



December 1, 2011

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: Federal Reporting Model - **TAB D** ¹

MEETING OBJECTIVE

The objective of the meeting is to update the Board on the status of the Reporting Model project. Unless a member requests, the update will not be a discussion item on the agenda.

BRIEFING MATERIALS

The transmittal memorandum includes a discussion of the status of the Reporting Model project beginning on page 2. In addition, Appendix A: New Zealand Customs Service Financial Report provides an agency level financial report from New Zealand. The report includes an audited Statement of Service Performance which integrates financial and non-financial performance information and provides budget-to-actual comparisons.

BACKGROUND

During the October 2011 meeting, the Board discussed the report entitled, *The Chief Financial Officers Act of 1990 – 20 Years Later: Report to the Congress and the*

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations

Comptroller General (CFO Act Report), and attending the meeting to participate in the discussions were:

- Danny Werfel, Controller, Office of Federal Financial Management, Office of Management and Budget
- James L. Taylor, Chief Financial Officer, Department of Labor
- Jon T. Rymer, Inspector General, Federal Deposit Insurance Corporation

The CFO Act Report identified the lessons learned since the CFO Act of 1990 was enacted and offered the following recommendations:

- The Congress should consider enhancing the role of the CFO by standardizing the CFO's portfolio to include leadership responsibility for budget formulation and execution, planning and performance, risk management and internal controls, financial systems, and accounting. To provide continuity during the often lengthy period between appointments of agency CFOs, the Congress should also consider providing Deputy CFOs with the same breadth of responsibilities as their respective CFOs.
- The Congress should consider directing OMB, GAO, and the Federal Accounting Standards Advisory Board (FASAB), in consultation with CIGIE, to evolve the financial reporting model by examining the entire process with an eye toward how to further improve and streamline current reporting requirements and to better meet the needs of all stakeholders.

Also, FASAB discussed the next steps for the reporting model project. The Board determined that staff should begin reviewing the component entity level by conducting discussions with CFOs and representatives from various groups to help the Board better determine what information is of value to users.

STAFF ANALYSIS AND RECOMMENDATIONS

Currently, staff has two initiatives in progress – Roundtable Discussions with CFOs and Interviews with Program Managers. Also, staff has completed an inquiry of other countries. Staff conducted the inquiry to learn about agency level reporting models of other governments. At this time, there are no recommendations or questions for FASAB consideration. Additional information on the status of the project is discussed below.

1: Roundtable Discussions with CFOs

Staff has started conducting roundtable discussions with CFOs. Staff will conduct an initial discussion on December 8, 2011. The primary objective of the meeting will be to identify changes CFOs believe are needed in light of the current environment. A secondary objective will be to identify ways FASAB may be helpful to the CFO community as it strives to improve linkages between CFOs and program managers. Staff plans to conduct the next roundtable in early January 2012.

2: Interviews with Program Managers

Staff has started conducting interviews with program managers. The objectives of the interviews are to determine what financial information managers perceive to be useful in managing federal programs; possibly obtain examples of the information or reports used; and determine how the existing reports might be improved. Staff plans to complete the interviews in January 2012.

3: Component Level Reporting of Other Countries

Governments of other nations reported that their component level entities prepare a set of financial statements and those financial statements are audited. During October and November 2011, staff conducted inquiries of Organization for Economic Co-operation and Development (OECD) member countries² to learn about their reporting models for component level entities. We received feedback from the following 10 nations: Australia, Chile, Estonia, Korea, New Zealand (NZ), Norway, Spain, Sweden, Switzerland, and United Kingdom. All responded that their government's ministries or agencies prepare financial statements in conformity with a set of standards and the statements are audited by an independent body.

In addition, the respondents generally noted that the primary financial statement users are internal, such as the government's legislative body and agency management. These users seek information for budget and strategic planning and evaluating agency performance. To help address these expectations and to demonstrate accountability, agencies prepare "traditional" financial statements, like a balance sheet and income statement, and provide other statements and information such as budgetary statements and non-financial performance measures. Like the United States, other governments appear to recognize the need to deliver information about agencies that provides different perspectives (accrual, budget, and non-financial performance).

² OECD members other than the U.S. include Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom.

Regarding the budgetary statements, some respondents noted presenting budget-to-actual comparisons to help evaluate performance in achieving goals and to help in planning for the next period. The comparison also provides a means of demonstrating accountability to the public. In the United States, the Governmental Accounting Standards Board (GASB) focuses on external users, but requires budget-to-actual comparison schedules as required supplementary information (RSI) for the general fund and for each major special revenue fund that has a legally adopted annual budget.³ The schedules are prepared on the budgetary basis and enable users to see the sources of budgetary inflows and outflows classified by function.

At the federal level, FASAB considers that the sources of resources for the government as a whole differ from that of agencies.⁴ The government as a whole receives exchange and non-exchange revenue and can borrow from the public; however, agencies generally receive appropriations which provide them with the authority to incur obligations. Currently, FASAB standards require agencies to present budgetary information such as a statement of budgetary resources, but do not require budget- to-actual comparisons.

Also, staff observed that in the view of at least one respondent, the suite of audited statements presented about agencies should not necessarily be limited to tabular constructs with notes or disclosures. Although the inquiry focused on audited financial statements, NZ provided a financial report that includes a presentation that integrates different perspectives and uses narrative discussions and graphics to help explain agency performance to readers. The presentation, Statement of Service Performance, includes comparisons of forecasted performance with actual performance and forecasted revenue and output expenses with actual amounts. In addition, the statement is audited. An independent auditor provides an opinion on whether the information fairly reflects the agency's service performance and outcomes. Appendix A: New Zealand Customs Service Financial Report includes a Statement of Service Performance.

In comparison with the NZ statement, FASAB standards require management's discussion and analysis (MD&A). MD&A should address the agency's mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance. The presentation should also include forward-looking information.⁵ However, MD&A is not audited. Instead, it is subject to certain procedures specified by generally accepted government auditing standards for RSI.

Table 1: Summary of Inquiry Responses provides a summary of the responses received during our inquiry.

³ GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, par. 130.

⁴ For instance, see Statement of Federal Financial Accounting Standards (SFFAS) 24, *Selected Standards for the Consolidated Financial Report of the U.S. Government*.

⁵ SFFAS 15, *Management's Discussion and Analysis*.

Table 1: Summary of Inquiry Responses

Respondent	Component Level Financial Statements Prepared	Component Level Financial Statements Prepared in Conformity with Standards	Component Level Financial Statements Audited	Statements included in the set of Financial Statements	Frequency of Preparing Financial Statements	Primary Users	How Financial Statements are Used	Key Metrics, Comparisons, and Trends Presented
Australia	Yes	Yes	Yes	Various ⁶	Annually	Parliament, although no defined primary user.	Various ⁷	Various ⁸

⁶ Income Statement, Balance Sheet, Cash flow statement, Schedule of Commitments, Schedule of Contingencies, and financial tables that show actual financial performance versus budget. Agency financial statements are not usually intended to provide information about non-financial performance or long-term trends.

⁷ Accountability; elements of financial statements used by ministers and Cabinet committees for decision-making; financial data in tables used to assess performance and inform views about budget proposals.

⁸ This will vary depending on the aspect of financial management being considered. Some examples include:

- When read with portfolio budget statements, a comparison to budget, both original budget and currently approved budget, principally for operating statement and cash flow, but also at a disaggregated level (outcomes/programs, cost recovery activities etc)
- Individual appropriation line items, to provide public accountability that appropriation limits have not been breached, and some appropriation disclosures in agency financial statements can lead to formal appropriation reductions
- Operating result (in accounting standard terms) – since approval must be sought for an agency operating deficit
- Cash balances to determine if excessive cash is being held, whether new policy/capital proposals can be partly internally funded or the capacity to pay dividends (for a for-profit entity)
- Trends in capital acquisitions and comparison to budget, to inform capital funding requirements
- Amounts held in special accounts (a special account in the Australian context is money held within an agency but formally hypothecated/quarantined as to purpose)
- Typical private-sector analytical information for for-profit entities (to assist in analyzing financial position from a “shareholder” perspective)
- A key “qualitative” metric is whether there is an audit qualification or not.
- Key budget aggregates to determine the relative contribution of agencies to the overall budget position (e.g. equivalents to net lending/borrowing; Government Finance Statistics (GFS) Cash Surplus/deficit)

Respondent	Component Level Financial Statements Prepared	Component Level Financial Statements Prepared in Conformity with Standards	Component Level Financial Statements Audited	Statements included in the set of Financial Statements	Frequency of Preparing Financial Statements	Primary Users	How Financial Statements are Used	Key Metrics, Comparisons, and Trends Presented
Chile	Yes	Yes	Yes	Balance Sheet Income Statement Statement of Cash Flows Statement of Budgetary Resources Statement of Changes in Equity ⁹	Monthly	General Comptroller Office Budget Directorate Agencies and Ministries National Congress	Making budget decisions, accountability, and strategic planning	Various ¹⁰
Estonia	Yes	Yes	Yes	Balance Sheet Income Statement Statement of Cash Flows Statement of Budgetary Resources	Monthly	Agencies and ministries use cash-based statement of fulfillment of budgetary resources	Statements used to ensure that funds are left for the operative period and to make budget decisions for the next period	The budget of the previous period is used in the budget preparation process.

⁹ The above statements will be required at the end of FY 2011.

¹⁰ Institutional Balance – to see the change in account balances; Income Statement - to monitor management's performance; Budget Resources - monitor the use of budgetary resources and assess budget execution; Cash Flows – to see the cash position of each agency ; Changes in Equity – to see the variations to equity in a specified period of time.

Respondent	Component Level Financial Statements Prepared	Component Level Financial Statements Prepared in Conformity with Standards	Component Level Financial Statements Audited	Statements included in the set of Financial Statements	Frequency of Preparing Financial Statements	Primary Users	How Financial Statements are Used	Key Metrics, Comparisons, and Trends Presented
Korea	Yes	Yes	Yes	Statement of Financial Position Statement of Financial Operation Changes in Net Assets	Annually	Ministries, National Assembly, Citizens	Understanding financial status, strategic planning, evaluating performance, and developing indexes to show accountability of the nation.	In 2011, financial statements will be submitted to the National Assembly for the first time.
New Zealand	Yes	Yes	Yes	Various ¹¹	Annually	Parliament	Assess how the department performed	Determine how well the department has achieved its financial and non-financial goals
Norway	Yes	Yes	Yes	Statement of Expenditure and Revenues and changes in outstanding balances with the state accounts ¹²	Monthly and annually ¹³	Various ¹⁴	Various ¹⁵	Not addressed ¹⁶

¹¹ A statement of financial performance (sometimes called an operating statement or an income statement), a statement of financial position (sometimes called a balance sheet), and a statement of cash flows; a comparison of forecasts and actual.

¹² Some agencies use accrual accounting and prepare a balance sheet, income and expenses statement, statement of cash flow, statement of budgetary resources (i.e. summary of the simple statement of expenditures and revenues),

¹³ Some agencies use accrual accounting and they produce statements one to three times during the year and at year-end

¹⁴ Responsible line ministry, the state account (within Ministry of Finance; for preparing a report on the central government accounts to the parliament), the Supreme Audit Institution and Statistics Norway

Respondent	Component Level Financial Statements Prepared	Component Level Financial Statements Prepared in Conformity with Standards	Component Level Financial Statements Audited	Statements included in the set of Financial Statements	Frequency of Preparing Financial Statements	Primary Users	How Financial Statements are Used	Key Metrics, Comparisons, and Trends Presented
Spain	Yes	Yes	Yes	Various ¹⁷	Annually	Management and Directive Bodies, Citizens have access	Used for budgeting decisions and accountability. Also, strategic planning and evaluating.	Not addressed
Sweden	Yes	Yes	Yes	Balance Sheet, Income Statement, Statement of Budgetary Resources	Annually	Ministries	Various ¹⁸	A table of key metrics includes operating cost per full-time employee and a comparison of budget and actual amounts

¹⁵ The cash based, simple financial statements are used for making budget decisions, monitoring budget compliance, and demonstrating accountability. The accrual based, comprehensive financial statements are used for supplementary evaluations and analyses.

¹⁶ As the standards for the accrual based financial statements were established in 2010 there is a lack of experience with key metrics, comparisons and trend evaluations in Norwegian Government Agencies.

¹⁷ Balance Sheet, Statement of Financial Performance, Statement of Changes in Equity, Cash Flow Statement, Budget Settlement Statement

¹⁸ Budget decision-making, strategic planning, and demonstrating accountability. Also, a verbal statement of results of operations describes performance and is used to evaluate performance.

Respondent	Component Level Financial Statements Prepared	Component Level Financial Statements Prepared in Conformity with Standards	Component Level Financial Statements Audited	Statements included in the set of Financial Statements	Frequency of Preparing Financial Statements	Primary Users	How Financial Statements are Used	Key Metrics, Comparisons, and Trends Presented
Switzerland	Yes, but not issued.	Yes	Yes ¹⁹	Income Statement Statement of Investments	Annually	Members of Parliament, especially the Financial Commissions; the public administration; and the public .	Evaluating performance and demonstrating accountability.	Various ²⁰
United Kingdom	Yes	Yes	Yes	Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Tax Payer Equity	Annually	Parliament, and core department	Demonstrating accountability, budget decisions, assessing performance (measured against business plans)	Departments determine key performance indicators and report achievement toward indicators

¹⁹ Most agencies audited every 3-5 years, but key agencies audited annually.

²⁰ Elements like the credit appropriations, the corresponding figures in the income statement and statement of investments, comparisons to the budget and the previous year, the relating comments, information concerning performance management (products, performance indicators). Additionally, financial ratios are reported to compare the agencies.



NEW ZEALAND CUSTOMS SERVICE

ANNUAL REPORT 2010/11



NEW ZEALAND
CUSTOMS SERVICE
TE MANA ĀRAI O AOTEAROA

PROTECTING NEW ZEALAND'S BORDER

ANNUAL REPORT 2010/11

NEW ZEALAND CUSTOMS SERVICE

**REPORT OF THE NEW ZEALAND CUSTOMS SERVICE
FOR THE YEAR ENDED 30 JUNE 2011**



Presented to the House of Representatives
Pursuant to section 44 of the Public Finance Act 1989

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COMPTROLLER'S OVERVIEW

In 2010/11 the New Zealand Customs Service (Customs) processed increased volumes of both trade and travel, and collected significantly higher Crown revenue, while continuing to protect New Zealand from the associated risks.



Against this backdrop, we continued to explore and develop initiatives that can assist us to deliver improved services and meet the Government's expectations of a public service that delivers results and value for money within a constrained fiscal environment. As part of that, we played a leading role in advancing major border sector initiatives aimed at providing simpler and more seamless processes for travellers and traders. In particular, I was very pleased to sign the contract with the selected provider in June 2011 to develop the first stage of the new Joint Border Management System (JBMS). JBMS will replace the ageing systems of both Customs and the Ministry of Agriculture and Forestry (MAF) and will benefit New Zealand's economy and security through reduced duplication, and smarter targeting of people, goods, and craft crossing the border, resulting in faster clearance for those who comply and more attention being paid to those who do not.

“Customs celebrated its 170th year of protecting New Zealand's border in 2010. Our success over those 170 years has been due to our ability to respond to the increasingly complex and constantly evolving environment.”

Considerable progress was also made, with our fellow border agencies and Australian counterpart, towards the Government's objective of streamlining trans-Tasman travel and trade. The further expansion of the SmartGate automated passenger processing system is a significant part of moving trans-Tasman travel a step closer to the 'domestic-like' experience sought. By the end of the 2010/11 financial year, more than one million arriving passengers had been processed through SmartGate. SmartGate has also been expanded to departures at New Zealand's three main airports and the Government showed its confidence in SmartGate by providing additional funding in Budget 2011 for further expansion to cope with expected increases in demand. I am pleased to note that the quality of our SmartGate implementation was recognised in industry awards for transport innovation and project management.

Stopping the flow of illicit drugs into New Zealand continued to be a major focus for Customs in 2010/11. While there is evidence of our success in combating the methamphetamine scourge, we need to remain ever-vigilant as new challenges continue to emerge. As an example, we made our first large seizure of dimethyltryptamine (DMT – similar in nature to LSD), a Class A controlled drug rarely seen in New Zealand. Initial estimates indicated that this haul had a street value of \$4–\$5 million dollars.

Customs celebrated its 170th year of protecting New Zealand's border in 2010. Our success over those 170 years has been due to our ability to respond to the increasingly complex and constantly evolving environment. As we celebrated our 170th year, it was fitting that our head office in Wellington returned to our traditional home on the waterfront.

We also saw the departure of the previous Comptroller of Customs, Martyn Dunne, in early 2011. I wish to take this opportunity to acknowledge Martyn's considerable contribution to Customs in the past seven years and wish him well in his new role as New Zealand's High Commissioner to Australia.

Finally, I wish to recognise the contribution of Customs staff, border agency and international colleagues, and industry stakeholders to the significant progress we made in 2010/11 and to our future.

A handwritten signature in blue ink, appearing to read 'John Secker', with a stylized, cursive script.

John Secker
Acting Comptroller of Customs

PART A

NEW ZEALAND CUSTOMS SERVICE

2010/11

THE YEAR AT A GLANCE

IN 2010/11 THE NEW ZEALAND CUSTOMS SERVICE (CUSTOMS):

TRAVEL

- » processed a record 10.232 million arriving and departing travellers
- » passed the one million milestone for arriving passengers processed through SmartGate

TRADE

- » processed increased numbers of import and export transactions – with export transactions exceeding pre-recession levels
- » entered into a Mutual Recognition Arrangement with the Republic of Korea to enhance supply chain security
- » obtained agreement from United States Customs and Border Protection that members of New Zealand's supply chain security programme would be three and a half times less likely to be examined for security purposes than non-members (tier two status)

REVENUE

- » collected a record \$10.563 billion in Crown revenue – partly due to the improved trade volumes but mainly due to the increase in GST to 15 percent in October 2010

DRUGS

- » saw evidence of our ongoing efforts at the border having an impact on the methamphetamine market

TECHNOLOGY

- » signed a contract with the selected prime vendor to deliver the first stage of the Joint Border Management System—Trade Single Window
- » expanded SmartGate automated passenger processing technology to include arrivals at Christchurch (already in Auckland and Wellington) and departures at Auckland and Wellington (and subsequently Christchurch in August 2011)
- » commenced implementation of the digitally enhanced system technology

ORGANISATION

- » established the Integrated Targeting and Operations Centre, designed to provide all the information necessary for effective border security management in one location

FACILITIES

- » relocated our head office to new premises on the Wellington waterfront
- » opened a new sea cargo inspection facility in Auckland

OPERATING ENVIRONMENT

A range of factors impacted on Customs' operating environment in 2010/11. Improved global economic conditions saw trade and travel volumes rise, in most cases exceeding pre-recession levels. These combined with the continuing changes in New Zealand's trade and travel relationships, and changes in criminal behaviour and illicit commodities to create a more dynamic risk environment. These factors all had an impact on the levels of activity undertaken by Customs, and Customs' performance, in the 2010/11 financial year.

EFFECTS OF THE GLOBAL ECONOMIC DOWNTURN

There was some degree of recovery in 2010/11 from the global economic downturn, and this was seen in the improved volumes of trade and travel processed, and the rise in revenue collected on behalf of the Crown by Customs.

INCREASED NUMBER OF INTERNATIONAL TRAVELLERS

Customs processed a record number of 10.232 million international travellers (all passengers arriving and departing, including crew) in 2010/11. This represents an increase of 3.5 percent from the 9.888 million total in 2009/10, and is 2.9 percent above the total for 2007/08, the previous busiest year on record, of 9.946 million.

Air passengers

The majority of travellers to and from New Zealand are air passengers¹ and there was a record number in 2010/11. We processed a total of 9.270 million arriving and departing air passengers, an increase of 2.8 percent from the total of 9.020 million in 2009/10. The total has now, for the first time since the global economic downturn, exceeded 2007/08 pre-recession levels, with the total for 2010/11 exceeding the previous record total of 9.026 million in 2007/08.



While there was a record total in 2010/11, natural disasters had some impact on numbers. The Canterbury earthquakes (particularly the February earthquake) had the most significant effect, with the number of passengers processed at Christchurch airport down 8.3 percent from 2009/10. The Japan earthquake and tsunami also had a bearing on volumes, although a lesser one, affecting the number of visitors to New Zealand from Japan. The Chilean volcanic ash cloud had a short-term impact on the number of passengers arriving in and departing from New Zealand, with 367 fewer flights to New Zealand (containing commercial passengers) in June 2011 (2,025) compared with June 2010 (2,392).

Marine environment

There was an increased number of marine craft arriving in and departing from New Zealand in 2010/11, and a resulting increase in the number of marine travellers processed by Customs.

¹ Commercial and non-commercial air travellers excluding crew.

Most marine travellers processed by Customs are from cruise ships. A record number of cruise ships visited New Zealand in the year, with the total of 81 being an increase on the 2009/10 total of 69 and the previous peak of 74 in 2008/09 – the bulk of the ships arriving in the summer months. Customs processed 315,106 arriving and departing marine travellers (crew and passengers) from cruise ships in 2010/11, compared with a total of 264,863 in 2009/10 and 265,540 in 2008/09.

