



# Financial Statements

## Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2019

2017/18		2018/19			2019/20	
Actual		Unaudited Budget	Unaudited Supps	Actual	Unaudited Forecast	
\$000	Note	\$000	\$000	\$000	\$000	
<i>Revenue</i>						
65,719	Crown	2	65,889	65,438	65,438	70,706
140,201	Other revenue	2	137,344	141,534	135,862	144,408
<b>205,920</b>	<b>Total revenue</b>		<b>203,233</b>	<b>206,972</b>	<b>201,300</b>	<b>215,114</b>
<i>Expenses</i>						
106,399	Personnel costs	3	110,183	120,788	117,016	124,745
63,271	Operating costs	4	63,444	60,699	61,472	64,628
17,386	Depreciation and amortisation expense	5	20,535	18,527	17,673	22,517
8,906	Capital charge	6	9,071	9,071	8,827	9,071
<b>195,962</b>	<b>Total expenses</b>		<b>203,233</b>	<b>209,085</b>	<b>204,988</b>	<b>220,961</b>
<b>9,958</b>	<b>Total comprehensive revenue and expense</b>		<b>-</b>	<b>(2,113)</b>	<b>(3,688)</b>	<b>(5,847)</b>

Explanations of significant variances against budget are provided in note 22.

## Statement of Change in Equity

For the year ended 30 June 2019

2017/18		2018/19			2019/20	
Actual		Unaudited Budget	Unaudited Supps	Actual	Unaudited Forecast	
\$000	Note	\$000	\$000	\$000	\$000	
<b>157,984</b>	<b>Taxpayers' funds as at 1 July</b>	<b>163,244</b>	<b>166,786</b>	<b>166,786</b>	<b>164,767</b>	
9,958	Total comprehensive revenue and expense for the year	-	(2,113)	(3,688)	(5,847)	
-	Capital withdrawals	-	(2,648)	(2,648)	-	
-	Capital injections	2,742	2,742	-	2,603	
(1,156)	Provision for return of surplus	11	-	(7,974)	-	
<b>166,786</b>	<b>Taxpayers' funds as at 30 June</b>	<b>165,986</b>	<b>164,767</b>	<b>152,476</b>	<b>161,523</b>	

Explanations of significant variances against budget are provided in note 22.

## Statement of Financial Position

As at 30 June 2019

2017/18		Note	2018/19		2019/20
			Unaudited Budget	Unaudited Supps	
Actual			\$000	\$000	Actual
\$000			\$000	\$000	\$000
	<i>Current assets</i>				
27,144	Cash and cash equivalents		34,421	13,461	19,762
2,494	Prepayments		4,314	5,266	5,702
55,852	Debtors and receivables	7	41,820	53,310	48,158
<b>85,490</b>	<b>Total current assets</b>		<b>80,555</b>	<b>72,037</b>	<b>73,622</b>
	<i>Non-current assets</i>				
31,562	Property, plant and equipment	8	39,683	35,145	33,255
85,935	Intangible assets	9	96,138	95,640	85,339
23	Receivables and advances		25	26	42
<b>117,520</b>	<b>Total non-current assets</b>		<b>135,846</b>	<b>130,811</b>	<b>118,636</b>
<b>203,010</b>	<b>Total assets</b>		<b>216,401</b>	<b>202,848</b>	<b>192,258</b>
	<i>Current liabilities</i>				
19,494	Creditors and payables	10	35,161	23,190	16,561
11,512	Employee entitlements	12	11,340	9,455	11,255
1,156	Provision for repayment of surplus to the Crown	11	-	-	7,974
246	Other short term liabilities	13	68	95	-
<b>32,408</b>	<b>Total current liabilities</b>		<b>46,569</b>	<b>32,740</b>	<b>35,790</b>
	<i>Non-current liabilities</i>				
3,566	Employee entitlements	12	3,596	5,091	3,742
250	Other long term provisions	14	250	250	250
<b>3,816</b>	<b>Total non-current liabilities</b>		<b>3,846</b>	<b>5,341</b>	<b>3,992</b>
<b>36,224</b>	<b>Total liabilities</b>		<b>50,415</b>	<b>38,081</b>	<b>39,782</b>
<b>166,786</b>	<b>Net assets</b>		<b>165,986</b>	<b>164,767</b>	<b>152,476</b>
	<i>Equity</i>				
149,433	Crown capital and retained earnings	15	152,175	149,527	146,785
17,353	Memorandum accounts (net position)	15	13,811	15,240	5,691
<b>166,786</b>	<b>Total equity as at 30 June</b>		<b>165,986</b>	<b>164,767</b>	<b>152,476</b>

Explanations of significant variances against budget are provided in note 22.

## Statement of Cash Flows

For the year ended 30 June 2019

2017/18		2018/19			2019/20
Actual		Unaudited Budget	Unaudited Supps	Actual	Unaudited Forecast
\$000	Note	\$000	\$000	\$000	\$000
<b>Cash flows – operating activities</b>					
Cash was provided from:					
46,384	Crown	65,889	70,241	70,242	94,104
142,446	Other	137,344	139,183	136,312	140,361
Cash was applied to:					
(106,256)	Personnel	(116,693)	(115,041)	(117,097)	(117,099)
(62,758)	Operating	(58,007)	(68,320)	(67,043)	(73,685)
1,416	net GST	1,583	227	(1,110)	227
(8,906)	Capital charge	(9,071)	(5,360)	(8,827)	(5,360)
<b>12,326</b>	<b>Net cash flow from operating activities</b>	<b>21,045</b>	<b>20,930</b>	<b>12,477</b>	<b>38,548</b>
<b>Cash flows – investing activities</b>					
Cash was provided from:					
285	Sale of fixed assets	-	-	154	-
Cash was disbursed to:					
(9,103)	Purchase of fixed assets	(7,440)	(12,095)	(10,200)	(15,673)
(6,616)	Purchase of intangible assets	(11,900)	(19,776)	(8,657)	(26,338)
<b>(15,434)</b>	<b>Net cash flow from investing activities</b>	<b>(19,340)</b>	<b>(31,871)</b>	<b>(18,703)</b>	<b>(42,011)</b>
<b>Cash flows – financing activities</b>					
Cash was provided from:					
-	Capital contributions	2,742	-	-	2,603
Cash was disbursed to:					
-	Capital withdrawal	-	(2,742)	-	-
(5,218)	Repayment of surplus	(1,611)	-	(1,156)	-
<b>(5,218)</b>	<b>Net cash flow from financing activities</b>	<b>1,131</b>	<b>(2,742)</b>	<b>(1,156)</b>	<b>2,603</b>
<b>(8,326)</b>	<b>Net increase/(decrease) in cash</b>	<b>2,836</b>	<b>(13,683)</b>	<b>(7,382)</b>	<b>(860)</b>
<b>35,470</b>	<b>Cash at the beginning of the year</b>	<b>31,585</b>	<b>27,144</b>	<b>27,144</b>	<b>13,461</b>
<b>27,144</b>	<b>Cash at the end of the year</b>	<b>34,421</b>	<b>13,461</b>	<b>19,762</b>	<b>12,601</b>

Explanations of significant variances against budget are provided in note 22.

