

part five »

financial information

financial statements – departmental

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Accounting Policies

Statement of Accounting Policies

for the year ended 30 June 2007

Reporting Entity

The Department of Internal Affairs is a department as defined by section 2 of the Public Finance Act 1989. These financial statements for the year ended 30 June 2007, have been prepared pursuant to section 45 of the Public Finance Act 1989.

In addition, the Department has reported the Crown activities and trust money, which it administers.

Measurement Base

The measurement base adopted is that of historical cost, modified by revaluation of land, buildings, antiques and works of art.

Accounting Policies

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

Budget Figures

The budget figures are those presented in the Budget 2006 Estimates of Appropriation (Main Estimates) and those amended by the Supplementary Estimates (Supp. Estimates).

Revenue

The Department derives revenue through the provision of outputs to the Crown, and for services to third parties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Taxpayers' Funds

This is the Crown's net investment in the Department.

Inventories

Inventories or stock holdings are stated at the lower of cost or net realisable value. Costs are determined on a first in–first out basis.

Accounts Receivable

Accounts receivable are shown at expected net realisable value after making allowance for doubtful debts.

Property, Plant and Equipment

Land and buildings are recorded at fair value, which has been determined by reference to the highest and best use of those assets, with buildings subsequently depreciated over their useful lives. Valuations are undertaken on a systematic basis, at a minimum every five years, to ensure that no individual item of property, plant or equipment within a class is included at a valuation that is materially different from its fair value. Antiques and works of art are recorded at fair value and are not depreciated. All other fixed assets costing more than \$3,000 are capitalised at cost and subsequently depreciated over their useful lives. Capital work in progress is recognised as costs are incurred.

Depreciation

Depreciation is charged on all fixed assets except land, antiques and works of art and capital work in progress. Assets are depreciated on a straight-line basis over the estimated useful life after allowing for residual values where appropriate. Revalued assets are depreciated on their revalued amount on a straight-line basis over their estimated useful life. The estimated useful lives are as follows:

Buildings	15 – 66 Years
Plant and Equipment	5 – 20 Years
Furniture and Fittings	5 – 10 Years
Office Equipment	5 – 10 Years
Motor Vehicles	4 – 6 Years
IT Equipment and Software	3 – 5 Years
Births, Deaths and Marriages Historical Records Database	10 Years

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

Capital work in progress is not depreciated. The total cost of the capital project is transferred to the appropriate asset on its completion and then depreciated.

Leases

The Department leases accommodation, motor vehicles, and office equipment.

Operating Leases

Accommodation and motor vehicle leases are identified as operating leases where the lessor effectively retains substantial risks and benefits of ownership of the leased items. Operating lease costs are expensed in the period in which they are incurred.

Finance Leases

Finance leases effectively transfer to the Department substantially the entire risks and benefits incident to ownership of the leased items. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments. The leased assets and the corresponding lease liabilities are recognised in the Statement of Financial Position. The leased assets depreciate over the period the Department is expected to benefit from their use. The Department's office equipment leases have been identified as finance leases.

Employee Entitlements

Employee entitlements are recognised for annual leave at the time of entitlement based on current rates of pay. Retirement and long service leave are recognised on an actuarial basis according to entitlement based on service to date after making allowance for the average attrition rate.

Cost Allocation

The methods used in the allocation of costs are consistent between projected (budgeted) and actual figures. Costs of outputs are derived using the following cost allocation system:

“Direct Costs” are those costs directly attributed to an output and are treated as follows:

- » personnel costs are allocated on the basis of estimated time engaged in the delivery of a particular output
- » operating costs are allocated on the basis of usage
- » depreciation and capital charge are allocated on the basis of estimated asset utilisation
- » accommodation costs are allocated on the basis of floor space occupied.

“Indirect Costs” are those costs incurred by support units that are not directly attributable to an output. Indirect costs are allocated to outputs on an activity-costing basis reflecting a mix of perceived benefit, personnel numbers, floor space and estimated allocation of time.

For the year ended 30 June 2007, direct costs accounted for 85% of the Department's costs (2005/06: 84%). Direct costs include personnel, operating, capital charge, accommodation and depreciation.

Taxation

The Department is exempt from the payment of income tax in terms of the Income Tax Act 2004. Accordingly, no charge for income tax has been provided. The Department is subject to fringe benefit tax (FBT), and goods and services tax (GST). It administers pay as you earn tax (PAYE).

Commitments

Operating and capital commitments arising from non-cancellable contractual or statutory obligations are disclosed within the Statement of Commitments to the extent that both parties have not performed their obligations.

Contingent Assets and Liabilities

Contingent assets and liabilities are disclosed at the time at which the contingency becomes evident. These are disclosed in the Statement of Contingent Assets and Liabilities.

Goods and Services Tax (GST)

Amounts in the financial statements are reported exclusive of GST except for Accounts Receivable, Prepayments and Accounts Payable.

The amount of GST owing to or from Inland Revenue at balance date is included in the Statement of Financial Position as a receivable or payable (as appropriate).