INCREASED TRADE VOLUMES

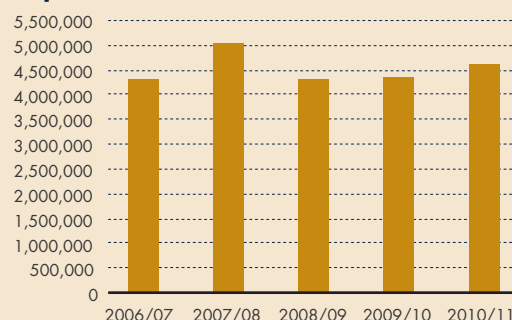
The volumes of import and export transactions processed by Customs continued to rise in 2010/11. While the number of import transactions did not reach the level experienced before the global economic downturn, export transactions continued to increase steadily.

The number of import transactions processed by Customs in 2010/11 increased by 6.3 percent from 2009/10, while remaining 8.2 percent below the 2007/08 pre-recession level. Export transactions increased by 5.6 percent from 2009/10 and 8.8 percent from 2007/08.

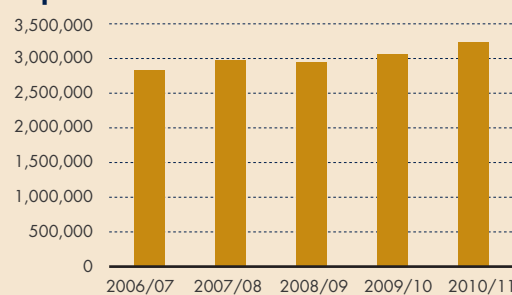
While the number of import transactions in 2010/11 remained below the number processed by Customs before the economic downturn, the value of those transactions exceeded the pre-recession total. The improvement in the economy in 2010/11 can be seen in the total values of the imports and exports processed by Customs, which each exceeded pre-recession totals.

There was a substantial increase in Crown revenue collected in 2010/11, with the total of \$10.563 billion being 20.3 percent more than that collected in 2009/10². This increase was partly due to the improved trade volumes (and the related customs duty and excise payable) resulting from the degree of recovery from the global economic downturn, but was principally due to the increase in the rate of GST payable to 15 percent from 1 October 2010.

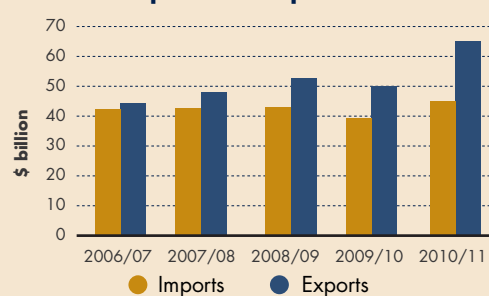
Import transactions



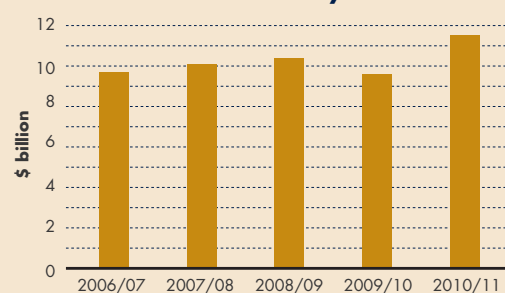
Export transactions



Value of import and export entries



Crown revenue collected by Customs



² The total in 2009/10 being \$8.777 billion, which was lower than each of the prior three financial years due to the global economic downturn.

RISK MANAGEMENT

Customs facilitates trade and travel by applying intelligence-based risk management techniques and targeting those goods or people most likely to present risk. The rising volumes of trade and travel, combined with the continuing change in our trading relationships, expose New Zealand to increased risk while the challenging economic climate potentially encourages more illegal activity. We continue to refine the way we profile and target in order to react to changing risks as they are identified.

CANTERBURY EARTHQUAKES

Customs did not sustain major building damage or loss, or experience any loss of staff, as a result of the Canterbury earthquakes. While there was some short-term impact on trade and travel volumes, the challenges and priorities for us as a result of the earthquakes related, for the most part, to the ongoing welfare and wellbeing of those staff, and their families, who were affected by the earthquakes (and the continuing aftershocks).

We also worked proactively with key stakeholders and clients in Canterbury – such as port companies, freight forwarders, and importers – affected by the earthquakes to facilitate ongoing business.

CUSTOMS' PRIORITIES

We agreed with the Government that our main priorities for 2010/11 would be to:

- » improve competitiveness, security and productivity at the border, by modernising New Zealand's border management system – Joint Border Management System–Trade Single Window
- » increase disruption of supply chains for illicit drugs entering New Zealand, particularly methamphetamine and its precursors, through targeted operational activity
- » enhance border agency coordination to reduce duplication and improve the experience for traders and travellers.

Other continued areas of focus were:

- » maintain vigilance and response preparedness for threats to New Zealand's security
- » continue to streamline, and reduce barriers to, trans-Tasman travel and trade
- » support negotiation, implementation, and maintenance of New Zealand's free trade agreements
- » promote secure and efficient international trade supply chains
- » implement targeted services to support traders.

CUSTOMS' RESPONSE TO THE CHANGING ENVIRONMENT

In the current economic climate, the Government expects departments both to contribute to improved economic performance by more effectively facilitating and supporting export-led growth, and to improve their services while increasing their efficiency. The Government has signalled its appetite for more innovative, technology-based approaches to achieving these goals.

Customs has been active in responding to the Government's priorities, focusing on the development of technology-led approaches to improving the efficiency of New Zealand's travel and trade supply chains, and Customs' service delivery.

Customs continually looks for ways to manage increasing demands and deliver on our priorities within existing resources through better targeting of risks and resources, and innovation to achieve improved efficiency.

We recognise that efficiency and service delivery gains across the border sector will be important in meeting the Government's expectations, and we continued to work with the other agencies in 2010/11 to deliver such gains.

Particular initiatives to improve our service delivery and productivity (both individually and as a member of the border sector) are discussed in both the *Outcomes* and *Organisational Health and Capability* sections of this report.

OUTCOMES

In 2010/11 Customs continued to advance New Zealand's prosperity and security through our three overarching outcomes of Protection, Facilitation, and Revenue.

PROTECTION and FACILITATION

New Zealand is protected, at the border, from the entry, or exit, of people, goods, craft, and Māori taonga and other treasured items, where the entry or exit may pose a material risk to our national interests.

New Zealand's economic, social, environmental, and cultural interests are sustained and enhanced by facilitating the flow of legitimate trade, travel, goods, and Māori taonga and other treasured items, across the border.

Customs needs to understand and balance the constant tension between protecting New Zealand and facilitating tourism and trade that generate value for New Zealand. As Customs seeks to protect New Zealand from major external risks and threats, we must do so with minimal impact on legitimate trade and travel across the border.

Tourism is a significant source of overseas earnings for New Zealand and a major contributor to the economy, and the attractiveness of New Zealand as a tourism destination is affected by the passenger experience and the perceived level of safety. Accordingly, Customs focuses on processing passengers as efficiently as possible while maintaining New Zealand's reputation as a secure country.

New Zealand's geographical isolation and market size make the efficiency of border processes a more important component of trade competitiveness than it is for many other countries. Customs seeks to support economic growth by making trade less complicated to help goods move quickly and efficiently through predictable, consistent, and transparent customs procedures. This quality and speed of trade facilitation must also be balanced with Customs' need to protect New Zealand from external risks and threats to its safety and security and provide assurance over trade supply chains.

The Government has invested in several initiatives that will provide the infrastructure essential to creating a streamlined travel and trade experience for border users. This technology will also provide more sophisticated and faster risk analysis, allowing staff more time to respond to, rather than identify and analyse, risks and alerts. This will enable border agencies, including Customs, to accommodate expected future volume increases with fewer resources than would otherwise be required.

As noted previously, our three main priorities for 2010/11 were:

- » improve competitiveness, security and productivity at the border, by modernising New Zealand's border management system – Joint Border Management System–Trade Single Window
- » increase disruption of supply chains for illicit drugs entering New Zealand, particularly methamphetamine and its precursors, through targeted operational activity
- » enhance border agency coordination to reduce duplication and improve the experience for traders and travellers.

Progress on each of these contributes to these two outcomes.

IMPROVE COMPETITIVENESS, SECURITY AND PRODUCTIVITY AT THE BORDER, BY MODERNISING NEW ZEALAND'S BORDER MANAGEMENT SYSTEM – JOINT BORDER MANAGEMENT SYSTEM-TRADE SINGLE WINDOW

The Joint Border Management System (JBMS) will give New Zealand a modernised and vastly improved border management system to better secure our border and facilitate trade. It will replace the two ageing border processing systems of Customs and the Ministry of Agriculture and Forestry (MAF) and bring the two agencies' border processes together into one system, enabling more integrated border processes, greater efficiencies, and better service delivery.

The JBMS is to be built and implemented in two stages. The Government provided capital funding of \$75.9 million for the first stage in Budget 2010. The first stage is due for completion at the end of 2012.

At the core of the JBMS is a risk management framework that will use sophisticated risk assessment and pattern analysis technologies to provide Customs and MAF with smarter targeting of people, goods, and craft crossing the border. This will help speed up the clearance of low-risk international travellers at the border, thereby enhancing the passenger experience. It will also help Customs and MAF to give trading partners proven assurance about the safety and compliance of New Zealand's exports.

The first stage of the JBMS includes the implementation of the Trade Single Window (TSW). The TSW will enable greater supply chain efficiency by providing exporters and importers with a single electronic point of access to border agencies. It will provide for a single transaction to complete all border compliance requirements. This more streamlined and simplified border clearance process will benefit traders, and therefore New Zealand's economic growth, through a reduced compliance burden while also mitigating border agency cost pressures through removing the need for duplicated collection systems across multiple government agencies.

During 2010/11 Customs and MAF completed a transparent process³ to select the prime vendor for the delivery of the first stage of the JBMS. Following agreement with the Director-General of MAF, and with the approval of the Ministers of Finance, Customs, and Biosecurity, in June 2011 Customs signed a contract with the selected vendor to develop the first stage of the JBMS.

The second stage, for which a business case and Budget bid will be provided to the Government in 2012, has a focus on replacing the remaining parts of the existing systems. If funded, the estimated completion date for that second stage is 2015.

INCREASE DISRUPTION OF SUPPLY CHAINS FOR ILLICIT DRUGS ENTERING NEW ZEALAND, PARTICULARLY METHAMPHETAMINE AND ITS PRECURSORS, THROUGH TARGETED OPERATIONAL ACTIVITY

Customs continues to contribute to the Government's *National Drug Policy 2007–2012* to reduce the supply of illicit drugs to the community. The Government is particularly focused on attacking New Zealand's methamphetamine manufacture and consumption. *Tackling Methamphetamine: an Action Plan* was released in October 2009 with the overall goal of a significant reduction in methamphetamine use, which will lead to a reduction in the harms that it causes.

3 Audit New Zealand provided independent probity assurance of the procurement process.

The Government's Action Plan identified specific actions to be taken by relevant agencies, including Customs⁴. The actions to be undertaken by Customs included enhanced border targeting activity, reprioritising resources to expand our capacity to follow up border interceptions, and exploring the viability of a drug signature programme in conjunction with New Zealand Police and the Institute of Environmental Science and Research (ESR).

TARGETED OPERATIONS

As part of our enhanced border targeting activity, we continued our programme of operations targeting the importation of methamphetamine precursors by reprioritising resources for short bursts of intensive inspection activity. Three operations were undertaken in 2010/11, involving a combination of new targeting approaches, saturation inspection exercises, and ongoing reassessment of existing practices.

These operations enhanced Customs' flow of intelligence and information, which assists in determining the best allocation of Customs' resources.

DRUG SIGNATURE PROGRAMME

Customs, New Zealand Police, and ESR undertook a pilot drug signature programme in 2010/11 to analyse the chemical composition and purity of methamphetamine seized. ESR's analysis of the samples was completed in late 2010/11. New Zealand Police and Customs were to then consider the report on the results and decide on the continuation of a drug signature programme in 2011/12.

DIGITALLY ENHANCED SYSTEM TECHNOLOGY

In Budget 2010, the Government provided \$5.9 million of capital funding to Customs to fight the illicit drug trade through digitally enhanced system technology. This new technology will support Customs' (and other law enforcement agencies' drug-related) investigations by providing more advanced tools to detect the activities of drug criminals, which will enable a step-change in our ability to dismantle criminal networks.

Customs advanced the procurement of this technology in 2010/11. While some of the equipment was deployed for operational purposes, it is to be fully implemented (and the benefits will start to accrue) in 2011/12.

COOPERATION WITH CHINA

China has traditionally been the source of the large majority of methamphetamine precursor arriving in New Zealand. To help address this flow and dismantle supply chains, in October 2010 the New Zealand and China Ministers of customs signed a Statement of Cooperation to combat the smuggling of pharmaceutical products used to manufacture methamphetamine. This bilateral cooperation is ongoing.

WORK WITH OTHER AGENCIES

Customs continued to work closely with New Zealand Police and the Organised Financial Crime Agency New Zealand. Customs also continues to support research initiatives like the National Household Drugs Survey and the Illicit Drugs Monitoring System, to maintain an understanding of what is happening in the domestic market for illegal drugs.

⁴ Agencies report on progress of the actions identified in *Tackling Methamphetamine: an Action Plan* six-monthly; the April 2011 report is available at www.dpmc.govt.nz/dpmc/publications/Methamphetamine_Report/Indicators_and_Progress_Report_final_may2011.pdf.

ENHANCE BORDER AGENCY COORDINATION TO REDUCE DUPLICATION AND IMPROVE THE EXPERIENCE FOR TRADERS AND TRAVELLERS

Customs recognises that working effectively with other border agencies is the key to improving service at the border for traders and travellers, and minimising duplication. Continued efficiency gains and innovation across the border sector are crucial to the management of increased pressures from growth in trade and travel volumes, and the associated risks, in an ongoing environment of fiscal restraint. Customs is leading a number of initiatives to achieve this.

This priority is consistent with the border sector's goal for 2015 of streamlining travel and trade while managing risk, and improving productivity and managing resource demands within existing baselines.

In advance of the implementation of the first stage of JBMS, Customs and MAF have been working together on improving passenger processing by enabling MAF to use Customs' existing border management system, CusMod, for the purpose of intelligence gathering and risk targeting (the MAFpax project). In 2010/11 Customs and MAF worked on the legislative amendments required to enable the necessary information sharing. We expect the relevant legislation to be passed in 2011/12.

Customs has also been working with the Department of Labour in relation to its new Immigration Global Management System to avoid unnecessary duplication of systems and related support services (as they relate to the border).

SmartGate has improved the passenger processing experience, as discussed on pages 37–39. New Zealand and Australia have a vision of providing a 'domestic-like' experience for trans-Tasman travellers. To progress that further in 2010/11, the New Zealand and Australian border agencies jointly contracted a short study on the desired future state for trans-Tasman passenger processing. As part of that process, it was agreed that, for the purposes of the study, 'domestic-like' would be focused on early completion of international travel processes, ideally prior to departure. Customs and the other border agencies will consider and progress any proposals resulting from the Government's response to that report in 2011/12.

The Integrated Targeting and Operations Centre (ITOC) (discussed on page 28) will increase the border sector's capability in risk and intelligence, planning of joint operations, and improving interactions with travellers and traders.

Given the expected boost to the economy from New Zealand's hosting of Rugby World Cup 2011, Customs continued to work with other border agencies in 2010/11 to test our processes and preparations for the event to ensure the efficient and friendly clearance of the influx of passengers, goods, and craft, while still achieving high standards of risk management. As part of this, in 2010/11 Customs continued to lead the Major Events Border Steering Committee, bringing together border agencies and industry stakeholders to prepare for the Rugby World Cup.

In June 2010, Customs, MAF Biosecurity, and New Zealand Post commenced the International Mail Centre Process Alignment Project with the goal of creating a world-class international mail clearance system with high levels of process and systems integration. In 2010/11 the project team reviewed the existing mail processing system to identify opportunities for redevelopment and improvement, and some 'quick wins' were implemented immediately. A number of further process initiatives were designed and tested and implementation will continue into 2011/12. When the project is complete, there will be better use of resources through improved allocation of staff and a reduction in process duplication.

Border agencies also continue to work together in responding to new international standards and expectations, such as the new requirement to screen 100 percent of air cargo to the United States (potentially disrupting trade).

At an operational level, Customs continues to look for opportunities for better-connected and streamlined frontline service delivery, such as the co-location of public counters with MAF at most ports.

OTHER AREAS OF FOCUS

MAINTAIN VIGILANCE AND RESPONSE PREPAREDNESS FOR THREATS TO NEW ZEALAND'S SECURITY

Customs participated in a number of multi-agency operations and exercises in 2010/11 to test our response preparedness for various threats to New Zealand's border.

Customs is part of the whole-of-government response to the growing possibility of a mass arrival of illegal immigrants by sea. In 2010/11 we contributed to the development of the revised Mass Arrivals Response Manual and to the Exercise Barrier Planning Group, both coordinated by the Department of the Prime Minister and Cabinet. We participated in the table-top Exercise Barrier in November 2010, designed to practise the whole-of-government strategic response to a seaborne mass arrival of potential illegal immigrants.

In May 2011 Customs and the Australian Customs and Border Protection Service (ACBPS) undertook a joint live exercise to enhance the capability of both customs administrations by working together in a coordinated response to organised transnational crime at the border – employing a scenario of simultaneous precursor drug importations to New Zealand and Australia using small water craft.

In 2010/11 we also continued to participate in the counterterrorism exercise programme led by New Zealand Police and designed to provide an escalating series of opportunities to practise and evaluate counterterrorism responses across government and specifically to prepare for the Rugby World Cup.

Customs, along with MAF and the New Zealand Defence Force, attended the Proliferation Security Initiative⁵ regional exercise, Pacific Protector, conducted in Australia in September 2010.

CONTINUE TO STREAMLINE, AND REDUCE BARRIERS TO, TRANS-TASMAN TRAVEL AND TRADE

As New Zealand's largest trading partner and travel market, Australia is important to New Zealand's ongoing future prosperity. The special nature of the trans-Tasman relationship continues to provide opportunities to streamline processes and achieve productivity improvements for agencies and industry.

In March 2009 the New Zealand and Australian Prime Ministers jointly committed to reducing the remaining barriers at the borders so that people and goods could move more easily between the two countries.

Travel

SmartGate was implemented in New Zealand to create a 'domestic-like' experience on both sides of the Tasman (the system was already in use in Australia). It is now operational for arrivals and departures at Auckland, Wellington, and Christchurch airports (as discussed in further depth on pages 37–39).

⁵ An international initiative under which participating countries cooperate to stop illicit shipments of weapons of mass destruction, their delivery systems, and related materials including dual-use goods.

Increased SmartGate capacity

Customs faces additional pressure on its resources from forecast increasing passenger numbers. This includes demand on SmartGate as total passenger numbers, the number of passengers with e-passports (and so eligible to use SmartGate), and choice of the SmartGate automated passenger processing option continue to grow.

Accordingly, Customs sought to increase SmartGate capacity to meet that demand without additional staffing being required. The Government provided additional capital funding of \$3.4 million for SmartGate in Budget 2011, enabling an additional six gates and 13 kiosks to be installed between Auckland, Wellington, and Christchurch airports. This additional capacity was installed in time for utilisation around and during Rugby World Cup 2011.

SmartGate integration

In 2010/11 Customs and ACBPS agreed to conduct a one-way SmartGate integration trial, involving the use of SmartGate to collect and transfer information during the New Zealand departure process to facilitate the Australian arrivals process. A trial commenced in July 2011 whereby eligible passengers departing New Zealand for the Gold Coast Airport have the opportunity to complete the Australian arrival questions when completing the SmartGate departure process. On arrival in Australia, the passengers can then go directly to the SmartGate arrivals gate to complete their border processing.

The SmartGate integration trial will run for up to 12 months (to 30 June 2012) and intends to determine the feasibility of introducing a permanent capability to successfully facilitate trans-Tasman travellers through the SmartGate automated border processing system to other Australian and New Zealand airports.

Trade

Customs continues to work on identifying ways to streamline goods movement across the Tasman while maintaining security, and providing assurance, over the supply chain.

In 2009/10 Customs and ACBPS undertook the first trans-Tasman time release study of how quickly imported cargo was released by customs and to identify potential efficiency gains in processes. The report was published in November 2010. The study examined the performance of each country's customs administration, and measured and mapped the clearance process for exports and imports traded between New Zealand and Australia.

The study found that Customs clears cargo for release efficiently, with 85 percent of imports from Australia being cleared for release prior to the arrival of the vessels on which the cargo is transported. The Australia-New Zealand Closer Economic Relations agreement (CER) contributes to this faster processing, with cargo from Australia cleared more quickly than that from other countries. This level of performance provides benefits for both countries.

While there was not significant room for improvement given current performance, further ways to streamline trans-Tasman trade were identified and Customs commenced progressing those opportunities in 2010/11 – although some will be incorporated into wider work like the JBMS-TSW.