## Statement of Commitments

As at 30 June 2019

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Capital commitments</i>	
-	Property, plant and equipment	-
-	<b>Total capital commitments</b>	-
	<i>Non-cancellable operating lease commitments</i>	
11,918	Not later than one year	12,426
22,338	Later than one year and not later than five years	15,778
995	Later than five years	596
<b>35,251</b>	<b>Total non-cancellable operating commitments</b>	<b>28,800</b>
<b>35,251</b>	<b>Total commitments</b>	<b>28,800</b>

### Capital commitments

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

### Non-cancellable operating lease commitments

The New Zealand Customs Service has long-term leases on its premises throughout the country and overseas. Annual lease payments on the three largest leases, located in Auckland, Wellington, and Christchurch, are subject to three-yearly reviews. Other leases are subject to a range of review periods.

The amounts disclosed above as future commitments are based on the current rental rates.

The New Zealand Customs Service has no future non-cancellable sublease of premises receipts due over the next 10 financial years as at 30 June 2019 (30 June 2018: nil).

The New Zealand Customs Service also has several non-cancellable software licence and support agreements for which it is bound to pay for the length of the agreement or a cancellation fee.

## Statement of Departmental Contingent Liabilities and Assets

As at 30 June 2019

### Quantifiable contingent liabilities

2017/18		2018/19
Actual \$000		Actual \$000
	- Employment disputes	-
	- Legal proceedings and disputes	-
	<b>- Total quantifiable contingent liabilities</b>	<b>-</b>

Legal proceedings and disputes relate to the estimated associated legal costs to the New Zealand Customs Service of performing its statutory role.

As at 30 June 2019, the New Zealand Customs Service had no unquantifiable contingent liabilities (30 June 2018: nil).

### Quantifiable contingent assets

2017/18		2018/19
Actual \$000		Actual \$000
7	Awarded court costs awaiting finalisation of appeal	-
7	<b>Total quantifiable contingent assets</b>	<b>-</b>

As at 30 June 2019 there were no unquantifiable contingent assets (30 June 2018: nil).

## Schedule of Trust Monies

For the year ended 30 June 2019

Account	As at 01/07/2018 \$000	Contribution \$000	Distribution \$000	As at 30/06/2019 \$000
Health Promotion Agency Trust	1,009	13,177	13,330	856
Heavy Engineering Research Association Trust	187	1,947	1,962	172
Customs Regional Deposit/Bonds Trust No.1, No.2 & No.3	52,185	13,002	10,215	54,972
New Zealand Customs Service Multiple Deposit Scheme Release Trust	113	10,302	9,937	478
New Zealand Customs Service Multiple Deposit Scheme Suspense Trust	6	13,444	13,391	59
<b>Total</b>	<b>53,500</b>	<b>51,872</b>	<b>48,835</b>	<b>56,537</b>

The funds held in the Health Promotion Agency and Heavy Engineering Research Association accounts represent funds collected and held on their behalf and are transferred to these entities at the beginning of the next financial year.

## Notes to the Financial Statements

For the year ended 30 June 2019

### Note 1: Statement of accounting policies

#### Reporting entity

The New Zealand Customs Service is a government department as defined by section 2 of the Public Finance Act 1989. The primary objective of the New Zealand Customs Service is to facilitate the movement of people, goods, and craft across the border and protect New Zealand's border and revenue. Accordingly, the New Zealand Customs Service is a public benefit entity (PBE) under the External Reporting Board (XRB) standards framework.

In addition, the New Zealand Customs Service has reported on Crown activities and trust monies which it administers.

The financial statements are for the year ended 30 June 2019. The financial statements were authorised for issue by the Acting Comptroller of Customs on 30 September 2019.

#### Basis of preparation

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

#### Statement of compliance

The financial statements of the New Zealand Customs Service have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practices (NZ GAAP), and Treasury Instructions.

These financial statements have been prepared in accordance with Tier 1 PBE accounting standards, and comply with PBE International Public Sector Accounting Standards (IPSAS) as appropriate for PBEs.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### Functional and presentation currency

The general accounting systems recognised as appropriate for the measurement and reporting of results and financial position on an historical cost basis have been followed. The accrual basis of accounting has been used unless otherwise stated. These financial statements are presented in New Zealand dollars rounded to the nearest thousand. The functional currency of the New Zealand Customs Service is New Zealand dollars.

#### Standard early adopted

In line with the Financial Statements of the Government, the New Zealand Customs Service has elected to early adopt PBE IFRS 9 *Financial Instruments*. PBE IFRS 9 replaces PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. The New Zealand Customs Service has adopted this new standard in preparing the 30 June 2019 financial statements.

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

Standards and amendments, issued but not yet effective, that have not been early adopted are:

##### Amendment to PBE IPSAS 2 Statement of Cash Flows

An amendment to PBE IPSAS 2 *Statement of Cash Flows* requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The New Zealand Customs Service does not intend to early adopt the amendment.

##### PBE IPSAS 34-38

PBE IPSAS 34-38 replace the existing standards for interests in other entities (PBE IPSAS 6-8). These new standards are effective for annual periods beginning on or after 1 January 2019. The New Zealand Customs Service will apply these new standards in preparing the 30 June 2020 financial statements. No effect is expected as a result of this change.

### PBE IPSAS 41 Financial Instruments

The XRB issued PBE IPSAS 41 *Financial Instruments* in March 2019. This standard supersedes PBE IFRS 9 *Financial Instruments*, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Although the New Zealand Customs Service has not assessed the effect of the new standard, it does not expect any significant changes as the requirements are similar to PBE IFRS 9.

### PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 and is effective for reporting periods beginning on or after 1 January 2021. The New Zealand Customs Service has not yet determined how application of PBE FRS 48 will affect its statement of performance.

### Critical accounting estimates and assumptions

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

- Assessing the impairment of Debtors and receivables – see Note 7
- Assessing the useful lives of software – see Note 9
- Measuring long service leave entitlements and retirement gratuities – see Note 12.

### Summary of significant accounting policies

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

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

#### Accounting for foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Revenue and Expense.

#### Operating leases

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

#### Cash and cash equivalents

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

The New Zealand Customs Service is only permitted to expand its cash and cash equivalents within the scope and limits of its appropriations.

#### Payables

Short-term creditors and other payables are recorded at their fair value.

#### Equity

Equity is the Crown's investment in the New Zealand Customs Service and is measured as the difference between total assets and total liabilities. Taxpayers' funds is disaggregated and classified as general funds and property, plant and equipment revaluation reserves where applicable.

#### Memorandum accounts

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



### Commitments

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

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the Statement of Commitments at the value of that penalty or exit cost.

### Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are recorded in the Statement of Departmental Contingent Liabilities and Assets at the point at which the contingency is evident.

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

### Goods and Services Tax (GST)

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

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

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

### Income tax

Government departments are exempt from income tax as public authorities in terms of the Income Tax Act 2007. Accordingly, no charge for income tax has been provided for.

### Budget figures

The 2018/19 "Budget" figures are for the year ended 30 June 2019 and were published in the 2017/18 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2019. The 2018/19 "Supps" figures are those from *The Supplementary Estimates of Appropriations 2018/19*. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

### Forecast figures

The presentation of forecast financial information is a statutory requirement of the Public Finance Amendment Act 2013. The aim of this is to increase transparency by providing next year's forecast for comparison.

