

Model Financial Statements  
**Ministry of Public Accountability**  
2007-08

Prepared under New Zealand equivalents  
to International Financial Reporting Standards

November 2007 version 1.0

Audit New Zealand  
St Paul's Square  
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Wellington

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## FOREWORD

I am pleased to introduce to you the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) model financial statements for government departments.

Audit New Zealand's model financial statements highlight our profession's latest thinking in terms of meeting financial reporting and legislative requirements, and providing essential financial statement information.

### Focus

The financial statements in this model financial statements have been prepared especially to help guide government departments in preparing their first set of NZ IFRS compliant financial statements. The financial statements included in this model (including certain disclosure requirements of the Public Finance Act 1989 and Treasury Instructions) are only part of what is required to be included in a government department's annual report.

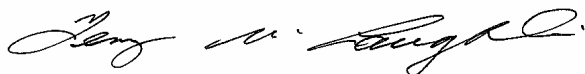
### Future updates

We will continue to update the model financial statements to reflect changes in NZ IFRS and evolving best practice in application of NZ IFRS to government departments.

We would welcome any feedback on the application of this model to government departments or any other comments that may assist in future updates of the model financial statements. If you have any feedback or comments on these model financial statements, please pass these to your Audit New Zealand Manager or Director.

### Acknowledgements

I would like to thank the Audit New Zealand staff who have contributed to these model financial statements, particularly Brett Story, Stephen Lewis, and Robert Cox of our Accounting Technical Team.



Terry McLaughlin  
Executive Director  
November 2007

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## ABOUT THE MODEL FINANCIAL STATEMENTS

### Objective

The principal objective in producing the model is to guide government departments in preparing their first NZ IFRS compliant financial statements.

The model financial statements have been prepared using a fictitious entity, the Ministry of Public Accountability (the Ministry).

### Content

Included in the model is:

- . Statement of responsibility;
- . Audit report;
- . Statement of financial performance;
- . Statement of financial position;
- . Statement of changes in taxpayers' funds;
- . Statement of cash flows;
- . Statement of commitments;
- . Statement of contingent liabilities and contingent assets;
- . Statement of departmental expenses and capital expenditure against appropriations;
- . Statement of departmental unappropriated expenditure and capital expenditure;
- . Statement of accounting policies;
- . Notes to the financial statements, including a memorandum account;
- . Statement of non-departmental expenditure and capital expenditure against appropriations;
- . Statement of non-departmental unappropriated expenditure and capital expenditure; and
- . Non-departmental schedules, accounting policies and accompanying notes.

The model does not include a model statement of service performance, nor does it intend to include all the information required to be reported in the annual report of a government department.

Not all of the accounting policies and notes will be applicable to a particular government department. Although it is not practical for this model to cover all of the possible financial reporting issues that could arise in the central government sector, we have included in the model a wide range of accounting policies and notes, including all those that we would expect to occur commonly in the sector.

The model illustrates a possible financial statement format for a government department, for example the statement of financial performance has been prepared by classifying expenses based on the nature of the expenditure. Alternatively, expenses could be classified based on their function. This is just one example where there may be more than one way of disclosing the information required under NZ IFRS.

While the model provides guidance on disclosure matters, it does not deal with the underlying accounting treatment.

Government departments will need to make choices about the accounting policies and presentation options appropriate for their circumstances. Government departments are also required to comply with Treasury Instructions when preparing their financial statements. These model financial statements are also designed to comply with the requirements of Treasury Instructions and the accounting policies of the Financial Statements of the Government.

The model does not address all the possible recognition and disclosure requirements of NZ IFRS. Nor does it identify all possible NZ IFRS adjustments that may arise on transition to NZ IFRS. Government departments should not use the model as a substitute for referring to individual NZ IFRS standards and interpretations applicable to their specific circumstance.

We have included references to specific NZ IFRS standards in the left margin of each page of the model and a subject index on page 63 for easy searching.

### **Standards not covered by the model**

The model does not consider any recognition or disclosure requirements of the following standards:

- . NZ IFRS 2 Shared-based Payment;
- . NZ IFRS 3 Business Combinations;
- . NZ IFRS 6 Exploration for and Evaluation of Mineral Resources;
- . NZ IFRS 8 Operating Segments;
- . NZ IAS 11 Construction Contracts;
- . NZ IAS 12 Income Taxes;
- . NZ IAS 26 Accounting and Reporting by Retirement Benefit Plans;
- . NZ IAS 27 Consolidated and Separate Financial Statements;
- . NZ IAS 28 Investments in Associates;
- . NZ IAS 29 Reporting in Hyperinflationary Economies;
- . NZ IAS 31 Interests in Joint Ventures;
- . NZ IAS 33 Earnings per Share;
- . NZ IAS 34 Interim Financial Reporting;
- . NZ IAS 40 Investment Property; and
- . NZ IAS 41 Agriculture.

In addition any standards, interpretations and amendments issued after 31 October 2007 are not reflected in this set of financial statements.

PFA s45C

## STATEMENT OF RESPONSIBILITY

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In terms of the Public Finance Act 1989, I am responsible, as Chief Executive of the Ministry of Public Accountability, for the preparation of the Ministry's financial statements and statement of service performance, and for the judgements made in them.

I have the responsibility for establishing, and I have established<sup>1</sup>, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of the Ministry for the year ended 30 June 2008.

[signed]

C E Tumuaki

**Chief Executive**

19 September 2008

Counter signed by:

[signed]

O Money

**Chief Financial Officer<sup>2</sup>**

19 September 2008

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<sup>1</sup> A positive statement that a system of internal control has been established is considered best practice and is not a requirement of the Public Finance Act 1989.

<sup>2</sup> The statement of responsibility must be countersigned by the Chief Financial Officer (PFA s45C(2)).

**AUDIT REPORT<sup>3</sup>**

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**AUDIT REPORT  
TO THE READERS OF  
MINISTRY OF PUBLIC ACCOUNTABILITY'S  
FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2008**

The Auditor-General is the auditor of the Ministry of Public Accountability (the Ministry). The Auditor-General has appointed me, R O Tidua, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance and schedules of non-departmental activities included in the annual report of the Ministry for the year ended 30 June 2008.

**Unqualified Opinion**

In our opinion:

- The financial statements of the Ministry on pages 12 to 49:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Ministry's financial position as at 30 June 2008; and
    - the results of its operations and cash flows for the year ended on that date.
- The statement of service performance of the Ministry on pages [xx] to [xx]:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs:
    - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
    - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.
- The schedules of non-departmental activities on pages 50 to 62 fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Ministry on behalf of the Crown for the year ended 30 June 2008.

The audit was completed on 19 September 2008 and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

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<sup>3</sup> This audit report is for illustration purposes only. The department's auditor will provide the form and content of the audit report.

### **Basis of Opinion**

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

### **Responsibilities of the Chief Executive and the Auditor**

The Chief Executive is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Ministry as at 30 June 2008 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Ministry's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. In addition, the Chief Executive is responsible for preparing schedules of non-departmental activities that fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Ministry on behalf of the Crown for the year ended 30 June 2008. The Chief Executive's responsibilities arise from sections 45A, 45B and 45(1)(f) of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements, statement of service performance and schedules of non-departmental activities and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D(2) of the Public Finance Act 1989.

**Independence**

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out an assurance review over the project management over the Ministry's financial management information system development project. Other than the audit and this assignment, we have no relationship with or interests in the Ministry.

R O Tidua  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

NZ IAS 1.8(b)

**STATEMENT OF FINANCIAL PERFORMANCE<sup>4,5</sup>**  
**FOR THE YEAR ENDED 30 JUNE 2008**

	Actual <sup>6</sup> 2007 \$000	Note	Actual 2008 \$000	Main <sup>7</sup> estimates 2008 \$000	Supp estimates 2008 \$000
	<b>Income</b>				
NZ IAS 1.81(a)	220,000	Revenue Crown	230,000	220,000	230,000
NZ IAS 1.81(a)	1,759	Revenue other	1,935	1,600	1,600
NZ IAS 1.83	632	Gains	634	1,036	476
NZ IAS 1.83	222,391	<i>Total income</i>	232,569	222,636	232,076
	<b>Expenditure</b>				
NZ IAS 1.88					
NZ IAS 1.91	125,381	Personnel costs	141,606	139,590	141,690
NZ IAS 1.91	11,752	Depreciation and amortisation expense	19,201	19,154	19,164
NZ IAS 1.91	6,821	Capital charge	6,769	6,800	6,800
NZ IAS 1.81(b)	254	Finance costs	264	252	252
NZ IAS 1.86	0	Restructuring costs	1,788	1,600	1,800
NZ IAS 1.91	65,959	Other operating expenses	61,380	55,030	61,505
NZ IAS 1.83	210,167	<i>Total expenditure</i>	231,008	222,426	231,211
NZ IAS 1.81(f)	<b>12,224</b>	<b>Net surplus/(deficit)</b>	<b>1,561</b>	<b>210</b>	<b>865</b>

NZ IAS 1 NZ 41.1 Explanations of significant variances against budget are detailed in note 27.<sup>8</sup>

*The accompanying notes form part of these financial statements.*

<sup>4</sup> The terms statement of financial performance, statement of financial position, statement of changes in taxpayers' funds and, surplus/deficit are appropriate equivalents to NZ IFRS terminology for public benefit entities.

<sup>5</sup> NZ IAS 1.85 prohibits any items of income or expense being presented as extraordinary items either on the face of the statement of financial performance or in the notes.

<sup>6</sup> NZ IAS 1.36 requires comparative information to be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall also be included for narrative information when it is relevant to an understanding of the current period's financial statements.

<sup>7</sup> Under Section 45(B) 2(b) of the Public Finance Act 1989, the financial statements must include the forecast financial statements prepared at the start of the year (as published in the statement of intent). Whilst there is no requirement, departments could present an additional budget column and disclose the revised budget figures arising from the supplementary estimates.

<sup>8</sup> NZ IAS 1 NZ 41.1 requires an entity that has published prospective financial information, other than that expressed solely in general terms, to present a comparison of the prospective financial information with the actual financial results being reported. Explanations for major variances shall be given.



## STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2008 (CONTINUED)

	Actual 2007 \$000	Note	Actual 2008 \$000	Main estimates 2008 \$000	Supp estimates 2008 \$000	
	<b>Taxpayers' funds</b>					
NZ IAS 1.75(e)	60,859	General funds	19	108,489	108,677	108,477
NZ IAS 1.75(e)	8,000	Property, plant and equipment revaluation reserves	19	7,826	15,300	15,300
NZ IAS 1.68(p)	<b>68,859</b>	<b>Total taxpayers' funds</b>		<b>116,315</b>	<b>123,977</b>	<b>123,777</b>

## STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

## FOR THE YEAR ENDED 30 JUNE 2008

NZ IAS 1.8(c)

	Actual 2007 \$000	Note	Actual 2008 \$000	Main estimates 2008 \$000	Supp estimates 2008 \$000	
	68,859	<b>Balance at 1 July</b>	68,859	68,859	68,859	
NZ IAS 1.96(b), NZ IAS 16.77(f)	0	Property, plant and equipment revaluation gains/(losses) taken to equity <sup>9</sup>	2,526	10,000	10,000	
NZ IAS 1.96(a)	12,224	Surplus/(deficit) for the year	1,561	210	865	
NZ IAS 1.96(c)	12,224	Total recognised income and expense	4,087	10,210	10,865	
NZ IAS 1.97(a)	(12,224)	Repayment of surplus to the Crown	15	(3,349)	(1,810)	(2,665)
NZ IAS 1.97(a)	0	Capital contribution <sup>9</sup>	46,718	46,718	46,718	
NZ IAS 1.97(a)	0	Repayment of capital <sup>9</sup>	0	0	0	
	<b>68,859</b>	<b>Balance at 30 June</b>	<b>19</b>	<b>116,315</b>	<b>123,977</b>	<b>123,777</b>

The accompanying notes form part of these financial statements.

<sup>9</sup> Only disclose if these transactions occurred.

NZ IAS 1.8(d)

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 30 JUNE 2008<sup>10</sup>

	Actual 2007 \$000	Note	Actual 2008 \$000	Main estimates 2008 \$000	Supp estimates 2008 \$000
NZ IAS 7.10					
NZ IAS 7.18	220,000	Receipts from Crown	230,000	220,000	230,000
NZ IAS 7.18	2,374	Receipts from revenue other	3,237	2,114	2,114
NZ IAS 7.18	(62,661)	Payments to suppliers	(66,407)	(64,107)	(72,507)
NZ IAS 7.18	(125,408)	Payments to employees	(144,209)	(136,657)	(138,257)
NZ IAS 7.18	(6,821)	Payments for capital charge	(6,769)	(6,800)	(6,800)
	(3,547)	Goods and services tax (net)	(55)	(2,594)	(2,594)
	23,937	<i>Net cash from operating activities</i>	15,797	11,956	11,956
		<a href="#">20</a>			
NZ IAS 7.10					
NZ IAS 7.16(b)	29,990	Receipts from sale of property, plant and equipment	45,347	44,800	44,800
NZ IAS 7.16(a)	(68,719)	Purchase of property, plant and equipment <sup>11</sup>	(15,024)	(13,982)	(13,982)
NZ IAS 7.16(a)	(6,524)	Purchase of intangible assets <sup>11</sup>	(75,220)	(75,301)	(75,301)
	(45,253)	<i>Net cash from investing activities</i>	(44,897)	(44,483)	(44,483)
NZ IAS 7.10					
NZ IAS 7.17	0	Capital contribution	46,718	46,718	46,718
NZ IAS 7.17	(8,052)	Repayment of surplus	(12,224)	(12,824)	(12,824)
NZ IAS 7.17(e)	(75)	Payments of finance leases	(76)	(76)	(76)
	(8,127)	<i>Net cash from financing activities</i>	34,418	33,818	33,818
	(29,443)	<b>Net (decrease)/increase in cash</b>	5,318	1,291	1,291
	37,438	Cash at the beginning of the year	7,995	7,995	7,995
	<b>7,995</b>	<b>Cash at the end of the year</b>	<b>13,313</b>	<b>9,286</b>	<b>9,286</b>

NZ IAS 7 NZ 24.1 The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

NZ IAS 7.43 During the period, the Ministry acquired property, plant and equipment totalling \$232,000 (2007: \$nil) by means of finance leases.

