AUDIT NEW ZEALAND
Mana Arotake Aotearoa

# Model Financial Statements
# **Ministry of Public Accountability**
# 2016/17

Model financial statements
for a government department
prepared under the Tier 1 and Tier 2
Public Benefit Entity Accounting Requirements

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

July 2017

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## FOREWORD

I am pleased to introduce our model financial statements for government departments prepared under public benefit entity (PBE) accounting standards. The model financial statements also include information on the disclosure concessions for Tier 2 government departments eligible to apply the reduced disclosure regime.

**Focus**

This 2017 update to the model financial statements focuses on improving the presentation and disclosure of financial statements. Recently, a number of private and public sector organisations have made significant changes to the presentation of their financial statements to improve communication to readers. In this model, we have applied some of this evolving good practice, such as merging accounting policies into the relevant notes and improving disclosures of judgements, estimates, and uncertainties. Further information about these improvements is provided on page 5. The main changes to the model are explained on page 6.

I encourage government departments to consider how they can improve their financial statements, with a view to clear communication to the readers. Our auditors will be happy to discuss this with you, including the important judgements that entities need to make about materiality of note disclosures.

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 evolving good practice in presenting financial statements that meet the needs of users as well as any revised requirements from changes in accounting standards and legislation.

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.

Stephen Walker
Executive Director
July 2017

## ABOUT THE MODEL FINANCIAL STATEMENTS

**Objective**

The objectives of this model are:

- to guide government departments in preparing financial statements that comply with the Tier 1 or Tier 2 PBE accounting requirements; and
- to provide an insight into evolving good practice in preparing financial statements, by providing an alternative presentation of notes and accounting policies to that in our previous models.

**Improving disclosures and presentation of financial statements**

Standard-setting bodies, financial market regulators, and other accounting interest groups internationally and in New Zealand have recently undertaken projects and initiatives to consider how financial reporting can be improved and better meet the needs of users (for example, the International Accounting Standards Board's "Disclosure Initiative" project).

These model financial statements have been updated to reflect some of the examples in practice we have seen to improve financial reporting. This includes improving the readability of the financial statements by moving significant accounting policies to the notes to which they relate. Some accounting policy language has also been simplified. Estimates and judgement disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers. For example, more information has been provided in relation to the estimation of the fair value of property, plant, and equipment.

There are other ways a government department might improve financial reporting. For example, there are different approaches to the ordering of the financial statement notes. The notes in these model financial statements generally follow the ordering of the primary statements. However, a department might order notes based on providing the most important notes first, or group notes together into themes, such as operations, resources, and financing.

We are also seeing increasing use of contents pages and sub-headings for notes as well as some use of graphics, keys, and colour to differentiate different parts of the note disclosures. In this model, we have:

- included a contents page at the start of the notes to the financial statements to help the user locate notes that they are interested in;
- used colour to highlight the accounting policies (a blue background) and critical accounting estimates and judgements (a red background) from the other information contained in the notes; and
- included subheadings within the notes to clearly indicate to the user what information is being disclosed within a note.

**Application of materiality to note disclosures**

The purpose of these model financial statements is to provide a comprehensive range of accounting policies and disclosures to help guide government departments in preparing financial statements that comply with the PBE accounting requirements. Because of this, the model contains many note disclosures. Government departments may not need to include all of these notes in their financial statements.

When preparing financial statements, professional judgement needs to be applied in determining what note disclosures are material to users of financial statements. The PBE Conceptual Framework provides the following guidance on materiality:

> *Information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's general purpose financial reports prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity.*

In some cases, assessing materiality of note disclosures is an on-balance judgement that requires discussion between the preparer and auditor. In making this judgement, key factors are the concepts of user needs and accountability, but it is also important that material information is not obscured by including too much information that is not important.

**Tier 2 concessions**

The model financial statements also identify by green highlighting those disclosures included in the model that are not required if an entity is able to apply the reduced disclosure regime (RDR). An entity may be able to apply additional disclosure concessions in preparing its financial statements that are not identified by the model, as the model does not include all possible disclosures required by the PBE accounting requirements.

**Main updates to the model**

The table below explains the main updates to the model since it was previously published in 2015.

| Page number | Note number | Description of update |
|---|---|---|
| General | – | Accounting policies that relate specifically to a note have been relocated from the statement of accounting policies to the note to which they relate. Accounting policies within the notes are shaded blue to differentiate the policy from other information within the note. Accounting policies that do not relate specifically to a note (e.g. foreign currency transactions) remain in the statement of accounting policies (Note 1). Minor changes have been made to policies to improve their readability. |
| General | – | "Critical accounting estimates and assumptions" and "Critical judgements in applying accounting policies" have been relocated from the statement of accounting policies to the note to which they relate. These disclosures have been shaded red and are clearly labelled to differentiate the disclosures from the accounting policies and other information within the note. Some of these disclosures have also been enhanced to provide more useful information on those areas of the financial statements that require judgement by preparers. |
| General | – | The previous model included disclosures required by PBE FRS 46: *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRS*, including a separate note outlining adjustments arising on transition to the new PBE accounting standards. These disclosures have been removed as they are not required to be presented in subsequent financial statements. |
| 15 | – | Statement of cash flows – The reconciliation of surplus/(deficit) after tax to net cash flow from operating activities is now located directly after the statement of cash flows. It was previously disclosed as a separate note. |
| 20 | Note 1 | Statement of accounting policies – "Standards issued and not yet effective and not early adopted" has been updated to reflect standards issued and not yet effective that are relevant to the Ministry. |
| 30, 31 | Note 16 | Property, plant, and equipment note – We have enhanced disclosure about estimating the fair value of land and buildings as it is a key source of estimation uncertainty. This includes quantifying certain valuation assumptions to provide more useful information to the reader. In addition, a table comparing the carrying value of buildings revalued using depreciated replacement cost and market-based evidence has been included. |
| 41, 42 | Note 18 | Equity – The capital management and memorandum account disclosures are now located in this note. They were previously in a separate note. |
| 58 | – | Statement of cost accounting policies – This statement has been moved from the Ministry's accounting policies to the appropriation statements because these policies relate to the preparation of the appropriation statements. |

**Revenue Crown**

Applying the PBE accounting standards for revenue to the funding mechanisms for government departments under the Public Finance Act 1989 has proven challenging and open to different interpretations. There has been significant debate between the Office of the Auditor-General (OAG) and the Treasury on the appropriate accounting treatment of Revenue Crown and there is presently a difference in opinion between the OAG and the Treasury on this issue.

The OAG position is that Revenue Crown should be recognised when the government department gains control over the resources to be transferred, with revenue based on the supplementary estimates of appropriations and any subsequent unconditional funding adjustments agreed prior to balance date. The Treasury position is that Revenue Crown should not be recognised until appropriated costs are incurred.

These model financial statements follow the OAG position and Revenue Crown has been accounted for based on the funding being non-exchange in nature with no use or return conditions attached. This approach is also consistent with the accounting treatment most government departments already apply for Revenue Crown.

The OAG and the Treasury are continuing their discussions on accounting for Revenue Crown. Therefore, the accounting for Revenue Crown in these model financial statements remains unchanged from the version previously published in 2015.

If a government department's accounting for Revenue Crown is materially inconsistent with the approach in these model financial statements, the appointed auditor and the OAG will consider what effect this could have on the audit report.

**Content**

Included in the model are:

- a statement of responsibility;
- a statement of comprehensive revenue and expense;
- a statement of financial position;
- a statement of changes in equity;
- a statement of cash flows;
- a statement of commitments;
- a statement of contingent liabilities and contingent assets;
- a statement of accounting policies, including a statement of significant assumptions underlying the forecast financial statements;
- notes to the financial statements;
- non-departmental statements and schedules, accounting policies, and accompanying notes; and
- appropriation statements required by section 45A of the PFA.

The appropriation statements include:

- a statement of budgeted and actual expenses and capital expenditure incurred against appropriations;
- a statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority;
- a statement of departmental capital injections; and
- a statement of departmental capital injections made without, or in excess of, authority.

The model does not include all the legislative requirements for a government department's annual report. In particular, this model does not include the following required by sections:

- 19(C) – Requirements for end-of-year performance information;
- 45(2)(a) – An assessment of the government department's operations (excluding operations on which any departmental agency hosted by the department is required to report under section 43A);
- 45(2)(b) – An assessment of the government department's progress in relation to its strategic intentions; and

- 45(2)(c) – Information about the government department's management of its organisational health and capability

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 revenue and expense 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.

While the model provides guidance on disclosure matters, it does not deal with the underlying accounting treatment. Government departments will need to make choices about the accounting policies and presentation options appropriate for their circumstances.

The model does not address all the possible recognition, measurement, and disclosure requirements of the PBE accounting requirements. 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.

**Standards not covered by the model**

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

- PBE IPSAS 6 *Consolidated and Separate Financial Statements*;
- PBE IPSAS 7 *Investments in Associates*;
- PBE IPSAS 8 *Interests in Joint Ventures*;
- PBE IPSAS 10 *Financial Reporting in Hyperinflationary Economies*;
- PBE IPSAS 11 *Construction Contracts*;
- PBE IPSAS 16 *Investment Property*;
- PBE IPSAS 22 *Disclosure of Information About the General Government Sector*;
- PBE IPSAS 26 *Impairment of Cash-Generating-Assets;*
- PBE IPSAS 27 *Agriculture*;
- PBE IPSAS 32 *Service Concession Arrangements: Grantor*;
- PBE IFRS 3 *Business Combinations;*
- PBE IAS 12 *Income Taxes*;
- PBE IAS 34 *Interim Financial Reporting*;
- PBE FRS 43 *Summary Financial Statements*; and
- PBE FRS 45 *Service Concession Arrangements: Operator*.

Standards and amendments issued after 30 June 2017 are not included in the model financial statements.

**Abbreviations used in the model**

| | | | |
|---|---|---|---|
| ACC | Accident Compensation Corporation | PBE | Public Benefit Entity |
| GAAP | Generally Accepted Accounting Practice | PFA | Public Finance Act 1989 |
| IRD | Inland Revenue Department | RDR | Reduced Disclosure Regime |

## MODEL FINANCIAL STATEMENTS INDEX

PFA s45(2)(f)
PFA s45C(1)

## STATEMENT OF RESPONSIBILITY[1,2]

I am responsible, as Chief Executive of the Ministry of Public Accountability (the Ministry), for:

- the preparation of the Ministry's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by the Ministry is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the Ministry, whether or not that information is included in the annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the Ministry as at 30 June 2017 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the Ministry as at 30 June 2018 and its operations for the year ending on that date.

PFA s45C(3)

[signed]
C E Tumuaki
**Chief Executive**
21 September 2017

[1] In addition to the signed statement of responsibility, section 45(5) of the PFA requires the annual report to be dated and signed by the government department's Chief Executive.
[2] The statement of responsibility content for a departmental agency differs from that of a government department. Section 45C(2) of the PFA specifies the content of the statement of responsibility for a departmental agency.
[3] 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 revenue and expense (a statement of other comprehensive revenue and expense) can be presented.
[4] Where there are discontinued operations, PBE IFRS 5.33(a) requires separate disclosure of the total post-tax gain or loss from discontinued operations and the post-tax 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.

PBE IPSAS 1.21(b)

# MINISTRY OF PUBLIC ACCOUNTABILITY
## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
## FOR THE YEAR ENDED 30 JUNE 2017[3,4,5]

PBE IPSAS 1.128

| Reference | Actual[6] 2016 $000 | | Notes | Actual 2017 $000 | Unaudited[7] budget 2017 $000 | Unaudited[8] forecast 2018 $000 |
|---|---|---|---|---|---|---|
| | | **Revenue[9]** | | | | |
| | 220,000 | Revenue Crown | 2 | 230,000 | 220,000 | 230,000 |
| PBE IPSAS 1.98.3 | 2,292 | Other revenue | 2 | 2,569 | 2,636 | 2,076 |
| PBE IPSAS 1.99.1(a) | 222,292 | *Total revenue* | | 232,569 | 222,636 | 232,076 |
| PBE IPSAS 1.109 | | **Expenses** | | | | |
| | 125,381 | Personnel costs | 3 | 141,606 | 139,590 | 141,690 |
| | 11,752 | Depreciation and amortisation expense | 11,12 | 19,201 | 19,154 | 19,164 |
| | 6,821 | Capital charge | 4 | 6,769 | 6,800 | 6,800 |
| PBE IPSAS 1.99.1(b) | 254 | Finance costs | 5 | 264 | 252 | 252 |
| | 0 | Restructuring costs | | 1,788 | 1,600 | 1,800 |
| | 65,959 | Other expenses | 6 | 61,380 | 55,240 | 62,370 |
| PBE IPSAS 1.98.3 | 210,167 | *Total expenses* | | 231,008 | 222,636 | 232,076 |
| PBE IPSAS 1.99.1(f) | 12,125 | **Surplus/(deficit)** | | 1,561 | 0 | 0 |
| | | **Other comprehensive revenue and expense** | | | | |
| Good practice[10] | | *Item that will not be reclassified to net surplus/(deficit)* | | | | |
| PBE IPSAS 1.103.1 | 0 | Gain on property revaluations | | 2,526 | 0 | 0 |
| PBE IPSAS 1.98.1(b) | 0 | *Total other comprehensive revenue and expense* | | 2,526 | 0 | 0 |
| PBE IPSAS 1.98.1(c) | **12,125** | **Total comprehensive revenue and expense** | | **4,087** | **0** | **0** |

PBE IPSAS 1.148.1

Explanations of major variances against the original 2016/17 budget are provided in Note 22.[11]

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

Footnotes 3 to 4 are presented on the previous page.

[5] The statement of comprehensive revenue and expense has been prepared using the nature of expense classification. Alternatively, entities may choose to present expenses based on the function of expense. Tier 1 entities that classify expenses by function are required to disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense (PBE IPSAS 1.115).

[6] PBE IPSAS 1.53 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.

[7] Under section 45B(2)(b) of the PFA, the financial statements must include the forecast financial statements prepared at the start of the year. This will be the forecast financial statements published in the prior year annual report. This should be the government department's best estimate forecasts prepared to support the Main Estimates of Appropriations, rather than the appropriation (upper limit) numbers (where these are different).

[8] Section 45(3) of the PFA requires the annual report of a government department to include forecast financial statements in respect of the financial year after the financial year to which the annual report relates. In these model financial statements, the forecast financial statements and associated information are integrated into the historical financial statements and have been labelled as being unaudited. An alternative approach would be to include the forecast financial statements and associated information as a separate section in the annual report that is outside the historical financial statements and label them as being unaudited.

[9] PBE IPSAS 23.106(a) requires, either in the statement of financial position or the notes, that entities disclose the amount of revenue from non-exchange transactions by major classes, showing separately: (i) taxes, showing separately major classes of taxes; and (ii) transfers, showing separately major classes of transfer revenue. As the separate labelling of revenue as exchange or non-exchange in most cases would not be considered material, we have decided to not label revenue as exchange or non-exchange in the model financial statements. We have, however, separately disclosed the major classes of revenue streams in the financial statements.