As Australia is currently our single-largest trading partner and CER is important to New Zealand's long-term prosperity, Customs continues to work with our Australian counterparts on ways to improve the trans-Tasman trade environment, and as a result contribute to further progress towards the Single Economic Market.

SUPPORT NEGOTIATION, IMPLEMENTATION, AND MAINTENANCE OF NEW ZEALAND'S FREE TRADE AGREEMENTS

The Government is committed to a programme of entering into free trade agreements (FTAs) with important trading partners to facilitate access for New Zealand exporters to overseas markets and grow New Zealand's economy.

Customs continues to support New Zealand's active FTA programme by negotiating procedures that enable transparent and prompt goods clearance, and, once those agreements are signed, implementing the relevant procedures that improve the passage of trade.

In 2010/11 the negotiations in which Customs participated included the FTAs with India and Russia/Belarus/Kazakhstan, in addition to the expanded Trans-Pacific Partnership. We also completed the legislative and operational requirements to enable signed agreements with Malaysia and Hong Kong to come into force, and traders start to enjoy benefits, in the financial year.

PROMOTE SECURE AND EFFICIENT INTERNATIONAL TRADE SUPPLY CHAINS

New Zealand's reputation as a secure trading partner is important to our ability to compete internationally, particularly in the current economic climate. Arrangements between New Zealand and other countries can provide trade facilitation benefits and be advantageous for New Zealand's economy. In 2010/11 Customs continued to develop new customs-to-customs relationships with key trading partners and increase benefits under existing arrangements.

Over the course of 2010/11, Customs negotiated a new Mutual Recognition Arrangement (MRA) with the Republic of Korea's customs administration, which was signed in June 2011. When it becomes operational (around 1 January 2012), it will provide advantages to traders in both countries by treating members of the other country's supply chain security programme in a comparable manner to members of its own supply chain security programme. Through the MRA providing assurance that these goods present a low risk, traders gain greater certainty – and predictability – about the movement of their goods across the border, and faster access to market. This gives members of New Zealand's supply chain security programme, the Secure Exports Scheme (SES), a market advantage.

In 2010/11 Customs negotiated additional benefits for New Zealand traders under the existing MRA with United States Customs and Border Protection (USCBP). The United States' supply chain programme is a tiered system and Customs and USCBP agreed in March 2011 that SES members will be treated as equivalent to tier two (rather than tier one) members of the United States' programme. Tier two means that SES members' goods are three and a half times less likely to be examined for security purposes by USCBP than those of non-members, providing tangible benefits to New Zealand exporters in accessing the United States market. No other trading partner of the United States has yet obtained a similar agreement concerning the treatment of its exports.

In May 2011 the United States Secretary of Homeland Security and the New Zealand Minister of Foreign Affairs signed a joint statement on global supply chain security. It is a commitment to pursue customs and border initiatives designed to protect critical elements of the supply chain system from terrorism and ensure that if disruption occurs the commerce supply chain can recover quickly. The statement acknowledges the strong customs-to-customs cooperation already in place between New Zealand and the United States, including the benefits to industry under the MRA.

Secure and efficient international supply chains need to be supported by a modern and efficient border management information technology system. Accordingly, in the future, the advanced risk capability within the JBMS will help to secure the supply chain and achieve efficiencies for the Government and traders by enabling Customs to reduce interventions with the majority of compliant traders and goods. TSW will also make it easier for traders to engage directly with border agencies, through a single electronic portal.

IMPLEMENT TARGETED SERVICES TO SUPPORT TRADERS

Customs obtained additional benefits for those traders that are SES members in 2010/11 under the MRAs with the United States and the Republic of Korea as previously discussed. Customs also has an MRA with Japan, signed in April 2008.

In 2010/11 Customs and MAF started considering the potential merits of a trusted trader scheme in both the import and export supply chains. Such a scheme would help importers by minimising duplication of our inspections and interventions. It would also help exporters that are members of the SES by supporting and enhancing the existing SES, through building end-to-end supply chain security and trade facilitation in line with international standards⁶. Customs and MAF agreed high-level principles for managing trade in the future. These principles will inform further work.

MEASURING IMPACTS AND PROGRESSION TOWARDS OUTCOMES

PROTECTION

Customs' *Statement of Intent 2010–2013* recorded specific outcome measures together with a group of indicators and measures to assess our impacts in this area in the three-year period.

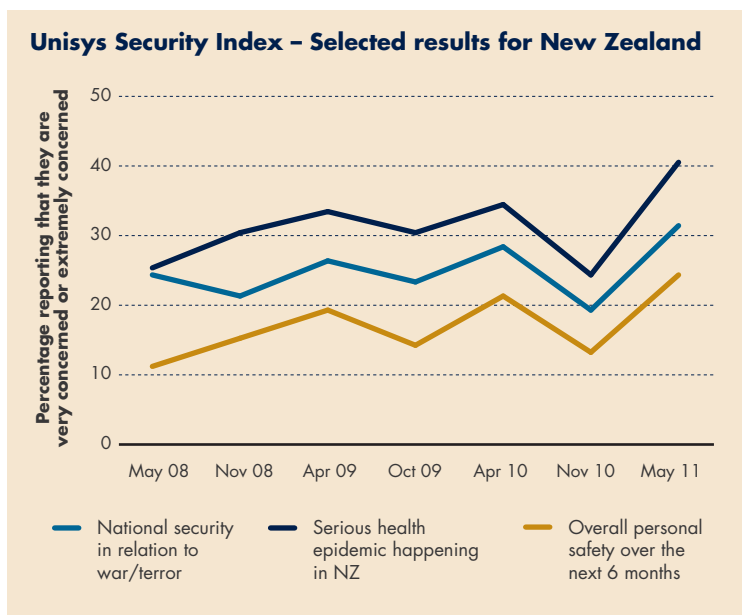
Customs protects New Zealand against a variety of threats that are not directly comparable with each other. That means that the risks against which Customs protects cannot currently be aggregated directly from the seizures and interceptions made by Customs. That said, New Zealanders do have knowledge about the threats of which they are aware, and that they directly experience. Customs therefore expects that our protection activities contribute to an overall sense of security among New Zealanders, and a perception of New Zealand as a secure place.

The Economist Intelligence Unit produces a risk briefing, which rates security. In July 2010 New Zealand scored 7 out of 100, and was ranked third equal out of 172 countries, indicating that it is assessed as being very secure. This meets the target of being among the top 15 countries.

6 The World Customs Organization SAFE Framework of Standards to Secure and Facilitate Global Trade.

Public perceptions of risk and security are assessed through regular surveys of 12 countries⁷ by Unisys, including the dimensions “national security in relation to war or terrorism”, “a serious health epidemic”, and “personal safety”. On these three dimensions New Zealanders’ concerns are lower than the average of all countries surveyed. While none of these is directly, or exclusively, a Customs outcome, Customs’ work does contribute to each. In the May 2011 survey, 32 percent of New Zealanders were very or extremely

concerned about New Zealand’s national security in relation to war or terrorism, 41 percent of New Zealanders were very or extremely concerned about a serious health epidemic occurring in New Zealand, and 25 percent of New Zealanders were very or extremely concerned about their personal safety over the next six months.



Public perceptions of Customs’ protection functions are also measured in Customs’ Stakeholder Survey. This measures public perceptions of confidence in Customs carrying out our protection role against six dimensions: endangered species; flora and fauna; people entering or leaving New Zealand illegally; illicit drugs and indecent material; people with criminal or terrorist intent entering New Zealand; cultural and heritage items leaving New Zealand; and illegal and stolen goods entering or leaving the country. The 2010 survey found that across these six dimensions, between 47 and 70 percent of the public were confident that Customs is effective in protecting New Zealand against these risks.

DRUGS

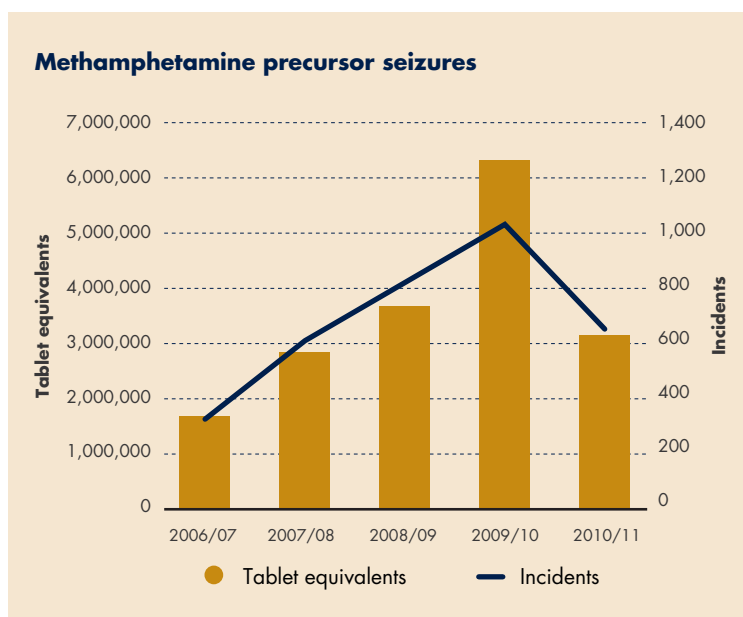
Customs’ impacts and outcomes in relation to drugs relate to reducing harm and disrupting the drug trafficking business.

There was a 36.3 percent decrease in the number of precursor seizure incidents, from 1,032 in 2009/10 to 657 in 2010/11. We seized the equivalent of nearly 3.1 million tablets in 2010/11⁸ compared with the equivalent of nearly 6.3 million tablets in 2009/10.

⁷ Australia, Belgium, Brazil, Colombia, Germany, Hong Kong, Mexico, Netherlands, New Zealand, Spain, the United Kingdom, and the United States.

⁸ All of the 2010/11 drug (including precursor) totals in this report are provisional figures based on Customs’ initial weighing and recording of interceptions and are subject to change due to circumstances such as quantities being updated as substances are further tested or the drugs being reweighed as the relevant investigation proceeds to a prosecution. The tablet equivalent total for methamphetamine precursors represents the amount seized converted into the equivalent of 90 milligram tablets.

According to the New Zealand Drug Harm Index⁹, the potential harm avoided to this country by Customs' interceptions of methamphetamine precursors in 2010/11 equated to as much as \$80 million. This compares with just under \$160 million in 2009/10. There are two possible explanations for this reduction: either the efforts in disrupting the methamphetamine market have been effective, or Customs missed more imported precursors this year than last year. The following evidence suggests the former:



Alternative materials being found in clan labs. Detections at clan labs have revealed previously unseen chemicals and components, indicating a possible move away from traditional precursor sources¹⁰. This tends to suggest that clan labs are having difficulty sourcing more conventional precursors.

Reduction in the number of clan labs found. The number of clan labs seized has been in decline¹¹.

A change in the mix of drugs and precursor materials being found. While the volume of methamphetamine seized remained the same, the volume of precursors halved.

A drop in the volume of seized precursors. The volume of precursors seized dropped to 50.3 percent of the 2009/10 levels, from 6.3 million to 3.1 million tablet equivalents.

Direct imports of drugs, so that precursors are not required. Slightly more methamphetamine (26.4 kilograms) was seized in 2010/11 than in 2009/10 (26.1 kilograms). There was a shift from smuggling attempts via mail and freight to attempts via drug couriers, including internal concealments. This tends to suggest a move toward higher-risk importations, and more immediate availability, an indication that there is pressure on the supply of, and difficulty meeting demand for, methamphetamine.

A different mix of drugs being found. There has been a rise in seizures of other drugs, such as ecstasy-type drugs, and newly seen drugs such as dimethyltryptamine (DMT), which may indicate a shift in the market away from methamphetamine.

9 The New Zealand Drug Harm Index is a New Zealand Police-led initiative that quantifies the value of the economic and social costs associated with illicit drugs.

10 *Tackling methamphetamine: Indicators and progress, Report from Chief Executives, April 2011.*

11 *Tackling methamphetamine: Indicators and progress, Report from Chief Executives, April 2011.*

Increased prices, reduced quality, and reduced availability of drugs. The Illicit Drug Monitoring System (IDMS) report on the 2010 survey of frequent drug users¹² reported that while the point¹³ price remained the same, there had been a statistically significant increase in the median reported price of a gram of methamphetamine, from \$700 in 2009 to \$800 in 2010. In the same survey, frequent drug users reported that the quality of methamphetamine had dropped (from being scored at 2.2 in 2009, to being scored at 2.1 in 2010¹⁴). While reporting on the Methamphetamine Action Plan¹⁵ noted that the quality of methamphetamine tested remained high, it was difficult to obtain the required number of samples of methamphetamine for the pilot drug signature programme, as many samples were found not to be methamphetamine at all. In the 2010 IDMS survey, frequent drug users reported that the availability of methamphetamine had dropped (from being scored at 3.3 in 2009, to being scored at 3.1 in 2010¹⁶). This group is likely to have good knowledge about where to get drug supplies, and to have alternative sources as supplies start to tighten. Combined with the reported increase in gram price, and reduction in quality, this tends to indicate that the supply of methamphetamine may have been tighter in 2010.

This evidence tends to suggest that the methamphetamine market size indicated in the SHORE analysis commissioned by Customs in 2009/10 is unlikely to have changed. While that study was not repeated in 2010/11, the above indicators are consistent with the study's findings that there was a sharp drop in the value of the methamphetamine market between 2006 and 2009, and a substantial rise in the percentage of methamphetamine and its precursors intercepted between 2003 and 2009 to approximately 50 percent in 2009.

Customs seeks to disrupt the business of drugs trafficking, through intercepting imports of precursors and drugs, seizing cash and the proceeds of crime, and arresting offenders. This is part of a broader target of disrupting criminal activity more generally. The Class A drugs and precursors seized by Customs this year had an estimated street value of \$22 million. More than \$1.2 million in cash has been seized, of which some was linked to drug activity, and some to fraud and money laundering. While it is difficult to identify the disruption of criminal networks, investigations targeted known drug syndicates, and offenders believed to be highly ranked within syndicates were arrested. Weapons seizures also led to the discovery of clan labs, and arrests.

COST-EFFECTIVENESS

In the 2010/11 year the estimated value of the harm avoided¹⁷ through Customs' seizure of drugs was 69.9 percent of Customs' appropriations (excluding capital expenditure). This is comparable with the 2010–2013 target of 75 percent, but represents a drop from the 2009/10 year, when the percentage was 138 percent.

12 Source: The Centre for Social and Health Outcomes, Research and Evaluation (SHORE), Massey University.

13 A point is the quantity of methamphetamine sold to drug users. Nominally a tenth of a gram, the actual quantity varies, and the point price may reflect variations in quantity rather than a variation in price.

14 On a scale of 1 to 3, with 1 being low and 3 being high.

15 *Tackling methamphetamine: Indicators and progress, Report from Chief Executives, April 2011.*

16 On a scale of 1 to 4, with 1 being very difficult and 4 being very easy.

17 Up to \$94 million as calculated using the New Zealand Drug Harm Index.

This year's measure of drug harm avoided is likely to be a substantial underestimate: without the various actions taken against methamphetamine, the market size and attempted importations would have remained at the same level. It is likely that both have reduced substantially. The above cost-effectiveness calculation does not estimate this component of the harm that was avoided. The drop from the 2009/10 result is attributable to the large drop in precursor seizures, and the consequent drop in avoided drug harm directly attributable to those seizures.

FACILITATION

The key outcome that Customs seeks to achieve is that Customs' relative ranking in domestic and international comparisons is maintained. The impacts that Customs seeks to have are: maintaining high levels of voluntary compliance; improving trans-Tasman border facilitation; and an improved experience for travellers through border processes. In the *Statement of Intent 2011–2014*, a further impact has been added for which a measure is available this year – increased access to overseas markets.

Customs' *Statement of Intent 2010–2013* and *Statement of Intent 2011–2014* noted the indicators and measures that we would use to assess our impacts in the relevant three year periods. While we have not been able to measure all of the indicators for 2010/11, the measures for which we have results show that Customs has maintained our high-quality reputation for facilitation of New Zealand's travel and trade through our continued good facilitation performance, high levels of client trust in Customs, and our rankings in international border management indices.

RELATIVE RANKING IN DOMESTIC AND INTERNATIONAL COMPARISONS

New Zealand was ranked 49th of 183 countries on cost to export goods, and 34th on cost to import goods in the World Bank Doing Business Survey 2011. New Zealand's ranking in the cost to export goods was 50th (of 183 countries) in the 2010 survey, and 35th in cost to import goods. Costs are reported in US dollars, and the slight drop in cost reported is likely to reflect the shift in the exchange rate.

New Zealand continues to rank highly in the most recent international comparisons of the performance of border administration services¹⁸. In the 2010 World Bank Logistics Performance Index¹⁹, New Zealand ranked 16th of 155 countries for border facilitation. New Zealand ranked 19th of 150 countries in 2007, but the measure has changed so is not directly comparable. In the 2010 World Economic Forum's Enabling Trade Index, New Zealand ranked fifth of 125 countries in the efficiency of its border administration. This ranking remains the same as in 2009, when New Zealand ranked fifth of 121 countries. This meets the target of being within the top 10 countries as measured by the Logistics Performance Index and the improvement upon last year's ranking in the Enabling Trade Index.

The Business New Zealand and KPMG Compliance Cost Survey, which cites border-related requirements as a relatively low compliance cost priority and rates government departments for helpfulness, was not undertaken by those agencies in 2010/11.

¹⁸ These measures include the activities of all border agencies, and are not exclusively driven by Customs' performance.

¹⁹ This survey was first undertaken in 2007 and repeated in 2009 (and published in 2010), with some changes in the measures.

MAINTAINED HIGH LEVELS OF VOLUNTARY COMPLIANCE

The knowledge of how to comply and high levels of trust in Customs are two key drivers in establishing high levels of voluntary compliance.

Customs' 2010 Stakeholder Survey (conducted biennially) found that:

- » among the travelling public, 81 percent found the information provided by Customs helped them to comply
- » among commercial clients, 84 percent found it "very easy" or "easy" to comply with Customs' requirements
- » 86 percent of commercial stakeholders trusted Customs
- » 82 percent of the travelling public trusted Customs.

These results are comparable with those of the 2008 Stakeholder Survey.

In relation to assessing compliance levels and commercial clients' trust in Customs, a baseline for the indicator relating to the measure of compliance levels in a random sample of import and export transactions was not established in 2010/11. Work will be undertaken in 2011/12 to determine a baseline for the 2010/11 financial year that can be used in assessing our impact on compliance levels in the 2011/12 financial year.

RATING OF IMMIGRATION PROCESS AT AUCKLAND AIRPORT

IMPROVING TRANS-TASMAN BORDER FACILITATION

IMPROVED EXPERIENCE FOR TRAVELLERS THROUGH BORDER PROCESSES

Travellers continued to increase their use of SmartGate processing at Auckland, Wellington, and Christchurch airports, as discussed on pages 37–39. This contributed to improved passenger processing, and in turn to travellers' satisfaction with improved immigration processing and pleasant immigration staff as cited in the Skytrax survey results for Auckland International Airport²⁰. Feedback from New Zealand-based travellers in Customs' 2010 Stakeholder Survey found that 70 percent were satisfied that Customs processed passengers quickly and conveniently, and 85 percent were satisfied with their most recent experience of Customs.

INCREASED ACCESS TO OVERSEAS MARKETS

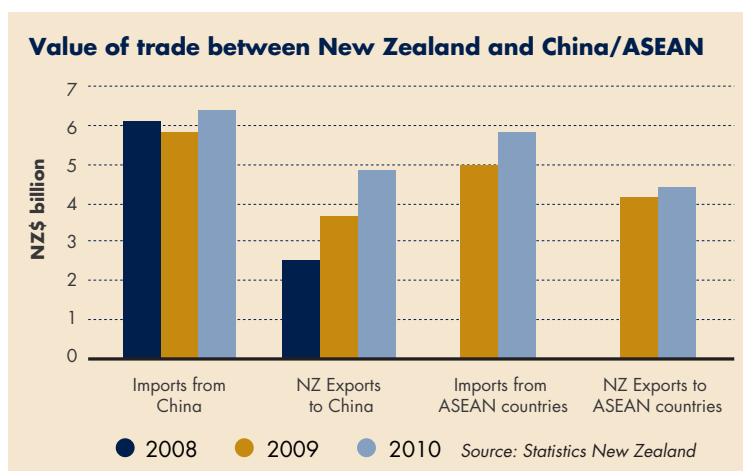
The two-year review of the operation of the China-New Zealand FTA reported that China's importance as a trading partner for New Zealand had grown since the implementation of the FTA. At this stage, the New Zealand companies that have benefited most have been those that were already active in China, but there has been growth in the number of new entrants to the Chinese market, and strong interest from potential new entrants.

The value to New Zealand's economy of an FTA can be seen in the benefits that traders have started to receive from the New Zealand-China FTA and the ASEAN-Australia-New Zealand FTA since they came into force.

²⁰ Alongside other improvements in the passenger processing and airport facilities, this has contributed to Auckland International Airport's rating as the eighth best international airport in the world in the 2011 Skytrax World Airport Awards (www.worldairportawards.com).