*The accompanying notes form part of these financial statements.*

<sup>10</sup> Treasury Instructions require departments to prepare the cash flow statement on a net of GST basis.

<sup>11</sup> We believe it is good practice to separately disclose cash flows arising from the acquisition and disposal of property, plant and equipment and intangible assets. Separating these cash flows will provide readers of the financial statements a clearer linkage between the property, plant and equipment and intangible asset movement schedules and cash flows arising from acquisitions and disposals.

Treasury Instructions  
Paras 3.5.18, 4.4.5

## STATEMENT OF COMMITMENTS AS AT 30 JUNE 2008

### Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or not recognised as a liability at the balance sheet date.

NZ IAS 17.35(d)

### Non-cancellable operating lease commitments

The Ministry leases property, plant and equipment in the normal course of its business. The majority of these leases are for premises and photocopiers, which have a non-cancellable leasing period ranging from three to ten years.<sup>12</sup>

Good practice

### Other non-cancellable commitments

The Ministry has entered into non-cancellable contracts for computer maintenance, cleaning services, consulting services and other contracts for service.

	Actual 2007 \$000		Actual 2008 \$000
		<b>Capital commitments</b>	
NZ IAS 16.74(c)	75	Property, plant and equipment	35
NZ IAS 38.122(e)	124	Intangible assets	151
	199	<i>Total capital commitments</i>	186
		<b>Non-cancellable operating lease commitments</b>	
NZ IAS 17.35(a)	15,120	Not later than one year	11,340
	60,480	Later than one year and not later than five years	45,360
	52,920	Later than five years	28,350
	128,520	<i>Total non-cancellable operating lease commitments</i>	85,050
		<b>Other non-cancellable commitments</b>	
Treasury Instructions Para 4.4.5	112	Not later than one year	184
	204	Later than one year and not later than five years	483
	96	Later than five years	85
	412	<i>Total other non-cancellable lease commitments</i>	752
	<b>129,131</b>	<b>Total commitments</b>	<b>85,988</b>

NZ IAS 17.35(b) The total minimum future sublease payments expected to be received under non-cancellable subleases at the balance sheet date is \$25,432 (2007 \$25,875)

NZ IAS 17.35(d) The Ministry's non-cancellable operating leases have varying terms, escalation clauses and renewal rights. There are no restrictions placed on the Ministry by any of its leasing arrangements.

*The accompanying notes form part of these financial statements.*

<sup>12</sup> If there are a number of leases a general narrative can be provided.

Treasury Instructions  
Para 3.5.17

## STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS AS AT 30 JUNE 2008

### Unquantifiable contingent liabilities

NZ IAS 37.86

#### Lawsuit

The Ministry is vigorously defending a legal suit of an unspecified sum instituted by certain individuals against a staff member for libel. In the event of the Court finding in favour of the plaintiff, the Ministry believes that any damages awarded would be met by its insurers.

NZ IAS 37.86

#### Superannuation schemes<sup>13</sup>

NZ IAS 19.30(b),(c)

The Ministry is a participating employer in the DBP Contributors Scheme, which is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the Ministry could be responsible for the entire deficit of the Scheme, which has a value of \$xxx as at [date]. Similarly, if a number of employers ceased to participate in the Scheme, the Ministry could be responsible for an increased share of the deficit. This deficit was calculated using a discount rate equal to the expected return on net assets of xxx.<sup>14</sup>

The Actuary of the Scheme has recommended the employer contribution remain at xxx times contributor's contributions until the past service deficit is extinguished and then reduces to the employer contribution rate required to meet the net future service liability after that. The xxx is inclusive of Specified Superannuation Contribution Withholding Tax.

When the past service deficit is extinguished will depend on the experience of the Scheme and the assumptions used for actuarial reviews. The actuary currently expects the past service deficit to be extinguished by 20xx and has calculated the employer contribution rate to meet the net future service liability as xxx times contributors' contributions, inclusive of Specified Superannuation Contribution Withholding Tax.

### Quantifiable contingent liabilities

Actual 2007 \$000		Actual 2008 \$000
250	Legal proceedings and disputes	250
125	Personal grievances	115
<b>375</b>	<b>Total quantifiable contingent liabilities</b>	<b>365</b>

#### Legal proceedings and disputes

NZ IAS 37.86

Legal proceedings and disputes represent the amounts claimed by plaintiffs in relation to the performance of the Ministry's statutory role. The Ministry is currently disputing these claims.

#### Personal grievances

NZ IAS 37.86

Personal grievances represent amounts claimed by employees for personal grievances cases, which all relate to an alleged breach of contract with employees of the Ministry arising from the restructuring of the Ministry.

#### Contingent assets

NZ IAS 37.89

The Ministry has no contingent assets (2007 nil).<sup>15</sup>

*The accompanying notes form part of these financial statements.*

<sup>13</sup> The State Sector Retirement Savings Scheme, Kiwisaver and Government Superannuation Fund are defined contribution schemes from the perspective of the department; therefore no contingent liability related disclosures are required.

<sup>14</sup> NZ IAS 19.30(c) requires where there is a surplus or deficit in a Scheme that may affect the amount of future contributions, the Ministry must disclose any available information about the surplus or deficit, the basis used to determine the surplus or deficit, and the implications, if any, for the Ministry.

<sup>15</sup> Where there are no contingent assets, we believe it is good practice to state this fact.

PFA 45B(2)

## STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2008

Expenditure after remeasurements 2007 \$000 <sup>16</sup>		Expenditure before remeasurements 2008 \$000	Remeasurements 2008 <sup>17</sup> \$000	Expenditure after remeasurements 2008 \$000	Appropriation Voted 2008* \$000
	<b>Vote Public Issues</b>				
	<b>Appropriations for output expenses<sup>18</sup></b>				
	<i>Multi-output class appropriations</i>				
	Policy advice – public accountability				
4,892	Research into public accountability	5,056	(20)	5,036	5,067
3,564	Public accountability inspection	4,037	0	4,037	3,958
8,456	Total policy advice – public accountability	9,093	(20)	9,073	9,025
	<i>Annual and other appropriations</i>				
199,332	Provision of accountability services- annual	216,950	(189)	216,761	217,216
210	Provision of accountability services - restricted by revenue	154	0	154	142
199,542	Total provision of accountability services	217,104	(189)	216,915	217,358
1,180	Administration of Crown expenses	3,023	0	3,023	3,028
209,178	Total appropriations for output expenses	229,220	(209)	229,011	229,411
	<b>Appropriation for other expenses</b>				
0	Restructuring costs	1,788	0	1,788	1,800
209,178	Total	231,008	(209)	230,799	231,211

\* this includes adjustments made in the Supplementary Estimates and transfers under section 26A of the Public Finance Act.

Good practice

### Restricted by revenue appropriation – Provision of accountability services

The Ministry earned \$158,000 revenue from the sale of publications. The Ministry is permitted to incur expenditure up to the amount of revenue earned for this appropriation.

*A suggested disclosure for transfers under section 26A of the Public Finance Act 1989 is included on the next page.*

*A suggested disclosure for a multi-year appropriation is presented on page 52.*

*The accompanying notes form part of these financial statements.*

<sup>16</sup> Disclosing comparative figures for the prior year is considered best practice.

<sup>17</sup> Refer to The Treasury's publication *Measuring Remeasurements* for application guidance on remeasurements.

<sup>18</sup> Appropriations given by permanent legislative authority should be separately disclosed, even when they are allocated to the same output class as a normal appropriation.

## STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2008 (CONTINUED)

Good practice

**Transfers under section 26A of the PFA<sup>19</sup>**

The Appropriation Voted includes adjustments made in the Supplementary Estimates and the following transfers under section 26A of the PFA.

	Supp Estimates 2008 \$000	Section 26A Transfers 2008 \$000	Appropriation Voted 2008 \$000
<b>Vote Public Issues</b>			
<b>Appropriation for output expenses</b>			
Policy advice – public accountability	8,625	400	9,025
Provision of accountability services	217,758	(400)	217,358
Administration of Crown expenses	3,028	0	3,028
<i>Total appropriations for output expenses</i>	229,411	0	229,411
<b>Net adjustment</b>	-	0	-

*The accompanying notes form part of these financial statements.*

<sup>19</sup> Where there have been transfers under section 26A of the PFA, we suggest this following additional disclosure would be helpful to the users of the financial statements. This suggested additional disclosure is not mandatory.

PFA s45B(2)

## STATEMENT OF DEPARTMENTAL UNAPPROPRIATED EXPENDITURE AND CAPITAL EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2008<sup>20,21</sup>

Unappropriated expenditure 2007 \$000		Expenditure after remeasurements 2008 \$000	Appropriation Voted 2008 \$000	Unappropriated expenditure 2008 \$000
	<b>Vote Public Issues</b>			
0	Policy advice – public accountability	9,073	9,025	48
0	Provision of accountability services – annual	216,761	217,216	0
	Provision of accountability services – restricted by revenue	154	142	0
0	Administration of Crown expenses	3,023	3,028	0
0	<i>Total appropriations for output expenses</i>	229,001	229,411	48
	<b>Appropriations for other expenses</b>			
0	Restructuring expenses	1,788	1,800	0
<b>0</b>	<b>Total</b>	<b>230,799</b>	<b>231,211</b>	<b>48</b>

### Expenses and capital expenditure approved under Section 26B of the Public Finance Act 1989

The Ministry commissioned a major study, *Positively Public Accountability – Its impact on the Public Service*, during the last two months of the financial year. The Ministry had to engage overseas consultants as a result of non-availability of local consultants. This resulted in actual costs exceeding those appropriated by \$48,000.<sup>22</sup>

This unappropriated expenditure has been approved by the Minister of Finance in terms of section 26B of the Public Finance Act 1989.<sup>23</sup>

### Expenses and capital expenditure incurred in excess of appropriation<sup>24</sup>

Nil.

### Expenses and capital expenditure incurred without appropriation or other authority

Nil.

### Breaches of projected departmental net asset schedules

Nil.

*The accompanying notes form part of these financial statements.*

<sup>20</sup> This statement should be included even if there was no unappropriated expenditure.

<sup>21</sup> The PFA does not require comparative figures for the previous financial year in this statement.

<sup>22</sup> Section 45B (2)(d) requires departments to provide an explanation for each unappropriated item reported.

<sup>23</sup> This information is not specifically required by the PFA, but its inclusion provides useful information to the reader.

<sup>24</sup> Alternatively, departments may only use the suggested headings where there is unappropriated expenditure, or disclose all unappropriated expenditure under a single heading.

NZ IAS 1.8(e)

**NOTES TO THE FINANCIAL STATEMENTS****1 Statement of accounting policies for the year ended 30 June 2008<sup>25, 26, 27</sup>****Reporting Entity**

NZ IAS 1.126(a) The Ministry of Public Accountability (the Ministry) is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand.

Good practice In addition, the Ministry has reported on Crown activities and trust monies which it administers.

NZ IAS 1 NZ 13.1(b) The primary objective of the Ministry is to provide services to the public rather than making a financial return. Accordingly, the Ministry has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

NZ IAS 1.46(a),(b),(c) The financial statements of the Ministry are for the year ended 30 June 2008. The financial statements were authorised for issue by the Chief Executive of the Ministry on 19 September 2008.

NZ IAS 10.17

NZ IAS 1.103(a)

**Basis of preparation**

NZ IAS 1 NZ 13.1(a) The financial statements of the Ministry have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practices (NZ GAAP).

NZ IAS 1 NZ 13.1(d),105(a) These financial statements have been prepared in accordance with, and comply with, NZ IFRS as appropriate for public benefit entities.

This is the first set of financial statements prepared using NZ IFRS. The comparatives for the year ended 30 June 2007 have been restated to NZ IFRS accordingly. Reconciliations of equity and net surplus/(deficit) for the year ended 30 June 2007 under NZ IFRS to the balances reported in the 30 June 2007 financial statements are detailed in note 28.

NZ IAS 1.103(a),108(b) The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening NZ IFRS statement of financial position as at 1 July 2006 for the purposes of the transition to NZ IFRS.

NZ IAS 1.108(a) The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, and certain financial instruments (including derivative instruments).

NZ IAS 1.46 (d),(e) The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional currency of the Ministry is New Zealand dollars.

NZ IAS 8.30,31 *Standards, amendments and interpretations issued that are not yet effective and have not been early adopted<sup>28,29</sup>*  
Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Ministry include:

<sup>25</sup> The going concern concept is assumed when preparing financial statements. If management is aware of conditions or events that cast doubt over the ability to continue as a going concern, those facts shall be disclosed. If the financial statements are not prepared on a going concern basis that fact must be disclosed as required by NZ IAS 1.23.

<sup>26</sup> Departments are required to disclose all accounting policies that are relevant to an understanding of the financial statements.

