

part five »

financial information

financial statements – departmental

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Accounting Policies

Statement of Accounting Policies

for the year ended 30 June 2008

Reporting Entity

The Department of Internal Affairs financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989. Section 2 of this Act defines the Department of Internal Affairs as a Government Department. For the purposes of financial reporting the Department of Internal Affairs is a public benefit entity.

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

The Department of Internal Affairs is domiciled in New Zealand.

Reporting Period

The reporting period for these financial statements is the year ended 30 June 2008. The financial statements were authorised for issue by the Chief Executive of the Department on 30 September 2008.

Budget Figures

The budget figures are those presented in the Budget 2007 Estimates of Appropriation (Main Estimates) and those amended by the Supplementary Estimates (Supp. Estimates).

Statement of Compliance

These financial statements have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities. These are the Department of Internal Affairs' first financial statements complying with NZ IFRS.

An explanation of how the transition to NZ IFRS has affected the reported financial position, financial performance, and cash flows of the Department of Internal Affairs Reporting Entity is provided in note 22.

Accounting Policies

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

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

The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the thousand. The functional currency of the Department is New Zealand dollars.

Critical Accounting Judgements and Estimates

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are applied in the current period in which the estimate was revised and future periods, where applicable.

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, network connections and estimated allocation of time.

For the year ended 30 June 2008, direct costs accounted for 84% of the Department's costs (2006/07: 85%). 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), employer superannuation contribution tax (ESCT) and withholding tax (WHT).

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).

Commitments and contingencies are disclosed exclusive of GST.

Revenue

Revenue Crown

The Department derives revenue for the provision of outputs (services) to the Crown. Revenue Crown is recognised when earned and reported in the financial period to which it relates.

Third Party Revenue

The Department derives revenue from third parties for the provision of outputs (products or services) to third parties. Revenue from the supply of goods and services is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer unless an alternative method better represents the stage of completion of the transaction. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Expenses

Expenses are recognised and reported in the Statement of Financial Performance in the period in which the service is provided or the goods are received.

Foreign Currency

Transactions in foreign currencies are initially translated at the foreign exchange rate at the date of the transaction.

Monetary assets denominated in foreign currencies at balance date are translated to New Zealand dollars at the foreign exchange rate at balance date. Foreign exchange gains or losses arising from translation of monetary assets are recognised in the Statement of Financial Performance.

Financial Instruments

Designation of financial assets and financial liabilities is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Financial Assets

Cash and cash equivalents include cash on hand, cash in transit, and funds on deposit with banks.

Accounts receivable have been designated as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables entered into with a duration of less than 12 months are recognised at their nominal value. At each balance date, the Department assesses whether there is any objective evidence that loans and receivables are impaired. Any impairment losses are recognised in the Statement of Financial Performance as bad debts.

Financial Liabilities

Financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities entered into with duration less than 12 months are recognised at their nominal value.

Inventories

Inventories held for sale are recorded at the lower of cost (calculated using First In First Out method) and net realisable value.

Property, Plant and Equipment

Items of property, plant and equipment costing more than \$3,000 are initially capitalised and recorded at cost.

Revaluations are carried out for a number of classes of property, plant and equipment to reflect the service potential or economic benefit obtained through control of the asset. Revaluation is based on the fair value of the asset with changes reported by class of asset.

Land and buildings are recorded at fair value less impairment losses and, for buildings, less depreciation

accumulated since the assets were last revalued. Valuations undertaken in accordance with the standards issued by the New Zealand Property Institute are used.

Antiques and works of art are recorded at fair value and are not depreciated.

Other property, plant and equipment, which include motor vehicles and office equipment, are recorded at cost less accumulated depreciation and accumulated impairment losses.

Classes of property, plant and equipment that are revalued, are revalued at least every five years or whenever the carrying amount differs materially to fair value. Unrealised gains and losses arising from changes in the value of property, plant and equipment are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the Statement of Financial Performance for the asset class, the gain is credited to the Statement of Financial Performance. Otherwise, gains are credited to an asset revaluation reserve for that class of asset. To the extent that there is a balance in the asset revaluation reserve for the asset class any loss is debited to the reserve. Otherwise, losses are reported in the Statement of Financial Performance.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.

Realised gains and losses arising from disposal of property, plant and equipment are recognised in the Statement of Financial Performance in the period in which the transaction occurs. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

For each property, plant and equipment asset project, borrowing costs incurred during the period required to complete and prepare the asset for its intended use are expensed.

Depreciation

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. The estimated useful lives are as follows:

Buildings	10–66 Years
Plant and Equipment	5–20 Years
Furniture and Fittings	5–10 Years
Office Equipment	5–10 Years

Motor Vehicles	3–6 Years
IT Equipment	3–5 Years

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

Land and antiques and works of art are not depreciated.

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.

Intangible Assets

Intangible assets are initially recorded at cost. The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured. Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Intangible assets with finite lives are subsequently recorded at cost less any amortisation and impairment losses. Amortisation is charged to the Statement of Financial Performance on a straight-line basis over the useful life of the asset. Typically, the estimated useful lives of these intangible assets (Software) is 3 – 5 years. One exception is Births, Deaths and Marriages Historical Records Databases which are depreciated over 10 years.

Realised gains and losses arising from disposal of intangible assets are recognised in the Statement of Financial Performance in the period in which the transaction occurs. Unrealised gains and losses arising from changes in the value of intangible assets are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the Statement of Financial Performance, the gain is credited to the Statement of Financial Performance. Otherwise, gains are credited to an asset revaluation reserve for that asset. To the extent that there is a balance in the asset revaluation reserve for the intangible asset a revaluation loss is debited to the reserve. Otherwise, losses are reported in the Statement of Financial Performance.

Impairment of non-current assets

The carrying amounts of plant, property and equipment are reviewed at least annually to determine if there is any

indication of impairment. Where an asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the Statement of Financial Performance, unless the asset is carried at a revalued amount in which case any impairment loss is treated as a revaluation decrease.

Finance Leases

Finance leases transfer to the Department, as lessee, substantially all the risks and rewards incident on the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the Department expects to receive benefits from their use.

The Department currently holds no finance leases. The Department has approval from the Minister of Finance under section 50 of the Public Finance Act 1989 to enter into a finance lease for the supply of specialist printing equipment required for the printing of personal information into passport books.

Operating Leases

Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised on a straight-line basis over the term of the lease. Accommodation and motor vehicle leases are recognised as operating leases.

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

Revenue Received in Advance

The Department derives revenue from third parties for the supply of products and services to third parties. The revenue is recognised in Statement of Financial Position as a liability when the revenue has been received but does not meet the criteria for recognition as revenue in the Statement of Financial Performance.

Employee Entitlements

Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave, sick leave and other similar benefits are recognised in the Statement of Financial Performance when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows.

Termination benefits are recognised in the Statement of Financial Performance only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Other Liabilities and Provisions

Other liabilities and provisions are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at their present value.