The total value of merchandise trade between the relevant countries has increased since each agreement came into force.

There has also been an increase in the total value of preference trade²¹ between New Zealand and China since that FTA came into force in 2008. The FTA has also resulted in duty savings for traders, particularly for New Zealand exports to China.



	2009	2010
	(NZ\$ million)	(NZ\$ million)
Total value of preference trade from New Zealand to China	908	1,208
Duty saved on New Zealand exports to China	54	80
Total value of preference trade from China to New Zealand	393	674
Duty saved on China exports to New Zealand	4	15

Source: Indicative data shared between customs administrations on FTA utilisation, April 2011

The ASEAN-Australia-New Zealand FTA came into force in 2010, and analysis of the duty savings accrued from that FTA will be undertaken in future years.

REDUCED COMPLIANCE BURDEN FOR COMPLIANT TRADERS

The JBMS business case identified that up to 18 documents might be required from traders by three border agencies – Customs, MAF, and the then New Zealand Food Safety Authority (now part of MAF). This is symptomatic of a broader picture in which current border processes are not well integrated or aligned, and clients must interact with multiple processes. Multiple systems with differing data requirements, along with too many transactions with various border agencies, are slowing down the supply chain, causing higher-than-necessary compliance costs and industry frustration. The implementation of the JBMS-TSW will reduce duplication and the resulting burden for traders.

COST-EFFECTIVENESS

In the 2010/11 financial year the cost per passenger processed was \$4.69. This was comparable with 2009/10, when the cost per passenger processed was \$4.66²².

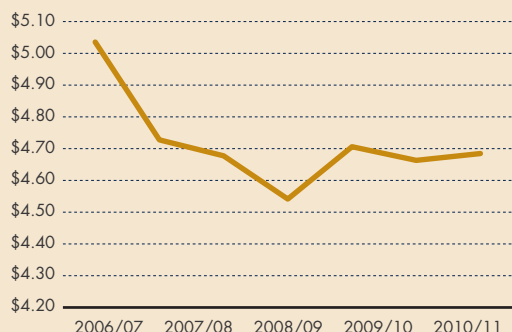
The goods clearance cost as a percentage of the value of trade was 0.053 percent. This was lower than in the 2009/10 year, when the clearance cost as a percentage of the value of trade was 0.063 percent²³. Much of the apparent difference is a result of the recovery of trade volumes in the 2010/11 year, as discussed on page 7.

²¹ Preference trade is trade that has received a tariff reduction under the FTA.

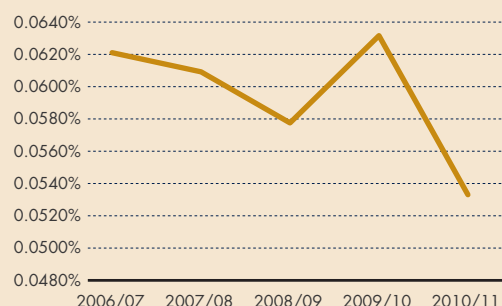
²² The reported cost-effectiveness in the 2009/10 Annual Report was \$4.30. To retain comparability, the 2009/10 figure has been adjusted for inflation, and adjusted to reflect the change in output classes that applies from the 2010/11 year.

²³ The reported cost-effectiveness in the 2009/10 Annual Report was 0.07 percent. To retain comparability, the 2009/10 figure has been adjusted for inflation, and adjusted to reflect the change in output classes that applies from the 2010/11 year.

Cost per passenger processed



Goods clearance cost as a percentage of the value of trade



REVENUE

Due Customs revenue is collected to support the Government's social, economic, and fiscal objectives.

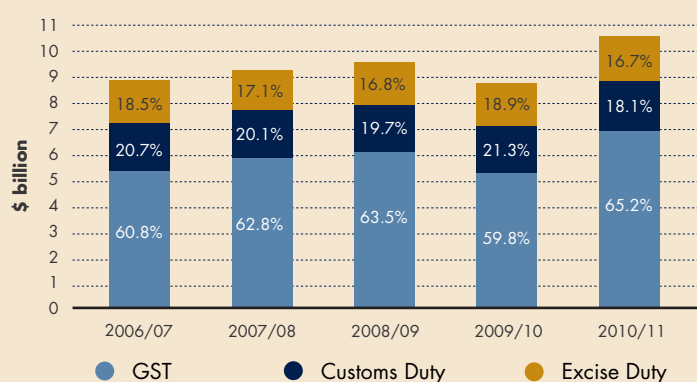
Customs collects approximately 15 percent of total Crown revenue through customs duty and GST on imports, and excise duty on alcoholic beverages, tobacco, and petroleum products. Customs revenue is an important source of funding for the Government to meet its goals for New Zealanders²⁴. We seek to collect due Crown revenue efficiently and effectively.

The total revenue collected by Customs for the Crown in 2010/11 was \$10.563 billion. This is a significant (20.3 percent) increase from the 2009/10 total of \$8.777 billion. This is principally due to the rise in GST to 15 percent from 1 October 2010, as seen in GST as a proportion of the total Crown revenue rising from 59.8 percent in 2009/10 to 65.2 percent in 2010/11 (representing an increase from \$5.249 billion in GST in 2009/10 to \$6.886 billion in 2010/11).

The rise in the total Crown revenue is also partly due to the partial recovery from the global recession seen in the increased trade volumes – and the customs and excise duty payable on the increased value of those import and export transactions – in 2010/11 (as discussed on page 7).

Customs' collection of revenue is based on voluntary compliance. We recognise that

Breakdown of Crown revenue



²⁴ Customs revenue supports other economic and societal outcomes. Excise duties are levied for a number of reasons, including to reduce demand for goods, such as cigarettes and alcohol, contributing to social costs. Customs tariffs are collected on a small number of commodities to protect vulnerable industries in New Zealand from competing producers in lower-cost economies.

the majority of traders and travellers aim to meet their revenue obligations on time and we continue to encourage voluntary compliance and deter non-compliance through our education, audit, enforcement, and collection activities.

As part of this approach, we maintain a strategy and programme to deliver assurance over trade compliance while managing material risk, including revenue risk, in the post-border, pre-border, and excise environments. This provides assurance to government that self-assessment systems, procedures, and controls are accurate, and that traders are meeting obligations.

In the challenging economic climate, we continued to manage our revenue collection and debt management services in appropriately responsive ways, such as through our ongoing debt compromise policy (introduced in 2009/10), so that otherwise viable businesses were not placed at risk and we could recover Crown revenue that otherwise might not have been collected.

Customs' revenue collection practices have been the subject of two positive Office of the Auditor-General (OAG) performance audits²⁵ in recent years – the audit in 2006/07 found that our arrangements for collecting customs revenue to support voluntary compliance were supportive and sound, and credit and debt management schemes promoted effective and efficient revenue collection; a follow-up audit in 2010/11 found our current trade assurance systems and processes to be sound and enable effective revenue assurance.

MEASURING IMPACTS AND PROGRESSION TOWARDS OUTCOMES

The key impacts that Customs seeks to achieve through the Revenue outcome are to ensure that due Customs revenue is collected, and to ensure that high levels of revenue compliance are maintained. Customs' *Statement of Intent 2010–2013* noted the indicators and measures that would be used to assess our impact in the three-year period. We have not been able to measure all of the indicators for 2010/11.

Customs collected 99.7 percent of revenue due in 2010/11 on time. Proactive management of aged longstanding debt and minimising write-offs were ongoing areas of focus for Customs. As a result of our efforts, the debt written off in 2010/11 was less than 0.0001 percent of the total revenue collected, significantly below the target of no more than 0.02 percent. Work will be undertaken in 2011/12 to establish a 2010/11 baseline for the measure that the percentage of revenue invoiced that is collected is no less than 2010/11 levels.

Risk-based compliance and assurance processes confirmed high levels of compliance. The additional revenue generated through these processes (of \$25.92 million, as discussed further on page 48) was only 0.25 percent of the total Crown revenue collected in 2010/11, indicating a high level of compliance. In relation to assessing revenue compliance, the baseline for the measure relating to verification of compliance in a random sample of import and export transactions was not established in 2010/11. Work will be undertaken in 2011/12 to determine a baseline for the 2010/11 financial year that can be used in assessing our impact on revenue compliance levels in the 2011/12 financial year.

COST-EFFECTIVENESS

Customs' National Credit Control Unit collects due Crown revenue, including aged debt. The ratio of the value of aged debt collected in 2010/11 to the cost of running the National Credit Control Unit was 63:1. This compares with a ratio of 43:1 in 2009/10.

²⁵ Available from <http://oag.govt.nz/reports/reports/performance-audits>.

ORGANISATIONAL

HEALTH AND CAPABILITY

The 2010/11 year was an important one in the development of Customs' capability. We progressed or commenced the implementation of a number of initiatives aimed at increasing our productivity and agility. These initiatives will enable us to meet the demands of an increasingly complex and dynamic border environment, and increasing trade and travel volumes, in an environment of fiscal restraint.

Our capability mix is changing to help us meet these demands. We are increasingly utilising technology to provide more cost-effective ways of managing increasing volumes and risks. We expect that by 2015 our expenditure on other operating costs, including technology-related costs, will be almost equal to that on our people-related costs. While Customs' people will always be a critical component of our operating model, in the future they will need to be more highly skilled to operate within a more dynamic and technology-based environment.

PEOPLE

Customs continues to focus on developing a culture of high performance and enhancing our workforce capability, flexibility, and productivity.

Customs continued to offer a number of leadership capability development programmes in 2010/11. Participation in some was extended to include staff from other border agencies. Customs' leadership development will better enable Customs' managers to lead staff through the change required for them to operate effectively in an organisation that is becoming significantly more technology-based.

In 2010/11 Customs made considerable progress in the development of formal qualifications. We launched redesigned National Certificate in Border Management qualifications for Customs officers. We also continued our work in partnership with Massey University on developing a Bachelor of Arts majoring in security studies and a postgraduate qualification in security studies, each to be offered from 2012 (with some specific papers already available for study in 2010/11).

In April 2010 Customs introduced a new approach to managing ports at Wellington. This approach enables Customs to be highly flexible and agile in the allocation of resources to meet varying service demands effectively. It also assists with building capability, provides staff with the opportunity to increase their skills, and supports career progression for Customs officers. In 2010/11, Customs advanced work on extending this new approach to other ports, and this will be progressed further in 2011/12.

Facilities

Staff moved to Wellington's new (five-star green) Customhouse in September 2010, providing an improved working environment for staff.

Customs opened a new Sea Cargo Inspection Facility at the Ports of Auckland in February 2011, providing a more modern, fit-for-purpose environment for staff and facilitating greater productivity and efficiency by enabling the examination of a greater number of containers.

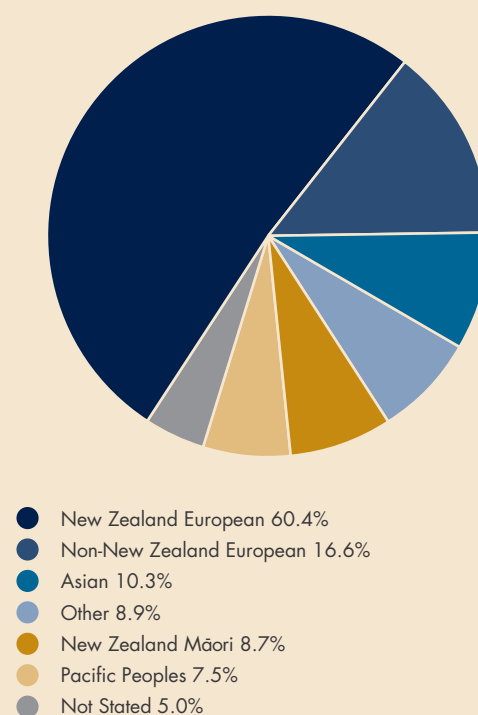
Equal employment opportunities

As part of being a good employer, Customs remains committed to ensuring equality and diversity across our workforce, recognising that a diverse workforce offers a variety of perspectives on our work and helps us to meet the needs of our clients. We have a number of ongoing strategies in place to support diversity and equal employment opportunities, including a disability strategy and an ageing workforce strategy.

While we no longer work to specific targets, we continue to monitor the composition of our staff (staff may self-identify as more than one ethnicity). This has remained relatively constant in the past few years.

The percentage of female staff as at 30 June 2011 was 40 percent, an increase of 1 percent from the total at 30 June 2010. We have seen an increase in the number of women in our recent Customs officer trainee intakes and in women achieving promotion internally.

Staff Ethnicity



MEASURES OF CAPABILITY

Customs' *Statement of Intent 2010–2013* identified a set of indicators and measures that we would use to assess our organisational health and capability in the three-year period. These are measured on three different dimensions: the level of engagement of Customs' people; the processes, systems, and technology used; and the relationships that we maintain with stakeholders and clients.

The level of engagement of Customs' people is a key factor in Customs being able to deliver services well, so Customs aims to retain high levels of staff engagement. In Customs' most recent biennial Workplace Survey, carried out in March to May 2010, the proportion of staff engaged with the organisation increased significantly, to 23 percent, from 16 percent in 2008. There was a corresponding decrease in disengaged staff, to 8 percent, from 16 percent in 2008.

Customs' 2010 Stakeholder Survey asked commercial clients and international travellers to rate Customs' staff on upholding Customs' values. The percentages rating Customs as "high" or "very high" on each of these values were:

	2008	2010
Commercial clients		
Commitment	83%	81%
Integrity	79%	79%
Respect	78%	77%
Agility	39%	40%
International travellers		
Commitment	92%	83%
Integrity	89%	91%
Respect	82%	77%
Agility	51%	51%

PROCESSES, SYSTEMS, AND TECHNOLOGY

Information and communication technology is essential to our work and a major contributor to our ability to manage the changing border management environment. Our key technology opportunities and developments – in which the Government has made a significant investment – are the JBMS–TSW (discussed in further depth on page 11), SmartGate automated passenger processing technology (pages 15–16), and the digitally enhanced system technology (page 12).

SmartGate received two awards in 2010/11, acknowledging the value of the automated processing system in enhancing the passenger experience, and the work done by relevant Customs staff on this project. In August 2010 it was recognised as Project of the Year (given for superior performance and exceptional execution of project management, resulting in a successful project) by the Project Management Institute New Zealand. In October 2010 Customs was recognised by The Chartered Institute of Logistics and Transport in New Zealand Inc. for SmartGate with the 2010 CILT Award for Public Transport Innovation (which recognises notable innovation in public transport that has enhanced significantly the operations and success of the relevant organisation's involvement in the sector).

We implemented a new Customs website in May 2011, providing users with a more intuitive site with easier navigation and a new search engine, and providing us with a better platform to provide more online services in the future.

Managing risk

We have made some progress in ensuring that our resources are targeted to shifting workloads and risks.

The ITOC was established by Customs in 2010/11, with relevant staff being relocated to upgraded facilities in the Auckland Customhouse. In addition to assessing the risks presented by specific people, goods, and craft (and using that information to identify targets for operational activity), the ITOC was created to keep an overall view of Customs' operational activity, and to support planning for and coordinate the use of people and resources for operations. It is designed to provide all of the information necessary for effective border security management in one location, 24 hours a day. This will enable frontline resources to be utilised better and more effectively.

Key border agencies (currently MAF Biosecurity, the New Zealand Police, SIS, Immigration New Zealand, and Maritime New Zealand) have a presence in the ITOC, with Customs as the lead agency, so they can work together closely and efficiently in planning and executing border sector operations.

While the ITOC was not fully operational in 2010/11, a number of its functions were underway (including conducting a number of operations) and it continues to develop its capabilities.

A new Risk Management Framework was adopted by Customs in March 2011, setting out the principles on which risk will be managed and embedded into all of Customs' practices and business processes. It, and the related Risk Management Policy also implemented in March, helps Customs staff to identify, evaluate, and assess risks that matter, and allows Customs to focus resources on higher-risk activities.

MEASURES OF CAPABILITY

As Customs relies heavily on our information technology systems to undertake our work, particularly relating to the processing of trade and travel, the ongoing availability and capability of those systems is very important.

CusMod, our current border management system, was available for 99.99 percent of 2010/11 and there was only one instance of a failure – of approximately an hour in March 2011. As CusMod ages, it becomes more difficult to maintain. The risk of a 48 hour failure of CusMod has been assessed at 15 percent, and the risk of a failure of up to 10 working days has been assessed at 5 percent.

Opportunities to improve Customs' service depend on our computer systems being compatible with the systems operated by other countries. Currently, CusMod does not meet the requirements set out in the World Customs Organization (WCO) Framework of Standards to Secure and Facilitate Global Trade, or the requirements for the WCO data model for a single window environment. The design of the JBMS will be compatible with these standards.

RELATIONSHIPS

Customs has a diverse range of relationships to manage – including with importers, exporters, airlines, airports, seaports, industry associations, border agencies, and wider government agencies – both nationally and internationally. We recognise that these relationships are critical to achieving the Government's prosperity and security objectives and delivering on Customs' outcomes.

A primary set of relationships is directed by our inclusion in the border sector and the work of this sector on joint objectives for member agencies (discussed on pages 13–14).

Customs works with other agencies on a variety of specific objectives. These include working on FTAs with the Ministry of Foreign Affairs and Trade (MFAT) (as discussed on page 16); disrupting the trade in endangered species with the Department of Conservation and MAF staff; and working with New Zealand Police to contribute to the whole-of-government response to illicit drugs (as discussed on pages 11–12).

MEASURES OF CAPABILITY

In Customs' 2010 Stakeholder Survey 85 percent of commercial clients rated the quality of their working relationship with Customs as "high" or "very high". This compared with 82 percent in the 2008 survey. Customs' responsiveness to commercial clients' needs was rated as "good" or "very good" by 68 percent of clients. This compared with 71 percent in the 2008 survey. Subsequent research with customs brokers in 2011 suggested that this group of commercial clients recognises that Customs' scope for responsiveness can be constrained by the need to operate within the law, and to operate in ways that are consistent and equivalent for all clients. They were positive about the effect that this consistency had on their ability to operate, and accepted that there is a trade-off between flexibility and fairness.

Early results from the 2011 Customs' Stakeholder Survey (of stakeholders other than commercial clients and international travellers) indicate that Customs has strengthened its relationships and its collaboration with other border agencies and that stakeholders have noticed improvements in these areas in recent years.

PART B

CUSTOMS' PERFORMANCE

2010/11

STATEMENT OF RESPONSIBILITY

In terms of sections 35 and 37 of the Public Finance Act 1989, I am responsible, as Chief Executive of the New Zealand Customs Service, for the preparation of the New Zealand Customs Service's financial statements, non-financial performance information, and non-departmental statements and schedules, and the judgements made in the process of producing those statements and that information.

I have the responsibility of establishing and maintaining, and I have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial and non-financial performance reporting.

In my opinion, these financial statements, non-financial performance information, and non-departmental statements and schedules fairly reflect the financial position and operations of the New Zealand Customs Service for the year ended 30 June 2011.

Signed by:



John Secker
Acting Comptroller of Customs
16 September 2011

Countersigned by:



Kevin Martin
Chief Financial Officer
16 September 2011

INDEPENDENT AUDITOR'S REPORT

To the readers of the New Zealand Customs Service's financial statements, non-financial performance information and schedules of non-departmental activities for the year ended 30 June 2011

The Auditor-General is the auditor of the New Zealand Customs Service (the Department). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, the non-financial performance information and the schedules of non-departmental activities of the Department on her behalf.

We have audited:

- » the financial statements of the Department on pages 53 to 77, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2011, the statement of comprehensive income, statement of movement in taxpayers' funds, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure, statement of cash flows and schedule of trust monies for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- » the non-financial performance information of the Department that comprises the statement of service performance on pages 36 to 52 and the report about outcomes on pages 17 to 24 and 25; and
- » the schedules of non-departmental activities of the Department on pages 78 to 83 that comprise the schedule of assets, schedule of liabilities, schedule of commitments and schedule of contingent liabilities and contingent assets as at 30 June 2011, the schedule of expenses, schedule of expenditure against appropriations, schedule of unappropriated expenditure and capital expenditure, and schedule of income for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

OPINION

In our opinion:

- » the financial statements of the Department on pages 53 to 77:
 - › comply with generally accepted accounting practice in New Zealand; and
 - › fairly reflect the Department's:
 - financial position as at 30 June 2011;
 - financial performance and cash flows for the year ended on that date;
 - expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2011;
 - unappropriated expenses and capital expenditure for the year ended 30 June 2011; and
 - trust monies for the year ended 30 June 2011.
- » the non-financial performance information of the Department on pages 36 to 52, 17 to 24 and 25:
 - › complies with generally accepted accounting practice in New Zealand; and
 - › fairly reflects the Department's service performance and outcomes for the year ended 30 June 2011, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

- » the schedules of non-departmental activities of the Department on pages 78 to 83 fairly reflect:
 - › the assets, liabilities, contingencies and commitments as at 30 June 2011 managed by the Department on behalf of the Crown; and
 - › the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Department on behalf of the Crown.