The 2020 forecast figures for the year ending 30 June 2020 are consistent with the best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update for the 2019/20 year.

The 30 June 2020 forecast figures have been prepared in accordance with and comply with PBE FRS 42 Prospective Financial Statements.

The forecast financial statements were approved for issue by the Acting Comptroller of Customs on 10 April 2019.

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

While the New Zealand Customs Service regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2020 will not be published.

### Significant assumptions used in preparing the forecast financial information

The forecast figures in these financial statements have been compiled on the basis of existing government policies and Ministerial expectations at the time the Main Estimates were finalised.

The significant assumptions are as follows:

- the department's activities will remain substantially the same as for the previous year
- operating costs are based on historical experience. The general historical pattern is expected to continue
- no allowances have been made for general cost and/or inflationary pressures, and
- estimated year-end information (revised budget) for 2018/19 is used as the opening position for the 2019/20 forecasts.

The actual financial results achieved for 30 June 2020 are likely to vary from the forecast information presented, and the variation may be material.

### Cost accounting policies

The New Zealand Customs Service has determined the costs of outputs using a cost allocation system, which is outlined below.

#### Cost allocation policy

Direct costs are charged directly to outputs. Indirect costs are charged to outputs based on cost drivers and related activity/usage information.

#### Criteria for Direct and Indirect Costs

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

#### Direct costs assigned to outputs

Direct costs are charged directly to outputs, where appropriate. This includes depreciation and occupancy costs.

For the year ended 30 June 2019, direct costs accounted for 77% (2018: 72%) of the New Zealand Customs Service's costs.

#### Basis for assigning Indirect and Corporate costs to outputs

Indirect costs are assigned to outputs based on a proportion of direct staff costs usage for each output.

For the year ended 30 June 2019, indirect costs accounted for 23% (2018: 28%) of the New Zealand Customs Service's costs.

### Changes in accounting policies

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

### Comparatives

When presentation or classification of items in the financial statements is 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.

## Note 2: Revenue

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

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

### Revenue Crown

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

This treatment is based on the view that there are no use or return conditions attached to the funding from the Crown. However, the New Zealand Customs Service can incur expenses only within the scope and limits of its appropriations.

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

### Other Revenue

Revenue from the application and processing fees 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.

Revenue from the supply of services is recognised at balance date on a straight-line basis over the specified period for the services unless an alternative method better represents the stage of completion of the transaction.

### Statutory levies

Revenue from statutory levies is recognised when the obligation to pay the levy is incurred. Although there are restrictions on how levy funding may be spent, including the requirement to manage deficits and surpluses by means of a memorandum account, there are no conditions attached to the levies that give rise to obligations to return levies to levy payers.

2017/18		2018/19		2019/20
Actual		Unaudited Budget	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000
71,665	Border Clearance Levy	66,342	65,869	70,012
41,880	Import Entry Transaction Fees	42,980	42,839	45,534
14,798	Goods Cost Recovery Fees	15,677	14,859	15,794
8,392	Information processing	7,378	8,395	8,923
1,398	Cost recoveries – other	2,116	1,360	1,446
1,084	Overseas aid projects	1,898	1,549	1,646
397	Compliance activity – Officers time	370	322	342
267	Rental income	284	320	340
237	Compliance activities – other	231	214	227
83	Sale of publications	68	135	144
<b>140,201</b>	<b>Total other revenue</b>	<b>137,344</b>	<b>135,862</b>	<b>144,408</b>

**Note 3: Personnel costs**

2017/18		2018/19		2019/20
Actual		Unaudited Budget	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000
100,416	Salaries and wages	104,260	110,346	114,021
3,361	Employer contributions to defined contribution plans	3,459	3,695	3,972
2,622	Other personnel expenses	2,464	2,975	6,751
<b>106,399</b>	<b>Total personnel costs</b>	<b>110,183</b>	<b>117,016</b>	<b>124,745</b>

Employer contributions to defined contribution plans include contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund.

**Note 4: Operating costs**

2017/18		2018/19		2019/20
Actual		Unaudited Budget	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000
11,620	Facilities management	13,458	13,040	13,709
11,261	Computer equipment costs	10,519	10,192	10,716
6,833	Operating lease rentals	8,234	7,978	8,387
4,980	Travel and accommodation	5,067	4,909	5,161
3,833	Occupancy costs (excluding rentals)	4,768	4,620	4,857
5,405	Consultants and professional fees	4,080	3,953	4,156
7,520	Contractors and temporary staff	4,406	4,269	4,109
3,536	Repairs and maintenance	3,689	3,574	3,757
3,159	Communication costs	3,273	3,171	3,334
250	Fees paid to Audit NZ for the financial statement audit	267	259	273
386	Net (gain)/loss on sale of fixed assets	36	35	416
15	Bad debts written off	(118)	(114)	(120)
2	Net foreign exchange losses	8	8	8
135	Expected credit loss on financial assets	84	81	86
(191)	Other operating costs recovered	(193)	(187)	(197)
4,527	Other operating costs	5,866	5,684	5,976
<b>63,271</b>	<b>Total operating costs</b>	<b>63,444</b>	<b>61,472</b>	<b>64,628</b>

**Note 5: Depreciation and amortisation**

2017/18		2018/19		2019/20
Actual		Unaudited Budget	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000
<i>Depreciation</i>				
1,217	Leasehold improvements	1,151	1,473	1,446
208	Office equipment	146	178	168
4,189	Other equipment and plant	5,097	4,027	5,876
282	Furniture and fittings	143	149	2,313
1,816	Computer equipment	1,648	1,665	1,197
337	Motor vehicles	358	573	484
114	Launch and watercraft	188	224	254
<b>8,163</b>	<b>Total depreciation</b>	<b>8,731</b>	<b>8,289</b>	<b>11,738</b>
<i>Amortisation</i>				
9,223	Intangible assets – computer software	11,804	9,384	10,779
<b>17,386</b>	<b>Total depreciation and amortisation cost</b>	<b>20,535</b>	<b>17,673</b>	<b>22,517</b>

**Note 6: Capital charge**

The New Zealand Customs Service pays a capital charge to the Crown on its equity (adjusted for memorandum accounts and donated assets) as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2019 was 6.0% (1 July 2017–30 June 2018: 6.0%).

## Note 7: Debtors and receivables

Debtors and other receivables are initially measured at the amount due, and assessed annually for impairment.

Impairment of a receivable is established when there is objective evidence that the New Zealand Customs Service will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Revenue and Expense. Overdue receivables that are renegotiated are reclassified as current (i.e. not past due).