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 contingent liabilities are recorded in the Statement of Contingent Assets and Contingent Liabilities at the point at which the contingency is evident. Contingent assets are disclosed if it is probable that the benefits will be realised. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote.

Taxpayers' Funds

This is the Crown's net investment in the Department. Taxpayers' funds are aggregated and classified as General Funds and Revaluation Reserve.

Changes in Accounting Policies

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information.

There have been no changes in accounting policies. All policies have been applied on a basis consistent with the previous year.

Comparatives

When presentation or classification of items in the financial statements are amended or accounting policies are changed voluntarily, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

Financial Performance

Statement of Financial Performance

for the year ended 30 June 2008

	NOTE	ACTUAL 2007/08 \$000	MAIN ESTIMATES 2007/08 \$000	SUPP. ESTIMATES 2007/08 \$000	ACTUAL 2006/07 \$000
Revenue					
Crown		94,382	83,971	94,382	91,468
Third Parties	1	120,589	116,083	121,995	115,198
Revaluation Gain	9	234	0	0	0
Total Revenue		215,205	200,054	216,377	206,666
Expenses					
Personnel	2	110,649	104,738	116,037	107,384
Operating	3	84,025	81,430	90,564	79,493
Depreciation and Amortisation	9, 10	8,630	10,475	8,858	7,902
Capital Charge	4	3,337	3,700	3,343	3,322
Total Expenses	20	206,641	200,343	218,802	198,101
Net Surplus/(Deficit)		8,564	(289)	(2,425)	8,565

Explanation of significant variances against budget are detailed in note 19.

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 2008

	NOTE	ACTUAL 2007/08 \$000	MAIN ESTIMATES 2007/08 \$000	SUPP. ESTIMATES 2007/08 \$000	ACTUAL 2006/07 \$000
Assets					
Current Assets					
Cash and Cash Equivalents	5	42,504	32,241	23,448	49,557
Accounts Receivable	6	3,975	5,371	3,229	3,228
Inventories	7	2,295	2,053	2,708	2,713
Prepayments		269	57	563	337
Total Current Assets		49,043	39,722	29,948	55,835
Non Current Assets					
Property, Plant and Equipment	9	21,971	29,174	28,057	19,222
Intangible Assets	10	16,719	15,095	17,555	16,375
Total Non Current Assets		38,690	44,269	45,612	35,597
Total Assets		87,733	83,991	75,560	91,432
Liabilities and Taxpayers' Funds					
Current Liabilities					
Accounts Payable	11	16,765	14,081	16,382	20,071
Provisions	12	1,049	1,169	1,169	1,269
Revenue Received in Advance	13	8,235	8,555	10,293	11,087
Employee Entitlements	14	5,901	5,293	4,754	5,427
Provision for Payment of Surplus	15(a)	8,564	0	0	8,611
Derivative Financial Instruments	8	17	0	0	8
Total Current Liabilities		40,531	29,098	32,598	46,473
Non Current Liabilities					
Employee Entitlements	14	792	898	695	787
Total Non Current Liabilities		792	898	695	787
Total Liabilities		41,323	29,996	33,293	47,260
Taxpayers' Funds					
General Funds	15(b)	43,036	52,339	40,611	42,516
Revaluation Reserve	15(c)	3,374	1,656	1,656	1,656
Total Taxpayers' Funds		46,410	53,995	42,267	44,172
Total Liabilities and Taxpayers' Funds		87,733	83,991	75,560	91,432

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 2008

	NOTE	ACTUAL 2007/08 \$000	MAIN ESTIMATES 2007/08 \$000	SUPP. ESTIMATES 2007/08 \$000	ACTUAL 2006/07 \$000
Cash Flows from Operating Activities					
Cash was Provided from:					
Supply of Outputs to the Crown		94,382	83,971	94,382	91,468
Supply of Outputs to Third Parties		116,990	116,434	121,759	113,881
		211,372	200,405	216,141	205,349
Cash was Disbursed to:					
Costs of Producing Outputs		(197,286)	(188,584)	(212,617)	(183,906)
Capital Charge		(3,337)	(3,700)	(3,343)	(3,322)
		(200,623)	(192,284)	(215,960)	(187,228)
Net Cash Flows from Operating Activities		10,749	8,121	181	18,121
Cash Flows from Investing Activities					
Cash was Provided from:					
Sale of Property, Plant and Equipment		316	2,400	301	481
Cash was Disbursed to:					
Purchase of Property, Plant and Equipment		(10,027)	(20,314)	(18,499)	(10,197)
Net Cash Flows from Investing Activities		(9,711)	(17,914)	(18,198)	(9,716)
Cash Flows from Financing Activities					
Cash was Provided from:					
Capital Contribution	15(d)	520	9,472	520	0
Cash was Disbursed to:					
Payment of Net Surplus		(8,611)	0	(8,611)	(2,704)
Net Cash Flows from Financing Activities		(8,091)	9,472	(8,091)	(2,704)
Net Increase/(Decrease) in Cash Held		(7,053)	(321)	(26,108)	5,701
Add Opening Cash		49,557	32,562	49,556	43,856
Closing Cash and Cash Equivalents		42,504	32,241	23,448	49,557

The net GST paid or received with Inland Revenue is incorporated into the Cash Flows from Operating Activities. The net GST component has been disclosed on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

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 2008

	ACTUAL 2007/08 \$000	MAIN ESTIMATES 2007/08 \$000	SUPP. ESTIMATES 2007/08 \$000	ACTUAL 2006/07 \$000
Surplus From Statement of Financial Performance	8,564	(289)	(2,425)	8,565
Add/(Deduct) Non Cash Items				
Depreciation and Amortisation	8,630	10,475	8,858	7,902
Revaluation Gain	(234)	0	0	0
Net Losses on Derivative Financial Instruments	9	0	0	17
	8,405	10,475	8,858	7,919
Add/(Deduct) Movements in Working Capital Items				
(Increase)/Decrease in Accounts Receivable	(747)	351	(177)	716
(Increase)/Decrease in Inventories	418	(78)	5	(40)
(Increase)/Decrease in Prepayments	68	(21)	(226)	(238)
Increase/(Decrease) in Accounts Payable	(3,306)	812	(3,524)	2,175
Increase /(Decrease) in Provisions	(220)	0	91	144
Increase/(Decrease) in Revenue Received in Advance	(2,852)	(3,513)	(1,321)	(2,033)
Increase /(Decrease) in Employee Entitlements	479	384	(1,100)	957
Increase/(Decrease) in Finance Leases	0	0	0	(44)
	(6,160)	(2,065)	(6,252)	1,637
Add/(Deduct) Items Classified as Investing Activities				
Loss/(Gain) on Sale of Property, Plant and Equipment	(60)	0	0	0
	(60)	0	0	0
Net Cash Flows From Operating Activities	10,749	8,121	181	18,121