Financial Instruments

The Department is party to financial instrument arrangements as part of its daily operations. These include bank, accounts receivable, accounts payable and provisions, accrued expenses and foreign currency. Financial instruments, excluding foreign currency exchange contracts, are recognised in the Statement of Financial Position.

All revenue and expenses relating to financial instruments are recognised in the Statement of Financial Performance.

Foreign Currency Transactions

Foreign exchange contracts are entered into for the primary purpose of reducing material exposure to fluctuations in foreign currency exchange rates. The rates specified in foreign exchange contracts are used to convert the transaction into New Zealand currency at the date of settlement. No exchange gains or losses resulting from the difference between the foreign exchange contract rate and the spot exchange rate on dates of settlement are recognised. Unhedged transactions in foreign currencies are converted into New Zealand currency using the exchange rate on the date of the transaction.

Monetary assets denominated in a foreign currency are translated to New Zealand dollars at the closing mid-point exchange rate.

Unrealised foreign exchange gains and losses on overseas cash balances are recognised at balance date in the Statement of Financial Performance.

Changes in Accounting Policies

There have been no changes in accounting policies since the last audited financial statements. The accounting policies have been applied on a basis consistent with the previous year.

Financial Performance

Statement of Financial Performance

for the year ended 30 June 2007

	NOTE	ACTUAL 2006/07 \$000	MAIN ESTIMATES 2006/07 \$000	SUPP. ESTIMATES 2006/07 \$000	ACTUAL 2005/06 \$000
Revenue					
Crown		91,468	81,122	91,468	83,892
Third Parties	1	115,198	115,948	114,587	91,449
Revaluation Gain	14(a)	0	0	0	1,015
Total Revenue		206,666	197,070	206,055	176,356
Expenses					
Personnel		107,355	99,374	108,392	95,221
Operating	2	79,476	83,011	89,718	69,061
Depreciation	3	7,902	9,573	8,099	5,885
Capital Charge	4	3,322	3,183	3,322	2,470
Total Operating Expenses		198,055	195,141	209,531	172,637
Net Surplus/(Deficit)		8,611	1,929	(3,476)	3,719

Actual Net Surplus/(Deficit) is favourable to Supplementary Estimates because:

- » Total Revenue was higher than forecast mainly due to increased demand for Identity Services products reflecting higher volumes, particularly for passports and birth, death, marriage and civil union products
- » Total Operating Expenses was lower than forecast due to under expenditure associated with approved in-principle expense transfers from 2006/07 to 2007/08 and third party funded activities.

The increase in Operating of \$10.415 million between 2005/06 and 2006/07 mainly relates to:

- » the costs associated with the electronic monitoring of gaming machines
- » the full year impact of the passport system changes, in particular, the implementation of the chip enabled passport.

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Financial Position

Statement of Financial Position

as at 30 June 2007

	NOTE	ACTUAL 2006/07 \$000	MAIN ESTIMATES 2006/07 \$000	SUPP. ESTIMATES 2006/07 \$000	ACTUAL 2005/06 \$000
Assets					
Current Assets					
Cash and Bank Balances	5	49,557	31,187	26,675	43,856
Accounts Receivable	6	3,228	2,685	5,722	3,944
Inventories	7	2,713	2,316	1,975	2,673
Prepayments		337	85	36	99
Total Current Assets		55,835	36,273	34,408	50,572
Non Current Assets					
	8				
Property, Plant and Equipment		35,597	46,166	36,830	33,740
Leased Assets		0	0	0	44
Total Non Current Assets		35,597	46,166	36,830	33,784
Total Assets		91,432	82,439	71,238	84,356
Liabilities and Taxpayers' Funds					
Current Liabilities					
Accounts Payable	9	11,738	8,281	6,971	10,438
Provisions	10	1,269	2,190	1,169	1,125
Revenue Received in Advance	11	11,087	10,500	9,583	13,120
Accrued Expenses	12	13,648	13,778	11,285	11,804
Finance Leases	13	0	0	0	44
Provision for Payment of Surplus	14(a)	8,611	1,929	0	2,704
Total Current Liabilities		46,353	36,678	29,008	39,235
Term Liabilities					
Employee Entitlements	15	787	633	894	829
Total Term Liabilities		787	633	894	829
Total Liabilities		47,140	37,311	29,902	40,064
Taxpayers' Funds					
General Funds		42,636	44,311	39,680	42,636
Revaluation Reserve	14(b)	1,656	817	1,656	1,656
Total Taxpayers' Funds		44,292	45,128	41,336	44,292
Total Liabilities and Taxpayers' Funds		91,432	82,439	71,238	84,356