<sup>27</sup> NZ IAS 1.126 requires the following information to be included in the annual report, which does not necessarily have to be in the financial statements: domicile and legal form, country of incorporation, address of its registered office, description of operations, and principal activities.

<sup>28</sup> This disclosure reflects those standards, amendments and interpretations that have been issued up to 31 October 2007, which is the date this model was finalised. The impact of any new or revised standards and interpretations issued after this date, but before the issue of the financial statements, will need to be considered and disclosed.

<sup>29</sup> Whilst not a requirement of NZ IAS 8, we consider it good practice to disclose those standards, amendments and interpretations that are not yet effective which have been adopted early. The transitional provisions of a new standard, amendment or interpretation may require disclosure if early adopted.

- NZ IAS 1 *Presentation of Financial Statements (revised 2007)* replaces NZ IAS 1 *Presentation of Financial Statements (issued 2004)* and is effective for reporting periods beginning on or after 1 January 2009. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in equity resulting from transactions with the Crown in its capacity as “owner” separately from “non-owner” changes. The revised standard gives the Ministry the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Ministry expects it will apply the revised standard for the first time for the year ended 30 June 2010, and is yet to decide whether it will prepare a single statement of comprehensive income or a separate income statement followed by a statement of comprehensive income.
- NZ IAS 23 *Borrowing Costs (revised 2007)* replaces NZ IAS 23 *Borrowing Costs (issued 2004)* and is effective for reporting periods commencing on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The Ministry intends to adopt this standard for the year ending 30 June 2010 and has not determined the potential impact of the new standard.

#### Revenue

NZ IAS 18.9	Revenue is measured at the fair value of consideration received.
NZ IAS 20.39(a)	<i>Revenue Crown</i> Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.
NZ IAS 1.108(b)	<i>Statutory levies</i> Revenue from levies is recognised as revenue when the obligation to pay the levy is incurred.
NZ IAS 18.35(a)	<i>Sale of publications</i> Sale of publications are recognised when the product is sold to the customer. The recorded revenue is the gross amount of the sale.
NZ IAS 18.35(a)	<i>Application fees</i> Revenue from application fees is recognised to the extent that the application has been processed by the Ministry.
NZ IAS 17.50	<i>Rental income</i> Lease receipts under an operating sub-lease are recognised as income on a straight-line basis over the lease term.
NZ IAS 16 NZ 15.1	<i>Vested assets</i> Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as income. Assets vested in the Ministry are recognised as income when control over the asset is obtained.
NZ IAS 18.30(a)	<i>Interest</i> Interest income is recognised using the effective interest method.

#### Capital charge

Good practice	The capital charge is recognised as an expense in the period to which the charge relates.
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#### Borrowing costs

NZ IAS 23.9,29	Borrowing costs are recognised as an expense when incurred.
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#### Grant expenditure

NZ IAS 37 NZ Appdx E	Non-discretionary grants are those grants awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.  Discretionary grants are those grants where the Ministry has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the grants approvals committee and the approval has been communicated to the applicant.
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**Leases***Finance leases*

- NZ IAS 17.4 A finance lease is a lease that transfers to the lessee, substantially all of the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.
- NZ IAS 17.20 At the commencement of the lease term, the Ministry recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.
- NZ IAS 17.27 The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Ministry will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

*Operating leases*

- NZ IAS 17.33 An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

**Financial instruments**

- NZ IAS 39.43 Financial assets and financial liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the statement of financial performance.

**Cash and cash equivalents**

- NZ IAS 7.46 Cash includes cash on hand and funds on deposit with banks.

**Debtors and other receivables**

- NZ IAS 39.43 Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less impairment changes.
- NZ IAS 39.63 Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).
- NZ IFRS 7 Appdx B5(d), (f)

**Inventories**

- NZ IAS 2 NZ 9.1,9.2 Inventories held for distribution, or consumption in the provision of services, that are not issued on a commercial basis are measured at the lower of cost (calculated using the weighted average method) and current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, the cost is the current replacement cost at the date of acquisition.
- The replacement cost of the economic benefits or service potential of inventory held for distribution reflects any obsolescence or any other impairment.
- NZ IAS 2.9 Inventories held for sale or use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the weighted average cost method.
- NZ IAS 2.34 The write-down from cost to current replacement cost or net realisable value is recognised in the statement of financial performance in the period when the write-down occurs.
- NZ IAS 2 NZ 34.1

**Accounting for derivative financial instruments, hedging activities and foreign currency transactions**

- The Ministry uses derivative financial instruments to hedge exposure to foreign exchange. In accordance with its Foreign-Exchange policy, the Ministry does not hold or issue derivative financial instruments for trading purposes. The Ministry has not adopted hedge accounting.
- NZ IAS 39.43 Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date. Movements in the fair value of derivative financial instruments are recognised in the statement of financial performance.
- NZ IAS 39.46
- NZ IAS 21.21,28 Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of

financial performance.

#### **Non-current assets held for sale**

- NZ IFRS 5.6 Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.
- NZ IFRS 5.15
- NZ IFRS 5.20 Any impairment losses for write-downs of non-current assets held for sale are recognised in the statement of financial performance.
- NZ IFRS 5.21 Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised.
- NZ IFRS 5.25 Non-current assets held for sale (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

#### **Property, plant and equipment**

- NZ IAS 16 NZ 5(1) Property, plant and equipment consists of land, buildings, leasehold improvements, furniture and office equipment, and motor vehicles.
- NZ IAS 16.73(a) Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.
- Treasury Instructions Para 4.4.1 Individual assets, or group of assets, are capitalised if their cost is greater than \$x,000. The value of an individual asset that is less than \$x,000 and is part of a group of similar assets is capitalised.<sup>30</sup>
- NZ IAS 16.7 Additions
- The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.
- NZ IAS 16 NZ 15.1 In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.
- NZ IAS 16.68 Disposals
- NZ IAS 16.71 Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset.
- NZ IAS 16.41 Gains and losses on disposals are included in the statement of financial performance. When revalued assets are sold, the amounts included in the property, plant and equipment revaluation reserves in respect of those assets are transferred to general funds.
- NZ IAS 16.12,13 Subsequent costs
- Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.
- NZ IAS 16.73(b),(c) Depreciation<sup>31</sup>
- Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:
- |                                  |                |           |
|----------------------------------|----------------|-----------|
| Buildings (including components) | 25 to 60 years | (1.6%-4%) |
| Leasehold improvements           | 10 years       | (10%)     |
| Furniture and office equipment   | 5 years        | (20%)     |
| Motor vehicles                   | 5 years        | (20%)     |
- Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.
- NZ IAS 16.51 The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

<sup>30</sup> Treasury Instructions set a threshold of \$5,000 as the upper limit for capitalisation. Departments may establish lower or multiple limits, which must be consistently applied.

<sup>31</sup> The useful lives and depreciation rates that have been listed above are only illustrative. Departments will need to set these based on their specific circumstances.

NZ IAS 16.73(a)	<i>Revaluation</i>						
NZ IAS 16.77(b)-(d)	Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value and at least every 3 years <sup>32</sup> . Fair value is determined from market-based evidence by an independent valuer. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value. Additions between revaluations are recorded at cost.						
NZ IAS 16 NZ 39.1	<i>Accounting for revaluations:</i> The Ministry accounts for revaluations of property, plant and equipment on a class of asset basis.						
NZ IAS 16 NZ 39.2 NZ IAS 16 NZ 40.2	The results of revaluing are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of financial performance. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of financial performance will be recognised first in the statement of financial performance up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.						
	<b>Intangible assets</b>						
	<i>Software acquisition and development</i>						
NZ IAS 38.4	Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.						
NZ IAS 38.28,66,67	Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the Ministry, are recognised as an intangible asset. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.						
NZ IAS 38.15,29,67,69	Staff training costs are recognised as an expense when incurred.						
	<i>Amortisation</i>						
NZ IAS 38.97, 118(b),(d)	The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in statement of financial performance.						
NZ IAS 38.118(a)	The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:						
	<table border="0"> <tr> <td>Acquired computer software</td> <td>3 years</td> <td>33%</td> </tr> <tr> <td>Developed computer software</td> <td>4 years</td> <td>25%</td> </tr> </table>	Acquired computer software	3 years	33%	Developed computer software	4 years	25%
Acquired computer software	3 years	33%					
Developed computer software	4 years	25%					
	<b>Impairment of non-financial assets</b>						
NZ IAS 36.10(a)	Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An intangible asset that is not yet available for use at the balance sheet date is tested for impairment annually.						
NZ IAS 36.9 NZ IAS 36.18	Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.						
NZ IAS 36.6, NZ 6.1	Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential.						
NZ IAS 36 NZ 61.1	If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the statement of financial performance.						
NZ IAS 36.60	For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of financial performance.						

<sup>32</sup> The maximum revaluation cycle allowable under the Crown accounting policies is five years. It may be appropriate to adopt a shorter revaluation cycle policy.

NZ IAS 36 NZ 120.1	<p>The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the statement of financial performance, a reversal of the impairment loss is also recognised in the statement of financial performance. For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the statement of financial performance.</p>
	<p><b>Creditors and other payables</b></p>
NZ IAS 39.43 NZ IAS 39.47	<p>Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.</p>
	<p><b>Employee entitlements</b></p>
NZ IAS 19.10	<p><i>Short-term employee entitlements</i></p> <p>Employee entitlements that the Ministry expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.</p> <p>These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.</p> <p>The Ministry recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the Ministry anticipates it will be used by staff to cover those future absences.</p>
NZ IAS 19.19	<p>The Ministry recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.</p> <p><i>Long-term employee entitlements</i></p>
NZ IAS 19.126-131	<p>Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:</p> <ul style="list-style-type: none"> <li>▪ likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and</li> <li>▪ the present value of the estimated future cash flows. A weighted average discount rate of 6.45% and a salary inflation factor of 2.75% were used. The discount rate is based on the weighted average of government bonds with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.</li> </ul>
	<p><b>Superannuation schemes</b></p>
NZ IAS 19.44	<p><i>Defined contribution schemes</i></p> <p>Obligations for contributions to the State Sector Retirement Savings Scheme, Kiwisaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the statement of financial performance as incurred.</p>
NZ IAS 19.30(b)(i)	<p><i>Defined benefit schemes</i></p> <p>The Ministry makes contributions to the DBP Contributors Scheme (the scheme), which is a multi-employer defined benefit scheme.</p>
NZ IAS 19.30(b)(ii)	<p>Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in the statement of contingent liabilities and contingent assets.</p>
	<p><b>Provisions</b></p>
NZ IAS 37.14	<p>The Ministry recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.</p>
NZ IAS 37.45,47	<p>Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.</p>

**ACC Partnership Programme**

NZ IFRS 4.37(a) The Ministry belongs to the ACC Partnership Programme whereby the Ministry accepts the management and financial responsibility of work related illnesses and accidents of employees. Under the Programme the Ministry is liable for all its claims costs for a period of two years up to a specified maximum. At the end of the two year period, the company pays a premium to ACC for the value of residual claims, and the liability for ongoing claims from that point passes to ACC.

The liability for the ACC Partnership Programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

**Taxpayers' funds**

NZ IAS 1.76 Taxpayers' funds is the Crown's investment in the Ministry and is measured as the difference between total assets and total liabilities. Taxpayers' funds is disaggregated and classified as general funds and property, plant and equipment revaluation reserves.

**Commitments**

Expenses yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Treasury Instructions  
Para 3.5.18 Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the statement of commitments at the value of that penalty or exit cost.

**Goods and Services Tax (GST)**

NZ IAS 1.108 All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

Good practice The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Treasury Instructions  
Para 4.2.3 Commitments and contingencies are disclosed exclusive of GST.

**Income tax<sup>33</sup>**

Good practice Government departments are exempt from income tax as public authorities. Accordingly, no charge for income tax has been provided for.

**Budget figures**

NZ IAS 1 NZ 41.1 The budget figures are those included in the Ministry's statement of intent for the year-ended 30 June 2008, which are consistent with the financial information in the Main Estimates. In addition, the financial statements also present the updated budget information from the Supplementary Estimates.

**Statement of cost accounting policies**

Treasury Instructions  
Para 5.1 The Ministry has determined the cost of outputs using the cost allocation system outlined below.

Direct costs are those costs directly attributed to an output. Indirect costs are those costs that cannot be identified in an economically feasible manner, with a specific output.

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity/usage information. Depreciation and capital charge are charged on the basis of asset utilisation. Personnel costs are charged on the basis of actual time incurred. Property and other premises costs, such as maintenance, are charged on the basis of floor area occupied for the production of each output. Other indirect costs are assigned to outputs based on the proportion of direct staff costs for each output.

There have been no changes in cost accounting policies, since the date of the last audited financial statements.<sup>34</sup>

<sup>33</sup> Although NZ IAS 12 *Income Taxes* applies to entities subject to income tax, we believe it is good practice for departments to include this policy as a positive statement on their taxation exempt status.

<sup>34</sup> The Cost Accounting Policy Parameters require a positive statement even if there have been no changes. Where a cost accounting policy change materially affects the cost of individual outputs there must be disclosure of the nature of the changes, the reasons for the changes and, the effect of the changes on individual outputs.

**Critical accounting estimates and assumptions<sup>35</sup>**

NZ IAS 1.116

In preparing these financial statements the Ministry has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Retirement and long service leave*

Note 17 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

NZ IAS 1.113

**Critical judgements in applying the Ministry's accounting policies<sup>34</sup>**

Management has exercised the following critical judgements in applying the Ministry's accounting policies for the period ended 30 June 2008:

*Finance lease*

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Ministry. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the statement of financial position as property, plant and equipment, whereas with an operating lease no such asset is recognised.