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 2008

	NOTE	ACTUAL 2007/08 \$000	MAIN ESTIMATES 2007/08 \$000	SUPP. ESTIMATES 2007/08 \$000	ACTUAL 2006/07 \$000
Net Surplus/(Deficit) for the year		8,564	(289)	(2,425)	8,565
Increase/(decrease) in Revaluation Reserve	15(c)	1,718	0	0	0
Total Recognised Revenue and Expenses		10,282	(289)	(2,425)	8,565
Provision for Payment of Surplus	15(a)	(8,564)	0	0	(8,611)
Capital Contribution	15(d)	520	9,472	520	0
Movement in Taxpayers' Funds for the year		2,238	9,183	(1,905)	(46)
Taxpayers' Funds as at 1 July		44,172	44,812	44,172	44,218
Taxpayers' Funds as at 30 June		46,410	53,995	42,267	44,172

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 2008

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Capital Commitments		
Capital Contracts for Goods and Services		
Less than one year	0	108
Total Capital Goods and Services Commitments	0	108
Operating Commitments		
Non-Cancellable Accommodation Leases		
Less than one year	8,836	7,264
One to two years	7,912	2,921
Two to five years	10,995	5,369
Over five years	663	1,012
Total Accommodation Commitments	28,406	16,566
Other Non-Cancellable Leases		
Less than one year	288	627
One to two years	19	180
Two to five years	0	20
Total Other Lease Commitments	307	827
Non-Cancellable Contracts for Goods and Services		
Less than one year	1,048	828
One to two years	2	0
Total Goods and Services Commitments	1,050	828
Total Commitments	29,763	18,329

Capital Commitments

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

Non-Cancellable Lease Commitments

The Department leases property, plant and equipment in the normal course of its business. The majority of the leases are for premises, vehicles and office equipment. The non-cancellable leasing period for these leases varies.

Non-Cancellable Contracts for Goods and Services

The Department has entered into non-cancellable contracts for IT maintenance, property maintenance and other contracts for service.

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 2008

Quantified Contingent Liabilities

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Legal Proceedings and Disputes		
Legal Disputes	0	10
Total Contingent Liabilities	0	10

Unquantified Contingent Liabilities

Year Ended 30 June 2008

There is a personal grievance case pending against the Department that has not been quantified due to nature of the issue and uncertainty of the outcome. While an estimate of the financial effect cannot be made, management believes the resolution of this case will not have a materially adverse effect on the financial statements of the Department.

Year Ended 30 June 2007

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

Contingent Assets

The Department has no contingent assets. (2007 – nil)

Unappropriated Expenditure

Statement of Unappropriated Expenditure

for the year ended 30 June 2008

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

Year Ended 30 June 2008

Breaches of projected departmental net asset schedules

The 2007/08 Supplementary Estimates shows an operating deficit for 2007/08 financial year. The actuals have resulted in the Department having an operating surplus for 2007/08 financial year. The actual surplus has resulted in a technical breach of the net asset limits of the Public Finance Act 1989. Approval has been obtained from the Minister of Finance for this breach.

Year Ended 30 June 2007

There was no unappropriated expenditure for the year ended 30 June 2007.

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 2008

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 2007/08 \$000	MOVEMENT DURING 2007/08 \$000	CLOSING BALANCE 2007/08 \$000
<i>New Zealand Gazette</i>	76	65	141
Use of facilities and access to Lake Taupo by boat users	52	–	52
Passport products	3,228	253	3,481
Citizenship products	(164)	1,847	1,683
Marriage products	683	(399)	284
Issue of Birth, Death and Marriage certifications and other products	3,088	883	3,971
Administration of non-casino gaming	(6,457)	121	(6,336)

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 four to five 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 four to five 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 four to five 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 four to five 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 current fees schedule was approved with effect from 1 February 2008.

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 2008

NOTE	ACTUAL 2007/08 \$000	MAIN ESTIMATES 2007/08 \$000	SUPP. ESTIMATES 2007/08 \$000	ACTUAL 2006/07 \$000
Appropriations for Output Expenses				
Vote Community and Voluntary Sector				
Multi-Class Output Appropriation				
<i>Community and Voluntary Sector Services</i>				
Administration of Grants	13,439	12,311	14,759	12,015
Community Advisory Services	5,374	5,398	5,371	5,393
Policy Advice – Community	1,763	1,699	1,950	1,768
Total Community and Voluntary Sector Services	20,576	19,408	22,080	19,176
Total Vote Community and Voluntary Sector	20,576	19,408	22,080	19,176
Vote Emergency Management				
Multi-Class Output Appropriation				
<i>Emergency Management Services</i>				
Management of National Emergency Readiness, Response and Recovery	3,916	3,755	4,013	2,954
Policy Advice – Emergency Management	868	860	874	850
Support Services, Information and Education	6,192	6,488	6,854	6,938
Total Emergency Management Services	10,976	11,103	11,741	10,742
Total Vote Emergency Management	10,976	11,103	11,741	10,742
Vote Internal Affairs				
Multi-Class Output Appropriation				
<i>Policy and Advisory Services</i>				
Information and Advisory Services	3,003	1,470	6,761	4,389
Policy Advice – Internal Affairs	4,107	4,980	4,658	4,552
Total Policy and Advisory Services	7,110	6,450	11,419	8,941
Departmental Output Expenses				
Gaming and Censorship Regulatory Services	25,494	23,908	26,689	22,364
Identity Services	86,226	85,479	88,535	84,515
Services for Ethnic Affairs	4,228	4,003	4,317	3,294
Contestable Services *	1,139	899	1,068	1,188
Total Vote Internal Affairs	124,197	120,739	132,028	120,302

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

	NOTE	ACTUAL 2007/08 \$000	MAIN ESTIMATES 2007/08 \$000	SUPP. ESTIMATES 2007/08 \$000	ACTUAL 2006/07 \$000
Vote Local Government					
Multi-Class Output Appropriation					
<i>Services for Local Government</i>					
Information, Support and Regulatory Services – Local Government		5,466	5,248	6,235	4,123
Policy Advice – Local Government		6,062	6,267	6,529	7,875
Total Services for Local Government		11,528	11,515	12,764	11,998
Total Vote Local Government		11,528	11,515	12,764	11,998
Vote Ministerial Services					
Departmental Output Expenses					
Support Services to Ministers		26,663	26,721	26,894	25,458
Visits and Official Events Co-ordination		5,728	3,442	5,762	3,874
VIP Transport		7,303	7,193	7,311	7,083
Total Vote Ministerial Services		39,694	37,356	39,967	36,415
Vote Racing					
Departmental Output Expenses					
Policy Advice – Racing		214	222	222	204
Total Vote Racing		214	222	222	204
Total Department Appropriations	19, 20	207,185	200,343	218,802	198,837

* The appropriation for Contestable Services is restricted by revenue earned. Revenue for the year ending 30 June 2008 was \$1.146 million (2006/07 \$1.239 million). Contestable Services covers services provided to both government and non-government agencies that could be provided by other organisations. These services include translation and other foreign language services to government and the public.