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Cash Flows

Statement of Cash Flows

for the year ended 30 June 2007

	NOTE	ACTUAL 2006/07 \$000	MAIN ESTIMATES 2006/07 \$000	SUPP. ESTIMATES 2006/07 \$000	ACTUAL 2005/06 \$000
Cash Flows from Operating Activities					
Cash was Provided from:					
Supply of Outputs to the Crown		91,470	81,122	91,468	83,892
Supply of Outputs to Third Parties		113,878	115,950	112,814	92,279
		205,348	197,072	204,282	176,171
Cash was Disbursed to:					
Costs of Producing Outputs		(182,735)	(175,854)	(203,183)	(163,420)
Capital Charge		(3,322)	(3,183)	(3,322)	(2,470)
		(186,057)	(179,037)	(206,505)	(165,890)
Net Cash Flows from Operating Activities		19,291	18,035	(2,223)	10,281
Cash Flows from Investing Activities					
Cash was Provided from:					
Sale of Property, Plant and Equipment		481	440	1,695	646
Cash was Disbursed to:					
Purchase of Property, Plant and Equipment		(11,367)	(15,228)	(14,469)	(9,949)
Net Cash Flows from Investing Activities		(10,886)	(14,788)	(12,774)	(9,303)
Cash Flows from Financing Activities					
Cash was Provided from:					
Capital Contribution	14(c)	0	5,042	520	11,856
Cash was Disbursed to:					
Payment of Net Surplus		(2,704)	0	(2,705)	(217)
Transfer of Cash to Government Departments		0	0	0	(600)
Net Cash Flows from Financing Activities		(2,704)	5,042	(2,185)	11,039
Net Increase/(Decrease) in Cash Held		5,701	8,289	(17,182)	12,017
Add Opening Cash		43,856	22,898	43,857	31,839
Closing Cash and Bank Balances		49,557	31,187	26,675	43,856

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Net Surplus to Net Cash Flow from Operating Activities

Reconciliation of Net Surplus to Net Cash Flow from Operating Activities for the year ended 30 June 2007

	ACTUAL 2006/07 \$000	MAIN ESTIMATES 2006/07 \$000	SUPP. ESTIMATES 2006/07 \$000	ACTUAL 2005/06 \$000
Surplus From Statement of Financial Performance	8,611	1,929	(3,476)	3,719
Add/(Deduct) Non Cash Items				
Depreciation	7,902	9,573	8,099	5,885
Revaluation Gain on Properties	0	0	0	(1,015)
Increase/(Decrease) in Employee Entitlements	(42)	0	0	(45)
	7,860	9,573	8,099	4,825
Add/(Deduct) Movements in Working Capital Items				
(Increase)/Decrease in Accounts Receivable	716	2	(1,776)	(772)
(Increase)/Decrease in Inventories	(40)	0	698	(672)
(Increase)/Decrease in Prepayments	(238)	25	63	63
Increase/(Decrease) in Accounts Payable	2,392	3,367	(2,828)	614
Increase/(Decrease) in Revenue Received in Advance	(2,033)	0	(3,537)	1,601
Increase/(Decrease) in Accrued Expenses	1,923	3,139	519	1,938
Increase/(Decrease) in Provisions	144	0	0	(808)
Increase/(Decrease) in Finance Leases	(44)	0	0	(213)
	2,820	6,533	(6,861)	1,751
Add/(Deduct) Items Classified as Investing Activities				
Loss/(Gain) on Sale of Property, Plant and Equipment	0	0	15	(14)
	0	0	15	(14)
Net Cash Flows From Operating Activities	19,291	18,035	(2,223)	10,281

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Movements in Taxpayers' Funds

Statement of Movements in Taxpayers' Funds

for the year ended 30 June 2007

	NOTE	ACTUAL 2006/07 \$000	MAIN ESTIMATES 2006/07 \$000	SUPP. ESTIMATES 2006/07 \$000	ACTUAL 2005/06 \$000
Net Surplus/(Deficit) for the year		8,611	1,929	(3,476)	3,719
Increase/(decrease) in Revaluation Reserve	14(b)	0	0	0	839
Total Recognised Revenue and Expenses		8,611	1,929	(3,476)	4,558
Provision for Payment of Surplus	14(a)	(8,611)	0	0	(2,704)
Capital Contribution	14(c)	0	5,042	520	11,856
Asset/Liability Transfers between Departments		0	0	0	(600)
Movement in Taxpayers' Funds for the year		0	6,971	(2,956)	13,110
Taxpayers' Funds as at 1 July		44,292	40,086	44,292	31,182
Taxpayers' Funds as at 30 June		44,292	47,057	41,336	44,292

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Commitments

Statement of Commitments

as at 30 June 2007

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Capital Commitments		
<i>Capital Contracts for Goods and Services</i>		
Less than one year	108	0
Total Capital Goods and Services Commitments	108	0
Operating Commitments		
<i>Non-Cancellable Accommodation Leases</i>		
Less than one year	7,264	7,065
One to two years	2,921	5,404
Two to five years	5,369	6,305
Over five years	1,012	759
Total Accommodation Commitments	16,566	19,533
<i>Other Non-Cancellable Leases</i>		
Less than one year	627	683
One to two years	180	497
Two to five years	20	96
Total Other Lease Commitments	827	1,276
<i>Non-Cancellable Contracts for Goods and Services</i>		
Less than one year	828	1,064
Total Goods and Services Commitments	828	1,064
Total Commitments	18,329	21,873

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Contingent Assets and Liabilities

Statement of Contingent Assets and Liabilities

as at 30 June 2007

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Legal Proceedings and Disputes		
Legal Disputes	10	116
Total Contingent Liabilities	10	116

Unquantified Contingent Liabilities

Year Ended 30 June 2007

The Department has no unquantified contingent liabilities as at 30 June 2007.

