

Model Financial Statements
Ministry of Public Accountability
2009-10

Prepared under New Zealand equivalents
to International Financial Reporting Standards

July 2010 version 2.0

Audit New Zealand
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Wellington

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FOREWORD

I am pleased to introduce our 2010 update to 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 model financial statements have been updated to reflect current good practice and changes to NZ IFRS that apply to the 30 June 2010 financial statements. The updates to the model are explained on pages 5 and 6.

The model financial statements have been prepared especially to help guide government departments to prepare financial statements that comply with NZ IFRS. The model may also assist in reducing the compliance costs of preparing NZ IFRS-compliant financial statements and contribute to an efficient financial statement audit.

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.

These model financial statements can be downloaded from our website www.auditnz.govt.nz.

Future updates

We will continue to update these model financial statements to reflect changes in NZ IFRS and evolving good practice in applying NZ IFRS to government departments.

We welcome any feedback on the application of this model to government departments or any other comments that may help in future updates of the model financial statements. If you have any feedback or comments, 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.



Stephen Walker
Executive Director
July 2010

ABOUT THE MODEL FINANCIAL STATEMENTS

Objective

The main objective of this model is to guide government departments in preparing financial statements that comply with NZ IFRS.

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

Updates to the model

The table below explains the main updates to the model.

Page number	Note number	Description of update
14	-	The previously presented statement of financial performance has been replaced with a statement of comprehensive income. A statement of comprehensive income is required to be prepared under the revised NZ IAS 1 <i>Presentation of Financial Statements</i> .
16	-	The format of the statement of changes in taxpayers' funds has been updated to comply with the revised NZ IAS 1.
20	-	An appropriation for capital expenditure made under Permanent Legislative Authority has been included in the statement of departmental expenses and capital expenditure against appropriations.
23	1	Changes in accounting policies – a narrative has been inserted explaining the first-time adoption of the revised NZ IAS 1 and amendments to NZ IFRS 7 <i>Financial Instruments: Disclosures</i> .
24	1	Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted – a narrative has been inserted for the new financial instruments standard NZ IFRS 9 <i>Financial Instruments</i> and the revised NZ IAS 24 <i>Related Party Disclosures (Revised 2009)</i> .
25	1	Borrowing costs – a disclosure has been added stating the Ministry has elected to defer the adoption of the revised NZ IAS 23 <i>Borrowing Costs (Revised 2007)</i> .
26	1	Derivative financial instruments – an accounting policy has been added for the current/non-current classification of foreign exchange derivatives.
26	1	Inventory – the accounting policy for inventory held for distribution has been updated for the amendment to NZ IAS 2 <i>Inventories</i> , which changed the measurement of inventory held for distribution to the lower of cost, adjusted when applicable for any loss of service potential.
28	1	Employee entitlements – an accounting policy has been added for the current/non-current classification of employee entitlements.
29	1	Equity – a narrative has been added explaining the nature and purpose of the property revaluation reserve.
33	9	Derivative financial instruments – the fair value disclosures for forward foreign exchange contracts have been improved to better meet the requirements of NZ IFRS 7.27.
34	10	Inventory – the basis for determining the loss in service potential of held for distribution inventory has been disclosed as required by the revised NZ IAS 2.
34	11	Non-current assets held for sale – the amount of the accumulated revaluation reserves for property classified as held for sale has been disclosed as required by NZ IFRS 5.38.
36	12	Property, plant, and equipment – the valuation methods and assumption disclosures have been improved to better meet the requirements of NZ IAS 16.77.

Page number	Note number	Description of update
43	21	A narrative has been included below the key management personnel compensation table explaining the Minister of Public Accountability's remuneration.
45	23B	Fair value hierarchy disclosures – a table and related information has been added for the amended fair value disclosures of NZ IFRS 7 for those instruments measured at fair value in the statement of financial position.
46,47	23C	Liquidity risk – a maturity analysis for derivative financial instruments has been presented separately from the maturity analysis for non-derivative financial liabilities due to the liquidity risk amendments of NZ IFRS 7. Additionally, the foreign exchange derivatives have been changed to gross settled derivatives.
51	-	The multi-year appropriation table has been updated to make the descriptors more clear.
61	4	Additional financial instrument disclosures have been provided for financial assets and liabilities managed by the Ministry on behalf of the Crown.

Content

Included in the model are:

- a statement of responsibility;
- an audit report;
- a statement of comprehensive income;
- a statement of financial position;
- a statement of changes in taxpayers' funds;
- a statement of cash flows;
- a statement of commitments;
- a statement of contingent liabilities and contingent assets;
- a statement of departmental expenses and capital expenditure against appropriations;
- a statement of departmental unappropriated expenditure and capital expenditure;
- a statement of accounting policies;
- notes to the financial statements, including a memorandum account;
- a statement of non-departmental expenditure and capital expenditure against appropriations;
- a 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.

Not all of the accounting policies and notes will apply to each 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 a wide range of accounting policies and notes, including all those that occur commonly in the sector.

The model illustrates a possible financial statement format for a government department. For example, the statement of comprehensive income 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 to disclose the information required by 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 them.

Government departments are also required to comply with Treasury Instructions when preparing their financial statements. These model financial statements are 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, measurement, and disclosure requirements of NZ IFRS. Government departments should not use the model as a substitute for referring to individual standards and interpretations applicable to their specific circumstances.

We have included references to specific standards in the left margin of the model and a subject index on page 62 for easy searching. References to NZ IFRS are sourced from the January 2010 Volume of NZ IFRS.

Standards not covered by the model

The model does not consider any recognition, measurement, 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 *Financial 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*.

Standards, interpretations, and amendments issued after 1 July 2010 are not included in the model financial statements.

Terms used in the model

ACC	Accident Compensation Corporation
GAAP	Generally accepted accounting practice
IRD	Inland Revenue Department
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
PFA	Public Finance Act 1989

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PFA s45C

STATEMENT OF RESPONSIBILITY

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 established¹, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, the financial statements and statement of service performance fairly reflect the financial position of the Ministry as at 30 June 2010 and its operations for the year ended on that date.

[signed]

C E Tumuki

Chief Executive

20 September 2010

Counter signed by:

[signed]

O Money

Chief Financial Officer²

20 September 2010

¹ A positive statement that a system of internal control has been established is good practice, although it is not a requirement of the Public Finance Act 1989.

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

PFA s45(1)(e)

AUDIT REPORT³**Audit Report****To the readers of
Ministry of Accountability's
financial statements and statement of service performance
for the year ended 30 June 2010**

The Auditor-General is the auditor of the Ministry of 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 her behalf. The audit covers the financial statements, the schedules of non-departmental activities, and the statement of service performance included in the annual report of the Ministry, for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of the Ministry on pages 14 to 48:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Ministry's financial position as at 30 June 2010;
 - the results of its operations and cash flows for the year ended on that date;
 - its expenses and capital expenditure incurred against each appropriation administered by the Ministry and each class of outputs included in each output expense appropriation for the year ended 30 June 2010; and
 - its unappropriated expenses and capital expenditure for the year ended 30 June 2010.
- The schedules of non-departmental activities on pages 49 to 61 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 2010.
- 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 included 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 included in the statement of forecast service performance adopted at the start of the financial year.

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

The audit was completed on 20 September 2010, 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.

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 2010 and the results of its operations and cash flows for the year ended on that date.

The financial statements must also fairly reflect the expenses and capital expenditure incurred against each appropriation administered by the Ministry and each class of outputs included in each output expense appropriation for the year ended 30 June 2010. The financial statements must also fairly reflect the Ministry's unappropriated expenses and capital expenditure for the year ended on that date.

In addition, the Chief Executive is responsible for preparing schedules of non-departmental activities, in accordance with the Treasury Instructions 2009 that must 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 2010.

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.

The Chief Executive's responsibilities arise from sections 45A and 45B of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance 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 New Zealand Institute of Chartered Accountants.

In addition to the audit, we have carried out an assurance review of 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 1.10(b),113

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010^{4,5,6,7}

	Actual ⁸ 2009 \$000	Notes	Actual 2010 \$000	Main ⁹ estimates 2010 \$000	Supp estimates 2010 \$000
	Income				
NZ IAS 1.82(a)	220,000	Crown	230,000	220,000	230,000
NZ IAS 1.82(a)	1,759	Other revenue	2,012	1,600	1,600
NZ IAS 1.85	632	Gains	557	1,036	476
NZ IAS 1.85	222,391	<i>Total income</i>	232,569	222,636	232,076
	Expenditure				
NZ IAS 1.102	125,381	Personnel costs	141,606	139,590	141,690
	11,752	Depreciation and amortisation expense	19,201	19,154	19,164
	6,821	Capital charge	6,769	6,800	6,800
NZ IAS 1.82(b)	254	Finance costs	264	252	252
	0	Restructuring costs	1,788	1,600	1,800
	65,959	Other operating expenses	61,380	54,820	62,370
NZ IAS 1.85	210,167	<i>Total expenditure</i>	231,008	222,216	232,076
NZ IAS 1.82(f)	12,224	Net surplus/(deficit)	1,561	0	0
	Other comprehensive income				
NZ IAS 1.82(g)	0	Gain on property revaluations	2,526	0	0
NZ IAS 1.96(c)	12,224	Total comprehensive income	4,087	0	0

NZ IAS 1 NZ 46.1 Explanations of major variances against budget are detailed in note 26.¹⁰

The accompanying notes form part of these financial statements.