2017/18		2018/19
Actual \$000		Actual \$000
10,758	Debtor – Border Clearance Levy	10,513
3,004	Debtor – Import Entry Transaction Fee	2,938
1,836	Debtor – Goods Cost Recovery	1,886
1,161	Trade debtors	1,210
1,050	Receivables	940
<b>17,809</b>	<b>Receivables and debtors</b>	<b>17,487</b>
(379)	Less: accumulated credit losses	(298)
<b>17,430</b>	<b>Net trade debtors</b>	<b>17,189</b>
38,422	Debtor – Crown	30,969
<b>55,852</b>	<b>Total debtors and receivables</b>	<b>48,158</b>

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

	2017/18			2018/19		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	Impairment \$000	Net \$000
Current	15,942	–	15,942	14,821	–	14,821
Past due 1–30 days	1,258	–	1,258	1,795	–	1,795
Past due 31–60 days	79	–	79	113	–	113
Past due 61–90 days	143	–	143	338	–	338
Past due >90 days	387	(379)	8	420	(298)	122
<b>Total</b>	<b>17,809</b>	<b>(379)</b>	<b>17,430</b>	<b>17,487</b>	<b>(298)</b>	<b>17,189</b>

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

2017/18		2018/19
Actual \$000		Actual \$000
244	Balance at 1 July	379
150	Change in accumulated expected credit losses	(33)
(15)	<b>Receivables written-off during the year</b>	(48)
<b>379</b>	<b>Balance at 30 June</b>	<b>298</b>

## Note 8: Property, plant and equipment

Property, plant and equipment consist of furniture and office equipment, plant and equipment, computer hardware, motor vehicles, launches and watercraft.

Property, plant and equipment is shown at cost less accumulated depreciation and impairment losses.

All property, plant and equipment costing individually \$2,700 (2018: \$2,000) or more, or as a group of assets more than \$15,000, are capitalised.

### Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the New Zealand Customs Service and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

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

### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Revenue and Expense.

### Subsequent costs

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

### Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land and work in progress, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives of major classes of assets have been estimated as follows:

Furniture and office equipment	4 to 5 years
Plant and equipment	5 to 15 years
Computer hardware	4 to 5 years
Motor vehicles	5 years
Launch and watercraft	5 to 25 years
Leasehold improvements	5 to 24 years

The launch is being depreciated at various rates according to the life expectancy of the various components.

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

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

### Impairment of non-financial assets

Property, plant and equipment, and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The reversal of an impairment loss is recognised in the Statement of Comprehensive Revenue and Expense.

Value in use is depreciated replacement cost for an asset where the service potential of the asset is not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining service potential.

	Leasehold Improvements \$000	Office Equipment \$000	Other Equipment \$000	Furniture and Fittings \$000	Computer Equipment \$000	Motor Vehicles \$000	Launches/Watercraft \$000	Total \$000
<b>Cost</b>								
Balance at 1 July 2017	20,498	1,436	53,977	4,384	18,103	4,788	3,516	106,702
Additions	1,018	195	4,906	415	3,525	620	4,361	15,040
Disposals	-	(3)	(18,736)	(835)	(3,873)	(767)	(1,013)	(25,227)
Work in progress movement	(598)	(10)	(1,905)	209	(1,175)	(121)	(2,387)	(5,987)
<b>Balance at 30 June 2018</b>	<b>20,918</b>	<b>1,618</b>	<b>38,242</b>	<b>4,173</b>	<b>16,580</b>	<b>4,520</b>	<b>4,477</b>	<b>90,528</b>
Balance of work in progress	6	-	643	209	345	(33)	7	1,177
Balance at 1 July 2018	20,918	1,618	38,242	4,173	16,580	4,520	4,477	90,528
Additions	98	126	5,157	8	990	921	3	7,303
Disposals	-	-	-	-	(1,783)	(661)	-	(2,444)
Work in progress movement	92	119	2,540	(228)	238	134	1	2,896
<b>Balance at 30 June 2019</b>	<b>21,108</b>	<b>1,863</b>	<b>45,939</b>	<b>3,953</b>	<b>16,025</b>	<b>4,914</b>	<b>4,481</b>	<b>98,283</b>
Balance of work in progress	99	-	3,184	2	583	153	7	4,029
<b>Accumulated depreciation and impairment losses</b>								
Balance at 1 July 2017	12,109	992	40,432	3,957	14,640	2,381	862	75,373
Depreciation expenses	1,217	208	4,189	282	1,816	337	114	8,163
Disposals	-	(3)	(18,562)	(835)	(3,855)	(552)	(763)	(24,570)
<b>Balance at 30 June 2018</b>	<b>13,326</b>	<b>1,197</b>	<b>26,059</b>	<b>3,404</b>	<b>12,601</b>	<b>2,166</b>	<b>213</b>	<b>58,966</b>
Balance at 1 July 2018	13,326	1,197	26,059	3,404	12,601	2,166	213	58,966
Depreciation expenses	1,473	178	4,026	149	1,680	601	224	8,332
Disposals	-	-	-	-	(1,797)	(472)	-	(2,269)
<b>Balance at 30 June 2019</b>	<b>14,799</b>	<b>1,375</b>	<b>30,085</b>	<b>3,553</b>	<b>12,484</b>	<b>2,295</b>	<b>437</b>	<b>65,028</b>
<b>Carrying amount</b>								
At 1 July 2017	8,389	444	13,545	427	3,463	2,407	2,654	31,329
At 30 June 2018	7,592	421	12,183	769	3,979	2,354	4,264	31,562
At 30 June 2019	<b>6,309</b>	<b>489</b>	<b>15,854</b>	<b>399</b>	<b>3,541</b>	<b>2,619</b>	<b>4,044</b>	<b>33,255</b>



## Note 9: Intangible assets

### Software acquisition and development

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

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with the development of software for internal use by the New Zealand Customs Service are recognised as an intangible asset. Direct costs include the software development, employee costs, and an appropriate portion of relevant overheads.

Staff training costs are recognised as an expense when incurred.

### Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. The amortisation charge for each period is recognised in the Statement of Comprehensive Revenue and Expense.

The useful lives of intangible assets have been estimated as follows:

Computer software                      5 to 15 years

Intangible assets that have an indefinite useful life, or are not yet available for use, are not subject to amortisation. Intangible assets are tested annually for impairment.

	Acquired Software \$000	Internally Generated Software \$000	Total \$000
<b>Cost</b>			
Balance at 1 July 2017	28,203	106,153	134,356
Additions	1,878	2,425	4,303
Disposals	(844)	-	(844)
Work in progress movement	(1,402)	3,758	2,356
<b>Balance at 30 June 2018</b>	<b>27,835</b>	<b>112,336</b>	<b>140,171</b>
Balance of work in progress	5,547	8,888	14,435
Balance at 1 July 2018	27,835	112,336	140,171
Additions	1,328	14,439	15,767
Disposals	(36)	(1,460)	(1,496)
Work in progress movement	(1,405)	(5,574)	(6,978)
<b>Balance at 30 June 2019</b>	<b>27,722</b>	<b>119,741</b>	<b>147,463</b>
Balance of work in progress	4,142	3,314	7,457
<b>Accumulated amortisation and impairment losses</b>			
Balance at 1 July 2017	11,567	34,289	45,856
Amortisation expenses	1,831	7,392	9,223
Disposals	(843)	-	(843)
<b>Balance at 30 June 2018</b>	<b>12,555</b>	<b>41,681</b>	<b>54,236</b>
Balance at 1 July 2018	12,555	41,681	54,236
Amortisation expenses	1,783	7,602	9,385
Disposals	(36)	(1,460)	(1,496)
<b>Balance at 30 June 2019</b>	<b>14,301</b>	<b>47,823</b>	<b>62,124</b>
<b>Carrying amount</b>			
<b>At 1 July 2017</b>	<b>16,636</b>	<b>71,864</b>	<b>88,500</b>
<b>At 30 June 2018</b>	<b>15,280</b>	<b>70,655</b>	<b>85,935</b>
<b>At 30 June 2019</b>	<b>13,421</b>	<b>71,918</b>	<b>85,339</b>

