



# NEW ZEALAND CUSTOMS SERVICE

## ANNUAL REPORT 2014/15



NEW ZEALAND  
**CUSTOMS SERVICE**  
TE MANA ĀRAI O AOTEAROA

PROTECTING NEW ZEALAND'S BORDER



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# ANNUAL REPORT 2014/15

## NEW ZEALAND CUSTOMS SERVICE

REPORT OF THE NEW ZEALAND CUSTOMS SERVICE  
FOR THE YEAR ENDED 30 JUNE 2015



TE MANA ĀRAI O AOTEAROA

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# COMPTROLLER'S OVERVIEW

The New Zealand Customs Service (Customs) was proud to celebrate its 175th anniversary on 28 January 2015. While the fundamental role of Customs has not changed since we were first established, we have shifted from a primary focus on revenue gathering to also playing two other critical roles – protecting New Zealand through our activities at the border, and supporting New Zealand's economic growth through facilitating trade and travel and contributing to Free Trade Agreements.



The 2014/15 financial year was a challenging but very productive one for Customs. We responded successfully to increased demands on our resources while also continuing to progress our efforts to improve our service delivery and effectiveness.

We processed a record 11.8 million travellers in 2014/15, while effectively managing the associated risks. This included visitors for the 2015 Cricket World Cup and the FIFA Under-20 World Cup. We worked alongside other border agencies and stakeholders in the lead-up to these events and then played a key role in the efficient and friendly clearance of teams, supporters, and VIPs. We recognise that it is important to provide visitors for events such as these with a good first impression of New Zealand as this contributes to the country being seen as a suitable host for future major events, as well as being valuable for tourism. At the same time, we kept an eye out for any fake tickets or counterfeit goods, and for any arriving passengers who may be involved in match-fixing.

We remain committed to our *Customs 2020* strategy and the goal of making compliance easy to do and hard to avoid. In 2014/15 we continued to progress our change programme to become a more customer-focused, technology-enabled, and intelligence-led organisation.

This is underpinned by a service ethos and a continuous improvement approach, to help us deliver organisational efficiencies and improved customer services. One example is our work with the Aviation Security Service and Auckland International Airport to improve the process for departing international passengers. A trial of a new process that aligns the customs and security screening functions began in August 2015.

I was proud to see our efforts recognised at the 2015 Public Sector Excellence Awards, where Customs and the Aviation Security Service received the Excellence in Achieving Collective Impact Award. Another multi-agency project we have been involved in was rewarded with the Excellence in Regulatory Systems Award – this recognised the collaboration between Customs, the Department of Internal Affairs, and the New Zealand Police in carrying out joint operations and investigations targeting child exploitation. That work included an agreed protocol to enable a fast, coordinated approach.

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We continue to look to provide a better service for customers and improve our efficiency through increased use of technology, including the SmartGate automated passenger processing system and the Joint Border Management System (JBMS).

The minimum age for using SmartGate was dropped from 16 to 12 in early August 2014 and eligibility was extended to Canadian electronic passport holders from December 2014. In June 2015 the Government agreed to fund the purchase of next-generation technology that will more than double the number of gates, while also offering passengers a simpler and faster one-step process. This will help us to meet the increasing traveller volumes and to extend eligibility to further nationalities; it will also free up our people to focus on risk management.

We continued in 2014/15 to develop the Trade Single Window and the enhanced risk and intelligence capability to be offered by JBMS. By the end of June 2015 over two million transactions submitted by industry had been processed through the Trade Single Window since its launch, and self-service online registration was made available to all brokers from early July 2015.

We completed public consultation on the review of our principal legislation, the Customs and Excise Act, in May 2015 and have had valuable industry involvement in the development of our proposals for modern, fit-for-purpose legislation that will be considered by Cabinet later this year.

Intercepting illicit drugs at the border remains a primary focus for Customs. We must stay vigilant so that we can respond to the constantly changing importation methods, and we continue to work with our local and international partners to address this threat to New Zealand. There appears to have been a shift to the importing of methamphetamine, rather than its precursors, with a significant increase in the amount of methamphetamine intercepted over the last couple of years.

Our detector dogs have been a great tool in these efforts. A reflection of our dogs' success is that other countries have sought our help in developing their own detector dog capabilities. Along with New Zealand Police, Customs has helped Fiji to develop drug detector dogs, and we have also started assisting the customs administrations in China and Hong Kong to develop cash detector dog teams.

Customs' most valuable resource continues to be our people. I want to acknowledge their hard work over the past year, and their continued commitment and dedication to protecting New Zealand and to supporting its economic growth through trade.



**Carolyn Tremain**  
**Comptroller of Customs**

# THE YEAR AT A GLANCE

## IN 2014/15 THE NEW ZEALAND CUSTOMS SERVICE (CUSTOMS) ACHIEVED THE FOLLOWING:

### TRAVEL AND TRADE

- » We facilitated and risk assessed a record 11.8 million arriving and departing travellers, including visitors for the 2015 Cricket World Cup and FIFA Under-20 World Cup.
- » We processed a record number of import transactions (8.4 million), and an increased number of export transactions (2.7 million), compared with 2013/14.

### SMARTGATE

- » 3.9 million air passengers were processed through the SmartGate automated passenger processing technology, representing 36 percent of total air passengers. We continued to expand SmartGate, extending eligibility to 12–15 year olds and to Canadian ePassport-holders.

### REVENUE

- » Customs collected \$12.486 billion in Crown revenue.

### JOINT BORDER MANAGEMENT SYSTEM (JBMS)

- » We continued to make significant progress on the development and phased implementation of JBMS. By June 2015, 60 percent of industry's inward transactions were being processed through the Trade Single Window, and self-service online registration was made available to all brokers from early July 2015.

### PROTECTION

- » Through our trained and dedicated staff and the use of tools such as detector dogs and technology, we continued to intercept illicit drugs and other prohibited items at the border.
- » We intercepted illicit drugs with a street value of over \$270 million. The associated harm that was avoided would have had economic and social costs for New Zealand of nearly \$157 million.
- » We made over 1,000 interceptions of over 8,000 weapons, including firearms.

### BETTER PUBLIC SERVICES

- » We contributed to the Better Public Services programme through our efforts to continuously improve, to deliver more efficient public services, and to be more responsive to our customers. This includes our significant contributions through SmartGate and JBMS to Results 9 and 10, which focus on improved interactions with government for New Zealanders and New Zealand businesses.

### CUSTOMER SATISFACTION

- » We had high levels of customer satisfaction – our stakeholder surveys showed that 92 percent of travellers and 88 percent of commercial customers (importers and exporters) were satisfied or very satisfied with our service.

# WHAT WE DO AND WHERE WE ARE HEADING

## CUSTOMS' FUNCTIONS

Customs provides essential border services and infrastructure that protect New Zealand and advance our economy. We work with other agencies to manage the flow of all people, goods, and craft crossing the border, while managing the related risks. Protecting New Zealand and facilitating trade and travel are inextricably linked and must be continually balanced. As Customs seeks to protect New Zealand from external risks and threats at the border, we look to have minimal impact on legitimate trade and travel, as these are significant contributors to New Zealand's economic health and growth.

We have three core functions:

- » protecting New Zealand's border
- » promoting and facilitating secure and efficient trade and travel
- » collecting Crown revenue.

Our functions are delivered through services that prevent harm from a range of risks, including risks to New Zealanders' security, health and safety, and values; and risks to the Crown revenue base. Our frontline and offshore presence and our targeted interventions help to create a low-risk border by deterring and responding to offending.

Customs promotes and facilitates secure and efficient trade, and contributes to the Government's Business Growth Agenda. We do this through formal customs partnerships and through providing input to New Zealand's Free Trade Agreements, as well as support for traders to benefit from those agreements.

These services are essential to New Zealand's economic competitiveness, which relies on efficient trade supply chains. Our border management is among the best in the world, and this has contributed to New Zealand's reputation as a trustworthy country for trading with and travelling to.

Around 12-15 percent of total Crown revenue is collected annually by Customs. We work with other agencies to provide assurance over the Crown revenue system at the border.

The services Customs provides include:

- » facilitating the flow of people, goods, and craft across our border
- » collecting Crown revenue
- » enforcing the law, which includes identifying and seizing prohibited imports and exports
- » providing information, intelligence, and risk assessment products to external customers, and also in support of Customs' own frontline
- » monitoring compliance and providing assurance over trade security and the border revenue system
- » providing policy advice to ministers relating to the border and to revenue
- » participating in the international customs community by contributing to the development of international customs policy and through our relationships with other bodies.

## CUSTOMS' OUTCOMES AND MINISTERIAL PRIORITIES

The Government aims to build a brighter future for New Zealand through four priorities. Customs' outcomes and priorities contribute to two of these priorities: building a more competitive and productive economy, and delivering better public services.

Customs contributes to the Government's priorities and to New Zealand through the outcomes we seek to achieve:

**Trade** – New Zealand's trade flows more freely through improved access to markets, and more secure and efficient border processes

**Travel** – Travel to and from New Zealand flows more freely through more secure and efficient border processes

**Protection** – New Zealand is more safe and secure through reduced risks to New Zealand's interests arising from international trade and travel

**Revenue** – The rate of collection of due Crown revenue is maintained for New Zealand.

In 2014/15, we delivered on those outcomes with a focus on four corresponding Ministerial priorities:

**Trade** – Streamline trade facilitation, and promote secure and efficient trade with key trade partners

**Travel** – Deliver more efficient, streamlined, and secure passenger facilitation, particularly for trans-Tasman travel and low-risk travellers from other key partner countries

**Protection** – Disrupt organised crime through a focus on illicit drugs and web of related crimes involving finances, prohibited goods like child objectionable material, and people smuggling

**Revenue** – Streamline revenue collection processes to improve revenue compliance and efficiencies.

## HOW WE ARE TRANSFORMING

Our *Customs 2020* strategy sets out how we are seeking to improve our service delivery. We aim to provide services that are more “joined up” and customer-focused, and that are enabled by technology. In this way, we will improve risk management at the border, while also improving the border experience and reducing the compliance burden for customers. This strategy is underpinned by a philosophy of continuous improvement and requires a more highly skilled workforce.

*Customs 2020* reflects our Four-year Excellence Horizon<sup>1</sup> and the Better Public Services programme. It drives our planning and organisational development by establishing the core strategic concepts for Customs' work – including our purpose, philosophy, key strategic objective, and focus for our day-to-day work. The strategy also sets out the 11 challenges that we look to deliver on in the medium-term.

## CUSTOMS' PURPOSE, PHILOSOPHY, OBJECTIVE, AND DAY-TO-DAY FOCUS

**Our Purpose** – Protecting and promoting New Zealand through world class border management

This reflects our core function of protecting New Zealand's border using world-class tools, world-class people, and innovative approaches. We promote New Zealand's interests by facilitating legitimate trade and travel.

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<sup>1</sup> This was identified in the 2012 *Performance Improvement Framework Formal Review of the New Zealand Customs Service*, which proposed a future state to 2016 of what success might look like.

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**Our Philosophy** – What we believe, our organisational spirit, and focus every day

Our core beliefs focus on our staff, our customers, our partners, and our stakeholders – the people who are essential to our ability to fulfil our purpose. We operate with a spirit of service excellence, and work hard to uphold our reputation for service excellence.

**Our Key Strategic Objective** – Make compliance easy to do and hard to avoid

Customs' key strategic objective is to maximise compliance by making it easy for people to understand the rules and to work with us, and by making it harder for people to get around the rules.

**Our Day-to-day Focus** – High assurance with a light touch

In fulfilling our purpose with a spirit of service excellence, we focus on providing and achieving high assurance with a light touch. This ensures that traders and travellers who present risks are identified and appropriately managed, with the minimum possible disruption for legitimate traders and travellers.

## **OUR CHANGE PROGRAMME**

We are implementing our *Customs 2020* strategy through a change programme structured around four key themes: Intelligence-led, Customer focus, Border modernisation, and People and culture. This report discusses those four themes in detail under “Progress against our strategic intentions” (from page 14).

As part of our change programme, Customs is focused on 11 related challenges. To improve our services we will:

- » deliver the Joint Border Management System
- » positively contribute to the Better Public Services transformation
- » deliver efficient and effective revenue collection
- » enhance customer experience, value, and confidence
- » increase Customs' ability to identify risk, detect non-compliance, and carry out enforcement.

Those service-related challenges are supported by a number of capability challenges that will deliver a more efficient and productive organisation:

- » create a great place to work where our people have a sense of belonging, are safe, and have the capability and desire to meet our challenges
- » build partnerships with key government, industry, and international stakeholders
- » ensure a modern regulatory framework that enables the future border environment
- » maintain public trust and confidence in Customs
- » continuously improve our processes to deliver better services
- » maximise the sustainable use of resources within the context of increasing workloads and reducing baselines.

Meeting these challenges will deliver both a greater contribution to the Government's priorities and more effective and efficient border services.

# CUSTOMS STRATEGIC FRAMEWORK

**Customs 2020 Vision** *Compliance is easy to do and hard to avoid*

## Minister's priorities 2014

*Streamline trade facilitation, and promote secure and efficient trade with key trade partners*

*Deliver more efficient, streamlined, and secure passenger facilitation, particularly for trans-Tasman travel and low-risk travellers from other key partner countries*

*Disrupt organised crime through a focus on illicit drugs and web of related crimes involving finances, prohibited goods like child objectionable material, and people smuggling*

*Streamline revenue collection processes to improve revenue compliance and efficiencies*

## Desired Outcomes

**Protection**  
New Zealand is more safe and secure through reduced risks to New Zealand's interests arising from international trade and travel

**Travel**  
Travel to and from New Zealand flows more freely through more secure and efficient border processes

**Trade**  
New Zealand's trade flows more freely through improved access to markets, and more secure and efficient border processes

**Revenue**  
The rate of collection of Crown revenue due is maintained for New Zealand

Maintain public trust and confidence in Customs  
Build partnerships with key government, industry and international stakeholders  
Maintain sustainable use of resources

Change Programme	Related Challenges
<b>Intelligence-led</b> Increase ability to identify risk, detect non-compliance and carry out enforcement Deliver efficient and effective revenue collection	
<b>Customer Focus</b> Enhance customer experience, value and confidence	
<b>Border Modernisation</b> Deliver the Joint Border Management System Positively contribute to the Better Public Services transformation Ensure a modern regulatory framework that enables the future border environment Continuously improve our processes to deliver better services	
<b>People and Culture</b> Create a great place to work where our people have a sense of belonging, are safe, and have the capability and desire to meet our challenges	

## Customs' Outputs

- Clearance and enforcement services related to passengers and crew
- Clearance and enforcement services related to goods
- Clearance and enforcement services related to craft
- Information and intelligence services
- Revenue collection
- Policy advice
- International services and ministerial servicing

# OUR OPERATIONS IN 2014/15

In 2014/15 Customs continued to respond effectively to growing service demands and a more complex risk environment despite fiscal constraints. We have achieved this through border management processes that are increasingly customer-focused, intelligence-led, and technology-based. Our processes support effective, targeted risk management while at the same time facilitating compliant trade and travel.

Performance information for the Vote Customs appropriations in 2014/15 is provided on pages 36–49.

## PROTECTION

Customs continues to focus on protecting New Zealand by intercepting imports of illicit drugs and other goods, and by targeting those involved in these imports and related crimes.

In 2014/15, Customs intercepted the equivalent of just over 3 million tablets containing the methamphetamine precursors ephedrine or pseudoephedrine, a slight decrease from the 2013/14 total of the equivalent of nearly 3.2 million tablets.<sup>2</sup> We also intercepted 184.7 kilograms of methamphetamine. There has been a shift towards the direct import of methamphetamine (rather than its precursors) with that total being a significant increase from the 54.5 kilograms of methamphetamine intercepted in 2013/14 and the 8.0 kilograms intercepted in 2012/13.

Customs twice intercepted a group of drug couriers carrying significant quantities of methamphetamine and posing as tourists at Auckland International Airport in 2015 – in May two men and two women were stopped and over 12 kilograms of methamphetamine was located hidden in their suitcases, and in June a further two men and two women were found to be carrying around 11 kilograms of methamphetamine.

Drug trafficking is only one of a number of linked criminal activities. To disrupt crime we seek to inflict economic loss by intercepting not only imports of illicit drugs, but also of weapons; forged documents; undeclared cash and the proceeds of crime; and other illegal items.

### Illicit drugs

We have a key role in the multi-agency response to the Government's *Tackling Methamphetamine: an Action Plan*. To help focus our operational activity on targeting criminals, their actions, and the drivers behind supply, Customs' own Methamphetamine Campaign Plan sets out a multi-year sequence of operations and initiatives that target both traffickers and the underlying facilitators in the methamphetamine trade. We continued to carry out operational activity under this Plan in 2014/15, ensuring that any lessons learned were captured and put into practice to support future activity.

We also shared our resources and expertise with other enforcement agencies, working with them towards the common goal of protecting society through disrupting the supply of illicit drugs. Locally this involves working with, in particular, the New Zealand Police (NZ Police), including the Organised Financial Crime Agency of New Zealand (OFCANZ); we collaborate with NZ Police and OFCANZ to proactively target criminal networks through intelligence gathering and joint operations.

<sup>2</sup> All of the 2014/15 drug (including precursor) totals in this report (and the associated drug harm figures based on those totals) are provisional figures based on Customs' initial weighing and recording of interceptions. These figures may change – for example, quantities may be updated after substances are further tested or the drugs are reweighed as the relevant investigation progresses to a prosecution. The tablet equivalent total for methamphetamine precursors represents the amount seized converted into the equivalent of 90 milligram tablets. The tablet equivalent total in 2014/15 equates to over 680 kilograms.

Joint operations include Operation Georgie, which involved Customs intercepting 22.6 kilograms of methamphetamine hidden in the cargo of a flight from Taiwan in December 2014 – the then second-largest methamphetamine border seizure in New Zealand’s history. This led to NZ Police arresting two Taiwanese nationals. Two other joint operations that concluded in March 2015 – Operations Wand and Sorrento, with OFCANZ and relevant Police Districts – resulted in the seizure of methamphetamine with a street value of around \$123 million and the disruption of supply chains and criminal networks, including nine arrests.

We also work with international agencies to target the illicit drug trade through cross-border efforts – for example, we have ongoing and increasingly close relationships with the China and Hong Kong customs administrations.

In November 2013 Customs received \$755,000 from the funding pool established under the Criminal Proceeds (Recovery) Act 2009 to fund three initiatives aimed at combatting methamphetamine and other drug trafficking. We progressed each of these initiatives in 2014/15:

- » Our frontline drug screening capability has been enhanced by a new satellite drug-testing facility near Auckland International Airport, which was officially opened by the Prime Minister in August 2014. We also purchased and deployed a new portable state-of-the-art drug analyser. The new facility and analyser enable unknown or suspect substances to be quickly tested and identified onsite. This means Customs can undertake enforcement activity faster and identify border trends in illicit drugs earlier, while also clearing legitimate imports without unnecessary delays.
- » We have continued to build a cooperative relationship with Chinese enforcement agencies with the aim of reducing the supply of methamphetamine and its precursors to New Zealand. Our increased engagement<sup>3</sup> included a month-long operational level attachment to Hong Kong Customs in June 2015. A reciprocal visit from a Hong Kong customs officer will take place later in 2015.
- » As part of a drug signature programme, the Institute of Environmental Science and Research (ESR) has been undertaking an in-depth chemical analysis of samples of seized methamphetamine to obtain more detail on manufacturing methods and the precursors used in New Zealand. Customs and ESR are working on this programme in conjunction with NZ Police, OFCANZ, and the National Drug Intelligence Bureau. By the end of 2014/15, the majority of the planned 300 samples had been tested for purity, method of manufacture, and adulterants.<sup>4</sup>

### Cash detection

As the movement of large sums of cash has been linked to illegal activities and criminal networks, one of Customs’ roles is to ensure that money crossing the border is being carried for legitimate purposes.<sup>5</sup> Our dual-trained cash and drug detector dogs continue to detect undeclared or concealed cash, with the equivalent of nearly NZ\$3.7 million detected in 2014/15. We also commenced assisting the China and Hong Kong customs administrations to develop cash detector dog capabilities, which will provide flow-on benefits for New Zealand.

3 Progress was delayed (and funding carried over) as NZ Police also received funding; a new Police Attaché began work in Guangdong and Fujian provinces in Southern China in late 2014. This also assists Customs given the multi-agency work and joint operations to combat methamphetamine and disrupt and dismantle international organised criminal network supply chains.

4 The samples have been collected over three phases and include 100 street level (under one gram) samples and 200 supply level (over one gram) samples.

5 Travellers must declare cash in any currency or form if it is the equivalent of NZ\$10,000 or more. Undeclared or misdeclared cash becomes a prohibited good under the Customs and Excise Act 1996, and can be subject to forfeiture and seizure. Not declaring cash and/or providing false or misleading information is an offence under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and subject to a range of penalties, including fines or prosecutions.

## Objectionable material

In 2014/15 Customs also continued to enforce border controls over objectionable material, especially relating to child sexual abuse. With mobile electronic devices now able to hold thousands of images, work in this area has become more challenging in recent years. Our efforts were supported by law changes in late 2014/15 that increased the maximum penalties for importing and exporting objectionable material from five years to 10 years. We work closely with NZ Police, the Department of Internal Affairs, and overseas partners in this area. A growing aspect of this joint work is the identification of victims from images and video files.

In April 2015 Customs officers stopped Thomas Meyer, an Australian, on arrival at Auckland International Airport. After a baggage search, initial viewing of his laptop located a number of objectionable images. Detailed forensic examination of his electronic devices identified over 4,000 images in total. He was sentenced in August 2015 to two years and five months in jail for importing objectionable publications and a court order was issued to destroy the electronic devices.