⁴ Alternatively, a statement displaying components of the surplus/deficit (a statement of financial performance) directly followed by a second statement beginning with surplus/deficit and displaying components of other comprehensive income (a statement of comprehensive income) can be presented.

⁵ NZ IAS 1.87 prohibits any items of income or expense being presented as extraordinary items either in the statement of comprehensive income or in the notes.

⁶ Where there are discontinued operations, NZ IAS 1.82(e) requires disclosure of the total of the surplus or deficit of discontinued operations and the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.

⁷ The statement of comprehensive income has been prepared using the nature of expense classification. Alternatively, entities may choose to present expenses based on the function of expense. Refer to NZ IAS 1.103, NZ 103.1.

⁸ NZ IAS 1.38 requires comparative information to be disclosed in respect of the previous year 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 year's financial statements.

⁹ Under Section 45B(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 Information Supporting the Estimates). While there is no requirement, government departments could present an additional budget column and disclose the revised budget figures arising from the supplementary estimates.

¹⁰ NZ IAS 1 NZ 46.1 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 CHANGES IN TAXPAYERS' FUNDS FOR THE YEAR ENDED 30 JUNE 2010¹¹

NZ IAS 1.10(c) NZ IAS 1.106	Actual 2009		Notes	Actual 2010	Main estimates 2010	Supp estimates 2010
	\$000			\$000	\$000	\$000
	68,658	Balance at 1 July		68,859	68,859	68,859
NZ IAS 1.106(a)	12,224	Total comprehensive income		4,087	0	0
NZ IAS 1.106(d)	(12,023)	Return of operating surplus to the Crown	15	(3,277)	(1,810)	(2,665)
NZ IAS 1.106(d)	0	Capital injections		46,718	46,718	46,718
NZ IAS 1.106(d)	0	Capital withdrawals		0	0	0
	68,859	Balance at 30 June	19	116,387	113,767	112,912

The accompanying notes form part of these financial statements.

¹¹ NZ IAS 1.106(d) requires a reconciliation between the carrying amount at the beginning and the end of the year to be presented for each component of equity in the statement of changes in equity. The statement of changes in equity presented in this model does not comply with the strict requirement of paragraph 106(d) as the reconciliation has been presented in the notes to the financial statements. At the time of model publication, the IASB had approved an amendment to IAS 1 to permit the reconciliation for each component of other comprehensive income to be presented in the notes, which had not yet been approved by the ASRB. If this amendment is not approved in time for application to the 30 June 2010 financial statements, government departments should discuss with their auditor the acceptability of presenting the detailed reconciliations in the notes to the financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010¹²

NZ IAS 1.10(d) NZ IAS 1.113	Actual 2009 \$000	Note	Actual 2010 \$000	Main estimates 2010 \$000	Supp estimates 2010 \$000
	Cash flows from operating activities				
NZ IAS 7.10,14,18	220,000	Receipts from Crown	230,000	220,000	230,000
NZ IAS 7.14	2,374	Receipts from other revenue	3,237	2,114	2,114
NZ IAS 7.14	(62,661)	Payments to suppliers ¹³	(66,608)	(64,107)	(72,507)
NZ IAS 7.14	(125,408)	Payments to employees	(144,209)	(136,657)	(138,257)
NZ IAS 7.14	(6,821)	Payments for capital charge	(6,769)	(6,800)	(6,800)
NZ IAS 7.14	(3,547)	Goods and services tax (net)	(55)	(2,594)	(2,594)
	23,937	<i>Net cash flow from operating activities</i>	15,596	11,956	11,956
		20			
	Cash flows from investing activities				
NZ IAS 7.10,16	29,990	Receipts from sale of property, plant, and equipment	45,347	44,800	44,800
NZ IAS 7.16(b)	(68,719)	Purchase of property, plant, and equipment ¹⁴	(15,024)	(13,982)	(13,982)
NZ IAS 7.16(a)	(6,524)	Purchase of intangible assets	(75,220)	(75,301)	(75,301)
NZ IAS 7.16(a)	(45,253)	<i>Net cash flow from investing activities</i>	(44,897)	(44,483)	(44,483)
	Cash flows from financing activities				
NZ IAS 7.10,17	0	Capital injections	46,718	46,718	46,718
NZ IAS 7.17	(8,052)	Return of operating surplus	(12,023)	(12,824)	(12,824)
NZ IAS 7.17(e)	(75)	Payments of finance leases	(76)	(76)	(76)
	(8,127)	<i>Net cash flow from financing activities</i>	34,619	33,818	33,818
	(29,443)	Net (decrease)/increase in cash	5,318	1,291	1,291
	37,438	Cash at the beginning of the year	7,995	7,995	7,995
	7,995	Cash at the end of the year	13,313	9,286	9,286

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 and to be consistent with the presentation basis of the other primary financial statements.

NZ IAS 7.43 The Ministry acquired property, plant, and equipment totalling \$232,000 (2009: \$nil) by means of finance leases during the year.

The accompanying notes form part of these financial statements.

¹² Treasury Instructions 2009 require government departments to prepare the statement of cash flows on a net of GST basis.

¹³ It is good practice to separately disclose cash outflows from payments to employees and cash outflows from payments to suppliers, although the amounts can be presented in aggregate.

¹⁴ 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 provides readers of the financial statements with 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
Good practice

STATEMENT OF COMMITMENTS AS AT 30 JUNE 2010

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 balance date.

Non-cancellable operating lease commitments

NZ IAS 17.35(d) 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.¹⁵

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.

NZ IAS 17.35(b) The total of minimum future sublease payments expected to be received under non-cancellable subleases at the balance date are \$25,432 (2009 \$25,875).

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 2009 \$000		Actual 2010 \$000
		Capital commitments	
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
		Non-cancellable operating lease commitments	
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
		Other non-cancellable commitments	
Treasury Instructions	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
	129,131	Total commitments	85,988

The accompanying notes form part of these financial statements.

¹⁵ A general narrative can be provided when there are a number of operating leases.

Treasury Instructions
Para 3.5.17

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS AS AT 30 JUNE 2010

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 19.30(b)(iii) *Superannuation schemes*¹⁶

The Ministry is a participating employer in the Defined Benefit Plan Contributors Scheme (the scheme), which is a multi-employer defined benefit scheme. If the other participating employers cease to participate in the scheme, the Ministry could be responsible for any deficit of the scheme. Similarly, if a number of employers cease to participate in the scheme, the Ministry could be responsible for an increased share of any deficit.

As at 31 March 2009¹⁷, the scheme had a past service surplus of \$15.321million (exclusive of Employer Superannuation Contribution Tax). This surplus was calculated using a discount rate equal to the expected return on net assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19.¹⁸

The actuary of the scheme has recommended that the employer contribution remain at 1.0 times contributors' contributions.

Quantifiable contingent liabilities

Actual 2009 \$000		Actual 2010 \$000
250	Legal proceedings and disputes	250
125	Personal grievances	115
375	Total quantifiable contingent liabilities	365

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 and associated estimated legal costs. 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 (2009 nil).¹⁹

The accompanying notes form part of these financial statements.

¹⁶ The State Sector Retirement Savings Scheme, Kiwisaver, and Government Superannuation Fund are defined contribution schemes from the perspective of a government department. Therefore, no contingent liability related disclosures are required.

¹⁷ The actual information as at 31 March 2010 should be disclosed, if available.

¹⁸ NZ IAS 19.30(c) requires that, where there is a surplus or deficit in a scheme that may affect the amount of future contributions, an entity 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 entity.

¹⁹ Where there are no contingent assets, 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 2010²⁰

Expenditure after remeasurements 2009 \$000 ²¹		Expenditure before remeasurements 2010 \$000	Remeasurements 2010 ²² \$000	Expenditure after remeasurements 2010 \$000	Appropriation voted 2010* \$000
	Vote Public Issues				
	Appropriations for output expenses²³				
	<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
	Appropriation for other expenses				
0	Restructuring costs	1,788	0	1,788	1,800
209,178	Total appropriation for output expenses and other expenses	231,008	(209)	230,799	231,211
	Appropriation for capital expenditure				
74,592	Ministry of Public Accountability – Permanent Legislative Authority	78,482	0	78,482	79,321

* This includes adjustments made in the Supplementary Estimates and transfers under section 26A of the Public Finance Act 1989.

Good practice **Restricted by revenue appropriation – Provision of accountability services**

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

The accompanying notes form part of these financial statements.

²⁰ A suggested disclosure for a multi-year appropriation is presented on page 51.

²¹ Disclosing comparative figures for the prior year is good practice.

²² Refer to the Treasury's publication *Measuring Remeasurements* for application guidance on remeasurements.

²³ 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 2010 (CONTINUED)

Good practice

Transfers under section 26A of the Public Finance Act 1989²⁴

The Appropriation Voted includes adjustments made in the Supplementary Estimates and the following transfers under section 26A of the Public Finance Act 1989.

	Supp estimates 2010 \$000	Section 26A transfers 2010 \$000	Appropriation voted 2010 \$000
Vote Public Issues			
Appropriation for output expenses			
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

The accompanying notes form part of these financial statements.