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

**Note 10: Creditors and payables**

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Payables under exchange transactions</i>	
7,895	Trade creditors and accrued expenses	7,822
10,038	MPI – Border Clearance Levy	8,288
<b>17,933</b>	<b>Total payables under exchange transactions</b>	<b>16,110</b>
	<i>Payables under non-exchange transactions</i>	
1,561	GST payable	451
<b>1,561</b>	<b>Total payables under non-exchange transactions</b>	<b>451</b>
<b>19,494</b>	<b>Total creditors and payables</b>	<b>16,561</b>

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

**Note 11: Return of operating surplus**

2017/18		2018/19
Actual \$000		Actual \$000
9,958	Net surplus/(deficit)	(3,688)
(8,802)	Add (surpluses)/deficits of memorandum accounts	11,662
<b>1,156</b>	<b>Total return of operating surplus</b>	<b>7,974</b>

## Note 12: Employee entitlements

### Current employee entitlements

Employee entitlements that the New Zealand Customs Service expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

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

The New Zealand Customs Service recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that the New Zealand Customs Service anticipates it will be used by staff to cover those future absences.

### Non-current employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows. A weighted average discount rate of 1.84% (2018: 2.85%) and a salary inflation factor of 2.50% (2018: 2.50%) were used. The discount rates are those supplied by The Treasury being the risk free discount rates as at 31 May 2019. The inflation factor is based on the expected long-term increase in remuneration for employees as supplied by The Treasury.

### Retirement and long service leave

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Current liabilities</i>	
3,719	Personnel accruals	2,971
6,643	Annual leave	7,154
1,150	Retirement and long service leave	1,130
<b>11,512</b>	<b>Total current portion</b>	<b>11,255</b>
	<i>Non-current liabilities</i>	
3,566	Retirement and long service leave	3,742
<b>3,566</b>	<b>Total non-current portion</b>	<b>3,742</b>
<b>15,078</b>	<b>Total employee entitlements</b>	<b>14,997</b>

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Comprehensive Revenue and Expense as incurred.

### Note 13: Other short term liabilities

2017/18		2018/19
Actual \$000		Actual \$000
247	Due to Crown – sale of seized goods	–
<b>247</b>	<b>Total other short term liabilities</b>	<b>–</b>

### Note 14: Other long term provisions

The New Zealand Customs Service recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

2017/18		2018/19
Actual \$000		Actual \$000
250	Lease make good provision	250
<b>250</b>	<b>Total other long term provisions</b>	<b>250</b>

Movement for provisions are as follows:

2017/18		2018/19
Actual \$000		Actual \$000
250	Lease make good provision as at 1 July	250
–	Additional provisions made	–
<b>250</b>	<b>Lease make good provision at 30 June</b>	<b>250</b>

In respect of a number of its leased premises, the New Zealand Customs Service is required at the expiry of the lease term to make good any damage caused to the premises and to remove any fixtures or fittings installed by the New Zealand Customs Service. In many cases the New Zealand Customs Service has the option to renew these leases, which impacts on the timing of expected cash outflows to make good the premises.

## Note 15: Equity

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Crown Capital and retained earnings</i>	
149,433	Balance as at 1 July	149,433
9,958	Surplus/(deficit)	(3,688)
(8,802)	Transfer of memorandum account net (surplus)/deficit for the year	11,662
(1,156)	Return of operating surplus to the Crown	(7,974)
-	Capital withdrawal	(2,648)
<b>149,433</b>	<b>Balance as at 30 June</b>	<b>146,785</b>
	<i>Memorandum accounts</i>	
8,551	Balance as at 1 July	17,353
8,802	Net memorandum account net surplus/(deficit) for the year	(11,662)
<b>17,353</b>	<b>Balance as at 30 June</b>	<b>5,691</b>
<b>166,786</b>	<b>Total equity as at 30 June</b>	<b>152,476</b>

## Note 16: Financial instruments

The New Zealand Customs Service's activities expose it to a variety of financial instrument risks, including market risk, credit risk, and liquidity risk. The New Zealand Customs Service has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

### Market risk

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

In 2018/19 the New Zealand Customs Service had nine overseas posts and operated two foreign currency bank accounts.

The New Zealand Customs Service is exposed to currency risk arising from various currency exposures, primarily with respect to the US dollars, Australian dollars, and Thailand Thai Baht. Currency risk arises from future overseas posts operation, which is denominated in a foreign currency.

The New Zealand Customs Service's foreign exchange management policy requires the New Zealand Customs Service to manage currency risk arising from future transactions and recognised liabilities by entering into foreign exchange forward contracts to reduce its foreign currency risk exposure. The New Zealand Customs Service's policy has been approved by The Treasury and is in accordance with the requirements of the Treasury Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure.

#### Interest rate risk

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

The New Zealand Customs Service has no interest bearing financial instruments and, accordingly, has no exposure to interest rate risk.

## Credit risk

Credit risk is the risk that a third party will default on its obligation to the New Zealand Customs Service, causing the New Zealand Customs Service to incur a loss.

In the normal course of its business, credit risk arises from debtors and deposits with banks.

The New Zealand Customs Service is only permitted to deposit funds with Westpac and operate foreign currency accounts for overseas posts expenses, with registered overseas banks, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings. For its other financial instruments, the New Zealand Customs Service does not have significant concentrations of credit risk.

The New Zealand Customs Service's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents and net debtors (note 7). There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

## Liquidity risk

Liquidity risk is the risk that the New Zealand Customs Service will encounter difficulty raising liquid funds to meet commitments as they fall due.

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

The table below analyses the New Zealand Customs Service's financial liabilities that will be settled based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Less than 6 Months \$000	Between 6 Months and 1 Year \$000	Between 1 and 5 Years \$000	Over 5 Years \$000
<b>2017/18</b>				
Creditors and other payables (note 10)	19,494	-	-	-
<b>Total</b>	<b>19,494</b>	-	-	-
<b>2018/19</b>				
Creditors and other payables (note 10)	16,561	-	-	-
<b>Total</b>	<b>16,561</b>	-	-	-

## Note 17: Categories of financial instruments

### 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 twelve months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the Statement of Comprehensive Revenue and Expense as is any gain or loss when the liability is derecognised. There have been no financial liabilities designated as hedge items, therefore, no hedge accounting applied.

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Financial assets measured at amortised cost</i>	
27,144	Cash and cash equivalents	19,762
55,852	Debtors and other receivables	48,158
<b>82,996</b>	<b>Total financial assets measured at amortised cost</b>	<b>67,920</b>
	<i>Financial liabilities measured at amortised cost</i>	
19,494	Creditors and other payables	16,561
<b>19,494</b>	<b>Total financial liabilities measured at amortised cost</b>	<b>16,561</b>

## Note 18: Related party information

The New Zealand Customs Service is a wholly owned entity of the Crown.

### Related parties

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the New Zealand Customs Service would have adopted in dealing with the party at arm's length in the same circumstances. The Government reporting entity comprises a large number of commonly controlled entities, which includes the New Zealand Customs Service. These entities, and their key management personnel, transact among themselves on a regular basis, for example, for the purchase of postage stamps and the registration of vehicles. These transactions are conducted at arm's length. Any transactions not conducted at arm's length will be disclosed in the financial statements.