[10] For-profit entities are required to group items presented in other comprehensive revenue and expense on the basis of whether they are potentially reclassifiable to surplus or deficit in the future (reclassification adjustments). Although PBEs are not required to make this disclosure, we consider the disclosure to be good practice.

[11] PBE IPSAS 1.148.1 requires an entity that has published general purpose prospective financial information for the period of the financial statements to present a comparison of the prospective financial information with the actual financial results being reported. Explanations for major variances shall be given.

PBE IPSAS 1.21(a)

**MINISTRY OF PUBLIC ACCOUNTABILITY**
**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017**[12]

| | Actual 2016 $000 | | Notes | Actual 2017 $1000 | Unaudited budget 2017 $000 | Unaudited forecast 2018 $000 |
|---|---|---|---|---|---|---|
| PBE IPSAS 1.90,128 | | | | | | |
| | | **Assets** | | | | |
| PBE IPSAS 1.70,76 | | **Current assets** | | | | |
| PBE IPSAS 1.88(i) | 7,995 | Cash and cash equivalents | | 13,358 | 9,286 | 9,286 |
| PBE IPSAS 1.88(g),(h) | 5,216 | Receivables | 7 | 3,914 | 3,242 | 3,907 |
| PBE IPSAS 1.88(d) | 98 | Derivative financial instruments | 8 | 145 | 112 | 112 |
| PBE IPSAS 1.89 | 1,260 | Prepayments | | 1,280 | 1,260 | 1,260 |
| PBE IPSAS 1.88(f) | 856 | Inventories | 9 | 741 | 960 | 940 |
| PBE IPSAS 1.88.1(a) | 2,045 | Non-current assets held for sale | 10 | 650 | 650 | 650 |
| PBE IPSAS 1.89 | 17,470 | *Total current assets* | | 20,088 | 15,510 | 16,155 |
| PBE IPSAS 1.70,76 | | **Non-current assets** | | | | |
| PBE IPSAS 1.88(a) | 109,619 | Property, plant, and equipment | 11 | 75,158 | 72,118 | 71,251 |
| PBE IPSAS 1.88(c) | 6,898 | Intangible assets | 12 | 71,126 | 70,256 | 70,458 |
| PBE IPSAS 1.89 | 116,517 | *Total non-current assets* | | 146,284 | 142,374 | 141,709 |
| PBE IPSAS 1.89 | **133,987** | ***Total assets*** | | **166,372** | **157,884** | **157,864** |
| | | **Liabilities** | | | | |
| PBE IPSAS 1.70,80 | | **Current liabilities** | | | | |
| PBE IPSAS 1.88(k),(j) | 24,358 | Payables and deferred revenue | 13 | 21,782 | 14,065 | 14,065 |
| PBE IPSAS 1.88(m) | 112 | Derivative financial instruments | 8 | 87 | 60 | 60 |
| PBE IPSAS 1.89 | 12,023 | Return of operating surplus | 14 | 3,307 | 0 | 0 |
| PBE IPSAS 1.88(l) | 2,350 | Provisions | 15 | 2,350 | 2,350 | 2,350 |
| PBE IPSAS 1.89 | 16,441 | Employee entitlements | 16 | 13,449 | 16,785 | 16,785 |
| PBE IPSAS 1.88(m) | 70 | Finance leases | 17 | 112 | 46 | 46 |
| PBE IPSAS 1.89 | 55,354 | *Total current liabilities* | | 41,087 | 33,306 | 33,306 |
| PBE IPSAS 1.70,80 | | **Non-current liabilities** | | | | |
| PBE IPSAS 1.88(l) | 2,086 | Provisions | 15 | 874 | 1,143 | 1,123 |
| PBE IPSAS 1.89 | 6,910 | Employee entitlements | 16 | 7,299 | 7,300 | 7,300 |
| PBE IPSAS 1.88(m) | 531 | Finance leases | 17 | 463 | 473 | 473 |
| PBE IPSAS 1.89 | 9,527 | *Total non-current liabilities* | | 8,636 | 8,916 | 8,896 |
| PBE IPSAS 1.89 | **64,881** | ***Total liabilities*** | | **49,723** | **42,222** | **42,202** |
| PBE IPSAS 1.89 | **69,106** | **Net assets** | | **116,649** | **115,662** | **115,662** |
| PBE IPSAS 1.95 | | **Equity** | | | | |
| PBE IPSAS 1.95(a) | 61,071 | Taxpayers' funds | 18 | 108,818 | 107,662 | 107,662 |
| PBE IPSAS 1.95(c) Treasury Instructions 2016 6.3.7 | 35 | Memorandum accounts | 18 | 5 | 0 | 0 |
| PBE IPSAS 1.95(c) | 8,000 | Property revaluation reserves | 18 | 7,826 | 8,000 | 8,000 |
| PBE IPSAS 1.88(o) | **69,106** | **Total equity** | | **116,649** | **115,662** | **115,662** |

PBE IPSAS 1.148.1

Explanations of major variances against the original 2016/17 budget are provided in Note 22.

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

[12] PBE IPSAS 1.88 requires in the statement of financial position that separate line items be presented for recoverables from non-exchange transactions, receivables from exchange transactions, taxes and transfers payable, and payables under exchange transactions. We consider that it will be rare that this analysis will provide material information. Therefore, we have chosen to focus on providing a meaningful breakdown in the notes to the financial statements. We also note that the illustrative financial statements in PBE IPSAS 1 do not separately disclose receivables and payables into exchange or non-exchange headings.

PBE IPSAS 1.21(c)

## MINISTRY OF PUBLIC ACCOUNTABILITY
## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

PBE IPSAS 1.128

| Actual 2016 $000 | | Notes | Actual 2017 $000 | Unaudited budget 2017 $000 | Unaudited forecast 2018 $000 |
|---|---|---|---|---|---|
| 69,004 | **Balance at 1 July** | | 69,106 | 68,899 | 115,662 |
| 12,125 | Total comprehensive revenue and expense | | 4,087 | 0 | 0 |
| | *Owner transactions*[13] | | | | |
| 0 | Capital injections | | 46,763 | 46,763 | 0 |
| 0 | Capital withdrawals | | 0 | 0 | 0 |
| (12,023) | Return of operating surplus to the Crown | 14 | (3,307) | 0 | 0 |
| **69,106** | **Balance at 30 June** | **18** | **116,649** | **115,662** | **115,662** |

(Margin references: PBE IPSAS 1.118(a) — Total comprehensive revenue and expense; PBE IPSAS 1.119(a) — Owner transactions)

PBE IPSAS 1.148.1

Explanations of major variances against the original 2016/17 budget are provided in Note 22.

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

[13] Disclosure is required only if these transactions took place.

PBE IPSAS 1.21(d)

## MINISTRY OF PUBLIC ACCOUNTABILITY
## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

PBE IPSAS 1.128

| Actual 2016 $000 | | Actual 2017 $000 | Unaudited budget 2017 $000 | Unaudited forecast 2018 $000 |
|---|---|---|---|---|
| | **Cash flows from operating activities** | | | |
| 220,000 | Receipts from Revenue Crown | 230,000 | 220,000 | 230,000 |
| 2,374 | Receipts from other revenue | 3,237 | 2,114 | 2,114 |
| (62,661) | Payments to suppliers[14] | (66,608) | (64,107) | (72,507) |
| (125,408) | Payments to employees | (144,209) | (136,657) | (138,257) |
| (6,821) | Payments for capital charge | (6,769) | (6,800) | (6,800) |
| (3,547) | Goods and services tax (net) | (55) | (2,594) | (2,594) |
| 23,937 | *Net cash flow from operating activities* | 15,596 | 11,956 | 11,956 |
| | **Cash flows from investing activities** | | | |
| 29,990 | Receipts from sale of property, plant, and equipment[15] | 45,347 | 31,931 | 0 |
| (68,719) | Purchase of property, plant, and equipment | (15,024) | (13,982) | (10,589) |
| (6,524) | Purchase of intangible assets | (75,220) | (75,301) | (0) |
| (45,253) | *Net cash flow from investing activities* | (44,897) | (57,352) | (10,589) |
| | **Cash flows from financing activities** | | | |
| 0 | Capital injections | 46,763 | 46,763 | 0 |
| (8,052) | Return of operating surplus | (12,023) | 0 | 0 |
| (75) | Payments of finance leases | (76) | (76) | (76) |
| (8,127) | *Net cash flow from financing activities* | 34,664 | 46,687 | (76) |
| (29,443) | **Net (decrease)/increase in cash** | 5,363 | 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** | **13,358** | **9,286** | **9,286** |

(Margin references: PBE IPSAS 2.18,22,27 — operating activities; PBE IPSAS 2.18,25 — investing activities; PBE IPSAS 2.18,26 — financing activities)

PBE IPSAS 2.54

The Ministry acquired equipment totalling $232,000 (2016 $nil) by means of finance leases during the year.

PBE IPSAS 1.148.1

Explanations of major variances against the original 2016/17 budget are provided in Note 22.

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

[14] We consider it good practice to separately disclose cash outflows from payments to employees and cash outflows from payments to suppliers, although the amounts could be presented in aggregate.
[15] We consider it good practice to separately disclose cash flows arising from the acquisition and disposal of property, plant, and equipment and intangible assets. Presenting these cash flows separately 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 acquisition and disposal.

PBE IPSAS 1.21(d)

## MINISTRY OF PUBLIC ACCOUNTABILITY
## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

PBE IPSAS 2.29

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

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 12,125 | **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 statement of financial position items** | |
| 319 | (Increase)/Decrease in receivables[16] | 1,302 |
| (15) | (Increase)/Decrease in prepayments | (20) |
| 933 | (Increase)/Decrease in inventories | 115 |
| (431) | Increase/(Decrease) in payables and deferred revenue[17] | (2,211) |
| (592) | Increase/(Decrease) in provisions | (1,212) |
| 225 | Increase/(Decrease) in employee entitlements | (2,603) |
| 439 | Total net movement in working capital items | (4,629) |
| **23,937** | **Net cash flow from operating activities** | **15,596** |

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

[16] Any receivables for the sale of property, plant, and equipment will need to be excluded when calculating this movement.
[17] Any payables for capital expenditure will need to be excluded when calculating this increase or decrease.

Treasury Instructions 2016 3.5.21,4.4.4

## MINISTRY OF PUBLIC ACCOUNTABILITY
## STATEMENT OF COMMITMENTS AS AT 30 JUNE 2017

**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.

Treasury Instructions 2016 3.5.21

Cancellable capital commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are reported below at the lower of the remaining contractual commitment and the value of those penalty or exit costs (that is, the minimum future payments).

**Non-cancellable operating lease commitments**

PBE IPSAS 13.44(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.[18]

PBE IPSAS 13.44(d)(ii)

The Ministry's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights.

PBE IPSAS 13.44(d)(iii)

There are no restrictions placed on the Ministry by any of its leasing arrangements.

PBE IPSAS 13.44(b)

The total of minimum future sublease payments expected to be received under non-cancellable subleases at balance date is $25,432 (2016 $25,875).[19]

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| | | **Capital commitments** | |
| PBE IPSAS 17.89(c) | 755 | Buildings[20] | 352 |
| PBE IPSAS 17.89(c) | 203 | Motor vehicles | 184 |
| PBE IPSAS 31.121(e) | 124 | Intangible assets | 151 |
| | 1,082 | *Total capital commitments* | 687 |
| | | **Operating leases as lessee** | |
| PBE IPSAS 13.44(a) | | The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows: | |
| PBE IPSAS 13.44(a)(i) | 15,120 | Not later than one year | 11,340 |
| PBE IPSAS 13.44(a)(ii) | 60,480 | Later than one year and not later than five years | 45,360 |
| PBE IPSAS 13.44(a)(iii) | 52,920 | Later than five years | 28,350 |
| | 128,520 | *Total non-cancellable operating lease commitments* | 85,050 |
| | **129,602** | **Total commitments** | **85,737** |

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

[18] A general narrative can be provided when there are a number of operating leases.
[19] If an entity has material operating leases as a lessor, it must comply with the disclosure requirements of PBE IPSAS 13.69.
[20] The amount of contractual commitments for the acquisition of property, plant, and equipment is required to be disclosed for each class of asset (PBE IPSAS 17.89(c)).

Treasury Instructions 2016 3.5.20

# MINISTRY OF PUBLIC ACCOUNTABILITY
# STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS
# AS AT 30 JUNE 2017

**Unquantifiable contingent liabilities**

*Lawsuit*

PBE IPSAS 19.100

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.

*Superannuation schemes*[21]

PBE IPSAS 25.33(c)[22]

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 ceased to participate in the scheme, the Ministry could be responsible for any deficit of the scheme. Similarly, if a number of employers ceased to participate in the scheme, the Ministry could be responsible for an increased share of any deficit.

As at 31 March 2016[23], the scheme had a past service surplus of $11.70 million (exclusive of Employer Superannuation Contribution Tax (2015: $16.20 million)). This surplus was calculated using a discount rate equal to the expected return on assets, but otherwise the assumptions and methodology were consistent with the requirements of PBE IPSAS 25.

The actuary of the scheme recommended previously that the employer contributions be suspended with effect from 1 April 2011. In the latest report, the actuary recommended that the employer contributions remain suspended.

**Quantifiable contingent liabilities**

| Actual 2016 $000 | | Actual 2017 $000 |
|---:|---|---:|
| 250 | Legal proceedings and disputes | 250 |
| 125 | Personal grievances | 115 |
| **375** | **Total quantifiable contingent liabilities** | **365** |

**Legal proceedings and disputes**

PBE IPSAS 19.100

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

**Personal grievances**

PBE IPSAS 19.100

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**

PBE IPSAS 19.105

The Ministry has no contingent assets (2016 $nil).[24]

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

[21] The State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Scheme are defined contribution schemes from the perspective of a government department. Therefore, no contingent liability related disclosures are required.
[22] PBA IPSAS 25.33(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 (the RDR does not require this disclosure), and the implications, if any, for the entity.
[23] The actual information as at 31 March 2017 should be disclosed, if available from NPF's website. The quantitative information in this disclosure is based on the actual 31 March 2016 information provided by NPF.
[24] Where no contingent assets exist, we consider it good practice to state that fact.

PBE IPSAS 1.21(f),127, 128

# MINISTRY OF PUBLIC ACCOUNTABILITY
# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

**Notes index**

PBE IPSAS 1.21(f),127

# MINISTRY OF PUBLIC ACCOUNTABILITY
# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 1 Statement of accounting policies[25]

### REPORTING ENTITY

PBE IPSAS 1.150(a),(c),(d)

The Ministry of Public Accountability (the Ministry) is a government department as defined by section 2 of the PFA and is domiciled and operates in New Zealand. The relevant legislation governing the Ministry's operations includes the PFA and the Public Accountability Act 1998[26]. The Ministry's ultimate parent is the New Zealand Crown.[27]

Good practice

In addition, the Ministry has reported on Crown activities and trust monies that it administers in the non-departmental statements and schedules on pages 47 to 57.