²⁴ Where there have been transfers under section 26A of the Public Finance Act 1989, 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 2010^{25,26}

Unappropriated expenditure 2009 \$000		Expenditure after remeasurements 2010 \$000	Appropriation voted 2010 \$000	Unappropriated expenditure 2010 \$000
	Vote Public Issues			
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>	<i>229,011</i>	<i>229,411</i>	<i>48</i>
	Appropriations for other expenses			
0	Restructuring expenses	1,788	1,800	0
0	Total	230,799	231,211	48

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 \$48,000.²⁷

This unappropriated expenditure has been approved by the Minister of Finance in terms of section 26B of the Public Finance Act 1989.²⁸

Expenses and capital expenditure incurred in excess of appropriation²⁹

Nil.

Expenses and capital expenditure incurred without appropriation or other authority, or outside scope of appropriation

Nil.

Breaches of projected departmental net asset schedules

Nil.

The accompanying notes form part of these financial statements.

²⁵ This statement should be included even if there was no unappropriated expenditure.

²⁶ The PFA does not require comparative figures for the previous financial year in this statement.

²⁷ Section 45B(2)(d) of the Public Finance Act 1989 requires government departments to provide an explanation for each unappropriated item reported.

²⁸ This information is not specifically required by the Public Finance Act 1989, but its inclusion provides useful information to the reader.

²⁹ Government departments may use the suggested headings where there is unappropriated expenditure, or alternatively disclose all unappropriated expenditure under a single heading.

NZ IAS 1.10(e)	NOTES TO THE FINANCIAL STATEMENTS
	1 STATEMENT OF ACCOUNTING POLICIES^{30,31}
	REPORTING ENTITY
NZ IAS 1.138(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 15.1(b)	The primary objective of the Ministry is to provide services to the public rather than making a financial return.
NZ IAS 1.138(b)	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 1.51(a),(b),(c)	The financial statements of the Ministry are for the year ended 30 June 2010. The financial statements were authorised for issue by the Chief Executive of the Ministry on 20 September 2010.
NZ IAS 10.17	
NZ IAS 1.112	BASIS OF PREPARATION
	Statement of compliance
NZ IAS 1 NZ 15.1(a)	The financial statements of the Ministry have been prepared in accordance with the requirements of the Public Finance Act 1989, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), and Treasury Instructions.
NZ IAS 1 NZ 13.1(d),105(a)	These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable financial reporting standards, as appropriate for public benefit entities.
	Measurement base
NZ IAS 1.117(a)	The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings and derivative financial instruments.
	Functional and presentation currency
NZ IAS 1.51(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 NZ 31.1	Changes in accounting policies
	There have been no changes in accounting policies during the financial year.
NZ IAS 8.28	The Ministry has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:
	<ul style="list-style-type: none"> • NZ IAS 1 <i>Presentation of Financial Statements (Revised 2007)</i> replaces NZ IAS 1 <i>Presentation of Financial Statements (Issued 2004)</i>. The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non-owner changes separately from transactions with owners. The Ministry has decided to prepare a single statement of comprehensive income for the year ended 30 June 2010 under the revised standard. Financial statement information for the year ended 30 June 2009 has been restated accordingly. Items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in equity. • Amendments to NZ IFRS 7 <i>Financial Instruments: Disclosures</i>. The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of valuation inputs used, and requires the maturity analysis of derivative liabilities to be presented separately from non-derivative financial liability contractual maturity analysis. This new information is disclosed in note 23. The transitional provisions of the amendments do not require disclosure of comparative information in the first year of application. The Ministry has elected to disclose comparative information.

³⁰ The financial statements are prepared on the basis of the going concern assumption. If management is aware of conditions or events that cast doubt over the ability of the entity 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 shall also be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

³¹ The following information shall be disclosed in the annual report; it does not necessarily have to be in the financial statements: domicile and legal form of the entity, country of incorporation of the entity, address of the entity's registered office, description of operations, principal activities, name of parent and ultimate parent of the group (NZ IAS 1.138).

- NZ IAS 8.30,31 *Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted*³²
- Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Ministry, are:
- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 24 *Related Party Disclosures (Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
 - i) Removes the previous disclosure concessions applied by the Ministry for arms-length transactions between the Ministry and entities controlled or significantly influenced by the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between the Ministry and entities controlled or significantly influenced by the Crown.
 - ii) Provides clarity on the disclosure of related party transactions with Ministers of the Crown. Further, with the exception of the Minister of Accountability, the Ministry will be provided with an exemption from certain disclosure requirements relating to transactions with other Ministers of the Crown. The clarification could result in additional disclosures should there be any related party transactions with Ministers of the Crown.
 - iii) Clarifies that related party transactions include commitments with related parties.

The Ministry expects it will early adopt the revised standard for the year ended 30 June 2011.
 - NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 30 June 2014. The Ministry has not yet assessed the effect of the new standard and expects it will not be early adopted.

SIGNIFICANT ACCOUNTING POLICIES³³

Revenue

- NZ IAS 18.9 Revenue is measured at the fair value of consideration received or receivable.
- NZ IAS 20.39(a),(b) *Revenue Crown*
Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.
Statutory levies
Revenue from levies is recognised as revenue when the obligation to pay the levy is incurred.
- NZ IAS 18.35(a) *Sale of publications*
The sale of publications is recognised when the product is sold to the customer. The recorded revenue is the gross amount of the sale.
- NZ IAS 18.35(a) *Application fees*
Revenue from application fees is recognised to the extent that the application has been processed by the Ministry.
- NZ IAS 17.50 *Rental income*
Lease receipts under an operating sublease are recognised as income on a straight-line basis over the lease term.
- NZ IAS 16 NZ 15.1 *Vested assets*
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) *Interest*
Interest income is recognised using the effective interest method.

³² Although not a requirement of NZ IAS 8, it is good practice to disclose those standards, amendments, and interpretations that are not yet effective and which have been adopted early. The transitional provisions of a new standard, amendment, or interpretation may require disclosure if early adopted.

³³ Government departments are required to disclose all accounting policies that are relevant to an understanding of the financial statements.

	Capital charge
Good practice	The capital charge is recognised as an expense in the period to which the charge relates.
	Borrowing costs
NZ IAS 23.9,29(a) NZ IAS 23 NZ 29.1	The Ministry has deferred the adoption of NZ IAS 23 <i>Borrowing Costs (Revised 2007)</i> in accordance with its transitional provisions that are applicable to public benefit entities. Consequently, all borrowing costs are recognised as an expense in the period in which they are incurred.
	Grant expenditure
NZ IAS 1.119 NZ IAS 37 NZ Appdx E	Non-discretionary grants are those grants awarded if the grant application meets the specified criteria. They 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. They are recognised as expenditure when approved by the grants approvals committee and the approval has been communicated to the applicant.
	Foreign currency transactions
NZ IAS 21.21,28	Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into the functional currency 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 surplus or deficit.
	Leases
	<i>Finance leases</i>
NZ IAS 17.4	A finance lease is a lease that transfers to the Ministry substantially all the risks and rewards incidental to ownership of an asset to the Ministry, whether or not title is eventually transferred.
NZ IAS 17.20	At the commencement of the lease term, finance leases are recognised 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 17.25	The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.
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.
	<i>Operating leases</i>
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 surplus or deficit, in which case the transaction costs are recognised in the surplus or deficit.
	Cash and cash equivalents
NZ IAS 7.46	Cash includes cash on hand and funds on deposit with banks and is measured at its face value.
	Debtors and other receivables
NZ IAS 39.43 NZ IAS 39.46(a)	Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less impairment charges.
NZ IAS 39.63 NZ IFRS 7 Appdx B5(d), (f)	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 a provision for impairment account, and the amount of the loss is recognised in the surplus or deficit. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

Derivative financial instruments

The Ministry uses derivative financial instruments to hedge its exposure to foreign exchange movements. In accordance with its Foreign Exchange Management 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
NZ IAS 39.46

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 surplus or deficit.

The full fair value of a foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date. Otherwise, foreign exchange derivatives are classified as non-current.

Inventory

NZ IAS 2 NZ
9.1,10.1

Inventory held for distribution or use in the provision of services that are not supplied on a commercial basis is measured at the lower of cost (calculated using the weighted average method), adjusted, when applicable, for any loss of service potential. Where inventory is acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition.

NZ IAS 2.9

Inventory held for sale or use in the provision 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
NZ IAS 2 NZ 34.1

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the period of the write-down.

Non-current assets held for sale

NZ IFRS 5.6
NZ IFRS 5.15

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 5.20

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

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 measured 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 \$3,000. The value of an individual asset that is less than \$3,000 and is part of a group of similar assets is capitalised.³⁴

NZ IAS 16.73(a)

Revaluation

Land and buildings are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from their fair value and at least every 3 years³⁵. All other asset classes are carried at depreciated historical cost.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from the assets' fair values. If there is a material difference, then the off-cycle asset classes are revalued. Additions between revaluations are recorded at cost.

NZ IAS 16 NZ 39.1

The Ministry accounts for revaluations of property, plant, and equipment on a class-of-asset basis.

NZ IAS 16 NZ 39.2

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive income.