2017/18		2018/19
Actual \$000		Actual \$000
	<b>Leadership Team, including the Comptroller</b>	
\$1,807,538	Salaries and other short-term employee benefits	\$1,723,733
6.0	Full-time equivalent staff	6.0

The above key management personnel disclosure for the New Zealand Customs Service consists of the members of the Customs Executive Board (discussed on page 30). It excludes the remuneration of the Minister of Customs. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Members of Parliament (Remuneration and Services) Act 2013 and are paid under Permanent Legislative Authority, and not paid by the New Zealand Customs Service.

If close family members of key management personnel are employed by the New Zealand Customs Service, the terms and conditions of those arrangements are no more favourable than would be adopted if there were no relationship to key management personnel.

## Note 19: Capital management

The New Zealand Customs Service's capital is its equity, which comprises taxpayers' funds and the memorandum account.

Equity is represented by net assets. The New Zealand Customs Service manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. The New Zealand Customs Service's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions and the Public Finance Act 1989.

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

## Note 20: Reconciliation of net surplus/deficit to net cash flow from operating activities for the year ended 30 June 2019

2017/18		2018/19
Actual \$000		Actual \$000
9,958	<b>Net operating surplus/(deficit)</b>	<b>(3,688)</b>
17,386	Depreciation and amortisation expense	17,671
<b>17,386</b>	<b>Total non-cash items</b>	<b>17,671</b>
	<i>Working capital movements</i>	
(17,079)	(Increase)/decrease in debtors and receivables	7,581
1,557	(Increase)/decrease in prepayments	(3,208)
185	Increase/(decrease) in creditors and payables	(5,597)
172	Increase/(decrease) in employee entitlements	(257)
(205)	Increase/(decrease) in other short term liabilities	(227)
<b>(15,370)</b>	<b>Working capital movements – net</b>	<b>(1,708)</b>
	<i>Movements in non-current liabilities</i>	
–	Provision for premises make good	–
(30)	Increase/(decrease) in employee entitlements	176
<b>(30)</b>	<b>Movements in non-current liabilities</b>	<b>176</b>
(4)	(Increase)/decrease in investing activity items	(8)
386	Net (gain)/loss on sale of fixed assets/impairment	35
<b>382</b>	<b>Total investing activity items</b>	<b>27</b>
<b>12,326</b>	<b>Net cash from operating activities</b>	<b>12,477</b>



## Note 21: Memorandum Account

2017/18		2018/19
Actual \$000		Actual \$000
8,551	Opening balance 1 July	17,353
72,670	Revenue – Border Clearance Levy	66,539
(63,868)	Expenses	(78,201)
<b>17,353</b>	<b>Closing balance of total memorandum accounts</b>	<b>5,691</b>

This account summarises financial information relating to the accumulated surplus or deficit incurred in the provision of traveller clearance services operating on a full recovery basis from third parties through the Border Clearance Levy. The account enables the New Zealand Customs Service to take a long-run perspective to fee setting and cost recovery.

These transactions are included as part of the New Zealand Customs Service's operating income and expenses in the surplus/(deficit) – however, these transactions are excluded from the calculation of the New Zealand Customs Service's return of operating surplus. The cumulative balance of the surplus/(deficit) of the Memorandum Account is recognised as a component of equity (refer note 15).

The memorandum account allows for the fact that revenue and expenses may not necessarily equate in any given financial year, with balances expected to trend to zero over a reasonable period of time (three to five years).

The current levy rates, effective from 1 July 2018, were set based on forecast traveller processing costs, forecast traveller volumes, and reducing the surplus over the term of the three-year levy period. Traveller volumes and therefore levy revenue were lower than expected increasing the forecast deficit.

The New Zealand Customs Service has undertaken a significant piece of work to review its cost recovery model, using a new Activity Based Costing (ABC) methodology and a robust cost recovery framework. The ABC model has given Customs a better understanding of the actual cost of its activities and the framework is used to determine which activities are to be funded by which fees.

The actual cost of those services provided in clearing travellers is higher than the forecast. This, along with the lower levy revenue, results in the memorandum account surplus reducing faster than forecast.

## **Note 22: Explanations for major variances from 2018/19 Budget**

### **Statement of Comprehensive Revenue and Expense**

Other Revenue was lower than budget due to goods clearance volumes not meeting the level forecast.

In response to the increase in passenger volumes, Personnel costs were higher than budget, which was not adjusted for the forecast increase.

Depreciation was lower than budget due to delays in the capital programme.

### **Statement of Change in Equity**

Total equity was lower than budget due to the deferral of the capital injection for the Drug Smuggling Networks: Strategic Disruption programme (funded in Budget 2018) and the higher expenditure going against the memorandum account for the Border Clearance Levy based on the Activity Based Costing methodology.

### **Statement of Financial Position**

Actively managing the cash balance down resulted in Cash lower than budget.

The increase in receivables is largely due to an increase in the Debtor Crown as the memorandum account surplus reduced the need to draw down cash.

Property, plant and equipment and Intangible assets have decreased compared to budget due to delays in the capital programme.

The lower-than-forecast level of Creditors is due to the timing of trade creditor and tax payments due at year end.

### **Statement of Cash Flows**

The net cash flow from operating activities and resulting impact on the cash balance is lower than budget due to the management and timing of revenue drawn down from the Crown.

## **Note 23: Events after the balance date**

There have been no significant events after the balance date.



# Non-Departmental Statements and Schedules

The following non-departmental statements and schedules record the income, expenses, assets, liabilities, commitments, contingent liabilities and contingent assets that the New Zealand Customs Service manages on behalf of the Crown.

## Summary of Schedules and Statements

For the year ended 30 June 2019

2017/18		2018/19			2019/20
Actual		Unaudited Budget	Unaudited Supps	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000	\$000
14,379,262	Revenue	14,687,140	15,403,869	15,551,913	16,012,282
2,445	Expenditure	8,060	8,080	5,754	8,080
2,113,145	Assets	2,155,594	2,206,854	2,197,512	2,255,976
24,477	Liabilities	21,023	24,477	17,960	24,477

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

## Schedule of Non-Departmental Revenue

For the year ended 30 June 2019

2017/18		2018/19			2019/20
Actual		Unaudited Budget	Unaudited Supps	Actual	Unaudited Forecast
\$000		\$000	\$000	\$000	\$000
<b>Revenue</b>					
<i>Indirect taxation</i>					
1,017,216	Customs and excise duty on alcohol	1,053,000	1,066,000	1,085,595	1,100,000
1,806,552	Customs and excise duty on tobacco products	1,741,000	1,959,000	1,980,160	1,969,000
1,963,275	Customs and excise duty on refined motor spirit	2,029,000	2,032,000	2,048,194	2,146,000
171,672	Customs duty on other imported goods	172,000	177,000	171,991	177,000
9,420,487	Goods and Services Tax	9,692,000	10,161,000	10,257,202	10,609,000
<b>14,379,202</b>	<b>Total indirect taxation</b>	<b>14,687,000</b>	<b>15,395,000</b>	<b>15,543,142</b>	<b>16,001,000</b>
<i>Indirect non-taxation</i>					
60	World Customs Organization	60	80	67	80
-	Sale of seized goods	80	80	275	80
-	SGG Levy	-	8,660	8,348	10,560
-	Infringement Notice	-	49	81	562
<b>60</b>	<b>Total indirect non-taxation</b>	<b>140</b>	<b>8,869</b>	<b>8,771</b>	<b>11,282</b>
<b>14,379,262</b>	<b>Total revenue</b>	<b>14,687,140</b>	<b>15,403,869</b>	<b>15,551,913</b>	<b>16,012,282</b>