PBE IPSAS 1.150(b)

The Ministry's primary objective is to provide services to the New Zealand public *[Tier 1 entities shall disclose a description of the nature of the entity's operations and principal activities]*. The Ministry does not operate to make a financial return.

PBE IPSAS 1.28.2(c)

The Ministry has designated itself as a public benefit entity (PBE) for the purposes of complying with generally accepted accounting practice.

PBE IPSAS 1.63(a)-(c)

The financial statements of the Ministry are for the year ended 30 June 2017, and were approved for issue by the Chief Executive on 21 September 2017.

PBE IPSAS 1.127(a)

### BASIS OF PREPARATION

Good practice
PBE IPSAS 1 Appendix B

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the year.

**Statement of compliance**

PBE IPSAS 1.28.2(a),(b)

The financial statements of the Ministry have been prepared in accordance with the requirements of the PFA, which include the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), and Treasury Instructions.

PBE IPSAS 1.28, 28.2(b), 28.4(a)

The financial statements have been prepared in accordance with and comply with PBE accounting standards.

PBE IPSAS 1 RDR 28.1, RDR 28.3, 28.4(b)

*[Entities that report in accordance with the Tier 2 PBE accounting requirements (RDR) shall state "The financial statements have been prepared in accordance with and comply with PBE Standards RDR" and shall also disclose the criteria that establish them as eligible to report in accordance with the PBE Standards RDR].*[28]

**Presentation currency and rounding**

PBE IPSAS 1.63(d),(e)

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000), other than the related party transaction disclosures in Note 19. The related party transaction disclosures are rounded to the nearest dollar.

**Changes in accounting policies**

PBE IPSAS 3.33,34

There have been no changes in the Ministry's accounting policies since the date of the last audited financial statements.

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[25] The going concern concept is assumed when preparing financial statements. If those responsible for preparing the financial statements are aware of conditions or events that cast doubt over the ability to continue as a going concern, those facts shall be disclosed. If the financial statements are not prepared on a going concern basis, that fact 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 (PBA IPSAS 1.38).

[26] Departments should refer to their own governing legislation (if any). Note the Public Accountability Act is a fictitious statute we have used to illustrate department specific governing legislation.

[27] PBE IPSAS 1.150 requires the following information to be included in the financial statements, if not disclosed elsewhere in information published with the financial statements: domicile and legal form of the entity and the jurisdiction in which it operates, description of operations and principal activities, reference to the relevant legislation governing the entity's operations, and name of the controlling entity and ultimate controlling entity. These disclosures are not required by the RDR.

[28] We consider that the reporting tier of a government department should be determined based on the government department's total expenses in the surplus or deficit. The amount of expenses recognised in the non-departmental statements and schedules is not relevant in determining the government department's reporting tier for its own financial statements.

## 1 Statement of accounting policies (continued)

PBE IPSAS 3.35,36

**Standards issued and not yet effective and not early adopted**

Standards and amendments, issued but not yet effective that have not been early adopted, and which are relevant to the Ministry are:

*Financial instruments*

In January 2017, the External Reporting Board issued PBE IFRS 9 *Financial Instruments*. This replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- New financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost.
- A new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.
- Revised hedge accounting requirements to better reflect the management of risks.

The timing of the Ministry adopting PBE IFRS 9 will be guided by the Treasury's decision on when the Financial Statements of Government will adopt PBE IFRS 9. The Ministry has not yet assessed the effects of the new standard.

PBE IPSAS 3.35,36

*Impairment of Revalued Assets*

In April 2017, the XRB issued *Impairment of Revalued Assets,* which now clearly scopes in revalued property, plant, and equipment into the impairment accounting standards. Previously, only property, plant, and equipment measured at cost were scoped into the impairment accounting standards.

Under the amendment, a revalued asset can be impaired without having to revalue the entire class-of-asset to which the asset belongs. The timing of the Ministry adopting this amendment will be guided by the Treasury's decision on when the Financial Statements of Government will adopt the amendment.

PBE IPSAS 1.132

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**[29]

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

PBE IPSAS 1.132(c)

**Foreign currency transactions**

PBE ISPAS 4.24,32

Foreign currency transactions (including those for which forward foreign exchange contracts are held) are translated into NZ$ (the functional currency) using the spot exchange rates 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.

PBE IPSAS 2.57

**Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

PBE IPSAS 23.107(d)

The Ministry is only permitted to expend its cash and cash equivalents within the scope and limits of its appropriations.

PBE IPSAS 1.132(c)

**Goods and services tax**

Treasury Instructions 2016 4.2.3

Items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, 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.

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.

[29] Entities are required to disclose those accounting policies that are relevant to an understanding of the financial statements (PBE IPSAS 1.132(c)). The materiality of transactions should also be considered in deciding what accounting policies to disclose. In this model, we have chosen to disclose a comprehensive range of accounting policies. An entity may not need to disclose all the accounting policies included in this model due to the transactions associated with the policy being immaterial.

## 1 Statement of accounting policies (continued)

**Income tax**[30]

Good practice

The Ministry is a public authority and consequently is exempt from income tax. Accordingly, no provision has been made for income tax.

**Critical accounting estimates and assumptions**[31]

PBE IPSAS 1.140

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 in respect of:

- Estimating the fair value of land and buildings – see Note 11.
- Assessing the useful lives of software – see Note 12.
- Measuring long service leave and retirement gratuities – see Note 16.

PBE IPSAS 1.137

**Critical judgements in applying accounting policies**

Management has exercised the following critical judgements in applying accounting policies:

- Classification of leases – see Note 17.

**Budget and forecast figures**

*Basis of the budget and forecast figures*

PBE FRS 42.48

The 2017 budget figures are for the year ended 30 June 2017 and were published in the 2015/16 annual report. They are consistent with the Ministry's best estimate financial forecast information submitted to the Treasury for the Budget Economic and Fiscal Update (BEFU) for the year ending 2016/17.

The 2018 forecast figures are for the year ending 30 June 2018, which are consistent with the best estimate financial forecast information submitted to the Treasury for the BEFU for the year ending 2017/18.

The forecast financial statements have been prepared as required by the PFA to communicate forecast financial information for accountability purposes.

PBE FRS 42.60

The budget and forecast figures are unaudited and have been prepared using the accounting policies adopted in preparing these financial statements.

PBE FRS 42.10

The 30 June 2018 forecast figures have been prepared in accordance with and comply with PBE FRS 42 *Prospective Financial Statements*.

PBE FRS 42.65(a),(b)

The forecast financial statements were approved for issue by the Chief Executive on 21 April 2017.[32]

The Chief Executive is responsible for the forecast financial statements, including the appropriateness of the assumptions underlying them and all other required disclosures.

PBE FRS 42.65(d)

While the Ministry regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2018 will not be published.

PBE FRS 42.49-58
PFA s45BA(2)(a)

*Significant assumptions used in preparing the forecast financial information*

PBE FRS 42.49-58

The forecast figures contained in these financial statements reflect the Ministry's purpose and activities and are based on a number of assumptions on what may occur during the 2017/18 year. The forecast figures have been compiled on the basis of existing government policies and ministerial expectations at the time the Main Estimates were finalised.

[30] Although PBE 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.
[31] The examples provided are not intended to be exhaustive. Government departments will need to consider their own circumstances to ensure that the disclosures for PBE IPSAS 1.137 and 140 are relevant and complete.
[32] The approved for issue date is the date the statement of responsibility to the Treasury on the forecast financial statements was signed (or a later date if any late changes were made to the final numbers used for BEFU).

## 1 Statement of accounting policies (continued)

The main assumptions[33], which were adopted as at 21 April 2017, were as follows:

- The Ministry's activities and output expectations will remain substantially the same as the previous year focusing on the Government's priorities.
- Personnel costs were based on 1600 full-time equivalent staff, which takes into account staff turnover.
- Operating costs were based on historical experience and other factors that are believed to be reasonable in the circumstances and are the Ministry's best estimate of future costs that will be incurred. Remuneration rates are based on current wages and salary costs, adjusted for anticipated remuneration changes.
- Land and buildings are not revalued.
- Estimated year-end information for 2016/17 was used as the opening position for the 2017/18 forecasts.

PBE FRS 42.59

The actual financial results achieved for 30 June 2018 are likely to vary from the forecast information presented, and the variations may be material.

Treasury guidance on forecast financial statements

Since the approval of the forecasts, the only significant change or event that would have a material impact on the forecasts has been the revaluation of land and buildings at 30 June 2017. This resulted in a revaluation increase of approximately 3%. Although it is difficult to reliably forecast land and building values, it is likely that the valuation increase to 30 June 2017 will result in land and building values at 30 June 2018 being higher than in the existing 2018 forecast figures.[34]

PBE IPSAS 1.108

## 2 Revenue

PBE IPSAS 23.107(a),(b)

PBE IPSAS 9.39(a)

**Accounting policy**

The specific accounting policies for significant revenue items are explained below:

*Revenue Crown*[35]

Revenue from the Crown is measured based on the Ministry's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, the Ministry can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

*Statutory levies*

Revenue from statutory levies is recognised as revenue when the obligation to pay the levy is incurred. Although there are restrictions on how levy funding may be spent, there are no conditions attached to the levies that could readily give rise to obligations to return levies to levy payers.

*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.

*Application fees*

Revenue from application fees is recognised to the extent that the application has been processed by the Ministry at balance date.

*Rental revenue*

Rental revenue under an operating sublease is recognised as revenue on a straight line basis over the lease term.

[33] Government departments will need to tailor the significant assumptions to reflect those actually used in preparing their financial forecasts. Treasury Instructions 2016 section 4.5 includes forecasting policies to be followed in preparing forecasts.
[34] If there have been significant events or changes that would have a material impact on the BEFU forecast, information should be disclosed about these circumstances. For example, a narrative would be disclosed in relation to significant year-end adjustments, significant accounting policy changes, major changes in approved funding, or major changes in planned level of activity.
[35] Further context about the accounting for Revenue Crown is provided on page 5 of the model.

## 2 Revenue (continued)

**Breakdown of other revenue and further information**

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| | 888 | Statutory levies | 1,047 |
| | 147 | Application fees | 142 |
| | 230 | Sale of publications | 158 |
| | 324 | Rental revenue from subleases | 367 |
| PBE IPSAS 1.51, 1.107(c) | 431 | Net gain on disposal of property, plant, and equipment | 485 |
| PBE IPSAS 30.24(a)(ii) | 104 | Net gain on foreign exchange derivatives | 72 |
| | 168 | Other | 298 |
| | **2,292** | **Total other revenue** | **2,569** |

*Asset disposals*

PBE 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 (2016 $431,000). A property at 214 Roundabout Drive was disposed of during December 2016 and a gain of $399,000 was recognised. This property was identified as surplus to the Ministry's requirements and approval was obtained to dispose of the property.[36]

PBE IPSAS 1.127(c)

## 3 Personnel costs

PBE IPSAS 1.132(c)

**Accounting policy**

**Salaries and wages**

Salaries and wages are recognised as an expense as employees provide services.

**Superannuation schemes**

PBE IPSAS 25.55

*Defined contribution schemes*

Employee contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund[37] are accounted for as defined contribution superannuation schemes and are expensed in the surplus or deficit as incurred.

*Defined benefit schemes*

PBE IPSAS 25. 33(b)(i)

The Ministry makes employer 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.

PBE IPSAS 25.33(b)(ii)

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 scheme's 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.

[36] If there are a number of asset sales, a general narrative can be provided.

[37] The schemes listed are not exhaustive. Government departments may make contributions to other defined contribution plans, including defined benefit plans that are accounted for as a defined contribution plan.

## 3 Personnel costs (continued)

**Breakdown of personnel costs**

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| | 123,656 | Salaries and wages | 142,776 |
| PBE IPSAS 25.57 | 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** |

## 4 Capital charge

PBE IPSAS 1.132(c)

**Accounting policy**

The capital charge is recognised as an expense in the financial year to which the charge relates.

Good practice

**Further information**

Treasury Instructions 2016 4.3.4

The Ministry pays a capital charge to the Crown on its equity (adjusted for memorandum accounts) as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2017 was 7% from 1 July 2016 to 31 December 2016 and then 6% from 1 January 2017 (2016 8.0 %).

PBE IPSAS 1.127(c)

## 5 Finance costs

PBE IPSAS 1.132(c)

**Accounting policy**

PBE IPSAS 5.17,40(a)

Borrowing costs are recognised as an expense in the financial year in which they are incurred.

**Breakdown of finance costs**

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| PBE IPSAS 30.24(b) | 72 | Interest on finance leases | 73 |
| PBE IPSAS 19.70 | 182 | Discount unwind on provisions (Note 15) | 191 |
| | **254** | **Total finance costs** | **264** |

PBE IPSAS 1.106

## 6 Other expenses[38]

PBE IPSAS 1.132(c)

**Accounting policy**

*Operating leases*

PBE IPSAS 13.8

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

PBE IPSAS 13.42

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

PBE IPSAS 13 A5

Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

PBE IPSAS 1.132(c)

*Grant expenditure*

PBE IPSAS 19 IG18.1

The Ministry's grants awarded have no substantive conditions attached.[39] 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.

PBE IPSAS 19 IG18.2

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.

*Other expenses*

Other expenses are recognised as goods and services are received.

[38] PBE IPSAS 1.106 requires that, when items of expense or revenue are material, their nature and amount shall be disclosed separately.
[39] An accounting policy for grants with conditions is included in the non-departmental accounting policies.

## 6 Other expenses (continued)

**Breakdown of other expenses and further information**

| | Actual 2016 $000 | | Actual 2017 $000 | Unaudited budget 2017 $000 | Unaudited forecast 2018 $000 |
|---|---|---|---|---|---|
| | | Fees to auditor: | | | |
| PBE IPSAS 1.116.1(a) | 157 | – fees to Audit New Zealand for audit of financial statements | 170 | 170 | 173 |
| PBE IPSAS 1.116.1(b) | 0 | – fees to Audit New Zealand for other services[40] | 30 | 0 | 30 |
| PBE IPSAS 13.44(c) | 15,120 | Operating lease expense | 11,780 | 11,620 | 11,970 |
| | 14,321 | Advertising and publicity | 15,487 | 15,500 | 15,737 |
| | 11,300 | Consultancy | 11,901 | 8,000 | 12,093 |
| | 3,287 | Information technology costs | 3,894 | 4,000 | 3,957 |
| | 9,537 | Maintenance | 9,560 | 9,700 | 9,714 |
| | 1,219 | Grant expenses | 1,017 | 1,100 | 1,100 |
| PBE IPSAS 4.61(a) | 212 | Net foreign exchange losses, excluding derivatives | 20 | 50 | 20 |
| PBE IPSAS 12.47(d) | 274 | Inventories consumed | 824 | 500 | 837 |
| | 0 | Intangible asset impairment (Note 12) | 2,156 | 0 | 0 |
| PBE IPSAS 30.24(d) | 178 | Debt impairment (Note 7) | 486 | 300 | 494 |
| PBE IFRS 4 D 17.6.1 | 315 | ACC Accredited Employers Programme (Note 15) | 316 | 300 | 321 |
| PBE IPSAS 1.107(c) | 0 | Net loss on disposal of property, plant, and equipment[41] | 0 | 0 | 0 |
| | 10,039 | Other expenses | 3,739 | 4,000 | 5,924 |
| | **65,959** | **Total other expenses** | **61,380** | **55,240** | **62,370** |

PBE IPSAS 1.116.2

The fees for other services from the auditor were for an assurance engagement over the project management of the Ministry's FMIS development project.