## Tobacco concessions

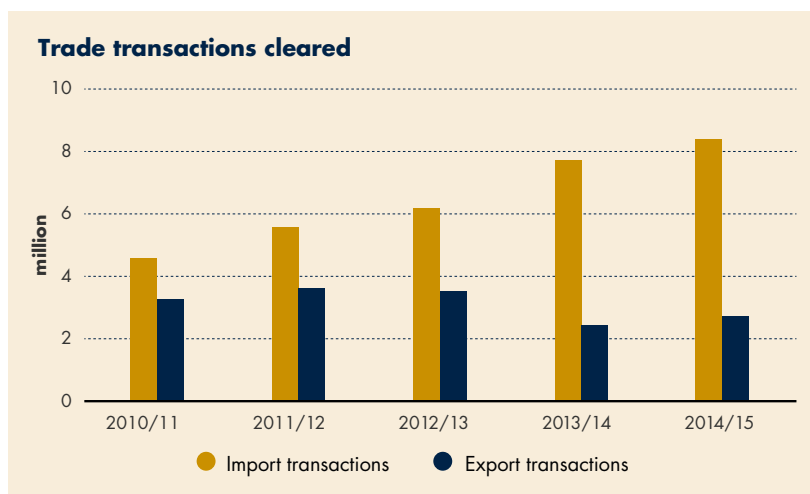
As part of the Government's efforts to achieve a smoke-free New Zealand by 2025, the tobacco concessions were changed from 1 November 2014: the duty free concession for arriving international travellers was reduced, and all tobacco sent through freight and mail became subject to duty. Customs is responsible for managing compliance with these concessions, and we received additional funding in Budget 2014 to implement the changes (including a public awareness campaign) and manage ongoing compliance. Between 1 November 2014 and 30 June 2015, around 3,000 kilograms of tobacco was abandoned at airports while over 7,600 passengers chose to pay the additional excise and GST – with a total of \$1.18 million in additional revenue identified as owing.

## TRADE

In 2014/15 Customs processed 8.43 million import transactions,<sup>6</sup> an increase of 8.5 percent from the total in 2013/14. Most of the growth in recent years is due to the increasing number of ECI consignments – low-value goods, so likely to have been bought online.<sup>7</sup> We also processed 2.67 million export transactions,<sup>8</sup> an increase of 8.0 percent from 2013/14.

### Trade negotiations

Customs leads the negotiation of the customs-related aspects of Free Trade Agreements (FTAs). In 2014/15 we took part in negotiations of the New Zealand-Korea FTA (until they concluded in October 2014, with the FTA signed in March 2015), the Trans Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), and the Pacific Agreement on Closer Economic Relations (PACER Plus).



<sup>6</sup> Import transactions include standard import, simplified import, sight import, periodic import, temporary import, and private import entries, together with import and tranship ECI (Electronic Cargo Information) – but exclude import mail items.

<sup>7</sup> Although part of the increase from 2013/14 is attributable to improvements in the recording of ECI import entries by the fast freight industry.

<sup>8</sup> Export transactions include export entries, drawback entries, and export ECIs – but exclude export mail items.

We have an important role in supporting the Business Growth Agenda’s aspiration to increase New Zealand’s exports. Along with our border sector, industry, and international partners, we are putting significant effort into streamlining the border processes for international trade. We have started to move beyond our traditional facilitation role to proactively supporting exporters to understand and take up the opportunities offered by FTAs. This has included helping them to comply with FTA obligations and to deal with the complexities of other border administrations’ requirements.

### Support for growing exports under FTAs

As increasing numbers of New Zealand traders look to export under FTAs, and as the related trade volumes grow, our key trading partners are seeking increased levels of assurance as to the quality and origin of New Zealand goods receiving preference under FTAs.

The Government provided additional funding in Budget 2015 to better support trade by reducing the risk of trade disruption, increasing assurance over export supply chains, and providing targeted information to New Zealand exporters so they can claim duty preference and reduce costs.

As part of providing assurance to China of qualification for preferential tariff (duty) rates and our efforts to increase efficiency, we agreed to develop a joint electronic verification system (JEVS) with the General Administration of China Customs (GACC). This enables the GACC to, in real time, view and authenticate certificates of origin (the document evidencing the origin of a good) that have been issued in New Zealand. Working with the GACC, in 2014/15 we have significantly progressed the development and design of the JEVS. It is expected that such a system could become a model for other FTA arrangements.

## TRAVEL

In 2014/15 Customs processed a record 11.799 million international travellers (all people arriving in and leaving New Zealand by air or sea, including crew), an increase of 5.5 percent from the 2013/14 total of 11.188 million. A total of 10.852 million of these were arriving and departing air passengers.<sup>9</sup> Our processing of the volume growth is being assisted by SmartGate.



### SmartGate automated passenger processing technology

A total of 3.877 million arriving and departing passengers successfully used SmartGate in 2014/15 – a 17.8 percent increase (0.585 million passengers) from 2013/14. The 13 millionth passenger was processed through SmartGate in late June 2015.

Customs continually looks for ways to increase the uptake of SmartGate and reduce reliance on manual border clearance in order to improve the passenger experience and provide productivity benefits for Customs, while also delivering on our commitment to achieving the Better Public Services Result 10 target.<sup>10</sup> The age of eligibility in

<sup>9</sup> Commercial and non-commercial passengers travelling by air but excluding air crew – arriving and departing air crew totalled 0.390 million in 2014/15. We also processed 0.557 million passengers and crew arriving and departing by sea.

<sup>10</sup> Target that “by 2017 an average of 70 percent of New Zealanders’ most common transactions with government will be completed in a digital environment”.

New Zealand was formally lowered from 16 to 12 from 5 August 2014, enabling more families, school groups, and sports teams to use SmartGate. Eligibility was also formally extended to Canadian ePassport holders from 10 December 2014.

To help manage the growing uptake and forecast traveller growth, the Government agreed in June 2015 to provide funding for next-generation SmartGate technology, as discussed on page 19.

**Border Clearance Levy**

As part of Budget 2015, the Government announced that a Border Clearance Levy will be introduced on 1 January 2016 (and made relevant legislative amendments)<sup>11</sup> to cover the border clearance activities of Customs and the Ministry for Primary Industries (MPI). The levy will help Customs maintain our existing service levels for passenger processing and required levels of assurance and enforcement relating to border and revenue risks as volumes increase.

The design and implementation of the levy (examining issues such as possible exemptions, the collection mechanism, and the rate of the levy) was subject to public consultation and more detailed policy work by Customs and MPI. Final decisions are being made by Cabinet in late 2015.

**Improving the international departures process**

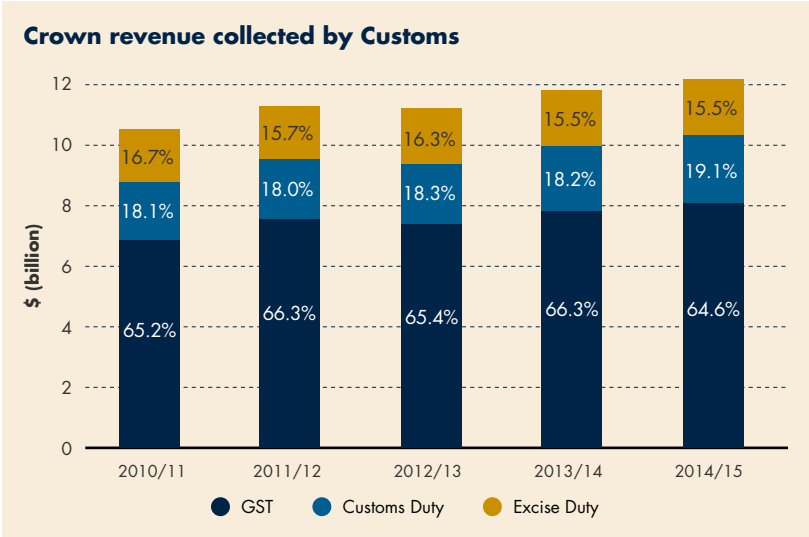
Customs has been working with Statistics New Zealand and the Ministry of Business, Innovation and Employment (MBIE) to streamline the processes for collecting information from departing passengers and for managing this information. We are leading the work to determine how agencies could collect necessary information electronically; this work is focusing on a digital solution and on improving the passenger experience. This work continues into 2015/16.

We have also been working with the Aviation Security Service to improve the departures process, as discussed on page 16.

**REVENUE**

Customs contributes to strengthening the Government’s accounts by collecting around 12–15 percent of total Crown revenue annually. In 2014/15 we collected a record total of \$12.486 billion in revenue on behalf of the Crown,<sup>12</sup> an increase of 5.4 percent from the 2013/14 total of \$11.847 billion.

Our collection of revenue is based on self-assessment of duty liability and voluntary compliance, reinforced by our assurance activity. As a result, our focus is on increasing voluntary compliance with revenue obligations, improving revenue risk management, and delivering efficiencies.



<sup>11</sup> Amendments to the Customs and Excise Act 1996 and to the Biosecurity Act 1993.  
<sup>12</sup> Customs collects Crown revenue by way of customs duty and GST on imports together with excise duty on domestically manufactured alcohol, tobacco, and petroleum products, and excise equivalent duty on the same products imported into New Zealand.

We continually revise our trade compliance strategy so that, through risk management and ongoing education, we achieve enhanced revenue assurance in the self-assessment processes. As part of that programme, we continued in 2014/15 to undertake activity to ensure that importers, exporters, and licensed manufacturers of excisable goods comply with relevant legislation and pay the correct duties and taxes. We combine an intelligence-led, risk-based model with a trade sectoral approach (selecting trade sectors for auditing on a cyclical basis and informing the selected sector in advance), and tailor our interactions within sectors based on risk. That interaction may range from contact promoting voluntary compliance through to audit activity.

We introduced a new Debt Management Strategy in 2014/15, which has an emphasis on prevention and early intervention in order to encourage voluntary compliance. We are developing the corresponding processes and procedures under the Strategy that should lead to greater efficiencies both for Customs and our customers.

We have also continued our programme of engagement with industry groups in some sectors to improve compliance. This included workshops on a range of topics in 2014/15, including the Customs and Excise Act, excise collection, and Customs' valuation of imported goods.

### Online shopping

The growth in online shopping has been creating challenges for Customs. These transactions involve high processing and compliance costs for us and importers. A key challenge for Customs is how to address the revenue leakage due to undervaluation and mis-description of these goods. We rely on the accuracy of data submitted and there has been evidence of non-compliance at the point of despatch of the goods to New Zealand, aimed at speeding up border clearance and evading duty.<sup>13</sup> This results in a loss of revenue to the Crown.

To make compliance easier for those buying goods online from overseas and to encourage them to pay duty, Customs introduced the *What's My Duty* website and mobile device app in 2012/13 so that they could calculate how much duty and GST they might be liable for. These have continued to be very popular; the website had an average of 26,460 unique users per month in 2014/15 (up by 10,000 users from 2013/14), while the app had a total of 8,788 downloads in 2014/15 (up from 4,940 downloads in 2013/14).

Cabinet has asked Customs to look at how the collection of GST and duty on imported goods can be strengthened and streamlined, including whether processes at the border can be streamlined to reduce costs. Cabinet also asked us to examine the structure and value of the *de minimis* (under which revenue is not collected). Customs is expected to report back to Cabinet in late 2015.

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<sup>13</sup> We clear ECI imports electronically to make it faster and easier for importers and freight companies. If the amount of duty and GST on an import is less than \$60, it is currently waived under the *de minimis* provisions of the Customs and Excise Act 1996. The purpose of this threshold is to avoid the situation where the costs of collecting duty on a consignment would exceed the revenue gained. In 2013/14 Customs undertook Operation Hilton II to assess the level of compliance; the operation, which concluded in August 2013, found that more than a quarter of over 2,500 express delivery low-value imports were mis-described and/or undervalued. A subsequent operation (Operation Hilton III, concluded in October 2014) involved more than 700 targeted shipments that we identified as high-risk, and found that around 70 percent of those imports were undervalued.

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# PROGRESS AGAINST OUR STRATEGIC INTENTIONS

Customs recognises that to respond to increasing and changing demands at the border, while continuing to build our border management capability, requires a significant transformational effort that will affect all areas of our business. We continued in 2014/15 to implement our *Customs 2020* strategy – and deliver on Customs’ strategic intentions – through our substantial change programme structured around four key themes: Intelligence-led, Customer focus, Border modernisation, and People and culture.

We introduced a High Level Design for *Customs 2020* in 2015, connecting the four streams of the change programme, in order to bring our strategic vision to life and ensure that it is converted into action. The development of the High Level Design included consulting with some key industry customers and border partners about their current relationship with Customs and their expectations for the future. As we recognise that commitment by our staff is necessary to achieve the strategy, we also sought staff feedback on *Customs 2020* for the High Level Design and educated staff further about how that strategy is relevant to them and the future.

The High Level Design includes a roadmap and timeline for 2015–2020. These identify and sequence the initiatives that will need to be advanced to deliver the *Customs 2020* strategy. These will underpin annual prioritisation and resourcing decisions going forward.

## INTELLIGENCE-LED

Customs’ targeted risk management approach recognises that most trade and travel is legitimate and low-risk, and should therefore cross the border with minimal intervention from us. This approach enables us to focus our attention on targeting the minority of goods, people, and craft that are likely to present a border or revenue risk.

We recognise that in order to achieve high assurance with a light touch we need secure and reliable information and intelligence. We therefore continue to look to increase our coordination and information sharing with other government agencies and stakeholders, and to improve our engagement with them.

Our review of the Customs and Excise Act (discussed on page 19) has considered and developed proposals for improved information sharing with other agencies.

We have an industry stakeholder outreach programme to improve our understanding of industry changes that affect trade and revenue compliance. We also work closely with overseas partners to target cross-border offending. International trafficking syndicates often target several countries using the same modus operandi. This means sharing of intelligence, concealment methods, and trend information between agencies, together with coordinated operational activity, is needed to ensure more effective and comprehensive operational responses.

In 2014/15 we progressed the development of an Intelligence Strategy and Intelligence Framework – these focus on lifting our intelligence capability and making greater use of advanced intelligence analysis and tools such as data analytics. The aim of the Intelligence Framework is to ensure that our analysts have access to the right information and accurate data, and have the right skills and tools to ensure robust analysis and the provision of the right products to intelligence customers at the right time. This maximises our ability to identify risk, detect non-compliance, and carry out enforcement, and increases our ability to facilitate compliant trade and travel.

As discussed on page 19, we progressed development of the enhanced risk and intelligence capability that is part of JBMS.

The Government provided additional funding in Budget 2015 to fund the enhanced screening of passengers departing New Zealand for security threats such as terrorism and drugs (the focus has traditionally been on arriving passengers). This extended risk screening for departures uses the targeting techniques that Customs has applied to arriving international passengers to complement the existing biometric/face-to-passport checks and the multi-agency alerts system (discussed on page 43). We will take appropriate action at the border before a person of interest leaves the country. This could include questioning them, or alerting other authorities in New Zealand or abroad of the proposed departure. It will provide an additional source of intelligence for security agencies, and identify potential persons of interest from a counter-terrorism perspective who are unknown to those agencies. This will contribute to maintaining New Zealand's low risk status and delivering on international obligations relating to combating terrorism.<sup>14</sup>

## PROGRESS AGAINST IMPACTS

Customs seeks to reduce the potential harm from illicit goods and to disrupt illegal border activity.

The potential harm avoided by our interceptions of some major classes of illicit drugs in 2014/15 has been quantified (using the New Zealand Drug Harm Index<sup>15</sup>) at over \$156 million, compared with just over \$107 million in 2013/14. Most of this is still due to methamphetamine and its precursors: these accounted for over 97 percent (\$152.1 million) of the assessed drug harm in 2014/15.

In order to gauge the impact we are having, Customs has developed and is trialling an assessment tool called the "Harm Model". This is intended to provide a common basis for measuring the effects of all our different types of enforcement activity. The Harm Model is based on estimating the cost of consequences for different types of interception, an approach that has been peer-reviewed by BERL (Business and Economic Research Ltd).

Other examples of how we are continuing to develop our approach to evidencing our effectiveness include ongoing work to benchmark both hit rate and yield data with customs administrations in other jurisdictions, and to explore how to determine the level of assurance over border and revenue risk. These work programmes are linked, and will also involve the risk and intelligence functions that are being developed as part of JBMS (described on page 19).

Methamphetamine remains a significant issue for New Zealand communities. The most recent data available from the annual IDMS survey of frequent drug users<sup>16</sup> found that in 2013 the median price of a gram of methamphetamine remained at \$700 (the same as in 2012) and the availability rating was 3.2 (compared to 3.2 in 2012 and 3.1 in 2011). The most recent survey<sup>17</sup> of NZ Police detainees does not suggest change overall. It does, however, suggest change in Christchurch, where more detainees reported having used methamphetamine, and increases in both the price and availability of methamphetamine.

The IDMS survey reported a drop in availability of other drugs with an imported content: crystal methamphetamine (a 2.7 availability score in 2011 compared with 3.1 in 2012 and 2.9 in 2013); ecstasy (2.9/2.9/2.7); heroin (2.5/2.8/2.4); and cocaine (1.9/2.0/1.7). Only LSD (2.6/2.5/2.7) was reported as being easier to get in 2013 than in 2012. The availability score of synthetic psychoactive substances in 2013 was 3.7 – before the impact of the changes in the law.

<sup>14</sup> Recent international developments such as the recruitment of foreign nationals to take part in overseas civil struggles have led to an increasing focus on preventing suspected foreign terrorist fighters from leaving their home country. New Zealand has an international obligation to prevent the movement of terrorists or terrorist groups.

<sup>15</sup> The New Zealand Drug Harm Index is a NZ Police-led initiative that quantifies the economic and social costs associated with illicit drugs. The current edition is that published in 2008, so it does not estimate the costs of, for example, synthetic psychoactive substances. A project to update the Drug Harm Index is in its early stages.

<sup>16</sup> *Recent trends in illegal drug use in New Zealand 2006-2013: Findings from the 2006, 2007, 2008, 2009, 2010, 2011, 2012, and 2013 Illicit Drug Monitoring System (IDMS)* – survey by Social and Health Outcomes Research and Evaluation (SHORE), published in October 2014. Availability is measured on a scale of 1 to 4, with 1 being "very difficult", and 4 being "very easy".

<sup>17</sup> *New Zealand Arrestee Drug Use Monitoring (NZ-ADUM) 2010-2014*, SHORE and Whariki Research Centre, published July 2015.

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## CUSTOMER FOCUS

Our goal is to improve the border experience for legitimate traders and travellers and to increase levels of voluntary compliance by making it easy for customers to understand and comply with their obligations at the border. Achieving higher levels of voluntary compliance means we can redirect our efforts towards enforcement activity against those who deliberately choose not to comply.

As noted on page 17 our levels of customer satisfaction are high. However, to improve the border experience further, as we design and redesign services we are putting more emphasis on better understanding our customers, what they need and want, and the channels that work best for them.

Major elements of our modernisation programme are underpinned by a strong customer focus – this includes JBMS, self-processing for travellers at airports, the review of the Customs and Excise Act, and better mobile capability to support frontline officers in making real-time decisions in the field.

We are continuing to embed a continuous improvement<sup>18</sup> approach and a service ethos as parts of our core, every-day way of working, collaborating closely with other agencies and industry partners as we do so. This is central to our strategic vision of providing world class border management, and to our day-to-day business processes, operational delivery, and policy development

As one example, we have been working with the Aviation Security Service and Auckland International Airport Limited to streamline the international departures process for travellers. A world-leading “single-flow” process combining customs and security checks in a single queue was being trialled in Auckland from August 2015. In preliminary trials earlier in 2015, feedback from travellers about the single queue and faster processing was extremely positive. The outcomes of the trial will also inform how we might extend the process to other airports nationally.

We developed a Service Charter, and supporting service standards, to make clearer to our customers what they can expect from us and what we expect of them, and the service targets we are working to. These were launched early in the 2015/16 financial year; this included publicly displaying the Charter.

Customs has continued to expand the communication channels to our customers. Our Facebook and Twitter accounts on social media remain useful tools for customer service queries, complementing our call centre. We also created an Instagram account featuring our detector dogs in 2014/15 – this provides another channel for engaging with customers and communicating our compliance messages.

## PROGRESS AGAINST IMPACTS

We are seeking to continuously improve service experiences for traders and travellers. The impacts we seek to achieve are fewer Customs interactions with compliant trade and travellers and increased levels of voluntary compliance.

In 2014/15, 99.3 percent of arriving international air passengers were deemed compliant based on risk assessment and facilitated without further intervention from us. This proportion had slowly increased from 98.9 percent in 2010/11 as we improved our risk assessment and the targeting of our interventions.

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<sup>18</sup> The State Services Commission (SSC) is building the direction and approach to continuous improvement for the state services and identifying what the expectations are. Customs' programme aligns with and supports that work. The SSC has also specifically provided guidance and support for the departures process initiative.

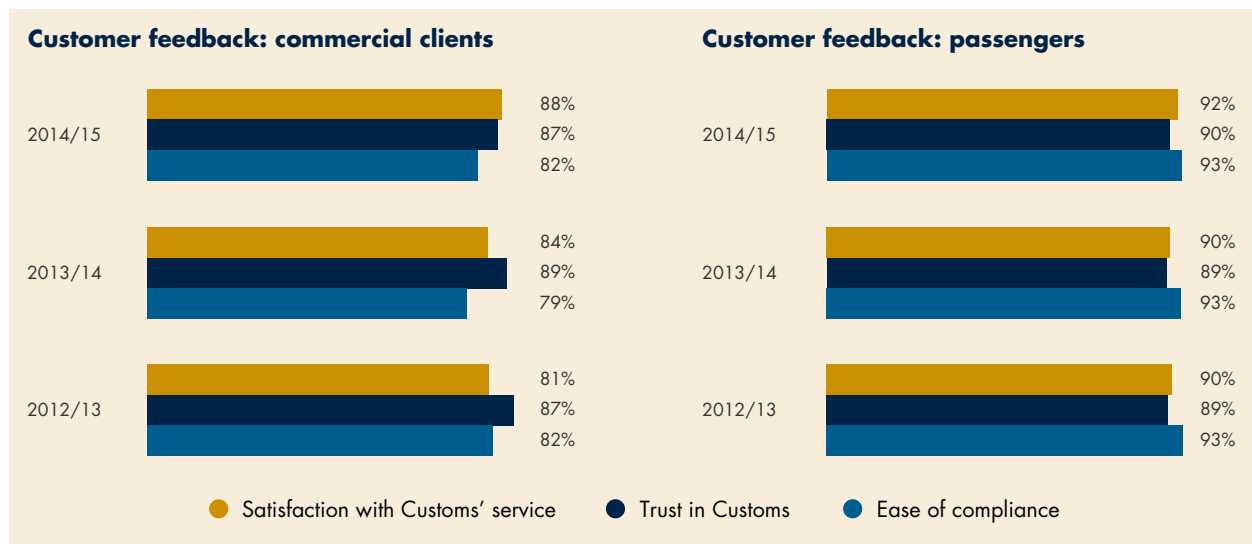
In 2014/15, 97.6 percent of import transactions and 99.7 percent of export transactions were deemed compliant based on risk assessment and were processed without further intervention. These proportions have increased slightly over the last five years; the 2010/11 figures were 96.6 percent for import transactions and 99.3 percent for export transactions.