Our audit was completed on 16 September 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities, and we explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements, the non-financial performance information and the schedules of non-departmental activities are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements, the non-financial performance information and the schedules of non-departmental activities. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the non-financial performance information and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments; we consider internal control relevant to the Department's preparation of the financial statements, the non-financial performance information and the schedules of non-departmental activities that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.

An audit also involves evaluating:

- » the appropriateness of accounting policies used and whether they have been consistently applied;
- » the reasonableness of the significant accounting estimates and judgements made by the Chief Executive;
- » the appropriateness of the reported non-financial performance information within the Department's framework for reporting performance;
- » the adequacy of all disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities; and
- » the overall presentation of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules of non-departmental activities. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE CHIEF EXECUTIVE

The Chief Executive is responsible for preparing:

- » financial statements and non-financial performance information that:
 - › comply with generally accepted accounting practice in New Zealand;
 - › fairly reflect the Department's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation, unappropriated expenses and capital expenditure, and trust monies;
 - › fairly reflect its service performance and outcomes; and
- » schedules of non-departmental activities, in accordance with the Treasury Instructions 2010 that fairly reflect those activities managed by the Department on behalf of the Crown.

The Chief Executive is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, non-financial performance information and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements, the non-financial performance information and the schedules of non-departmental activities and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have provided independent quality assurance work over the Joint Border Management System and Digitally Enhanced System projects during the year ended 30 June 2011. Other than these assignments, we have no relationships with, or interests in, the Department.



Ajay Sharma
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS NON-FINANCIAL PERFORMANCE INFORMATION AND SCHEDULES OF NON-DEPARTMENTAL ACTIVITIES

This audit report relates to the financial statements, non-financial performance information and schedules of non-departmental activities of the New Zealand Customs Service for the year ended 30 June 2011 included on the New Zealand Customs Service's website. The New Zealand Customs Service's Chief Executive is responsible for the maintenance and integrity of the New Zealand Customs Service's website. We have not been engaged to report on the integrity of the New Zealand Customs Service's website. We accept no responsibility for any changes that may have occurred to the financial statements, non-financial performance information and schedules of non-departmental activities since they were initially presented on the website.

The audit report refers only to the financial statements, non-financial performance information and schedules of non-departmental activities named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements, non-financial performance information and schedules of non-departmental activities. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements, non-financial performance information and schedules of non-departmental activities as well as the related audit report dated 16 September 2011 to confirm the information included in the audited financial statements, non-financial performance information and schedules of non-departmental activities presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

STATEMENT OF SERVICE PERFORMANCE

For the year ended 30 June 2011

This Statement of Service Performance reflects the new output class structure in place from 2010/11 (with six new output classes replacing the previous ten, to provide a more meaningful view of performance in relation to the three streams entering and leaving the country of people, goods, and craft). The output costs for the year ended 30 June 2010 have been restated under the six new output classes to provide a comparative with the costs for the year ended 30 June 2011.

OUTPUT CLASS – CLEARANCE AND ENFORCEMENT SERVICES RELATED TO PASSENGERS AND CREW

Scope of Appropriation: The provision of services relating to passengers and crew crossing the border, including collecting information, clearance of people and their possessions, and protection of New Zealand's interests through interventions, investigations and enforcement.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/10		30/06/11		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
42,000	Crown	46,505	46,315	46,316
2,109	Other	1,409	1,740	1,162
44,109	TOTAL REVENUE	47,914	48,055	47,478
43,773	EXPENSES	47,945	48,055	47,478
336	SURPLUS/(DEFICIT)	(31)	-	-

PERFORMANCE

We expected to process an estimated 4.6–5.1 million arriving international commercial air passengers in 2010/11. The number of passengers in 2010/11 was 4.627 million. While on the lower end of the forecast range, this represents a new record for arriving air passengers – being an increase of 2.7% from the 2009/10 total of 4.507 million and an increase of 2.3% from the previous highest total of 4.523 million in 2007/08. We also processed 290,686 arriving air crew and non-commercial air passengers in 2010/11.

Processing of arriving commercial air passengers

The experiences New Zealand's visitors have at the border affect their perceptions of New Zealand as a destination. Accordingly, in order to provide an appropriate welcome to the majority of travellers, who are compliant with border requirements, Customs focuses on the identification of travellers who are likely to pose a risk, and the timely processing of those who do not.

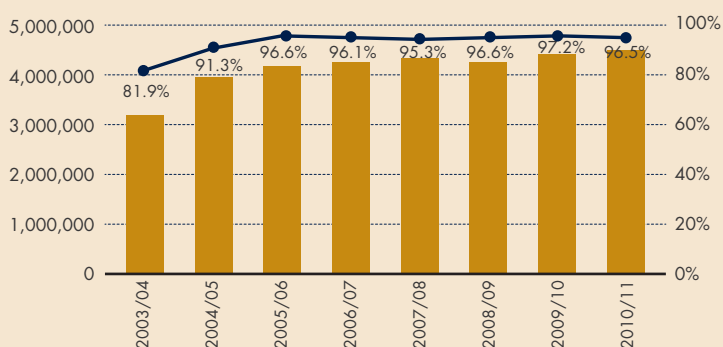
We aim to process a minimum of 90% of passengers within 45 minutes of their plane arriving at its gate. This period includes disembarkation from the plane, the walk to the Customs hall, duty-free shopping, and queuing for and being processed through Customs primary processing. A project is currently underway to identify the proportion of this period that is due to queuing for, and being processed by, Customs. This project suggests that Customs' processing time is the lesser part of the total period.

Our performance against the 45 minute target in recent years is contained in the accompanying graph.

The percentage of arriving air passengers processed within the 45 minute minimum standard in 2010/11 (96.5%) was consistent with that in the previous five years. While slightly below the 2009/10 level of 97.2%, it is not a substantial change and

still considerably exceeds the minimum of 90%. It is also not Customs' aim to process an increased percentage within the 45 minute timeframe each year, because facilitation must be balanced against risk management. The slight decrease principally reflects the increase in the number of arriving commercial air passengers in 2010/11. Despite the drop in the proportion processed within the 45 minute timeframe, there was a 2.0% increase in the number of commercial air passengers processed (4.467 million in 2010/11 compared with 4.379 million in 2009/10) within 45 minutes.

Number and percentage of passengers processed within 45 minutes



SmartGate

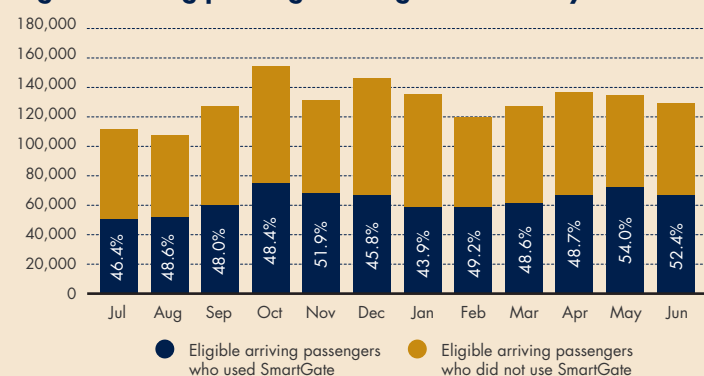
The SmartGate automated passenger processing system played an increasing role in the processing of passengers in 2010/11. It gives eligible²⁶ Australian and New Zealand passport holders the option of self-processing through passport control.

Arriving passengers

SmartGate assisted Customs in processing the increased number of commercial air passengers without having to deploy additional staff. It has also led to opportunities to refocus staff on the higher-risk passengers and goods.

SmartGate became available for arriving eligible passengers at Auckland and Wellington airports in 2009/10. It was implemented at Christchurch airport from September 2010 – implementation being delayed (from 2009/10) to take advantage of the opportunities afforded by the terminal renovations being undertaken by the airport company.

Eligible arriving passengers using SmartGate by month



The percentage uptake of SmartGate by eligible passengers (of whom the bulk were on trans-Tasman flights) in each month in 2010/11 is shown in the accompanying graph.

²⁶ Those with ePassports who are at least 18 years of age.

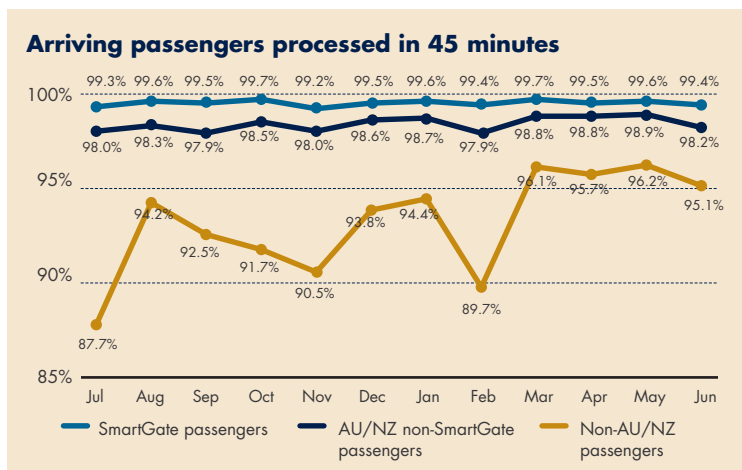
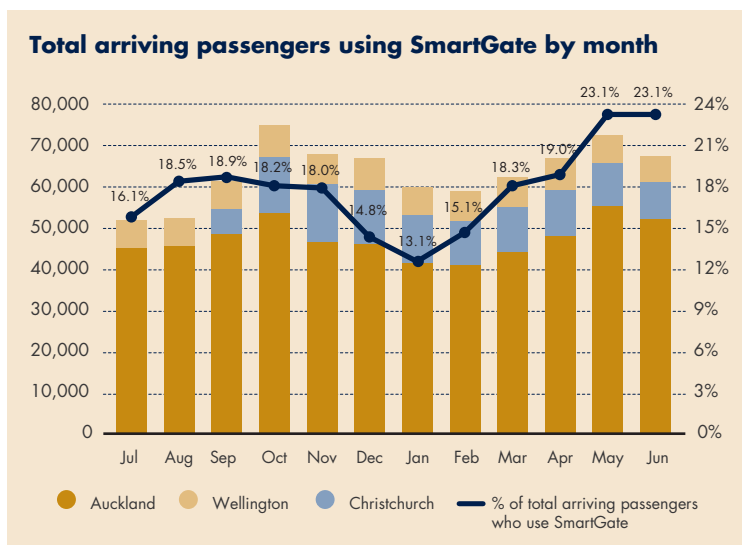
In 2010/11, 17.6% of total passengers arriving at airports that had SmartGate used the facility. The trend by month (number using SmartGate by airport and percentage of total passengers by month) is illustrated in the accompanying graph.

The decrease during the summer holiday period is due to more families (with children under 18) travelling and remaining together through primary processing. The increase in use in the last two months of the financial year is principally due to Customs obtaining agreement from Auckland International Airport to adjust the arrivals area to help direct passengers to SmartGate. The change, instituted in early May 2011, means all New Zealand and Australian passport holders enter the Customs primary processing area through a single portal that passes the entrance to the SmartGate precinct, and which is actively marshalled by staff.

A greater percentage of those passengers using SmartGate were processed within 45 minutes than those who were manually processed.

The accompanying graph indicates that the processing time is shortest for Australian and New Zealand passport holders who choose to use SmartGate, with a slightly longer processing time for Australian and New Zealand passport holders who choose to be processed by a Customs officer. This suggests that the SmartGate system is effective in reducing processing times for eligible passengers.

It also indicates that the holders of other passports have the longest processing times. This reflects both the additional time taken to assess risk for some of these passengers, and the slower processing of passengers who do not have fluent English.

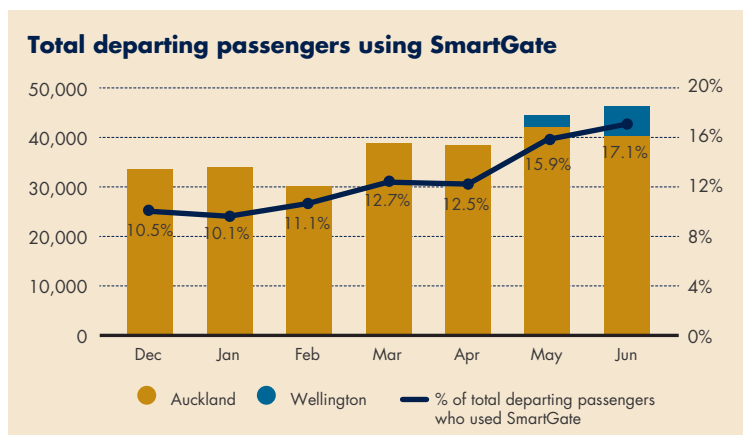


Departing passengers

SmartGate was introduced for departures – again, as an alternative to being manually processed by a Customs officer – at Auckland (1 December 2010) and Wellington (23 May 2011) in 2010/11.

In 2010/11 it was used by 12.7% of the total (not just eligible) passengers who departed from Auckland and Wellington

when SmartGate was available. The number and percentage of total passengers using SmartGate at those airports each month are contained in the accompanying graph, with the level of uptake steadily increasing to 17.1% of all departing passengers in June 2011.



SmartGate was fully operational for passengers departing from Christchurch from 17 August 2011.

Additional SmartGate capacity

As discussed on page 15, the Government agreed in Budget 2011 to provide funding for the purchase of an additional six gates and 13 kiosks to be installed across Auckland, Wellington, and Christchurch airports (split between arrivals and departures) to manage the expected growth in passenger volumes in the near future, and in particular for Rugby World Cup 2011. This additional capacity will enable the forecast passenger growth to be managed without additional staffing being required.

Implementation for departures at Christchurch was delayed slightly (from June to August 2011) to enable the additional gates and kiosks to be installed before it became operational.

Stakeholder Survey

Customs undertakes a Stakeholder Survey on a regular basis to check how well Customs is meeting the needs and expectations of stakeholders (tailoring questions to particular stakeholder groups) and identify areas for improvement. The most recent survey of the travelling public was conducted in June 2010 and it found that, overall, travellers considered Customs was performing to a continued high standard. Travellers have high service expectations that, for most, were being met or exceeded; there was a high degree of satisfaction with the service received. This included 70% of travellers considering that Customs processed passengers quickly and conveniently (only 7% were dissatisfied – the remainder being neutral or unsure) and 71% considering that Customs provided a friendly welcome to New Zealand (only 10% were dissatisfied). These results were comparable with those of the last survey in 2008.

Risk management

All arriving international travellers are risk assessed. The performance measures and standards below provide information on those air passengers and crew who are selected for further risk assessment, after primary processing, and directed to Customs' secondary areas for additional interaction. From this point on, passengers and crew are no longer being facilitated, and Customs is carrying out an enforcement role. The additional interaction can range from further questioning to a baggage examination and/or personal search.

This activity was within expectations for 2010/11, with 1.1% of all arriving international air passengers and crew being selected for further risk assessment in Customs' secondary areas and 30.1% of that subset of passengers being subsequently subject to a full or partial baggage search.

Customs profiles and targets arriving passengers, reflecting changing risks, to determine who will be referred for further risk assessment. Customs strives to continually improve our risk targeting in order to more accurately identify those passengers and crew that we need to interact with and to better facilitate the legitimate traveller. Reasons for the percentage being on the lower end of the range (at 1.1%) in 2010/11 include more staff needing to be deployed to primary processing during the record summer holiday numbers – when it is expected in any event that fewer passengers will be referred for secondary interaction as the makeup of travellers at that time of year is lower-risk passengers (predominantly family groups and legitimate holidaying travellers) – and the February Canterbury earthquake, which required some Customs staff to be redeployed to Christchurch for a period. Part of the 1.4% result for 2009/10 was due to the introduction of SmartGate causing an artificial spike in the passenger referral numbers for a time. This issue was subsequently resolved, so it has not been a factor in 2010/11.

PERFORMANCE MEASURES AND STANDARDS

2009/10		2010/11		
Actual	Measure	Actual	Standard	Variance
97.2%	Percentage of arriving international passengers who exit Customs Primary processing points within 45 minutes of arrival	96.5%	≥90%	–
98.5%	Percentage of arriving international passengers and crew who are deemed compliant based on risk assessment and facilitated without further intervention ²⁷	98.9%	≥98%	–
New measure	Average percentage of international travellers satisfied that Customs processes passengers quickly and conveniently (as measured biennially by Customs' stakeholder survey)	70%	≥70%	–
New measure	Percentage of eligible arriving trans-Tasman passengers who use SmartGate	50.1%	≥40%	–
New measure	Average percentage of international travellers satisfied that Customs provides a friendly welcome to New Zealand (as measured biennially by Customs' stakeholder survey)	71%	≥65%	–
1.4%	Percentage of arriving international air passengers and crew who are selected for further risk assessment at Customs' secondary areas	1.1%	1.1%–1.5%	–
31.6%	Percentage of arriving international passengers and crew who were selected for further risk assessment who were subsequently subject to a full or partial baggage examination	30.1%	25%–35%	–

²⁷ Intervention means action by Customs to carry out further risk assessment. This may include, but is not limited to, further questioning, interview, or baggage search.

OUTPUT CLASS – CLEARANCE AND ENFORCEMENT SERVICES RELATED TO GOODS

Scope of appropriation: The provision of services relating to goods crossing the border, including clearance of goods, assessment and audit of revenue, trade compliance and supply chain security assurance, and protection of New Zealand's interests through interventions, audits, investigations and enforcement.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/10		30/06/11		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
17,523	Crown	18,613	18,771	20,268
36,794	Other	40,921	39,619	39,324
54,317	TOTAL REVENUE	59,534	58,390	59,592
55,786	EXPENSES	58,349	58,390	59,592
(1,469)	SURPLUS/(DEFICIT)	1,185	-	-

PERFORMANCE

Trade volumes

We expected to process an estimated:

- » 3.9–4.8 million import transactions
- » 2.8–3.1 million export transactions.

In 2010/11, 4.623 million import transactions and 3.231 million export transactions were processed by Customs. The five-year trend for import and export transactions is discussed on page 7.

We processed a slightly higher number of excise returns than expected, with the 2010/11 total of 5,232 exceeding the forecast of 4,588–5,070.

Customs processed 55.41 million mail items in 2010/11, fewer than the expected 59–62 million. This reflects the continued decrease in mail volumes in recent years, principally due to a decline in letter mail (likely because of the increasing use of alternative methods of communication such as email and social networking websites). The 2010/11 total is a decrease of 4.0% from the 2009/10 total of 57.72 million mail items.

A percentage of the total mail items processed is subject to secondary screening by Customs (determined by operational alert activity and manual profiling). This may include a closer visual check of the external wrapping and/or declaration, or physical examination without opening and examining the contents. Some of these mail items are then retained for further interaction by way of physical inspection (opening and examining the contents).

While there has been a substantial drop in letter mail, there has not been a corresponding percentage decrease in the mail items presenting the most risk – primarily small packets and parcels, and EMS (international postal Express Mail Service) items. Customs’ additional interaction with that mail usually takes the form of physical inspection by way of opening and examination. In 2010/11, Customs physically inspected 47,416 import mail items, 0.09% of the total mail items processed (the same percentage as in 2009/10).

With the drop in letter mail, the higher-risk mail (packets and parcels, and EMS) makes up a greater proportion of the total mail items subject to secondary screening. This, and the effectiveness of Customs staff in identifying risk mail items, led to a high percentage (47.2%) of the mail items subject to secondary screening resulting in an enforcement consequence²⁸. The large majority of these resulted in an enforcement consequence of either requiring an entry due to revenue owing (67.6%) or being referred to the Ministry of Health (27.7%). A further 4.5% had a Goods Tracking record created through a Customs’ Activity Report due to the mail items being identified or suspected as containing illicit drugs or other prohibited imports.

Stakeholder Survey

International commercial clients (ie importers and exporters) were surveyed in June 2010. Those commercial clients had a high degree of satisfaction with Customs’ service, and trust in Customs. The relevant performance measures and standards below relate to their satisfaction with their interactions with Customs and our ability to meet their needs and expectations.

Investigations

Customs conducts investigations relating to the trafficking of illicit drugs, money laundering and the financing of terrorism, trade in endangered species, trade mark and copyright infringement, objectionable material, and duty and excise fraud. We commenced 590 investigation cases²⁹ in 2010/11, at the upper end of the 400–600 estimate.

We allocate our investigative resources based on the gravity of the particular offence being investigated, with the priority being serious investigation cases – those cases that involve, or have the potential to involve, serious community harm (such as more than \$250,000 drug harm, the importation of Class A or B drugs for supply, or the import or export of child exploitation material). These cases are usually more complex and require longer investigation times and resource commitment.

In 98.5% of serious investigation cases in 2010/11, punitive action³⁰ was taken against the offender. In 67% of those cases, the punitive action included the offender being placed before the courts and in the remaining 33% it was a lesser action such as seizure of goods and/or formal warning of the offender.

Both the prioritisation of resources and the complexity of investigation cases contribute to cases being open for longer than 12 months.

28 Enforcement consequence is comprised of Customs’ Activity Reports raised at the International Mail Centre; items referred to MAF, New Zealand Post, or the Ministry of Health; and items from New Zealand Post that require an entry. Activity Reports are raised when non-compliant items are found, and action taken in response.