PBE IPSAS 1.94(b)

## 7 Receivables

PBE IPSAS 30.25

**Accounting policy**

PBE IPSAS 29.45

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

PBE IPSAS 29.72
PBE IPSAS 30 AG5

A receivable is considered to be uncollectable when there is evidence that the amount will not be fully collectable. The amount that is uncollectable is the difference between the carrying amount due and the present value of the amount expected to be collected.

[40] Fees to each auditor for other services performed during the reporting period shall be separately disclosed from fees related to the audit or review of the financial statements, and the nature of the other services provided shall be disclosed (PBE IPSAS 1.116.1-116.2).
[41] Disclose only if there has been a net loss on disposal in either the comparative year or current reporting period.

## 7 Receivables (continued)

**Breakdown of receivables and further information**

| Actual 2016 $000 | | Actual 2017 $000 | |
|---|---|---|---|
| | 1,090 | Debtors (gross) | 1,062 |
| | (254) | Less provision for uncollectability | (539) |
| | 836 | Net debtors | 523 |
| | 0 | GST receivable[42] | 0 |
| | 4,380 | Lease and other deposits | 3,391 |
| | **5,216** | **Total receivables** | **3,914** |
| | | Total receivables comprise: | |
| PBE IPSAS 1.88(h) | 4,884 | Receivables from the sale of publications at full cost recovery and deposits (exchange transactions) | 3,537 |
| PBE IPSAS 1.88(g) | 332 | Receivables from statutory levies, application fees (subsidised), and GST (non-exchange transactions) | 377 |

PBE IPSAS 30.44(a)

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

| | 2016 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Gross $000** | **Provision for uncollect-ability $000** | **Net $000** | **Gross $000** | **Provision for uncollect-ability $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** |

All receivables more than 30 days in age are considered to be past due.[43]

PBE IPSAS 30.44(b)

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

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 96 | Individual provision for uncollectability | 56 |
| 158 | Collective provision for uncollectability | 483 |
| **254** | **Total provision for uncollectability** | **539** |

Those specific debtors that are insolvent are fully provided for. As at 30 June 2017, the Ministry has identified 12 debtors (2016 10 debtors), for amounts totalling $56,000 (2016 $96,000), that are insolvent.

[42] Disclose only if there is a GST receivable in either the comparative year or the current reporting period.

[43] When the amount is considered material, Tier 1 reporting entities are required to disclose the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated (PBE IPSAS 30.43(d)).

## 7 Receivables (continued)

PBE IPSAS 30.20

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

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 229 | Balance at 1 July | 254 |
| 178 | Additional provisions made during the year (Note 6) | 486 |
| (153) | Receivables written off during the year | (201) |
| **254** | **Balance at 30 June** | **539** |

## 8 Derivative financial instruments

PBE IPSAS 30.25

**Accounting policy**

Derivative financial instruments are used to manage exposure to foreign exchange risk arising from the Ministry's operational activities. The Ministry does not hold or issue derivative financial instruments for trading purposes. The Ministry has not adopted hedge accounting.

PBE IPSAS 29.45,48,49
PBE IPSAS 29.64(a)

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 with the resulting gain or loss recognised in the surplus or deficit.

PBE IPSAS 1.76,80

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

**Further information**

PBE IPSAS 30.41(a)

The total notional principal amount outstanding for forward foreign exchange contracts at 30 June 2017 is NZ$1.8 million (2016 NZ$925,000). The contracts consist of the purchase of AUS$450,000 (2016 AUS$nil) and US$900,000 (2016 US$650,000).

PBE IPSAS 30.29,31
PBE IPSAS 30 RDR 31.1

The fair values of forward foreign exchange contracts 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 forward foreign exchange contract prices.

PBE IPSAS 12.47(b)

## 9 Inventories

PBE IPSAS 12.47(a)

**Accounting policy**

PBE IPSAS 12.15
PBE IPSAS 12.17(a)

Inventories are held for distribution or for use in the provision of goods and services. The measurement of inventories depends on whether the inventories are held for commercial or non-commercial (distribution at no charge or for a nominal charge) distribution or use. Inventories are measured as follows:

- Commercial: measured at the lower of cost and net realisable value.
- Non-commercial: measured at cost, adjusted for any loss of service potential.

PBE IPSAS 12.17,35

Cost is allocated using the first-in-first out (FIFO) method, which assumes the inventories that were purchased first are distributed or used first.

PBE IPSAS 12.16

Inventories acquired through non-exchange transactions are measured at fair value at the date of acquisition.

PBE IPSAS 12.44

Any write-down from cost to net realisable value or for the loss of service potential or from cost to net realisable value is recognised in the surplus or deficit in the year of the write-down.

PBE IPSAS 12.47(b)

## 9 Inventories (continued)

**Breakdown of inventories and further information**

| Actual 2016 $000 | | Actual 2017 $000 |
|---:|---|---:|
| | *Held for distribution inventories* | |
| 324 | Emergency stock | 298 |
| 124 | Inventories held for use in the provision of goods and services | 137 |
| | *Commercial inventories* | |
| 408 | Publications held for sale | 306 |
| **856** | **Total inventories** | **741** |

PBE IPSAS 12.47(e),(f) The write-down of inventories during the year was $26,000 (2016 $nil). There have been no reversals of write-downs (2016 $nil).[44]

PBE IPSAS 12.47(h) No inventory is pledged as security for liabilities (2016 $nil). However, some inventories are subject to retention of title clauses.

## 10 Non-current assets held for sale

PBE IPSAS 1.132(c) **Accounting policy**

PBE IFRS 5.6,15 Non-current assets 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.

PBE IFRS 5.20 Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

PBE 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.

PBE 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.

**Breakdown of non-current assets held for sale and further information**

PBE IFRS 5.38

| Actual 2016 $000 | | Actual 2017 $000 |
|---:|---|---:|
| | Non-current assets held for sale comprise: | |
| 1,045 | Buildings | 250 |
| 1,000 | Land | 400 |
| **2,045** | **Total non-current assets held for sale** | **650** |

PBE IFRS 5.41 The Ministry-owned property on Owen Street in Wellington has been presented 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 2017.

PBE IFRS 5.38 The accumulated property revaluation reserve recognised in equity for the Owen Street property at 30 June 2017 is $223,000.

[44] 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 (PBE IPSAS 12.47(g)). An entity that applies the RDR is not required to disclose this information.

## 11 Property, plant, and equipment

PBE IPSAS 1.132(c)

**Accounting policy**

Property, plant, and equipment consists of the following asset classes: land, buildings, leasehold improvements, furniture and office equipment, and motor vehicles.

PBE IPSAS 17.88(a)

Land is measured at fair value, and buildings are measured at fair value less accumulated depreciation. All other assets classes are measured at cost, less accumulated depreciation and impairment losses.

Treasury Instructions 2016 4.4.1

Individual assets, or group of assets, are capitalised if their cost is greater than $5,000.[45]

*Revaluations*

PBE IPSAS 17.44

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 three years.[46]

PBE IPSAS 17.44,49

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

PBE IPSAS 17.56

Land and building revaluation movements are accounted for on a class-of-asset basis.

PBE IPSAS 17.54,55

The net revaluation results are credited or debited to other comprehensive revenue and expense 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 revenue and expense 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 revenue and expense.

PBE IPSAS 17.14

*Additions*

The cost of an item of property, plant, and equipment is recognised as an asset 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.

Work in progress is recognised at cost less impairment and is not depreciated.

PBE IPSAS 17.27

In most instances, an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

PBE IPSAS 17.57,83,86

*Disposals*

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 taxpayers' funds.

PBE IPSAS 17.14

*Subsequent costs*

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Ministry and the cost of the item can be measured reliably.

PBE IPSAS 17.23,24

The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

PBE IPSAS 17.88(b),(c)

*Depreciation*[47]

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:

| | | |
|---|---|---|
| Buildings (including components) | 25 to 60 years | 1.6% to 4% |
| Furniture and office equipment | 5 years | 20% |
| Motor vehicles | 5 years | 20% |

[45] 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.
[46] The maximum revaluation cycle allowable under the Crown accounting policies is five years. It may be appropriate to adopt a shorter revaluation cycle policy.
[47] The useful lives and depreciation rates that have been listed above are only illustrations. Government departments will need to set these based on their specific circumstances.

## 11 Property, plant, and equipment (continued)

Leasehold improvements are depreciated over the shorter of the unexpired period of the lease or the estimated remaining useful lives of the improvements.

PBE IPSAS 17.67

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each balance date.

PBE IPSAS 1.132(c)

**Impairment**

The Ministry does not hold any cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

*Non-cash-generating assets*

PBE IPSAS 21.25,26,35

Property, plant, and equipment held at cost that have a finite useful life are reviewed for impairment at each balance date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

PBE IPSAS 21.35
PBE IPSAS 26.31

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and its value in use.

PBE IPSAS 21.44 50

Value in use is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

PBE IPSAS 21.52,54

If an asset's carrying amount exceeds its recoverable service amount, the asset is considered to be impaired and the carrying amount is written-down to the recoverable service amount. The total impairment loss is recognised in the surplus or deficit.

PBE IPSAS 21.69

The reversal of an impairment loss is recognised in the surplus or deficit.

**Critical accounting estimates and assumptions**

***Estimating the fair value of land and buildings***

PBE IPSAS 17.92(a),(b)[48]

The most recent valuation of land and buildings was performed by an independent registered valuer, AV Fairvalue ANZIV of Fairvalue Blogg Doe Valuers Limited. The valuation is effective as at 30 June 2017.

*Land*

PBE IPSAS 1.92(c)

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.

Restrictions on the Ministry's ability to sell land would normally not impair the value of the land because the Ministry has operational use of the land for the foreseeable future and will substantially receive the full benefits of outright ownership

*Buildings*

PBE IPSAS 17.92(c)

Non-specialised buildings (for example, residential and office buildings) are valued at fair value using market-based evidence. Significant assumptions in the 30 June 2017 valuation include market rents and capitalisation rates.

- Market rents range from $457 to $585 per square metre.
- Capitalisation rates are market-based rates of return and range from 7% to 7.75%.

Specialised buildings are valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings.

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions used in the 30 June valuation include:

- The replacement costs of the specific assets are adjusted where appropriate for optimisation due to over-design or surplus capacity. There has been no optimisation adjustments for the most recent valuations.
- The replacement cost is derived from recent construction contracts of modern equivalent assets and Property Institute of New Zealand cost information. Construction costs range from $967 to $3,176 per square metre, depending on the nature of the specific asset valued.

[48] While it is not a requirement, we consider it good practice to disclose the name and qualifications of property valuers.

## 11 Property, plant, and equipment (continued)

- Independent structural engineers have estimated present-value costs of between $0.9 million and $1.3 million to strengthen the Ministry's earthquake-prone buildings. The mid-point of $1.1 million has been deducted off the depreciated replacement cost.
- The remaining useful life of assets is estimated after considering factors such as the condition of the asset, future maintenance and replacement plans, and experience with similar buildings.
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

PBE IPSAS 17.92(d)

A comparison of the carrying value of buildings using depreciated replacement cost and buildings valued using market-based evidence is as follows:

| 2016 $000 | | 2017 $000 |
|---|---|---|
| 35,785 | Depreciated replacement cost | 27,878 |
| 14,115 | Market-based evidence | 11,948 |
| **49,900** | **Total carrying value of buildings** | **39,826** |

PBE IPSAS 17.88(d),(e)[49]

**Breakdown of property, plant, and equipment and further information**

| | Land $000 | Buildings $000 | Leasehold improvements $000 | Furniture/ office equipment $000 | Motor vehicles $000 | Total $000 |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| Balance at 1 July 2015 | 12,000 | 24,116 | 23,270 | 37,189 | 24,958 | 121,533 |
| Additions | 10,500 | 30,094 | 10,478 | 12,489 | 5,045 | 68,606 |
| Revaluation increase | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer to held for sale | (1,000) | (1,139) | 0 | 0 | 0 | (2,139) |
| Disposals | 0 | 0 | (3,248) | (1,478) | (5,478) | (10,204) |
| **Balance at 30 June 2016/1 July 2016** | **21,500** | **53,071** | **30,500** | **48,200** | **24,525** | **177,796** |
| Additions | 0 | 2,447 | 0 | 6,672 | 6,328 | 15,447 |
| Revaluation increase | 2,023 | (3,323) | 0 | 0 | 0 | (1,300) |
| Transfer to held for sale | (400) | (268) | 0 | 0 | 0 | (668) |
| Disposals | (13,849) | (12,101) | (5,200) | (6,543) | (18,788) | (56,481) |
| **Balance at 30 June 2017** | **9,274** | **39,826** | **25,300** | **48,329** | **12,065** | **134,794** |

[49] This is just one way of presenting the reconciliation required by PBE IPSAS 17 *Property, Plant and Equipment*.

### 11 Property, plant, and equipment (continued)

PBE IPSAS 17.88(d), (e)[50]

**Breakdown of property, plant, and equipment and further information**

| | Land | Buildings | Leasehold improvements | Furniture/ office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Accumulated depreciation and impairment losses** | | | | | | |
| Balance at 1 July 2015 | 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 2016/1 July 2016** | **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 2017** | **0** | **0** | **17,710** | **33,032** | **8,894** | **59,636** |
| **Carrying amounts** | | | | | | |
| At 1 July 2015 | 12,000 | 22,464 | 4,109 | 10,715 | 4,270 | 53,558 |
| At 30 June and 1 July 2016 | 21,500 | 49,900 | 12,200 | 19,121 | 6,898 | 109,619 |
| At 30 June 2017 | 9,274 | 39,826 | 7,590 | 15,297 | 3,171 | 75,158 |

**Work in progress**

PBE IPSAS 17.89(b)

Buildings in the course of construction total $2.43 million (2016 $30.0 million). No other asset classes have assets in the course of construction.[51]

**Restrictions**

PBE IPSAS 17.89(a)

The Ministry owns land on Thorndon Quay, Wellington, which is restricted for government or reserve use. The carrying amount of the land is $465,000 (2016 $435,000).[52]

[50] This is just one way of presenting the reconciliation required by PBE IPSAS 17 *Property, Plant and Equipment*.
[51] The amount of expenditure recognised in the carrying amount of property, plant, and equipment in the course of construction is required to be disclosed for each class of asset (PBE IPSAS 17.89).
[52] The existence and amount of restrictions on title, and property, plant, and equipment pledged as security for liabilities are required to be disclosed for each class of asset (PBE IPSAS 17.89).