### Customer satisfaction

Customs has a long history of surveying our stakeholders. We continue to regularly survey arriving international air travellers and commercial customers; this includes asking them how easy they find it to comply, how satisfied they are with our services, and whether they trust Customs.<sup>19</sup> We use these surveys to:

- » obtain a user view of our services
- » benchmark our performance against other organisations and against our own past performance
- » identify opportunities for improving our services.

Customs is an organisation that enjoys high customer satisfaction levels, as shown in the below charts.<sup>20</sup>



While these are very positive results, Customs is using this feedback to develop a more comprehensive programme of work around improving the customer experience. For example, our passenger survey results have consistently shown higher levels of satisfaction with SmartGate compared to manual processing.

	2012/13	2013/14	2014/15
Satisfaction – SmartGate	93%	92%	94%
Satisfaction – manual processing	87%	86%	89%

In 2014/15 we also surveyed users of our call centre, and found that 83 percent of the respondents were satisfied with the overall service they received.

<sup>19</sup> These surveys use the Common Measurements Tool, a set of survey questions and scales advocated by the State Services Commission that allows organisations/agencies to measure client satisfaction.

<sup>20</sup> The results are benchmarked at 2012/13 because from this point onwards a different methodology was used to conduct the surveys. The surveys conducted in previous years did not cover some key stakeholder groups – notably overseas visitors and smaller businesses.

Customs also monitors the formal complaints we receive:

2010/11	2011/12	2012/13	2013/14	2014/15
163	159	155	186	209

The number of complaints remains extremely low when seen as a percentage of the total passengers and trade transactions processed by Customs. Nevertheless, in 2014/15 we reviewed how we deal with complaints, and we will use the results to inform further improvement.

**BORDER MODERNISATION**

Border modernisation encompasses an integrated programme to modernise border legislation and technology, and to streamline border processes and services, so that we deliver better public services and manage risk more effectively.

**JOINT BORDER MANAGEMENT SYSTEM (JBMS)**

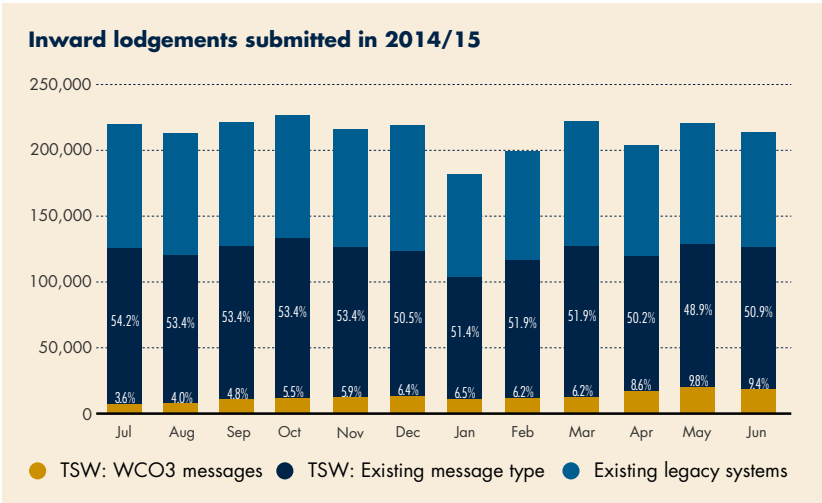
Customs and MPI continued the phased implementation of JBMS in 2014/15. The progressive roll-out of functionality enables the successive phases of JBMS to be tested thoroughly before implementation; this mitigates the risk inherent in a major IT change programme such as this.

In September 2014, Customs, MPI, and IBM NZ Ltd agreed on arrangements for completing the Trade Single Window and delivering the advanced risk and intelligence technology, and also entered into a seven-year relationship for the ongoing support, maintenance, and enhancement of JBMS.

**Trade Single Window (TSW)**

By the end of 2014/15, approximately 60 percent of inward transactions were being completed through TSW rather than through the pre-existing system, and over two million inward transactions had been processed through TSW (since it was launched on 1 August 2013). The median processing time for inward transactions for 2014/15 was 16 seconds. All outward messages from Customs (and MPI) to traders are sent through TSW.

Currently, clients choose to use either existing cargo reporting and clearance messages or the new electronic messages (as they are introduced) in TSW. The new messages are based on the World Customs Organization’s latest international trade data model (WCO3) and eliminate duplication – and so reduce the cost to traders – by containing the information that both Customs and MPI need. By using the WCO3 message standards, New Zealand future-proofs our border security data collection and integration with partner countries.



During 2014/15, we completed consultation on the proposed mandatory dates for traders adopting the WCO3 format for all messages, with feedback from industry that the proposed dates were reasonable and achievable. The mandatory date is 1 November 2016, except for the Inward Cargo Report for which the target mandatory date is 1 July 2017 due to it being a complex message, requiring significant changes to associated operational processes.

TSW Online Registrations was successfully trialled with pilot partners in late 2014/15. Following the pilot, and the training of brokers, this new “self-service” TSW functionality was made available to all brokers from early July 2015. It allows brokers to apply for client and supplier codes online, and to manage some of their own and their clients’ business information. For brokers, it helps make compliance easier to do and has reduced what was a 24-hour turnaround for supplier code applications down to minutes in many cases, while allowing brokers to apply any time of the day or night. It also frees up Customs resources to address other risks. By the end of August 2015, over 50 percent of registrations of supplier and client codes were being completed by brokers through this new functionality.

### **Risk and Intelligence (R&I)**

JBMS also involves the delivery of additional R&I capability through technology that enables enhanced risk profiling, modelling, and targeting by agencies, including data analytic capability applied over larger and multiple data sets. The development of this enhanced R&I technology was progressed in 2014/15, and we expect it to be implemented in 2016.

The more comprehensive information contained in the WCO3 messages will supply richer data for analysis by Customs (and MPI) using the advanced tools. Accordingly, the full benefits for risk management will be realised after all traders have moved to those message types.

### **CUSTOMS AND EXCISE ACT REVIEW**

Cabinet agreed to a review of the Customs and Excise Act 1996 in November 2013 as the Act can no longer respond efficiently to changes in global border management, government policy, business practice, and technology. Through the review, Customs is seeking to shift from prescriptive, detailed legislation to a principles-based Act. A new Act also offers opportunities to reduce compliance costs for businesses and to create better alignment with the other government agencies that operate at the border (consistent with Better Public Services).

In 2014/15, Customs continued to develop proposals for changes to the Act. This included working closely with business stakeholders and other government agencies to identify and quantify the issues.

A discussion paper was released for public consultation in March 2015, setting out the issues being considered under the review and proposals for change. It focused on key issues and opportunities, and the possible impacts that the proposed changes could have on the public and businesses. In some cases the paper identified preferred options, but the goal was to obtain information, feedback, and ideas before any final decisions. When the consultation period closed in May 2015, 89 submissions had been received. Customs analysed this feedback and finalised our proposals for changes to the Act, again working with industry and other government agencies as relevant, for Cabinet approval later in 2015.

### **SMARTGATE AUTOMATED PASSENGER PROCESSING**

The continuing increase in uptake (as discussed on page 11) resulted in the existing number of gates and kiosks moving toward capacity (and having already reached capacity at peak times).

To improve Customs’ capability to cost-effectively manage the sustained and significant growth in international travel volumes, and so also free up resources to focus on risk management, the Government agreed in June 2015 to provide additional funding for automated passenger processing. This will enable us to expand SmartGate by investing in up to 29 additional next-generation gates. The next-generation technology delivers an improved border experience through a faster one-step intuitive process in place of the existing two-step process. It will also be more secure, as it enables travellers to be identified more accurately through improved biometric facial recognition technology. In addition, the increased capacity will enable eligibility to be extended to further nationalities.

## OPERATIONS TRANSFORMATION PROGRAMME (OTP)

In 2014/15 we continued to progress the OTP, which is intended to modernise and transform the way we work, and to future-proof our Operations workforce. It seeks to remove unnecessary or duplicated tasks, re-engineer processes for added efficiencies, and reshape the Customs workforce to make best use of our skilled staff. The OTP will enrich the work of our staff by enabling them to work flexibly and efficiently across a range of functions, and to focus on more complex enforcement activities rather than the more transactional and administrative tasks.

Initially the focus of the programme was solely on Customs' Border Operations workforce. We have implemented some of the identified changes – mainly system and process improvements – that will increase our efficiency and effectiveness. We continue to develop and progress implementation of the remaining changes. We developed a proposed workforce model, and in late 2014 we decided to assess whether and how that model could be extended across the whole of Customs' Operations group and what the benefits and impact would be. That work has continued into 2015/16.

## MOBILITY PROGRAMME

Customs is looking to improve the efficiency of our operational business by “mobilising” key business functions. This will remove barriers to information access and will reduce the time required for informed decision-making in the field. We commenced a trial in May 2015 to find out if there is a need for frontline staff to use mobile devices in their day-to-day jobs and what the practicalities are. We are also looking at the applications that are required to support our business processes and that would be available to the public.

## BETTER PUBLIC SERVICES (BPS)

Customs plays an active part in BPS, and continues to contribute to this transformation programme. In 2014/15 we continued to progress existing initiatives and look for additional opportunities to make services digital by default, as we build a stronger customer focus into the way we deliver and improve our services.

### **BPS Result 9: New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business**

Customs is one of the agencies involved in delivering on the Result 9 Future State Blueprint to 2023 and the Roadmap of eight priority initiatives to 2017 and beyond. The TSW is Customs' major current contribution to Result 9 as it provides an electronic channel for traders to transact directly with government and complete border requirements. We are also participating in the cross-agency work on introducing a New Zealand Business Number (NZBN), which is a key enabler for delivering integrated services for business across government. We have committed to using the NZBN in the future, and are involved in the work programme to implement it.

### **BPS Result 10: New Zealanders can complete their transactions with government easily in a digital environment**

Use of SmartGate is one of the transactions measured for the Result 10 target. In 2014/15, 52.5 percent of all New Zealand and Australian air passengers arriving in and departing New Zealand used SmartGate. The next-generation technology discussed on page 19 will help us achieve the 2017 target.

### **Functional leadership initiatives**

We are actively participating in the BPS functional leadership initiatives that aim to improve the efficiency of government administration, such as those being led by the Property Management Centre of Expertise and the Government Legal Network. Customs will continue to participate in and contribute to all-of-government initiatives and activities.

## ICT

A revised and comprehensive Information Services (IS) Strategy was developed, and adopted by Customs in December 2014. The Strategy is based on IS alignment with business strategies and government priorities and reflects the Government's ICT Strategy and Action Plan to 2017. It recognises and addresses Customs' efforts to become increasingly intelligence-led and customer-focused.

Customs' IS Strategy includes an IS Roadmap setting out the timeline for progressing and adopting particular initiatives, including the pragmatic adoption of all-of-government common capabilities (such as Common Web Platform migration of Customs' web properties, the introduction and progressive rollout of Infrastructure as a Service, and the future rollout of Telecommunications as a Service).

## PROGRESS AGAINST IMPACTS

We are seeking increased efficiency and security of New Zealand's trade supply chains, and improved cost-efficiency and effectiveness.

### Time taken to clear trade and travel

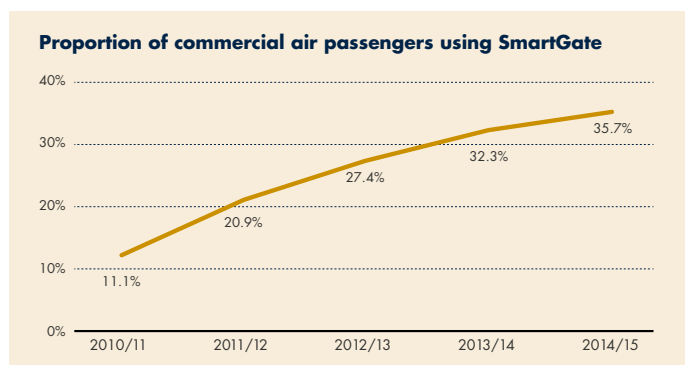
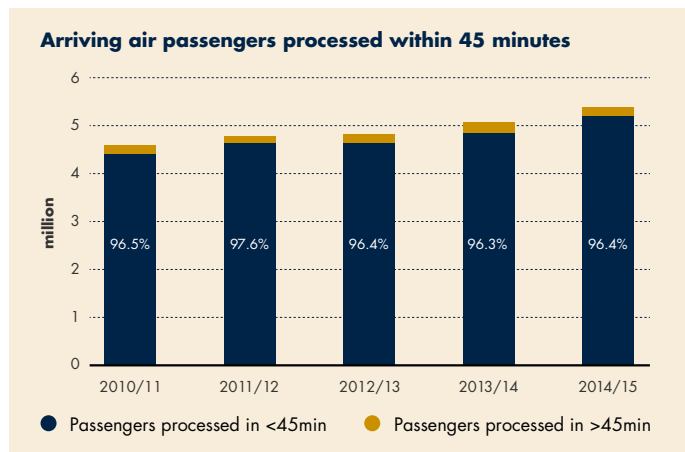
A key aspect is maintaining or reducing the time taken to clear trade and travel.

We collected 98.9 percent of revenue electronically in 2014/15. This has steadily increased over the last five years (apart from a minor decrease from the 2013/14 result of 99.1 percent), rising from 96.4 percent in 2010/11.

In 2014/15, 99.6 percent of trade transactions were processed within 30 minutes. This has been consistent over the last five years, with only minor variances (the yearly result being within 99.5 to 99.9 percent over that period).

We aim to process a minimum of 90 percent of arriving commercial passengers within 45 minutes of their plane arriving at its gate. This period includes disembarking from the plane, walking to the Customs hall, duty-free shopping, and queuing for and being processed through Customs primary processing. The quality and speed of passenger processing must be balanced against the need to effectively manage risk and to allocate our resources efficiently.<sup>21</sup>

Improving on our time-to-clear will involve increasing the proportion of transactions handled electronically. The increased use of SmartGate means that the proportion of passenger processing handled electronically is increasing.



<sup>21</sup> The record of 97.6% in 2011/12 was due in part to our efforts to efficiently process Rugby World Cup 2011 visitors by temporarily redeploying additional staff to processing.

## International comparisons

We recognise that New Zealand's brand and reputation are of significant importance in attracting trade and travel. New Zealand continues to maintain efficient border services and to rank highly in the most recent international comparisons of the safety of countries and the performance of border administration services.

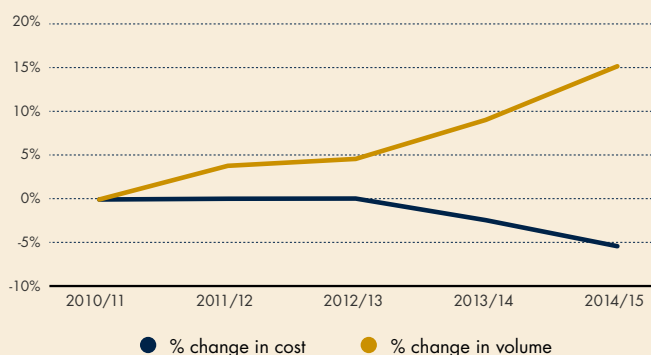
Measures of international reputation	2012/13	2013/14	2014/15
Security rating from Economist Intelligence Unit risk briefing	7 out of 100 <sup>22</sup>	7 out of 100	7 out of 100 (12th equal out of 180 countries)
World Bank's Doing Business Survey – cost to export goods <sup>23</sup>	48th/192 countries	51st/189 countries	52nd/189 countries (\$870)
World Bank's Doing Business Survey – cost to import goods <sup>23</sup>	31st/192 countries	37th/189 countries	36th/189 countries (\$825)
World Bank Logistics Performance Index – border facilitation <sup>24</sup>	20th/155 countries in 2012 survey	6th/160 countries in 2014 survey	No study undertaken
World Economic Forum's Enabling Trade Index – efficiency of border administration <sup>24</sup>	8th/132 countries	6th/138 countries	No study undertaken

## Costs of processing travel and trade

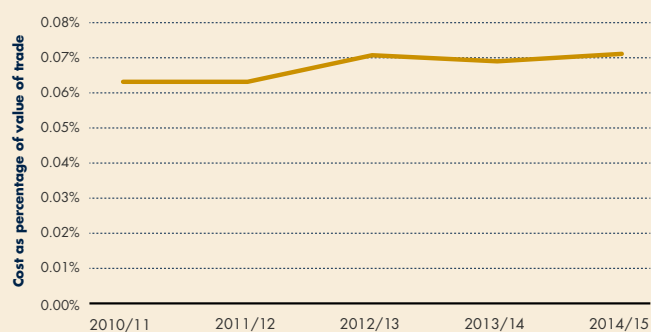
Since 2010/11, the volume of travellers has increased by 15.3 percent while the cost of processing each traveller has decreased by 5.3 percent.<sup>25</sup>

The total cost of goods processing as a percentage of the value of trade<sup>26</sup> was 0.0702 percent in 2014/15, only a minor change from the 2013/14 cost of 0.0695 percent.

Change in traveller volumes and processing cost



Cost-effectiveness of goods clearance and enforcement



22 100 = most risky

23 Costs are reported in US dollars, so slight shifts in rankings are likely to reflect shifts in exchange rates.

24 These measures include the activities of all border agencies, and so are not exclusively driven by Customs' performance. This survey is not necessarily undertaken every year.

25 This is based on the total appropriation spend for the Clearance and enforcement services related to passengers and crew output class divided by the total number of passengers and crew processed. The cost is also adjusted using the Reserve Bank's wage inflation calculator.

26 This is the total appropriation spend for the Clearance and enforcement services related to goods output class divided by the total value of imports and exports (based on Statistics NZ data). As a result, it does not directly relate to the level of activity undertaken by Customs in relation to trade.

## PEOPLE AND CULTURE

We aim to create a great place to work – a place where Customs’ people have a sense of belonging, are representative of the community and customers we serve, and have the capability and commitment needed to meet our challenges now and into the future. Our people need to be multi-skilled and adaptive.

Customs’ current workforce strategy (updated in 2014) enables our change programme and the 11 related key challenges. It reflects the impact that Customs’ strategic direction has on the change leadership, culture, capability and capacity of our workforce. We will review the workforce strategy in late 2015 to ensure it is still focusing and aligning Customs’ efforts with our strategic direction and workforce challenges.

## LEARNING AND DEVELOPMENT

We recognise the importance of education and training in making Customs a great place to work and in ensuring that we have effective leadership and a capable and flexible workforce. As part of our blended learning approach for training and support resources for staff, we launched “The Learning Room” in April 2015. Along with an automated online booking system for face-to-face (classroom-facilitated) programmes, the new Learning Management System delivers a wide range of online learning content and resources in a more collaborative, learner-centred way. It enables self-paced learning, and can be tailored to role-specific learning requirements, while also providing real-time reporting for regulatory compliance and other training.

We continue to look to improve capability under our leadership development programme and Leadership Career Path. Our Leadership Framework (revised in 2013/14) recognises the importance of both people and thought leadership, and the skills and values delivered by both technical and operational specialists. We began delivering a revised development programme, launched within the Framework, for our “leaders of teams” in 2014/15. We also focused on leaders helping staff to connect with Customs’ strategic direction and work programme.

Customs maintains and actively develops relationships with other “like” agencies, the State Services Commission (SSC), and the Learning Development Centre to enable improvements in efficiencies and effectiveness and to contribute to better public sector outcomes.

## PROGRESS AGAINST IMPACTS

### Developing our diversity

We recognise that a diverse and inclusive culture and workplace makes Customs stronger. It helps our staff to feel safe, included, and valued, and it ensures that gender, ethnicity, and other aspects of diversity are not barriers to recruitment, career development, or promotion. Having a workforce that reflects the community we serve also enables us to better understand and meet our customers’ increasingly diverse needs.

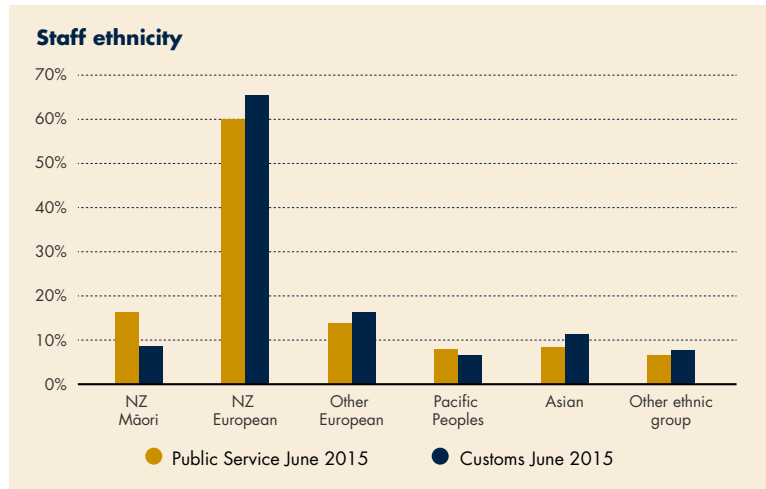
We have implemented a number of initiatives to achieve diversity in our workforce. Our Diversity and Inclusion Council looks at ways to improve how we recruit, develop, promote, and support the diverse range of skills, thinking styles, and experience we need. We launched a Diversity and Inclusion Strategy in November 2014.

Our new Customs officer recruits are increasingly diverse and reflective of the range of ethnicities in the community and at the border. Through the work of our Senior Leadership Team and the Diversity and Inclusion Council we are building an inclusive culture so that we can realise the benefits of that diversity.

We want to increase the number of women and different ethnicities in our leadership roles. We have reviewed our flexible working policy to support more flexible working and changed our practices to allow for part-time people leaders. Among our people leaders we have also raised awareness of unconscious knowledge and bias to reduce the subtle barriers to achieving gender balance and diversity in our leadership roles.