The Ministry has exercised its judgement on the appropriate classification of equipment leases, and has determined a number of lease arrangements to be finance leases.

NZ IAS 1.103(c)

**2 Revenue other**

	Actual 2007 \$000	Actual 2008 \$000
	298	315
	147	142
	230	158
	689	732
	324	367
	71	221
	<b>1,759</b>	<b>1,935</b>

NZ IAS 18.35(b)(i)

NZ IAS 1.103(c)

**3 Gains**

	Actual 2007 \$000	Actual 2008 \$000
	431	485
	201	149
	0	0
	<b>632</b>	<b>634</b>

NZ IAS 1.35,87(c)

NZ IFRS 7.20(a)(i)

NZ IAS 21.52(a)

<sup>35</sup> The examples provided are not intended to be exhaustive. Departments will need to consider their own facts and circumstances to ensure the disclosures of NZ IAS 1 paragraphs 113 and 116 are complete.

### 3 Gains (continued)

NZ IFRS 5.41

During the period the Ministry disposed of motor vehicles that reached a pre-determined mileage. The net gain on motor vehicle disposals was \$86,000. A property at 214 Roundabout Drive was disposed of during December 2007 at a gain of \$399,000. This property was identified as surplus to the Ministry's requirements and approval was obtained to dispose of the property.<sup>36</sup>

NZ IAS 1.103(c)

### 4 Personnel costs

NZ IAS 19.46

Actual 2007 \$000		Actual 2008 \$000
123,656	Salaries and wages	142,776
1,124	Employer contributions to defined contribution plans	1,204
359	Increase/(decrease) in employee entitlements	(2,603)
242	Other	229
<b>125,381</b>	<b>Total personnel costs</b>	<b>141,606</b>

Good practice

Employer contributions to defined contribution plans include contributions to the Statement Sector Retirement Savings Scheme, Kiwisaver, Government Superannuation Fund and the DBP Contributions Scheme.<sup>37</sup>

Good practice

### 5 Capital charge

The Ministry pays a capital charge to the Crown on its taxpayers' funds as at 30<sup>th</sup> June and 31<sup>st</sup> December each year. The capital charge rate for the year ended 30 June 2008 was xx% (2007 7.5%).

NZ IAS 1.103(c)

### 6 Finance costs

NZ IAS 37.84(e)

Actual 2007 \$000		Actual 2008 \$000
72	Interest on finance leases	73
182	Discount unwind on provisions (note 16)	191
<b>254</b>	<b>Total finance costs</b>	<b>264</b>

<sup>36</sup> If there have been a number of asset sales, it is appropriate to provide a general narrative.

<sup>37</sup> The schemes listed are not exhaustive. Departments may make contributions to other defined contribution plans, including defined benefit plans that are accounted for as a defined contribution plan.

NZ IAS 1.103(c) **7 Other operating expenses<sup>38</sup>**

	Actual 2007 \$000		Actual 2008 \$000
		<i>Fees to auditor:</i>	
NZ IAS 1 NZ 94.1	142	Audit fees for the financial statement audit	150
NZ IAS 1 NZ 94.1	15	Audit fees for NZ IFRS transition	20
NZ IAS 1 NZ 94.1	0	Audit related fees for assurance and related services <sup>39</sup>	30
NZ IAS 1 NZ 94.1	0	Fees for tax services <sup>39</sup>	0
NZ IAS 1 NZ 94.1	0	Fees for other services <sup>39</sup>	0
NZ IAS 17.35(c)	15,120	Operating lease payments	11,780
	14,321	Advertising and publicity	15,487
	14,587	Consultancy	15,795
	9,537	Maintenance	9,560
NZ IAS 21.52(a)	212	Net foreign exchange losses	20
NZ IAS 2.36(d)	274	Inventories consumed	824
NZ IFRS 7.20(e)	178	Debt impairment (note 8)	486
NZ IFRS 4 Appdx D 17.6.1(b)	315	ACC Partnership Programme (note 16)	316
NZ IAS 1.87(c)	0	Net loss on disposal of property, plant and equipment <sup>40</sup>	0
	11,258	Other operating expenses	6,912
	<b>65,959</b>	<b>Total other operating expenses</b>	<b>61,380</b>

NZ IAS 1 NZ  
94.1(a)ii

The audit related fees were for an assurance engagement over the project management of the Ministry's FMIS development project.

NZ IAS 1.74 **8 Debtors and other receivables**

	Actual 2007 \$000		Actual 2008 \$000
	1,090	Debtors	1,062
	(254)	Less: provision for doubtful debts	(539)
	836	Net debtors	523
	0	GST receivable <sup>41</sup>	0
	4,380	Lease and other deposits	3,391
	<b>5,216</b>	<b>Total debtors and other receivables</b>	<b>3,914</b>

NZ IFRS 7.25,29(a) The carrying value of debtors and other receivables approximates their fair value.

<sup>38</sup> NZ IAS 1.86 requires that when items of expense and income are material, their nature and amount shall be disclosed separately.<sup>39</sup> NZ IAS 1 NZ 94.1 requires the nature of the services to be disclosed for assurance and related services, tax services, and all other non-audit services provided by the auditor.<sup>40</sup> Only disclose if there has been a net loss on disposal in either the comparative year or current reporting period.<sup>41</sup> Only disclose if there is a GST receivable in either the comparative year or the current reporting period.

NZ IFRS 7.36(d) The carrying amount of receivables that would otherwise be past due, but not impaired, whose terms have been renegotiated is \$45,000 (2007 \$250,000).

NZ IFRS 7.37(a) As at 30 June 2008 and 2007, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

	2007			2008		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	4,823	(98)	4,725	3,516	(80)	3,436
Past due 1-30 days	125	(10)	115	158	(65)	93
Past due 31-60 days	122	(24)	98	156	(109)	47
Past due 61-90 days	121	(14)	107	314	(136)	178
Past due > 91 days	279	(108)	171	309	(149)	160
<b>Total</b>	<b>5,470</b>	<b>(254)</b>	<b>5,216</b>	<b>4,453</b>	<b>(539)</b>	<b>3,914</b>

NZ IFRS 7.37(b) The provision for doubtful debts has been calculated based on expected losses for the Ministry's pool of debtors. Expected losses have been determined based on an analysis of the Ministry's losses in previous periods, and review of specific debtors.

Those specific debtors that are insolvent are fully provided for. As at 30 June 2008 the Ministry has identified 12 debtors (2007 10) totaling \$56,000 (2007 \$96,000) that are insolvent.

NZ IFRS 7.16 Movements in the provision for doubtful debts are as follows:

Actual 2007 \$000	Actual 2008 \$000
229 Balance at 1 July	254
178 Additional provisions made during the year(note 7)	486
(153) Receivables written off during period	(201)
<b>254 Balance at 30 June</b>	<b>539</b>

NZ IAS 1.74  
NZ IAS 2.36(b)

## 9 Inventories

Actual 2007 \$000	Actual 2008 \$000
324 Emergency stock	298
124 Inventory held for the use in the provision of goods and services	137
408 Publications held for sale	306
<b>856 Total inventories</b>	<b>741</b>

NZ IAS 2 NZ 6.1(a) The carrying amount of inventories held for distribution that are measured at current replacement cost as at 30 June 2008 amounted to \$235,000 (2007 \$256,000).

NZ IAS 2 NZ 36.1(b) The write-down of inventories held for distribution amounted to \$26,000 (2007 \$nil). There have been no reversals of write-downs.<sup>42</sup>

NZ IAS 2.36(h) No inventories are pledged as security for liabilities; however some inventories are subject to retention of title clauses.

<sup>42</sup> If there has been a reversal of a previous write-down, disclose the circumstances or events that led to the reversal of the write-down.

## 10 Derivative financial instruments

NZ IFRS 7.34(a) The notional principal amounts of outstanding forward exchange contracts at 30 June 2008 were \$AUS 450,000 (2007 \$AUS nil) and \$US 900,000 (2007 \$US 650,000).

NZ IFRS 7.25, 27 The fair value of forward exchange contracts has been determined using a discounted cash flows valuation technique based on quoted market rates.

## 11 Non-current assets held for sale

NZ IFRS 5.41 The Ministry-owned building on Owen Street, Wellington, has been classified as held for sale following the approval to sell the premises, as it will provide no future use to the Ministry. The completion date of the sale is expected to be by November 2008.

	Actual 2007 \$000		Actual 2008 \$000
NZ IFRS 5.38		Non-current assets held for sale include:	
	1,045	Buildings	250
	1,000	Land	400
	<b>2,045</b>	<b>Total non-current assets held for sale</b>	<b>650</b>

## 12 Property, plant and equipment

NZ IAS 16.73

	Land \$000	Buildings \$000	Leasehold improvements \$000	Furniture/ office equipment \$000	Motor vehicles \$000	Total \$000
<b>Cost or valuation</b>						
Balance at 1 July 2006	12,000	24,116	23,270	37,189	24,958	121,533
Additions	10,500	30,000	10,478	12,489	5,045	68,512
Revaluation increase	0	0	0	0	0	0
Transfer to held for sale	(1,000)	(1,045)	0	0	0	(2,045)
Disposals	0	0	(3,248)	(1,478)	(5,478)	(10,204)
Balance at 30 June 2007	21,500	53,071	30,500	48,200	24,525	177,796
Balance at 1 July 2007	21,500	53,071	30,500	48,200	24,525	177,796
Additions	0	2,429	0	6,672	6,328	15,429
Revaluation increase	2,023	503	0	0	0	2,526
Transfer to held for sale	(400)	(250)	0	0	0	(650)
Disposals	(10,023)	(19,753)	(5,200)	(6,543)	(18,788)	(60,307)
Balance at 30 June 2008	13,100	36,000	25,300	48,329	12,065	134,794

## 12 Property, plant and equipment (continued)

	Land	Buildings	Leasehold improvements	Furniture/office equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Accumulated depreciation and impairment losses</b>						
Balance at 1 July 2006	0	1,652	19,161	26,474	20,688	67,975
Depreciation expense	0	1,613	2,387	4,083	1,987	10,070
Eliminate on disposal	0	0	(3,248)	(1,478)	(5,048)	(9,774)
Eliminate on revaluation	0	0	0	0	0	0
Eliminate on transfer to held for sale	0	(94)	0	0	0	(94)
Impairment losses	0	0	0	0	0	0
Balance at 30 June 2007	0	3,171	18,300	29,079	17,627	68,177
Balance at 1 July 2007	0	3,171	18,300	29,079	17,627	68,177
Depreciation expense	0	985	2,012	5,047	2,267	10,311
Eliminate on disposal	0	(312)	(2,602)	(1,094)	(10,546)	(14,554)
Eliminate on revaluation	0	(3,826)	0	0	0	(3,826)
Eliminate on transfer to held for sale	0	(18)	0	0	0	(18)
Impairment losses	0	0	0	0	(454)	(454)
Balance at 30 June 2008	0	0	17,710	33,032	8,894	59,636
<b>Carrying amounts</b>						
At 1 July 2006	12,000	22,464	4,109	10,715	4,270	53,558
At 30 June and 1 July 2007	21,500	49,900	12,200	19,121	6,898	109,619
At 30 June 2008	13,100	36,454	7,590	15,297	2,717	75,158

NZ IAS 16.77(a), 77.2

Land and buildings have been valued to fair value as at 30 June 2007 by an independently contracted registered valuer, AV Fairvalue ANZIV, of Fairvalue Blogg Doe Valuers Ltd.

NZ IAS 16.74(b)

The total amount of property, plant and equipment in the course of construction is \$2,000,000 (2007 \$1,000,000).

NZ IAS 16.74(a)

The Ministry owns a building on Thorndon Quay, Wellington, which is restricted for Government or Reserve use. The carrying amount of the building is \$465,000 (2007 \$435,000).

NZ IAS 17.31(a)

The net carrying amount of office equipment held under finance leases is \$652,000 (2007 \$712,000).

NZ IAS 36.130

NZ IAS 16.74(d)

Impairment losses of \$454,000 (2007 \$0) have been recognised for impairment of motor vehicles that have been damaged due to a landslide that occurred in August 2007. The recoverable amount of the vehicles were their fair value less costs to sell, which was determined by reference to an active market that took into account the costs to repair the damage. A total of \$200,000 in compensation has been received from an insurance claim for the damaged vehicles and has been recognised as part of other revenue in note 2.

**13 Intangible assets<sup>43</sup>**

NZ IAS 38.118(e)

	Acquired software \$000	Internally generated software \$000	Total \$000
<b>Cost</b>			
Balance at 1 July 2006	4,869	14,609	19,478
Additions	1,520	4,560	6,080
Disposals	(258)	(775)	(1,033)
Balance at 30 June 2007	6,131	18,394	24,525
Balance at 1 July 2007	6,131	18,394	24,525
Additions	15,763	47,290	63,053
Disposals	(1,132)	(3,396)	(4,528)
Balance at 30 June 2008	20,763	62,288	83,050
<b>Accumulated amortisation and impairment losses</b>			
Balance at 1 July 2006	4,258	12,775	17,033
Amortisation expense	421	1,261	1,682
Disposals	(272)	(816)	(1,088)
Impairment losses	0	0	0
Balance at 30 June 2007	4,407	13,220	17,627
Balance at 1 July 2007	4,407	13,220	17,627
Amortisation expense	2,223	6,668	8,890
Disposals	(3,648)	(10,945)	(14,593)
Impairment losses	0	0	0
Balance at 30 June 2008	2,981	8,943	11,924
<b>Carrying amounts</b>			
At 1 July 2006	611	1,834	2,445
At 30 June and 1 July 2007	1,724	5,174	6,898
At 30 June 2008	17,782	53,345	71,126

NZ IAS 38.122(d)

There are no restrictions over the title of the Ministry's intangible assets, nor are any intangible assets pledged as security for liabilities.