NZ IAS 16 NZ 40.2

³⁴ Treasury Instructions set a threshold of \$5,000 as the upper limit for capitalisation. Government departments may establish lower or multiple limits, which must be consistently applied.

³⁵ The maximum revaluation cycle allowable under the Financial Statements of the Government accounting policies is five years. It may be appropriate to adopt a shorter revaluation cycle policy.

NZ IAS 16.7	<p><i>Additions</i></p> <p>The cost of an item of property, plant, and equipment is recognised as an asset 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.</p> <p>Work in progress is recognised at cost less impairment and is not depreciated.</p>									
NZ IAS 16 NZ 15.1	<p>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.</p>									
NZ IAS 16.41,68,71	<p><i>Disposals</i></p> <p>Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When a revalued asset is sold, the amount included in the property revaluation reserve in respect of the disposed asset is transferred to general funds.</p>									
NZ IAS 16.12,13	<p><i>Subsequent costs</i></p> <p>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.</p>									
NZ IAS 16.73(b),(c)	<p><i>Depreciation³⁶</i></p> <p>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 property, plant, and equipment have been estimated as follows:</p> <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-right: 20px;">Buildings (including components)</td> <td style="padding-right: 20px;">25 to 60 years</td> <td style="text-align: right;">(1.6%-4%)</td> </tr> <tr> <td>Furniture and office equipment</td> <td>5 years</td> <td style="text-align: right;">(20%)</td> </tr> <tr> <td>Motor vehicles</td> <td>5 years</td> <td style="text-align: right;">(20%)</td> </tr> </table> <p>Leasehold improvements are depreciated over the unexpired period of the lease or the estimated remaining useful lives of the improvements, whichever is the shorter.</p>	Buildings (including components)	25 to 60 years	(1.6%-4%)	Furniture and office equipment	5 years	(20%)	Motor vehicles	5 years	(20%)
Buildings (including components)	25 to 60 years	(1.6%-4%)								
Furniture and office equipment	5 years	(20%)								
Motor vehicles	5 years	(20%)								
NZ IAS 16.51	<p>The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.</p>									
	<p>Intangible assets</p>									
	<p><i>Software acquisition and development</i></p>									
NZ IAS 38.27,28	<p>Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.</p>									
NZ IAS 38.66,67	<p>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.</p>									
NZ IAS 38.15,29,67	<p>Staff training costs are recognised as an expense when incurred.</p> <p>Costs associated with maintaining computer software are recognised as an expense when incurred.</p>									
	<p><i>Amortisation</i></p>									
NZ IAS 38.97, 118(b),(d)	<p>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 the surplus or deficit.</p>									
NZ IAS 38.118(a)	<p>The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:</p> <table border="0" style="margin-left: 40px;"> <tr> <td style="padding-right: 20px;">Acquired computer software</td> <td style="padding-right: 20px;">3 years</td> <td style="text-align: right;">33%</td> </tr> <tr> <td>Developed computer software</td> <td>4 years</td> <td style="text-align: right;">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%								
	<p>Impairment of property, plant, and equipment and intangible assets</p>									
NZ IAS 36.10(a)	<p>Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment.</p>									
NZ IAS 36.9 NZ IAS 36.18	<p>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.</p>									

³⁶ The useful lives and depreciation rates that have been listed above are only illustrative. Government departments will need to set these based on their specific circumstances.

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 Ministry 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 surplus or deficit.
NZ IAS 36.60	For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.
NZ IAS 36 NZ 120.1	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 surplus or deficit, a reversal of the impairment loss is also recognised in the surplus or deficit. For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the surplus or deficit.

Creditors and other payables

NZ IAS 39.43 NZ IAS 39.47	Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.
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Employee entitlements

NZ IAS 19.10	<i>Short-term employee entitlements</i> Employee benefits expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. 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.
NZ IAS 19.14	A liability for sick leave is recognised 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 it will be used by staff to cover those future absences.
NZ IAS 19.19	A liability and an expense is recognised for bonuses where the Ministry has a contractual obligation or where there is a past practice that has created a constructive obligation. <i>Long-term employee entitlements</i>
NZ IAS 19.126-131	Employee benefits that are due to be settled beyond 12 months after the end of the reporting period in which the employee renders the related service, such as long service leave and retiring leave, are calculated on an actuarial basis. The calculations are based on: <ul style="list-style-type: none"> ● likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlements information; and ● the present value of the estimated future cash flows. <p>Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated future cash outflows for entitlements. The inflation factor is based on the expected long-term increase in remuneration for employees.</p>
Good practice NZ IAS 1.69	<i>Presentation of employee entitlements</i> Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

NZ IAS 1.119 NZ IAS 19.44	<i>Defined contribution schemes</i> 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 surplus or deficit as incurred.
NZ IAS 19.30(b)(i)	<i>Defined benefit schemes</i> The Ministry makes contributions to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of the Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.
NZ IAS 19.30(b)	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 or 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.

NZ IAS 1.119	Provisions
NZ IAS 37.14	A provision is recognised 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.
NZ IAS 37.45,47	Provisions are measured at the present value of the expenditure 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.
	<i>Accident Compensation Corporation Partnership Programme</i>
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 from the date of the accident up to a specified maximum. At the end of the two-year period, the Ministry 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 using actuarial techniques at the present value of expected future payments to be made in respect of the employee injuries and claims up to the balance date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely to 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 revaluation reserves.
	<i>Property revaluation reserves</i>
	These reserves relate to the revaluation of land and buildings to fair value.
	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
NZ IAS 1.119	All items in the financial statements, including appropriation statements, are stated exclusive of goods and service tax (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 tax³⁷
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 46.1	The budget figures are those included in the Information Supporting the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2010, 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. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

³⁷ Although NZ IAS 12 *Income Taxes* applies only to entities subject to income tax, it is good practice for government departments to include this policy as a positive statement on their tax-exempt status.

Treasury Instructions **Statement of cost accounting policies**

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 or 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.³⁸

Critical accounting estimates and assumptions³⁹

NZ IAS 1.125 In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions 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 referred to below:

Retirement and long service leave

An analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities is disclosed in note 17.

NZ IAS 1.122 **Critical judgements in applying accounting policies**

Management has exercised the following critical judgements in applying accounting policies for the year ended 30 June 2010:

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 1.112(c)

2 OTHER REVENUE

NZ IAS 18.35(b)(i)

Actual 2009 \$000		Actual 2010 \$000
298	Statutory levies	315
147	Application fees	142
230	Sale of publications	158
689	State Sector Retirement Savings Scheme recovery	732
324	Rental income from subleases	367
71	Other	298
1,759	Total other revenue	2,012

³⁸ Treasury Instruction's cost accounting policy parameters require a positive statement of changes in cost accounting policies 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.

³⁹ The examples provided are not intended to be exhaustive. Government departments will need to consider their own circumstances to ensure that the disclosures for NZ IAS 1.122 and 125 are complete.

NZ IAS 1.112(c)

3 GAINS

	Actual 2009 \$000		Actual 2010 \$000
NZ IAS 1.98(c)	431	Net gain on disposal of property, plant, and equipment	485
NZ IFRS 7.20(a)(i)	201	Net gain on foreign exchange derivatives	72
NZ IAS 21.52(a)	0	Net foreign exchange gains	0
	632	Total gains	557

NZ IFRS 5.41

During the year, the Ministry disposed of motor vehicles that reached a pre-determined mileage. The net gain on motor vehicle disposals was \$86,000 (2009 \$431,000). A property at 214 Roundabout Drive was disposed of during December 2009 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.⁴⁰

NZ IAS 1.112(c)

4 PERSONNEL COSTS

	Actual 2009 \$000		Actual 2010 \$000
	123,656	Salaries and wages	142,776
NZ IAS 19.46	1,124	Employer contributions to defined contribution plans	1,204
	359	Increase/(decrease) in employee entitlements	(2,603)
	242	Other	229
	125,381	Total personnel costs	141,606

Good practice

Employer contributions to defined contribution plans include contributions to the Statement Sector Retirement Savings Scheme, Kiwisaver, the Government Superannuation Fund, and the Defined Benefit Plan Contributors Scheme.⁴¹

Good practice

5 CAPITAL CHARGE

The Ministry pays a capital charge to the Crown on its taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2010 was 7.5% (2009 - 7.5%).

NZ IAS 1.112(c)

6 FINANCE COSTS

	Actual 2009 \$000		Actual 2010 \$000
	72	Interest on finance leases	73
NZ IAS 37.84(e)	182	Discount unwind on provisions (note 16)	191
	254	Total finance costs	264

⁴⁰ It is appropriate to provide a general narrative when there have been a number of asset sales.

⁴¹ 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 1.112(c) **7 OTHER OPERATING EXPENSES⁴²**

	Actual 2009 \$000		Actual 2010 \$000
		Fees to auditor	
NZ IAS 1 NZ 105.1	157	- fees for financial statement audit	170
NZ IAS 1 NZ 105.1	0	- fees for assurance services ⁴³	30
NZ IAS 17.35(c)	15,120	Operating lease expense	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 1.98(c)	0	Net loss on disposal of property, plant and equipment ⁴⁴	0
	11,258	Other operating expenses	6,912
	65,959	Total other operating expenses	61,380

NZ IAS 1 NZ 105.1(a) The fees for assurance services were for an assurance engagement over the project management of the Ministry's FMIS development project.