The proportion of female staff as at 30 June 2015 was 44.7 percent. The proportion of management roles at Customs filled by females is essentially unchanged at 23.2 percent, compared to 24.0 percent at 30 June 2014 (and remains above the June 2013 figure of 20.3 percent).

We continue to monitor the composition of our staff (note that staff may self-identify as more than one ethnicity).



### Employee engagement and retention

Having staff who are fully engaged with their work is a key factor in Customs being able to deliver our services effectively and achieve our strategic goals. We recognise that we need to improve the level of engagement at Customs. The 2014 Engagement Survey<sup>27</sup> (commenced in July 2014) found an Engagement Index of 60.7, down from the 2013 result of 66.7, and below the State Sector Benchmark of 68.4. That survey showed that Customs' key strengths are: staff commitment and pride in their work; strong manager and employee relationships; a cohesive and supportive team culture; and support for continuous improvement. Our people's concerns, however, included: feeling less connected with our strategy (*Customs 2020*); remuneration; and less confidence in our leadership. Our specific efforts in 2014/15 to increase staff engagement with *Customs 2020* and focus on valuing our people has had some positive impacts, as reflected in the results of pulse surveys undertaken during the year. We will continue to build on these impacts as we progress *Customs 2020* initiatives.

Staff retention remained reasonably high in 2014/15. As at 30 June 2015 the average length of service was 13.7 years and the unplanned annual turnover rate was 9.0 percent – the former is well above the 2014 public sector average and the latter is below.

The unplanned turnover rate for Customs staff with less than four years' service is 16.9 percent. Reducing the turnover of operational staff is a key aim of the OTP (discussed on page 20).

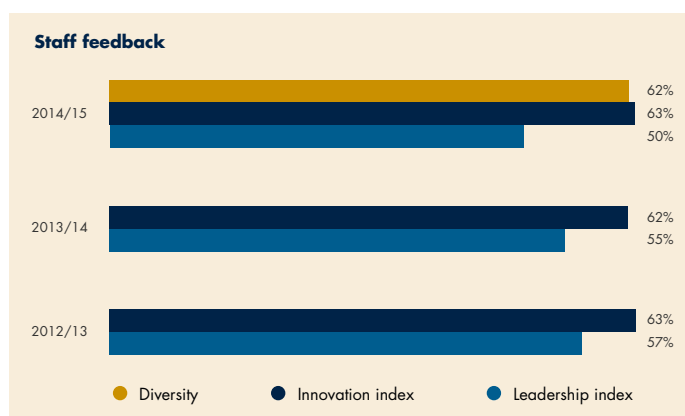
<sup>27</sup> Customs partners with IBM Smarter Workforce for our staff engagement surveys.

The engagement survey is also used to monitor how our staff rate Customs' leadership, and our staff's attitudes towards innovation and continuous improvement. The survey has three questions about our leadership and five questions relating to innovation and continuous improvement – based on the statements in the following table.

Leadership	Innovation and continuous improvement
I have confidence in the leadership of this organisation	I feel supported in my efforts to adapt to organisational changes
The senior leadership team does a good job of communicating the reasons behind important changes that are made	My immediate supervisor/manager encourages me to initiate change when I see a better way of doing things
The leadership of Customs embraces, encourages, and personally leads change efforts	The person I report to encourages and is willing to act on suggestions and ideas from my team
	Day-to-day decisions demonstrate that quality of products/ services are top priorities for this organisation
	This organisation encourages ideas and suggestions from employees on how to improve the way things are done

The Leadership Index is the average score of the three leadership questions and the Innovation Index is the average score of the five innovation questions. The Innovation Index has remained steady from 2012/13 to 2014/15, but the Leadership Index has fallen from 57 percent in 2012/13 to 50 percent in 2014/15.

In 2014 we also included a question seeking staff views on diversity.<sup>28</sup> This question will be repeated in future surveys so that we can track our staff's views on this.



<sup>28</sup> The question presented the statement *Customs has a positive and inclusive culture that supports the diversity of our workplace* and asked staff to indicate one of the following options: Strongly Disagree; Disagree; Neutral; Agree; Strongly Agree; Do Not Know.

## Learning and development

Customs works with The Skills Organisation to deliver training in National Certificate in Border Management qualifications. The number of training agreements in the accompanying table shows that Customs is committed to increasing the number of staff who have this qualification.

Year	Number of training agreements
2010/11	35
2011/12	94
2012/13	50
2013/14	50
2014/15	87

## Health and safety, and wellbeing

Customs is committed to maintaining and promoting a safe and healthy work environment, and to encouraging the positive wellbeing of our people. We also take all practicable steps to prevent harm occurring to any contractors or members of the public as a consequence of our operations.

An independent ACC Workplace Safety Management Practices (WSMP) audit was undertaken in October 2014.<sup>29</sup> This confirmed that Customs had shown best practice and a commitment to continuous improvement in workplace health and safety; the result is that we have retained our tertiary status, which is the highest level of accreditation.

We continue to focus on improving our health and safety, and on preparing for the expected new legislation and ensuring we will comply with it. We established a new Health Safety and Wellbeing Working Group in June 2015, in addition to our existing Health and Safety Committee. The new Working Group is intended to strengthen our health, safety and wellbeing practices by bringing together a wide range of expertise and practical knowledge from around Customs, supported by relevant experts.

<sup>29</sup> WSMP recognises medium to large businesses (more than 10 employees) that have implemented effective health and safety systems and practices in their workplaces. It consists of 55 audit standards, which are aligned with the Australia/New Zealand Standard for Occupational Health and Safety Management Systems (AS/NZS 4801:2001).

# ORGANISATIONAL HEALTH AND CAPABILITY

## INTEGRITY

In order to maintain our reputation and deliver our mandate effectively, we must maintain public trust and confidence in Customs, especially as we expect – and rely on – the significant majority of customers to comply voluntarily with border requirements. We recognise that integrity is fundamental to maintaining that trust and confidence. Customs’ solid reputation lies in the integrity of our actions and the way we use our powers as we protect and promote New Zealand through world class border management.

During 2014/15, we progressed our ongoing programme of initiatives to continue to safeguard integrity and combat corruption. We introduced integrity and conduct scenarios to promote ethical decision-making; reviewed and revised our drug and alcohol policy, and our fraud and corruption risk profile; enhanced our security vetting procedures; participated in international integrity forums; and continued to enhance our networking with other agencies and administrations on integrity matters. As part of efforts in 2014/15 to focus our staff on key elements of *Customs 2020*, we promoted integrity awareness for staff through workshops, presentations, training resources, and the sharing of integrity insights.

## Code of Conduct

Our Code of Conduct applies to all Customs employees and all those we engage as contractors and consultants. The behaviour required falls under four standards – *fair, impartial, responsible* and *trustworthy*. This is in keeping with the State Service Commissioner’s *Standards of Integrity and Conduct*. Customs’ employees are responsible for upholding these standards and complying with the Code of Conduct.

We take alleged breaches of integrity seriously and manage them in a professional manner. We do not allow or tolerate acts of corruption.

Disciplinary Policy and Procedures are in place for addressing unacceptable behaviour. The following table provides information on the number of investigations into allegations received in 2014/15 of unacceptable behaviour by Customs staff, and their outcomes (if they were concluded in 2014/15):

Upheld	Not upheld	Withdrawn*	Employee left Customs**
11	3	3	1

\* The allegation was withdrawn after the formal investigation began

\*\* The employee left Customs before the investigation was concluded

For the investigations that were concluded, the allegations of unacceptable behaviour related to the following:

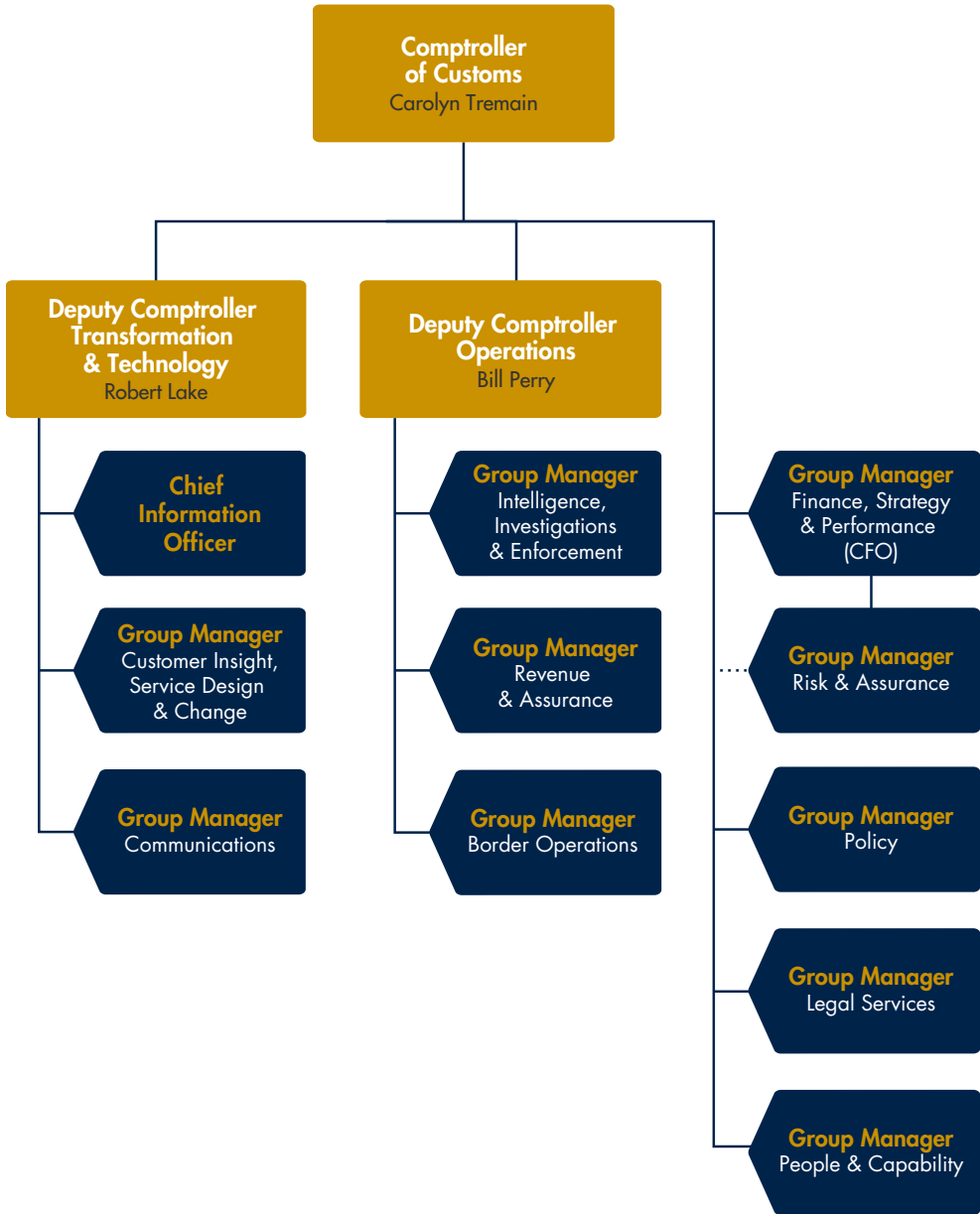
Unacceptable behaviour alleged	Upheld	Not upheld
Actions or behaviour that did or had the potential to bring Customs into disrepute	3	1
Inappropriate behaviour at work (failing to follow procedures)	6	2
Performance	2	0

When misconduct occurs and it is determined that disciplinary measures are necessary, these are meant to be corrective in nature rather than punitive. In some cases, however, transgressions warrant termination. The following table provides statistics<sup>30</sup> on disciplinary action or sanctions in 2014/15:

Formal warning <sup>31</sup>	Termination (with or without notice)*
10	1

\* The termination relates to a staff member whose actions or behaviours did or had the potential to bring Customs into disrepute

**LEADERSHIP AND GOVERNANCE**  
**Senior leadership structure for 2014/15**



30 While one incident is one incident too many, these numbers need to be understood in the context of a population of around 1,200 employees.

31 A formal warning could also include one or a combination of the following: referral to Employee Assistance Programme or other professional assistance; removal of delegated powers; removal of privileges; transfer; demotion; non-eligibility for merit remuneration increase or one-off payment; change of reporting time or hours of work; or such other penalty decided by the Chief Executive.

## **Governance**

Customs has arrangements in place to help the overall monitoring and direction of the organisation, in order to ensure effective business performance and governance. We have a layered approach to our governance and management committees.

We have a Senior Leadership Team (SLT), which in 2014/15 consisted of the Comptroller, the Deputy Comptrollers, and the Group Managers identified in the accompanying chart of Customs' senior leadership. The role of the SLT is to provide leadership, manage Customs' work programme, and maintain the management environment for Customs.

The Customs Executive Board (CEB) is composed of a smaller group of Customs' senior management. The CEB is future-focused: it looks at Customs' role in the wider government and industry sector, and at the stewardship of the organisation, with the goal of making Customs a more sustainable organisation. Also supporting the SLT is a number of other committees – both standing and project-related – to ensure effective performance and risk management by Customs, and to provide upstream advice to the CEB and the SLT.

Customs' senior organisation structure was reviewed and changed in early 2015/16 to ensure we were best placed to continue to deliver on our strategic intentions.

As JBMS is a major project, there are specific arrangements for its governance. Throughout the project, there have been regular meetings between the chief executives of Customs and MPI, and between those two chief executives and the chief executives of IBM NZ Ltd and IBM Australia Ltd. In 2014/15 there were also monthly meetings of both the Programme Delivery Board (PDB) to manage technology delivery, and the Joint Executive Board (JEB) to focus on the delivery of the programme and benefits realisation in close collaboration with the executive management of both Customs and MPI. In addition, there is an Assurance Plan overseen by the Government Chief Information Officer, which includes the management of risks and issues.

## **RISK MANAGEMENT**

Customs' Audit and Risk Committee is a key governance body. Its purpose is to provide advice to ensure that Customs has an effective and comprehensive framework for corporate governance, and to ensure that significant risks are being identified and mitigated. It consists of external members only, including an independent Chair, although members of Customs' senior management may also attend meetings depending on the specific agenda items.

We review our Risk Management Policy and Risk Management Framework regularly. The Policy records our commitment to managing risks effectively and the role all staff need to play in identifying and managing risk using the Framework. That Framework sets out the principles on which risk will be embedded in all of Customs' practices and business processes. It ensures that risks are identified, assessed, and mitigated at a strategic, organisational, and operational level. It also helps provide an appropriate basis for the exchange of risk management information between Customs and other agencies that have border management responsibilities.

## **CUSTOMS AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 30 JUNE 2015**

The independence of the Committee brings considerable relevant experience from members who have worked in and alongside Customs and other government agencies involved in border and information management and revenue collection.

There has been one new member appointed to the Committee during the year from the senior management of New Zealand Police.

The Committee has met four times over the year and has been well supported by the Comptroller of Customs and other senior managers who have been available and prepared for discussion on key risks, issues and opportunities facing Customs.

During the year we reviewed and updated the Customs Audit and Risk Committee Charter.

The Committee has met with Audit New Zealand (Customs' Auditor) and discussed their view of the control environment and Customs' performance.

I attended the Auditor General forum for audit committee chairs which discussed the focus, structure and development of public sector audit and risk committees and provided the latest guidance from the Office of the Auditor General. I also attended a meeting that discussed the role, focus and approach of effective audit and risk committees including a presentation on the results from a global survey on audit committees. These meetings and the results from the global survey indicated that the approach to understanding, discussing and mitigating risk and the role and focus of the Audit and Risk Committee at Customs are appropriate and in line with best practice.

The Committee has focused on the status and management of:

- » Health and safety governance, reporting and Customs preparedness for proposed new legislation
- » Customs' Strategic Risk Profile
- » Customs' security, including cyber security
- » Customs' organisational change programme
- » Stakeholder relationships and staff engagement
- » The Joint Border Management System implementation
- » Customs' Four Year Plan, including the management of financial and volume growth pressures
- » Integrity.

In 2015/16 the Committee will build on the progress made in the past year with the aim of continuing to fulfil its charter obligations and enabling Customs to continue to understand and effectively manage risk while at the same time maintaining its enviable reputation and high levels of trust with key stakeholders and the New Zealand public.

Geoff Vazey  
Chair  
New Zealand Customs Service Audit and Risk Committee

## STAFF

People are at the heart of what we do. This is reflected in “People and culture” being one of the areas through which we are delivering on our strategic direction, and our organisational health and capability in this area is discussed on pages 23–26.

## COLLABORATION WITH OTHER AGENCIES

Customs is continuing to develop our collaborative working relationships with other agencies. We work with other border agencies to identify areas where collaborating could provide more efficient services and a more seamless process for our customers. Examples include the implementation of JBMS with MPI, and the continuous improvement process at Auckland International Airport with the Aviation Security Service. The collaborative work with the Aviation Security Service was recognised at the 2015 Public Sector Excellence Awards by the Excellence in Achieving Collective Impact Award.

As well as sharing information, we continue to look at how we can rationalise facilities at ports and airports through initiatives such as shared customer-service desks, shared facilities, and shared working spaces for operational staff together in one place. Some of these initiatives are already in place in several locations. We also work with other agencies to coordinate cargo inspections and our interactions with arriving commercial and private craft where possible, and we “co-warrant” inspectors so that they can carry out tasks on each other’s behalf.

We also continue to work with other customs administrations, including those in the United States and Australia, on issues such as supply chain security and intelligence sharing.

## BORDER MANAGEMENT IT SYSTEMS

Customs’ work relies heavily on our border management IT systems, particularly for facilitating trade and travel and managing the associated risks. The reliability and capability of those systems is therefore vital. We do, however, have business continuity plans and processes for when they are unavailable.

TSW was available for 98.5 percent of 2014/15. The significant majority of the time that TSW was unavailable was due to planned outages for new releases as part of the phased implementation of JBMS (as discussed on page 18). These outages are scheduled for when they will provide the least disruption to industry. Excluding planned outages, TSW was available for 99.9 percent of 2014/15. Unplanned outages are to be expected in any large IT system but are more likely following new releases of functionality, which occur regularly in the phased implementation of JBMS.

The CusMod border management system continued to operate in tandem with JBMS in 2014/15. This is an essential part of Customs’ risk management strategy, to ensure that our border clearance activities are not compromised while the successive phases of JBMS are developed, tested, and implemented. While a number of functions performed by CusMod have been or will be transferred over time to JBMS, there are some that will be progressively modernised or transitioned to alternative platforms. CusMod was available for 99.9 percent of 2014/15.<sup>32</sup>

Nexus<sup>33</sup> is Customs’ data warehouse for the information recorded in CusMod. This enables managed reporting, analysis, and ad hoc queries. Nexus was available for 99.8 percent of 2014/15.

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<sup>32</sup> This does not include restarts – CusMod is restarted every 24 hours, but this occurs overnight and has no impact on business operations.

<sup>33</sup> Developed by Cognos® and distributed in New Zealand by CDP Ltd.

# STATEMENT OF RESPONSIBILITY

I am responsible, as Comptroller of Customs and Chief Executive of the New Zealand Customs Service, for:

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

In my opinion:

- » the financial statements fairly reflect the financial position and operations of the New Zealand Customs Service for the financial year ended 30 June 2015
- » the forecast financial statements fairly reflect the forecast financial position and operations of the New Zealand Customs Service for the financial year ended 30 June 2016.

Signed by:



Carolyn Tremain  
Comptroller of Customs  
29 September 2015

## INDEPENDENT AUDITOR'S REPORT

### To the readers of the New Zealand Customs Service's annual report for the year ended 30 June 2015

The Auditor-General is the auditor of the New Zealand Customs Service (the Department). The Auditor-General has appointed me, Stephen Lucy, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf of:

- » the financial statements of the Department on pages 53 to 56 and 58 to 75, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and assets as at 30 June 2015, the statement of comprehensive revenue and expense, statement of change in equity, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- » the performance information prepared by the Department for the year ended 30 June 2015 on pages 8 to 26 and 36 to 50;
- » the statements of expenses and capital expenditure of the Department for the year ended 30 June 2015 on pages 51 and 52; and
- » the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 57 and 76 to 83 that comprise:
  - › the schedules of non-departmental: revenue, assets; liabilities; commitments; contingent liabilities and assets for the year ended 30 June 2015;
  - › the schedule of trust monies for the year ended 30 June 2015; and
  - › the notes to the schedules that include accounting policies and other explanatory information.

## OPINION

In our opinion:

- » the financial statements of the Department:
  - › present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the year ended on that date;
  - › comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards.
- » the performance information of the Department:
  - › presents fairly, in all material respects, for the year ended 30 June 2015:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure;
  - › complies with generally accepted accounting practice in New Zealand.
- » the statements of expenses and capital expenditure of the Department on pages 51 and 52 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- » the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 57 and 76 to 83 present fairly, in all material respects, in accordance with the Treasury Instructions:
  - › the schedules of non-departmental: revenue, assets; liabilities; commitments; contingent liabilities and assets for the year ended 30 June 2015; and
  - › the schedule of trust monies for the year ended 30 June 2015.

Our audit was completed on 29 September 2015. 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 Comptroller of Customs 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 information we audited is free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the information we audited. 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 information we audited. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the information we audited, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Department's preparation of the information we audited 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 Comptroller of Customs;
- » the appropriateness of the reported performance information within the Department's framework for reporting performance;
- » the adequacy of the disclosures in the information we audited; and
- » the overall presentation of the information we audited.

We did not examine every transaction, nor do we guarantee complete accuracy of the information we audited. Also, we did not evaluate the security and controls over the electronic publication of the information we audited.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

## **RESPONSIBILITIES OF THE COMPTROLLER OF CUSTOMS**

The Comptroller of Customs is responsible for preparing:

- » financial statements that present fairly the Department's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand and Public Benefit Entity Reporting Standards.
- » performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- » statements of expenses and capital expenditure of the Department, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- » schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Department on behalf of the Crown.

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The Comptroller of Customs's responsibilities arise from the Public Finance Act 1989.