<sup>43</sup> NZ IAS 38.118 requires entities to distinguish between internally generated intangible assets and other intangible assets. For example, internally developed software shall be distinguished from acquired software.

NZ IAS 1.74

**14 Creditors and other payables**

Actual 2007 \$000		Actual 2008 \$000
16,459	Creditors	16,533
68	Income in advance	72
6,740	Accrued expenses	4,342
1,137	GST payable	1,082
<b>24,404</b>	<b>Total creditors and other payables</b>	<b>22,029</b>

NZ IFRS 7.25,  
29(a)

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

NZ IAS 1.103(c)

**15 Repayment of surplus**Treasury Instructions  
Para 4.4.3

Actual 2007 \$000		Actual 2008 \$000
12,224	Net surplus/(deficit)	1,561
	Add:	
0	Other expenses – restructuring costs	1,788
0	Revaluation (gains)/losses recognised in the net surplus	0
<b>12,224</b>	<b>Total repayment of surplus</b>	<b>3,349</b>

Good practice

The repayment of surplus is required to be paid by the 31<sup>st</sup> October of each year.

NZ IAS 1.74

**16 Provisions**

NZ IAS 1.52, 60

Actual 2007 \$000		Actual 2008 \$000
	<b>Current provisions are represented by:</b>	
925	Lease make-good	524
0	Restructuring	1,023
1,075	Onerous contracts	427
350	ACC Partnership Programme	376
2,350	<i>Total current portion</i>	2,350
	<b>Non-current provisions are represented by:</b>	
1,065	Lease make-good	366
921	Onerous contracts	420
100	ACC Partnership Programme	88
2,086	<i>Total non-current portion</i>	874
<b>4,436</b>	<b>Total provisions</b>	<b>3,224</b>

	Restructuring	Lease make-good	Onerous contracts	ACC Partnership Programme	Total	
	\$000	\$000	\$000	\$000	\$000	
<b>2007<sup>44</sup></b>						
NZ IAS 37.84(a)	Opening balance 1 July	0	2,258	1,873	426	4,557
NZ IAS 37.84(b)	Additional provisions made	0	0	723	315	1,038
NZ IAS 37.84(c)	Amounts used	0	(450)	(300)	(291)	(1,041)
NZ IAS 37.84(d)	Unused amounts reversed	0	0	(300)	0	(300)
NZ IAS 37.84(e)	Discount unwind (note 6)	0	182	0	0	182
NZ IAS 37.84(a)	<b>Closing balance 30 June</b>	<b>0</b>	<b>1,990</b>	<b>1,996</b>	<b>450</b>	<b>4,436</b>
<b>2008</b>						
NZ IAS 37.84(a)	Opening balance 1 July	0	1,990	1,996	450	4,436
NZ IAS 37.84(b)	Additional provisions made	1,788	0	0	316	2,104
NZ IAS 37.84(c)	Amounts used	(765)	(1,291)	(1,149)	(302)	(3,507)
NZ IAS 37.84(d)	Unused amounts reversed	0	0	0	0	0
NZ IAS 37.84(e)	Discount unwind (note 6)	0	191	0	0	191
NZ IAS 37.84(a)	<b>Closing balance 30 June</b>	<b>1,023</b>	<b>890</b>	<b>847</b>	<b>464</b>	<b>3,224</b>

<sup>44</sup> Disclosure of comparative figures for provisions is good practice. It is not required under NZ IAS 37.84.

## 16 Provisions (continued)

NZ IAS 37.85	<p><b>Lease make-good</b></p> <p>In respect of a number of its leased premises, the Ministry is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the Ministry. In many cases the Ministry has the option to renew these leases, which impacts on the timing of expected cash outflows to make good the premises.</p>
NZ IAS 37.85	<p><b>Restructuring</b></p> <p>The restructuring provision arises from the closure of the Ministry's Auckland office. It is anticipated that the restructuring will be completed within 12 months of the balance sheet date.</p>
NZ IAS 37.85	<p><b>Onerous contracts</b></p> <p>The provision for onerous contracts arises from a non-cancellable lease where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. The Ministry is no longer able to utilise this space due to restructuring. One of the three floors has been sublet. Owing to current market conditions, the rental income achieved is much lower than the rental expense being incurred and will continue to do so until tenants can be found for the other two floors. The Ministry has two years remaining on this lease.</p>
NZ IFRS 4 Appdx D 17.7.1(a)	<p><b>ACC Partnership Programme<sup>45</sup></b></p> <p>The liability for the ACC Partnership Programme is measured at the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely to possible, the estimated future cash outflows.</p> <p>The Ministry manages its exposure arising from the programme by promoting a safe and healthy working environment by:</p> <ul style="list-style-type: none"> <li>▪ implementing and monitoring health and safety policies;</li> <li>▪ induction training on health and safety;</li> <li>▪ actively managing work place injuries to ensure employees return to work as soon as practical;</li> <li>▪ recording and monitoring work place injuries and near misses to identify risk areas and implementing mitigating actions; and</li> <li>▪ identification of work place hazards and implementation of appropriate safety procedures.</li> </ul>
NZ IFRS 4 Appdx D 17.7.1(c)	<p>The Ministry has chosen a stop loss limit of 200% of the industry premium. The stop loss limit means the Ministry will only carry the total cost of claims of up to \$500,000.</p>
NZ IFRS 4 Appdx D 17.7.1(c)(ii)	<p>The Ministry is not exposed to any significant concentrations of insurance risk as work related injuries are generally the result of an isolated event to an individual employee.</p>
NZ IFRS 4 Appdx D 17.8A	<p>An external independent actuarial valuer, DW Smith [BSc FIAA] has calculated the Ministry's liability, and the valuation is effective 30 June 2008. The valuer has attested he is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability. There are no qualifications contained in the actuarial valuers report.</p>
NZ IFRS 4 Appdx D 17.2(g), 17.8B(b),(c)	<p>Average inflation has been assumed as 2.7% for the year ending 30 June 2009 and 2.9% for the year ending 30 June 2010. A discount rate of 6.8% has been used for the year ending 30 June 2009 and 6.95% for the year ending 30 June 2010.</p>
NZ IFRS 4 Appdx D 17.6.1(d)	<p>The value of the liability is not material for the Ministry's financial statements; therefore, any changes in assumptions will not have a material impact on the financial statements.</p>

<sup>45</sup> Where the ACC Partnership Programme Liability is material to a government department the disclosure requirements of NZ IFRS 4 *Insurance Contracts* must be met. Refer to the Te Motu District Council Model Financial Statements for an illustration of the full disclosures required by NZ IFRS 4.

NZ IAS 1.74

**17 Employee entitlements**

	<b>Actual 2007 \$000</b>		<b>Actual 2008 \$000</b>
NZ IAS 1.52,60		<b>Current employee entitlements are represented by:</b>	
	15,980	Annual leave	12,976
	323	Sick leave	291
	138	Retirement and long service leave	182
	16,441	<i>Total current portion</i>	13,449
		<b>Non-current employee entitlements are represented by:</b>	
	6,910	Retirement and long service leave	7,299
	<b>23,351</b>	<b>Total employee entitlements</b>	<b>20,748</b>

NZ IAS 1.116

The present value of the retirement and long service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

In determining the appropriate discount rate the Ministry considered the interest rates on NZ government bonds which have terms to maturity that match, as closely to possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and after obtaining advice from an independent actuary.

If the discount rate were to differ by 1% from the Ministry's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$893,000 higher/ lower.

If the salary inflation factor were to differ by 1% from the Ministry's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$675,000 higher/ lower.

**18 Finance leases**

	<b>Actual 2007 \$000</b>		<b>Actual 2008 \$000</b>
NZ IAS 17.31(b)		<b>Minimum lease payments payable:</b>	
	76	Not later than one year	120
	481	Later than one year and not later than five years	481
	150	Later than five years	75
	707	<i>Total minimum lease payments</i>	676
	(106)	Future finance charges	(101)
	601	<i>Present value of minimum lease payments</i>	575
NZ IAS 17.31(b)		<b>Present value of minimum lease payments payable:</b>	
	70	Not later than one year	112
	409	Later than one year and not later than five years	409
	122	Later than five years	54
	601	<i>Total present value of minimum lease payments</i>	575

## 18 Finance leases (continued)

	Actual 2007 \$000		Actual 2008 \$000
NZ IAS 1.52		Total present value of minimum lease payments are represented by:	
	70	Current	112
	531	Non-current	463
	<b>601</b>	<b>Total finance leases</b>	<b>575</b>

### NZ IAS 17.31(e) Description of leasing arrangements

NZ IAS 17.31(a) The Ministry has entered into finance leases for various items of plant and equipment. The net carrying amount of the leased items within each class of property, plant and equipment is shown in note 12.

NZ IAS 17.31(e)(ii) The finance leases can be renewed at the Ministry's option, with rents set by reference to current market rates for items of equivalent age and condition. The Ministry does not have the option to purchase the asset at the end of the lease term.

NZ IAS 17.31(e)(iii) There are no restrictions placed on the Ministry by any of the finance leasing arrangements.

Good practice Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

## NZ IAS 1.97(c) 19 Taxpayers' funds

	Actual 2007 \$000		Actual 2008 \$000
NZ IAS 1.97(b)		<b>General Funds</b>	
	60,859	Balance at 1 July	60,859
	12,224	Net surplus/(deficit)	1,561
	0	Transfers from revaluation reserve on disposal of property	2,700
	0	Capital contribution from the Crown	46,718
	(12,224)	Provision for repayment of surplus to the Crown	(3,349)
	<b>60,859</b>	<b>General funds at 30 June</b>	<b>108,489</b>
NZ IAS 1.97(c)		<b>Revaluation reserves</b>	
	8,000	As at 1 July	8,000
NZ IAS 16.77(f)	-	Revaluation gains/(losses)	2,526
NZ IAS 16.41	-	Transfer to general funds on disposal	(2,700)
	<b>8,000</b>	<b>Revaluation reserves at 30 June</b>	<b>7,826</b>
	<b>68,859</b>	<b>Total taxpayers' funds</b>	<b>116,315</b>
Good practice		Revaluation reserves consist of:	
	2,500	Land revaluation reserve	600
	5,500	Buildings revaluation reserve	7,226
	<b>8,000</b>	<b>Total revaluation reserves</b>	<b>7,826</b>

**19 Taxpayers' funds (continued)**

	Actual 2007 \$000		Actual 2008 \$000
NZ IAS 1.97(c)		<b>Cash flow hedge reserve</b>	
	20	As at 1 July	0
NZ IFRS 7.23(e)	(20)	Transfers to acquired property, plant and equipment	0
	0	Cash flow hedge reserve at 30 June	0

**20 Reconciliation of net surplus/(deficit) to net cash from operating activities**

	Actual 2007 \$000		Actual 2008 \$000
	<b>12,224</b>	<b>Net Surplus/(deficit)</b>	<b>1,561</b>
		<b>Add/(less) non-cash items:</b>	
NZ IAS 7 NZ 20.2(a)	11,752	Depreciation and amortisation expense	19,201
	(201)	Net gains on derivative financial instruments	(149)
	212	Net foreign exchange losses/(gains)	20
	11,763	<i>Total non-cash items</i>	19,072
		<b>Add/(less) items classified as investing or financing activities:</b>	
NZ IAS 7 NZ 20.2(c)	(390)	(Gains)/losses on disposal of property, plant and equipment	(465)
		<b>Add/(less) movements in working capital items:</b>	
NZ IAS 7 NZ 20.2(b)	319	(Inc)/Dec in debtors and other receivables	1,302
	(15)	(Inc)/Dec in prepayments	(20)
	933	(Inc)/Dec in inventories	115
	(530)	Inc/(Dec) in creditors and other payables <sup>46</sup>	(1,953)
	(592)	Inc/(Dec) in provisions	(1,212)
	225	Inc/(Dec) in employee entitlements	(2,603)
	340	<i>Net movements in working capital items</i>	(4,371)
	<b>23,937</b>	<b>Net cash from operating activities</b>	<b>15,797</b>

<sup>46</sup> Any creditors and accruals for capital expenditure will need to be excluded when calculating this increase or decrease.

## 21 Related party transactions and key management personnel

### Related party transactions

- NZ IAS 24.12 The Ministry is a wholly owned entity of the Crown. The Government significantly influences the roles of the Ministry as well as being its major source of revenue.
- NZ IAS 24 NZ 17.1 The Ministry enters into transactions with other government departments, Crown entities and state-owned enterprises on an arm's length basis. Those transactions that occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the Ministry would have adopted if dealing with that entity at arm's length in the same circumstance are not disclosed.
- NZ IAS 24.17 *The following transactions were carried out with related parties:*<sup>47</sup>
- There are close family members of key management personnel employed by the Ministry. The terms and conditions of those arrangements are no more favourable than the Ministry would have adopted if there were no relationship to key management personnel.
  - During the year the Ministry purchased legal services from Expert Legal Advisers, a legal firm, in which the Chief Executive's husband is a partner. These services cost \$34,760 (2007 \$65,987) and were supplied on normal commercial terms. There is a balance of \$2,376 (2007 \$ nil) outstanding at year-end.
  - During the year the Ministry contracted with Charity Organisation, in which the Corporate Services General Manager's daughter is a Director. The value of the services provided under the contract during the year totalled \$134,900 (2007 \$45,870) and were negotiated on normal commercial terms. There were no outstanding balances at year-end (2007 \$2,400).
- NZ IAS 24.17(c),(d) No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

### NZ IAS 24.16 Key management personnel compensation

	<b>Actual 2007 \$000</b>		<b>Actual 2008 \$000</b>
NZ IAS 24.16(a)	855	Salaries and other short-term employee benefits	896
NZ IAS 24.16(b)	0	Post-employment benefits	0
NZ IAS 24.16(c)	20	Other long-term benefits	32
NZ IAS 24.16(d)	0	Termination benefits	64
	<b>875</b>	<b>Total key management personnel compensation</b>	<b>992</b>

Good practice Key management personnel include the Chief Executive and the five members of the Senior Management Team.<sup>48,49</sup>

<sup>47</sup> Disclosures that related party transactions were made on terms equivalent to those that prevail in arms's length transactions are made only if such terms can be substantiated, NZ IAS 24.21.