## Schedule of Non-Departmental Expenditure

For the year ended 30 June 2019

2017/18			2018/19		2019/20
Actual			Unaudited Budget	Unaudited Supps	Actual
\$000	Note		\$000	\$000	\$000
<i>Expenditure</i>					
60	World Customs Organization		60	80	67
2,385	Expected credit loss on financial assets	2	8,000	8,000	5,687
<b>2,445</b>	<b>Total expenditure</b>		<b>8,060</b>	<b>8,080</b>	<b>5,754</b>
					<b>8,080</b>

## Schedule of Non-Departmental Assets

As at 30 June 2019

2017/18			2018/19		2019/20
Actual			Unaudited Budget	Unaudited Supps	Actual
\$000	Note		\$000	\$000	\$000
<i>Current assets</i>					
990,390	Cash and cash equivalents		953,422	990,390	1,109,657
1,122,755	Receivables and other receivables	2	1,202,172	1,216,464	1,087,855
<b>2,113,145</b>	<b>Total assets</b>		<b>2,155,594</b>	<b>2,206,854</b>	<b>2,197,512</b>
					<b>2,255,976</b>

## Schedule of Non-Departmental Liabilities

As at 30 June 2019

2017/18			2018/19		2019/20
Actual			Unaudited Budget	Unaudited Supps	Actual
\$000	Note		\$000	\$000	\$000
<i>Current liabilities</i>					
21,456	Payables and provisions		21,023	24,477	15,021
3,021	Creditor – departmental		–	–	2,939
<b>24,477</b>	<b>Total liabilities</b>	3	<b>21,023</b>	<b>24,477</b>	<b>17,960</b>
					<b>24,477</b>

## Statement of Non-Departmental Contingent Liabilities and Assets

As at 30 June 2019

2017/18		2018/19
Actual \$000		Actual \$000
	<i>Contingent liabilities</i>	
38,041	Legal proceedings and disputes – assessed	682
<b>38,041</b>	<b>Total contingent liabilities</b>	<b>682</b>
	<i>Contingent assets</i>	
173	Legal proceedings – assessed	2,183
<b>173</b>	<b>Total contingent assets</b>	<b>2,183</b>

### Contingent liabilities

Assessed legal proceedings and disputes represent the disputed assessments of revenue amounts in relation to the performance of the New Zealand Customs Service's statutory role and associated estimated legal costs. The New Zealand Customs Service is currently defending these assessments of revenue.

### Contingent assets

Crown contingent assets are seizures that have been appealed and may result in forfeiture to the Crown.

## Schedule of Non-Departmental Commitments

As at 30 June 2019

The New Zealand Customs Service has no Crown Commitments as at 30 June 2019 (30 June 2018: nil).

## Notes to the Non-Departmental Statements and Schedules

For the year ended 30 June 2019

### Note 1: Statement of accounting policies

#### Reporting entity

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

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

#### Basis of preparation

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

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

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The following particular accounting policies have been applied.

#### Revenue

The New Zealand Customs Service collects revenue on behalf of the Crown.

The Crown provides many services and benefits that do not give rise to revenue. Further, payment of tax does not, in itself, entitle a taxpayer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving Crown services and transfers. Accordingly it is classified as non-exchange revenue.

Tax revenue is recognised when a taxable event has occurred and the tax revenue can be reliably measured. The taxable event is defined as follows:

Tax type	Taxable activity
Goods and services tax	The importation of taxable goods and services during the taxation period
Excise tax	An inland tax on the sale, or production for sale, of specific goods
Excise equivalent tax	An importation tax of the equivalent to the inland tax on the sale, or production for sale, of specific goods
Customs duty	A customs duty is a tariff or tax on the importation (usually) or exportation (unusually) of goods

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not declare the correct value of goods liable for taxation. The New Zealand Customs Service has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various Acts it administers. These systems and controls include performing audits of taxpayer records where determined necessary by the New Zealand Customs Service. Such procedures cannot be expected to identify all sources of non-compliance with tax laws. The New Zealand Customs Service is unable to estimate the amount of unreported tax.

## Debtors and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate, less any provision for impairment.

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

## Contingent liabilities and assets

Contingent liabilities and assets are disclosed at the point at which the contingency is evident.

## Changes in accounting policies

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

## Budget figures

The 2018/19 "Budget" figures are for the year ended 30 June 2019 and were published in the 2017/18 annual report and *The Estimates of Appropriations* for the Government of New Zealand for the year ending 30 June 2019. The 2018/19 "Supps" figures are those from *The Supplementary Estimates of Appropriations 2018/19*. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

## Forecast figures

The presentation of forecast financial information is a statutory requirement of the Public Finance Amendment Act 2013. The aim of this is to increase transparency by providing next year's forecast for comparison.

The 2020 forecast figures for the year ending 30 June 2020 are consistent with the best estimate financial forecast information submitted to Treasury for the Budget Economic and Fiscal Update for the 2019/20 year.

## Note 2: Debtors and other receivables

2017/18		2018/19
Actual \$000		Actual \$000
910,449	Crown receivables	850,696
(6,608)	Less accumulated expected credit losses	(11,132)
<b>903,841</b>	Net Crown receivables	<b>839,564</b>
218,914	Accrued revenue	248,291
<b>1,122,755</b>	<b>Total debtors and other receivables</b>	<b>1,087,855</b>
	<i>Represented by:</i>	
<b>1,122,755</b>	Receivables from non-exchange transactions	<b>1,087,855</b>



2017/18		2018/19
Actual \$000		Actual \$000
895,902	Not past due	935,244
226,853	Past due 1–30 days	152,611
–	Past due 31–60 days	–
–	Past due 60 days	–
<b>1,122,755</b>	<b>Total</b>	<b>1,087,855</b>

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

2017/18		2018/19
Actual \$000		Actual \$000
12,374	Balance at 1 July	6,608
2,385	Change in the accumulated expected credit losses	5,687
(8,151)	Less: Bad debts written off	(1,163)
<b>6,608</b>	<b>Balance at 30 June</b>	<b>11,132</b>

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

### Note 3: Creditors and other payables

2017/18		2018/19
Actual \$000		Actual \$000
21,456	Payables and accruals	15,021
3,004	Import Entry Transaction Fees payable	2,939
17	Other creditors – Departmental	–
<b>24,477</b>	<b>Total creditors and other payables</b>	<b>17,960</b>

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

## Note 4: Financial instruments

The carrying amounts of financial assets and financial liabilities in each of the PBE IFRS 9 categories are as follows:

2017/18		2018/19
Actual \$000		Actual \$000
<b>Financial assets measured at amortised cost</b>		
990,390	Cash and cash equivalents	1,109,657
1,122,755	Debtors and other receivables	1,087,855
<b>2,113,145</b>	<b>Total financial assets measured at amortised cost</b>	<b>2,197,512</b>
<b>Financial liabilities measured at amortised cost</b>		
24,477	Creditors and other payables	17,960
<b>24,477</b>	<b>Total financial liabilities measured at amortised cost</b>	<b>17,960</b>

### Credit risk

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

In the normal course of its business, credit risk arises from debtors and deposits with banks.