## 11 Property, plant, and equipment (continued)

**Finance leases**

PBE IPSAS 13.40(a)

The net carrying amount of office equipment held under finance leases is $652,000 (2016 $712,000).

## 12 Intangible assets

PBE IPSAS 1.132(c)

**Accounting policy**

*Software acquisition and development*

PBE IPSAS 31.34,35

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

PBE IPSAS 31.64,65

Costs that are directly associated with the development of software for internal use are recognised as an intangible asset. Direct costs include the costs of services, software development employee costs, and an appropriate portion of relevant overheads.

PBE IPSAS 31.36,65,67

Staff training costs are recognised as an expense when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Treasury Instructions 2016 4.4.2

Costs of software updates or upgrades are capitalised only when they increase the usefulness or value of the software.

PBE IPSAS 31 AG8

Costs associated with development and maintenance of the Ministry's website are recognised as an expense when incurred.

*Amortisation*

PBE IPSAS 31.96,117(b)

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 financial year is recognised in the surplus or deficit.

PBE IAS 38.117(a)

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

| | | |
|---|---|---|
| Acquired computer software | 3 years | 33% |
| Developed computer software | 5 years | 20% |

*Impairment*

PBE IPSAS 21.26A
PBE IPSAS 26.23.1

Intangible assets subsequently measured at cost that have an indefinite useful life, or are not yet available for use, are not subject to amortisation and are tested annually for impairment

PBE IPSAS 31.117(c), (e)

For further details, refer to the policy for impairment of property, plant, and equipment in Note 11. The same approach applies to the impairment of intangible assets.

**Critical accounting estimates and assumptions**

***Useful lives of software***

The useful life of software is determined at the time the software is acquired and brought into use and is reviewed at each reporting date for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Ministry will receive benefits from the software, but not exceeding the licence term. For internally generated software developed by the Ministry, the useful life is based on historical experience with similar systems as well as anticipation of future events that may impact the useful life, such as changes in technology.

## 12 Intangible assets (continued)

**Breakdown of intangible assets and further information**

PBE IPSAS 31.117(c), (e)

Movements in the carrying value for each class of intangible asset are as follows:[53]

| | Acquired software $000 | Internally generated software $000 | Total $000 |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 July 2015 | 4,869 | 14,609 | 19,478 |
| Additions | 1,534 | 4,601 | 6,135 |
| Disposals | (265) | (796) | (1,061) |
| **Balance at 30 June 2016/1 July 2016** | **6,138** | **18,414** | **24,552** |
| Additions | 18,280 | 56,995 | 75,275 |
| Disposals | (1,957) | (3,396) | (5,353) |
| **Balance at 30 June 2017** | **22,461** | **72,013** | **94,474** |
| **Accumulated amortisation and impairment losses** | | | |
| Balance at 1 July 2015 | 4,258 | 12,775 | 17,033 |
| Amortisation expense | 421 | 1,261 | 1,682 |
| Disposals | (265) | (796) | (1,061) |
| Impairment losses | 0 | 0 | 0 |
| **Balance at 30 June 2016/1 July 2016** | **4,414** | **13,240** | **17,654** |
| Amortisation expense | 2,223 | 6,668 | 8,891 |
| Disposals | (1,957) | (3,396) | (5,353) |
| Impairment losses | 0 | 2,156 | 2,156 |
| **Balance at 30 June 2017** | **4,680** | **18,668** | **23,348** |
| **Carrying amounts** | | | |
| At 1 July 2015 | 611 | 1,834 | 2,445 |
| At 30 June and 1 July 2016 | 1,724 | 5,174 | 6,898 |
| At 30 June 2017 | 17,781 | 53,345 | 71,126 |

**Restrictions**

PBE IPSAS 31.121(d)

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

**Impairment**

PBE IPSAS 21.77

The Ministry has recognised an impairment loss of $2.16 million (2016 $nil) for internally developed software. The impairment arose due to technical issues in developing a particular functionality for new software to be used in the Ministry's operations. As these issues could not be satisfactory resolved, a component of the software development was abandoned and the associated costs of this development are considered an impairment expense. The impairment expense was estimated based on invoices and discussions with the Ministry's consultants to determine the cost of the software development associated with the functionality that was abandoned. The impairment loss has been recognised in the statement of comprehensive revenue and expense in the line item "Other expenses".

[53] PBE IPSAS 31.117 requires entities to distinguish between internally generated intangible assets and other intangible assets. For example, internally developed software shall be distinguished from acquired software, when material.

PBE IPSAS 1.93

## 13 Payables and deferred revenue

PBE IPSAS 30.25

**Accounting policy**

PBE IPSAS 29.45

Short-term payables are recorded at the amount payable.

**Breakdown of payables and further information**

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| | **Payables and deferred revenue under exchange transactions** | |
| 16,413 | Creditors | 16,286 |
| 68 | Income in advance for cost recovered services | 72 |
| 6,740 | Accrued expenses | 4,342 |
| 23,221 | Total payables and deferred revenue under exchange transactions | 20,700 |
| | **Payables and deferred revenue under non-exchange transactions**[54] | |
| 37 | Income in advance for subsidised services | 50 |
| 1,100 | Taxes payable (e.g. GST and rates) | 1,032 |
| **24,358** | **Total payables and deferred revenue** | **21,782** |

PBE IPSAS 1.88(k) (Total payables and deferred revenue under exchange transactions)

PBE IPSAS 1.88(j) (Taxes payable)

NZ IAS 1.112(c)
Treasury Instructions 2016 4.4.3

## 14 Return of operating surplus

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 12,125 | Net surplus/(deficit) | 1,561 |
| 0 | Add "other expenses" – restructuring costs | 1,788 |
| (104) | Add unrealised losses/(gains) on forward foreign exchange contracts or other derivatives recognised in the surplus/(deficit) | (72) |
| 0 | Add property revaluation losses/(gains) recognised in the surplus/(deficit) | 0 |
| 2 | Add (surpluses)/deficits of memorandum accounts | 30 |
| **12,023** | **Total return of operating surplus** | **3,307** |

Good practice

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

PBE IPSAS 1.93

## 15 Provisions

PBE IPSAS 1.132(c)

**Accounting policy**

PBE IPSAS 19.22,73

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 resources embodying economic benefits or service potential 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 net deficits from future operating activities.

PBE IPSAS 19.53,56,70

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate based on market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated timing of the future cash outflows. The increase in the provision due to the passage of time is recognised as an interest expense and is included in "finance costs" (see Note 5).

PBE IPSAS 19.82,83

*Restructuring*

A provision for restructuring is recognised when an approved detailed formal plan for the restructuring has been announced publicly to those affected, or implementation has already commenced.

[54] Payables and deferred revenue under non-exchange transactions would also include grants payable and liabilities for funding received subject to use or return conditions that have not yet been satisfied.

### 15 Provisions (continued)

PBE IPSAS 19.76,79

*Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits or service potential to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

*ACC Accredited Employers Programme*

PBE IFRS 4.37(a)

The Ministry belongs to the ACC Accredited Employers Programme ("the Full Self Cover Plan") whereby the Ministry accepts the management and financial responsibility for employee work-related illnesses and accidents. Under the programme, the Ministry is liable for all claim costs for a period of two years after the end of the cover period in which the injury occurred. 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 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 balance date. Consideration is given to anticipated future wage and salary levels and experience of employee claims and injuries.

**Breakdown of provisions and further information**

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| PBE IPSAS 1.80 | | **Current portion** | |
| | 0 | Restructuring | 1,023 |
| | 925 | Lease make-good | 524 |
| | 1,075 | Onerous contracts | 427 |
| | 350 | ACC Accredited Employers Programme | 376 |
| | 2,350 | *Total current portion* | 2,350 |
| PBE IPSAS 1.80 | | **Non-current portion** | |
| | 1,065 | Lease make-good | 366 |
| | 921 | Onerous contracts | 420 |
| | 100 | ACC Accredited Employers Programme | 88 |
| | 2,086 | *Total non-current portion* | 874 |
| | **4,436** | **Total provisions** | **3,224** |

## 15 Provisions (continued)

Movements for each class of provision are as follows:[55,56]

| | | Restructuring | Lease make-good | Onerous contracts | ACC Accredited Employers Programme | Total |
|---|---|---|---|---|---|---|
| | | $000 | $000 | $000 | $000 | $000 |
| Good practice | Balance at 1 July 2015 | 0 | 2,258 | 1,873 | 426 | 4,557 |
| Good practice | Additional provisions made | 0 | 0 | 723 | 315 | 1,038 |
| Good practice | Amounts used | 0 | (450) | (300) | (291) | (1,041) |
| Good practice | Unused amounts reversed | 0 | 0 | (300) | 0 | (300) |
| Good practice | Discount unwind (Note 5) | 0 | 182 | 0 | 0 | 182 |
| Good practice | **Balance at 30 June 2016** | **0** | **1,990** | **1,996** | **450** | **4,436** |
| PBE IPSAS 19.97(a) | Balance at 1 July 2016 | 0 | 1,990 | 1,996 | 450 | 4,436 |
| PBE IPSAS 19.97(b) | Additional provisions made | 1,788 | 0 | 0 | 316 | 2,104 |
| PBE IPSAS 19.97(c) | Amounts used | (765) | (1,291) | (1,149) | (302) | (3,507) |
| PBE IPSAS 19.97(d) | Unused amounts reversed | 0 | 0 | 0 | 0 | 0 |
| PBE IPSAS 19.97(e) | Discount unwind (Note 5) | 0 | 191 | 0 | 0 | 191 |
| PBE IPSAS 19.97(a) | **Balance at 30 June 2017** | **1,023** | **890** | **847** | **464** | **3,224** |

PBE IPSAS 19.98

**Restructuring provision**

The restructuring provision arises from closure of the Ministry's Auckland office, which was announced in January 2017, and relates to the cost of expected redundancies. Management anticipate that the restructuring will be completed within 12 months of balance date and the amount of the liability is considered reasonably certain.

PBE IPSAS 19.98

**Lease make-good provision**

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.

PBE IPSAS 19.98(b)

The Ministry has assumed that the option to renew its leases will be exercised in measuring the provision. The cash flows associated with the non-current portion of the lease make-good provision are expected to occur in September and December 2021.

PBE IPSAS 19.98

**Onerous contracts provision**

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 no longer uses three floors of a building due to restructuring. One of the three floors has been sublet, and the expected cash inflows from the sublease have been included in measuring the provision. Tenants have not yet been found for the other two floors. No sublease cash inflows on the two vacant floors have been included in measuring the provision as there is not sufficient certainty that these floors will be let. The Ministry has two years remaining on this lease.

**ACC Accredited Employers Programme**[57]

PBE IFRS 4 D17.7.1(a)

Exposures arising from the programme are managed by promoting a safe and healthy working environment by:

- 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;

[55] The disclosure of comparative figures for provisions is not required by PBE IPSAS 19.97. We consider it good practice for Tier 1 entities to disclose the comparative figures for provisions.
[56] The RDR does not require disclosures of the major assumptions concerning future events used in measuring provisions (PBE IPSAS 19 RDR 98.1)
[57] Where the ACC Accredited Employers Programme liability is material to a government department, the disclosure requirements of PBE IFRS 4 *Insurance Contracts* Appendix D will need to be considered.

## 15 Provisions (continued)

- 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.

PBE IFRS 4 D17.7.1(c)

The Ministry has chosen a stop loss limit of 200% of the industry premium. The stop loss limit means the Ministry will carry the total cost of all claims up to $500,000 for each year of cover, which runs from 1 April to 31 March. If the claims for a year exceed the stop loss limit, the Ministry will continue to meet the costs of claims and will be reimbursed by ACC for the costs that exceed the stop loss limit.

PBE IFRS 4 D17.7.1(b)(ii)

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.

PBE IFRS 4 D17.8A

An independent actuarial valuer, DW Smith BSc FIAA, has calculated the Ministry's liability, and the valuation is effective as at 30 June 2017. 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.

PBE IFRS 4.17.8B(b),(c)

Average inflation has been assumed as 2% for the year ending 30 June 2018 and 30 June 2019. A discount rate of 4.21% has been used for the year ending 30 June 2018 and 4.3% for the year ending 30 June 2019.

PBE IFRS 4 D17.6.1(d)

Any changes in liability valuation assumptions will not have a material effect on the financial statements.

PBE IPSAS 1.93

## 16 Employee entitlements

PBE IPSAS 1.132(c)

**Accounting policy**

*Short-term employee entitlements*

PBE IPSAS 25.13

Employee entitlements that are due to be settled within 12 months after the end of the year in which the employee provides the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, long service leave and retirement gratuities expected to be settled within 12 months, and sick leave.

PBE IPSAS 25.20

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation and a reliable estimate of the obligation can be made.

*Long-term employee entitlements*

PBE IPSAS 25.147 152

Employee entitlements that are due to be settled beyond 12 months after the end of the year in which the employee provides the related service, such as retirement and long service leave have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to employees, based on years of service, years to entitlement, the likelihood that employees will reach the point of entitlement, and contractual entitlements information; and
- the present value of the estimated future cash flows.

Good practice

*Presentation of employee entitlements*

PBE IPSAS 1.80

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.

PBE IPSAS 1.140

**Critical accounting estimates and assumptions,**

***Long service leave and retirement gratuities***

The measurement of the long service leave and retirement gratuities 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.

## 16 Employee entitlements (continued)

Expected future payments are discounted using discount rates derived from the yield curve of New Zealand government bonds. The discount rates used have maturities that match, as closely as possible, the estimated future cash outflows. A weighted average discount rate of 3.13% (2016 3.4%) and an inflation factor of 3.0% (2016 3.0%) were used. The discount rates and salary inflation factor used are those advised by the Treasury.

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 and the surplus/deficit 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 and the surplus/deficit would be an estimated $675,000 higher/lower.

**Breakdown of employee entitlements**

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| PBE IPSAS 1.80 | | **Current portion** | |
| | 15,980 | Annual leave | 12,976 |
| | 323 | Sick leave | 291 |
| | 138 | Long service leave and retirement gratuities | 182 |
| | 16,441 | *Total current portion* | 13,449 |
| PBE IPSAS 1.80 | | **Non-current portion** | |
| | 6,910 | Long service leave and retirement gratuities | 7,299 |
| | **23,351** | **Total employee entitlements** | **20,748** |

PBE IPSAS 1.93

## 17 Finance leases

PBE IPSAS 1.132(c)

**Accounting policy**

PBE IPSAS 13.8

A finance lease transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

PBE IPSAS 13.28

At the start 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 and the present value of the minimum lease payments.

PBE IPSAS 13.34

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.

PBE IPSAS 13.36

The amount recognised as an asset is depreciated over its useful life. If there is no reasonable 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.

**Critical judgements in applying accounting policies**

***Leases classification***

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.