<sup>48</sup> This disclosure provides useful information to readers as to who are key management personnel.

<sup>49</sup> NZ IAS 24 defines key management personnel as "those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity". For a government department we would expect the compensation of the CEO and members of the senior management team, or equivalent body, to be included in the key management personnel disclosures. There may also be other individuals who meet the key management personnel definition of NZ IAS 24. Departments will need to consider their specific facts and circumstances in determining the individuals that should be included in the key management personnel compensation disclosures.

## 22 Events after the balance sheet date

NZ IAS 10.19, 21	Subsequent to the balance sheet date, the Ministry entered into a non-cancellable contract to lease premises for a period of 20 years with the option to renew the lease after 10 years and the annual rental reviewed every two years. The annual rental under the agreement at inception is \$1,250,000 per annum. Because this agreement was entered into after the balance sheet date it is not reflected in the statement of commitments.
	There have been no other significant events after the balance sheet date.

## 23 Financial instrument risks

NZ IFRS 7.31	The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. The Ministry has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.
	<b>Market risk</b>
	<b>Currency risk</b>
NZ IFRS 7.33(a), Appdx A	Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
NZ IFRS 7.33(a)	The Ministry purchases capital equipment internationally and is exposed to currency risk arising from various currency exposures, primarily with respect to the US and Australian dollars. Currency risk arises from future capital purchases and recognised liabilities, which are denominated in a foreign currency.
NZ IFRS 7.33(b)	The Ministry's foreign exchange management policy requires the Ministry to manage currency risk arising from future transactions and recognised liabilities by entering into foreign exchange forward contracts to hedge the entire foreign currency risk exposure. The Ministry's policy has been approved by the Treasury and is in accordance with the requirements of the Treasury Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure.
NZ IFRS 7.40, IG 36	<i>Sensitivity analysis</i> <sup>50</sup> At 30 June 2008, if the NZ dollar had weakened/strengthened by 5% against the US dollar with all other variables held constant, the surplus/deficit for the year would have been \$35,000 (2007 \$42,000) higher/lower. This movement is attributable to the foreign exchange gains/losses on translation of US dollar-denominated creditors.  At 30 June 2008, if the NZ dollar had weakened/strengthened by 10% against the Australian dollar with all other variables held constant, the surplus/deficit for the year would have been \$72,000 (2007 \$34,000) higher/lower. This movement is attributable to the foreign exchange gains/losses on translation of Australian dollar-denominated creditors.
	<b>Interest rate risk</b>
NZ IFRS 7 Appdx A	Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or, the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.
NZ IFRS 7.33(a)	The Ministry has no interest bearing financial instruments and, accordingly, has no exposure to interest rate risk.
	<b>Credit risk</b>
NZ IFRS 7 Appdx A	Credit risk is the risk that a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss.
NZ IFRS 7.33(a)	In the normal course of its business, credit risk arises from debtors, deposits with banks and derivative financial instrument assets.
NZ IFRS 7.33(b),36(c)	The Ministry is only permitted to deposit funds with Westpac, a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.
NZ IFRS 7.36(a),(b)	The Ministry's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, net debtors (note 8), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

<sup>50</sup> A sensitivity analysis for derivative financial instruments is required when the gross aggregated fair value of derivatives are significant.

## 23 Financial instrument risks (continued)

### Liquidity risk<sup>51</sup>

NZ IFRS 7.33(a), Appdx A Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

NZ IFRS 7.33(b), 39(b) In meeting its liquidity requirements, the Ministry closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. The Ministry maintains a target level of available cash to meet liquidity requirements.

NZ IFRS 7.39(a) The table below analyses the Ministry's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years
	\$000	\$000	\$000	\$000
<b>2007</b>				
Creditors and other payables (note 14)	24,404	0	0	0
Derivative financial instrument liabilities	50	78	0	0
Finance leases (note 18)	38	38	481	150
<b>2008</b>				
Creditors and other payables (note 14)	22,029	0	0	0
Derivative financial instrument liabilities	50	62	0	0
Finance leases (note 18)	60	60	481	75

<sup>51</sup> The liability for the repayment of surplus to the Crown is not a financial liability as defined by NZ IAS 32, as the obligation to pay arises from statute.

## 24 Categories of financial instruments

NZ IFRS 7.8

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

	<b>Actual 2007 \$000</b>	<b>Actual 2008 \$000</b>
NZ IFRS 7.8(c)	<i>Loans and receivables</i>	
	7,995	13,313
	5,216	3,914
	13,211	17,227
	<i>Fair value through profit and loss – held for trading</i>	
NZ IFRS 7.8(a)	98	145
NZ IFRS 7.8(e)	(112)	(87)
	<i>Financial liabilities measured at amortised cost</i>	
NZ IFRS 7.8(f)	(24,404)	(22,029)

NZ IAS 1.124A

## 25 Capital management

The Ministry's capital is its equity (or taxpayers' funds), which comprise general funds and revaluation reserves. Equity is represented by net assets.

The Ministry manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. The Ministry's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions.

The objective of managing the Ministry's equity is to ensure the Ministry effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

Treasury  
Instructions  
Para 6.3.6

## 26 Memorandum account<sup>52</sup>

<b>Actual<sup>53</sup> 2007 \$000</b>	<b>Actual 2008 \$000</b>
<b>Provision for statutory information</b>	
25	15
230	158
(240)	(150)
<b>15</b>	<b>23</b>

<sup>52</sup> Memorandum accounts are notional accounts to record the accumulated balance of surpluses and deficits incurred for outputs operating on a full cost recovery basis. They are intended to provide a long-run perspective to the pricing of outputs. The structure and opening balance of each memorandum account is to be approved by the Minister of Finance and Responsible Minister.

<sup>53</sup> Comparative information must be presented in accordance with Treasury Instructions para 6.3.6.

## 26 Memorandum account (continued)

This account summarises financial information relating to the accumulated surpluses and deficits incurred in the provision of statutory information by the Ministry on a full cost recovery basis. These transactions are included as part of the Ministry's operating income and expenses in the statement of financial performance.

The account enables the Ministry to take a long run perspective to fee setting and cost recovery.

NZ IAS 1 NZ 41.1

## 27 Explanation of major variances against budget<sup>54</sup>

Explanations for major variances from the Ministry's estimated figures in the statement of intent are as follows:

### Statement of financial performance<sup>55</sup>

#### Personnel costs

Personnel costs were greater than budgeted by \$2m because of higher staff numbers and increases in remuneration. The increase in staff numbers was a result of implementing the government's maximising the markets initiative. The cost of this initiative was not included in the statement of intent.

#### Operating costs

Operating costs were greater than budgeted by \$6.3m because of the implementation of initiatives arising from the government's maximising the markets initiative. The cost of this initiative was not included in the statement of intent. The increase in costs primarily arose from consultancy expenditure.

#### Revenue Crown

Revenue Crown is greater than budgeted by \$10m because of funding received for the maximising the markets initiative, which was not included in the statement of intent.

### Statement of financial position

#### Property, plant and equipment and revaluation reserves

Property, plant and equipment and revaluation reserves are below budget by \$7.2m and \$7.5m respectively because the forecast increases in property values from revaluation did not eventuate.

#### Creditors and other payables

Creditors and other payables are greater than budgeted by \$7.9m because of unpaid invoices at year-end of \$6.2m for IT related acquisition projects. The progress payments for these projects were forecast to be paid prior to the balance sheet date, however were delayed due to a disagreement with suppliers.

#### Employee entitlements

The reduction in employee entitlements is a result of management's efforts to reduce the level of untaken leave.

### Statement of cash flows

Receipts from the Crown were greater than budgeted by \$10m because of additional funding received for the government's maximising the markets initiatives. Consequently, the cash-out flows for payments to suppliers and employees were greater than budgeted.

## 28 Explanation of transition to NZ IFRS

NZ IFRS 1.13, 26

### Transition to NZ IFRS

The Ministry's financial statements for the year ended 30 June 2008 are the first financial statements that comply with NZ IFRS. The Ministry has applied NZ IFRS 1 *First-time Adoption of NZ IFRS* (NZ IFRS 1) in preparing these financial statements. The Ministry's transition date is 1 July 2006. The Ministry prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2008. The Ministry NZ IFRS adoption date is 1 July 2007.

<sup>54</sup> This note should explain variances between actual results and the budgeted figures in the statement of intent (which are consistent with the Main Estimates). An alternative approach that meets this requirement is to explain significant changes between the Main Estimates and the Supplementary Estimates and then explain any significant variances between the Supplementary Estimates and the actual results.

<sup>55</sup> In addition to explaining variances in items presented on the face of the statement of financial performance, departments should also explain significant variances in output statement costs and revenues. These explanations can be either provided in the statement of service performance or this note to the financial statements.

## 28 Explanation of transition to NZ IFRS (continued)

### Exemptions from full retrospective application elected by the Ministry

NZ IFRS 1.13	The Ministry has applied one optional exemption from full retrospective application in transitioning to NZ IFRS. The Ministry has applied the business combinations exemption in NZ IFRS 1. It has not restated the merger between the Ministry of Public Issues and the Ministry of Public Accountability that was effective 1 July 2003.
NZ IFRS 1.26(c)	The only mandatory exception from retrospective application that applies to the Ministry is the requirement for estimates under NZ IFRS at 1 July 2006 and 30 June 2007 to be consistent with estimates made for the same date under previous NZ GAAP.
NZ IFRS 1.39(a)	<b>Reconciliation of equity<sup>56</sup></b>
NZ IFRS 1.11	The following table shows the changes in equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2006 and 30 June 2007.

Note	Previous NZ GAAP 1 July 2006 \$000	Effect on transition to NZ IFRS 1 July 2006 \$000	NZ IFRS 1 July 2006 \$000	Previous NZ GAAP 30 June 2007 \$000	Effect on transition to NZ IFRS 30 June 2007 \$000	NZ IFRS 30 June 2007 \$000
<b>Assets</b>						
<b>Current assets</b>						
	37,438	0	37,438	7,795	0	7,995
a	5,323	435	5,758	4,914	302	5,216
	1,266	0	1,266	1,260	0	1,260
	1,789	0	1,789	856	0	856
b	0	145	145	0	98	98
c	5,563	(4,278)	1,285	6,632	(4,587)	2,045
<i>Total current assets</i>	51,379	(3,698)	47,681	21,457	(4,187)	17,470
<b>Non-current assets</b>						
c,d,e	51,725	1,833	53,558	111,975	(2,356)	109,619
d	0	2,445	2,445	0	6,898	6,898
<i>Total non-current assets</i>	51,725	4,278	56,003	111,975	4,542	116,517
<b>Total assets</b>	<b>103,104</b>	<b>580</b>	<b>103,684</b>	<b>133,432</b>	<b>355</b>	<b>133,987</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
	6,718	0	6,718	24,204	0	24,404
	0	0	0	12,224	0	12,224

<sup>56</sup> NZ IFRS 1.6 does not require an entity to present its opening NZ IFRS balance sheet in its first NZ IFRS financial statements. We consider it good practice to present the reconciliation of equity and surplus/deficit as shown in this model, which is the approach taken by the implementation guidance of NZ IFRS 1 IG 63.

## 28 Explanation of transition to NZ IFRS (continued)

	Note	Previous NZ GAAP 1 July 2006 \$000	Effect on transition to NZ IFRS 1 July 2006 \$000	NZ IFRS 1 July 2006 \$000	Previous NZ GAAP 30 June 2007 \$000	Effect on transition to NZ IFRS 30 June 2007 \$000	NZ IFRS 30 June 2007 \$000
Provisions	f	2,443	342	2,785	2,000	350	2,350
Employee entitlements	g	15,910	306	16,216	16,118	323	16,441
Finance leases		72	0	72	65	0	65
Derivative financial instruments	b	0	124	124	0	112	112
<b>Total current liabilities</b>		<b>25,143</b>	<b>772</b>	<b>25,915</b>	<b>54,611</b>	<b>785</b>	<b>55,596</b>
<b>Non-current liabilities</b>							
Provisions	f	1,688	84	1,772	1,986	100	2,086
Employee entitlements		6,483	0	6,483	6,910	0	6,910
Finance leases		634	0	634	536	0	536
<b>Total non-current liabilities</b>		<b>8,805</b>	<b>84</b>	<b>8,889</b>	<b>9,432</b>	<b>100</b>	<b>9,532</b>
<b>Total liabilities</b>		<b>33,948</b>	<b>856</b>	<b>34,804</b>	<b>64,043</b>	<b>885</b>	<b>65,128</b>
<b>Net assets</b>		<b>69,156</b>	<b>(276)</b>	<b>68,880</b>	<b>69,389</b>	<b>(530)</b>	<b>68,859</b>
<b>Taxpayers' funds</b>							
General funds	a,b,e,f,g	61,156	(297)	60,859	61,389	(530)	60,859
Property, plant and equipment revaluation reserves		8,000	0	8,000	8,000	0	8,000
Cash flow hedge reserve	h	0	21	21	0	0	0
<b>Total taxpayers' funds</b>		<b>69,156</b>	<b>(276)</b>	<b>68,880</b>	<b>69,389</b>	<b>(530)</b>	<b>68,859</b>

**Explanatory notes – Reconciliation of equity****a. Debtors and other receivables – Provision for doubtful debts**

Under previous NZ GAAP the Ministry applied a general provision for doubtful debts to all debtors over 90 days old. NZ IFRS requires the Ministry to measure the provision for doubtful debts based on objective evidence that the Ministry will not be able to collect the amounts owing. The impact of this change has been a reduction in the provision for doubtful debts.