Year Ended 30 June 2006

There was one personal grievance case pending against the Department that had not been quantified due to the nature of the issue and the uncertainty of the outcome.

Unappropriated Expenditure

Statement of Unappropriated Expenditure

for the year ended 30 June 2007

The Statement of Unappropriated Expenditure details the amount of expenditure incurred above appropriation.

Year Ended 30 June 2007

There was no Unappropriated Expenditure for the year ended 30 June 2007.

Year Ended 30 June 2006

There was no Unappropriated Expenditure against the Supp. Estimates.

Amendments made to the Public Finance Act 1989 in December 2004 imposed technical limits on the Department's Net Asset (taxpayers' funds) position. The level of taxpayers' funds breached the limit authorised in the Main Estimates because the Department achieved a surplus for 2004/05 instead of the deficit that had been forecast. The Minister of Finance authorised an increase in taxpayers' funds, which was incorporated into the 2005/06 Supplementary Estimates.

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Memorandum Accounts

Memorandum Accounts

for the year ended 30 June 2007

Memorandum accounts are notional accounts to record the accumulated balance of surpluses and deficits for outputs funded by fees charged to third parties. They are intended to provide a long-run perspective to the pricing of outputs.

	OPENING BALANCE 2006/07 \$000	MOVEMENT DURING 2006/07 \$000	CLOSING BALANCE 2006/07 \$000
New Zealand Gazette	(83)	159	76
Use of facilities and access to Lake Taupo by boat users	68	(16)	52
Passport products	1,037	2,191	3,228
Citizenship products	(2,713)	2,549	(164)
Marriage products	540	143	683
Issue of Birth, death, marriage and civil union certifications and other products	2,084	1,004	3,088
Administration of non-casino gaming	(4,938)	(1,519)	(6,457)

The memorandum accounts were established on 30 June 2002.

Action Taken to Address Surpluses and Deficits

New Zealand Gazette

The cost of publishing and distributing the New Zealand Gazette is recovered through third party fees. The surplus will be reduced in future years. Fees are reviewed regularly.

Use of Facilities and Access to Lake Taupo by Boat Users

The Department of Internal Affairs manages marina berths, jetties and boat ramps located about Lake Taupo. Fees are charged to third parties who use marina berths and boat ramps. Fee income is applied to recover the maintenance and administration cost of these facilities. Operating surpluses in any year will be applied in subsequent financial years. Some maintenance may be deferred due to unfavourable climatic or lake conditions.

Passport Products

The purpose of this account is to support a strategy to stabilise fees based on full cost recovery over a 4 to 5 year planning horizon. This strategy supports the introduction of new technologies including the replacement of the ageing passport system within that timeframe. The current fees schedule was approved with effect from 4 November 2005. The balance in this account is affected by fluctuating volumes and the timing of system changes. The surplus is expected to reduce over the short to medium term.

Citizenship Products

The purpose of this account is to support a strategy to stabilise fees based on full cost recovery over a 4 to 5 year planning horizon. The current fees schedule was approved with effect from 1 September 2003 to recover full costs.

Marriage Products

The purpose of this account is to support a strategy to stabilise fees based on full cost recovery over a 4 to 5 year planning horizon. The current fees schedule was approved with effect from 1 September 2003 to recover full costs.

Births, Deaths and Marriages Certificates, and Other Products

The purpose of this account is to support a strategy to stabilise fees based on full cost recovery over a 4 to 5 year planning horizon. This strategy includes the introduction of new technologies that allow greater access by applicants through the Internet. The current fees schedule was approved with effect from 1 September 2003 to recover full costs. The accumulated surplus is expected to decline.

Administration of Non-casino Gaming

Fees established to recover the cost of administration and regulation of non-casino gaming are reflected in licence fees for differing types of gaming activity and the electronic monitoring of non-casino gaming machines. The accumulated deficit is largely a result of the introduction of the Gambling Act 2003. The fee structure is currently under review as part of the three yearly review cycle.

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Departmental Appropriations and Expenditure

Statement of Departmental Expenditure and Capital Expenditure Appropriations for the year ended 30 June 2007