29 An investigation case is commenced when resources are assigned to investigate an offence that has been committed, or where information suggests an offence has been or may be committed, against the Customs and Excise Act 1996, the Misuse of Drugs Act 1975, or other relevant legislation.

30 The action resulting from a closed or completed serious investigation case where an offence has been committed and an offender identified and the result includes but is not limited to:

- the offender is placed before the courts by Customs or New Zealand Police
- seizure of goods
- a formal warning of the offender
- the imposition of a section 223 Customs and Excise Act 1996 penalty ie fine or other penalty
- an administrative penalty.

PERFORMANCE MEASURES AND STANDARDS

2009/10		2010/11		
Actual	Measure	Actual	Standard	Variance
99.8%	Percentage of trade transactions (other than those referred for compliance checks) processed (including assessment against business rules and intelligence alerts) within 30 minutes	99.7%	≥95%	–
96.1%	Percentage of import transactions that are deemed compliant based on risk assessment and proceed without further intervention ³¹	96.6%	≥95%	–
99.4%	Percentage of export transactions that are deemed compliant based on risk assessment and proceed without further intervention	99.3%	≥99%	–
New measure	Average percentage of international commercial customers satisfied or very satisfied with Customs' service (as measured biennially by Customs' stakeholder survey)	79%	≥75%	–
New measure	Percentage of international commercial customers rating the quality of the working relationship with Customs as good or very good (as measured biennially by Customs' stakeholder survey)	85%	≥80%	–
New measure	Percentage of international commercial customers rating Customs' responsiveness to commercial needs as good or very good (as measured biennially by Customs' stakeholder survey)	68%	≥70%	-2.9%
New measure	Percentage of mail items that are referred for secondary screening	0.2%	≥0.2%	–
28.1%	Percentage of mail items subjected to secondary screening that result in an enforcement consequence	47.2%	≥30%	–
1,090	Number of trade compliance field audit activities undertaken	1,131	>1,100	–
24,639	Number of transactional audit activities undertaken	22,080	>20,000	–
78.2%	Percentage of investigation cases finalised within 12 months of commencement	72.4%	≥75%	-3.5%
New measure	Percentage of serious investigation cases that lead to punitive action	98.5%	≥95%	–

Explanation of significant variances

International commercial customers rating Customs' responsiveness to commercial needs as good or very good

The variance is within the survey margin of error, and is not significantly less than the standard.

Percentage of investigation cases finalised within 12 months of commencement

The variance is due to a backlog of old files (that had been open for more than 12 months) being finalised in 2010/11. The majority of these were Intellectual Property Right infringement cases that were the subject of a concerted effort by Customs to complete in 2010/11. A small number were files for major long-term operations that have now been closed.

³¹ Further intervention in relation to both import and export transactions means action by Customs to carry out further risk assessment. This may include, but is not limited to, document inspection, screening, or search.

OUTPUT CLASS – CLEARANCE AND ENFORCEMENT SERVICES RELATED TO CRAFT

Scope of appropriation: The provision of services relating to craft arriving in and departing from New Zealand, including clearance of craft, protection of New Zealand's interests through interventions, audits, investigations and enforcement.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/10		30/06/11		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
6,440	Crown	6,793	6,792	6,958
165	Other	215	210	174
6,605	TOTAL REVENUE	7,008	7,002	7,132
6,496	EXPENSES	6,912	7,002	7,132
109	SURPLUS/(DEFICIT)	96	-	-

PERFORMANCE

This output class relates to facilitating the arrival and departure of craft to and from New Zealand while deterring and detecting the illegal movement of items and people from craft, and the illegal movement of craft.

Numbers of craft

We anticipated processing 2,000–2,300 arriving commercial marine craft (craft excluding small craft, cruise ships, and military vessels) in 2010/11. The total processed was within that range, at 2,154. This is a 3.2% increase from the 2009/10 total of 2,087. The commercial shipping environment is significantly different from that prior to the global economic downturn. The breakdown of the ports of departure for ships arriving in New Zealand has changed significantly, while the increased cost pressures placed on large international shipping lines by the economic climate have resulted in those lines cutting back on capacity and consolidating import calls by implementing vessel-sharing arrangements.

We processed slightly above the expected number of 625–690 arriving small marine craft, with a total of 700 – a slight increase from the 2009/10 total of 684. Each year, the bulk of small craft arrivals is prior to summer (October–December, with the peak in November) and the bulk of departures are when summer ends (April–June, with the peak in May). We manage our resources accordingly.

Managing risk relating to craft

Customs uses intelligence and risk management processes to screen all craft, and to identify and facilitate the arrival and departure of legitimate craft at New Zealand's border.

We use intelligence-based risk profiles to determine the risk level of arriving commercial craft and mitigate risk through further interaction with those craft assessed as a potential risk and the people/crew associated with those craft. Intelligence and risk management processes determine the level of interaction and the specific risk treatment to be employed.

We aim to undertake a targeted response (ranging from surveillance to a full rummage) in relation to a minimum of 95% of those marine craft assessed as high or very high risk. There were fewer than the expected 30–50 such craft in 2010/11 – with only 24 high or very high risk craft arriving in New Zealand. This was due to some vessels previously rated high risk being downgraded to medium risk during the latter part of the 2010/11 year following the ITOC developing new rules relating to craft risk assessment that led to some vessels being recategorised.

We also aim to undertake additional interaction in relation to a minimum of 3% of arriving commercial marine craft that are not assessed as high or very high risk.

PERFORMANCE MEASURES AND STANDARDS

2009/10		2010/11		
Actual	Measure	Actual	Standard	Variance
100%	Percentage of marine craft ³² arriving that are boarded at first port of arrival	99.9%	100%	-0.1%
94.7%	Percentage of marine craft assessed as high or very high risk that are subject to a targeted response	91.7%	≥95%	-3.5%
New measure	Percentage of arriving commercial marine craft that are not assessed as high or very high risk that will be subject to Customs secondary interaction ³³	7.3%	≥3%	–

Explanation of significant variances

Marine craft arriving boarded at first port of arrival

Customs did not board two of the total of 2,854 commercial and small craft arriving in New Zealand. Customs staff were not available to board those craft, although in one instance the craft was met by New Zealand Police on Customs' behalf. In each instance, the craft was rated as low risk.

Vessels risk assessed as high or very high are targeted

The variance relates to two arrivals by a high risk vessel. Customs intended to undertake activity in relation to those arrivals but there was a reprioritisation of resources in each instance to higher priority operational activities (including deployment to Customs' response to the Canterbury earthquakes). The relevant vessel is one that makes regular and multiple arrivals in New Zealand, and so for which Customs has an overall plan to manage the risk associated with that vessel by varying our responses to its arrivals, and which includes intentional non-intervention as a response. Accordingly, Customs' response to other arrivals can be, and was, adjusted to reflect the decision not to undertake particular activity in relation to two of its arrivals.

³² Marine craft means small and commercial marine craft.

³³ Secondary interaction may range from talking to the crew to a full rummage. This output serves to encourage and maintain the current high levels of voluntary compliance, and acts as a check on risk assessments of craft.

OUTPUT CLASS – INFORMATION AND INTELLIGENCE SERVICES

Scope of appropriation: The provision of information, intelligence and risk assessment services to external clients, and the operation of the National Maritime Coordination Centre.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/10		30/06/11		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
6,269	Crown	6,797	6,790	5,583
142	Other	353	326	986
6,411	TOTAL REVENUE	7,150	7,116	6,569
6,312	EXPENSES	7,030	7,116	6,569
99	SURPLUS/(DEFICIT)	120	-	-

PERFORMANCE

Services for other agencies

Customs provides a range of intelligence and risk products for use by external clients in relation to craft, individuals, groups, events, and commodities that could present a risk that falls under the jurisdiction of other agencies. Intelligence and risk products are developed with a focus on tactical, operational, and strategic intelligence and provide knowledge to improve decision-making and inform risk. In 2010/11 we disseminated more than the expected number of intelligence and risk products to such clients, with 1,938 provided against a target of 1,600–1,800.

We expected to manage 28,000–32,000 alerts³⁴ created by other agencies in 2010/11. The total of 32,191 slightly exceeded this target. The bulk of the alerts (55.9%) were for the Ministry of Justice, relating to serious fine defaulters with warrants for arrest – the alerts being triggered when they entered or left New Zealand through international airports. The number of alerts created by the Ministry of Justice was substantially higher than the monthly average for each of the first three months of the year, before normalising, due to two major operational projects conducted by the Ministry causing an increase in the number of people meeting alert criteria. The other agencies for which we managed significant numbers of alerts were the Inland Revenue Department, New Zealand Police, and Immigration New Zealand.

National Maritime Coordination Centre (NMCC)

The NMCC provides whole-of-government coordination services to maximise the efficient and effective use of government's maritime patrol and surveillance assets for civilian purposes. It is an operationally independent unit within Customs that exists to help ensure these assets are put to best use to keep New Zealand safe from maritime threats, including people smuggling, terrorism, drug trafficking, and illegal fishing.

³⁴ Agencies (principally the Ministry of Justice, Inland Revenue, New Zealand Police, Immigration New Zealand and MAF) provide Customs with information about people and goods of interest to them. Our border management system electronically screens data for profile matches, enabling Customs to notify the other agency if the person or goods arrive at the border.

The assets allocated by the NMCC are usually Royal New Zealand Navy ships or Royal New Zealand Air Force aircraft, but can include other New Zealand Defence Force capabilities, and New Zealand Police, Department of Conservation, and Customs launches. The NMCC managed 14 assets in 2010/11 (more than the expected 10 assets). This total included the addition of two Offshore Patrol Vessels (HMNZS *Otago* and HMNZS *Wellington*) to the available assets, providing a major increase to the long-range patrol capacity available to civilian agencies.

To ensure optimal use of the assets in 2010/11, the NMCC prioritised and matched available assets to those areas assessed as presenting the greatest risk to New Zealand in the maritime environment based on risk assessments (of agreed geographic areas using a common risk assessment framework) completed by the civilian agencies. Using that process, the NMCC met 100% of civilian demand where patrol and surveillance assets were available.

The OAG released a performance audit report in April 2010 on the effectiveness of arrangements for coordinating maritime patrols. The OAG found that, in general, the NMCC had an appropriate framework in place to support the effective coordination of maritime patrols although some matters required attention if the NMCC was to have a clear strategic direction, clarify its mandate for separate patrol coordination arrangements, and improve patrol planning to make the most effective use of new and upgraded maritime patrol assets. The NMCC has, in conjunction with the relevant agencies, taken action to address each of the OAG's six recommendations since that report.

PERFORMANCE MEASURES AND STANDARDS

2009/10		2010/11		
Actual	Measure	Actual	Standard	Variance
100%	Percentage of external clients who are satisfied with intelligence and risk products disseminated by Customs	100%	≥80%	–
100%	Percentage of external clients who are satisfied with Customs management of alerts created by their agency	100% ³⁵	≥80%	–
100%	Percentage of civilian demand that is met where patrol and surveillance assets are available	100%	100%	–
77.8%	Percentage of requesting agencies and assets providers satisfied with National Maritime Coordination Centre's responsiveness, transparency, and prioritisation in coordination of tasking	100%	≥90%	–

³⁵ We sought feedback from six agencies for which we manage alerts and received responses from only two of those agencies.

OUTPUT CLASS – REVENUE COLLECTION

Scope of appropriation: The provision of services relating to receipt and processing of revenues owing to the Crown and other agencies, revenue assurance, credit and debt management.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/10		30/06/11		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
4,790	Crown	4,903	5,038	4,993
325	Other	320	275	306
5,115	TOTAL REVENUE	5,223	5,313	5,299
4,992	EXPENSES	5,300	5,313	5,299
123	SURPLUS/(DEFICIT)	(77)	-	-

PERFORMANCE

Customs' National Credit Control Unit collects due Crown revenue and manages credit and debt. Its role includes effective credit management, establishing and maintaining broker facilities, and the early identification and proactive management of outstanding debt. The Unit continues to focus on ensuring revenue due to the Crown is collected promptly and efficiently in a challenging economic climate for many traders. This is reflected in the proportion (99.7%) collected by the due date and the debt written off in 2010/11 being less than 0.0001% of the total revenue collected.

Customs' deferred payment scheme benefits both Customs and clients. It allows approved importers who are registered for GST to defer payment of customs charges (including GST) accounted for on import entries to the month following the importation of the goods. Clients gain flexibility, which assists their revenue compliance, while the scheme also minimises the transaction cost of revenue collection for Customs. Following the February earthquake, the National Credit Control Unit worked with some deferred payment scheme clients based in the Canterbury region concerning the options for deferring payments as a result of the impact of the earthquake on their businesses.

Customs' revenue collection is based on voluntary compliance, relying on traders (in the self-assessment processes used in completing customs formalities) accurately calculating and declaring the amount of customs revenue owed. Customs maintains a strategy and programme addressing risk and providing assurance across import, export, and excise trade streams. A key objective is the delivery of assurance over revenue, including the identification and recovery of due and unpaid customs revenue through our programme of audits (the number of field and transactional audits undertaken in 2010/11 is noted on page 43). The target of a minimum of \$15 million in additional revenue collected through the trade compliance programme was exceeded, with a total of \$25,919,739 collected in 2010/11. There is a high degree of variability in the total collected year-on-year as it is frequently affected by a small number of high-value collections. Approximately \$19 million of the 2010/11 total was due to four specific instances of customs revenue owing being identified by Customs – and those sums subsequently being paid.

The OAG undertook a performance audit in 2010/11 to review how effectively Customs plans and supports its revenue assurance activities and found that our current trade assurance systems and processes were sound and enabled effective revenue assurance, with the only recommendations relating to managing ongoing capability of staff in this area.

PERFORMANCE MEASURES AND STANDARDS

2009/10		2010/11		
Actual	Measure	Actual	Standard	Variance
\$8,777 million	Revenue collected on behalf of the Crown, as advised by Treasury	\$10,563 million	\$10,575 million	-0.1%
\$376.2 million	Revenue collected for other agencies, as advised by the agencies involved	\$383 million	\$375–400 million	–
97.7%	Percentage of revenue that is collected electronically	96.4%	>95%	–
99.7%	Percentage of revenue that is collected by the due date	99.7%	>98%	–
>8,000	Number of clients that meet credit criteria and have access to the deferred payment scheme	8,090 ³⁶	>8,000	–
0.0094%	Debt write-offs as a percentage of total revenue collected in that year	<0.0001%	≤0.02%	–
\$65.053 million	Additional revenue owed that is identified through the trade compliance programme	\$25.92 million	>\$15 million	–

³⁶ This is an average of the monthly totals of clients that met credit criteria and had access to the deferred payment scheme. As at 30 June 2011, the total was 8,195.

OUTPUT CLASS – POLICY ADVICE AND INTERNATIONAL SERVICES

Scope of appropriation: The provision of ministerial support, policy advice and international services, obligations and assistance.

REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

30/06/10		30/06/11		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue				
7,426	Crown	7,904	7,809	7,363
1,084	Other	1,360	1,494	313
8,510	TOTAL REVENUE	9,264	9,303	7,676
8,257	EXPENSES	8,979	9,303	7,676
253	SURPLUS/(DEFICIT)	285	-	-

PERFORMANCE

Ministerial servicing

Included in the services and support that Customs provides to the Minister of Customs are preparing draft replies to ministerial correspondence and draft responses to parliamentary questions. We estimated that in 2010/11 we would provide:

- » 50–70 draft replies to ministerial correspondence
- » fewer than 150 draft responses to parliamentary questions.

These volumes are demand driven and both of the totals estimated for the financial year were exceeded. We provided 83 draft replies to ministerial correspondence and 159 draft responses to written parliamentary questions.

Customs seeks to provide draft replies to ministerial correspondence within 20 working days (of receipt by Customs) if possible, so that the Minister of Customs can respond to his correspondence in a timely fashion. In some instances an extension to that standard deadline is obtained, for example where the issue is a complex one or where the response will require some input from another agency. We provided 71 of the total of 83 draft replies to ministerial correspondence within 20 working days and four within an alternative timeline agreed with the Minister's office.

Customs provided all draft responses to parliamentary questions received by the Minister in 2010/11 in sufficient time so that those answers could meet the deadline set out in the Parliamentary Standing Orders.

Policy advice

Customs provided policy advice to the Minister of Customs in 2010/11 on a range of topics related to border security, border management, and customs revenue. In order to monitor the quality of our policy advice, in addition to our internal quality assurance, Customs seeks the Minister's assessment of his satisfaction with the policy advice (that it meets the quality characteristics relating to matters such as logic, accuracy, consultation, options, and timeliness) and obtains an external review of our policy papers by NZIER.

The Minister of Customs advised that the quality of policy advice exceeded his expectations for 2010/11. NZIER awarded a median score of 7.5 for quality of policy papers for each of the two six-month periods in 2010/11. NZIER advised (in its June 2011 report) that it had reviewed 20 agencies over the year and in its comparison of those agencies' mean scores, Customs' mean score placed us close to the top of its "Adequate" group (among six agencies in that group; nine were below in the "Low" group, five were above in the "Respectable" group, and no agencies were in the "High" group).

International services and assistance

The Minister also advised that Customs' advice and support in relation to international services and assistance in 2010/11 exceeded his expectations.

This advice and support included participating in New Zealand's FTA programme (as discussed in further depth on page 16).

Customs also plays an active role in the international customs community to ensure that New Zealand's viewpoint is properly represented and to advance New Zealand's trade and security interests. We achieve this primarily by way of the development and maintenance of bilateral and multilateral relationships, and input to and representation at international fora, particularly the WCO. Customs is assisted in the international customs policy and operational arenas by the five Customs counsellors located in Canberra, Washington DC, Beijing, Bangkok, and Brussels.

Customs also continued to provide assistance to overseas customs agencies through the provision of technical advice and training courses, and by hosting visits. In 2010/11 this assistance included continuing to build customs capacity in the Pacific region through initiatives such as the Cooks Islands customs modernisation project, and methamphetamine awareness training (Customs and New Zealand Police visiting Pacific countries to raise awareness of the threats posed, and harm that can be caused, by the drug to the Pacific region).

PERFORMANCE MEASURES AND STANDARDS

2009/10		2010/11		
Actual	Measure	Actual	Standard	Variance
90.5%	Draft replies to ministerial correspondence provided to the Minister within 20 working days ³⁷ or as agreed with the Minister	90.4%	90%	–
New measure	Draft responses to parliamentary questions that are provided to the Minister's office so that answers can meet the timeframe set in Parliamentary Standing Orders	100%	100%	–
Meets and sometimes exceeds expectations – amended standard ³⁸	Minister's assessment of his satisfaction that the policy advice conforms to the quality characteristics	Exceeds expectations	Meets expectations	–
7	Median score (out of 10) for policy papers as assessed by the external reviewer (NZIER)	7.5	≥7.5	–
New measure	Minister's satisfaction with advice and support in relation to international services and assistance provided	Exceeds expectations	Meets expectations	–

³⁷ For the purposes of this measure, “working day” means a working day as defined in the Official Information Act 1982 (and so excludes the period from 25 December to 15 January in the following year).

³⁸ This result for 2009/10 is comparable with that for 2010/11 but the 2009/10 standard (“meets and sometimes exceeds expectations”) differs from that for 2010/11 (“meets expectations”).