The Comptroller of Customs is responsible for such internal control as is determined is necessary to ensure that the annual report is free from material misstatement, whether due to fraud or error. The Comptroller of Customs is also responsible for the publication of the annual report, whether in printed or electronic form

#### **RESPONSIBILITIES OF THE AUDITOR**

We are responsible for expressing an independent opinion on the information we are required to audit, and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

#### **INDEPENDENCE**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Department.



S B Lucy  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

# PERFORMANCE INFORMATION: REPORT AGAINST APPROPRIATIONS

For the year ended 30 June 2015

This contains end-of-year performance information for the 2014/15 financial year for the output class appropriations and departmental capital expenditure appropriation contained in *The Estimates of Appropriations 2014/15* for Vote Customs. Collectively, these output classes support the achievement of the outcomes and priorities discussed on page 5. This end-of-year performance information is audited.

The “Budget” figures are those included in *The Estimates of Appropriations 2014/15*. The “Revised Budget” figures are those from *The Supplementary Estimates of Appropriations 2014/15*.

If a performance measure was in place in the prior 2013/14 financial year, comparative performance information for 2013/14 has been included. To provide further context for the 2014/15 results, we have also included the standards set for the output performance measures for 2015/16, as contained in the Vote Customs *Estimates of Appropriations 2015/16*. This information is unaudited.

## 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)

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>Revenue</b>				
53,886	Crown	57,387	57,387	55,617
1,939	Other	1,963	1,841	1,832
<b>55,825</b>	<b>TOTAL REVENUE</b>	<b>59,350</b>	<b>59,228</b>	<b>57,449</b>
<b>55,522</b>	<b>EXPENSES BEFORE REMEASUREMENTS</b>	<b>58,689</b>	<b>59,228</b>	<b>57,449</b>
<b>303</b>	<b>SURPLUS/(DEFICIT)</b>	<b>661</b>	<b>-</b>	<b>-</b>

## PERFORMANCE

### Processing of air passengers

Reflecting the continuing growth in travellers, Customs processed a record 5.654 million arriving international air passengers and crew in 2014/15, above the expected range of 4.800–5.320 million.

As discussed on page 11, Customs’ processing of air passenger volume growth is assisted by increasing use of SmartGate by passengers, including additional nationalities. The SmartGate performance measure for 2014/15 relates only to use by eligible<sup>34</sup> Australian and New Zealand passengers. A total of 3.458 million of those passengers (1.816 million arriving and 1.642 million departing) used SmartGate in 2014/15, a 13.2% increase from the 2013/14 total.

<sup>34</sup> Australians and New Zealanders who have an ePassport, are at least 16 years old, and are arriving at or departing from the airports that have SmartGate (Auckland, Wellington, and Christchurch). As the age of eligibility was formally lowered to 12 in August 2014, the performance measure for 2015/16 relates to those passengers aged 12 and over. For the additional nationalities, we cannot currently determine which passengers have ePassports and so are eligible to use SmartGate.

## Risk management

We profile and assess all arriving international air passengers and crew, taking into account changing risks, to determine who will be referred for further risk assessment at our secondary areas. As we aim to limit our interaction with legitimate travellers who comply with border requirements, we use risk assessment to target our interventions.

### PERFORMANCE MEASURES AND STANDARDS

Measure	2013/14	2014/15			2015/16
	Actual	Standard	Actual	Variance	Standard
<i>Travel intermediate outcome: Travellers are satisfied with the service received during immigration processing</i>					
Percentage of travellers who rate their experience of immigration processing as good or very good (as measured by Customs' stakeholder survey)	–	≥85%	91.9% <sup>35</sup>	–	≥85%
Percentage of international air passengers satisfied or very satisfied that Customs processes passengers quickly and conveniently (as measured by Customs' stakeholder survey)	81.8%	≥77%	85.5%	–	≥77%
Percentage of international air passengers satisfied or very satisfied that Customs provides a friendly welcome to New Zealand (as measured by Customs' stakeholder survey)	86.3%	≥80%	85.6%	–	≥80%
<i>Travel intermediate outcome: Travellers feel encouraged and assisted to comply</i>					
Percentage of international air passengers that find the information provided by Customs helpful (as measured by Customs' stakeholder survey)	88.3%	≥85%	87.0%	–	≥85%
Percentage of travellers who trust Customs (as measured by Customs' stakeholder survey)	–	≥85%	90.1%	–	≥85%
<i>Passenger processing output: Legitimate travellers cross the border with minimal intervention</i>					
Percentage of arriving international air passengers and crew who are deemed compliant based on risk assessment and facilitated without further intervention <sup>36</sup>	99.2%	≥98%	99.3%	–	≥98%
Percentage of arriving international air passengers who exit Customs primary processing points within 45 minutes of arrival	96.3%	≥90%	96.4%	–	≥90%
<i>Passenger processing output: Passengers who show risk are subject to further intervention</i>					
Percentage of arriving international air passengers and crew who are selected for further risk assessment at Customs' secondary areas	0.8%	0.6%–1.0%	0.7%	–	0.6%–1.0%
Percentage of arriving international air passengers and crew who are selected for further risk assessment who were subsequently subject to a full or partial baggage examination	25.7%	20%–30%	26.7%	–	20%–30%
Percentage of eligible arriving passengers who use SmartGate	65.3%	≥60%	68.4%	–	≥60%
Percentage of eligible departing passengers who use SmartGate	–	≥60%	61.8%	–	≥60%

<sup>35</sup> We undertook two waves of surveys of travellers' satisfaction in 2014/15 (with those surveyed including non-New Zealanders) and all the performance measure results in this table are the aggregate of these two waves.

<sup>36</sup> "Further intervention" means action by Customs to carry out further risk assessment. This may include, but is not limited to, further questioning, an interview, or a baggage examination.

## 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)

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>Revenue</b>				
18,118	Crown	13,727	13,727	15,850
53,764	Other	56,382	56,428	53,602
<b>71,882</b>	<b>TOTAL REVENUE</b>	<b>70,109</b>	<b>70,155</b>	<b>69,452</b>
<b>70,276</b>	<b>EXPENSES BEFORE REMEASUREMENTS</b>	<b>70,079</b>	<b>70,155</b>	<b>69,452</b>
<b>1,606</b>	<b>SURPLUS/(DEFICIT)</b>	<b>30</b>	<b>-</b>	<b>-</b>

### PERFORMANCE

#### Trade transactions

In 2014/15 Customs expected to process an estimated 7.0–8.0 million import transactions, 2.0–3.0 million export transactions, and 3,600–4,200 excise returns. We processed 8.426 million import transactions, 2.668 million export transactions, and 3,659 excise returns.

#### Protection through the interception of harm and potential harm

Illicit drugs and other items are not just found in imports of goods but also accompanying passengers and on craft – the relevant measures have been located in this output class as the majority are found in the goods stream. Our protection of New Zealand is also discussed on page 8–10 and pages 14–15.

#### Checks on compliance

Customs undertakes risk audit activity to ensure that importers, exporters, and licensed manufacturers of excisable goods are compliant with relevant legislation and that the correct duties and taxes are paid.

Customs also applies a random transaction verification process that looks for non-compliant activity across import and excise entries submitted to Customs (that are not captured in the risk audit programme). These transactional verifications act to check that entered data can be validated through documentation, and this enables us to monitor the compliance level in entries. Any non-compliant activity identified is also moved across to the risk audit programme if appropriate.

#### Investigations

We commenced 575 investigation cases<sup>37</sup> in 2014/15, within the 400–600 estimate. We allocate our investigative resources based on the gravity of the particular offence being investigated, with priority being given to serious investigation cases. These cases are usually more complex and require longer investigation times and greater commitment of resources. Customs’ investigations are increasingly strategic with a focus on disrupting criminal organisations rather than targeting resources on lower-level players.

<sup>37</sup> 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. Customs conducts investigations relating to: the trafficking of illicit drugs; money laundering and financing of terrorism; trade in endangered species; intellectual property rights (IPR) infringement; objectionable material; and duty and excise fraud.

## PERFORMANCE MEASURES AND STANDARDS

	2013/14	2014/15			2015/16
Measure	Actual	Standard	Actual	Variance	Standard
<b>Trade</b>					
<i>Trade intermediate outcome: Importers and exporters are satisfied with the quality of service delivery</i>					
Average percentage of importers and exporters satisfied or very satisfied with the overall quality of Customs' service delivery (as measured by Customs' stakeholder survey) <sup>38</sup>	84.4%	≥85%	87.7%	–	≥85%
<i>Trade intermediate outcome: Importers and exporters feel encouraged and assisted to comply</i>					
Average percentage of importers and exporters that find it easy to comply with border agencies' requirements when lodging electronic documents or making payments (as measured by Customs' stakeholder survey)	80.7%	≥80%	81.8%	–	≥80%
Ratio of X-ray inspections required on Secure Exports Scheme (SES) containers to non-SES <sup>39</sup>	–	<1:10	1:24	–	<1:10
<i>Goods processing output: Legitimate goods cross the border with minimal intervention</i>					
Percentage of trade transactions <sup>40</sup> processed within 30 minutes	99.7%	≥95%	99.6%	–	≥95%
Percentage of import transactions that are deemed compliant based on risk assessment and proceed without further intervention <sup>41</sup>	97.3%	≥95%	97.6%	–	≥95%
Percentage of export transactions that are deemed compliant based on risk assessment and proceed without further intervention	99.5%	≥99%	99.7%	–	≥99%
<i>Goods processing output: Traders' compliance is monitored</i>					
Percentage of a random sample of import and excise <sup>42</sup> entries that are found to be compliant through the transactional verification process	–	>90%	90.0%	–	>90%
<b>Protection</b>					
<i>Protection intermediate outcome: The New Zealand public is protected through the interception of harm and potential harm</i>					
The value of harm avoided through Customs' drug seizures, as measured by indicative data from the New Zealand Drug Harm Index	–	\$100–\$200 million	\$156.8 million	–	\$100–\$200 million
Losses incurred by importers of illegal goods through seizure of illicit drugs, goods infringing intellectual property, and the associated proceeds of crime	–	≥\$10 million	\$271.2 million <sup>43</sup>	–	≥\$10 million

38 Our survey of importers and exporters captures feedback from low-volume clients and high-volume importers and exporters (including brokers).

39 Ratio of X-ray inspection rate of SES full container loads to non-SES container load inspection rates. Export goods are inspected (and potentially X-rayed) to provide assurance to New Zealand's trade partners that exports are secure. Exporters who are members of Customs' trusted trader/supply chain security programme, SES, can provide assurance (through their security processes) that their goods have been packed and transported securely, thereby reducing the need for inspecting their goods. Accordingly, SES members' goods/containers face less intervention and potential delay than exports by non-SES members.

40 Trade transactions other than those referred for compliance checks processed (including assessment against business rules and intelligence alerts).

41 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.

42 "export" was corrected to "excise" in *The Supplementary Estimates of Appropriations 2014/15* for Vote Customs. For 2015/16, this measure relates to import entries only – the volume of import entries vs excise entries means a random sample is unlikely to include a significant number of excise entries (if any).

43 The illicit drugs intercepted by Customs in 2014/15 had an estimated street value of \$271.2 million, above the 2013/14 total of \$127.9 million (although this was not an output measure in 2013/14). While we cannot quantify the value of the goods infringing intellectual property intercepted in 2014/15, over 48,000 individual counterfeit goods items were intercepted at the border.

Measure	2013/14	2014/15			2015/16
	Actual	Standard	Actual	Variance	Standard
<i>Protection intermediate outcome: The New Zealand public is confident that Customs protects New Zealand through the interception of harm and potential harm</i>					
Percentage of public confident that Customs protects New Zealand from external threats (as measured by Customs' stakeholder survey)	–	≥40%	51.9% <sup>44</sup>	–	≥40%
<i>Goods processing output: Goods that show risk are subject to further intervention</i>					
Percentage of total mail items that result in an enforcement consequence following risk assessment <sup>45</sup>	0.03%	≥0.02%	0.03%	–	≥0.02
Number of risk-based trade compliance audit activities undertaken	–	≥400	514	–	≥400
<i>Investigations output: Goods that show risk are subject to further intervention</i>					
Percentage of investigation cases finalised within 12 months of commencement	88.1%	≥90%	92.1%	–	≥90%
Percentage of serious investigation cases <sup>46</sup> that lead to punitive action <sup>47</sup>	97.3%	≥95%	91.5%	–3.7%	≥90%

## Explanation of variances for standards not achieved

### *Serious investigation cases leading to punitive action*

There were 47 serious investigation cases finalised where a suspect and offence were identified and of these 43 led to punitive action. In three cases where there was no punitive action, the potential suspect left New Zealand before the investigation could be progressed to the point any punitive action could be taken (but in one of those cases the relevant file was referred to the Australian Federal Police). In the other, while Customs was preparing to conduct operational activity NZ Police searched the target address for other matters and located controlled drugs and other items; the person of interest was not at the target address and our investigation could not link the person of interest to this address.

<sup>44</sup> Travellers surveyed through Customs' stakeholder survey act as a proxy for public confidence against people coming into or leaving New Zealand illegally (66.7% in 2014/15 surveys); and illicit drugs (68.8%), people with criminal or terrorist intent (57.0%), cultural and heritage items (58.2%), endangered species and flora and fauna (68.8%), illegal and stolen goods (57.6%), and indecent materials (51.9%) entering or leaving New Zealand.

<sup>45</sup> Some mail items are selected during the primary screening process for additional interaction as a result of risk assessment – this may include a closer visual check of the external wrapping and/or declaration, physical examination without opening and examining the contents, or physical inspection (opening and examining the contents). "Enforcement consequence" means: Customs' Activity Reports raised at the International Mail Centre; and items referred to MPI, New Zealand Post or Ministry of Health. Activity Reports are raised when non-compliant items are found, and action is taken in response.

<sup>46</sup> A serious investigation case involves, or has the potential to involve, serious community harm. Examples of serious investigation cases include those that involve more than \$250,000 drug harm (as calculated using the New Zealand Drug Harm Index), Class A or B drugs for supply, objectionable material involving child exploitation, or the importation of counterfeit medicines.

<sup>47</sup> The action resulting from a closed or completed serious investigation case where an offence has been committed and an offender has been identified and the result includes but is not limited to: offender is placed before the Courts by Customs or NZ Police; seizure of goods; a formal warning of the offender; imposition of section 223 Customs and Excise Act 1996 penalty (a fine or other penalty); an administrative penalty.

## 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)

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>Revenue</b>				
8,743	Crown	8,995	8,995	8,597
258	Other	247	247	241
<b>9,001</b>	<b>TOTAL REVENUE</b>	<b>9,242</b>	<b>9,242</b>	<b>8,838</b>
<b>8,919</b>	<b>EXPENSES BEFORE REMEASUREMENTS</b>	<b>9,231</b>	<b>9,242</b>	<b>8,838</b>
<b>82</b>	<b>SURPLUS/(DEFICIT)</b>	<b>11</b>	<b>-</b>	<b>-</b>

### PERFORMANCE

#### Numbers of craft

The total of 645 arriving small marine craft in 2014/15 was within the estimated range of 600–700. We processed 2,421 arriving commercial marine craft (including cruise ships) and 231 of those showed high risk or required administrative process. As the relevant measure (relating to boarding such craft) was introduced in 2014/15, the 450–650 forecast was an estimate of the expected total.

#### Managing risk relating to craft

Customs uses intelligence-based risk profiles to determine the risk level of arriving craft and then to mitigate risk through further interaction with craft that are assessed as a potential risk as well as the people/crew associated with those craft. The Integrated Targeting and Operations Centre (ITOC) applies rules relating to craft risk assessment to determine risk ratings. Intelligence and risk management processes determine the level and type of interaction.

We allocate our resources to focus on identified risk. All small craft are to be boarded as soon as practicable after arrival in a New Zealand port while arriving commercial craft will be boarded if there is an identified need (the craft is assessed as high risk or some administrative process needs to be undertaken).

A proportion of the commercial craft with a lower risk rating is also subject to secondary intervention by Customs – this encourages and maintains high levels of voluntary compliance, and acts as a check on Customs’ risk assessments. The information collected also feeds into future risk assessments by the ITOC.

## PERFORMANCE MEASURES AND STANDARDS

Measure	2013/14	2014/15			2015/16
	Actual	Standard	Actual	Variance	Standard
<i>Craft output: Craft operators are encouraged to assist and comply</i>					
Percentage of small marine craft arriving that are boarded as soon as practicable after arrival in a New Zealand port	–	100%	99.5%	–0.5%	100%
Percentage of arriving commercial marine craft (including cruise ships) showing high risk or requiring administrative process <sup>48</sup> that are boarded while in a New Zealand port	–	100%	100%	–	100%
<i>Craft output: Craft operators' compliance is monitored</i>					
Percentage of all arriving commercial marine craft that are not assessed as high risk that will be subject to Customs secondary interaction <sup>49</sup>	8.7%	≥ 10%	4.4%	–56.0%	≥ 5%

### Explanation of variances for standards not achieved

#### *Small marine craft arriving boarded as soon as practicable after arrival*

Three small craft (of a total of 645) were not boarded as soon as practicable after arrival. One was unable to be boarded as it sank. One needed to be towed into port by a tug, which towed it to an unmanned wharf – the craft was assessed as low risk so was not boarded. One departed New Zealand temporarily and had to return (to another port) for repairs – Customs' risk was mitigated and MPI processed the arrival on Customs' behalf.

#### *Arriving commercial marine craft not assessed as high risk subject to Customs secondary intervention*

As a result of refocusing resources to better focus on identified risk, there has been a significant reduction in the number of general (non-risk) vessels interacted with. In the 2014/15 year, 2,315 commercial vessels arrived that were not assessed as high risk and of these 102 were subject to Customs secondary interaction.

Due to our change in approach to craft not assessed as high risk, the standard for this measure was adjusted to ≥5% for 2015/16 – although we will continue to monitor our approach and this measure to determine the appropriate level of interaction with non-risk vessels.

<sup>48</sup> Boarding is required for craft showing a high (Priority 1) risk, craft visiting New Zealand for the first time, craft where information is incomplete, and craft where a visit is needed to complete an administrative process (such as immigration or bonding ships stores).

<sup>49</sup> Secondary interaction means any interaction undertaken by Customs over and above the initial boarding and clearance function, and may range from talking to the crew to a full rummage.

## 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)

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>Revenue</b>				
12,610	Crown	13,022	13,022	12,203
2,812	Other	2,892	2,884	2,695
<b>15,422</b>	<b>TOTAL REVENUE</b>	<b>15,914</b>	<b>15,906</b>	<b>14,898</b>
<b>15,089</b>	<b>EXPENSES BEFORE REMEASUREMENTS</b>	<b>15,896</b>	<b>15,906</b>	<b>14,898</b>
<b>333</b>	<b>SURPLUS/(DEFICIT)</b>	<b>18</b>	<b>-</b>	<b>-</b>

### PERFORMANCE

#### Services for other agencies

In 2014/15 we disseminated 961 intelligence and risk products,<sup>50</sup> below the expected 1,600–1,800. This is due to a number of factors, including a liaison officer from a major external agency working closely with us onsite (which meant we gave fewer formal briefings), and relevant Customs staff being temporarily redeployed to work on JBMS and long-term operations. We have also focused on increasing the quality of our intelligence reports in 2014/15, which has resulted in a decrease in quantity.

We expected to manage 40,000–45,000 alerts<sup>51</sup> created by other agencies. The 65,884 alerts in 2014/15 were created by MBIE (41.7% of the total), the Ministry of Justice (38.5%), Inland Revenue (10.7%), NZ Police (7.4%), and other agencies (1.7%). The MBIE total increased significantly (from 4,481 in 2013/14 to 27,463) due to Immigration NZ alerts being created on behalf of the Department of Corrections following the escape from custody and departure from New Zealand of Phillip Smith/Traynor.

#### National Maritime Coordination Centre (NMCC)

The NMCC supports the effective and efficient use of New Zealand's maritime patrol and surveillance assets for civilian purposes through a coordinated whole-of-government approach to maritime tasking and maritime domain awareness. Although the NMCC is operationally independent (and staffed by both civilian and military personnel from a number of agencies), it is directly responsible to Customs.

Regular risk assessments of agreed geographic areas are undertaken by the relevant agencies using a common risk assessment framework. Allocation of resources to a particular risk area depends on a match between the risk area and any specific task requests previously submitted by agencies for that area. The availability of resources is also subject to their suitability for the particular task and geographic area, and the competing priorities for the agencies supplying the assets. The NMCC is progressing a project for the acquisition of new software that will improve the management of patrol requests from agencies, and record and supply more accurate data.

<sup>50</sup> These relate to craft, individuals, groups, events, and commodities that could present a risk that falls under the jurisdiction of other agencies. The products are developed with a focus on tactical, operational, and strategic intelligence, and provide knowledge to improve decision-making and inform risk.

<sup>51</sup> Agencies provide Customs with information about people or goods that are 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.

## PERFORMANCE MEASURES AND STANDARDS

	2013/14	2014/15			2015/16
Measure	Actual	Standard	Actual	Variance	Standard
<i>Protection intermediate outcome: Users of information and intelligence products are satisfied with the service delivered</i>					
Percentage of external clients who are satisfied with intelligence and risk products disseminated by Customs	100%	≥80%	100% <sup>52</sup>	–	≥80%
Percentage of external clients who are satisfied with Customs' management of alerts created by their agency	100%	≥80%	100% <sup>53</sup>	–	≥80%
Percentage of requesting agencies and assets providers satisfied with National Maritime Coordination Centre's responsiveness, transparency, and prioritisation in coordination of tasking, and provision of the recognised maritime picture	– <sup>54</sup>	≥90%	75%	–16.7%	≥90%
<i>Information and intelligence services output: Surveillance resources are allocated to areas of highest risk</i>					
Percentage of maritime patrol areas with aggregated risk assessments in the highest 5% that are allocated resources	70%	≥80%	57.6%	–28.0%	≥80%

### Explanation of variances for standards not achieved

#### *Marine areas with aggregated risk assessments in the highest 5% allocated resources*

Some of the marine areas with aggregated risk assessments in the highest 5% were not allocated resources. Allocation of resources depends on a match between the risk area identified through the aggregated result of a particular risk assessment, any specific task requests previously submitted by agencies for that area, and the availability of suitable assets to be allocated by the NMCC.