Funds must be deposited with Westpac, a registered bank.

Maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, and net debtors. There is collateral held as security against some of these financial instruments in the form of bank guarantees and deposits held in trust.

## Note 5: Major budget variations

### Schedules and statements: non-departmental

#### Non-Departmental revenue

Crown Revenue changes are driven by economic conditions and changes in consumer behaviour.

#### Non-Departmental expenditure

Expenses are less than budget due to effective debt management.

# Information Required by Statute

For period from 1 July 2018 to 30 June 2019

Customs and Excise Act 2018 (from 1 October 2018 – when the Act came into force – to 30 June 2019)

Section 438 – electronic devices searched

Type of search	Number of devices searched
Initial search under section 228(2)(a)	671
Full search under section 228(2)(b)	47*

\*Total only includes devices subject to a full search (excluding any devices that were not accessed and searched as the password/passcode was not provided and forensic tools had not been able to access the device)

As some travellers have multiple devices, the devices searched in 2018/19 were carried by a total of 364 travellers (so Customs searched the devices of 0.003% of total travellers in the nine-month period).<sup>56</sup>

**Section 439 – initiatives or other steps to reduce costs of complying with Act for businesses with strong record of compliance**

Initiatives or other steps taken during 2018/19 to reduce the costs of complying with this Act for businesses that have a strong record of compliance with this Act/for “trusted” traders are:

- Progressing development of a Secure Trade Lane with Australia
- Progressing development of an eCommerce Green Lane with Australia
- Entering into Mutual Recognition Arrangements with Canada and Singapore.

All of these are discussed in the “Trade” section of this Annual Report on pages 17–18.

Customs continued to deliver programmes and services that provide lower costs for businesses that meet qualifying criteria under the Customs and Excise Act 2018, and which are recognised internationally as services to trusted traders. These include:

- The provisional values scheme for qualifying importers (section 102)
- The deferred accounts scheme for qualifying duty payers (section 123)
- The Secure Exports Scheme (section 281)
- Remission of Excise for Approved Licensees (Customs and Excise Regulations).

**Search and Surveillance Act 2012**

Section 171(a)-(d) – use of warrantless powers

Number of occasions on which entry or search powers were exercised without a warrant	1,305 <sup>57</sup>	
Number of occasions on which warrantless surveillance powers were exercised that involved the use of a surveillance device	Nil	
In relation to any surveillance devices used without a warrant, the:		
Number of interception devices used for:	≤24 hours	N/A
	>24 hours but ≤48 hours	N/A
Number of tracking devices used for:	≤24 hours	N/A
	>24 hours but ≤48 hours	N/A
Number of visual surveillance devices used for:	≤24 hours	N/A
	>24 hours but ≤48 hours	N/A
Number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by the exercise of a warrantless search or surveillance power	9	

<sup>56</sup> Some devices were subject to both an initial search and a full search so are in both totals.

<sup>57</sup> This total principally relates to one investigation involving the examination of over 1,000 packages under section 237 of the Customs and Excise Act 2018 (powers if goods no longer under control of Customs suspected to be involved in offences or to be forfeited goods) – with the warrantless search power being exercised in relation to each package.

**Section 171(e) – matters set out in section 172 in relation to surveillance device warrants**

Number of applications for surveillance device warrants		6
Number of applications for surveillance device warrants granted		6
Number of applications for surveillance device warrants refused		0
Number of surveillance device warrants granted that authorised the use of:	tracking devices only	1
	visual surveillance devices only	1
	interception devices only	N/A
	tracking devices and visual surveillance devices	4
Number of surveillance device warrants granted that authorised entry into private premises		N/A
Number of interception devices used (authorised by a surveillance device warrant) for:	≤24 hours	Nil
	>24 hours but ≤3 days	Nil
	>3 days but ≤7 days	Nil
	>7 days but ≤21 days	Nil
	>21 days but ≤60 days	Nil
Number of tracking devices used (authorised by a surveillance device warrant) for:	≤24 hours	1
	>24 hours but ≤3 days	4
	>3 days but ≤7 days	8
	>7 days but ≤21 days	14
	>21 days but ≤60 days	5
	>60 days (based on multiple warrants)	2
Number of visual surveillance devices used (authorised by a surveillance device warrant)* for:	≤24 hours	2
	>24 hours but ≤3 days	2
	>3 days but ≤7 days	1
	>7 days but ≤21 days	6
	>21 days but ≤60 days	4
	>60 days (based on multiple warrants)	2
Number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities under the authority of a surveillance device warrant		0
Number of reported breaches by a Judge to the chief executive (under section 61 or 62) of any of the conditions of the issue of a surveillance device warrant		Nil
Number of reports by a Judge to the chief executive (under section 61 or 62) about the use of a surveillance device not authorised under section 48 (warrantless emergency and urgency powers)		Nil

\*Some of the tracking and visual surveillance devices deployed by the New Zealand Customs Service in 2018/19 were authorised by surveillance device warrants obtained by NZ Police – as part of joint operations.

**Section 171(e) – matters set out in section 172 in relation to declaratory orders**

Number of applications for declaratory orders		Nil
Number of applications for declaratory orders granted		N/A
Number of applications for declaratory orders refused		N/A
Number of declaratory orders made that related to the use of:	a device	N/A
	a technique	N/A
	a procedure	N/A
	an activity	N/A
General description of the nature of the:	device	N/A
	technique	N/A
	procedure	N/A
	activity	N/A
Number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities covered by a declaratory order made		N/A

**Misuse of Drugs Act 1975 (Misuse of Drugs Amendment Act 1978)****Section 13M – detention warrants and searches**

Number of applications for detention warrants made under section 13E		1
Number of applications for renewal of detention warrants made under section 13I		Nil
Number of applications under sections 13E and 13I granted		1
Number of applications under sections 13E and 13I refused		Nil
Average duration of detention warrants (including renewals) granted		7 days
Number of prosecutions instituted in which has been adduced evidence obtained directly during the detention of any person pursuant to detention warrants Result: prison sentence of 6 years, 3 months and 2 weeks		1
Number of rub-down searches and strip searches under section 13EA		2

## Privacy Act 1993

### Section 109F – details of the operation of Part 10A and Schedule 4A relating to accessing information to verify the identity of a person

Customs accessed information held by another agency to verify the identity of a person	Number of times
Department of Corrections	362
Department of Internal Affairs	Nil
MBIE (Immigration)	Nil
Ministry of Health and District Health Boards	Nil
New Zealand Transport Agency	Nil

In each instance where Customs accessed data held by the Department of Corrections (Corrections) it related to an alert created by Corrections (Customs' border management system electronically screens passenger information for matches, enabling Customs to notify Corrections if a person subject to an alert arrives at the border). Customs submitted a phone and email request to Corrections for offender images and supporting details to verify the identity of the person attempting to depart New Zealand – Corrections supplied an email response with an attached photograph.