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 June 2011

2010			2011		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
Revenue					
84,448	Crown		91,515	91,515	91,481
40,619	Other	2	44,578	43,664	42,265
125,067	Total revenue		136,093	135,179	133,746
Expenditure					
81,834	Personnel costs	3	81,803	82,240	83,776
34,214	Operating costs	4	40,259	40,071	35,923
6,661	Depreciation and amortisation expense	5	8,578	8,493	9,219
2,907	Capital charge	6	3,875	3,875	4,828
125,616	Total expenses		134,515	134,679	133,746
(549)	Net operating surplus/(deficit)		1,578	500	-
-	Other comprehensive income		-	-	-
(549)	TOTAL COMPREHENSIVE INCOME		1,578	500	-

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

STATEMENT OF MOVEMENTS IN TAXPAYERS' FUNDS For the year ended 30 June 2011

2010			2011		
ACTUAL \$000			ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
38,908	Taxpayers' funds as at 1 July		51,164	51,164	50,413
(549)	Total comprehensive income		1,578	500	-
-	Provision for repayment of surplus to the Crown		(1,578)	(500)	-
12,913	Capital contributions		5,315	5,315	37,144
(108)	Capital withdrawals		-	-	-
12,256	Movements in equity for the year		5,315	5,315	37,144
51,164	TAXPAYERS' FUNDS AS AT 30 JUNE		56,479	56,479	87,557

The accompanying accounting policies and notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

2010			2011		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
51,164	TAXPAYERS' FUNDS		56,479	56,479	87,557
	<i>Represented by:</i>				
	Current assets				
27,848	Cash and cash equivalents		25,601	21,360	20,414
1,127	Prepayments		607	1,127	625
3,948	Debtors and receivables	7	4,613	4,055	4,314
32,923	Total current assets		30,821	26,542	25,353
	Non-current assets				
34,961	Property, plant and equipment	8	43,746	42,761	46,095
3,068	Intangible assets	9	4,985	8,239	32,555
35	Receivables and advances		33	–	–
38,064	Total non-current assets		48,764	51,000	78,650
70,987	TOTAL ASSETS		79,585	77,542	104,003
	Current liabilities				
4,916	Creditors and payables	10	6,788	5,975	3,390
10,524	Employee entitlements	11	10,515	10,573	9,040
–	Provision for repayment of surplus to the Crown		1,578	500	–
255	Other short term liabilities	12	185	48	34
15,695	Total current liabilities		19,066	17,096	12,464
	Non-current liabilities				
3,543	Employee entitlements	11	3,416	3,232	3,232
585	Other long term provisions	13	624	735	750
4,128	Total non-current liabilities		4,040	3,967	3,982
19,823	TOTAL LIABILITIES		23,106	21,063	16,446
51,164	NET ASSETS		56,479	56,479	87,557

The accompanying accounting policies and notes form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

2010			2011		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
CASH FLOWS – OPERATING ACTIVITIES					
<i>Cash was provided from:</i>					
84,458	Crown		91,163	91,515	91,481
40,536	Other		44,626	43,593	42,194
124,994			135,789	135,108	133,675
<i>Cash was applied to:</i>					
(79,841)	Personnel		(81,938)	(81,740)	(83,393)
(32,447)	Operating		(39,098)	(39,831)	(36,757)
(241)	net GST paid/(received)		(68)	–	–
(2,907)	Capital charge		(3,875)	(3,875)	(4,828)
2	Other		(1)	–	–
(115,434)			(124,980)	(125,446)	(124,978)
9,560	Net cash inflow from operating activities	18	10,809	9,662	8,697
CASH FLOWS – INVESTING ACTIVITIES					
<i>Cash was provided from:</i>					
96	Sale of fixed assets		97	300	300
6	Purchase of accommodation bonds		2	–	–
102			99	300	300
<i>Cash was disbursed to:</i>					
(15,024)	Purchase of fixed assets		(15,422)	(14,908)	(18,575)
(798)	Purchase of intangible assets		(3,048)	(6,857)	(29,961)
(15,822)			(18,470)	(21,765)	(48,536)
(15,720)	Net cash inflow from investing activities		(18,371)	(21,465)	(48,236)
CASH FLOWS – FINANCING ACTIVITIES					
<i>Cash was provided from:</i>					
12,913	Capital contributions		5,315	5,315	37,144
(108)	Capital withdrawals		–	–	–
<i>Cash was disbursed to:</i>					
–	Repayment of surplus		–	–	–
12,805	Net cash inflow from financing activities		5,315	5,315	37,144
6,645	Net increase in cash		(2,247)	(6,488)	(2,395)
21,203	Cash at the beginning of the year		27,848	27,848	22,809
27,848	CASH AT THE END OF THE YEAR		25,601	21,360	20,414

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department.

The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The accompanying accounting policies and notes form part of these financial statements

STATEMENT OF COMMITMENTS

As at 30 June 2011

The New Zealand Customs Service has long-term leases on its premises throughout the country and overseas. Annual lease payments on the four 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 below as future commitments are based on the current rental rates.

2010		2011
ACTUAL \$000		ACTUAL \$000
Capital commitments		
6,868	Property, plant and equipment	3,222
970	Intangible assets	39,604
7,838	Total capital commitments	42,826
Non-cancellable operating lease commitments		
7,061	Not later than one year	7,753
23,631	Later than one year and not later than five years	23,876
22,586	Later than five years	21,157
53,278	Total non-cancellable operating commitments	52,786
Other non-cancellable commitments		
3,101	Not later than one year	4,509
5,806	Later than one year and not later than five years	4,505
–	Later than five years	–
8,907	Total non-cancellable other operating commitments	9,014
70,023	TOTAL COMMITMENTS	104,626

STATEMENT OF DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2011

As at 30 June 2011 there are no contingent liabilities (30 June 2010: \$38,000).

As at 30 June 2011 there are no contingent assets (30 June 2010: nil).

STATEMENT OF UNAPPROPRIATED EXPENDITURE AND CAPITAL EXPENDITURE

For the year ended 30 June 2011

The New Zealand Customs Service net assets balance exceeded the amount projected for 2010/11 in the Appropriation (2009/10 Estimates) Act 2010 by \$0.673 million from March 2011 until May 2011 and then by \$0.751 million until the Appropriation (2010/11 Supplementary Estimates) Act was passed on 27 June 2011. This breach of section 22 of the Public Finance Act is technical in nature as it was due to a forecast variance. The forecast of an operating deficit of \$1.3 million for the 2009/10 financial year had the effect of reducing the projected operating balance of net assets for 2010/11. Through prudent fiscal management over the remaining months of the financial year and an improvement in third party revenue levels, an operating deficit of \$0.5489 million was achieved in 2009/10.

No other unappropriated expenditure was incurred during the 2010/11 financial year (30 June 2010: nil).

The accompanying accounting policies and notes form part of these financial statements

STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

For the year ended 30 June 2011

2010		2011		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
VOTE CUSTOMS				
<i>Appropriations for classes of outputs</i>				
43,773	Clearance and enforcement services related to passengers and crew	47,945	48,055	47,478
55,786	Clearance and enforcement services related to goods	58,349	58,390	59,592
6,496	Clearance and enforcement services related to craft	6,912	7,002	7,132
6,312	Information and intelligence services	7,030	7,116	6,569
4,992	Revenue collection	5,300	5,313	5,299
8,257	Policy advice and international services	8,979	9,303	7,676
125,616	Total appropriations for classes of outputs	134,515	135,179	133,746
<i>Appropriations for capital expenditure</i>				
15,822	Capital investment	19,393	21,765	48,536
141,438	TOTAL APPROPRIATIONS	153,908	156,944	182,282

The 2010 actual values have been restated from the previous ten output classes into the six current output classes to provide a comparative with the expenditure and appropriations for the year ending 30 June 2011.

In June 2010 the Minister of Finance approved an in principle transfer of up to \$500,000 of operating funding from the 2009/10 to the 2010/11 financial year. This transfer was to enable the Joint Border Management System Request for Proposal process to be completed which is reported in the Policy advice output class.

SCHEDULE OF TRUST MONIES

For the year ended 30 June 2011

ACCOUNT	AS AT 01/07/10	AS AT 30/06/11				
	\$000	CONTRIBUTION \$000	DISTRIBUTION \$000	REVENUE \$000	EXPENSES \$000	\$000
Alcohol Liquor Advisory Council Trust	1,266	14,407	14,244	–	–	1,429
Heavy Engineering Research Association Trust	55	688	687	–	–	56
Customs Regional Deposit/Bonds Trust	3,987	19,673	18,325	–	–	5,335
TOTAL	5,308	34,768	33,256	–	–	6,820

The accompanying accounting policies and notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The New Zealand Customs Service is a government department as defined by 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 protects New Zealand's border and revenue. Accordingly, the New Zealand Customs Service has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

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 2011. The financial statements were authorised for issue by the Comptroller on 16 September 2011.

BASIS OF PREPARATION

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).

These financial statements have been prepared in accordance with, and comply with, NZ IFRS as appropriate for public benefit entities.

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

MEASUREMENT SYSTEM

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.

ACCOUNTING POLICIES

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements the New Zealand Customs Service has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the 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 discussed below.

Retirement and long service leave

Note 11 and Employee Entitlements accounting policy below provide an analysis of the exposure in relation to estimates and uncertainties surrounding retirement and long service leave liabilities.

BUDGET FIGURES

The budget figures are those included in the Estimates of Appropriations 2010/11. In addition, the financial statements also present the updated budget information from the 2011 Supplementary Estimates.

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.

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.

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.

CAPITAL CHARGE

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

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 significant activities. Indirect costs are charged to significant activities 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 with 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 2011, direct costs accounted for 86% of the New Zealand Customs Service’s costs (previous year: 85%).

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 2011, indirect costs accounted for 14% of the New Zealand Customs Service's costs (previous year: 15%).

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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists 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 \$500 or more, or as a group of assets more than \$10,000, 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.

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 Income.

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, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Furniture and office equipment	5 years	(20%)
Plant and equipment	5 to 10 years	(10%–20%)
Computer hardware	4 years	(25%)
Motor vehicles	5 years	(20%)
Launch and watercraft	10 years	(10%)

Leasehold improvements, as part of furniture and office equipment, 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.

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. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the Statement of Comprehensive Income.

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

Computer software	5 to 10 years	(10%–20%)
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IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An intangible asset that is not yet available for use at the balance sheet date is tested for impairment annually.

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.

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

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

CREDITORS AND OTHER PAYABLES

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

EMPLOYEE ENTITLEMENTS

Short-term 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.

Long-term 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 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 5.16% and a salary inflation factor of 2.75% were used. The discount rates are those supplied by The Treasury being the risk free discount rates as at 30 June 2011. The inflation factor is based on the expected long-term increase in remuneration for employees as supplied by The Treasury.

SUPERANNUATION SCHEMES – DEFINED CONTRIBUTION SCHEMES

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 Income as incurred.

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.

Make good provision

Where there is certainty that a premises lease will not be renewed and, in accordance with the lease provisions, there is an indication or expectation from the lessor that the building is to be returned to its original condition, a provision for the estimated cost to make good the premises is made.

Any significant make good provision will be measured at amortised cost using the effective interest rate method. Non-significant make good provision will be based on the best estimation of future payment.

TAXPAYERS' FUNDS

Taxpayers' funds 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.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially measured at fair value plus transaction costs unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in the Statement of Comprehensive Income.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand and funds on deposit with banks.

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 impairment charges.

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 debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income. Overdue receivables that are renegotiated are reclassified as current (ie not past due).

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 Income 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.

ACCOUNTING FOR FOREIGN CURRENCY TRANSACTIONS

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

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into New Zealand dollars at the exchange rate applicable at the fair value date. The associated foreign exchange gains or losses are recognised in the Statement of Comprehensive Income.

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 TAXATION

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.

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.

COMMITMENTS

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

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 probable. Contingent assets are disclosed if it is probable that the benefits will be realised.

RELATED PARTIES

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 and with the Government reporting entity on a regular basis, for example, for the purchase of postage stamps or the registration of vehicles. These transactions are conducted on an arm's-length basis. Any transactions not conducted at arm's-length will be disclosed in the financial statements.

These financial statements disclose the gross remuneration paid to key management personnel.

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, including cost allocation accounting policies, since the date of the last audited financial statements.

The New Zealand Customs Service has early adopted NZ IAS 24 Related Party Disclosures (Revised 2009). The effect of early adopting the revised NZ IAS 24 is:

- » more information is required to be disclosed about transactions between the New Zealand Customs Service and entities controlled, jointly controlled, or significantly influenced by the Crown;
- » commitments with related parties require disclosure; and
- » information is required to be disclosed about any related party transactions with Ministers of the Crown with portfolio responsibility for the New Zealand Customs Service. An exemption is provided from reporting transactions with other Ministers of the Crown.

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the New Zealand Customs Service are:

- » NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus or deficit. The new standard is required to be adopted for the year ended 30 June 2014. The New Zealand Customs Service has not yet assessed the effect of the new standard and expects it will not be early adopted.

- » FRS-44 New Zealand Additional Disclosures and Amendments to NZ IFRS to harmonise with IFRS and Australian Accounting Standards (Harmonisation Amendments). These were issued in May 2011 with the purpose of harmonising Australia and New Zealand's accounting standards with source IFRS and to eliminate many of the differences between the accounting standards in each jurisdiction. The amendments must first be adopted for the year ended 30 June 2012. The New Zealand Customs Service has not yet assessed the effects of FRS-44 and the Harmonisation Amendments. As the External Reporting Board is to decide on a new accounting standards framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS with a mandatory effective date for annual reporting periods commencing on or after 1 January 2012 will not be applicable to public benefit entities. This means that the financial reporting requirements for public benefit entities are expected to be effectively frozen in the short-term. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

NOTE 2: OTHER REVENUE

2010		2011
ACTUAL \$000		ACTUAL \$000
145	Sale of Publications	245
1,041	Compliance activity – officers time	99
234	Compliance activities – other	221
931	Overseas aid projects	1,003
233	Information processing	488
1,205	Cost recoveries – other	2,184
24,347	Import Entry Transaction Fees	27,674
11,022	Goods Cost Recovery	11,091
1,461	State Sector Retirement Savings Scheme and KiwiSaver recoveries	1,573
40,619	TOTAL OTHER REVENUE	44,578

NOTE 3: PERSONNEL COSTS

2010		2011
ACTUAL \$000		ACTUAL \$000
79,906	Salaries and wages	79,448
467	Government Superannuation Fund expense	782
1,461	State Sector Retirement Savings Scheme and KiwiSaver expenses	1,573
81,834	TOTAL PERSONNEL COSTS	81,803

NOTE 4: OPERATING COSTS

2010		2011
ACTUAL \$000		ACTUAL \$000
11	Net loss on sale of fixed assets	3
3	Bad debts written-off	13
370	Increase (decrease) in provision for doubtful debts	(359)
214	Fees paid to Audit NZ for the financial statement audit	214
40	Fees paid to Audit NZ for audit-related assurance services	72
6,171	Operating lease rentals	8,509
2,420	Occupancy costs (excluding rentals)	3,143
2,684	Computer equipment costs	2,520
2,279	Communication costs	2,828
24	Net foreign exchange losses	27
19,998	Other operating costs	23,289
34,214	TOTAL OPERATING COSTS	40,259

Fees paid to Audit New Zealand for audit-related assurance services were for a quality assurance review over the tendering and selection process of a prime vendor for the Joint Border Management System.

NOTE 5: DEPRECIATION AND AMORTISATION

2010		2011
ACTUAL \$000		ACTUAL \$000
<i>Depreciation</i>		
956	Leasehold improvements	1,553
221	Office equipment	291
2,804	Other equipment and plant	3,663
296	Furniture and fittings	474
967	Computer equipment	991
438	Motor vehicles	466
9	Launch and watercraft	9
5,691	Total Depreciation	7,447
<i>Amortisation</i>		
970	Intangible assets – computer software	1,131
6,661	TOTAL DEPRECIATION AND AMORTISATION COST	8,578

NOTE 6: CAPITAL CHARGE

The New Zealand Customs Service pays a capital charge to the Crown on its taxpayers' funds balance as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2011 was 7.5% (2010: 7.5%).

NOTE 7: DEBTORS AND RECEIVABLES

2010		2011
ACTUAL \$000		ACTUAL \$000
664	Trade debtors	627
(386)	Less: provision for doubtful debts	(27)
278	Net trade debtors	600
398	Receivables	106
1,980	Debtor – Import Entry Transaction Fee	2,113
88	Debtor – Crown	473
1,204	Debtor – Goods Cost Recovery	1,321
3,948	TOTAL DEBTORS AND RECEIVABLES	4,613

	2010			2011		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Current	3,685	–	3,685	4,395	–	4,395
Past due 1–30 days	276	(38)	238	177	–	177
Past due 31–60 days	68	(43)	25	19	–	19
Past due 60–90 days	45	(45)	–	5	–	5
Past due >90 days	260	(260)	–	44	(27)	17
Total	4,334	(386)	3,948	4,640	(27)	4,613

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

	LEASEHOLD IMPROVEMENTS \$000	OFFICE EQUIPMENT \$000	OTHER EQUIPMENT \$000	FURNITURE AND FITTINGS \$000	COMPUTER EQUIPMENT \$000	MOTOR VEHICLES \$000	LAUNCHES/ WATERCRAFT \$000	CAPITAL WORK IN PROGRESS \$000	TOTAL \$000
COST									
Balance at 1 July 2009	4,984	1,707	26,186	2,828	10,959	4,537	1,085	2,514	54,800
Additions	1,646	276	5,819	97	270	458	-	6,490	15,056
Disposals	-	(58)	(35)	-	(47)	(345)	-	-	(485)
Balance at 30 June 2010	6,630	1,925	31,970	2,925	11,182	4,650	1,085	9,004	69,371
Balance at 1 July 2010	6,630	1,925	31,970	2,925	11,182	4,650	1,085	9,004	69,371
Additions	8,292	448	3,748	1,671	895	743	-	548	16,345
Disposals	-	1	(2)	(14)	(78)	(327)	-	-	(420)
Balance at 30 June 2011	14,922	2,374	35,716	4,582	11,999	5,066	1,085	9,552	85,296
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES									
Balance at 1 July 2009	2,785	1,100	11,753	2,060	8,718	1,850	799	-	29,065
Depreciation expenses	956	221	2,804	296	967	438	9	-	5,691
Disposals	-	(55)	(2)	-	(47)	(242)	-	-	(346)
Balance at 30 June 2010	3,741	1,266	14,555	2,356	9,638	2,046	808	-	34,410
Balance at 1 July 2010	3,741	1,266	14,555	2,356	9,638	2,046	808	-	34,410
Depreciation expenses	1,553	291	3,663	474	991	466	9	-	7,447
Disposals	-	-	(6)	-	(73)	(228)	-	-	(307)
Balance at 30 June 2011	5,294	1,557	18,212	2,830	10,556	2,284	817	-	41,550
CARRYING AMOUNT									
At 1 July 2009	2,198	607	14,433	769	2,241	2,686	286	2,514	25,734
At 30 June 2010	2,889	659	17,415	569	1,544	2,604	277	9,004	34,961
At 30 June 2011	9,628	817	17,504	1,752	1,443	2,782	268	9,552	43,746

NOTE 9: INTANGIBLE ASSETS

	ACQUIRED SOFTWARE \$000	INTERNALLY GENERATED SOFTWARE \$000	TOTAL \$000
COST			
Balance at 1 July 2009	1,123	19,317	20,440
Additions	330	468	798
Disposals	–	–	–
Balance at 30 June 2010	1,453	19,785	21,238
Balance at 1 July 2010	1,453	19,785	21,238
Additions	3,048	–	3,048
Disposals	–	–	–
Balance at 30 June 2011	4,501	19,785	24,286
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES			
Balance at 1 July 2009	899	16,301	17,200
Depreciation expenses	133	837	970
Disposals	–	–	–
Balance at 30 June 2010	1,032	17,138	18,170
Balance at 1 July 2010	1,032	17,138	18,170
Depreciation expenses	408	723	1,131
Disposals	–	–	–
Balance at 30 June 2011	1,440	17,861	19,301
CARRYING AMOUNT			
At 1 July 2009	224	3,016	3,240
At 30 June 2010	421	2,647	3,068
At 30 June 2011	3,061	1,924	4,985

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

2010		2011
ACTUAL \$000		ACTUAL \$000
4,214	Trade creditors and accrued expenses	6,137
702	GST payable	651
4,916	TOTAL CREDITORS AND PAYABLES	6,788

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: EMPLOYEE ENTITLEMENTS

2010		2011
ACTUAL \$000		ACTUAL \$000
<i>Current liabilities</i>		
4,624	Personnel accruals	4,398
4,445	Annual leave	4,599
1,455	Retirement and long service leave	1,518
10,524	Total current portion	10,515
<i>Non-current liabilities</i>		
3,543	Retirement and long service leave	3,416
3,543	Total non-current portion	3,416
14,067	TOTAL EMPLOYEE ENTITLEMENTS	13,931

NOTE 12: OTHER SHORT TERM LIABILITIES

2010		2011
ACTUAL \$000		ACTUAL \$000
55	Due to Crown – sale of seized goods	185
200	Lease make good provision	–
255	TOTAL OTHER SHORT TERM LIABILITIES	185

NOTE 13: OTHER LONG TERM PROVISIONS

2010		2011
ACTUAL \$000		ACTUAL \$000
585	Lease make good provision	624
585	TOTAL OTHER LONG TERM PROVISIONS	624

Movement for provisions are as follows:

2010		2011
ACTUAL \$000		ACTUAL \$000
490	Lease make good provision as at 1 July	785
385	Additional provisions made	–
(90)	Amounts utilised	(161)
785	LEASE MAKE GOOD PROVISION AT 30 JUNE	624

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 14: 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.

The New Zealand Customs Service has five overseas posts and operates three 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 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, deposits with banks, and derivative financial instrument assets.

The New Zealand Customs Service is only permitted to deposit funds with Westpac, a registered bank, and enter into foreign exchange forward contracts with the New Zealand Debt Management Office. These entities have high credit ratings. For its other financial instruments, the 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, net debtors (note 7), and derivative financial instrument assets. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Liquidity risk

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
2010				
Creditors and other payables (note 10)	4,916	–	–	–
Provision for repayment of surplus	–	–	–	–
TOTAL	4,916	–	–	–
2011				
Creditors and other payables (note 10)	6,788	–	–	–
Provision for repayment of surplus	1,578			
TOTAL	8,366	–	–	–

NOTE 15: RELATED PARTY INFORMATION

All related party transactions that have been entered into are on an arm's-length basis.

The New Zealand Customs Service is a wholly owned entity of the Crown. The Government significantly influences the roles of the New Zealand Customs Service as well as being a major source of revenue with \$91 million provided in 2010/11 (\$84 million, 2009/10).