#### *Satisfaction with National Maritime Coordination Centre's responsiveness, transparency, and prioritisation in tasking, and provision of the recognised maritime picture*

We sought feedback from nine agencies and received responses from three of those agencies. Of the total 12 responses (the three agencies' responses on each of the four elements of responsiveness, transparency, prioritisation in coordination of tasking, and provision of the recognised maritime picture), eight were "satisfied" or "very satisfied", two were "neither satisfied nor dissatisfied", and two were "dissatisfied" or "very dissatisfied". The two "dissatisfied" or "very dissatisfied" were for provision of the recognised maritime picture. The project being progressed to acquire new software (discussed above) will enable improved management of patrol requests. At year-end, the NMCC was also working with the New Zealand Defence Force (NZDF) to replace the existing system that provided the maritime Common Operating Picture (COP) with new NZDF software that will improve the delivery of the COP to agencies.

<sup>52</sup> We received only two responses to our survey of external clients.

<sup>53</sup> We sought feedback from five agencies for which we manage alerts and received responses from only two of those agencies.

<sup>54</sup> The 2013/14 result is not directly comparable to that for 2014/15 as the measure for 2014/15 includes the additional element (on which we sought satisfaction) of "provision of the recognised maritime picture".

## 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)

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>Revenue</b>				
6,360	Crown	6,923	6,923	6,321
238	Other	205	215	172
<b>6,598</b>	<b>TOTAL REVENUE</b>	<b>7,128</b>	<b>7,138</b>	<b>6,493</b>
<b>6,520</b>	<b>EXPENSES BEFORE REMEASUREMENTS</b>	<b>7,117</b>	<b>7,138</b>	<b>6,493</b>
<b>78</b>	<b>SURPLUS/(DEFICIT)</b>	<b>11</b>	<b>-</b>	<b>-</b>

### PERFORMANCE

The target of a minimum of \$15 million in additional revenue owing identified was exceeded, with a net total of \$104,315,123 identified in 2014/15. There is a high degree of variability in the total collected year-to-year as it is frequently affected by a small number of high-value collections.<sup>55</sup> In addition, Customs seeks to achieve enhanced revenue assurance through our activities to encourage and improve voluntary compliance by traders.

Customs' contribution to the Revenue outcome is discussed on pages 12–13.

### PERFORMANCE MEASURES AND STANDARDS

Measure	2013/14	2014/15		2015/16	
	Actual	Standard	Actual	Variance	Standard
<i>Revenue intermediate outcome: Revenue clients are encouraged and assisted to comply</i>					
Percentage of revenue that is collected electronically	99.1%	≥95%	98.9%	-	≥95%
Number of clients that meet credit criteria and have access to the deferred payment scheme	8,631	≥8,000	8,711 <sup>56</sup>	-	≥8,000
<i>Revenue output: Due revenue is collected</i>					
Percentage of revenue that is collected by the due date	99.2%	≥98%	99.2%	-	≥98%
<i>Revenue output: Revenue clients' compliance is monitored</i>					
Debt write-offs as a percentage of total revenue collected in that year	0.016%	≤0.02%	0.03%	50%	≤0.06%
Additional revenue owed that is identified through the trade compliance programme	\$38.54 million	>\$15 million	\$104.32 million	-	>\$15 million

<sup>55</sup> The \$104.3 million total for 2014/15 is the sum identified through our trade compliance programme. Our assessments of duty are subject to appeal to the Customs Appeal Authority. A significant proportion of the total was due to assessments of additional revenue payable by the fuel industry in late 2014/15, and appeals had been lodged in relation to these assessments at year-end.

<sup>56</sup> This is an average of the 12 monthly totals of clients. As at 30 June 2015, the total was 8,772.

## Explanation of variances for standards not achieved

### *Debt write-offs as a percentage of total revenue collected*

Every effort is made to collect debts and a debt is only written off once all practical avenues to collect it have been exhausted. In 2014/15 we undertook an extensive review of aged Excise debt and determined that a portion was uncollectable, leading to it being written off. The standard for this measure was adjusted (to  $\leq 0.06\%$ ) for 2015/16 to be more reflective of the current Crown Revenue base and debt management and economic environment.

## OUTPUT CLASS – POLICY ADVICE

**Scope of appropriation:** The provision of advice (including second opinion advice and contributions to policy advice led by other agencies) to support decision-making by Ministers on government policy matters.

### REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>Revenue</b>				
2,315	Crown	2,710	2,710	2,290
14	Other	2	13	13
<b>2,329</b>	<b>TOTAL REVENUE</b>	<b>2,712</b>	<b>2,723</b>	<b>2,303</b>
<b>2,301</b>	<b>EXPENSES BEFORE REMEASUREMENTS</b>	<b>2,704</b>	<b>2,723</b>	<b>2,303</b>
<b>28</b>	<b>SURPLUS/(DEFICIT)</b>	<b>8</b>	<b>-</b>	<b>-</b>

## PERFORMANCE

Customs provided policy advice to the Minister of Customs in 2014/15 on a range of topics related to border management, including:

- » the review of the Customs and Excise Act 1996
- » the development of the Border Clearance Levy
- » the expansion of SmartGate (approved by the Government in June 2015)
- » low-value goods and the possible structure of the *de minimis*
- » the Briefing for the Incoming Minister of Customs following the 2014 General Election
- » the legislative changes to the Customs and Excise Act (in late 2014) to support the Government's counter-terrorism initiative
- » the regulation of goods crossing the border, including the renewal or creation of new import and export controls
- » supporting the development of issues in which Customs has an interest, including engaging with the Ministry of Health on the development of a new National Drug Policy 2015 to 2020 and with MPI on food safety reform.

To monitor the quality of our policy advice, in addition to our internal quality assurance, Customs seeks the Minister's assessment of her satisfaction and obtains an external review of our policy papers by NZIER (the New Zealand Institute of Economic Research).

NZIER awarded Customs a median score of 7.5 for the quality of policy papers submitted to Ministers in 2014/15, based on a review of 20 randomly selected papers. This equates to a result of 75% for the median technical quality assessment score, set out in the table of performance measures below. NZIER noted that there were no poor papers and that a much larger proportion of papers were “good” or better.

#### PERFORMANCE MEASURES AND STANDARDS

	2013/14		2014/15		2015/16
Measure	Actual	Standard	Actual	Variance	Standard
<i>Policy advice intermediate outcome: Minister’s satisfaction with policy advice</i>					
Minister’s satisfaction with policy advice, as measured by the common satisfaction survey	– <sup>57</sup>	≥75% <sup>58</sup>	90%	–	≥75%
<i>Policy advice output: Quality of policy papers</i>					
Median technical quality assessment score for a sample of policy papers as assessed by NZIER with a robustness of at least 75%	70%	≥75%	75%	–	≥75%
<i>Policy advice: cost-effectiveness</i>					
Total cost of professional staff per hour of producing outputs <sup>59</sup>	\$78	<\$98	\$85.4	–	<\$98

#### OUTPUT CLASS – INTERNATIONAL SERVICES AND MINISTERIAL SERVICING

**Scope of appropriation:** The provision of international services, obligations, and assistance, and the provision of services to Ministers to enable them to discharge their portfolio (other than policy-decision making) responsibilities.

#### REVENUE AND OUTPUT EXPENSES (EXCLUDING GST)

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>Revenue</b>				
3,041	Crown	3,207	3,207	3,007
1,539	Other	1,165	1,352	1,105
<b>4,580</b>	<b>TOTAL REVENUE</b>	<b>4,372</b>	<b>4,559</b>	<b>4,112</b>
<b>4,531</b>	<b>EXPENSES BEFORE REMEASUREMENTS</b>	<b>4,372</b>	<b>4,559</b>	<b>4,112</b>
<b>49</b>	<b>SURPLUS/(DEFICIT)</b>	<b>–</b>	<b>–</b>	<b>–</b>

57 This is measured by surveying the Minister at the end of the year. There was a change in the Minister of Customs in May 2014, and the new Minister considered she had not been in the role long enough to develop an informed opinion.

58 A score of 70% corresponds to “meets expectations”.

59 The Total Cost per Output Hour formula was updated by Treasury in July 2014 to better align it with the amended definition of policy advice costs, and the standard for this measure was changed (from <\$85 to <\$98 in the Vote Customs *Supplementary Estimates of Appropriations 2014/15*) to reflect the new formula.

## PERFORMANCE

### **Ministerial servicing**

The services and support that Customs provides to the Minister of Customs include preparing draft replies to ministerial correspondence and draft responses to parliamentary questions. Volumes are demand-driven. In 2014/15 we provided 52 draft replies to ministerial correspondence, below the expected 70–100, and 14 draft responses to written parliamentary questions, below the expected 20–50.

### **International services and assistance**

A key contribution by Customs in this arena relates to FTAs (as discussed on pages 10–11).

Customs plays an active role in the international customs community, ensuring that New Zealand's interests are actively represented both in international customs policy, trade, and security interests, and in law enforcement relationships. We achieve this primarily by developing and maintaining bilateral and multilateral relationships, and through engagement at international forums, particularly the WCO and APEC. In 2014/15 we contributed to international developments to increase private sector involvement in the WCO, and to secure and facilitate global trade through the development of the SAFE Framework of Standards 2015 and international efforts to adopt and implement the World Trade Organization Trade Facilitation Agreement.

As in previous years, in 2014/15 the five Customs Counsellors (one each in Canberra, Washington DC, Beijing, Bangkok, and Brussels) contributed in a number of ways from a Customs and NZ Inc perspective. They provided additional policy and operational capability, including enhancing Customs' policy influence and bilateral arrangements, and helped to build better relationships and deeper trust, which can lead to the development of wider networks and to greater access to information and intelligence. Enforcement cooperation with Australia has been strengthened through the placement of a Senior Operations Analyst in the Australian National Border Targeting Centre from June 2015.

Customs continues to contribute to strengthening border management and building customs capacity in the Pacific, particularly under the 10-year Partnership Arrangement for customs sector development in the Pacific entered into with the Ministry of Foreign Affairs and Trade in 2011 (providing funding to Customs from the New Zealand Aid Programme). In 2014/15 we continued to support Samoa Customs in its modernisation programme through implementation of a new human resources framework, leadership training, provision of legislation training, and assistance with building detector dog capability. We supported Samoa in successfully hosting the Small Islands Developing States Conference in September 2014. Our engagement with Fiji increased, and relations between our two agencies continue to strengthen. Two projects were commenced – to develop leadership capability and establish an effective detector dog capability in Fiji and a multi-year development programme was planned to commence later in 2015.

## PERFORMANCE MEASURES AND STANDARDS

	2013/14	2014/15		2015/16	
Measure	Actual	Standard	Actual	Variance	Standard
<i>International services and ministerial servicing intermediate outcome: Minister's satisfaction</i>					
Minister's satisfaction with advice and support in relation to international services and assistance provided	– <sup>60</sup>	Meets expectations	Meets and sometimes exceeds expectations	–	Meets expectations
<i>International services and ministerial servicing output: Delivery of draft responses and replies</i>					
Percentage of draft replies to ministerial correspondence that are provided within 20 working days <sup>61</sup> or as agreed with the Minister	98.1%	≥90%	84.6%	–6.0%	≥90%
Percentage of 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%	100%	–	100%

### Explanation of variances for standards not achieved

#### *Draft replies to ministerial correspondence provided within 20 working days or as agreed with the Minister*

Eight (of a total of 52) draft replies exceeded the timeframe; four by one working day, three by two working days and one by seven working days. Customs has revised our processes for ministerial correspondence to improve our timeliness and ensure the standard is met from 2015/16.

60 This is measured by surveying the Minister at the end of the year. There was a change in the Minister of Customs in May 2014 and the new Minister considered she had not been in the role long enough in 2013/14 to develop an informed opinion.

61 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).

## DEPARTMENTAL CAPITAL EXPENDITURE

**Scope of appropriation:** This appropriation is limited to the purchase or development of assets by and for the use of the New Zealand Customs Service, as authorised by section 24(1) of the Public Finance Act 1989.

### STATEMENT OF BUDGETED AND ACTUAL CAPITAL EXPENDITURE

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
-	Forests/Agricultural	-	-	-
-	Land	-	-	-
1,675	Property, plant and equipment	2,204	10,809	4,440
21,307	Intangibles	15,101	19,191	6,300
-	Other	-	-	-
<b>22,982</b>	<b>Total Appropriation</b>	<b>17,305</b>	<b>30,000</b>	<b>10,740</b>

The increase in the Supplementary Estimates for 2014/15 and the actual expenditure in 2014/15 were principally due to the timing of capital expenditure between financial years, including the staged implementation of JBMS and the continuation of Customs' ongoing renewal and replacement of existing plant and equipment.

### PERFORMANCE MEASURES AND STANDARDS

Measure	2013/14		2014/15		2015/16
	Actual	Standard	Actual	Variance	Standard
Expenditure is in accordance with the department's intention to renew and replace computer equipment and software, furniture and fittings, leasehold improvements, motor vehicles and office equipment and plant	-	Achieved	Achieved	-	Achieved



## STATEMENT OF DEPARTMENTAL CAPITAL INJECTIONS

**For the ended 30 June 2015**

2014		2015
ACTUAL \$000		ACTUAL \$000
	VOTE CUSTOMS	
	598 New Zealand Customs Service – capital injection	–

## STATEMENT OF DEPARTMENTAL CAPITAL INJECTIONS WITHOUT, OR IN EXCESS OF, AUTHORITY

**For the year ended 30 June 2015**

The New Zealand Customs Service has not received any capital injections during the year without, or in excess of, authority (2013/14 financial year: nil).

# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2015

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000	NOTE	\$000	\$000	\$000
<b>Revenue</b>				
105,073	Crown	105,971	105,971	103,885
60,564	Other	62,856	62,980	59,660
281	Non-Customs appropriation*	-	-	-
<b>165,918</b>	<b>Total revenue</b>	<b>168,827</b>	<b>168,951</b>	<b>163,545</b>
<b>Expenses</b>				
83,346	Personnel costs	85,226	87,320	86,313
52,469	Operating costs	56,467	54,423	45,633
16,522	Depreciation and amortisation expense	15,656	16,013	20,654
10,821	Capital charge	10,946	10,945	10,945
<b>163,158</b>	<b>Total output expenses</b>	<b>168,295</b>	<b>168,701</b>	<b>163,545</b>
281	Non-Customs appropriation	-	-	-
<b>163,439</b>	<b>Total expenses</b>	<b>168,295</b>	<b>168,701</b>	<b>163,545</b>
<b>2,479</b>	<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE</b>	<b>532</b>	<b>250</b>	<b>-</b>

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

\* This is the sum allocated to the New Zealand Customs Service from the Department of Internal Affairs' Vote Revenue multi-class appropriation for research into a Better Public Services project.

## STATEMENT OF CHANGE IN EQUITY

For the year ended 30 June 2015

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>136,219</b>	<b>Taxpayers' funds as at 1 July</b>	<b>136,817</b>	<b>136,818</b>	<b>136,817</b>
2,479	Total comprehensive revenue and expense for the year	532	250	250
(2,479)	Provision for repayment of surplus to the Crown	(532)	(250)	(250)
598	Capital contributions	-	-	-
<b>598</b>	<b>Movements in equity for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>136,817</b>	<b>TAXPAYERS' FUNDS AS AT 30 JUNE</b>	<b>136,817</b>	<b>136,818</b>	<b>136,817</b>

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

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

## STATEMENT OF FINANCIAL POSITION

### As at 30 June 2015

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000	NOTE	\$000	\$000	\$000
<b>136,817</b>	<b>TAXPAYERS' FUNDS</b>	<b>136,817</b>	<b>136,818</b>	<b>136,817</b>
	<i>Represented by:</i>			
	<b>Current assets</b>			
28,438	Cash and cash equivalents	25,463	12,457	29,674
2,638	Prepayments	2,131	2,638	2,093
9,111	Debtors and receivables	7,310	9,140	10,344
<b>40,187</b>	<b>Total current assets</b>	<b>34,904</b>	<b>24,235</b>	<b>42,111</b>
	<b>Non-current assets</b>			
35,554	Property, plant and equipment	27,955	38,616	36,444
84,884	Intangible assets	94,070	95,575	79,090
30	Receivables and advances	28	-	33
<b>120,468</b>	<b>Total non-current assets</b>	<b>122,053</b>	<b>134,191</b>	<b>115,567</b>
<b>160,655</b>	<b>TOTAL ASSETS</b>	<b>156,957</b>	<b>158,426</b>	<b>157,678</b>
	<b>Current liabilities</b>			
7,454	Creditors and payables	6,663	7,261	5,595
10,398	Employee entitlements	9,132	10,399	10,700
2,479	Provision for repayment of surplus to the Crown	532	250	-
29	Other short term liabilities	9	220	356
<b>20,360</b>	<b>Total current liabilities</b>	<b>16,336</b>	<b>18,130</b>	<b>16,651</b>
	<b>Non-current liabilities</b>			
3,278	Employee entitlements	3,554	3,278	4,010
200	Other long term provisions	250	200	200
<b>3,478</b>	<b>Total non-current liabilities</b>	<b>3,804</b>	<b>3,478</b>	<b>4,210</b>
<b>23,838</b>	<b>TOTAL LIABILITIES</b>	<b>20,140</b>	<b>21,608</b>	<b>20,861</b>
<b>136,817</b>	<b>NET ASSETS</b>	<b>136,817</b>	<b>136,818</b>	<b>136,817</b>

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

The prior year amounts for property, plant and equipment and intangible assets differ from the amounts recorded in the annual report for the 2013/14 financial year due to a reclassification of some work in progress from property, plant and equipment to intangible assets as required by PBE IPSAS 17.

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

## STATEMENT OF CASH FLOWS

### For the year ended 30 June 2015

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000	NOTE	\$000	\$000	\$000
CASH FLOWS – OPERATING ACTIVITIES				
<i>Cash was provided from:</i>				
105,073	Crown	105,971	105,971	103,885
61,254	Other	64,593	62,980	59,660
281	Non-Customs appropriation	–	–	–
166,608		170,564	168,951	163,545
<i>Cash was applied to:</i>				
(86,147)	Personnel	(84,236)	(84,197)	(86,313)
(54,176)	Operating	(55,766)	(57,546)	(45,634)
(28)	net GST (paid)/received	(787)	–	–
(10,821)	Capital charge	(10,945)	(10,945)	(10,945)
(281)	Non-Customs appropriation	–	–	–
(151,453)		(151,734)	(152,688)	(142,892)
<b>15,155</b>	<b>Net cash inflow from operating activities</b>	<b>18,830</b>	<b>16,263</b>	<b>20,653</b>
CASH FLOWS – INVESTING ACTIVITIES				
<i>Cash was provided from:</i>				
47	Sale of property, plant and equipment	77	234	234
<i>Cash was disbursed to:</i>				
(1,674)	Purchase of property, plant and equipment	(2,204)	(10,809)	(4,440)
(21,908)	Purchase of intangible assets	(17,199)	(19,191)	(6,300)
(23,582)		(19,403)	(30,000)	(10,740)
<b>(23,535)</b>	<b>Net cash inflow from investing activities</b>	<b>(19,326)</b>	<b>(29,766)</b>	<b>(10,506)</b>
CASH FLOWS – FINANCING ACTIVITIES				
<i>Cash was provided from:</i>				
598	Capital injections	–	–	–
<i>Cash was disbursed to:</i>				
–	Repayment of surplus	(2,479)	(2,479)	–
<b>598</b>	<b>Net cash inflow from financing activities</b>	<b>(2,479)</b>	<b>(2,479)</b>	<b>–</b>
<b>(7,782)</b>	<b>Net increase in cash</b>	<b>(2,975)</b>	<b>(15,982)</b>	<b>10,147</b>
<b>36,220</b>	<b>Cash at the beginning of the year</b>	<b>28,438</b>	<b>28,439</b>	<b>19,527</b>
<b>28,438</b>	<b>CASH AT THE END OF THE YEAR</b>	<b>25,463</b>	<b>12,457</b>	<b>29,674</b>

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

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

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

### For the year ended 30 June 2015

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
	<b>Capital commitments</b>	
	– Property, plant and equipment	–
4,705	Intangible assets	5,462
<b>4,705</b>	<b>Total capital commitments</b>	<b>5,462</b>
	<b>Non-cancellable operating lease commitments</b>	
6,793	Not later than one year	6,300
17,661	Later than one year and not later than five years	15,483
11,028	Later than five years	7,898
<b>35,482</b>	<b>Total non-cancellable operating commitments</b>	<b>29,681</b>
<b>40,187</b>	<b>TOTAL COMMITMENTS</b>	<b>35,143</b>

#### Capital commitments

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

#### Non-cancellable operating lease commitments

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

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

The New Zealand Customs Service has future non-cancellable sublease of premises receipts due over the next 10 financial years of \$0.70 million as at 30 June 2015 (30 June 2014: \$0.15 million).

## STATEMENT OF DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS

### As at 30 June 2015

As at 30 June 2015 there are no contingent liabilities (30 June 2014: nil).

As at 30 June 2015 there are no contingent assets (30 June 2014: nil).

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

## SCHEDULE OF TRUST MONIES

For the year ended 30 June 2015

ACCOUNT	AS AT					AS AT
	01/07/2014	CONTRIBUTION	DISTRIBUTION	REVENUE	EXPENSES	30/06/2015
	\$000	\$000	\$000	\$000	\$000	\$000
Health Promotion Agency Trust	1,315	12,634	12,981	-	-	968
Heavy Engineering Research Association Trust	163	1,691	1,706	-	-	148
Customs Regional Deposit/Bonds Trust	9,742	164,680	95,215	-	-	79,207
<b>TOTAL</b>	<b>11,220</b>	<b>179,005</b>	<b>109,901</b>	<b>-</b>	<b>-</b>	<b>80,323</b>

The funds held in the Health Promotion Agency and Heavy Engineering Research Association accounts represent funds collected and held on their behalf that will be transferred to these entities at the beginning of the next financial year-end. The Customs Regional Deposit/Bonds trust accounts hold funds under the Customs-administered deposit and bond schemes.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2015

## 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 protect New Zealand's border and revenue. Accordingly, the New Zealand Customs Service has designated itself as a public benefit entity for the purposes of Public Benefit Entity Financial Reporting Standards (PBE).

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 2015. The financial statements were authorised for issue by the Comptroller of Customs on 29 September 2015.

### BASIS OF PREPARATION

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

### Statement of compliance

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

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

These financial statements are the first financial statements presented in accordance with Tier 1 PBE accounting standards. There are no material adjustments arising on transition to the new PBE accounting standards, as explained in note 21.