## 17 Finance leases (continued)

**Analysis of finance leases**

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| PBE IPSAS 13.40(c) | | **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 |
| PBE IPSAS 13.40(b) | 707 | *Total minimum lease payments* | 676 |
| PBE IPSAS 13.40(b) | (106) | Future finance charges | (101) |
| PBE IPSAS 13.40(b) | 601 | *Present value of minimum lease payments* | 575 |
| PBE IPSAS 13.40(c) | | **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 | *Total present value of minimum lease payments* | 575 |
| | | **Represented by:** | |
| | 70 | Current | 112 |
| | 531 | Non-current | 463 |
| | **601** | **Total finance leases** | **575** |

**Other information**

PBE IPSAS 13.40(a) The Ministry has entered into finance leases for various items of plant and equipment, such as for photocopiers and IT equipment. The net carrying amount of the leased items within each class of property, plant, and equipment is shown in Note 11.

PBE IPSAS 13.40(f)(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.

PBE IPSAS 13.40(f)(iii) There are no restrictions placed on the Ministry by any of the finance leasing arrangements.

PBE IPSAS 17.89(a) Finance lease liabilities are effectively secured, as the rights to the leased asset revert to the lessor in the event of default in payment.

## 18 Equity

Good practice

**Accounting policy**

Equity is the Crown's investment in the Ministry and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds, memorandum accounts, and property revaluation reserves.

PBE IPSAS 1.95(c)

*Memorandum accounts*

Memorandum accounts reflect the cumulative surplus/(deficit) on those departmental services provided that are intended to be fully cost recovered from third parties through fees, levies, or charges. The balance of each memorandum account is expected to trend toward zero over time.

PBE IPSAS 1.95(c)

*Property revaluation reserves*

These reserves relate to the revaluation of land and buildings to fair value.

## 18 Equity (continued)

**Breakdown of equity and further information**

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| PBE IPSAS 1.119(c) | | **Taxpayers' funds** | |
| | 60,967 | Balance at 1 July | 61,071 |
| | 12,125 | Surplus/(deficit) | 1,561 |
| PBE IPSAS 17.57 | 0 | Transfers from revaluation reserves on disposal of property | 2,700 |
| | 2 | Transfer of memorandum account net (surplus)/deficit for the year | 30 |
| | 0 | Capital injections | 46,763 |
| | (12,023) | Return of operating surplus to the Crown | (3,307) |
| | 61,071 | Balance at 30 June | 108,818 |
| PBE IPSAS 1.119(c) | | **Property revaluation reserves** | |
| | 8,000 | Balance at 1 July | 8,000 |
| | 0 | Revaluation gains | 2,526 |
| | 0 | Transfer to taxpayers' funds on disposal | (2,700) |
| | 8,000 | Balance at 30 June | 7,826 |
| 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 |
| PBE IPSAS 1.119(c) | | **Memorandum accounts** | |
| | 37 | Opening balance 1 July | 35 |
| | (2) | Net memorandum account surpluses/(deficits) for the year | (30) |
| | 35 | Balance at 30 June | 5 |
| | **69,106** | **Total Equity** | **116,649** |

Further information about memorandum accounts is presented below:[58]

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| Treasury Instructions 2016 6.3.7 | | **Provision for statutory information** | |
| | 25 | Balance at 1 July | 15 |
| | 230 | Revenue | 158 |
| | (240) | Expenses | (150) |
| | (10) | *Surplus/(deficit) for the year* | 8 |
| | 15 | Balance at 30 June | 23 |
| Treasury Instructions 2016 6.3.7 | | **Performance of accountability reviews** | |
| | 12 | Balance at 1 July | 20 |
| | 205 | Revenue | 214 |
| | (197) | Expenses | (252) |
| | 8 | *Surplus/(deficit) for the year* | (38) |
| | 20 | Balance at 30 June | (18) |

[58] Memorandum accounts record the accumulated balance of surpluses and deficits incurred for outputs operating on a full cost recovery basis. These accounts are used to separately disclose the net cost of such outputs over the year, given that such information would otherwise just be aggregated as part of an entity's financial position. The structure and opening balance of each memorandum account is to be approved by the Minister of Finance, the Minister responsible for the appropriation, and the government department's responsible Minister (if different).

### 18 Equity (continued)

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| | **Total memorandum accounts** | |
| 37 | Balance at 1 July | 35 |
| 435 | Revenue | 372 |
| (437) | Expenses | (402) |
| (2) | *Surplus/(deficit) for the year* | (30) |
| **35** | **Balance at 30 June** | **5** |

These memorandum accounts summarise financial information relating to the accumulated surpluses and deficits incurred in the provision of statutory information and performance of accountability reviews by the Ministry to third parties on a full cost recovery basis.

The balance of each memorandum account is expected to trend toward zero over a reasonable period of time, with interim deficits being met either from cash from the Ministry's statement of financial position or by seeking approval for a capital injection from the Crown. Capital injections will be repaid to the Crown by way of cash payments throughout the memorandum account cycle.

Good practice

**Action taken to address surpluses and deficits**[59]

A revised fee strategy is currently being developed to ensure that fee structure and associated revenues are in line with the forecast activities.

PBE IPSAS 1.148A

**Capital management**

The Ministry's capital is its equity, which comprise taxpayers' funds, memorandum accounts, and property 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 revenue, expenses, assets, liabilities, and compliance with the government budget processes, Treasury Instructions, and the PFA.

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.

### 19 Related party transactions

PBE IPSAS 20.25

The Ministry is a wholly owned entity of the Crown.

Good practice

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and condition no more or less favourable than those that it is reasonable to expect the Ministry would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

PBE IPSAS 20.27,30,32

*Related party transactions required to be disclosed*

The Ministry entered into transactions with other Crown-related entities on non-commercial terms for the sale of inventories. Sales totalled $301,271 (2016 $46,123) and were sold at an average discount of 48% (2016 52%) of market price. No amounts were outstanding at balance date.

The Ministry purchased internal audit services totalling $26,564 (2016 $nil) from Accountants Limited, an accounting firm of which the Chief Executive's spouse is a Partner. The services were procured without going through a tender process and the contracted hourly rates of the internal audit staff are at a significant discount compared to other recent internal audit service contracts the Ministry has entered into. There is an amount of $14,412 outstanding at 30 June 2017 (2016 $nil).

[59] Where a memorandum account has a significant surplus or deficit balance, we encourage government departments to disclose the actions they are taking to address that balance.

## 19 Related party transactions (continued)

PBE IPSAS 20.34(a)

*Key management personnel compensation*[60,61]

| Actual 2016 | | Actual 2017 |
|---|---|---|
| | *Leadership Team, including the Chief Executive* | |
| $942,502 | Remuneration | $1,098,542 |
| 6.5 | Full-time equivalent staff | 6.5 |

The above key management personnel disclosure excludes the Minister of Public Accountability. 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 Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, not by the Ministry of Public Accountability.

## 20 Events after balance date

PBE IPSAS 14.28,30

After 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 $1.25 million per annum. The agreement is not included in the statement of commitments because it was entered into after balance date.

There have been no other significant events after balance date.

## 21 Financial instruments

PBE IPSAS 30.11

### 21A Financial instrument categories

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

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| PBE IPSAS 30.11(c) | | **Loans and receivables** | |
| | 7,995 | Cash and cash equivalents | 13,358 |
| | 5,216 | Receivables | 3,914 |
| | 13,211 | Total loans and receivables | 17,272 |
| | | **Fair value through surplus and deficit – held for trading**[62] | |
| PBE IPSAS 30.11(a)(ii) | 98 | Derivative financial instrument assets | 145 |
| PBE IPSAS 30.11(e)(ii) | 112 | Derivative financial instrument liabilities | 87 |
| PBE IPSAS 30.11(f) | | **Financial liabilities measured at amortised cost** | |
| | 24,253 | Payables (excluding income in advance)[63] | 21,907 |

[60] PBE IPSAS 20.4 defines key management personnel as all directors or members of the governing body of the entity; and other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include: i) where there is a member of the governing body of a whole-of-governing entity who has the authority and responsibility for planning, directing and controlling the activities of the reporting entity, that member; ii) key advisors of that member; and iii) the senior management group of the reporting 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 disclosures. There may also be other individuals who meet the key management personnel definition in PBE IPSAS 20. Departments will need to consider their specific facts and circumstances in determining the individuals that will be included in the key management personnel compensation disclosures.

[61] Entities are required to disclose the aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separate major classes of key management personnel and including a description of each class (PBE IPSAS 20.34(a)).

[62] A separate total must also be presented for financial assets and financial liabilities that have been designated at initial recognition at fair value through surplus or deficit. If an entity applies the RDR, it can present a single total for financial instrument assets and a single total for financial instrument liabilities at fair value through surplus or deficit (PBE IPSAS 30 RDR 11.1 and 11.2).

[63] Deferred revenue items, such as income in advance, are not included within the payables figures in the financial instrument notes because deferred revenue is not a financial instrument.

## 21B Fair value hierarchy

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.

PBE IPSAS 30.33(a)

The Ministry's foreign exchange derivatives as at 30 June 2017 and 2016 were valued at fair value using observable inputs (level 2).

PBE IPSAS 30.33(b)

There were no transfers between the different levels of the fair value hierarchy.[64]

## 21C Financial instrument risks[65]

PBE IPSAS 30.38

The Ministry's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The Ministry has 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***

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to 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 when the total transaction exposure to an individual currency exceeds NZ$50,000. 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.

PBE IPSAS 30.47

*Sensitivity analysis*

At 30 June 2017, 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 (2016 $45,000) higher. At 30 June 2017, 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 (2016 $43,000) lower. These movements are attributable to translation of US dollar denominated creditors.

At 30 June 2017, 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 (2016 $34,000) higher. At 30 June 2017, 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 (2016 $32,000) lower. These movements are attributable to translation of Australian dollar-denominated creditors.

***Fair value interest rate risk***

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

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

[64] 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 (PBE IPSAS 30.33(b)). Additionally, for measures included in level 3 of the fair value hierarchy, a reconciliation between the opening and closing balances is required to be presented (PBE IPSAS 30.33(c)).

[65] For Tier 1 reporting entities, particular financial instrument risk disclosures are not required where the risk is not material IPBE PSAS 30.41(b)).

**21C Financial instrument risks (continued)**

**Credit risk**

Credit risk is the risk that a third party will default on its obligation to the Ministry, causing the Ministry to incur a loss.

In the normal course of its business, credit risk arises from receivables, deposits with banks, and derivative financial instrument assets.

PBE IPSAS 30.43(c)

The Ministry is permitted to deposit funds only with Westpac (Standard and Poor's credit rating of AA-), a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office (Standard and Poor's credit rating of AA). These entities have high credit ratings. For its other financial instruments, the Ministry does not have significant concentrations of credit risk.

PBE IPSAS 30.43(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, receivables, 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 risk**

PBE IPSAS 30.46(c)

*Management of liquidity risk*

Liquidity risk is the risk that the Ministry will encounter difficulty raising liquid funds to meet commitments as they fall due.

As part of 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*

PBE IPSAS 30.46(a)

The table below analyses the Ministry's financial liabilities (excluding 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.[66]

| | Carrying amount $000 | Contractual cash flows $000 | Less than 6 months $000 | 6 months-1 year $000 | 1-5 years $000 | More than 5 years $000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Payables | 21,660 | 21,660 | 21,660 | 0 | 0 | 0 |
| Finance leases | 575 | 676 | 60 | 60 | 481 | 75 |
| **2016** | | | | | | |
| Payables | 24,253 | 24,253 | 24,253 | 0 | 0 | 0 |
| Finance leases | 601 | 707 | 38 | 38 | 481 | 150 |

*Contractual maturity analysis of derivative financial instrument liabilities*

PBE IPSAS 30.46(b), AG16(c),(d)

The table below analyses the Ministry's forward exchange contract derivatives[67] 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 $000 | Less than 6 months $000 | 6-12 months $000 | 1-2 years $000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Gross settled forward foreign exchange contracts: | 87 | 145 | | | | |
| – outflow | - | - | 1,800 | 900 | 900 | 0 |
| – inflow | - | - | 1,869 | 933 | 936 | 0 |

[66] PBE IPSAS 30 does not prescribe the time bands to use. Entities will need to exercise their judgement in determining the appropriate time bands to use when presenting the contractual maturity analysis.

[67] Entities shall include all gross settled derivative financial instruments regardless of whether their fair value is an asset or a liability.

| 21C Financial instrument risks (continued) | Liability carrying amount $000 | Asset carrying amount $000 | Contractual cash flows $000 | Less than 6 months $000 | 6-12 months $000 | 1-2 years $000 |
|---|---|---|---|---|---|---|
| **2016** | | | | | | |
| Gross settled forward foreign exchange contracts: | 112 | 98 | | | | |
| – outflow | - | - | 925 | 525 | 400 | 0 |
| – inflow | - | - | 909 | 515 | 394 | 0 |

## 22 Explanation of major variances against budget

PBE IPSAS 1.148.1

Explanations for major variances from the Ministry's original 2016/17 budget figures are as follows:

**Statement of comprehensive revenue and expense**[68]

*Revenue Crown*

Revenue Crown was greater than budgeted by $10.0 million because of funding received for the Maximising Accountability initiative, which was not included in the original budget.

*Personnel costs*

Personnel costs were greater than budgeted by $2.0 million because of higher staff numbers and increases in remuneration. The increase in staff numbers was a result of implementing the Government's Maximising Accountability initiative. The cost of this initiative was not included in the original budget.

*Other expenses*

Other expenses were greater than budgeted by $6.14 million because of the implementation of initiatives arising from the Government's Maximising Accountability initiative and because of the intangible asset impairment loss. Both of these were not included in the original budget. The increase in costs of $4.0 million for the initiative arose primarily from consultancy expenditure. Further information about the impairment loss of $2.1 million is contained in Note 12.

*Gain on property revaluations*

Gain on property revaluations was above budget by $2.53 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 $3.04 million, primarily because an increase in property values from revaluation of $2.53 million was not forecasted.

*Payables and deferred revenue*

Payables and deferred revenue are greater than budgeted by $7.6 million, primarily because of unpaid invoices at year-end of $6.22 million for IT-related acquisition projects. The progress payments for these projects were forecast to be paid prior to balance date. However, these payments were delayed due to a disagreement with suppliers.

*Employee entitlements*

The reduction in current employee entitlements compared to budget was a result of management's efforts to reduce the level of untaken leave.

**Statement of cash flows**

Receipts from Revenue Crown were greater than budgeted by $10.0 million because of additional funding received for the Government's Maximising Accountability initiative. Consequently, the cash-out flows for payments to suppliers and employees were greater than budgeted.

[68] In addition to explaining variances in items presented in the core financial statements (e.g. statement of comprehensive revenue and expense), government departments should also explain significant variances in output statement costs and revenue. These explanations can be provided either in the relevant output statement's costs and revenue or in this note to the financial statements.