**b. Derivative financial instruments**

Derivatives were not recognised in the statement of financial position under previous NZ GAAP. NZ IFRS requires derivatives to be recognised in the statement of financial position at their fair value.

**c. Non-current assets held for sale**

Non-current assets held for sale under previous NZ GAAP did not all meet the “held for sale” definition under NZ IFRS. NZ IFRS requires that properties must be available for immediate sale in their present condition, and the sale must be highly probable. An appropriate level of management must be committed to a plan to sell the asset and there must be an active programme to locate a buyer and the plan must have been initiated. The sale must be expected to be completed within one year. The effect of this change in definition is a reduction of non-current assets held for sale.

## 28 Explanation of transition to NZ IFRS (continued)

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### **d. Intangible assets – Computer software**

Computer software was classified as property, plant and equipment under previous NZ GAAP. Computer software has been reclassified as an intangible asset on transition to NZ IFRS.

### **e. Property, plant and equipment**

Under previous NZ GAAP the Ministry accounted for future capital purchases that were hedged with forward exchange contracts in accordance with SSAP-21 *Accounting for the Effects of Changes in Foreign Currency Exchange Rates*. Where an entity is not hedge accounting, NZ IFRS requires property, plant and equipment to be recorded at the spot rate at initial recognition. The Ministry has elected to not adopt hedge accounting under NZ IFRS, and the impact of this adjustment has been a reduction in the carrying amount of property, plant and equipment at 30 June 2007 of \$329,000.

### **f. Provisions – ACC Partnership Programme**

A liability for the ACC Partnership Programme was not recognised under previous NZ GAAP. It is accounted for as an insurance contract under NZ IFRS 4 *Insurance Contracts*. The Ministry is required to recognise the present value of expected future payments for amounts in relation to unpaid reported claims, claims incurred but not reported and claims incurred for which no information is yet available.

### **g. Employee entitlements – Sick leave**

Sick leave was not recognised as a liability under previous NZ GAAP. NZ IAS 19 requires the Ministry to recognise employees' unused sick leave entitlement that can be carried forward at balance date, to the extent that the Ministry anticipates it will be used by staff to cover future absences.

### **h. Cash flow hedge reserve**

NZ IFRS 1.30

Under previous NZ GAAP the Ministry accounted for forward foreign exchange contracts in accordance with the hedging requirements of SSAP-21 *Accounting for the Effects of Changes in Foreign Currency Exchange Rates*. In accordance with the transitional provisions of NZ IFRS 1, where an entity was hedge accounting under previous NZ GAAP, the unrealised gains or losses on forward exchange contracts held at the date of transition in relation to future capital purchases expected to occur are recognised in the cash flow hedge reserve within equity. Cash flow hedge reserve balances will be transferred to the carrying amount of property, plant and equipment at their initial recognition. Fair value movements of forward exchange contracts subsequent to the date of transition to NZ IFRS are recognised in the statement of financial performance.

## 28 Explanation of transition to NZ IFRS (continued)

NZ IFRS 1.39(b)

NZ IFRS 1.11

### Reconciliation of surplus

The following table shows the changes in the Ministry's surplus, resulting from the transition from previous NZ GAAP to NZ IFRS for the year ended 30 June 2007.

	Note	Previous NZ GAAP 30 June 2007 \$000	Effect on transition to NZ IFRS 30 June 2007 \$000	NZ IFRS 30 June 2007 \$000
<b>Income</b>				
Revenue Crown		220,000	0	220,000
Revenue other		1,759	0	1,759
Gains		632	0	632
<i>Total income</i>		222,391	0	222,391
<b>Expenditure</b>				
Personnel costs	a	125,391	17	125,408
Depreciation and amortisation expense	b	11,601	124	11,725
Capital charge		6,821	0	6,821
Finance costs		254	0	254
Other operating expenses	c,d,e	65,772	187	65,959
<i>Total expenditure</i>		209,839	328	210,167
<b>Net surplus/(deficit)</b>		<b>12,552</b>	<b>328</b>	<b>12,224</b>

### Explanatory notes - Reconciliation of surplus

#### a. Personnel costs - Sick leave

This represents the increase in the sick leave provision, which was not recognised under previous NZ GAAP.

#### b. Depreciation and amortisation expense – Assets classified as held for sale

Asset classified as held for sale under previous NZ GAAP were not depreciated. On transition to NZ IFRS certain properties no longer meet the criteria to be classified as held for sale. They have been reclassified to property, plant and equipment and have been depreciated accordingly. The result of this is an increase in depreciation expense.

#### c. Other operating expenses - ACC Partnership Programme

This represents the increase in the ACC Partnership Programme liability of \$14,000, which was not recognised under previous NZ GAAP.

#### d. Other operating expenses - Provision for doubtful debts

This represents the change in measurement basis of the provision for doubtful debts on transition to NZ IFRS, which has impacted on the movement in the provision for doubtful debts recognised in the statement of financial performance by \$46,000.

#### e. Other operating expenses – Derivative financial instruments

This represents fair value movements associated with forward foreign exchange contracts of \$127,000, which are required to be recognised in the statement of financial performance. Under previous NZ GAAP unrecognised gains and losses on forward foreign exchange contracts were deferred off balance sheet.

### Statement of cash flows

NZ IFRS 1.40

There have been no material adjustments to the statement of cash flows on transition to NZ IFRS.

## NON-DEPARTMENTAL STATEMENTS AND SCHEDULES FOR THE YEAR ENDED 30 JUNE 2008 <sup>57</sup>

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The following non-departmental statements and schedules record the income, expenses, assets, liabilities, commitments, contingent liabilities, contingent assets and trust account that the Ministry manages on behalf of the Crown.

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<sup>57</sup> Departments are also required by Treasury Instructions to provide supplementary information on any Crown activities they may manage. This information is in addition to that required by section 45B(2) expenditure against appropriations, and unappropriated expenditure. Treasury Instructions require departments to disclose non-departmental activities in the form of schedules. If applicable departments should present the following:

- Schedule of non-departmental income (with capital receipts included or in a separate statement);
- Schedule of non-departmental expenses ;
- Schedule of non-departmental assets ;
- Schedule of non-departmental liabilities;
- Schedule of non-departmental commitments;
- Schedule of non-departmental contingent liabilities and contingent assets; and
- Schedule of relevant non-departmental accounting policies.

The information must be reported in accordance with GAAP, the government accounting policies, and other guidelines (for example Treasury Instructions and Treasury Circulars, particularly TC 2003/02). The non-departmental schedules are required to be audited.

PFA 45B(2)

**STATEMENT OF NON-DEPARTMENTAL EXPENDITURE AND CAPITAL  
EXPENDITURE AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30  
JUNE 2008**

<b>Expenditure after remeasurements 2007</b>		<b>Expenditure before remeasurements 2008</b>	<b>Remeasurements 2008</b>	<b>Expenditure after remeasurements 2008</b>	<b>Appropriation Voted 2008*</b>
<b>\$000<sup>58</sup></b>		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
	<b>Vote Public Issues</b>				
	<b>Appropriation for output expenses</b>				
1,398	Promotion of public accountability	1,495	(32)	1,465	1,487
874	Public accountability legislation	1,002	0	1,002	1,013
2,272	<i>Total appropriations for output expenses</i>	2,497	(32)	2,467	2,500
	<b>Appropriation for other expenses to be incurred by the Crown</b>				
		442	(312)	130	200
700	Contingency and innovation fund	808	0	808	887
426	International subscriptions	434	(67)	367	405
1,126	<i>Total appropriations for other expenses to be incurred by the Crown</i>	1,684	(379)	1,305	1,492
	<b>Appropriation for capital expenditure</b>				
745	Public accountability research encouragement loans	868	0	868	890
<b>4,143</b>	<b>Total</b>	<b>5,049</b>	<b>(411)</b>	<b>4,640</b>	<b>4,882</b>

*\*Suggested disclosure for transfers under section 26A of the Public Finance Act 1989 is included on the next page*

*The accompanying notes form part of these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2008.*

<sup>58</sup> Comparative figures for the prior year actual expenditure is considered good practice.

## STATEMENT OF NON-DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2008 (CONTINUED)

### Details of multi-year appropriations

The Ministry has a multi-year appropriation for other expenses to be incurred by the Crown for the provision of advice and grants to assist the growth and development of public accountability in certain countries. This appropriation commenced on 1 July 2004 and expires on 30 June 2009.

	Actual 2005 \$000	Actual 2006 \$000	Actual 2007 \$000	Actual 2008 \$000
<b>Vote Public Issues</b>				
<b>Appropriation : Public accountability assistance</b>				
Original appropriation	2,600	2,600	2,600	2,600
Cumulative adjustments	0	150	400	400
<b>Total appropriation</b>	<b>2,600</b>	<b>2,750</b>	<b>3,000</b>	<b>3,000</b>
Opening cumulative actual	0	324	811	1,798
Current year supplementary estimates	360	510	860	350
Current year spend	324	487	987	400
<b>Closing cumulative actual</b>	<b>324</b>	<b>811</b>	<b>1,798</b>	<b>2,198</b>
Unspent	2,276	1,939	1,202	802

### Transfers under section 26A of the PFA<sup>59</sup>

Good practice

The Appropriation Voted includes adjustments made in the Supplementary Estimates and the following transfer under section 26A of the PFA.

	Supp Estimates 2008 \$000	Section 26A Transfers 2008 \$000	Appropriation Voted 2008 \$000
<b>Vote Public Issues</b>			
<b>Appropriation for output expenses</b>			
Promotion of public accountability	1,530	(43)	1,487
Public accountability legislation	970	43	1,013
<b>Total appropriations for output expenses</b>	<b>2,500</b>	<b>0</b>	<b>2,500</b>
<b>Net adjustment</b>	<b>-</b>	<b>0</b>	<b>-</b>

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2008.

<sup>59</sup> Where there have been transfers under section 26A of the PFA, we suggest this following additional disclosure would be helpful to the users of the financial statements. This suggested additional disclosure is not mandatory.

PFA s45B(2)

**STATEMENT OF NON-DEPARTMENTAL UNAPPROPRIATED EXPENDITURE  
AND CAPITAL EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2008<sup>60,61</sup>**

Unappropriated expenditure 2007 \$000		Expenditure after remeasurements 2008 \$000	Appropriation Voted 2008 \$000	Unappropriated expenditure 2008 \$000
0	Vote Public Issues			Nil
<b>0</b>	<b>Total</b>			<b>0</b>

There has been no unappropriated expenditure for the year-ended 30 June 2008 (2007 nil).

*The accompanying notes form part of these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2008.*

<sup>60</sup> This statement should be included even if there was no unappropriated expenditure.

<sup>61</sup> The Public Finance Act 1989 does not require comparative figures for the previous financial year in this statement.

## SCHEDULE OF NON-DEPARTMENTAL INCOME FOR THE YEAR ENDED 30 JUNE 2008<sup>62</sup>

	Actual 2007 \$000	Note	Actual 2008 \$000	Main estimates 2008 \$000	Supp estimates 2008 \$000
	<b>Income</b>				
NZ IAS 1.83	3,682	Fines and penalties	4,208	4,010	4,234
NZ IFRS 7.20(b)	352	Interest	432	322	398
NZ IAS 1.83	<b>4,034</b>	<b>Total non-departmental income</b>	<b>4,640</b>	<b>4,332</b>	<b>4,632</b>

Good practice

## SCHEDULE OF NON-DEPARTMENTAL CAPITAL RECEIPTS FOR THE YEAR ENDED 30 JUNE 2008

	Actual 2007 \$000	Note	Actual 2008 \$000	Main estimates 2008 \$000	Supp estimates 2008 \$000
	487	Repayments of public accountability research encouragement loans	424	490	450
	<b>487</b>	<b>Total non-departmental capital receipts</b>	<b>424</b>	<b>490</b>	<b>450</b>

Explanations of significant variances against budget are detailed in note 4

The accompanying notes form part of these financial statements.

For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2008.

<sup>62</sup> The schedule of non-departmental income should exclude funding received from the New Zealand Debt Management Office as this funding is a flow from one part of the Crown to another.