NZ IAS 1.75(b) **8 DEBTORS AND OTHER RECEIVABLES**

	Actual 2009 \$000		Actual 2010 \$000
	1,090	Debtors	1,062
	(254)	Less provision for impairment	(539)
	836	Net debtors	523
	0	GST receivable ⁴⁵	0
	4,380	Lease and other deposits	3,391
	5,216	Total debtors and other receivables	3,914

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

NZ IFRS 7.36(d) The carrying amount of receivables that would otherwise be past due or impaired whose terms have been renegotiated is \$45,000 (2009 \$250,000).

⁴² When items of income and expense are material, their nature and amount shall be separately disclosed (NZ IAS 1.97).

⁴³ The nature of the services shall be disclosed for assurance and related services, tax services, and all other non-audit services provided by the auditor (NZ IAS 1 NZ 105.1(a)).

⁴⁴ Only disclose if there has been a net loss on disposal in either the comparative year or current reporting period.

⁴⁵ Only disclose if there is a GST receivable in either the comparative year or the current reporting period.

NZ IAS 1.75(b)

8 DEBTORS AND OTHER RECEIVABLES

NZ IFRS 7.37(a)

The ageing profile of receivables at year end is detailed below:

	2009			2010		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
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
Total	5,470	(254)	5,216	4,453	(539)	3,914

NZ IFRS 7.37(b)

The provision for impairment has been calculated based on a review of specific overdue receivables and a collective assessment. The collective impairment provision is based on an analysis of past collection history and debt write-offs.

Actual 2009 \$000		Actual 2010 \$000
96	Individual impairment	56
158	Collective impairment	483
254	Total provision for impairment	539

Those specific debtors that are insolvent are fully provided for. As at 30 June 2010, the Ministry has identified 12 debtors (2009 -10) totalling \$56,000 (2009 \$96,000) that are insolvent.

NZ IFRS 7.16

Movements in the provision for impairment of receivables are as follows:

Actual 2009 \$000		Actual 2010 \$000
229	Balance at 1 July	254
178	Additional provisions made (note 7)	486
(153)	Receivables written off	(201)
254	Balance at 30 June	539

NZ IFRS 7.37(c)

The Ministry holds no collateral as security or other credit enhancements over receivables that are either past due or impaired.

9 DERIVATIVE FINANCIAL INSTRUMENTS

NZ IFRS 7.34(a)

The total notional principal amount outstanding for forward foreign exchange contract derivatives at 30 June 2010 is \$NZ 1.8 million (2009 \$NZ 925,000). The contracts consist of the purchase of \$AUS 450,000 (2009 \$AUS nil) and \$US 900,000 (2009 \$US 650,000).

NZ IFRS 7.25, 27

The fair values of forward foreign exchange contract derivatives have been determined using a discounted cash flows valuation technique based on quoted market prices. The inputs into the valuation model are from independently sourced market parameters such as currency rates. Most market parameters are implied from instrument prices.

NZ IAS 2.36(b)

10 INVENTORY

Actual 2009 \$000		Actual 2010 \$000
324	Emergency stock	298
124	Inventory held for use in the provision of goods and services	137
408	Publications held for sale	306
856	Total inventory	741

NZ IAS 2 NZ 36.1(a) The carrying amount of inventory held for distribution that is carried at current replacement cost as at 30 June 2010 is \$235,000 (2009 \$256,000).

NZ IAS 2 NZ 36.1(b) The write-down of inventory held for distribution amounted to \$26,000 (2009 \$nil). There have been no reversals of write-downs.⁴⁶

NZ IAS 2 NZ 36.1(e) The loss in service potential of inventory held for distribution is determined on the basis of obsolescence.

NZ IAS 2.36(h) No inventory has been pledged as security for liabilities (2009 \$nil). However, some inventory is subject to retention of title clauses.

11 NON-CURRENT ASSETS HELD FOR SALE

NZ IFRS 5.41 The Ministry-owned building on Owen Street in Wellington has been classified as held for sale during the year following the approval to sell the premises, as it will provide no future use to the Ministry. The sale is expected to be completed by November 2010.

Actual 2009 \$000		Actual 2010 \$000
	Non-current assets held for sale include:	
1,045	Buildings	250
1,000	Land	400
2,045	Total non-current assets held for sale	650

NZ IFRS 5.38 The accumulated property revaluation reserve recognised in equity for the Owen Street property at 30 June 2010 is \$223,000.

⁴⁶ 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.

12 PROPERTY, PLANT, AND EQUIPMENT

NZ IAS 16.73

	Land	Buildings	Leasehold improvements	Furniture/office equipment	Motor vehicles	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cost or valuation						
Balance at 1 July 2008	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 2009	21,500	53,071	30,500	48,200	24,525	177,796
Balance at 1 July 2009	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	(3,323)	0	0	0	(1,300)
Transfer to held for sale	(400)	(250)	0	0	0	(650)
Disposals	(13,849)	(12,101)	(5,200)	(6,543)	(18,788)	(56,481)
Balance at 30 June 2010	9,274	39,826	25,300	48,329	12,065	134,794
Accumulated depreciation and impairment losses						
Balance at 1 July 2008	0	1,652	19,161	26,474	20,688	67,975
Depreciation expense	0	1,613	2,387	4,083	1,987	10,070
Elimination on disposal	0	0	(3,248)	(1,478)	(5,048)	(9,774)
Elimination on revaluation	0	0	0	0	0	0
Elimination on transfer to held for sale	0	(94)	0	0	0	(94)
Impairment losses	0	0	0	0	0	0
Balance at 30 June 2009	0	3,171	18,300	29,079	17,627	68,177
Balance at 1 July 2009	0	3,171	18,300	29,079	17,627	68,177
Depreciation expense	0	985	2,012	5,047	2,267	10,311
Elimination on disposal	0	(312)	(2,602)	(1,094)	(11,000)	(15,008)
Elimination on revaluation	0	(3,826)	0	0	0	(3,826)
Elimination on transfer to held for sale	0	(18)	0	0	0	(18)
Impairment losses	0	0	0	0	0	0
Balance at 30 June 2010	0	0	17,710	33,032	8,894	59,636
Carrying amounts						
At 1 July 2008	12,000	22,464	4,109	10,715	4,270	53,558
At 30 June / 1 July 2009	21,500	49,900	12,200	19,121	6,898	109,619
At 30 June 2010	9,274	39,826	7,590	15,297	3,171	75,158

12 PROPERTY, PLANT, AND EQUIPMENT (CONTINUED)

NZ IAS 16.77, NZ
77.2

Valuation

The most recent valuation of land and buildings was performed by independently contracted registered valuer, AV Fairvalue ANZIV, of Fairvalue Blogg Doe Valuers Limited. The valuation is effective as at 30 June 2010.

The total fair value of land and buildings valued by AV Fairvalue is \$49.1 million.

Land

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Adjustments have been made to the "unencumbered" land value where there is a designation against the land or the use of the land is restricted because of reserve or endowment status. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensely.

Buildings

Non-specialised buildings are valued at fair value using market-based evidence. Market rents and capitalisation rate methodologies were applied in determining the fair value of buildings.

Work in progress

NZ IAS 16.74(b)

The total amount of property, plant, and equipment in the course of construction is \$2,845,456 (2009 \$1,234,567).

Restrictions

NZ IAS 16.74(a)

The Ministry owns a property on Thorndon Quay, Wellington, which is restricted for Government or Reserve use. The carrying amount of the property is \$465,000 (2009 \$435,000).

Finance leases

NZ IAS 17.31(a)

The net carrying amount of office equipment held under finance leases is \$652,000 (2009 \$712,000).

13 INTANGIBLE ASSETS⁴⁷

NZ IAS 38.118(e)

	Acquired software	Internally generated software	Total
	\$000	\$000	\$000
Cost			
Balance at 1 July 2008	4,869	14,609	19,478
Additions	1,520	4,560	6,080
Disposals	(258)	(775)	(1,033)
Balance at 30 June 2009	6,131	18,394	24,525
Balance at 1 July 2009	6,131	18,394	24,525
Additions	15,763	47,290	63,053
Disposals	(1,132)	(3,396)	(4,528)
Balance at 30 June 2010	20,762	62,288	83,050
Accumulated amortisation and impairment losses			
Balance at 1 July 2008	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 2009	4,407	13,220	17,627
Balance at 1 July 2009	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 2010	2,982	8,943	11,924
Carrying amounts			
At 1 July 2008	611	1,834	2,445
At 30 June / 1 July 2009	1,724	5,174	6,898
At 30 June 2010	17,781	53,345	71,126

NZ IAS 38.122(d) There are no restrictions over the title of the Ministry's intangible assets. No intangible assets are pledged as security for liabilities.

NZ IAS 1.77,112(c) **14 CREDITORS AND OTHER PAYABLES**

Actual 2009 \$000		Actual 2010 \$000
16,660	Creditors	16,533
68	Income in advance	72
6,740	Accrued expenses	4,342
1,137	GST payable	1,082
24,605	Total creditors and other payables	22,029

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.