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 2008

NOTE 1

Revenue Third Parties

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Passport Fees	55,321	53,431
Citizenship Fees	12,451	13,983
Birth, Death, Marriage and Civil Union Fees	10,151	10,206
Gaming Licences	17,036	14,321
Casino Operators' Levies	4,440	4,109
VIP Transport	6,577	6,305
Recovery from New Zealand Lottery Grants Board	9,214	7,617
<i>New Zealand Gazette</i>	978	974
Other	4,421	4,252
Total Revenue Third Parties	120,589	115,198

NOTE 2

Personnel Costs

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Salaries and Wages	104,926	102,566
Employer Contribution to defined contribution plans	1,966	1,856
Increase/(decrease) in employee entitlements	775	693
Other Personnel Costs	2,982	2,269
Total Personnel	110,649	107,384

NOTE 3

Operating Expenses

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Computer Costs	9,912	8,069
Inventory Costs	15,652	14,683
Office Expenses	12,512	12,426
Rental and Leasing Costs	9,907	9,579
Fee for Audit of Financial Statements	189	184
Fee for Audit of NZ IFRS Transition	10	0
Fees to Auditors for Other Services Provided	10	10
Increase/(Decrease) in Provision for Doubtful Debts	2	41
Loss /(Gain) on Sale Property, Plant and Equipment	(60)	0
Net Losses on Derivative Financial Instruments	9	17
Other Departmental Operating Costs	35,882	34,484
Total Operating Expenses	84,025	79,493

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 2007/08 was 7.5% (2006/07: 7.5%).

NOTE 5

Cash and Cash Equivalents

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
New Zealand Bank Account	41,864	49,096
Overseas Bank Accounts		
Sydney	338	304
London	302	157
Total Cash and Cash Equivalents	42,504	49,557

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

NOTE 6

Accounts Receivable

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Trade Receivables	4,002	3,290
less Provision for Doubtful Debts	(27)	(62)
Total Accounts Receivable	3,975	3,228

The carrying value of trade receivables approximates their fair value.

As at 30 June 2008 and 2007, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below.

	ACTUAL 2007/08			ACTUAL 2006/07		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Not past due	3,765	(11)	3,754	3,066	(7)	3,059
Past due 1–30 days	191	(2)	189	136	(1)	135
Past due 31–60 days	19	(1)	18	11	(1)	10
Past due 61–90 days	5	(1)	4	10	(3)	7
Past due > 91 days	22	(12)	10	67	(50)	17
Total	4,002	(27)	3,975	3,290	(62)	3,228

The provision for doubtful debts has been calculated based on expected losses for the Department's pool of receivables. The expected losses have been determined based on analysis of the Department's losses in prior periods, and review of individual receivables.

Movements in the provision for doubtful debts are as follows:

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Balance at 1 July	62	20
Additional Provisions made during the year	2	42
Trade Receivables written off	(37)	0
	27	62

NOTE 7

Inventories

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Passports		
Stock on hand	34	47
Work in Progress	736	701
Visits and Ceremonials		
Liquor	35	66
Civil Defence and Emergency Management		
Guides to National CDEM Plan	20	24
Birth, Death and Marriage Certificates		
Stock on hand	24	37
Citizenship		
Stock on hand	113	65
Work in Progress	1,333	1,773
Total Inventories	2,295	2,713

The carrying amount of inventories held for distribution that are measured at current replacement cost as at 30 June 2008 amounted to \$0. (2007 \$0)

No inventories are pledged as security for liabilities, however some inventories are subject to retention of title clauses.

NOTE 8

Derivative Financial Instruments

The notional principal amounts of the outstanding forward exchange contracts at 30 June 2008 were Australian dollars \$1,050,000 (2007 \$900,000) and UK Sterling 140,000 (2007 120,000).

The fair value of forward exchange contracts has been determined using a discounted cash flows valuation technique based on stated market rates.

NOTE 9

Property, Plant and Equipment

2007/08

COST OR VALUATION	BALANCE 1 JULY \$000	ADDITIONS \$000	REVALUATIONS \$000	DISPOSALS \$000	RECLASSIFIED \$000	BALANCE 30 JUNE \$000
Land	4,765	0	1,410	0	0	6,175
Buildings	3,362	0	311	0	34	3,707
Lease Improvements	6,873	926	0	0	(34)	7,765
Antiques and Works of Art	416	0	40	0	0	456
Furniture and Fittings	609	31	0	(13)	0	627
Office Equipment	998	123	0	(17)	24	1,128
Motor Vehicles	4,229	1,479	0	(660)	0	5,048
Plant and Equipment	905	128	0	(13)	0	1,020
IT Equipment	8,447	2,256	0	(468)	(24)	10,211
Leased Assets	0	0	0	0	0	0
Total Cost	30,604	4,943	1,761	(1,171)	0	36,137

ACCUMULATED DEPRECIATION	BALANCE 1 JULY \$000	DEPRECIATION \$000	REVALUATIONS \$000	DISPOSALS \$000	RECLASSIFIED \$000	BALANCE 30 JUNE \$000
Buildings	97	96	(191)	0	1	3
Lease Improvements	2,984	1,280	0	0	(1)	4,263
Furniture and Fittings	376	41	0	(13)	0	404
Office Equipment	532	171	0	(13)	0	690
Motor Vehicles	1,504	775	0	(414)	0	1,865
Plant and Equipment	623	70	0	(7)	0	686
IT Equipment	5,266	1,457	0	(468)	0	6,255
Leased Assets	0	0	0	0	0	0
Total Accumulated Depreciation	11,382	3,890	(191)	(915)	0	14,166

2006/07

COST	BALANCE 1 JULY \$000	ADDITIONS \$000	REVALUATIONS \$000	DISPOSALS \$000	RECLASSED \$000	BALANCE 30 JUNE \$000
Land	4,765	0	0	0	0	4,765
Buildings	3,362	0	0	0	0	3,362
Lease Improvements	5,630	1,204	0	0	39	6,873
Antiques and Works of Art	416	0	0	0	0	416
Furniture and Fittings	559	106	0	(22)	(34)	609
Office Equipment	1,044	48	0	(94)	0	998
Motor Vehicles	4,216	1,123	0	(1,110)	0	4,229
Plant and Equipment	954	25	0	(74)	0	905
IT Equipment	7,057	2,252	0	(857)	(5)	8,447
Leased Assets	351	37	0	(388)	0	0
Total Cost	28,354	4,795	0	(2,545)	0	30,604