**SCHEDULE OF NON-DEPARTMENTAL EXPENSES  
FOR THE YEAR ENDED 30 JUNE 2008**

	Actual 2007	Note	Actual 2008	Main estimates 2008	Supp estimates 2008
	\$000		\$000	\$000	\$000
NZ IAS 1.88		<b>Expenditure</b>			
NZ IAS 1.91	700	Grants awarded	1,008	887	887
NZ IAS 1.91	1,428	Promotions	1,495	1,610	1,540
NZ IAS 1.91	480	Subscriptions	367	405	405
NZ IAS 1.91	933	Debt impairment	442	200	200
NZ IFRS 7.20(e)					
NZ IAS 1.35,91	75	Net foreign exchange losses	67	0	0
	320	GST input expense	369	0	0
NZ IAS 1.91	874	Other	1,202	890	960
NZ IAS 1.83	<b>4,810</b>	<b>Total non-departmental expenditure</b>	<b>4,950</b>	<b>3,992</b>	<b>3,992</b>

*Explanations of significant variances against budget are detailed in note 4*

*The accompanying notes form part of these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2008.*

**SCHEDULE OF NON-DEPARTMENTAL ASSETS AS AT 30 JUNE 2008**

	Actual 2007	Note	Actual 2008	Main estimates 2008	Supp estimates 2008
	\$000		\$000	\$000	\$000
	<b>Assets</b>				
	<b>Current Assets</b>				
NZ IAS 1.68(i)	2,567	Cash and cash equivalents	3,020	2,800	3,200
NZ IAS 1.68(h)	1,017	Debtors and other receivables	1,067	987	987
NZ IAS 1.69	200	Prepayments	650	200	350
NZ IAS 1.69	3,784	<i>Total current assets</i>	4,737	3,987	4,537
	<b>Non-current assets</b>				
NZ IAS 1.68(h)	2,532	Debtors and other receivables	3,072	2,800	2,900
NZ IAS 1.69	2,532	<i>Total non-current assets</i>	3,072	2,800	2,900
NZ IAS 1.69	<b>6,316</b>	<b>Total non-departmental assets</b>	<b>7,809</b>	<b>6,787</b>	<b>7,437</b>

In addition the Ministry monitors two Crown entities. These are the Crown Services Entity and the Accountability Commission. The investment in those entities is recorded within the Financial Statements of the Government on a line-by-line basis. No disclosure is made in this schedule. <sup>63</sup>

**SCHEDULE OF NON-DEPARTMENTAL LIABILITIES AS AT 30 JUNE 2008**

	Actual 2007	Note	Actual 2008	Main estimates 2008	Supp estimates 2008
	\$000		\$000	\$000	\$000
	<b>Liabilities</b>				
	<b>Current Liabilities</b>				
NZ IAS 1.68(i)	1,832	Creditors and other payables	2,524	2,230	2,230
NZ IAS 1.69	<b>1,832</b>	<b>Total non-departmental liabilities</b>	<b>2,524</b>	<b>2,230</b>	<b>2,230</b>

*Explanations of significant variances against budget are detailed in note 4.*

*The accompanying notes form part of these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2008.*

<sup>63</sup> Refer to Treasury Circular 2003/02

## SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS AS AT 30 JUNE 2008

### Other non-cancellable commitments

The schedule sets out the level of commitment made against out-year appropriations and funding baselines for non-departmental expenditure. The Ministry on behalf of the Crown has entered into non-cancellable contracts for promotional services.

Actual 2007 \$000		Actual 2008 \$000
	<b>Other non-cancellable commitments</b>	
621	Not later than one year	750
552	Later than one year and not later than five years	672
0	Later than five years	0
<b>1,173</b>	<b>Total other non-cancellable commitments</b>	<b>1,422</b>

## SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS AS AT 30 JUNE 2008

### Unquantified contingent liabilities

The Ministry on behalf of the Crown has no unquantifiable contingent liabilities

### Quantifiable contingent liabilities

Actual 2007 \$000		Actual 2008 \$000
581	Legal proceedings and disputes	240
24	Other contingent liabilities	34
<b>605</b>	<b>Total quantifiable contingent liabilities</b>	<b>274</b>

### Legal proceedings and disputes

NZ IAS 37.86

Legal proceedings and disputes relate to legal claims in relation to disputed public accountability encouragement loans.

### Contingent assets

The Ministry on behalf of the Crown has no contingent assets (2007 nil).<sup>64</sup>

*The accompanying notes form part of these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2008.*

<sup>64</sup> Where there are no contingent assets, we believe it is good practice to state this fact.

Good practice

## STATEMENT OF TRUST MONIES FOR THE YEAR ENDED 30 JUNE 2008<sup>65</sup>

Actual 2007 \$000		Actual 2008 \$000
<b>New Zealand Public Accountability Scholarship Trust</b>		
69	Balance at 1 July	112
525	Contributions	500
(500)	Distributions	(525)
18	Revenue	21
0	Expenditure	0
<b>112</b>	<b>Balance at 30 June</b>	<b>108</b>

This Trust was established in 1993 to provide scholarships for post-graduate research by academics and public servants into public sector governance and related subjects. The scholarships are for 12 months and may be renewed for a further 12 months.

Source of funds: Public donations and interest on investments.

Scholarships awarded during 2007/08:

- First year scholarships: 6 (2007:8)
- Renewed for second year: 3 (2007:nil)

*The accompanying notes form part of these financial statements.*

*For a full understanding of the Crown's financial position and the results of its operations for the period, reference should be made to the consolidated Financial Statements of the Government for the year ended 30 June 2008.*

<sup>65</sup> We consider it best practice to disclose comparative figures.

## NOTES TO THE NON-DEPARTMENTAL FINANCIAL STATEMENTS

### 1 Statement of accounting policies for the year ended 30 June 2008

#### Reporting entity

These non-departmental schedules and statements present financial information on public funds managed by the Ministry on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government. For a full understanding of the Crown's financial position, results of operations and cash flows for the year, reference should also be made to the Financial Statements of the Government.

#### Accounting Policies

The non-departmental schedules and statements have been prepared in accordance with the Government's accounting policies as set out in the Financial Statements of the Government, and in accordance with relevant Treasury Instructions and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these non-departmental schedules and statements are consistent with New Zealand generally accepted accounting practice as appropriate for public benefit entities.

This is the first set of financial statements prepared using NZ IFRS. The comparatives for the year ended 30 June 2007 have been restated to NZ IFRS accordingly. Reconciliations of income and expenses and assets and liabilities for the year ended 30 June 2007 under NZ IFRS to the balances reported in the 30 June 2007 financial statements are detailed in note 5.

NZ IAS  
1.103(a),108(b)

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening NZ IFRS statement of financial position as at 1 July 2006 for the purposes of the transition to NZ IFRS.

The following particular accounting policies have been applied:

#### Budget figures

NZ IAS 1 NZ 41.1

The budget figures are those included in the Ministry's statement of intent for the year-ended 30 June 2008, which are consistent with the financial information in the Main Estimates. In addition, these financial statements also present the updated budget information from the Supplementary Estimates.

#### Foreign exchange

NZ IAS 21.21,28

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the schedule of non-departmental income or expenses.

#### Revenue

NZ IAS 1.108(b)

##### *Fines and penalties*

Revenue from fines and penalties are recognised when the infringement notice is issued.

NZ IAS 18.30

##### *Interest*

Interest income is recognised using the effective interest method.

#### Grant expenditure

NZ IAS 37 NZ  
Appdx E

Non-discretionary grants are those grants awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Ministry has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the grants approvals committee and the approval has been communicated to the applicant.

#### Goods and services tax

NZ IAS 1.108

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. In accordance with Treasury instructions, GST is returned on revenue received on behalf of the Crown, where applicable. However, an input tax deduction is not claimed on non-departmental expenditure. Instead, the amount of GST applicable to non-departmental expenditure is recognised as a separate expense and eliminated against GST revenue on consolidation of the government financial statements.

**Debtors and other receivables**

NZ IAS 39.43 Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost  
 NZ IAS 39.46(a) using the effective interest rate, less any provision for impairment.

NZ IAS 39.58 Public accountability research encouragement loans at nil, or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted using a rate for loans of a similar term and credit risk. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and present value of expected future cash flows of the loan is recognised in the statement of financial performance as a grant.

NZ IAS 39.63 Impairment of a receivable is established when there is objective evidence that the Ministry will not be able to  
 NZ IFRS 7 Appdx collect amounts due according to the original terms of the receivable. Significant financial difficulties of the  
 B5(d), (f) debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (i.e not past due).

**Commitments**

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

Treasury Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to  
 Instructions cancel are included in the statement of commitments at the value of that penalty or exit cost.  
 Para 3.5.18

NZ IAS 1.74

**2 Debtors and other receivables**

Actual 2007 \$000		Actual 2008 \$000
4,602	Public accountability research encouragement loans	5,542
(1,209)	Less: provision for doubtful debts	(1,560)
3,393	Net public research encouragement loans	3,982
124	Accrued revenue	142
32	Other receivables	15
<b>3,549</b>	<b>Total debtors and other receivables</b>	<b>4,139</b>
	Represented by:	
1,017	Current	1,067
2,532	Non-current	3,072

NZ IFRS 7. 25,29(a) The carrying value of accrued revenue and other receivables approximates their fair value. The fair value of public accountability research encouragement loans is \$3,012,000 (2007 \$3,659,000). The fair values of public research encouragement loans are based on cash flows discounted using a rate based on weighted market rates for loans of similar terms and credit risk of 11.2% (2007 11.45%).

Good practice The face value of public accountability encouragement loans outstanding is \$6,590,000 (2007 \$5,672,000)

NZ IFRS 7.36(b) The Crown holds no collateral over public accountability research encouragement loans, including those loans that are overdue or impaired.

NZ IFRS 7.36(d) The carrying amount of receivables that would otherwise be past due, but not impaired, whose terms have been renegotiated is \$572,000 (2007 \$484,000).

NZ IFRS 7.37(a) As at 30 June 2008 and 2007, all public research encouragement loans have been assessed for impairment and appropriate provisions applied, as detailed below:

## 2 Debtors and other receivables (continued)

	2007			2008		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	1,884	(225)	1,659	1,972	(312)	1,660
Past due 1-90 days	1,068	(168)	900	1,348	(227)	1,121
Past due 90-180 days	568	(265)	303	628	(224)	404
Past due 180-360 days	460	(240)	220	836	(418)	418
Past due > 360 days	622	(311)	311	758	(379)	379
<b>Total</b>	<b>4,602</b>	<b>(1,209)</b>	<b>3,393</b>	<b>5,542</b>	<b>(1,560)</b>	<b>3,982</b>

NZ IFRS 7.37(b)

The provision for impairment has been calculated based on expected losses for the Crown's pool of debtors. Expected losses have been determined based on an analysis of the Crown's losses in previous periods, and review of specific debtors.

As at 30 June 2008 the Ministry has identified 8 specific public accountability research encouragement loans (2007 6) totalling \$562,000 (2007 \$432,000) that have been identified as individually impaired.

NZ IFRS 7.16

Movements in the provision for doubtful debts of public accountability research encouragement loans are as follows:

Actual 2007 \$000		Actual 2008 \$000
959	Balance at 1 July	1,209
933	Additional provisions made during the year	842
(683)	Receivables written off during period	(491)
<b>1,209</b>	<b>Balance at 30 June</b>	<b>1,560</b>

NZ IAS 1.74

## 3 Creditors and other payables

Actual 2007 \$000		Actual 2008 \$000
124	Creditors	189
585	Accrued expenses	179
123	Grants payable	156
<b>832</b>	<b>Total creditors and other payables</b>	<b>524</b>

NZ IFRS 7.25,  
29(a)

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

## 4 Explanation of major variances against budget<sup>66</sup>

Explanations for major variances from the Ministry's non-departmental estimated figures in the Main Estimates are as follows:

### Schedule of income and expenses

There are no significant variances to budget.

### Schedule of assets and liabilities

Prepayments were more than anticipated due to a greater number of subscriptions relating to the 2009 financial year being prepaid by 30 June 2008. Historically these subscriptions had been paid in the financial year to which the subscription related.

## 5 Explanation of transition to NZ IFRS<sup>67,68</sup>

NZ IFRS 1.11,39(a)

### Reconciliation of assets and liabilities

There has been one adjustment to non-departmental recognised assets and liabilities on transition to NZ IFRS, as outlined below.

#### *Debtors and other receivables*

Under previous NZ GAAP public research encouragement loans had been valued at the original loan principal amount, less any loan repayments made. Public research encouragement loans are granted on interest free terms. NZ IAS 39 requires receivables to be initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate. In accordance with NZ IAS 39 public research encouragement loans have been valued at initial recognition at the net present value of expected future repayments, using market interest rates for instruments with a similar credit rating as the discount factor. The effect of this has been a reduction in the debtor carrying value of \$1,236,000 on the transition to NZ IFRS at 1 July 2006 and \$1,409,000 at 30 June 2007.

NZ IFRS 1.11,39(b)

### Reconciliation of income and expenses

There has been one adjustment to non-departmental income and expenses on transition to NZ IFRS, as outlined below.

#### *Interest*

Under NZ IFRS public research encouragement loans are subsequently measured at amortised cost using the effective interest method. The effective interest method allocates interest income over the life of the loan to the statement of financial performance. No interest was recognised on loans at nil interest under previous NZ GAAP. The increase in interest income for the year ended 30 June 2007 was \$352,000.

<sup>66</sup> This note should explain variances between actual results and the budgeted figures in the statement of intent (which are consistent with the Main Estimates). An alternative approach that meets this requirement is to explain significant changes between the Main Estimates and the Supplementary Estimates and then explain any significant variances between the Supplementary Estimates and the actual results.

<sup>67</sup> Alternatively, reconciliations similar to those in note 28 *Explanation of transition to NZ IFRS* of the departmental financial statements could be used to present the adjustments to non-departmental asset, liabilities, income, and expenses arising from transition to NZ IFRS.

<sup>68</sup> NZ IFRS 1 uses the terminology reconciliation of equity and reconciliation of net surplus/(deficit) when explaining the transition to NZ IFRS. We believe the terminology reconciliation of assets and liabilities and reconciliation of income and expenses are more appropriate terms to use when presenting the adjustments to non-departmental balances arising from the transition to NZ IFRS.

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## OUR SERVICES

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