## NON-DEPARTMENTAL STATEMENTS AND SCHEDULES FOR THE YEAR ENDED 30 JUNE 2017[69,70,71]

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

## SCHEDULE OF NON-DEPARTMENTAL REVENUE FOR THE YEAR ENDED 30 JUNE 2017[72]

| | Actual 2016 $000 | | Actual 2017 $000 | Unaudited budget[73] 2017 $000 |
|---|---|---|---|---|
| PBE IPSAS 1.98.3 | 3,682 | Fines and penalties | 4,208 | 4,010 |
| PBE IPSAS 9.39(b) | 600 | Interest | 638 | 522 |
| | **4,282** | **Total non-departmental revenue** | **4,846** | **4,532** |

Good practice

## SCHEDULE OF NON-DEPARTMENTAL CAPITAL RECEIPTS FOR THE YEAR ENDED 30 JUNE 2017[74]

| Actual 2016 $000 | | Actual 2017 $000 | Unaudited budget 2017 $000 |
|---|---|---|---|
| 487 | Repayments of public accountability research encouragement loans | 37 | 400 |
| **487** | **Total non-departmental capital receipts** | **37** | **400** |

PBE IPSAS 1.148.1

Explanations of major variances against budget are provided 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 2017.*

[69] Under section 35 of the PFA, Chief Executives of government departments are responsible for the financial reporting on:

- appropriations for non-departmental expenses and non-departmental capital expenditure administered by the government department; and
- assets, liabilities, and revenue managed by the government department on behalf of the Crown.

[70] Government departments are also required by Treasury Instructions 2016 (paragraph 6.2.1.2) to provide supplementary information on any Crown activities they may manage. Treasury Instructions 2016 require departments to disclose non-departmental activities in the form of schedules. If applicable, government departments should present the following:

- Schedule of non-departmental revenue.
- Schedule of non-departmental expenses (if not fully disclosed in the statement of expenses and capital expenditure incurred against appropriations).
- Schedule of non-departmental assets.
- Schedule of non-departmental liabilities.
- Schedule of non-departmental commitments.
- Schedule of non-departmental contingent liabilities and contingent assets.
- Statement 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). The non-departmental statements and schedules are required to be audited.

[71] There is no legislative requirement to provide forecast financial information for the next financial year for non-departmental activities. Government departments may choose to provide this additional forecast information. If forecast information is disclosed, then the disclosure requirements of PBE FRS 42 must be complied with.

[72] The schedule of non-departmental revenue 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.

[73] Presenting the budget figures from the Crown schedules and statements is considered good practice.

[74] The schedule of non-departmental capital receipts is not required by Treasury Instructions. It is, however, commonly presented (and considered good practice) where a government department manages material capital receipts on behalf of the Crown; for example, loan repayments received.

## SCHEDULE OF NON-DEPARTMENTAL EXPENSES FOR THE YEAR ENDED 30 JUNE 2017

| | Actual 2016 $000 | | Actual 2017 $000 | Unaudited budget 2017 $000 |
|---|---|---|---|---|
| | 30,700 | Grants expense | 31,008 | 32,087 |
| | 186 | Fair value adjustment – public accountability research encouragement loans | 232 | 300 |
| | 1,428 | Promotions | 1,495 | 1,610 |
| | 480 | Subscriptions | 367 | 405 |
| PBE IPSAS 30.24(e) | 925 | Debt impairment | 467 | 500 |
| PE IPSAS 4.61(a) | 75 | Net foreign exchange losses, excluding derivatives | 67 | 0 |
| Treasury Instructions 2016 4.2.3 | 320 | GST input expense | 369 | 0 |
| | 874 | Other expenses | 1,202 | 890 |
| | **34,988** | **Total non-departmental expenses** | **35,207** | **35,792** |

## SCHEDULE OF NON-DEPARTMENTAL ASSETS AS AT 30 JUNE 2017

| | Actual 2016 $000 | | Note | Actual 2017 $000 | Unaudited budget 2017 $000 |
|---|---|---|---|---|---|
| PBE IPSAS 1.70,76 | | **Current assets** | | | |
| PBE IPSAS 1.88(i) | 2,567 | Cash and cash equivalents | | 3,020 | 2,800 |
| PBE IPSAS 1.88(g),(h) | 1,017 | Receivables | 2 | 1,067 | 987 |
| PBE IPSAS 1.89 | 200 | Prepayments | | 650 | 200 |
| PBE IPSAS 1.89 | 3,784 | Total current assets | | 4,737 | 3,987 |
| PBE IPSAS 1.70,76 | | **Non-current assets** | | | |
| PBE IPSAS 1.88(g),(h) | 4,409 | Receivables | 2 | 5,072 | 4,800 |
| PBE IPSAS 1.89 | 4,409 | Total non-current assets | | 5,072 | 4,800 |
| PBE IPSAS 1.89 | **8,193** | **Total non-departmental assets** | | **9,809** | **8,787** |

In addition, the Ministry monitors two Crown entities. These are the Crown Services Entity and the Accountability Commission. The Crown's 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.

PBE IPSAS 1.148.1 Explanations of major variances against budget are provided 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 2017.*

## SCHEDULE OF NON-DEPARTMENTAL LIABILITIES AS AT 30 JUNE 2017[75]

| | Actual 2016 $000 | | Note | Actual 2017 $000 | Unaudited budget 2017 $000 |
|---|---|---|---|---|---|
| PBE IPSAS 1.70,80 | | **Current Liabilities** | | | |
| PBE IPSAS 1.88(k),(j) | 832 | Payables | 3 | 524 | 230 |
| PBE IPSAS 1.89 | **832** | **Total non-departmental liabilities** | | **524** | **230** |

PBE IPSAS 1.148.1 Explanations of significant variances against budget are provided in Note 5.

## SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS AS AT 30 JUNE 2017

The Ministry, on behalf of the Crown, has no non-cancellable capital[76] or lease commitments (2016 $nil).

## SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS AS AT 30 JUNE 2017

**Unquantified contingent liabilities**

The Ministry, on behalf of the Crown, has no unquantifiable contingent liabilities (2016 $nil).

**Quantifiable contingent liabilities**

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 581 | Legal proceedings and disputes | 240 |
| 24 | Other contingent liabilities | 34 |
| **605** | **Total quantifiable contingent liabilities** | **274** |

**Legal proceedings and disputes**

PBE IPSAS 19.100 Legal proceedings and disputes relate to legal claims in relation to disputed public accountability research encouragement loans.

**Contingent assets**

PBE IPSAS 19.105 The Ministry, on behalf of the Crown, has no contingent assets (2016 $nil).[77]

*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 2017.*

[75] Some government departments choose to include the balance of revaluation reserves arising on the revaluation of Crown assets in this schedule, which is then renamed a schedule of non-departmental liabilities and revaluation reserves. This is not a requirement of Treasury Instructions, but is an appropriate response when revaluation reserve information is considered material.
[76] Capital commitments that require disclosure include those relating to property, plant, and equipment, intangible assets, investment properties, and biological assets.
[77] Where there are no contingent assets, we considered it good practice to disclose this fact.

Good practice

## STATEMENT OF TRUST MONIES FOR THE YEAR ENDED 30 JUNE 2017

The Ministry operates a trust account as the agent under section 66 of the PFA. The transactions through this account and its balance are not included in the Ministry's own financial statements.

| Actual[78] 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| | **New Zealand Public Accountability Scholarship Trust** | |
| 69 | Balance at 1 July | 112 |
| 525 | Contributions[79] | 500 |
| (500) | Distributions[80] | (525) |
| 18 | Revenue[81] | 21 |
| 0 | Expenses[82] | 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 2017:

- First-year scholarships: 6 (2016: 8)
- Renewed for second year: 3 (2016: 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 2017.*

[78] We consider it good practice to disclose comparative figures in the statement of trust monies.
[79] Treasury Instructions paragraph 6.7.10 defines contributions as an amount that has been contributed to the trust by donors during the reporting period and which has been banked into the trust bank account.
[80] Treasury Instructions paragraph 6.7.10 defines distributions as sums paid to beneficiaries of the trust during the reporting period.
[81] Treasury Instructions paragraph 6.7.10 defines revenue as the amount of interest or other income received by the trust on trust investments, assets, and current balances.
[82] Treasury Instructions paragraph 6.7.10 defines expenses as the direct costs paid by the trust in achieving its aims. This may include cash paid for taxation, administrative and accounting fees, salaries and wages of trust employees, purchase of goods and services, and the purchase of items of property, plant, and equipment.

PBE IPSAS 1.21(f),127, 128

## MINISTRY OF PUBLIC ACCOUNTABILITY
## NOTES TO THE NON-DEPARTMENTAL SCHEDULES FOR THE YEAR ENDED 30 JUNE 2017

**Notes index**

# NOTES TO THE NON-DEPARTMENTAL STATEMENTS AND SCHEDULES[83]

## 1 Statement of accounting policies

### REPORTING ENTITY

These non-departmental statements and schedules 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 2017. 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 for the year ended 30 June 2017.

### BASIS OF PREPARATION

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

Measurement and recognition rules applied in the preparation of these non-departmental statements and schedules are consistent with New Zealand generally accepted accounting practice (Tier 1 Public Sector Public Benefit Entity Accounting Standards) as appropriate for public benefit entities.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies are included in the notes to which they relate.

Significant accounting policies that do not relate to a specific note are outlined below.

**Revenue**

PBE IPSAS 23.107(a),(b)

*Fines and penalties*

Revenue from fines and penalties is recognised when the infringement notice is issued. Revenue is measured at fair value. Fair value is determined using a model that uses past experience to forecast the expected collectability of fines and timing of receipts and discounts these to present value using an appropriate discount rate.

PBE IPSAS 9.39(a)

*Interest*

Interest revenue is recognised using the effective interest method.

PBE IPSAS 1.132(c)

**Grant expenditure**

PBE IPSAS 19 IG18.1

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. The Ministry's non-discretionary grants have no substantive conditions (i.e. use for restricted purposes or repay).

PBE IPSAS 19 IG18.2

Discretionary grants are those grants where the Ministry has no obligation to award on receipt of the grant application.

For discretionary grants without substantive conditions, the total committed funding over the life of the funding agreement is recognised as expenditure when the grant is approved by the Grants Approvals Committee and the approval has been communicated to the applicant.

Grants with substantive conditions are recognised as an expense at the earlier of the grant payment date or when the grant conditions have been satisfied.

PBE IPSAS 1.132(c)

**Foreign currency transactions**

PBE IPSAS 4.24,32

Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the spot exchange rate at the date 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 revenue or expenses.

[83] Government departments will need to exercise judgement in deciding how much detail to provide in the notes to the non-departmental statements and schedules. Where particular transactions or balances are material, we recommend that the disclosure requirements in the PBE accounting standards in relation to the transaction or balance should be disclosed. If the non-departmental expenses for a department are less than $30 million, the RDR regime could be applied in preparing the disclosures for the non-departmental statements and schedules. However, caution should be used in applying the $30 million expense criterion to non-departmental schedules, as the schedules are not a complete set of financial statements. A department should also consider whether a disclosure not required by the RDR should still be disclosed due to the significance of the transaction or balance or because the disclosure provides important information to readers. For example, if non-departmental expenses are below $30 million but the non-departmental schedules include revenue, assets, or liabilities above $30 million, it may still be appropriate to disclose Tier 1 information about revenue, assets, or liabilities that are above $30 million even though the disclosure is not required by the RDR.

## 1 Statement of accounting policies (continued)

PBE IPSAS 1.132(c)

**Commitments**

Treasury Instructions 2016 3.5.21

Commitments are future expenses and liabilities to be incurred on contracts that have been entered into at balance date. Information on non-cancellable capital and operating lease commitments are reported in the statement of commitments.

Treasury Instructions 2016 3.5.21

Cancellable capital commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are reported in the statement of commitments at the lower of the remaining contractual commitment and the value of those penalty or exit costs (i.e. the minimum future payments).

PBE IPSAS 1.132(c)

**Goods and services tax**

Items in the non-departmental statements and schedules and are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. 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.

PBE IPSAS 1.140

**Critical accounting estimates**

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 in respect of the measurement of public accountability research encouragement loans – see Note 2 below.

**Budget figures**

The 2017 budget figures are for the year ending 30 June 2017, which are consistent with the best estimate financial information submitted to the Treasury for the BEFU for the year ending 30 June 2017.

PBE IPSAS 1.94(b)

## 2 Receivables

PBE IPSAS 30.25

**Accounting policy**

PBE IPSAS 29.45

Receivables are initially measured at the amount due and subsequently measured at amortised cost using the effective interest method, less any provision for uncollectability.

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.

PBE IPSAS 29.72

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 insolvency, bankruptcy, receivership, or liquidation, and default in payments are considered indicators that the receivable is impaired. For receivables not individually impaired, a collective assessment of impairment is also carried out. This considers past practice of collection history across the receivables portfolio. 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).

**Critical accounting estimates and assumptions**

***Public accountability research encouragement loans***

The measurement of these loans requires significant estimates of when the loan proceeds are expected to be collected, the amount that will be collected, and the discount rate to apply to the initial measurement of the receivable. The Ministry considers the contractual terms of the loans and past collection experience in estimating the recoverability of the loans.

## 2 Receivables (continued)

**Breakdown of receivables and further information**

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| | | *Public accountability research encouragement loans* | |
| PBE IPSAS 30.37(b) | 7,610 | Face value of loans | 8,550 |
| | (3,008) | Less: fair value write-down at initial recognition | (3,008) |
| | 4,602 | Gross value of loans | 5,542 |
| | (1,209) | Less: provision for impairment | (1,560) |
| | 3,393 | Net public accountability research encouragement loans | 3,982 |
| | | *Fines and penalties receivables* | |
| | 2,951 | Face value of fines and penalties imposed | 3,101 |
| | (222) | Less: initial recognition adjustment to recognise revenue at fair value | (229) |
| | 2,729 | Fines and penalties (gross value) | 2,872 |
| | (852) | Less: provision for impairment | (872) |
| | 1,877 | Net fines and penalties | 2,000 |
| | 124 | Accrued revenue | 142 |
| | 32 | Other receivables | 15 |
| PBE IPSAS 1.88(g) | **5,426** | **Total receivables – non-exchange** | **6,139** |
| | | Total receivables are represented by: | |
| | 1,017 | Current | 1,067 |
| | 4,409 | Non-current | 5,072 |

**Public accountability research encouragement loans**[84]

PBE IPSAS 30.37(a) Movements in the carrying value of the loans are as follows:

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 3,902 | Balance at 1 July | 3,393 |
| 597 | Face value of new loans granted during the year | 779 |
| (186) | Fair value adjustment on initial recognition | (232) |
| (487) | Loans repaid during the year (principal and interest) | (37) |
| (785) | Subsequent net impairment | (353) |
| 352 | Unwind of discount and interest charged | 432 |
| **3,393** | **Balance at 30 June** | **3,982** |

PBE IPSAS 30.37(c) The loan scheme is designed to encourage public accountability research. Loans are for a maximum of 10 years and interest is nil.

PBE IPSAS 30.37(d) The fair value of loans at initial recognition has been determined using cash flows discounted at a rate based on the loan recipient's assessed financial risk factors.

PBE IPSAS 30.29,31 The fair value of the carrying value of public accountability research encouragement loans (the loans) is $3.81 million (2016 $4.66 million). The fair value of the 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% (2016 11.45%).