⁴⁷ 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 1.112(c)
Treasury Instructions
Para 4.4.3

15 RETURN OF OPERATING SURPLUS

Actual 2009 \$000		Actual 2010 \$000
12,224	Net surplus/(deficit)	1,561
0	Add Other expenses – restructuring costs	1,788
12,224	Net surplus/(deficit) before Other expenses	3,349
	Add	
(201)	Unrealised losses/(gains) on forward foreign exchange contracts recognised in the surplus/(deficit)	(72)
0	Property revaluation losses/(gains) recognised in the surplus/(deficit)	0
12,023	Total return of operating surplus	3,277

Good practice The return of operating surplus to the Crown is required to be paid by 31 October of each year.

NZ IAS 1.77,112(c)

16 PROVISIONS

NZ IFRS 4.37(b)

NZ IFRS 4.37(b)

Actual 2009 \$000		Actual 2010 \$000
	Current portion	
0	Restructuring	1,023
925	Lease make good	524
1,075	Onerous contracts	427
350	ACC Partnership Programme	376
2,350	Total current portion	2,350
	Non-current portion	
1,065	Lease make good	366
921	Onerous contracts	420
100	ACC Partnership Programme	88
2,086	Total non-current portion	874
4,436	Total provisions	3,224

	Restructuring \$000	Lease make good \$000	Onerous contracts \$000	ACC Partnership Programme \$000	Total \$000	
NZ IAS 37.84(a)	Balance at 1 July 2009 ⁴⁸	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)	Balance at 30 June 2009	0	1,990	1,996	450	4,436
NZ IAS 37.84(a)	Balance at 1 July 2009	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)	Balance at 30 June 2010	1,023	890	847	464	3,224

⁴⁸ Disclosure of comparative figures for the opening to closing reconciliation for each class of provision is good practice. It is not required by NZ IAS 37.84.

16 PROVISIONS (CONTINUED)

NZ IAS 37.85	<p>Restructuring</p> <p>The restructuring provision arises from closure of the Ministry's Auckland office. Management anticipate that the restructuring will be completed within 12 months of balance date.</p>
NZ IAS 37.85	<p>Lease make good</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 affects the timing of the expected cash outflows to make good the premises.</p>
NZ IAS 37.85	<p>Onerous contracts</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 three floors of a building 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> <p>ACC Partnership Programme⁴⁹</p> <p>The liability for the ACC Partnership Programme is measured at the present value of expected future payments for employee injuries and claims up to balance 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 balance date on government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.</p>
NZ IFRS 4 Appdx D 17.7.1(a)	<p>Exposures arising from the programme are managed by promoting a safe and healthy working environment by:</p> <ul style="list-style-type: none"> ● implementing and monitoring health and safety policies; ● induction training on health and safety; ● actively managing workplace injuries to ensure that employees return to work as soon as practical; ● recording and monitoring workplace injuries and near misses to identify risk areas and implementing mitigating actions; and ● identifying workplace hazards and implementation of appropriate safety procedures.
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(b)(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 involving 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 as at 30 June 2010. The valuer has attested that 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 valuer's report.</p>
NZ IFRS 4 Appdx D 17.2(g), 17.8B(b),(c)	<p>Average inflation has been assumed as 5.9% for the year ending 30 June 2011 and 2.4% for the year ending 30 June 2012. A discount rate of 3.48 % has been used for the year ending 30 June 2011 and 4.45% for the year ending 30 June 2012.</p>
NZ IFRS 4 Appdx D 17.6.1(d)	<p>Any changes in liability valuation assumptions will not have a material impact on the financial statements.</p>

⁴⁹ Where the ACC Partnership Programme liability is material to a government department, the full disclosure requirements of NZ IFRS 4 *Insurance Contracts* will need to be made.

NZ IAS 1.112(c)

17 EMPLOYEE ENTITLEMENTS

Actual 2009 \$000		Actual 2010 \$000
	Current portion	
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
	Non-current portion	
6,910	Retirement and long service leave	7,299
23,351	Total employee entitlements	20,748

NZ IAS 1.125

The measurement 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 affect the carrying amount of the liability.

The discount rate is based on NZ government bond data at 30 June 2010. 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

NZ IAS 17.31(b)

Actual 2009 \$000		Actual 2010 \$000
	Total minimum lease payments payable	
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
	Present value of minimum lease payments payable	
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
	Represented by:	
70	Current	112
531	Non-current	463
601	Total finance leases	575

NZ IAS 17.31(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.

18 FINANCE LEASES (CONTINUED)

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 assets at the end of the lease terms.

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 in payment.

NZ IAS 1.112(c) **19 TAXPAYERS' FUNDS**

	Actual 2009 \$000		Actual 2010 \$000
NZ IAS 1.106(d)		General funds	
	60,658	Balance at 1 July	60,859
	12,224	Total comprehensive income	1,561
	0	Transfers from revaluation reserves on disposal of property	2,700
	0	Capital contribution from the Crown	46,718
	(12,023)	Return of operating surplus to the Crown	(3,277)
	60,859	Balance at 30 June	108,561
NZ IAS 1.106(d)		Property revaluation reserves	
	8,000	Balance at 1 July	8,000
NZ IAS 16.77(f)	0	Revaluation gains	2,526
NZ IAS 16.41	0	Transfer to general funds on disposal	(2,700)
	8,000	Balance at 30 June	7,826
	68,859	Total taxpayers' funds	116,387
Good practice		Property revaluation reserves consist of:	
	2,500	Land revaluation reserve	600
	5,500	Buildings revaluation reserve	7,226
	8,000	Total property revaluation reserves	7,826

NZ IAS 7 NZ 20.1

20 RECONCILIATION OF NET SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES

Actual 2009 \$000		Actual 2010 \$000
12,224	Net Surplus/(deficit)	1,561
	Add/(less) non-cash items	
11,752	Depreciation and amortisation expense	19,201
(201)	Net gains on derivative financial instruments	(72)
212	Net foreign exchange losses/(gains)	20
11,763	Total non-cash items	19,149
	Add/(less) items classified as investing or financing activities	
(390)	(Gains)/losses on disposal of property, plant, and equipment	(485)
	Add/(less) movements in deferrals and accruals	
319	(Inc)/Dec in debtors and other receivables	1,302
(15)	(Inc)/Dec in prepayments	(20)
933	(Inc)/Dec in inventory	115
(530)	Inc/(Dec) in creditors and other payables ⁵⁰	(2,211)
(592)	Inc/(Dec) in provisions	(1,212)
225	Inc/(Dec) in employee entitlements	(2,603)
340	Total net movement in working capital items	(4,629)
23,937	Net cash flow from operating activities	15,596

⁵⁰ Any creditors and accruals for capital expenditure will need to be excluded when calculating this increase or decrease.

21 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 during the year with related parties:⁵¹
- 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.
 - The Ministry purchased legal services from Expert Legal Advisers, a legal firm of which the Chief Executive's husband is a partner. These services cost \$34,760 (2009 \$65,987) and were supplied on normal commercial terms. There is a balance of \$2,376 (2009 \$nil) outstanding at year end.
 - The Ministry contracted with Charity Organisation, of 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 (2009 \$45,870) and were negotiated on normal commercial terms. There were no outstanding balances at year end (2009 \$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

	Actual 2009 \$000		Actual 2010 \$000
NZ IAS 24.16(a)	855	Salaries and other short-term employee benefits	896
NZ IAS 24.16(b)	25	Post-employment benefits	28
NZ IAS 24.16(c)	20	Other long-term benefits	32
NZ IAS 24.16(d)	0	Termination benefits	64
	900	Total key management personnel compensation	1,020

- Good practice Key management personnel compensation includes the Chief Executive and the five members of the Senior Management Team.^{52,53}
- Key management personnel compensation excludes the remuneration and other benefits the Minister of Public Accountability receives. The Minister's remuneration and other benefits are not received only for his role as a member of key management personnel of the Ministry. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the Ministry of Public Accountability.

⁵¹ Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated (NZ IAS 24.21).

⁵² The disclosure of the composition of key management personnel provides useful information to readers as to who are key management personnel.

⁵³ 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 Chief Executive and members of the senior management team, or equivalent body, to be included in the key management personnel compensation disclosures. There may also be other individuals who meet the key management personnel definition of NZ IAS 24. Government departments will need to consider their specific circumstances in determining the individuals that should be included in the key management personnel compensation disclosures.

22 EVENTS AFTER THE BALANCE DATE

NZ IAS 10.19,21 After the balance date, the Ministry entered into a non-cancellable contract to lease premises for a period of 10 years with the option to renew the lease for a further 10 years. The annual rental under the lease will be reviewed every 2 years. The annual rental under the agreement at inception is \$1,250,000 per annum. The agreement is not included in the statement of commitments because it was entered into after the balance date. There have been no other significant events after the balance date.