ACCUMULATED DEPRECIATION	BALANCE 1 JULY \$000	DEPRECIATION \$000	REVALUATIONS \$000	DISPOSALS \$000	RECLASSED \$000	BALANCE 30 JUNE \$000
Buildings	1	96	0	0	0	97
Lease Improvements	1,795	1,189	0	0	0	2,984
Furniture and Fittings	361	37	0	(22)	0	376
Office Equipment	459	167	0	(94)	0	532
Motor Vehicles	1,427	716	0	(639)	0	1,504
Plant and Equipment	620	77	0	(74)	0	623
IT Equipment	4,664	1,456	0	(854)	0	5,266
Leased Assets	307	74	0	(381)	0	0
Total Accumulated Depreciation	9,634	3,812	0	(2,064)	0	11,382

CARRYING VALUES	ACTUAL 2007/08			ACTUAL 2006/07		
	COST OR VALUATION \$000	ACCUMULATED DEPRECIATION \$000	CARRYING VALUE \$000	COST OR VALUATION \$000	ACCUMULATED DEPRECIATION \$000	CARRYING VALUE \$000
Land at valuation	6,175	0	6,175	4,765	0	4,765
Buildings	3,707	(3)	3,704	3,362	(97)	3,265
Lease Improvements	7,765	(4,263)	3,502	6,873	(2,984)	3,889
Antiques and Works of Art	456	0	456	416	0	416
Furniture and Fittings	627	(404)	223	609	(376)	233
Office Equipment	1,128	(690)	438	998	(532)	466
Motor Vehicles	5,048	(1,865)	3,183	4,229	(1,504)	2,725
Plant and Equipment	1,020	(686)	334	905	(623)	282
IT Equipment	10,211	(6,255)	3,956	8,447	(5,266)	3,181
Leased Assets	0	0	0	0	0	0
Total Property, Plant and Equipment	36,137	(14,166)	21,971	30,604	(11,382)	19,222

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 Ministerial Properties land and buildings for the Department in April 2008 with valuations effective 30 June 2008.

Antiques and Works of Art

A valuation of antiques and works of art was undertaken by Dunbar Sloane Ltd, an independent expert, in May 2008.

Revaluation Movement

	LAND	BUILDINGS	ANTIQUES & WORKS OF ART	TOTAL
Revaluation Movement	1,410	502	40	1,952
allocated to:				
Revaluation Reserve	1,410	268	40	1,718
Statement of Financial Performance	0	234	0	234

Revaluation gain coded to Statement of Financial Performance reverses previous revaluation losses recognised.

Capital Work in Progress

The total amount of property, plant and equipment in the course of construction is \$1,239,000. (2007 \$1,637,000)

Impairments Losses

Impairment losses of \$0 (2007 \$0) have been recognised.

NOTE 10

Intangible Assets

2007/08

	BALANCE 1 JULY \$000	ADDITIONS \$000	DISPOSALS \$000	RECLASSED \$000	BALANCE 30 JUNE \$000
COST					
Total Intangibles Assets	30,733	5,084	(50)	0	35,767

	BALANCE 1 JULY \$000	AMORTISATION \$000	DISPOSALS \$000	RECLASSED \$000	BALANCE 30 JUNE \$000
ACCUMULATED AMORTISATION					
Total Intangibles Assets	14,358	4,740	(50)	0	19,048

2006/07

	BALANCE 1 JULY \$000	ADDITIONS \$000	DISPOSALS \$000	RECLASSED \$000	BALANCE 30 JUNE \$000
COST					
Total Intangibles Assets	25,359	5,402	(28)	0	30,733

	BALANCE 1 JULY \$000	AMORTISATION \$000	DISPOSALS \$000	RECLASSED \$000	BALANCE 30 JUNE \$000
ACCUMULATED AMORTISATION					
Total Intangibles Assets	10,296	4,090	(28)	0	14,358

	ACTUAL 2007/08			ACTUAL 2006/07		
CARRYING VALUES	COST OR VALUATION \$000	ACCUMULATED AMORTISATION \$000	CARRYING VALUE \$000	COST OR VALUATION \$000	ACCUMULATED AMORTISATION \$000	CARRYING VALUE \$000
Total Intangibles Assets	35,767	(19,048)	16,719	30,733	(14,358)	16,375

Capital Work in Progress

The total amount of intangibles in the course of construction is \$2,828,000. (2007 \$2,538,000)

There are no restrictions over the title of the Department's intangible assets and no intangible assets are pledged as security for liabilities.

NOTE 11

Accounts Payable

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Accounts Payable	6,463	7,177
Accrued Expenses	8,937	11,447
Accrued Salaries	1,041	651
GST Payable	324	796
Total Accounts Payable	16,765	20,071

Accounts Payable are non-interest bearing and are normally settled on 30 day terms, therefore the carrying value of account payables approximates their fair value.

NOTE 12

Provisions

	ACTUAL 2007/08			ACTUAL 2006/07		
	REORGANISATION \$000	OTHER \$000	TOTAL \$000	REORGANISATION \$000	OTHER \$000	TOTAL \$000
Opening Balance	223	1,046	1,269	126	999	1,125
Additional provisions made during the year	0	340	340	223	485	708
Charge against provision for the year	(204)	(337)	(541)	(126)	(438)	(564)
Unused provisions reversed	(19)	0	(19)	0	0	0
Closing Balance	0	1,049	1,049	223	1,046	1,269

The 'Reorganisation' provision (\$0.223m) was established in 2006/07 to centralise functions within the Department. This centralisation was 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 13

Revenue Received in Advance

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Identity Products	6,462	8,861
<i>New Zealand Gazette</i>	58	65
Licensing Fees	1,600	2,020
National Dogs Database	115	141
Total Revenue Received in Advance	8,235	11,087

NOTE 14

Employee Entitlements

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Current		
Annual Leave	5,147	4,745
Sick Leave	178	112
Long Service and Retirement Leave	576	570
Total Current Entitlements	5,901	5,427
Long Term		
Long Service and Retirement Leave	792	787
Total Employee Entitlements	6,693	6,214

Long service, retirement leave and sick leave are calculated on an actuarial basis. The portion not considered payable in the next twelve months is recognised as a term liability. The current portion is recognised as a current liability. The assessment was undertaken for each employee as at 30 April 2008. Movement from this date to 30 June 2008 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 15

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 repay the surplus to the Crown by 31 October each year.

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Net Surplus as per Statement of Financial Performance	8,564	8,565
Accounting Adjustment for IFRS transition	0	46
Provision for Payment of Surplus	8,564	8,611

b) General Funds

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Opening Balance	42,516	42,562
Net Surplus/(deficit)	8,564	8,565
Capital Contribution	520	0
Provision for Repayment of Surplus	(8,564)	(8,611)
Closing Balance	43,036	42,516

c) Revaluation Reserve

	ACTUAL 2007/08			ACTUAL 2006/07		
	OPENING BALANCE \$000	REVALUATION MOVEMENT \$000	CLOSING BALANCE \$000	OPENING BALANCE \$000	REVALUATION MOVEMENT \$000	CLOSING BALANCE \$000
Land	1,462	1,410	2,872	1,462	0	1,462
Buildings	0	268	268	0	0	0
Antiques and Works of Art	194	40	234	194	0	194
Total Revaluation Reserve	1,656	1,718	3,374	1,656	0	1,656

d) Capital Contribution

	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Tsunami Warning System	120	0
Backup Emergency Operation Facilities	400	0
Total Capital Contribution	520	0

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.