[84] PBE IPSAS 30 requires additional disclosures for concessionary loans granted, which are loans granted by an entity below market terms. For example, loans provided to community organisations at interest rates that are lower than what the community organisation could obtain if it borrowed from a financial institution.

## 2 Receivables (continued)

### Fines and penalties receivables

Good practice

Movements in the carrying value of fines and penalties receivables is as follows:

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 1,786 | Receivables balance at 1 July | 1,877 |
| 4,603 | Face value of fines and penalties imposed during the year (a) | 5,260 |
| (921) | Adjustment on initial recognition to recognise at fair value (b) | (1,052) |
| 3,682 | Fines and penalties revenue recognised during the year ((a)-(b)) | 4,208 |
| (3,699) | Fines and penalties collected during the year | (4,177) |
| (140) | Subsequent net impairment | (114) |
| 248 | Unwind of discount | 206 |
| **1,877** | **Balance at 30 June** | **2,000** |

### Additional impairment analysis

PBE IPSAS 30.44(a)

The ageing profile of public accountability research encouragement loans at year end is detailed below:

| | 2016 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Gross $000 | Provision for uncollectability $000 | Net $000 | Gross $000 | Provision for uncollectability $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 91-180 days | 568 | (265) | 303 | 628 | (224) | 404 |
| Past due 181-365 days | 460 | (240) | 220 | 836 | (418) | 418 |
| Past due >365 days | 622 | (311) | 311 | 758 | (379) | 379 |
| **Total** | **4,602** | **(1,209)** | **3,393** | **5,542** | **(1,560)** | **3,982** |

PBE IPSAS 30.44(b)

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

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| | *Public accountability research encouragement loans* | |
| 432 | Individual provision for uncollectability | 621 |
| 777 | Collective provision for uncollectability | 939 |
| 1,209 | Provision for impairment | 1,560 |
| | *Fines and penalties receivables* | |
| 852 | Collective provision for uncollectability | 872 |

Good practice

As at 30 June 2017, the Ministry has identified 8 specific public accountability research encouragement loans (2016: 6) totalling $562,000 (2016 $432,000) that have been identified as individually uncollectable.

## 2 Receivables (continued)

PBE IPSAS 30.20

Movements in the provision for uncollectability for public accountability research encouragement loans are as follows:

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 607 | Balance at 1 July | 1,209 |
| 785 | Net additional provisions made/reversed during the year | 353 |
| (183) | Receivables written off during the year | (2) |
| **1,209** | **Balance at 30 June** | **1,560** |

Good practice

Movements in the provision for uncollectability for fines and penalties receivables are as follows:

| Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|
| 812 | Balance at 1 July | 852 |
| 140 | Net additional provisions made/reversed during the year | 114 |
| (100) | Amounts written off | (94) |
| **852** | **Balance at 30 June** | **872** |

PBE IPSAS 1.93

## 3 Payables

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| | | **Payables under exchange transactions** | |
| | 124 | Creditors | 189 |
| | 585 | Accrued expenses | 179 |
| PBE IPSAS 1.88(k) | 709 | Total payables under exchange transactions | 368 |
| | | **Payables under non-exchange transactions** | |
| PBE IPSAS 1.88(j) | 123 | Grants payable | 156 |
| | **832** | **Total payables** | **524** |

## 4 Financial instruments

PBE IPSAS 30.11

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

| | Actual 2016 $000 | | Actual 2017 $000 |
|---|---|---|---|
| | | **Loans and receivables** | |
| | 2,567 | Cash and cash equivalents | 3,020 |
| | 3,549 | Receivables (excludes fines and penalties receivable)[85] | 4,139 |
| PBE IPSAS 30.11(c) | 6,116 | Total loans and receivables | 7,159 |
| | | **Financial liabilities measured at amortised cost** | |
| PBE IPSAS 30.11(f) | 832 | Payables | 524 |

**Credit risk**

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

Credit risk arises from deposits with banks and receivables.

[85] Fines and penalties receivables are not included in the financial instrument notes as the receivables are not financial instruments because they arise from statute.

### 4 Financial instruments (continued)

Funds must be deposited with Westpac, a registered bank.

The maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and receivables. 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.

Good practice

### 5 Explanation of major variances against budget[86]

Explanations for major variances from the Ministry's non-departmental budget figures are as follows:

**Schedule of revenue and schedule of expenses**

There are no significant variances against budget.

**Schedule of assets and schedule of liabilities**

Prepayments were more than anticipated due to a greater number of subscriptions relating to the 2018 financial year being prepaid by 30 June 2017. Historically, these subscriptions had been paid in the financial year to which the subscription related.

[86] This note should explain variances between actual results and the budgeted figures.

PFA s45A

## APPROPRIATION STATEMENTS[87]

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by the Ministry for the year ended 30 June 2017. They are prepared on a GST exclusive basis.

Treasury Instructions 2016 5.1

**Statement of cost accounting policies**

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 attributed to a specific output in an economically feasible manner.

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.[88]

PFA s45A(a)

## STATEMENT OF BUDGETED AND ACTUAL EXPENSES AND CAPITAL EXPENDITURE INCURRED AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2017[89,90]

**Annual and permanent appropriations for Vote Public Issues[91]**

| Expenditure after remeasure-ments 2016 $000[92] | | Expenditure before remeasure-ments 2017 $000 | Remeasure-ments 2017 $000 | Expenditure after remeasure-ments 2017 $000 | Approved appropriation 2017** $000 | Location of end-of-year performance information * |
|---|---|---|---|---|---|---|
| | **Departmental output expenses** | | | | | |
| 199,332 | Provision of accountability services | 216,950 | (189) | 216,761 | 217,216 | 1 |
| 210 | Contestable accountability services – Revenue dependent appropriation | 154 | 0 | 154 | 142 | 1 |
| 1,180 | Administration of Crown expenses | 3,023 | 0 | 3,023 | 3,028 | 1 |
| 200,722 | Total departmental output expenses | 220,127 | (189) | 219,938 | 220,386 | |
| | **Departmental other expenses** | | | | | |
| 0 | Restructuring costs | 1,788 | 0 | 1,788 | 1,800 | 1 |
| | **Departmental capital expenditure** | | | | | |
| 74,592 | Ministry of Public Accountability capital expenditure – Permanent Legislative Authority under section 24(1) of the PFA | 78,482 | 0 | 78,482 | 79,321 | 1 |
| | **Non-departmental output expenses** | | | | | |
| 1,398 | Promotion of public accountability | 1,495 | (32) | 1,463 | 1,487 | 2 |
| 874 | Public accountability legislation | 1,838 | 0 | 1,838 | 2,013 | 3 |
| 2,272 | Total non-departmental output expenses | 3,333 | (32) | 3,301 | 3,500 | |

87 The appropriation statements are required to be prepared separately from the financial statements (PFA 45(2)(e)).
88 Treasury Instructions 2016 require a 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.
89 This statement should include appropriations given by permanent legislative authority (PLA), such as departmental capital expenditure. Under section 11(2) of the PFA, PLAs must be managed and accounted for in the same manner as other appropriations and therefore must appear in the Estimates and this statement.
90 It is optional to include forecast financial information for the next financial year.
91 Appropriations given by permanent legislative authority should be separately disclosed, even when they are allocated to the same output class as a normal appropriation.
92 Disclosing comparative figures for the prior year is good practice.

## STATEMENT OF BUDGETED AND ACTUAL EXPENSES AND CAPITAL EXPENDITURE INCURRED AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

| Expenditure after remeasure-ments 2016 $000 | | Expenditure before remeasure-ments 2017 $000 | Remeasure-ments 2017 $000 | Expenditure after remeasure-ments 2017 $000 | Approved appropriation 2017** $000 | Location of end-of-year performance information * |
|---|---|---|---|---|---|---|
| | **Non-departmental other expenses** | | | | | |
| 30,859 | Contingency and innovation fund | 30,439 | (312) | 30,127 | 31,097 | 2 |
| 186 | Initial fair value write-down of public accountability encouragement loans | 232 | 0 | 232 | 300 | 4 |
| 785 | Impairment of public accountability encouragement loans | 353 | 0 | 353 | 370 | 4 |
| 140 | Impairment of fines and penalties | 114 | 0 | 114 | 120 | 4 |
| 426 | International subscriptions | 367 | (67) | 300 | 405 | 4 |
| 32,396 | Total non-departmental other expenses | 31,505 | (379) | 31,126 | 32,292 | |
| | **Non-departmental capital expenditure** | | | | | |
| 411 | Public accountability research encouragement loans | 547 | 0 | 547 | 890 | 2 |
| | **Multi-Category appropriations** | | | | | |
| 8,456 | *Policy advice, monitoring of funded agency, and ministerial servicing MCA* | 8,873 | (20) | 8,853 | 8,785 | 1 |
| | *Departmental output expenses* | | | | | |
| 4,892 | Research into public accountability | 4,836 | (20) | 4,816 | 4,827 | |
| 3,027 | Public accountability inspection | 3,461 | 0 | 3,461 | 3,342 | |
| 216 | Monitoring of funded agency | 234 | 0 | 234 | 250 | |
| 321 | Ministerial servicing | 342 | 0 | 342 | 366 | |
| 0 | *Public accountability centenary MCA* | 220 | 0 | 220 | 340 | |
| | *Departmental output expenses* | | | | | |
| 0 | Public accountability centenary operating expenses | 220 | 0 | 220 | 240 | 1 |
| | *Non-departmental capital expenditure* | | | | | |
| 0 | Public accountability centenary capital expenditure | 0 | 0 | 0 | 100 | |
| 8,456 | Total multi-category appropriations | 9,093 | (20) | 9,073 | 9,125 | |
| **318,849** | **Total annual and permanent appropriations** | **344,875** | **(620)** | **344,255** | **347,314** | |

PFA s45A(b)

*The numbers in this column represent where the end-of-year performance information[93] has been reported for each appropriation administered by the Ministry, as detailed below:

1 The Ministry's annual report.

2 The Accountability Commission's annual report.

3 To be reported by the Minister of Public Accountability in a report appended to this annual report.

4 No reporting due to an exemption granted under section 15D of the PFA.

** These are the appropriations from the Supplementary Estimates, adjusted for any transfers under section 26A of the PFA.

Treasury annual report guidance

*Revenue dependent appropriation – Contestable accountability services*

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

[93] Where the end-of-year performance information is presented will need to reflect where this information is actually presented and this should be consistent with the location specified in the Estimates or Supplementary Estimates of Appropriation.

## STATEMENT OF BUDGETED AND ACTUAL EXPENSES AND CAPITAL EXPENDITURE INCURRED AGAINST APPROPRIATIONS FOR THE YEAR ENDED 30 JUNE 2017 (CONTINUED)

**Multi-year appropriation for Vote Public Issues**

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 started on 1 July 2014 and expires on 30 June 2019.

| Actual 2016 $000 | | Actual 2017 $000 | Location of end-of-year performance information* $000 |
|---|---|---|---|
| | **Appropriation for non-departmental other expenses: Public accountability assistance** | | 3 |
| 3,100 | Original appropriation | 3,100 | |
| – | Cumulative adjustments | (100) | |
| 3,100 | Total adjusted approved appropriation | 3,000 | |
| 811 | Cumulative actual expenditure at 1 July | 1,798 | |
| 987 | Current year actual expenditure | 400 | |
| 1,798 | Cumulative actual expenditure at 30 June | 2,198 | |
| 1,302 | Appropriation remaining at 30 June | 802 | |

PFA s45A(b)

*The numbers in this column represent where the end-of-year performance information[94] has been reported:

3 To be reported by the Minister of Public Accountability in a report appended to this annual report.

Good practice

**Transfers under section 26A of the PFA for Vote Public Issues[95]**

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

| | Supp estimates 2017 $000 | Section 26A transfers 2017 $000 | Approved appropriation 2017 $000 |
|---|---|---|---|
| **Departmental output expenses** | | | |
| Research into public accountability | 4,427 | 400 | 4,827 |
| Provision of accountability services | 217,616 | (400) | 217,216 |

[94] Where the end-of-year performance information is presented will need to reflect where this information is actually presented and this should be consistent with the location specified in the Estimates or Supplementary Estimates of Appropriation.

[95] Where there have been transfers under section 26A of the PFA, we suggest this additional disclosure would be helpful to the users of the appropriation statements. This suggested additional disclosure is not mandatory.

PFA s45A(c)

## STATEMENT OF EXPENSES AND CAPITAL EXPENDITURE INCURRED WITHOUT, OR IN EXCESS OF, APPROPRIATION OR OTHER AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017[96]

| | Expenditure after remeasurements 2017 $000 | Approved appropriation 2017 $000 | Unappropriated expenditure 2017 $000 |
|---|---|---|---|
| **Vote Public Issues** | | | |
| **Multi-category expenses and capital expenditure** | | | |
| *Policy advice, monitoring of funded agency, and ministerial servicing MCA* | 8,853 | 8,785 | 68 |
| Research into public accountability | 4,816 | 4,827 | |
| Public accountability inspection | 3,461 | 3,342 | |
| Monitoring of funded agency | 234 | 250 | |
| Ministerial servicing | 342 | 366 | |

**Expenses and capital expenditure approved under section 26B of the PFA**

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 $68,000.[97]

Treasury guidance

This unappropriated expenditure has been approved by the Minister of Finance under section 26B of the PFA.[98]

**Expenses and capital expenditure incurred in excess of appropriation**[99]

Nil.

**Expenses and capital expenditure incurred without appropriation or outside scope or period of appropriation**

Nil.

PFA s45A(d)

## STATEMENT OF DEPARTMENTAL CAPITAL INJECTIONS FOR THE YEAR ENDED 30 JUNE 2017

| Actual capital injections 2016 $000[100] | | Actual capital injections 2017 $000 | Approved appropriation 2017 $000 |
|---|---|---|---|
| | **Vote Public Issues** | | |
| 0 | Ministry of Public Accountability – Capital injection | 46,763 | 46,763 |

PFA s45A(e)

## STATEMENT OF DEPARTMENTAL CAPITAL INJECTIONS WITHOUT, OR IN EXCESS OF, AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017[101]

The Ministry has not received any capital injections during the year without, or in excess of, authority.[102]

[96] This statement should be included even if there was no unappropriated expenditure.
[97] If a government department has incurred expenses or capital expenditure without, or in excess of, authority, section 45A(c) of the PFA requires an explanation of the reasons for the unappropriated expenses and capital expenditure.
[98] Treasury guidance also states that this statement should include information on the validation mechanism for approving the unappropriated expenditure (for example, sections 26B or 26C of the PFA), and whether prior authority was provided, either under the interim authority of Imprest Supply or under another authority, such as that provided for emergency expenditure under section 25 of the PFA.
[99] Government departments may use the suggested headings where there is unappropriated expenditure, or alternatively disclose all unappropriated expenditure under a single heading.
[100] Disclosing comparative figures for the prior year is good practice.
[101] This statement should be included even if a government department did not receive a capital injection without, or in excess of, authority.
[102] If a government department has received a capital injection outside authority, section 45A(e) of the PFA requires an explanation of the reasons for the unauthorised capital injection.

## SUBJECT INDEX