NOTE	ACTUAL 2006/07 \$000	MAIN ESTIMATES 2006/07 \$000	SUPP. ESTIMATES 2006/07 \$000	ACTUAL 2005/06 \$000
Appropriations for Output Expenses				
Vote Community And Voluntary Sector				
Policy Advice – Community	1,768	1,685	1,821	1,512
Administration of Grants	12,013	11,905	12,382	11,304
Community Advisory Services	5,392	5,526	5,650	5,039
Vote Emergency Management				
Policy Advice – Emergency Management	850	1,780	872	1,579
Support Services, Information and Education	6,937	5,539	7,020	6,291
Management of National Emergency Readiness, Response and Recovery	2,953	3,336	3,325	2,983
Vote Internal Affairs				
Policy Advice – Internal Affairs	4,551	4,901	4,977	4,371
Information and Advisory Services	4,389	1,733	5,007	4,300
Gaming and Censorship Regulatory Services	22,361	22,340	23,059	17,867
Identity Services	84,497	83,175	89,935	70,485
Services for Ethnic Affairs	3,293	3,179	3,395	3,283
Contestable Services *	1,188	935	939	1,199
Vote Local Government				
Policy Advice – Local Government	7,865	7,386	8,327	6,278
Information, Support and Regulatory Services	4,122	4,670	5,637	3,461
Vote Ministerial Services				
Support Services to Ministers	25,453	26,245	25,867	23,028
Visits and Official Events Co-ordination	3,873	3,414	3,894	3,308
VIP Transport	7,082	7,175	7,207	6,339
Vote Racing				
Policy Advice – Racing	204	217	217	180
Total Department Appropriations	19	198,791	209,531	172,807

* The Appropriation for Contestable Services is restricted by Revenue. Revenue for the year ending 30 June 2007 was \$1.239 million (2005/06 \$1.223 million).

The statement of accounting policies and notes form an integral part of, and should be read in conjunction with, these financial statements

Notes to the Financial Statements

Notes to the Financial Statements

for the year ended 30 June 2007

NOTE 1

Revenue Third Parties

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Passport Fees	53,431	41,570
Citizenship Fees	13,983	11,744
Birth, Death, Marriage and Civil Union Fees	10,206	9,428
Gaming Licences	14,321	7,625
Casino Operators' Levies	4,109	4,171
VIP Transport	6,305	5,804
Recovery from New Zealand Lottery Grants Board	7,617	7,222
New Zealand Gazette	974	761
Other	4,252	3,124
Total Revenue Third Parties	115,198	91,449

NOTE 2

Operating Expenses

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Rental and Leasing Costs	9,579	8,671
Fee for Audit of Financial Statements	184	167
Fees to Auditors for Other Services Provided	10	20
Increase/(Decrease) in Provision for Doubtful Debts	41	(17)
Loss / (Gain) on Sale Property, Plant and Equipment	0	(14)
Other Departmental Operating Costs	69,662	60,234
Total Operating Expenses	79,476	69,061

NOTE 3

Depreciation

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Buildings	96	76
Lease Improvements	1,189	747
Furniture and Fittings	37	32
Office Equipment	167	126
Motor Vehicles	716	758
Plant and Equipment	77	64
IT Equipment	5,546	3,884
Leased Assets	74	198
Total Depreciation	7,902	5,885

NOTE 4

Capital Charge

The Crown imposes a capital charge on the Department's taxpayers' funds as at 30 June and 31 December each year. The capital charge rate in 2006/07 was 7.5% (2005/06: 8.0%).

NOTE 5

Cash and Bank Balances

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
New Zealand Bank Account	49,096	42,956
Overseas Bank Accounts		
Sydney	304	707
London	157	193
Total Cash and Bank Balances	49,557	43,856

Overseas bank accounts are shown in New Zealand dollars converted at the closing mid-point exchange rate.

NOTE 6

Accounts Receivable

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Trade Receivables	3,290	3,964
less Provision for Doubtful Debts	(62)	(20)
Total Accounts Receivable	3,228	3,944

NOTE 7

Inventories

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Passports		
Stock on hand	47	71
Work in Progress	701	672
Visits and Ceremonials		
Liquor	66	85
Guides to National CDEM Plan	24	32
Birth, Death, Marriage and Civil Union Certificates		
Stock on hand	37	37
Citizenship		
Stock on hand	65	65
Work in Progress	1,773	1,711
Total Inventories	2,713	2,673

NOTE 8

Non-current Assets

	ACTUAL 2006/07			ACTUAL 2005/06		
	COST AND/ OR VALUATION \$000	ACCUM. DEPREC. \$000	CARRYING AMOUNT \$000	COST AND/ OR VALUATION \$000	ACCUM. DEPREC. \$000	CARRYING AMOUNT \$000
Land at Valuation	4,765	0	4,765	4,765	0	4,765
Buildings						
Cost	22	2	20	22	1	21
Valuation	3,340	95	3,245	3,340	0	3,340
Lease Improvements	6,711	2,985	3,726	4,032	1,795	2,237
Antiques and Works of Art at Valuation	416	0	416	416	0	416
Furniture and Fittings	609	376	233	564	361	203
Office Equipment	998	532	466	1,060	459	601
Motor Vehicles	4,229	1,504	2,725	4,216	1,427	2,789
Plant and Equipment	904	623	281	954	620	334
IT Equipment and Software	34,486	19,623	14,863	29,994	14,959	15,035
Capital Work in Progress	4,857	0	4,857	3,999	0	3,999
Total Property, Plant and Equipment	61,337	25,740	35,597	53,362	19,622	33,740

	ACTUAL 2006/07			ACTUAL 2005/06		
	COST AND/ OR VALUATION \$000	ACCUM. DEPREC. \$000	CARRYING AMOUNT \$000	COST AND/ OR VALUATION \$000	ACCUM. DEPREC. \$000	CARRYING AMOUNT \$000
Leased Assets	0	0	0	351	307	44
Total Leased Assets	0	0	0	351	307	44

Revaluation Basis

Valuations for land, buildings and antiques and works of art were made on the basis of fair value determined by the highest and best use for these assets.

