – Service Performance

The following performance targets were established in the Public Trust Statement of Intent.

1 FINANCIAL

See financial statements on pages 5 to 30.

2 FIDUCIARY ASSETS

Total funds under management at 30 June 2002 was \$961 million, compared to a target of \$1,083 million.

3 CUSTOMER BASE

	Four months ended 30 June 2002	
	Target	Actual
Wills bank	350,000	338,711
Number of contracts per customer	1.28	1.38

4 PUBLIC FUNCTION & NON-COMMERCIAL OUTPUTS: PROVISION OF PROTECTIVE FIDUCIARY SERVICES QUANTITY

	Four months ended 30 June 2002	
	Target	Actual
Hours of advice on wills not directly resulting in a Public Trust will	200	- ¹
Number of wills made appointing Public Trust executor	8667	7,452
Number of cases pursuant to the Protection of Personal and Property Rights Act 1988 (PPPR Act)	300	1,337
Number of enquiries on behalf of incapacitated persons	125	185
Number of small and/or complex estates and trusts administered	8,000	7,539 ²
Number of cases involving public functions in relation to assets and rights of missing, unknown or incapable owners	120	61 ²

¹ It has been agreed that the Crown appropriation will not cover the payment of these services. Accordingly there is not a positive cost benefit in developing systems to collect this data.

² The ‘Number of small and/or complex estates and trusts administered’ and the ‘Number of cases involving public functions in relation to assets and rights of missing, unknown or incapable owners’ represent cases with work in progress as at 30 June 2002.

Public Trust – Service Performance (CONTINUED)

Variance analysis

The volume of wills written and the ‘trustee of last resort’ services were both lower than the forecast. The lower wills volume is largely attributable to the suspension of direct advertising, in particular the advertising of wills. This trend will continue as Public Trust focuses more on the direct sourcing of estate administration.

Overall Public Trust’s ‘trustee of last resort’ services were slightly lower than expected. These services relate primarily to:

- Small continuing estates and trusts arising from estates,
- ‘Living’ business for persons either under order or election of the PPPR Act or similarly incapacitated,
- Assets and rights of missing, unknown or incapable owners.

Our effort in support of incapacitated persons was considerably higher than expected, however a decrease in the number of small estates and trusts has reduced the need for support in that particular area.

The case load assisting with the management of assets and rights of missing, unknown or incapable owners has been lower than expected and a significant portion of the total case load has not met the criteria for funding under the appropriation.

Quality and timeliness

Objective

All services will comply with legislation, regulatory and industry standards.

Service delivery

Public Trust ensures its service delivery meets legislative, regulatory and industry standards by:

- Establishing detailed procedural rules.
- Undertaking various quality assurance procedures to ensure compliance with the detailed procedures.
- Operating work flow systems to ensure timeliness of service delivery.

Public Trust has established an intranet based set of procedural rules, which incorporate the legislative and regulatory steps which must be taken in managing estates, trusts, general agency functions and Protection of Personal Property Rights cases. This set of procedures is called Public Trust Best Practice. Staff are required to familiarise themselves with these rules and apply them in their work.

Crucial to the success of Public Trust Best Practice is its maintenance. This is achieved by designating each area to a Document Owner. Each Document Owner is responsible for ensuring currency of instruction is maintained in respect to his or her area.

Public Trust – Service Performance (CONTINUED)

An array of techniques are applied in ensuring compliance with Public Trust Best Practice, including:

- Day to day supervision of client service operatives by managers.
- Files are graded according to complexity and allocated according to experience.
- Essential steps (e.g. application to administer and probate) signed off by relevant legal or managerial officials.
- Templates and checklists exist for standard tasks.
- Tax returns, interim distributions, and fees and charges checked by designated accounting officials.
- Detailed peer review of operations in the form of file reviews by experienced staff.
- An array of exception reporting measures.
- A complaints register is maintained and followed up in a timely manner.
- An over-arching internal audit process which reports to the Board's Audit, Finance & Risk Management Committee.

To ensure timeliness in service delivery, Public Trust operates a Weekly Workfile diary system. This system reports to an appropriate level of management when tasks are overdue.

Appropriation

The full year appropriation for this output class amounted to \$3.96m out of a total potential appropriation of \$4.55m (GST inclusive). This appropriation was based on delivery of the outputs commencing on 1 October 2001. The provision of services under appropriation commenced on 1 March 2002 and a sum of \$1.666m was agreed as a cap for the reduced period of service delivery. The actual cost to the Crown for the period 1 March 2002 to 30 June 2002 was \$1.506m.

5 INVESTMENT

Objective

Develop and adopt by 30 June 2002 a Statement of Investment Policy and Objectives for the Common Fund

Service delivery

A draft Statement of Investment Policy and Objectives for the Common Fund had been prepared as at 30 June 2002.

Report of the Auditor-General



■ Chartered Accountants

To the Readers of the Financial Statements of Public Trust and Group for the Period Ended 30 June 2002

We have audited the financial statements on pages 5 to 30. The financial statements provide information about the past financial performance and service performance of Public Trust and group, and its financial position as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 10 to 13.

Responsibilities of the Board of Directors

The Public Finance Act 1989 and Public Trust Act 2001 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of Public Trust and group as at 30 June 2002 and the results of operations and cash flows and service performance achievements for the period ended on that date.

Auditor's Responsibilities

Section 15 of the Public Audit Act 2001 and Section 43(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed S R L O'Connor, of Ernst & Young, to undertake the audit.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements and
- whether the accounting policies are appropriate to Public Trust's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Ernst & Young has undertaken a taxation assurance consulting assignment for Public Trust. Other than in our capacity as auditor acting on behalf of the Auditor-General and provider of taxation assurance consulting advice, we have no relationship with or interest in Public Trust or its subsidiary.

Report of the Auditor-General (CONTINUED)

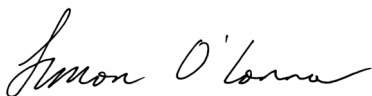
Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of Public Trust and group on pages 5 to 30:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - Public Trust and group's financial position as at 30 June 2002;
 - the results of operations and cash flows for the period ended on that date; and
 - its service performance achievements in relation to the performance targets and other measures adopted for the period ended on that date.

Our audit was completed on 27 September 2002 and our unqualified opinion is expressed as at that date.



SRL O'Connor

Ernst & Young

On behalf of the Auditor-General

Wellington, New Zealand