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

### Functional and presentation currency

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

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

In May 2013, the External Reporting Board issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. The New Zealand Customs Service has applied these standards in preparing the 30 June 2015 financial statements.

In October 2014, the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not for profit sector. These updated standards apply to PBEs with reporting periods beginning on or after 1 April 2015. The New Zealand Customs Service will apply these updated standards in preparing its 30 June 2016 financial statements. The New Zealand Customs Service expects there will be minimal or no change in applying these updated accounting standards.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### REVENUE

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

#### Revenue Crown

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

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

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

#### Third party revenue

Revenue from the application and processing fees is measured at the fair value of consideration received. Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

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

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.

### CAPITAL CHARGE

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

### 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 Revenue and Expense.

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 Revenue and Expense.

## OPERATING LEASES

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

## CASH AND CASH EQUIVALENTS

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

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

## DEBTORS AND OTHER RECEIVABLES

Debtors and other receivables are initially measured at fair value, 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 Revenue and Expense. Overdue receivables that are renegotiated are reclassified as current (i.e. 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 Revenue and Expense as is any gain or loss when the liability is derecognised. There have been no financial liabilities designated as hedge items, therefore, no hedge accounting applied.

## 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.

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

## Disposals

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

## Subsequent costs

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

## Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than land, 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	4 to 5 years	(20%–25%)
Plant and equipment	5 to 10 years	(10%–20%)
Computer hardware	4 to 5 years	(20%–25%)
Motor vehicles	5 years	(20%)
Launch and watercraft	5 to 10 years	(10%–20%)
Leasehold improvements	5 to 15 years	(7%–20%)

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

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

## 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 Revenue and Expense.

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

Computer software	5 to 15 years	(7%–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 balance 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 Revenue and Expense.

## PAYABLES

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

## 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 3.63% and a salary inflation factor of 3.00% were used. The discount rates are those supplied by The Treasury being the risk free discount rates as at 31 May 2015. The inflation factor is based on the expected long-term increase in remuneration for employees as supplied by The Treasury.

## Retirement and long service leave

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.

## 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 Revenue and Expense 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.

## EQUITY

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

## COMMITMENTS

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

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

## CONTINGENT ASSETS AND CONTINGENT LIABILITIES

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

Contingent liabilities are disclosed if the possibility that they will crystallise is 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.

## 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 IRD is included as part of receivables or payables in the Statement of Financial Position.

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

Commitments and contingencies are disclosed exclusive of GST.

## INCOME TAX

The New Zealand Custom Service is a public authority and consequently is exempt from the payment of income tax. Accordingly, no provision has been made for income tax.

## BUDGET FIGURES

The Budget figures in the Financial Statements are those included in *The Estimates of Appropriations 2014/15*. The Revised Budget figures are those from *The Supplementary Estimates of Appropriations 2014/15*. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements.

## 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 2015, direct costs accounted for 80% of the New Zealand Customs Service's costs (previous year: 82%).

### 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 2015, indirect costs accounted for 20% of the New Zealand Customs Service's costs (previous year: 18%).

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

### COMPARATIVES

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

### NOTE 2: OTHER REVENUE

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
191	Sale of publications	101	169
440	Compliance activity – officers time	412	445
235	Compliance activities – other	192	179
1,505	Overseas aid projects	1,115	1,004
8,248	Information processing	8,513	7,887
289	Rental Income	212	317
728	Cost recoveries – other	763	288
35,518	Import Entry Transaction Fees	37,672	36,017
13,410	Goods Cost Recovery Fees	13,876	13,354
<b>60,564</b>	<b>TOTAL OTHER REVENUE</b>	<b>62,856</b>	<b>59,660</b>
281	Non-Customs appropriation	–	–
<b>60,845</b>	<b>TOTAL OTHER REVENUE</b>	<b>62,856</b>	<b>59,660</b>

### NOTE 3: PERSONNEL COSTS

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
80,709	Salaries and wages	82,538	83,750
671	Government Superannuation Fund expense	640	644
1,966	State Sector Retirement Savings Scheme and KiwiSaver expenses	2,048	1,919
<b>83,346</b>	<b>TOTAL PERSONNEL COSTS</b>	<b>85,226</b>	<b>86,313</b>

#### NOTE 4: OPERATING COSTS

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
10	Net (gain)/loss on sale of fixed assets	(15)	–
–	Bad debts written-off	39	–
(42)	Increase (decrease) in provision for doubtful debts	38	–
225	Fees paid to Audit NZ for the financial statement audit	232	225
7,759	Operating lease rentals	7,354	6,933
3,182	Occupancy costs (excluding rentals)	3,644	3,559
11,856	Computer equipment costs	11,272	11,855
3,012	Communication costs	2,935	3,012
5	Net foreign exchange losses	(10)	–
(248)	Other operating costs recovered	(352)	–
26,710	Other operating costs	31,330	20,049
<b>52,469</b>	<b>TOTAL OPERATING COSTS</b>	<b>56,467</b>	<b>45,633</b>

#### NOTE 5: DEPRECIATION AND AMORTISATION

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
	<b>Depreciation</b>		
2,009	Leasehold improvements	1,595	1,666
235	Office equipment	212	81
5,745	Other equipment and plant	4,791	2,317
825	Furniture and fittings	765	331
1,915	Computer equipment	2,049	1,376
467	Motor vehicles	328	460
11	Launch and watercraft	4	54
<b>11,207</b>	<b>Total Depreciation</b>	<b>9,744</b>	<b>6,285</b>
	<b>Amortisation</b>		
5,315	Intangible assets – computer software	5,912	14,369
<b>16,522</b>	<b>TOTAL DEPRECIATION AND AMORTISATION COST</b>	<b>15,656</b>	<b>20,654</b>

## 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 2015 was 8.0% (2014: 8.0%).

## NOTE 7: DEBTORS AND RECEIVABLES

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
543	Trade debtors	2,231	560
(16)	Less: provision for doubtful debts	(54)	(16)
<b>527</b>	<b>Net trade debtors</b>	<b>2,177</b>	<b>544</b>
3,903	Receivables	363	5,100
3,070	Debtor – Import Entry Transaction Fee	3,111	3,300
1,611	Debtor – Goods Cost Recovery	1,648	1,400
<b>9,111</b>	<b>Receivables from the sale of services and publications (exchange transactions)</b>	<b>7,299</b>	<b>10,344</b>
-	- Debtor – Crown	11	-
-	- Receivables from fines (non-exchange)	-	-
-	<b>Receivables from non-exchange transactions</b>	<b>11</b>	<b>-</b>
<b>9,111</b>	<b>TOTAL DEBTORS AND RECEIVABLES</b>	<b>7,310</b>	<b>10,344</b>

Net Debtors	2013/14			2014/15		
	GROSS \$000	IMPAIRMENT \$000	NET \$000	GROSS \$000	IMPAIRMENT \$000	NET \$000
Current	8,441	-	8,441	6,626	-	6,626
Past due 1-30 days	367	-	367	372	-	372
Past due 31-60 days	63	-	63	54	-	54
Past due 61-90 days	62	-	62	250	-	250
Past due >90 days	194	(16)	178	62	(54)	8
<b>Total</b>	<b>9,127</b>	<b>(16)</b>	<b>9,111</b>	<b>7,364</b>	<b>(54)</b>	<b>7,310</b>

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

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
58	Balance at 1 July	16
(42)	Additional provisions made during the year	38
-	- Receivables written-off during the year	-
<b>16</b>	<b>Balance at 30 June</b>	<b>54</b>

**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
<b>COST</b>									
Balance at 1 July 2013	17,572	2,365	46,769	6,059	14,981	4,338	1,119	11,075	104,278
Additions	4,061	235	837	602	2,462	540	-	(7,063)	1,674
Disposals	(2,879)	(975)	(5,073)	(1,583)	-	(161)	-	-	(10,671)
Reclassification of work in progress to asset category	79	-	1,034	-	970	-	-	(2,083)	-
Reclassification of work in progress to Intangibles	-	-	-	-	-	-	-	(1,929)	(1,929)
<b>Balance at 30 June 2014</b>	<b>18,833</b>	<b>1,625</b>	<b>43,567</b>	<b>5,078</b>	<b>18,413</b>	<b>4,717</b>	<b>1,119</b>	<b>-</b>	<b>93,352</b>
Balance of work in progress	79	-	1,034	-	970	-	-	-	2,083
Balance at 1 July 2014	18,833	1,625	43,567	5,078	18,413	4,717	1,119	-	93,352
Additions	532	157	1,415	83	1,047	323	3	-	3,560
Disposals	(227)	(345)	(86)	(338)	(362)	(206)	-	-	(1,564)
Work in progress movement	170	-	(1,034)	-	(495)	5	-	-	(1,354)
<b>Balance at 30 June 2015</b>	<b>19,308</b>	<b>1,437</b>	<b>43,862</b>	<b>4,823</b>	<b>18,603</b>	<b>4,839</b>	<b>1,122</b>	<b>-</b>	<b>93,994</b>
Balance of work in progress	249	-	-	-	475	5	-	-	729
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>									
Balance at 1 July 2013	8,645	2,009	28,052	4,257	10,972	2,314	839	-	57,088
Depreciation Expenses	2,009	235	5,745	825	1,915	467	11	-	11,207
Disposals	(2,806)	(966)	(5,030)	(1,582)	-	(113)	-	-	(10,497)
<b>Balance at 30 June 2014</b>	<b>7,848</b>	<b>1,278</b>	<b>28,767</b>	<b>3,500</b>	<b>12,887</b>	<b>2,668</b>	<b>850</b>	<b>-</b>	<b>57,798</b>
Balance at 1 July 2014	7,848	1,278	28,767	3,500	12,887	2,668	850	-	57,798
Depreciation Expenses	1,595	212	4,791	765	2,049	328	4	-	9,744
Disposals	(227)	(345)	(85)	(337)	(362)	(147)	-	-	(1,503)
<b>Balance at 30 June 2015</b>	<b>9,216</b>	<b>1,145</b>	<b>33,473</b>	<b>3,928</b>	<b>14,574</b>	<b>2,849</b>	<b>854</b>	<b>-</b>	<b>66,039</b>
<b>CARRYING AMOUNT</b>									
<b>At 1 July 2013</b>	<b>8,927</b>	<b>356</b>	<b>18,717</b>	<b>1,802</b>	<b>4,009</b>	<b>2,024</b>	<b>280</b>	<b>11,075</b>	<b>47,190</b>
<b>At 30 June 2014</b>	<b>10,985</b>	<b>347</b>	<b>14,800</b>	<b>1,578</b>	<b>5,526</b>	<b>2,049</b>	<b>269</b>	<b>-</b>	<b>35,554</b>
<b>At 30 June 2015</b>	<b>10,092</b>	<b>292</b>	<b>10,389</b>	<b>895</b>	<b>4,029</b>	<b>1,990</b>	<b>268</b>	<b>-</b>	<b>27,955</b>

## NOTE 9: INTANGIBLE ASSETS

	ACQUIRED SOFTWARE \$000	INTERNALLY GENERATED SOFTWARE \$000	TOTAL \$000
COST			
Balance at 1 July 2013	5,559	83,968	89,527
Additions	8,196	13,112	21,308
Disposals	–	–	–
Reclassification of work in progress	1,929	–	1,929
<b>Balance at 30 June 2014</b>	<b>15,684</b>	<b>97,080</b>	<b>112,764</b>
Balance of work in progress	1,929	70,641	72,570
Balance at 1 July 2014	15,684	97,080	112,764
Additions*	2,528	40,206	42,734
Disposals	(651)	–	(651)
Work in progress movement	819	(28,452)	(27,633)
<b>Balance at 30 June 2015</b>	<b>18,380</b>	<b>108,834</b>	<b>127,214</b>
Balance of work in progress	2,748	42,189	44,937
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES			
Balance at 1 July 2013	3,828	18,737	22,565
Amortisation expenses	2,012	3,303	5,315
Disposals	–	–	–
<b>Balance at 30 June 2014</b>	<b>5,840</b>	<b>22,040</b>	<b>27,880</b>
Balance at 1 July 2014	5,840	22,040	27,880
Amortisation expenses	2,851	3,061	5,912
Disposals	(648)	–	(648)
<b>Balance at 30 June 2015</b>	<b>8,043</b>	<b>25,101</b>	<b>33,144</b>
CARRYING AMOUNT			
<b>At 1 July 2013</b>	<b>1,731</b>	<b>65,231</b>	<b>66,962</b>
<b>At 30 June 2014</b>	<b>9,844</b>	<b>75,040</b>	<b>84,884</b>
<b>At 30 June 2015</b>	<b>10,337</b>	<b>83,733</b>	<b>94,070</b>

\* The balance of work in progress as at 30 June 2015 is \$44.937 million (30 June 2014: \$72.570 million). Of this \$42.189 million relates to internally generated software and \$1.929 million relates to acquired software.

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

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
	<b>Payables under exchange transactions</b>	
6,916	Trade creditors and accrued expenses	6,103
311	Crown payable – inter-unit	–
<b>7,227</b>	<b>Total payables under exchange transactions</b>	<b>6,103</b>
	<b>Payables under non-exchange transactions</b>	
227	GST payable	560
<b>227</b>	<b>Total payables under non-exchange transactions</b>	<b>560</b>
<b>7,454</b>	<b>TOTAL CREDITORS AND PAYABLES</b>	<b>6,663</b>

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

## NOTE 11: EMPLOYEE ENTITLEMENTS

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
	<b>Current liabilities</b>		
4,728	Personnel accruals	2,893	5,050
4,501	Annual leave	4,985	4,600
1,169	Retirement and long service leave	1,254	1,050
<b>10,398</b>	<b>Total current portion</b>	<b>9,132</b>	<b>10,700</b>
	<b>Non-current liabilities</b>		
3,278	Retirement and long service leave	3,554	4,010
<b>3,278</b>	<b>Total non-current portion</b>	<b>3,554</b>	<b>4,010</b>
<b>13,676</b>	<b>TOTAL EMPLOYEE ENTITLEMENTS</b>	<b>12,686</b>	<b>14,710</b>

## NOTE 12: OTHER SHORT TERM LIABILITIES

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
29	Due to Crown – sale of seized goods	9
<b>29</b>	<b>TOTAL OTHER SHORT TERM LIABILITIES</b>	<b>9</b>

## NOTE 13: OTHER LONG TERM PROVISIONS

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
200	Lease make good provision	250	200
<b>200</b>	<b>TOTAL OTHER LONG TERM PROVISIONS</b>	<b>250</b>	<b>200</b>

Movement for provisions are as follows:

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
700	Lease make good provision as at 1 July	200
-	Additional provisions made	50
(500)	Amounts utilised	-
<b>200</b>	<b>LEASE MAKE GOOD PROVISION AT 30 JUNE</b>	<b>250</b>

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

## NOTE 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 Thailand Thai Baht. Currency risk arises from future overseas posts operation, which is denominated in a foreign currency.

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

#### Interest rate risk

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

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

### Credit risk

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

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

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

The New Zealand Customs Service's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash and cash equivalents, 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	BETWEEN 6 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
	\$000	\$000	\$000	\$000
<b>2013/14</b>				
Creditors and other payables (note 10)	7,454	-	-	-
Provision for repayment of surplus	2,479	-	-	-
<b>TOTAL</b>	<b>9,933</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2014/15</b>				
Creditors and other payables (note 10)	6,663	-	-	-
Provision for repayment of surplus	532	-	-	-
<b>TOTAL</b>	<b>7,195</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTE 15: RELATED PARTY INFORMATION

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

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the New Zealand Customs Service would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government departments are not disclosed as related party transactions when they are consistent with the normal terms and conditions for such transactions.

2013/14		2014/15	
ACTUAL		ACTUAL	
<b>Leadership Team, including the Comptroller</b>			
\$3,622,000	Salaries and other short-term employee benefits	\$3,494,000	
13.5	Full-time equivalent staff	14.0	

The above key management personnel disclosure for the New Zealand Customs Service consists of the Comptroller of Customs, Deputy Comptrollers, and Group Managers contained in the organisation chart on page 28. It excludes the remuneration of the Minister of Customs. The Minister's remuneration and other benefits are set by the Remuneration Authority under the Civil List Act 1979 and are paid under Permanent Legislative Authority, and not paid by the New Zealand Customs Service.

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

## NOTE 16: CATEGORIES OF FINANCIAL INSTRUMENTS

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
<b>Loans and receivables</b>			
28,438	Cash and cash equivalents	25,463	29,674
9,111	Debtors and other receivables	7,310	10,344
<b>37,549</b>	<b>Total loans and receivables</b>	<b>32,773</b>	<b>40,018</b>
<b>Financial liabilities measured at amortised cost</b>			
7,454	Creditors and other payables	6,663	5,595
<b>7,454</b>	<b>Total financial liabilities measured at amortised cost</b>	<b>6,663</b>	<b>5,595</b>

## 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 and the Public Finance Act 1989.

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

## NOTE 18: RECONCILIATION OF NET SURPLUS/DEFICIT TO NET CASH FLOW FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2015

2013/14		2014/15	
ACTUAL \$000		ACTUAL \$000	BUDGET \$000
<b>2,479</b>	<b>Net operating surplus/(deficit)</b>	<b>532</b>	<b>-</b>
16,522	Depreciation and amortisation expense	15,656	20,653
<b>16,522</b>	<b>Total non-cash items</b>	<b>15,656</b>	<b>20,653</b>
<b>Working capital movements</b>			
732	(Increase)/decrease in debtors and receivables	1,800	-
(802)	(Increase)/decrease in prepayments	507	-
(1,103)	Increase/(decrease) in creditors and payables	(791)	-
(2,466)	Increase/(decrease) in employee entitlements	(1,267)	(1,000)
(484)	Increase/(decrease) in short term liabilities	(20)	-
<b>(4,123)</b>	<b>Working capital movements - net</b>	<b>229</b>	<b>(1,000)</b>
<b>Movements in non-current liabilities</b>			
-	Provision for premises make good	50	-
(334)	Increase/(decrease) in employee entitlements	276	1,000
<b>(334)</b>	<b>Movements in non-current liabilities</b>	<b>326</b>	<b>1,000</b>
601	(Increase)/decrease in investing activity items	2,102	-
10	Net (gain)/loss on sale of fixed assets	(15)	-
<b>611</b>	<b>Total investing activity items</b>	<b>2,087</b>	<b>-</b>
<b>15,155</b>	<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>18,830</b>	<b>20,653</b>

## **NOTE 19: EXPLANATIONS FOR MAJOR VARIANCES FROM 2014/15 BUDGET**

### **STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE**

Crown Revenue is higher than budget due to the in-principle transfer from the 2013/14 financial year. Other Revenue is higher than budget due to an increase in third party revenue driven by an increase in transactional volumes and increased funding from MPI towards the shared costs of JBMS.

Operating costs is higher than budget due to the increased costs relating to the development and implementation of IT projects.

Depreciation is less than budgeted due to the delayed implementation of IT projects.

### **STATEMENT OF FINANCIAL POSITION**

The Cash and cash equivalents total is lower than budget due to increased expenditure, both operational and capital, against forecast. The lower-than-budgeted Debtors and receivables is due to the timing of operational recoveries being received.

As at June 2014 the development of software was categorised as work in progress under Property, plant and equipment. For 2014/15, this has been reclassified as work in progress under intangible assets.

The less-than-budgeted Property, plant and equipment is partially due to the reclassification of work in progress, and also due to the timing of replacement property, plant and equipment coming into use.

Intangible assets is less than budget due to the reclassification of work in progress and also the timing of JBMS expenditure between financial years.

### **STATEMENT OF CASH FLOWS**

The higher-than-budgeted Cash applied to Operating costs reflects the increase in operating expenditure over the budget.

The higher-than-budgeted Cash inflow from investing activities reflects the timing of capital expenditure, particular intangible assets.

## **NOTE 20: EVENTS AFTER THE BALANCE DATE**

There have been no significant events after the balance date.

## **NOTE 21: ADJUSTMENTS ARISING ON TRANSITION TO THE NEW PBE ACCOUNTING STANDARDS**

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. There have been no material changes from transition to the new PBE accounting standards.

### **RECLASSIFICATION ADJUSTMENTS**

There have been no reclassifications on the face of the financial statements in adopting the new PBE accounting standards.

# NON-DEPARTMENTAL STATEMENTS AND SCHEDULES

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

## SCHEDULES AND STATEMENTS: NON-DEPARTMENTAL For the year ended 30 June 2015

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
11,846,559	Revenue	12,485,735	12,443,130	12,103,132
2,010	Expenses	6,916	8,050	2,050
1,977,312	Assets	2,061,916	2,017,312	1,746,749
21,877	Liabilities	27,347	21,877	23,784

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

## SCHEDULE OF NON-DEPARTMENTAL REVENUE For the year ended 30 June 2015

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000		\$000	\$000	\$000
<b>REVENUE</b>				
<b>Indirect taxation</b>				
892,028	Customs and excise duty on alcohol	909,778	924,000	936,000
1,271,016	Customs and excise duty on tobacco products	1,506,324	1,461,000	1,394,000
1,654,259	Customs and excise duty on refined motor spirit	1,789,186	1,735,000	1,746,000
172,333	Customs duty on other imported goods	214,773	169,000	155,000
7,856,875	Goods and Services Tax	8,065,624	8,154,000	7,872,000
<b>11,846,511</b>	<b>Total indirect taxation</b>	<b>12,485,685</b>	<b>12,443,000</b>	<b>12,103,000</b>
<b>Indirect non-taxation</b>				
48	World Customs Organization	50	50	52
-	Sale of seized goods	-	80	80
<b>48</b>	<b>Total indirect non-taxation</b>	<b>50</b>	<b>130</b>	<b>132</b>
<b>11,846,559</b>	<b>TOTAL NON-DEPARTMENTAL REVENUE</b>	<b>12,485,735</b>	<b>12,443,130</b>	<b>12,103,132</b>

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

## SCHEDULE OF NON-DEPARTMENTAL ASSETS

### As at 30 June 2015

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000	NOTE	\$000	\$000	\$000
<b>Current assets</b>				
972,916	Cash and cash equivalents	930,958	972,916	708,057
1,004,396	Receivables and advances	1,130,958	1,044,396	1,038,692
<b>1,977,312</b>	<b>TOTAL ASSETS</b>	<b>2,061,916</b>	<b>2,017,312</b>	<b>1,746,749</b>

## SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

### As at 30 June 2015

2013/14		2014/15		
ACTUAL		ACTUAL	REVISED BUDGET	BUDGET
\$000	NOTE	\$000	\$000	\$000
<b>Current liabilities</b>				
18,764	Payables and provisions	24,225	21,877	23,784
3,113	Creditor – departmental	3,122	–	–
<b>21,877</b>	<b>TOTAL LIABILITIES</b>	<b>27,347</b>	<b>21,877</b>	<b>23,784</b>

## STATEMENT OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND ASSETS

### As at 30 June 2015

2013/14		2014/15
ACTUAL		ACTUAL
\$000		\$000
<b>Contingent liabilities</b>		
1,051	Legal proceedings and disputes – assessed	78,974
<b>1,051</b>	<b>TOTAL NON-DEPARTMENTAL CONTINGENT LIABILITIES</b>	<b>78,974</b>
<b>Contingent assets</b>		
–	Legal proceedings – non-assessed	8,590
<b>–</b>	<b>TOTAL NON-DEPARTMENTAL CONTINGENT ASSETS</b>	<b>8,590</b>

### Legal proceedings and disputes – assessed

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

### Legal proceedings – non-assessed

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

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

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## SCHEDULE OF NON-DEPARTMENTAL COMMITMENTS

**As at 30 June 2014**

The New Zealand Customs Service has no Crown Commitments as at 30 June 2014 (30 June 2013: nil).