Land and Buildings

DTZ New Zealand Ltd (MREINZ), registered independent valuer, conducted a valuation of land and buildings for the Department on 25 and 31 May 2006 with valuations effective 30 June 2006.

Antiques and Works of Art

A valuation of antiques and works of art was undertaken by Dunbar Sloane Ltd, an independent expert, in May 2005.

NOTE 9

Accounts Payable

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Accounts Payable	10,670	8,309
Accounts Payable for Property, Plant and Equipment	272	1,364
GST Payable	796	765
Total Accounts Payable	11,738	10,438

NOTE 10

Provisions

	ACTUAL 2006/07			ACTUAL 2005/06		
	REORGANISATION \$000	OTHER \$000	TOTAL \$000	REORGANISATION \$000	OTHER \$000	TOTAL \$000
Opening Balance	126	999	1,125	125	1,808	1,933
Additional provisions made during the year	223	485	708	126	1,500	1,626
Charge against provision for the year	(126)	(438)	(564)	(125)	(2,309)	(2,434)
Closing Balance	223	1,046	1,269	126	999	1,125

The 'Reorganisation' provision (\$0.223m) was established for the centralisation of functions within the Department. It is anticipated that the reorganisation will be fully completed by the end of 2007/08.

The Chief Executive Scholarship and Awards Programme is the major component of the 'Other' provision. This programme funds study for departmental employees in New Zealand or overseas with payments extending over the course of the study programmes.

NOTE 11

Revenue Received in Advance

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Identity Revenue Received in Advance	8,861	10,720
Gazette Revenue	65	60
Licensing Fees Paid in Advance	2,020	2,340
National Dogs Database	141	0
Total Revenue Received in Advance	11,087	13,120

NOTE 12

Accrued Expenses

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Annual Leave	5,027	4,135
Accrued Salaries	651	589
Long Service and Retirement Leave	288	210
Accrued Expenses for Property, Plant and Equipment	171	250
Audit Fees	31	75
Other	7,480	6,545
Total Accrued Expenses	13,648	11,804

NOTE 13

Finance Leases

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Finance Leases:		
Current	0	44
Total	0	44
Repayable as follows:		
One to two years	0	49
Total	0	49
Future finance charges	0	(5)
Recognised as a liability	0	44

The Department currently holds no finance leases. The effective interest rate on the finance leases over the lease period is the capital charge rate at lease inception. Ownership of leased assets remains with the lessor.

NOTE 14

Movements In Taxpayers' Funds

Taxpayers' funds represent the Crown's net investment in the Department.

a) Provision for Payment of Surplus

The Department is required to return to the Crown its annual net surplus.

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Net Surplus as per Statement of Financial Performance	8,611	3,719
Unrealised Gain on Revaluation of Buildings	0	(1,015)
Provision for Payment of Surplus	8,611	2,704

b) Taxpayers' Funds

Movement in Revaluation Reserve

	ACTUAL 2006/07			ACTUAL 2005/06		
	OPENING BALANCE \$000	REVALUATION MOVEMENT \$000	CLOSING BALANCE \$000	OPENING BALANCE \$000	REVALUATION MOVEMENT \$000	CLOSING BALANCE \$000
Land	1,462	0	1,462	627	835	1,462
Antiques and Works of Art	194	0	194	190	4	194
Total Revaluation Reserve	1,656	0	1,656	817	839	1,656

c) Capital Contribution

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Corporate IT Infrastructure	0	7,461
Development of Databases to Protect New Zealanders' Identity Information	0	3,518
Maintenance of Public Registers (Citizenship, Marriages & Civil Unions)	0	300
Capability Enhancement for Civil Defence & Emergency Management	0	564
Ruapehu Lahar Management	0	13
Total Capital Contribution	0	11,856

NOTE 15

Employee Entitlements

This represents long service and retirement leave, calculated on an actuarial basis, which is not considered payable in the next twelve months. The current portion is included in Accrued Expenses (Note 12). The assessment was undertaken for each employee as at 30 April 2007. Movement from this date to 30 June 2007 is not expected to be significant. Actuarial services were provided by Mercer Human Resource Consulting Ltd. The report was prepared by Paul Dalebroux, Fellow of the New Zealand Society of Actuaries.