23 FINANCIAL INSTRUMENTS

23A FINANCIAL INSTRUMENT CATEGORIES

NZ IFRS 7.8 The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

	Actual 2009 \$000		Actual 2010 \$000
		Loans and receivables	
	7,995	Cash and cash equivalents	13,313
	5,216	Debtors and other receivables	3,914
	13,211	Total loans and receivables	17,227
		Fair value through surplus and deficit – held for trading	
NZ IFRS 7.8(c)	98	Derivative financial instrument assets	145
NZ IFRS 7.8(e)	112	Derivative financial instrument liabilities	87
		Financial liabilities measured at amortised cost	
NZ IFRS 7.8(f)	24,404	Creditors and other payables	22,029

23B FAIR VALUE HIERARCHY DISCLOSURES

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

NZ IFRS 7.27B(a) The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statement of financial position.⁵⁴

	Total \$000	Valuation technique		
		Quoted market price \$000	Observable inputs \$000	Significant non-observable inputs \$000
30 June 2009				
Financial assets				
Foreign exchange derivatives	98	0	98	0
Financial liabilities				
Foreign exchange derivatives	112	0	112	0
30 June 2010				
Financial assets				
Foreign exchange derivatives	145	0	145	0
Financial liabilities				
Foreign exchange derivatives	87	0	87	0

NZ IFRS 7.27B(b),(c)

There were no transfers between the different levels of the fair value hierarchy.⁵⁵

23C 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.

Market risk

Currency risk

NZ IFRS 7.33 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.

Currency risk arises from future capital purchases and recognised liabilities, which are denominated in a foreign currency. 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

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's Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure.

⁵⁴ A tabular format must be used in presenting the fair value hierarchy quantitative disclosures unless another format is more appropriate.

⁵⁵ Significant transfers between the different fair value hierarchy levels must be identified and the reasons for those transfers disclosed. Transfers into each level shall be disclosed and discussed separately from transfers out of each level (NZ IFRS 7.27B(b),(c)).

23C FINANCIAL INSTRUMENT RISKS (CONTINUED)

NZ IFRS 7.40 *Sensitivity analysis*⁵⁶
 At 30 June 2010, if the NZ dollar had strengthened by 5% against the US dollar, with all other variables held constant, the surplus for the year would have been \$35,000 (2009 \$45,000) higher. At 30 June 2010, if the NZ dollar had weakened by 5% against the US dollar, with all other variables held constant, the surplus for the year would have been \$32,000 (2009 \$43,000) lower. This movement is attributable to translation of US dollar-denominated creditors.
 At 30 June 2010, if the NZ dollar had strengthened by 10% against the Australian dollar, with all other variables held constant, the surplus for the year would have been \$72,000 (2009 \$34,000) higher. At 30 June 2008, if the NZ dollar had weakened by 10% against the Australian dollar, with all other variables held constant, the surplus for the year would have been \$67,000 (2009 \$32,000) lower. This movement is attributable to translation of Australian dollar-denominated creditors.

Interest rate risk

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 exposure to interest rate risk because it has no interest-bearing financial instruments.

Credit risk

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 In the normal course of its business, credit risk arises from debtors, deposits with banks, and derivative financial instrument assets.
 NZ IFRS 7.33,36(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.

Liquidity risk⁵⁷

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.

Contractual maturity analysis of financial liabilities, excluding derivatives

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

	Carrying amount	Contractual cash flows	Less than 6 Months	6 months-1 year	1-5 years	More than 5 years
	\$000	\$000	\$000	\$000	\$000	\$000
2009						
Creditors and other payables	24,404	24,404	24,404	0	0	0
Finance leases	601	707	38	38	481	150
2010						
Creditors and other payables	22,029	22,029	22,029	0	0	0
Finance leases	575	676	60	60	481	75

⁵⁶ A sensitivity analysis for derivative financial instruments is required when the gross aggregated fair value of derivatives is significant.

⁵⁷ 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.

23C FINANCIAL INSTRUMENT RISKS (CONTINUED)

Contractual maturity analysis of derivative financial instrument liabilities

NZ IFRS 7.39(b),
B11D(d)

The table below analyses the Ministry's forward exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Liability carrying amount \$000	Asset carrying amount \$000	Contractual cash flows NZ\$ \$000	Less than 6 months NZ\$ \$000	6-12 months NZ\$ \$000	1-2 years NZ\$ \$000
2009						
Gross settled forward foreign exchange contracts:	112	98				
- outflow	-	-	925	525	400	0
- inflow	-	-	909	515	394	0
2010						
Gross settled forward foreign exchange contracts:	87	145				
- outflow	-	-	1,800	900	900	0
- inflow	-	-	1,869	933	936	0

NZ IAS 1.134

24 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, Treasury Instructions, and the Public Finance Act 1989.

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

Treasury Instructions
Para 6.3.6

25 MEMORANDUM ACCOUNT⁵⁸

Actual ⁵⁹ 2009 \$000	Actual 2010 \$000
Provision for statutory information	
25 Balance at 1 July	15
230 Revenue	158
(240) Expenses	(150)
15 Balance at 30 June	23

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 surplus or deficit.

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

⁵⁸ 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.

⁵⁹ Comparative information must be presented in accordance with Treasury Instructions para 6.3.6.

26 EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET⁶⁰

Explanations for major variances from the Ministry's budgeted figures in the Information Supporting the Estimates are as follows:

Statement of comprehensive income⁶¹*Personnel costs*

Personnel costs were greater than budgeted by \$2 million 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 Information Supporting the Estimates.

Other operating expenses

Other operating expenses were greater than budgeted by \$6.56 million 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 Information Supporting the Estimates. The increase in costs primarily arose from consultancy expenditure.

Income from the Crown

Income from the Crown is greater than budgeted by \$10 million because of funding received for the maximising the markets initiative, which was not included in the Information Supporting the Estimates.

Gain on property revaluations

Gain on property revaluations is above budget by \$2.526 million because an increase in property values was not forecasted.

Statement of financial position*Property, plant, and equipment*

Property, plant, and equipment is above budget by \$3.040 million primarily because an increase in property values from revaluation of \$2.526 million was not forecasted.

Creditors and other payables

Creditors and other payables are greater than budgeted by \$7.9 million primarily because of unpaid invoices at year end of \$6.2 million for IT-related acquisition projects. The progress payments for these projects were forecast to be paid prior to the balance date. However, these payments 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 \$10 million 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.

⁶⁰ This note should explain variances between actual results and the budgeted figures in the Information Supporting the Estimates (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.

⁶¹ In addition to explaining variances in items presented on the statement of comprehensive income, government departments should also explain significant variances in output statement costs and revenues. These explanations can be provided either in the statement of service performance or this note to the financial statements.

NON-DEPARTMENTAL STATEMENTS AND SCHEDULES FOR THE YEAR ENDED 30 JUNE 2010⁶²

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.

⁶² Government departments are also required by Treasury Instructions to provide supplementary information on any Crown activities they may manage. Treasury Instructions require departments to disclose non-departmental activities in the form of schedules. If applicable, government 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 NZ GAAP, the Financial Statements of the Government's 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 2010**

Expenditure after remeasurements 2009 \$000⁶³		Expenditure before remeasurements 2010 \$000	Remeasurement 2010 \$000	Expenditure after remeasurements 2010 \$000	Appropriation Voted 2010 \$000
	Vote Public Issues				
	Appropriation for non- departmental output expenses				
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	Total	2,497	(32)	2,467	2,500
	Appropriation for other expenses to be incurred by the Crown				
700	Contingency and innovation fund	1,250	(312)	938	1,087
426	International subscriptions	434	(67)	367	405
1,126	Total	1,684	(379)	1,305	1,492
	Appropriation for capital expenditure				
745	Public accountability research encouragement loans	868	0	868	890
4,143	Total	5,049	(411)	4,640	4,882

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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

⁶³ Presenting comparative figures for the prior year actual expenditure is good practice.

STATEMENT OF NON-DEPARTMENTAL EXPENDITURE AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2010 (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 2006 and expires on 30 June 2011.

	Actual 2007 \$000	Actual 2008 \$000	Actual 2009 \$000	Actual 2010 \$000
Vote Public Issues				
Appropriation: Public accountability assistance				
Original appropriation	2,600	2,600	2,600	2,600
Cumulative adjustments	0	150	400	400
Total adjusted appropriation	2,600	2,750	3,000	3,000
Cumulative actual expenditure 1 July	0	324	811	1,798
Current year actual expenditure	324	487	987	400
Cumulative actual expenditure 30 June	324	811	1,798	2,198
Appropriation remaining 30 June	2,276	1,939	1,202	802

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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

PFA s45B(2)

STATEMENT OF NON-DEPARTMENTAL UNAPPROPRIATED EXPENDITURE AND CAPITAL EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2010^{64,65}

Unappropriated expenditure 2009 \$000		Expenditure after remeasurements 2010 \$000	Appropriation voted 2010 \$000	Unappropriated expenditure 2010 \$000
0	Vote Public Issues Nil			0
0	Total			0

There has been no unappropriated expenditure for the year ended 30 June 2010 (2009 \$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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

⁶⁴ This statement should be included even if there was no unappropriated expenditure.

⁶⁵ 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 2010⁶⁶

	Actual 2009		Actual 2010	Main estimates 2010	Supp estimates 2010
	\$000		\$000	\$000	\$000
		Income			
NZ IAS 1.85	3,682	Fines and penalties	4,208	4,010	4,234
NZ IFRS 7.20(b)	352	Interest	432	322	398
	4,034	Total non-departmental income	4,640	4,332	4,632

Good practice

SCHEDULE OF NON-DEPARTMENTAL CAPITAL RECEIPTS FOR THE YEAR ENDED 30 JUNE 2010

	Actual 2009		Actual 2010	Main estimates 2010	Supp estimates 2010
	\$000		\$000	\$000	\$000
	487	Repayments of public accountability research encouragement loans	424	490	450
	487	Total non-departmental capital receipts	424	490	450

Explanations of major variances against budget are detailed in note 5.