Sensitivity Analysis

At 30 June 2008, if the New Zealand dollar had weakened or strengthened by 5% against the Australian dollar with all other variables held constant, the surplus for the year would have been \$62,000 higher or \$69,000 lower (2007 \$47,000 higher or \$52,000 lower). This movement is attributable to the foreign exchange gains/losses on translation of Australian dollar denominated derivative financial instruments.

At 30 June 2008, if the New Zealand dollar had weakened or strengthened by 5% against UK Sterling with all other variables held constant, the surplus for the year would have been \$17,000 higher or \$19,000 lower (2007 \$15,000 higher or \$16,000 lower). This movement is attributable to the foreign exchange gains/losses on translation of UK Sterling denominated derivative financial instruments.

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 NZ IAS 17 Leases. 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 2007/08 \$000	ACTUAL 2006/07 \$000
Cash and Cash Equivalents	42,482	49,538
Accounts Receivable	3,975	3,228
Total	46,457	52,766

Cash and Cash Equivalents excludes any cash physically held including petty cash as is not exposed to credit risk.

e) Liquidity risk

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

In meeting its liquidity requirements, the Department closely monitors its forecast cash requirements with expected drawdowns from the New Zealand Debt Management Office. The Department maintains a target level of available cash to meet liquidity requirements.

The table below analyses the Department's financial liabilities that will be settled based on the remaining period at year-end to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	LESS THAN 6 MONTHS \$000	BETWEEN 6 MONTHS AND 1 YEAR \$000	BETWEEN 1 YEAR AND 5 YEARS \$000	OVER 5 YEARS \$000
2007/08				
Accounts Payable	16,765	0	0	0
Derivative Financial Instruments	17	0	0	0
2006/07				
Accounts Payable	20,071	0	0	0
Derivative Financial Instruments	8	0	0	0

f) Nominal Value

The Department has six foreign exchange forward contracts with a nominal value of \$1.679 million (2007: six contracts valued at \$1.312 million).

NOTE 17

Categories of Financial Instruments

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

	NOTE	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Loans and receivables			
Cash and Cash Equivalents	5	42,504	49,557
Accounts Receivable	6	3,975	3,228
Total loans and receivables		46,479	52,785
Fair value through profit and loss			
Derivative financial instrument liabilities		(17)	(8)
Financial liabilities measured at amortised cost			
Accounts Payable	11	(16,765)	(20,071)

NOTE 18

Capital Management

The Department's capital is its taxpayers' funds, which comprise general funds and revaluation reserves. Equity is represented by net assets.

The Department manages its revenues, expenses, assets, liabilities and general financial dealings prudently. The Department's taxpayers' funds are largely managed by a by-product of managing income, expenses, assets, liabilities and compliance with the Government Budget processes and with Treasury instructions.

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

NOTE 19

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

	ACTUAL 2007/08 \$000	SUPP. ESTIMATES 2007/08 \$000	VARIANCE 2007/08 \$000	VARIANCE 2007/08 %
Operating Expenses	84,025	90,564	6,539	7

Operating Expenses

Administration of Grants (\$0.752m below Estimates)

This under spend relates to delays in the commencement of various projects (Outcomes Framework project and the Lottery Significant Projects Committee) and vacancies.

Support Services, Information and Education (\$0.409m below Estimates)

This under spend was the result of delays in the implementation of the Information Management Development Programme, for which an in-principle expense transfer from 2007/08 to 2008/09 has been approved.

Information and Advisory Services (\$3.599m below Estimates)

This under spend was due to timing differences associated with the:

- » Royal Commission on Auckland Governance
- » Listening and Assistance Service
- » Expert Panel on War Disablement Pensions
- » Expert Panel and Citizens' Forum on the electoral system and State funding of political parties.

In principle expense transfers from 2007/08 to 2008/09 have been approved for all of the above.

Identity Services (\$0.347m above Estimates)

The number of completed Citizenship applications was higher than anticipated resulting in a greater level of movement in work in progress.

Gaming and Censorship Regulatory Services (\$0.567m below Estimates)

This under spend was due to lower restructuring costs.

Information, Support and Regulatory Services (\$0.572m below Estimates)

This under spend was mainly due to under expenditure for the Local Government Commission for Review of the Local Government and Local Electoral Amendment Acts, and database administration costs for the National Dog Database.

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

Cash and Cash Equivalents (\$19.056m above Estimates)

The cash and bank balances were directly impacted by the operating surplus against a budgeted deficit (\$10.989 million), and lower than budgeted Property, Plant and Equipment (\$6.087 million).

Accounts Receivable (\$0.746m above Estimates)

This variance is due to higher year end recoverables for the Department than anticipated.

Inventories (\$0.413m below Estimates)

The number of uncompleted Citizenship applications was lower than anticipated. This results in a lower level of work in progress at year end.

Prepayments (\$0.294m below Estimates)

This variance is due to lower than anticipated prepayment for software licence and support fees.

Property, Plant and Equipment (\$6.086m below Estimates)

The variance is mainly due to the timing of expenditure on IT equipment for Passport System and ongoing enhancements to other Identity Services IT systems.

Provisions (\$0.120m below Estimates)

Provision for stale cheques was higher at year end than anticipated.

Revenue Received in Advance (\$2.058m below Estimates)

This variance was due to a lower level of incomplete Citizenship applications at 30 June 2008 than anticipated and timing of Gaming licensing fees.

Employee Entitlements – Current Liabilities (\$1.147m above Estimates)

This variance was due to a higher level of accrued leave for the Department in 2007/08 than anticipated.

Employee Entitlements – Non-Current Liabilities (\$0.097m above Estimates)

This variance was due to a higher level of actuarial leave for the Department in 2007/08 than anticipated.

General Fund (\$2.425m 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 (\$0.969 million) and Identity Services (\$1.361 million) would run deficits and require a capital contribution by drawing down from the Memorandum Accounts.

Departmental Appropriations and Expenditure – Explanation of Variances

The Supplementary Estimates of Appropriations for the year ending 30 June 2008 contains an explanation of significant budget changes between the 2007/08 Main Estimates and 2007/08 Supplementary Estimates as set out below:

a) Vote Community and Voluntary Sector

» Supplementary Estimates of Appropriations, B7 – Pages 113 to 114.

Community and Voluntary Sector Services MCOA

Policy Advice – Community

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase in funding for the establishment of the Moriori Identity and Heritage Trust (\$0.250 million), an expense transfer from 2006/07 for the Upgrade of the Information and Technology Infrastructure (\$0.010 million) offset by a reallocation of corporate overhead (-\$0.009 million).