In conducting its activities, the New Zealand Customs Service is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The New Zealand Customs Service is exempt from paying income tax.

The New Zealand Customs Service also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2011 totalled \$2.5 million (2010: \$2.1 million). These purchases included the purchase of air travel from Air New Zealand, legal services from the Crown Law Office, and postal services from New Zealand Post.

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

Apart from those transactions described above, the New Zealand Customs Service has not entered into any related party transactions. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

KEY MANAGEMENT PERSONNEL COMPENSATION

2010		2011
ACTUAL \$000		ACTUAL \$000
2,979	Salaries and other short-term employee benefits	3,126
19	Other long-term benefits	15
2,998	TOTAL KEY MANAGEMENT PERSONNEL COMPENSATION	3,141

Key management personnel are outlined in Customs' Organisational Structure contained on page 85.

NOTE 16: CATEGORIES OF FINANCIAL INSTRUMENTS

2010		2011
ACTUAL \$000		ACTUAL \$000
	<i>Loans and receivables</i>	
27,848	Cash and cash equivalents	25,601
3,948	Debtors and other receivables	4,613
31,796	Total loans and receivables	30,214
	<i>Financial liabilities measured at amortised cost</i>	
4,916	Creditors and other payables	6,788
4,916	TOTAL FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	6,788

NOTE 17: CAPITAL MANAGEMENT

The New Zealand Customs Service's capital is its equity (or taxpayers' funds).

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.

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 18: RECONCILIATION OF NET SURPLUS/DEFICIT TO NET CASH FLOW FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2011

2010		2011
ACTUAL \$000		ACTUAL \$000
(549)	Net operating surplus/(deficit)	1,578
6,661	Depreciation and amortisation expense	8,578
6,661	Total non-cash items	8,578
	<i>Working capital movements</i>	
286	(Increase)/decrease in debtors and receivables	(665)
(575)	(Increase)/decrease in prepayments	520
1,418	Increase/(decrease) in creditors and payables	1,872
1,878	Increase/(decrease) in employee entitlements	(9)
129	Increase/(decrease) in short term liabilities	(70)
3,136	Working capital movements – net	1,648
	<i>Movements in non-current liabilities</i>	
185	Provision for premises make good	39
116	(Increase)/decrease in employee entitlements	(127)
301	Movements in non-current liabilities	(88)
–	Add/(less) investing activity items	(912)
11	Net (gain) loss on sale of fixed assets	5
11	Total investing activity items	(907)
9,560	NET CASH FROM OPERATING ACTIVITIES	10,809

NOTE 19: MAJOR BUDGET VARIATIONS

STATEMENT OF COMPREHENSIVE INCOME

Other Revenue is above forecast mainly as a result of greater than budgeted levels of transactions that were subject to the Import Entry Transaction Fee.

Depreciation and amortisation are ahead of forecast as a result of the timing of the completion and bringing into use of capital expenditure projects.

Other operating costs are less than forecast as a result of the timing of project related expenditure and activity in some areas being less than forecast.

STATEMENT OF FINANCIAL POSITION

Cash and cash equivalents are greater than forecast primarily as a result of the timing of capital expenditure against capital contributions and an increase in the level of payables and employee entitlements as at 30 June 2011.

Fixed assets are less than forecast as a result of the timing of capital expenditure between financial years.

STATEMENT OF CASH FLOWS

The net cash flow from operating activities is greater than forecast as a result of better than budgeted other revenue, less than forecast other operating expenditure, and an increase in payables and employee entitlements at year end which will be subsequently reduced in the new financial year.

The net cash flow from investing activities is greater than forecast as a result of the timing of capital expenditure between financial years and an increase in payables at year end.

NOTE 20: EVENTS AFTER THE BALANCE DATE

There have been no significant events after the balance date.

NON-DEPARTMENTAL STATEMENTS AND SCHEDULES

For the year ended 30 June 2011

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.

SCHEDULES AND STATEMENTS: NON-DEPARTMENTAL

For the year ended 30 June 2011

2010		2011		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
8,776,985	Revenue	10,562,898	10,575,134	10,823,168
901	Expenses	113	2,054	2,088
1,394,378	Assets	1,805,812	1,447,376	1,512,238
23,368	Liabilities	19,112	23,368	4,124

SCHEDULE OF NON-DEPARTMENTAL REVENUE

For the year ended 30 June 2011

2010		2011		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
	REVENUE			
	<i>Indirect taxation</i>			
1,873,112	Customs Duty	1,916,354	1,991,000	2,060,000
600,303	Excise Duties – Alcohol	669,123	625,000	657,000
216,704	Excise Duties – Tobacco	183,748	238,000	209,000
837,243	Excise Duties – Fuels	907,384	897,000	945,000
5,249,363	Goods and Services Tax	6,886,143	6,824,000	6,952,000
8,776,725	Total indirect taxation	10,562,752	10,575,000	10,823,000
	<i>Indirect non-taxation</i>			
68	World Customs Organization	54	54	88
192	Sale of seized goods	92	80	80
260	Total indirect non-taxation	146	134	168
8,776,985	TOTAL NON-DEPARTMENTAL REVENUE	10,562,898	10,575,134	10,823,168

The accompanying accounting policies and notes form part of these financial statements

SCHEDULE OF NON-DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS

For the year ended 30 June 2011

2010		2011		
ACTUAL \$000		ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
68	World Customs Organization	54	54	88
833	Change in doubtful debt provision	59	2,000	2,000
901	TOTAL NON-DEPARTMENTAL EXPENDITURE AND APPROPRIATIONS	113	2,054	2,088

STATEMENT OF NON-DEPARTMENTAL UNAPPROPRIATED EXPENDITURE AND CAPITAL EXPENDITURE

For the year ended 30 June 2011

There has been no unappropriated expenditure for the year ended 30 June 2011 (30 June 2010: nil).

SCHEDULE OF NON-DEPARTMENTAL ASSETS

As at 30 June 2011

2010			2011		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
<i>Current assets</i>					
653,843	Cash and cash equivalents		958,680	653,843	802,669
740,535	Receivables and advances	2	847,132	793,533	709,569
1,394,378	TOTAL ASSETS		1,805,812	1,447,376	1,512,238

The accompanying accounting policies and notes form part of these financial statements

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

As at 30 June 2011

2010			2011		
ACTUAL \$000		NOTE	ACTUAL \$000	SUPP ESTIMATES \$000	MAIN ESTIMATES \$000
<i>Current liabilities</i>					
21,299	Payables and provisions		16,878	23,368	4,124
2,069	Creditor – departmental		2,234	–	–
23,368	TOTAL LIABILITIES	3	19,112	23,368	4,124

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS

As at 30 June 2011

2010		2011
ACTUAL \$000		ACTUAL \$000
–	Legal proceedings	7
–	TOTAL NON-DEPARTMENTAL CONTINGENT LIABILITIES	7

As at 30 June 2011, the New Zealand Customs Service has a contingent liability relating to a legal action. This was instigated by a passenger under the New Zealand Bill of Rights Act. The New Zealand Customs Service is in the process of negotiating a settlement of \$5,000 plus costs of \$2,000 (30 June 2010: nil).

As at 30 June 2011 there are no contingent assets (30 June 2010: nil).

SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS

As at 30 June 2011

The New Zealand Customs Service has no Crown Commitments as at 30 June 2011 (30 June 2010: nil).

The accompanying accounting policies and notes form part of these financial statements

NOTES TO THE NON-DEPARTMENTAL FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 30 JUNE 2011

REPORTING ENTITY

The New Zealand Customs Service is a Government department as defined by section 2 of the Public Finance Act 1989.

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.

BUDGET FIGURES

The budget figures are those included in the Estimates of Appropriations 2010/11. In addition, the financial statements also present the updated budget information from the 2011 Supplementary Estimates.

REVENUE

The New Zealand Customs Service collects revenue on behalf of the Crown in the form of GST, Excise, and Customs Duties. Such revenue is recognised when earned and is reported in the financial period to which it relates.

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 debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the schedule of non-departmental expenses. When a debt is uncollectible, it is written off against the allowance account for debtors. Overdue receivables that are renegotiated are reclassified as current (ie 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.

NOTE 2: DEBTORS AND OTHER RECEIVABLES

2010		2011
ACTUAL \$000		ACTUAL \$000
565,253	Crown receivables	647,256
(1,375)	Less provision for doubtful debts	(1,430)
563,878	Net Crown receivables	645,826
176,657	Accrued revenue	201,306
740,535	Total accrued revenue and receivables	847,132
	<i>Represented by:</i>	
740,535	Current	847,132
–	– Non-current	–

2010		2011
ACTUAL \$000		ACTUAL \$000
546,762	Not past due	695,977
191,916	Past due 1–30 days	148,631
780	Past due 31–90 days	1,267
1,077	Past due 90–360 days	1,257
–	– Past due >360 days	–
740,535	TOTAL	847,132

Movements in the provision for doubtful debts are as follows:

2010		2011
ACTUAL \$000		ACTUAL \$000
584	Balance at 1 July	1,375
791	Additional provisions made during the year	55
–	Less: Bad debts written off	–
1,375	BALANCE AT 30 JUNE	1,430

NOTE 3: CREDITORS AND OTHER PAYABLES

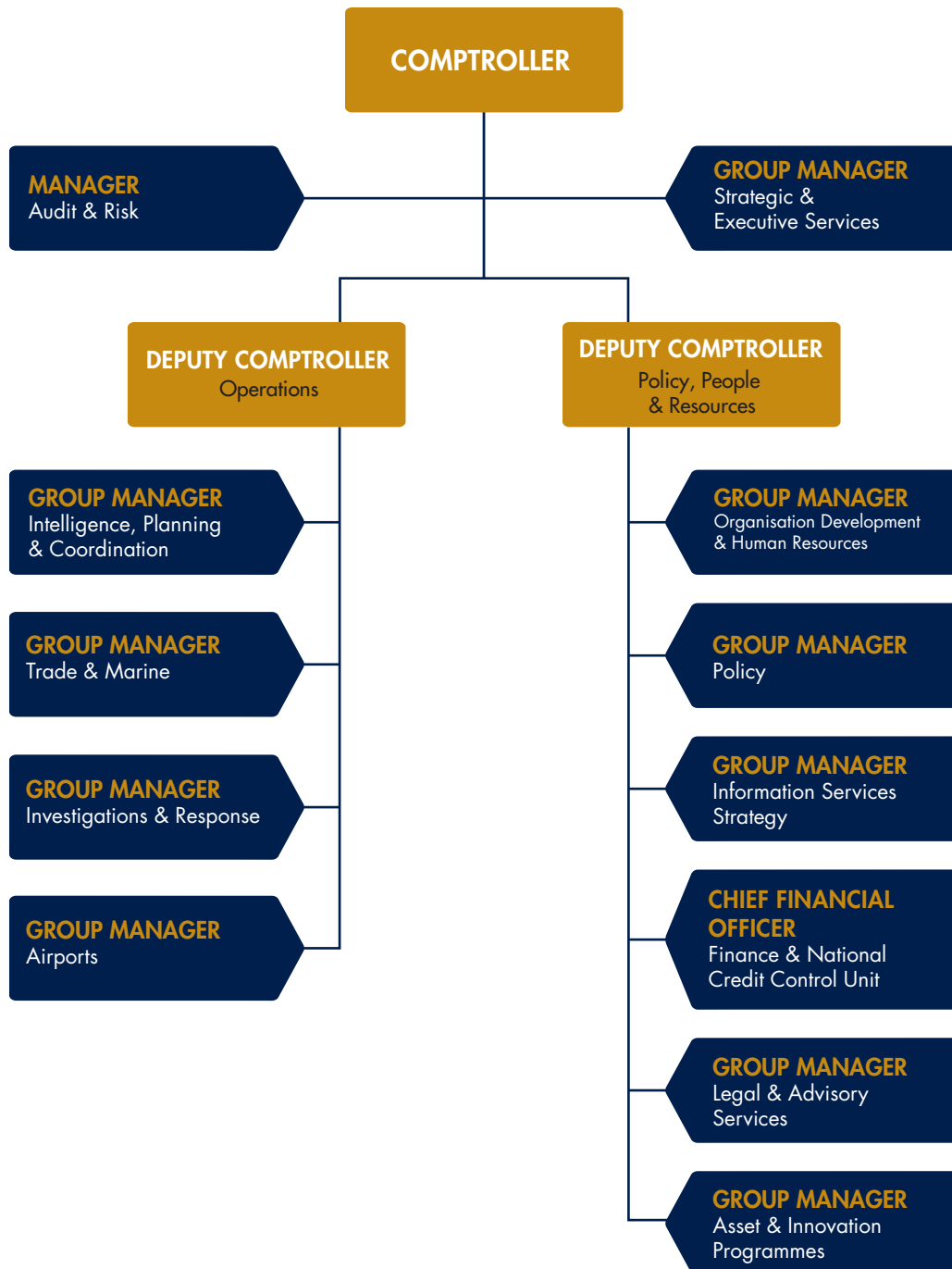
2010		2011
ACTUAL \$000		ACTUAL \$000
21,299	Payables and accruals	16,878
1,980	Import Entry Transaction Fees payable	2,113
89	Other creditors – departmental	121
23,368	TOTAL	19,112

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.

PART C

OTHER INFORMATION

CUSTOMS' ORGANISATIONAL STRUCTURE



GOVERNANCE

Customs has arrangements in place to help the overall monitoring and direction of the organisation to ensure effective business performance and governance.

We have a layered approach to our governance and management committees.

At the end of 2010/11 Customs had a Senior Leadership Team (SLT), consisting of the Comptroller, the two Deputy Comptrollers, and Group Managers. Its role is to provide leadership and strategic direction, and maintain the management environment for Customs.

Supporting SLT are a number of other committees – both standing and project-related – to ensure effective performance, risk management, and upstream advice.

The Audit and Risk Committee is a key governance committee, consisting of four internal and three external members and chaired by the Comptroller of Customs. Its responsibilities include ensuring that there is a comprehensive corporate governance framework in place, which is operating effectively, and that significant risks are being identified and mitigated.

As the JBMS is a major project (and a joint Customs-MAF project), specific arrangements for the governance of that project were established. These include the Joint Executive Board (JEB), which provides and coordinates overall governance, leadership, and strategic management across the development and implementation of JBMS. It also includes the Programme Leadership Team (PLT), which provides active leadership and governance of the programme. The PLT reports regularly to the JEB. Senior management from both agencies comprise both of these bodies.

STATUTORY STATEMENTS

STATEMENT UNDER THE MISUSE OF DRUGS ACT 1976

Section 13M of the Misuse of Drugs Act 1976 requires the Chief Executive of the New Zealand Customs Service to include in every annual report prepared for submission to Parliament the following information relating to the utilisation of powers of detention and search in respect of the period under review (being the period from 1 July 2010 to 30 June 2011).

Section 13M(a)

The number of applications for detention warrants made under section 13E by any officer of Customs:
In 2010/11 there were nine applications for detention warrants made by Customs officers under section 13E.

Section 13M(b)

The number of applications for renewal of detention warrants made under section 13I by any officer of Customs:
In 2010/11 there were three applications for renewal of detention warrants made by Customs officers under section 13I.

Section 13M(c)

The number of such applications referred to in each of the preceding paragraphs of this section that were granted and the number that were refused:
In 2010/11 there were 12 applications granted and none refused.

Section 13M(d)

The average duration of the detention warrants (including renewals) granted on applications by officers of Customs:
The average duration of detention warrants (including renewals) granted to Customs officers in 2010/11 was three days.

Section 13M(e)

The number of prosecutions that have been instituted in which has been adduced evidence obtained directly during the detention of any person pursuant to detention warrants granted on applications by officers of Customs, and the results of those prosecutions:
In 2010/11 there were no prosecutions instituted.

Section 13M(f)

The number of rub-down searches and strip searches undertaken by Customs officers under section 13EA:
In 2010/11 there were no rub-down searches and strip searches undertaken by Customs officers under section 13EA.

STATEMENT UNDER THE TELECOMMUNICATIONS (RESIDUAL PROVISIONS) ACT 1987

Section 10R(2) of the Telecommunications (Residual Provisions) Act 1987 requires the Comptroller of Customs to include in every annual report prepared for submission to Parliament the following information relating to the utilisation of powers to obtain call data warrants in respect of the period under review (being the period from 1 July 2010 to 30 June 2011).

Section 10R(2)(a)

The number of applications made by Customs officers for call data warrants:
In 2010/11 there were no applications made by Customs officers for call data warrants.

Section 10R(2)(b)

The number of applications made under section 10K by Customs officers for renewals of call data warrants:

In 2010/11 there were no applications made by Customs officers for renewals of call data warrants.

Section 10R(2)(c)

The number of applications referred to in each of paragraphs (a) and (b) that were granted, and the number that were refused:

In 2010/11 there were no such applications.

Section 10R(2)(d)

The average duration of call data warrants (including renewals) issued to Customs officers:

As there were no call data warrants (including renewals) applied for or granted in 2010/11, there was no duration of such warrants.

STATEMENT UNDER THE SUMMARY PROCEEDINGS ACT 1957

Section 200J of the Summary Proceedings Act 1957 requires the Chief Executive of the New Zealand Customs Service to include in every annual report prepared for submission to Parliament the following information relating to the utilisation of tracking device powers in respect of the period under review (being the period from 1 July 2010 to 30 June 2011).

Section 200J(a)

The number of warrants issued under section 200C:

In 2010/11 there were 13 warrants issued to Customs officers under section 200C.

Section 200J(b)

The number of renewals of warrants granted under section 200C:

In 2010/11 there were four renewals of warrants granted to Customs officers under section 200C.

Section 200J(c)

The average duration of warrants (including renewals):

In 2010/11 the average duration of warrants, including renewals, issued to Customs officers was 28 days.

Section 200J(d)

The number of times a tracking device was used without a warrant under section 200G:

In 2010/11 there were two times a tracking device was used by Customs officers without a warrant under section 200G.

Section 200J(e)

The number of warrants under section 200I issued:

In 2010/11 there were no warrants issued to Customs officers under section 200I.

Section 200J(f)

The number of times a Judge gave authority for a tracking device to remain in place:

In 2010/11 there was no time a Judge gave authority to Customs officers for a tracking device to remain in place.

RELEVANT LEGISLATION

PRINCIPAL LEGISLATION – USED BY CUSTOMS TO TAKE ACTIONS FOR BORDER MANAGEMENT AND PROTECTION PURPOSES

Alcohol Advisory Council Act 1976	Immigration Act 2009
Animal Products Act 1999	Imports and Exports (Restrictions) Act 1988
Anti-Money Laundering and Countering Financing of Terrorism Act 2009	Kiwifruit Industry Restructuring Act 1999
Anti-Personnel Mines Prohibition Act 1998	Land Transport Act 1998
Arms Act 1983	Major Events Management Act 2007
Chemical Weapons (Prohibition) Act 1996	Marine Mammals Protection Act 1978
Children, Young Persons, and Their Families Act 1989	Maritime Security Act 2004
Cluster Munitions Prohibition Act 2009	Maritime Transport Act 1994
Commerce Act 1986	Meat Board Act 2004
Companies Act 1993	Medicines Act 1981
Conservation Act 1987	Mercantile Law Act 1908
Consular Privileges and Immunities Act 1971	Misuse of Drugs Act 1975
Copyright Act 1994	Ozone Layer Protection Act 1996
Crimes Act 1961	Passports Act 1992
Customs and Excise Act 1996 (also Customs Law Act 1908 for limited actions)	Postal Services Act 1998
Dairy Industry Restructuring Act 2001	Protected Objects Act 1975
Diplomatic Privileges and Immunities Act 1968	Radiation Protection Act 1965
Dog Control Act 1996	Smoke-free Environments Act 1990
Dumping and Countervailing Duties Act 1988	Statistics Act 1975
Evidence Act 2006	Summary Proceedings Act 1957
Fair Trading Act 1986	Tariff Act 1988
Films, Videos, and Publications Classification Act 1993	Telecommunications (Residual Provisions) Act 1987
Food Act 1981	Temporary Safeguard Authorities Act 1987
Goods and Services Tax Act 1985	Terrorism Suppression Act 2002
Hazardous Substances and New Organisms Act 1996	Trade in Endangered Species Act 1989
Heavy Engineering Research Levy Act 1978	Trade Marks Act 2002
Human Assisted Reproductive Technology Act 2004	United Nations Act 1946
	Wildlife Act 1953
	Wine Act 2003

OTHER RELEVANT BORDER PROTECTION LEGISLATION – CUSTOMS ASSISTS OTHER AGENCIES TO ENFORCE THIS LEGISLATION

Aviation Crimes Act 1972
Animal Welfare Act 1999
Biosecurity Act 1993
Civil Aviation Act 1990
Cook Islands Act 1915
Fisheries Act 1996
Motor Vehicles Sales Act 2003
Niue Act 1966
Ship Registration Act 1992
Waste Minimisation Act 2008

LEGISLATION APPLICABLE TO CUSTOMS AS A PUBLIC SECTOR AGENCY

New Zealand Bill of Rights Act 1990
Official Information Act 1982
Privacy Act 1993
Public Finance Act 1989
State Sector Act 1988