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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

⁶⁶ 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 2010

	Actual 2009 \$000		Actual 2010 \$000	Main estimates 2010 \$000	Supp estimates 2010 \$000
NZ IAS 1.102		Expenditure			
	700	Grants awarded	1,008	887	887
	1,428	Promotions	1,495	1,610	1,540
	480	Subscriptions	367	405	405
NZ IFRS 7.20(e)	933	Debt impairment	442	200	200
	75	Net foreign exchange losses	67	0	0
	320	GST input expense	369	0	0
	874	Other	1,202	890	960
	4,810	Total non-departmental expenditure	4,950	3,992	3,992

Explanations of significant variances against budget are detailed in note 5.

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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

SCHEDULE OF NON-DEPARTMENTAL ASSETS AS AT 30 JUNE 2010

	Actual 2009	Note	Actual 2010	Main estimates 2010	Supp estimates 2010
	\$000		\$000	\$000	\$000
	Assets				
	Current Assets				
NZ IAS 1.54(i)	2,567		3,020	2,800	3,200
NZ IAS 1.54(h)	1,017	2	1,067	987	987
NZ IAS 1.55	200		650	200	350
NZ IAS 1.55	3,784		4,737	3,987	4,537
	Non-current assets				
NZ IAS 1.54(h)	2,532	2	3,072	2,800	2,900
NZ IAS 1.55	2,532		3,072	2,800	2,900
NZ IAS 1.55	6,316		7,809	6,787	7,437

In addition, the Ministry monitors two Crown entities. These are the Crown Services Entity and the Accountability Commission. The investment in those entities is consolidated in the Financial Statements of the Government on a line-by-line basis. The investment in those entities is not included in this schedule.⁶⁷

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES AS AT 30 JUNE 2010

	Actual 2009	Note	Actual 2010	Main estimates 2010	Supp estimates 2010
	\$000		\$000	\$000	\$000
	Liabilities				
	Current Liabilities				
NZ IAS 1.54(k)	832	3	524	230	230
NZ IAS 1.55	832		524	230	230

Explanations of significant variances against budget are detailed in note 5.

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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

⁶⁷ Refer to Treasury Circular 2003/02.

SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS AS AT 30 JUNE 2010

Other non-cancellable commitments

This 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 2009 \$000		Actual 2010 \$000
	Other non-cancellable commitments	
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
1,173	Total other non-cancellable commitments	1,422

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS AS AT 30 JUNE 2010

Unquantified contingent liabilities

The Ministry on behalf of the Crown has no unquantifiable contingent liabilities (2009 nil).

Quantifiable contingent liabilities

Actual 2009 \$000		Actual 2010 \$000
581	Legal proceedings and disputes	240
24	Other contingent liabilities	34
605	Total quantifiable contingent liabilities	274

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 (2009 nil).⁶⁸

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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

⁶⁸ Where there are no contingent assets, it is good practice to state this fact.

Good practice

STATEMENT OF TRUST MONIES FOR THE YEAR ENDED 30 JUNE 2010⁶⁹

Actual 2009 \$000		Actual 2010 \$000
New Zealand Public Accountability Scholarship Trust		
69	Balance at 1 July	112
525	Contributions	500
(500)	Distributions	(525)
18	Revenue	21
0	Expenditure	0
112	Balance at 30 June	108

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 for the year ended 30 June 2010:

- First year scholarships: 6 (2009: 8)
- Renewed for second year: 3 (2009: 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 year, refer to the consolidated Financial Statements of the Government for the year ended 30 June 2010.

⁶⁹ It is good practice to disclose comparative figures.

NOTES TO THE NON-DEPARTMENTAL FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

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 the year ended 30 June 2010. For a full understanding of the Crown's financial position, results of operations, and cash flows for the year, refer to the Financial Statements of the Government.

BASIS OF PREPARATION

The non-departmental schedules and statements have been prepared in accordance with the accounting policies of the Financial Statements of the Government, 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.

There have been no changes in accounting policies during the financial year.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

NZ IAS 18.35(a)

Fines and penalties

Revenue from fines and penalties is 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. They 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. They are recognised as expenditure when approved by the grants approvals committee and the approval has been communicated to the applicant.

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.

Goods and services tax

NZ IAS 1.119

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 Financial Statements of the Government.

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 method, less any provision for impairment.

NZ IAS 39.46(a) 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 as a grant in the schedule of non-departmental expenses.

NZ IAS 39.58 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 schedule of non-departmental expenses. When a debt is uncollectible, it is written-off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

NZ IAS 39.63
NZ IFRS 7 Appdx
B5(d), (f)

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 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.

Budget figures

NZ IAS 1 NZ 46.1 The budget figures 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.

NZ IAS 1.75(b)

2 DEBTORS AND OTHER RECEIVABLES

Actual 2009 \$000		Actual 2010 \$000
4,602	Public accountability research encouragement loans	5,542
(1,209)	Less provision for impairment	(1,560)
3,393	Net public research encouragement loans	3,982
124	Accrued revenue	142
32	Other receivables	15
3,549	Total debtors and other receivables	4,139
	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 (2009 \$3,659,000). The fair value of public research encouragement loans is based on cash flows discounted using a rate based on weighted market rates for loans of similar terms and credit risk of 11.2% (2009 11.45%).

Good practice The face value of public accountability research encouragement loans outstanding is \$6,590,000 (2009 \$5,672,000)

NZ IFRS 7.36(d) The carrying amount of receivables that would otherwise be past due or impairment whose terms have been renegotiated is \$572,000 (2009 \$484,000).

2 DEBTORS AND OTHER RECEIVABLES (CONTINUED)

NZ IFRS 7.37(a)

The ageing profile of receivables at year end is detailed in the table below.

	2009			2010		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
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
Total	4,602	(1,209)	3,393	5,542	(1,560)	3,982

NZ IFRS 7.37(b)

The provision for impairment has been calculated based on a review of specific overdue receivables and a collective assessment. The collective impairment provision is based on an analysis of past collection history and debt write-offs.

Actual 2009 \$000		Actual 2010 \$000
432	Individual impairment	562
777	Collective impairment	998
1,209	Total provision for impairment	1,560

As at 30 June 2010, the Ministry has identified 8 specific public accountability research encouragement loans (2009: 6) totalling \$562,000 (2009: \$432,000) that have been identified as individually impaired.

NZ IFRS 7.16

Movements in the provision for impairment are as follows:

Actual 2009 \$000		Actual 2010 \$000
959	Balance at 1 July	1,209
933	Additional provisions made during the year	442
(683)	Receivables written off during period	(91)
1,209	Balance at 30 June	1,560

NZ IAS 1.77

3 CREDITORS AND OTHER PAYABLES

Actual 2009 \$000		Actual 2010 \$000
124	Creditors	189
585	Accrued expenses	179
123	Grants payable	156
832	Total creditors and other payables	524

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 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:

	Actual 2009 \$000		Actual 2010 \$000
		Loans and receivables	
	2,567	Cash and cash equivalents	3,020
	3,549	Debtors and other receivables	4,139
NZ IFRS 7.8(c)	6,116	Total loans and receivables	7,159
		Financial liabilities measured at amortised cost	
NZ IFRS 7.8(f)	832	Creditors and other payables	524

Credit risk

NZ IFRS 7 Appdx A Credit risk is the risk that a third party will default on its obligation, causing a loss to be incurred.

NZ IFRS 7.33 Credit risk arises from debtors and deposits with banks.

NZ IFRS 7.33,36(c) Funds must be deposited with Westpac, a registered bank.

NZ IFRS 7.36(a),(b) The maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired. Other than Westpac bank, there are no significant concentrations of credit risk.

5 EXPLANATION OF MAJOR VARIANCES AGAINST BUDGET⁷⁰

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 2011 financial year being prepaid by 30 June 2010. Historically, these subscriptions had been paid in the financial year to which the subscription related.

⁷⁰ This note should explain variances between actual results and the budgeted figures in the Information Supporting the Estimates (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.

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OUR SERVICES

Audit New Zealand has a unique position as a business unit of the Controller and Auditor-General (the Auditor-General). The core business of Audit New Zealand is carrying out annual audits across the New Zealand Public Sector. We are also an experienced, trusted and independent provider of assurance services, in 'real-time' or retrospectively. These services comply with Section 17 of the Public Audit Act 2000.

Our core strengths include provision of assurance services over:

- asset management;
- contract management;
- project management;
- tendering and procurement; and
- taxation.

We can also help public sector organisations with review and assurance services for governance arrangements, risk management practices, performance management and reporting, sensitive and discretionary expenditure, and investigations of probity and other sensitive matters where independence may be essential.

We are the Auditor-General's in-house specialists. We support her work by providing public sector organisations with greater levels of assurance in areas that really matter.

Our assurance services complement our audit work. Our independence and integrity are fundamental to us. You can be confident that our assurance work meets international standards of auditor independence.

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