Administration of Grants

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase in funding from the Lottery Grants Board (\$2.628 million), an expense transfer from 2006/07 for the Upgrade of the Information and Technology Infrastructure (\$0.065 million) offset by savings for the enhancement to the Community Internship programme (-\$0.110 million), extension of the Community Partnership Fund (-\$0.107 million) and a reallocation of corporate overhead (-\$0.028 million).

Community Advisory Services

The change in budget between Main Estimates and Supp. Estimates was mainly due to expense transfers from 2006/07 for the Sustainable Communities project (\$0.060 million) and for the Upgrade of the Information and Technology Infrastructure (\$0.024 million) offset by savings for the enhancement to the Community Internship Programme (-\$0.070 million), a reallocation of corporate overhead (-\$0.034 million) and a realignment of State Sector Retirement Savings Scheme expenditure (-\$0.007 million).

b) Vote Emergency Management

» Supplementary Estimates of Appropriations, B7 – Page 275.

Emergency Management Services MCOA

Policy Advice – Emergency Management

The change in budget between Main Estimates and Supp. Estimates was mainly due to an expense transfer from 2006/07 for the Upgrade of Information and Technology Infrastructure (\$0.014 million).

Support Services, Information and Education

The change in budget between Main Estimates and Supp. Estimates was mainly due to a transfer of funding from Vote Internal Affairs due to a reprioritisation of the work programme (\$0.210 million), a realignment of project funding (\$0.118 million), an expense transfer from 2006/07 for the Upgrade of Information and Technology Infrastructure (\$0.031 million) and a reallocation of corporate overhead (\$0.007 million).

Management of National Emergency Readiness, Response and Recovery

The change in budget between Main Estimates and Supp. Estimates was mainly due to expense transfers from 2006/07 for Back Up Emergency Operations Facilities (\$0.348 million) and the Upgrade of Information and Technology Infrastructure (\$0.024 million), a reallocation of corporate overhead (\$0.004 million) offset by a realignment of project funding (-\$0.118 million).

c) Vote Internal Affairs

» Supplementary Estimates of Appropriations, B7 – Pages 443 to 445.

Policy and Advisory Services MCOA

Policy Advice – Internal Affairs

The change in budget between Main Estimates and Supp. Estimates was mainly due to expense transfers from 2006/07 for Gambling Research reports (\$0.100 million) and the Upgrade of Information and Technology Infrastructure (\$0.088 million), a transfer of funding to Vote Emergency Management due to a reprioritisation of the work programme (-\$0.210 million), a transfer of unutilised funding to the Significant Community-Based Project Fund (-\$0.307 million) and a realignment of revenue and expenditure for State Sector Retirement Savings Scheme costs (-\$0.007 million).

Information and Advisory Services

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase funding to establish the Royal Commission on Auckland Governance (\$2.969 million), funding to establish an expert panel and citizens' forum to review and report on the electoral system and state funding of political parties and other issues of electoral finance (\$1.211 million), funding for the Listening and Assistance Service (\$0.597 million) and expense transfers from 2006/07 for the Expert Panel on War Disablement Pensions (\$0.500 million) and the Upgrade of Information and Technology Infrastructure (\$0.014 million).

Gaming and Censorship Regulatory Services

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase for gambling licensing and compliance activities (\$2.145 million) and expense transfers from 2006/07 for Unsolicited Electronic Messages (\$0.350 million) and the Upgrade of Information and Technology Infrastructure (\$0.286 million).

Identity Services

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase in demand for identity products (\$1.977 million), expense transfers from 2006/07 for the Upgrade of Information and Technology Infrastructure (\$0.620 million) and Identity Verification Service (\$0.400 million), additional funding for the Identity Verification Service (\$0.212 million) and a decrease in the State Sector Retirement Savings Scheme costs (-\$0.070 million) and rental (-\$0.083 million).

Services for Ethnic Affairs

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase in migrant levy funding (\$0.256 million), an expense transfer from 2006/07 for the Upgrade of Information and Technology Infrastructure (\$0.035 million) and a reallocation of corporate overhead (\$0.023 million).

Contestable Services

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase in rental offset by additional revenue from a sub tenant (\$0.169 million).

d) Vote Local Government

» Supplementary Estimates of Appropriations, B7 – Page 487.

Services for Local Government MCOA

Policy Advice – Local Government

The change in budget between Main Estimates and Supp. Estimates was mainly due to expense transfers from 2006/07 for the Upgrade of Information and Technology Infrastructure (\$0.202 million), the Auckland Infrastructure Review (\$0.179 million) and Support for Waitomo District Council (\$0.081 million), offset by reallocation of corporate overhead (-\$0.021 million) and a transfer of funding for the Auckland Infrastructure Review from 2007/08 to 2008/09 (-\$0.179 million).

Information, Support and Regulatory Services – Local Government

The change in budget between Main Estimates and Supp. Estimates was mainly due to expense transfers from 2006/07 for the Local Government Commission (\$0.750 million) and the Upgrade of Information and Technology Infrastructure (0.039 million), an increase in council levies for the National Dog Database (\$0.233 million) offset by a reallocation of corporate overhead (-\$0.035 million).

e) Vote Ministerial Services

» Supplementary Estimates of Appropriations, B7 – Page 509.

Support Services to Ministers

The change in budget between Main Estimates and Supp. Estimates was mainly due to an expense transfer from 2006/07 for the Upgrade of information and Technology Infrastructure (\$0.089 million) and a reallocation of corporate overhead (\$0.084 million).

Visits and Official Events Coordination

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase in funding for the guests of government programme (\$1.400 million), Sir Edmund Hillary's Funeral and Memorial Service costs (\$0.900 million), an expense transfer from 2006/07 for the Upgrade of Information and Technology Infrastructure (\$0.011 million) and reallocation of corporate overhead (\$0.009 million).

VIP Transport

The change in budget between Main Estimates and Supp. Estimates was mainly due to an increase in demand (\$0.100 million) and an expense transfer from 2006/07 for the Upgrade of Information and Technology Infrastructure (\$0.018 million).

NOTE 20

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 2007/08 \$000	ACTUAL 2006/07 \$000
Total Operating Expenses in Statement of Financial Performance	206,641	198,101
Revaluation Gain	(234)	0
Intra-entity Expenditure	778	736
Total Appropriations in Statement of Departmental Appropriations and Expenditure	207,185	198,837

NOTE 21

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 government 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.

Where there are close family members of key management personnel employed by the Department, the terms and conditions of the employment arrangements are no more favourable than the Department would have adopted if there were no relationship to key management personnel.