NOTE 16

Financial Instruments

The Department is party to financial instrument arrangements as part of its daily operations. These include cash and bank balances, accounts receivable, accounts payable and provisions, accrued expenses, term accrued expenses and foreign currency forward contracts.

a) Currency Risk

- » Currency risk is the risk that accounts receivable and accounts payable due in foreign currency will fluctuate because of changes in foreign exchange rates. Foreign exchange forward contracts are used to manage foreign exchange exposures.
- » The Department maintains bank accounts denominated in foreign currencies. Balances are regularly cleared to minimise exposure risk.

b) Interest Rate Risk

- » Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could impact on the return on investment or the cost of borrowing.
- » Under section 46 of the Public Finance Act 1989, the Department cannot raise a loan without approval of the Minister of Finance. Office equipment leases are identified as finance leases in accordance with SSAP-18 Accounting for Leases and Hire Purchase Contracts. The Department has received the Minister of Finance approval for these leases. The fixed interest rate on the term of these leases reduces the exposure on borrowed funds.

c) Credit Risk

- » Credit risk is the risk that a third party will default on its obligations to the Department, causing the Department to incur a loss.
- » Financial instruments, which potentially subject the Department to credit risk, consist of cash and bank balances and trade receivables.
- » The Department banks with Treasury approved financial institutions.
- » Credit evaluations are undertaken on customers requiring credit. Collateral or other security is not generally required to support financial instruments with credit risk. Other than cash and bank balances and trade receivables, the Department does not have any significant credit risk.

d) Maximum exposures to credit risk:

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Cash and bank balances	49,557	43,856
Accounts Receivable	3,228	3,944
Total	52,785	47,800

e) Fair Value

- » The fair value of all financial instruments other than foreign exchange contracts is equivalent to the carrying amount disclosed in the Statement of Financial Position.
- » The fair value of foreign exchange forward contracts at 30 June is calculated as the net contract value converted at the closing spot rate. As at 30 June 2007 the Department had six foreign exchange forward contracts valued at \$1.312 million (2006: one contract valued at \$0.080 million) with a fair value of \$3,509 (2006: \$-10,394).

NOTE 17**Departmental Appropriations and Expenditure –
Explanation of Variances**

Details of significant Appropriation and Expenditure variances are included in Part four – Statement of Service Performance of this Annual Report.

The Supplementary Estimates of Appropriations for the year ending 30 June 2007 contains an explanation of significant budget changes between the 2006/07 Main Estimates and 2006/07 Supplementary Estimates as set out below:

a) Vote Community and Voluntary Sector

- » Supplementary Estimates of Appropriations, B7 – Page 76.

b) Vote Emergency Management

- » Supplementary Estimates of Appropriations, B7 – Page 182.

c) Vote Internal Affairs

- » Supplementary Estimates of Appropriations, B7 – Pages 286 to 287.

d) Vote Local Government

- » Supplementary Estimates of Appropriations, B7 – Page 320.

e) Vote Ministerial Services

- » Supplementary Estimates of Appropriations, B7 – Page 334.

NOTE 18A

Explanation of Significant Variance between Actual and Supplementary Estimates – Statement of Financial Performance

VARIANCE GREATER THAN 5%	ACTUAL 2006/07 \$000	SUPP. ESTIMATES 2006/07 \$000	VARIANCE 2006/07 \$000	VARIANCE 2006/07 %
Operating Expenses	79,476	89,718	10,242	11.14

Operating Expenses

Policy Advice – Internal Affairs (\$0.444m below Estimates)

This under spend relates to the delayed expenditure for the publishing of two surveys in the gaming and censorship policy area. An in-principle expense transfer to 2007/08 has been approved for this project.

Information and Advisory Services (\$0.699m below Estimates)

This under spend relates to the Expert Panel on War Disablement Pensions for which an in-principle expense transfer was approved.

Gaming and Censorship Regulatory Services (\$0.465m below Estimates)

This under spend was due to lower costs of electronic monitoring of gaming machines arising from the amended project rollout schedule.

Identity Services (\$4.567m below Estimates)

This under spend relates to slower progress with the planning stages of the passport redevelopment projects and lower spending on passports, citizenship and birth, death, marriage and civil union production activities. The expenditure budgets provide a level of contingency for unexpected increases in customer demand for products (funded from fees) particularly in the peak volume period (March to June) to ensure appropriations are not exceeded. There were no significant volume fluctuations in 2006/07 that required the use of this contingency.

Policy Advice – Local Government (\$0.264m below Estimates)

This under spend was due to under expenditure for the Auckland Infrastructure Review and Support for the Waitomo District Council, for which in-principle expense transfers have been approved.

Information, Support and Regulatory Services (\$1.036m below Estimates)

This under spend was mainly due to delays in the Local Government Commission for Review of the Local Government and Local Electoral Amendment Acts, and in the National Dog Database. The Review will be completed by June 2008. An in-principle expense transfer was approved for the Local Government Review.

Support Services to Ministers (\$0.316m below Estimates)

This under spend was mainly due to delays in filling vacancies in Ministerial Offices to support the Executive Government.

Management of National Emergency Readiness, Response and Recovery (\$0.345m below Estimates)

This under spend was the result of new initiative funding received for the implementation of a back up emergency operations centre capability that could not be utilised in 2006/07, for which an in-principle expense transfer has been approved.

NOTE 18B

Explanation of Significant Variance between Actual and Supplementary Estimates – Statement of Financial Position

Cash and Bank Balances (\$22.882m above Estimates)

The cash and bank balances were directly impacted by the operating surplus against a budgeted deficit (\$11.975 million), higher than budgeted Accounts Payable (\$4.767 million), Accrued Expenses (\$2.363 million) and lower than budgeted Accounts Receivable (\$2.494 million).

Accounts Receivable (\$2.494m below Estimates)

This variance is due to lower year end recoverables from other government agencies than anticipated.

Property, Plant and Equipment (\$1.233m below Estimates)

The variance is mainly due to the timing of IT expenditure for:

- » Passport System and ongoing enhancements to other Identity Services IT systems
- » Licence Track development.

Accounts Payable (\$4.767m above Estimates)

Accounts payable were higher than forecast due to the timing of year end payments.

Revenue Received in Advance (\$1.504m above Estimates)

This variance was due a higher level of incomplete Citizenship applications at 30 June 2007 than anticipated.

Accrued Expenses (\$2.363m above Estimates)

This variance was due to a higher volume of accruals for the Department in 2006/07 than anticipated.

General Fund (\$2.956m above Estimates)

This variance relates to the forecast budget deficit. When the Supplementary Estimates budgets were completed, the Department forecast that Gaming and Censorship Regulatory Services (\$2.145 million) and Identity Services (\$1.249 million) would run deficits and require a capital contribution by drawing down from the Memorandum Accounts.

NOTE 19

Reconciliation between Total Operating Expenses and Total Appropriations

The financial information shown for each Output expense on the Statement of Service Performance and in the Statement of Departmental Appropriations and Expenditure includes revenue earned from other business units within the Department. The intra-entity charging reported at output expense level has been eliminated from the other departmental financial statements.

	ACTUAL 2006/07 \$000	ACTUAL 2005/06 \$000
Total Operating Expenses in Statement of Financial Performance	198,055	172,637
Revaluation Gain	0	(1,015)
Intra-entity Expenditure	736	1,185
Total Appropriations in Statement of Departmental Appropriations and Expenditure	198,791	172,807

NOTE 20

Related Parties

The Department of Internal Affairs is a government department and wholly owned and controlled by the Crown. The Department undertakes a number of trading activities with the Crown, other departments, Crown entities and State-Owned Enterprises who are related parties as they are similarly related to the Crown.

All material transactions are on an arms' length basis, with the interests of each party being completely independent.

NOTE 21

First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZIFRS)

Background

The Department will adopt New NZIFRS in its audited financial statements for the year ending 30 June 2008. This is in line with adoption of NZIFRS in the consolidated financial statements of the New Zealand Government reporting entity. The following information is disclosed in accordance with NZ FRS-41: Disclosing the Impact of Adopting New Zealand Equivalents to International Accounting Standards.

Transitional Planning

To prepare for and manage the transition the Department formed a project team to:

- » identify and understand the impact of adopting NZ IFRS
- » review and update, where necessary, the Departments accounting policies to ensure they are fully compliant with NZ IFRS

- » prepare a restated opening Statement of Financial Position as at 1 July 2007
- » raise awareness across the Department of the implications of NZIFRS
- » ensure the Department has systems and processes in place to produce the information required by NZIFRS.

Key Differences Arising in Accounting Policies

The Department is a Public Benefit Entity (PBE) for the purposes of NZIFRS and has elected to take advantage of exemptions available under NZIFRS.

The key differences in accounting policies expected to arise from adoption of NZIFRS are:

- » NZ IAS 38 Intangible Assets:
Reclassification of software assets, valued at \$16,375,697 at 30 June 2007, from Property, Plant and Equipment to Intangible Assets. There is no impact on the Statement of Financial Performance or Equity.
- » NZ IAS 19 Employee Benefits:
Recognition of a provision for employee sick leave entitlement. This has been estimated by actuarial valuation at \$112,444 for the year ending 30 June 2007 and results in a reduction in Equity.

Cautionary Note

The information provided in this note is for indicative purposes only. The actual impact of the transition to NZIFRS on the Department's financial statements may vary from the information presented above. Primarily this will only be due to further changes or amendments to the NZIFRS platform, and any variations are likely to be immaterial.

Departmental Financial Results

Summary of Departmental Financial Results

for the year ended 30 June 2007

	UNIT	ACTUAL 2006/07	ACTUAL 2005/06
Operating Results			
Revenue: Third Parties	\$000	115,198	91,449
Total Operating Expenses	\$000	198,055	172,637
Operating Surplus before			
Capital Charge	\$000	11,933	6,189
Net Surplus/(Deficit)	\$000	8,611	3,719
Working Capital			
Liquid Ratio		1.07:1	1.12:1
Current Ratio		1.20:1	1.29:1
Average Debtors Outstanding	days	10	13
Average Creditors Outstanding	days	40	40
Resource Utilisation			
Physical Assets:			
Physical Assets as % of Total Assets	%	38.93	40.05
Additions as % of Physical Assets	%	31.93	29.45
Taxpayers' Funds:			
Level at year-end	\$000	44,292	44,292
Taxpayers' Funds as % of Total Assets	%	48.44	52.51
Net Cash Flows			
Surplus/(Deficit) from Operating Activities	\$000	19,292	10,281
Surplus/(Deficit) from Investing Activities	\$000	(10,886)	(9,303)
Net Increase/(Decrease) in Cash Held	\$000	5,701	12,017