KEY MANAGEMENT PERSONNEL COMPENSATION	ACTUAL 2007/08 \$000	ACTUAL 2006/07 \$000
Salaries and other Short-Term Employee Benefits	2,104	1,987
Post-employment Benefits	73	45
Other Long –Term Benefits	25	18
Termination Benefits	0	0
Total Key Management Personnel Compensation	2,202	2,050

Key management personnel include the Chief Executive and the eight members of the Executive Leadership Team. The position of Chief Executive was held by two individuals during the year.

NOTE 22

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

Background

The Department will adopt new NZ IFRS in its audited financial statements for the year ending 30 June 2008. This is in line with adoption of NZ IFRS 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 Department's 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 NZ IFRS
- » ensure the Department has systems and processes in place to produce the information required by NZ IFRS.

Key Differences Arising in Accounting Policies

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

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

- » NZ IAS 38 Intangible Assets:
Reclassification of software assets, valued at \$16,375m 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 \$0.112m 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 NZ IFRS 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 NZ IFRS platform, and any variations are likely to be immaterial.

Explanation of transition to NZ IFRS

The Department's financial statements for the year ending 30 June 2008 are the first financial statements that comply with NZ IFRS. The Department has applied NZ IFRS 1 in preparing these financial statements.

The Department's transition date is 1 July 2006. The Department prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 30 June 2008. The Department's NZ IFRS adoption date is 1 July 2007.

In preparing these consolidated financial statements in accordance with NZ IFRS 1, the Department has applied the mandatory exceptions from full retrospective application of NZ IFRS. No optional exemptions have been applied.

The Department is required to make the following mandatory exception from retrospective application.

Estimates exception

Estimates under NZ IFRS at 1 July 2006 are consistent with estimates made for the same date under previous NZ GAAP.

Reconciliation of Equity

The following table shows the changes in equity, resulting from the transition from previous NZ GAAP to NZ IFRS as at 1 July 2006 and 30 June 2007.

THE DEPARTMENT OF INTERNAL AFFAIRS

Statement of Financial Position

	NOTE	PREVIOUS NZ GAAP 1 JULY 2006 \$000	EFFECT ON TRANSITION TO NZ IFRS 1 JULY 2006 \$000	NZ IFRS 1 JULY 2006 \$000	PREVIOUS NZ GAAP 30 JUNE 2007 \$000	EFFECT ON TRANSITION TO NZ IFRS 30 JUNE 2007 \$000	NZ IFRS 30 JUNE 2007 \$000
Assets							
Current Assets							
Cash and Cash Equivalents		43,856	0	43,856	49,557	0	49,557
Accounts Receivable		3,944	0	3,944	3,228	0	3,228
Inventories		2,673	0	2,673	2,713	0	2,713
Prepayments		99	0	99	337	0	337
Derivative Financial Instruments	a	0	9	9	0	0	0
Total Current Assets		50,572	9	50,581	55,835	0	55,835
Non-current Assets							
Property, Plant and Equipment	b	33,740	-15,063	18,677	35,597	-16,375	19,222
Intangible Assets	b	0	15,063	15,063	0	16,375	16,375
Leased Assets		44	0	44	0	0	0
Total Non-current Assets		33,784	0	33,784	35,597	0	35,597
Total Assets		84,356	9	84,365	91,432	0	91,432
Liabilities and Taxpayers' Funds							
Current Liabilities							
Accounts Payable	c	22,242	-4,345	17,897	25,386	-5,315	20,071
Provisions		1,125	0	1,125	1,269	0	1,269
Revenue Received in Advance		13,120	0	13,120	11,087	0	11,087
Employee Entitlements	d	0	4,428	4,428	0	5,427	5,427
Derivative Financial Instruments	a	0	0	0	0	8	8
Finance Leases		44	0	44	0	0	0
Provision for Payment of Surplus		2,704	0	2,704	8,611	0	8,611
Total Current Liabilities		39,235	83	39,318	46,353	120	46,473
Term Liabilities							
Employee Entitlements		829	0	829	787	0	787
Total Term Liabilities		829	0	829	787	0	787
Total Liabilities		40,064	83	40,147	47,140	120	47,260
Taxpayers' Funds							
General Funds	a, d	42,636	-74	42,562	42,636	-120	42,516
Revaluation Reserve		1,656	0	1,656	1,656	0	1,656
Total Taxpayers' Funds		44,292	-74	44,218	44,292	-120	44,172
Total Liabilities and Taxpayers' Funds		84,356	9	84,365	91,432	0	91,432

Explanatory notes – Reconciliation of equity

a. Derivative Financial Instruments

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

b. Intangible Assets

Computer Software was classified as part of property, plant and equipment under previous NZ GAAP. The net book value of computer software reclassified as an intangible asset on transition to NZ IFRS is 15.063m and at 30 June 2007 \$16.375m.

c. Accounts Payable

Items classified as accounts payable under previous NZ GAAP have been reclassified under the category of employee benefits.

d. Employee Benefits

Employee Benefits

Employee Benefits were classified as part of accounts payable under previous NZ GAAP. The net book value of employee benefits reclassified from accounts payable on transition to NZ IFRS is \$4.428m and at 30 June 2007 \$5.427m.

Sick Leave

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

Reconciliation of surplus for the year ended 30 June 2007

THE DEPARTMENT OF INTERNAL AFFAIRS

Statement of Financial Performance

	NOTE	PREVIOUS NZ GAAP 30 JUNE 2007 \$000	EFFECT ON TRANSITION TO NZ IFRS 30 JUNE 2007 \$000	NZ IFRS 30 JUNE 2007 \$000
Revenue				
Crown		91,468	0	91,468
Third Parties		115,198	0	115,198
Revaluation Gain		0	0	0
Total Revenue		206,666	0	206,666
Expenses				
Personnel	a	107,355	29	107,384
Operating	b	79,476	17	79,493
Depreciation and Amortisation		7,902	0	7,902
Capital Charge		3,322	0	3,322
Total Operating Expenses		198,055	46	198,101
Net Surplus/(Deficit)		8,611	-46	8,565

Explanatory notes – Reconciliation of surplus

a. Employee Benefit Expense

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

b. Operating Expense

This represents the unrealised foreign exchange loss on foreign exchange contracts held on transition to NZ IFRS is \$0.8m gain and at 30 June 2007 \$0.17m loss.

Statement of Cash Flows

There have been no material adjustments to the statement of cash flows for the year ended 30 June 2007, on transition to NZ IFRS.

Departmental Financial Results

Summary of Departmental Financial Results

	UNIT	ACTUAL 2007/08	ACTUAL 2006/07
Working Capital			
Liquid Ratio		1.05:1	1.07:1
Current Ratio		1.21:1	1.2:1
Average Debtors Outstanding	days	10	13
Average Creditors Outstanding	days	25	29
Resource Utilisation			
Physical Assets:			
Physical Assets as % of Total Assets	%	44.10	38.93
Additions as % of Physical Assets	%	25.92	28.65
Taxpayers' Funds:			
Level at year-end	\$000	46,410	44,172
Taxpayers' Funds as % of Total Assets	%	52.90	48.31