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

# NOTES TO THE NON-DEPARTMENTAL FINANCIAL STATEMENTS

For the year ended 30 June 2015

## NOTE 1: STATEMENT OF ACCOUNTING POLICIES

### REPORTING ENTITY

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

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 2014/15*. In addition, the financial statements also present the updated budget information ("Revised Budget") from *The Supplementary Estimates of Appropriations 2014/15*.

### REVENUE

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

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

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

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

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

**DEBTORS AND OTHER RECEIVABLES**

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

Impairment of a receivable is established when there is objective evidence that the New Zealand Customs Service will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the 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 (i.e. not past due).

**CONTINGENT LIABILITIES AND ASSETS**

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

**CHANGES IN ACCOUNTING POLICIES**

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

## NOTE 2: DEBTORS AND OTHER RECEIVABLES

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
794,228	Crown receivables	923,095
(4,799)	Less provision for doubtful debts	(10,558)
789,429	Net Crown receivables	912,537
214,967	Accrued revenue	218,421
<b>1,004,396</b>	<b>Total accrued revenue and receivables</b>	<b>1,130,958</b>
	<b>Represented by:</b>	
1,004,396	Receivables from non-exchange transactions	1,130,958
–	Receivables from exchange transactions	–

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
880,874	Not past due	884,773
117,011	Past due 1-30 days	238,687
154	Past due 31-90 days	1,726
6,357	Past due >90 days	5,772
<b>1,004,396</b>	<b>TOTAL</b>	<b>1,130,958</b>

Movement in the provision for doubtful debts are as follows:

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
3,050	Balance at 1 July	4,799
1,962	Additional provisions made during the year	6,866
(213)	Less: Bad debts written off	(5,736)
<b>4,799</b>	<b>BALANCE AT 30 JUNE</b>	<b>5,929</b>

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

### NOTE 3: CREDITORS AND OTHER PAYABLES

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
18,764	Payables and accruals	24,225
2,846	Import Entry Transaction Fees payable	3,111
267	Other creditors – departmental	11
<b>21,877</b>	<b>TOTAL</b>	<b>27,347</b>

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

### NOTE 4: FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and financial liabilities in each of the PBE IPSAS 30.11 categories are as follows:

2013/14		2014/15
ACTUAL \$000		ACTUAL \$000
<b><i>Cash and receivables</i></b>		
972,916	Cash and cash equivalents	930,958
1,004,396	Debtors and other receivables	1,130,958
<b>1,977,312</b>	<b>Total cash and receivables</b>	<b>2,061,916</b>
<b><i>Financial liabilities measured at amortised cost</i></b>		
21,877	Creditors and other payables	27,347
<b>21,877</b>	<b>Total financial liabilities measured at amortised cost</b>	<b>27,347</b>

#### CREDIT RISK

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

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

Funds must be deposited with Westpac, a registered bank.

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

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## **NOTE 5: MAJOR BUDGET VARIATIONS**

### SCHEDULES AND STATEMENTS: NON-DEPARTMENTAL

#### **Non-Departmental revenue**

Revenue from imports of goods, tobacco and motor spirits has been higher than forecast. This has been partially offset by lower-than-forecast revenue from both alcohol and GST.

#### **Non-Departmental expense**

Less-than budgeted-expense is as a result of New Zealand Customs Service effective debt management.

#### **Non-Departmental assets**

The greater-than-budgeted assets are due to the timing of the receivables being received and transfer of cash held at year-end.

## **NOTE 6: ADJUSTMENTS ARISING ON TRANSITION TO THE NEW PBE ACCOUNTING STANDARDS**

These financial statements are the first financial statements presented in accordance with the new PBE accounting standards. There have been no material changes from transition to the new PBE accounting standards.

# FORECAST FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE For the year ended 30 June 2016

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000	NOTE	\$000
<b>Revenue</b>		
105,971	Crown	89,301
62,856	Other	77,423
<b>168,827</b>	<b>Total revenue</b>	<b>166,724</b>
<b>Expenses</b>		
85,226	Personnel costs	85,003
56,467	Operating costs	52,597
15,656	Depreciation and amortisation expense	18,179
10,946	Capital charge	10,945
<b>168,295</b>	<b>Total expenses</b>	<b>166,724</b>
<b>532</b>	<b>TOTAL COMPREHENSIVE REVENUE AND EXPENSE</b>	<b>-</b>

## STATEMENT OF CHANGES IN EQUITY For the year ended 30 June 2016

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000		\$000
<b>136,817</b>	<b>Taxpayers' funds as at 1 July</b>	<b>136,817</b>
532	Total comprehensive revenue and expense	-
(532)	Provision for repayment of surplus to the Crown	-
-	Capital injections	4,422
-	Capital withdrawals	-
-	<b>Movements in equity for the year</b>	<b>4,422</b>
<b>136,817</b>	<b>TAXPAYERS' FUNDS AS AT 30 JUNE</b>	<b>141,239</b>

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

STATEMENT OF FINANCIAL POSITION  
For the year ended 30 June 2016

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000	NOTE	\$000
<b>136,817</b>	<b>TAXPAYERS' FUNDS</b>	<b>141,239</b>
	<i>Represented by:</i>	
	<b>Current assets</b>	
25,463	Cash and cash equivalents	28,247
2,131	Prepayments	3,638
7,310	Debtors and receivables	12,276
	5	
<b>34,904</b>	<b>Total current assets</b>	<b>44,161</b>
	<b>Non-current assets</b>	
27,955	Property, plant and equipment	22,114
94,070	Intangible assets	96,293
28	Receivables and advances	30
	6	
	7	
<b>122,053</b>	<b>Total non-current assets</b>	<b>118,437</b>
<b>156,957</b>	<b>TOTAL ASSETS</b>	<b>162,598</b>
	<b>Current liabilities</b>	
6,663	Creditors and payables	7,262
9,132	Employee entitlements	10,399
532	Provision for repayment of surplus to the Crown	–
9	Other short term liabilities	220
	8	
<b>16,336</b>	<b>Total current liabilities</b>	<b>17,881</b>
	<b>Non-current liabilities</b>	
3,554	Employee entitlements	3,278
250	Other long term provisions	200
	8	
	9	
<b>3,804</b>	<b>Total non-current liabilities</b>	<b>3,478</b>
<b>20,140</b>	<b>TOTAL LIABILITIES</b>	<b>21,359</b>
<b>136,817</b>	<b>NET ASSETS</b>	<b>141,239</b>

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

## STATEMENT OF CASH FLOWS

### For the year ended 30 June 2016

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000	NOTE	\$000
	CASH FLOWS – OPERATING ACTIVITIES	
	<i>Cash was provided from:</i>	
105,971	Crown	89,301
64,593	Other	72,457
170,564		161,758
	<i>Cash was applied to:</i>	
(84,236)	Personnel	(84,986)
(55,766)	Operating	(52,597)
(787)	net GST (paid)/received	–
(10,945)	Capital charge	(10,945)
(151,734)		(148,528)
<b>18,830</b>	<b>Net cash flow from operating activities</b>	<b>13,230</b>
	CASH FLOWS – INVESTING ACTIVITIES	
	<i>Cash was provided from:</i>	
77	Sale of fixed property, plant and equipment	226
	<i>Cash was disbursed to:</i>	
(2,204)	Purchase of fixed property, plant and equipment	(5,277)
(17,199)	Purchase of intangible assets	(9,285)
(19,403)		(14,562)
<b>(19,326)</b>	<b>Net cash flow from investing activities</b>	<b>(14,336)</b>
	CASH FLOWS – FINANCING ACTIVITIES	
	<i>Cash was provided from:</i>	
–	Capital injections	4,422
	<i>Cash was disbursed to:</i>	
(2,479)	Repayment of surplus	(532)
<b>(2,479)</b>	<b>Net cash flow from financing activities</b>	<b>3,890</b>
<b>(2,975)</b>	<b>Net increase/(decrease) in cash</b>	<b>2,784</b>
<b>28,438</b>	<b>Cash at the beginning of the year</b>	<b>25,463</b>
<b>25,463</b>	<b>CASH AT THE END OF THE YEAR</b>	<b>28,247</b>

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

## NOTES TO THE FORECAST FINANCIAL STATEMENTS

For the year ended 30 June 2016

### NOTE 1: STATEMENT OF ACCOUNTING POLICIES

#### REPORTING ENTITY

The New Zealand Customs Service is a government department as defined by section 2 of the Public Finance Act 1989. For the purposes of financial reporting, the New Zealand Customs Service is a public benefit entity.

The forecast financial statements are for the year ended 30 June 2016. The forecast financial statements were authorised for issue by the Comptroller of Customs on 29 September 2015.

#### BUDGET AND FORECAST FIGURES

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

The forecast figures are those included in *The Estimates of Appropriation 2015/16* for Vote Customs (the Forecast is 2015 Budget and Economic and Fiscal Update (BEFU 2015) out-year 1 figures).

#### BASIS OF PREPARATION

##### Statement of Compliance

The forecast financial statements of the New Zealand Customs Service have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practices (NZ GAAP), and Treasury Instructions.

These forecast financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) as appropriate for public benefit entities.

The forecast financial statements for the year ended 30 June 2016 are not subject to audit.

#### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these forecast financial statements the New Zealand Customs Service has made estimates and assumptions concerning the future. These estimates and assumptions may differ from subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Some estimates and assumptions that may 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.

## STATEMENT OF SIGNIFICANT ASSUMPTIONS

These forecast financial statements have been compiled on the basis of existing government policies and Ministerial expectations at the time the statements were finalised.

The significant assumptions are as follows:

- » the department's activities will remain substantially the same as for the previous year
- » personnel costs are based on up to 1,206 full-time equivalents
- » operating costs are based on historical experience. The general historical pattern is expected to continue
- » no allowances have been made for cost and/or inflationary pressures, and
- » estimated year-end information (revised budget) for 2014/15 is used as the opening position for the 2015/16 forecasts.

These assumptions are adopted as at 10 April 2015.

## STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The New Zealand Customs Service has applied the accounting policies set out in the Statement of Accounting Policies included in the notes to the Financial Statements for the year ended 30 June 2015 included in this document.

### NOTE 2: OTHER REVENUE

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000		\$000
101	Sale of publications	151
412	Compliance activity – officers time	343
192	Compliance activities – other	183
1,115	Overseas aid projects	653
8,513	Information processing	7,616
212	Rental Income	292
763	Cost recoveries – other	587
37,672	Import Entry Transaction Fees	39,821
13,876	Goods Cost Recovery Fees	13,877
–	– Border Clearance Levy	13,900
<b>62,856</b>	<b>TOTAL OTHER REVENUE</b>	<b>77,423</b>

### NOTE 3: PERSONNEL COSTS

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000		\$000
82,538	Salaries and wages	82,593
640	Government Superannuation Fund expense	647
2,048	State Sector Retirement Savings Scheme and KiwiSaver expenses	1,763
<b>85,226</b>	<b>TOTAL PERSONNEL COSTS</b>	<b>85,003</b>

#### NOTE 4: OPERATING COSTS

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000		\$000
(15)	Net (gain)/loss on sale of fixed assets	-
39	Bad debts written-off	-
38	Increase/(decrease) in provision for doubtful debts	-
232	Fees paid to Audit NZ for the financial statement audit	232
7,354	Operating lease rentals	7,483
3,644	Occupancy costs (excluding rentals)	3,526
11,272	Computer equipment costs	12,397
2,935	Communication costs	2,932
(10)	Net foreign exchange losses	-
(352)	Other operating costs recovered	-
31,330	Other operating costs	26,027
<b>56,467</b>	<b>TOTAL OPERATING COSTS</b>	<b>52,597</b>

#### NOTE 5: DEBTORS AND RECEIVABLES

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000		\$000
2,231	Trade debtors	6,330
(54)	Less: provision for doubtful debts	(54)
<b>2,177</b>	<b>Net trade debtors</b>	<b>6,276</b>
363	Receivables	500
3,111	Debtor – Import Entry Transaction Fee	3,300
1,648	Debtor – Goods Cost Recovery	2,200
<b>7,299</b>	<b>Receivables from the sale of services and publications (exchange transactions)</b>	<b>12,276</b>
11	Debtor – Crown	-
-	Receivables from fines (non-exchange)	-
<b>11</b>	<b>Receivables from non-exchange transactions</b>	<b>-</b>
<b>7,310</b>	<b>TOTAL DEBTORS AND RECEIVABLES</b>	<b>12,276</b>

**NOTE 6: 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	UNAUDITED FORECAST TOTAL \$000
<b>COST</b>								
Balance as at 1 July 2015	19,308	1,437	43,862	4,823	18,603	4,839	1,122	93,994
Additions	360	120	2,457	135	1,890	540	-	5,502
Disposals	-	-	-	-	-	(750)	-	(750)
Work in progress	-	-	-	-	-	-	-	-
<b>Balance as at 30 June 2016</b>	<b>19,668</b>	<b>1,557</b>	<b>46,319</b>	<b>4,958</b>	<b>20,493</b>	<b>4,629</b>	<b>1,122</b>	<b>98,746</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>								
Balance as at 1 July 2015	9,216	1,145	33,473	3,928	14,574	2,849	854	66,039
Depreciation	1,602	235	5,303	652	2,970	356	-	11,118
Disposals	-	-	-	-	-	(525)	-	(525)
<b>Balance as at 30 June 2016</b>	<b>10,818</b>	<b>1,380</b>	<b>38,776</b>	<b>4,580</b>	<b>17,544</b>	<b>2,680</b>	<b>854</b>	<b>76,632</b>
<b>CARRYING AMOUNT</b>								
<b>As at 30 June 2016</b>	<b>8,850</b>	<b>177</b>	<b>7,543</b>	<b>378</b>	<b>2,949</b>	<b>1,949</b>	<b>268</b>	<b>22,114</b>

## NOTE 7: INTANGIBLE ASSETS

	ACQUIRED SOFTWARE \$000	INTERNALLY GENERATED SOFTWARE \$000	OTHER \$000	UNAUDITED FORECAST TOTAL \$000
COST				
Balance as at 1 July 2015	18,380	108,834	-	127,214
Additions	2,645	6,640	-	9,285
Disposals	-	-	-	-
<b>Balance as at 30 June 2016</b>	<b>21,025</b>	<b>115,474</b>	<b>-</b>	<b>136,499</b>
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance as at 1 July 2015	8,043	25,101	-	33,144
Amortisation expenses	1,713	5,349	-	7,062
Disposals	-	-	-	-
<b>Balance as at 30 June 2016</b>	<b>9,756</b>	<b>30,450</b>	<b>-</b>	<b>40,206</b>
CARRYING AMOUNT				
<b>As at 30 June 2016</b>	<b>11,269</b>	<b>85,024</b>	<b>-</b>	<b>96,293</b>

## NOTE 8: EMPLOYEE ENTITLEMENTS

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000		\$000
<b>Current liabilities</b>		
2,893	Personnel accruals	3,949
4,985	Annual leave	5,400
1,254	Retirement and long service leave	1,050
<b>9,132</b>	<b>Total current portion</b>	<b>10,399</b>
<b>Non-current liabilities</b>		
3,554	Retirement and long service leave	3,278
<b>3,554</b>	<b>Total non-current portion</b>	<b>3,278</b>
<b>12,686</b>	<b>TOTAL EMPLOYEE ENTITLEMENTS</b>	<b>13,677</b>

## NOTE 9: OTHER LONG TERM PROVISIONS

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000		\$000
250	Lease make good provision	200
<b>250</b>	<b>TOTAL OTHER LONG TERM PROVISIONS</b>	<b>200</b>

## NOTE 10: RECONCILIATION OF NET SURPLUS/DEFICIT TO CASH FLOW FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2016

2014/15		2015/16
ACTUAL		UNAUDITED FORECAST
\$000		\$000
<b>532</b>	<b>Net operating surplus/(deficit)</b>	-
15,656	Depreciation and amortisation expense	18,179
<b>15,656</b>	<b>Total non-cash items</b>	<b>18,179</b>
	<b>Working capital movements</b>	
1,800	(Increase)/decrease in debtors and receivables	(4,966)
507	(Increase)/decrease in prepayments	(1,507)
(791)	Increase/(decrease) in creditors and payables	599
(1,267)	Increase/(decrease) in employee entitlements	1,267
(20)	Increase/(decrease) in short term liabilities	(211)
<b>229</b>	<b>Working capital movements – net</b>	<b>(4,818)</b>
	<b>Movements in non-current liabilities</b>	
50	Provision for premises make good	(50)
276	Increase/(decrease) in employee entitlements	(276)
<b>326</b>	<b>Movements in non-current liabilities</b>	<b>(326)</b>
2,102	(Increase)/decrease in investing activity items	420
(15)	Net (gain)/loss on sale of fixed assets	(225)
<b>2,087</b>	<b>Total investing activity items</b>	<b>195</b>
<b>18,830</b>	<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>13,230</b>

# INFORMATION REQUIRED BY STATUTE

For period from 1 July 2014 to 30 June 2015

SEARCH AND SURVEILLANCE ACT 2012, RELATING TO THE UTILISATION OF POWERS OF ENTRY, SEARCH, AND SURVEILLANCE

## Section 171(1)(a)

The number of occasions on which entry or search powers were exercised without a warrant: *34*

## Section 171(1)(b)

The number of occasions on which warrantless surveillance powers were exercised that involved the use of a surveillance device: *Nil*

## Section 171(1)(c)

In respect of each kind of surveillance device used without a warrant, the numbers of that kind of device used:

- (i) for a period of no more than 24 hours: *N/A*
- (ii) for a period of more than 24 hours but no more than 48 hours: *N/A*

## Section 171(1)(d)

The number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by the exercise of a warrantless search or surveillance power: *Three*

## Section 171(1)(e)

The matters set out in section 172 in relation to surveillance device warrants and declaratory orders:

- » 172(a) – the number of applications for surveillance device warrants and declaratory orders granted or refused: *16 surveillance device warrants granted, nil refused. Nil applications for declaratory orders*
- » 172(b) – the number of surveillance device warrants granted that authorised the use of a surveillance device, and the number in respect of each kind of surveillance device: *16 surveillance device warrants granted – 12 of these warrants authorised the use of tracking devices and visual surveillance devices, four authorised the use of tracking devices only*
- » 172(c) – the number of declaratory orders made that related to the use of a device, technique, procedure, or activity, and the number in respect of each device, technique, procedure, or activity: *Nil*
- » 172(d) – the number of surveillance device warrants granted that authorised entry into private premises: *Nil*
- » 172(e) – in respect of each kind of surveillance device authorised by a surveillance device warrant issued, the numbers of that kind of device used—
  - (i) for a period of no more than 24 hours: *Tracking devices under three warrants authorising use and visual surveillance devices under three warrants authorising use*
  - (ii) for a period of more than 24 hours but no more than 3 days: *Nil*
  - (iii) for a period of more than 3 days but no more than 7 days: *Tracking devices under one warrant authorising use and visual surveillance devices under one warrant authorising use*
  - (iv) for a period of more than 7 days but no more than 21 days: *Tracking devices under three warrants authorising use and visual surveillance devices under two warrants authorising use*
  - (v) for a period of more than 21 days but no more than 60 days: *Tracking devices under nine warrants authorising use and visual surveillance devices under six warrants authorising use*

- » 172(f) – in respect of each declaratory order made, a general description of the nature of the device, technique, procedure, or activity covered by the order: *N/A*
- » 172(g) – the number of persons charged in criminal proceedings where the collection of evidential material relevant to those proceedings was significantly assisted by carrying out activities—
  - (i) under the authority of a surveillance device warrant issued: *Seven*
  - or
  - (ii) covered by a declaratory order made: *Nil*
- » 172(h) – if a Judge has reported to the chief executive under section 61 or 62 about a breach of any of the conditions of the issue of a surveillance device warrant, or about the use of a surveillance device not authorised under section 48, the number of those reports and the details of the breaches or the lack of authorisation reported: *N/A*

## MISUSE OF DRUGS ACT 1975 (MISUSE OF DRUGS AMENDMENT ACT 1978), RELATING TO THE UTILISATION OF POWERS OF DETENTION AND SEARCH

### **Section 13M(a)**

The number of applications for detention warrants made under section 13E by any officer of Customs: *Nil*

### **Section 13M(b)**

The number of applications for renewal of detention warrants made under section 13I by any officer of Customs: *Nil*

### **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 (i.e. sections 13E and 13I): *N/A*

### **Section 13M(d)**

The average duration of the detention warrants (including renewals) granted on applications by officers of Customs: *N/A*

### **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: *Nil*

### **Section 13M(f)**

The number of rub-down searches and strip searches undertaken by Customs officers under section 13EA: *Nil*



# REPORT OF MINISTER OF CUSTOMS ON PERFORMANCE INFORMATION FOR VOTE CUSTOMS NON- DEPARTMENTAL APPROPRIATIONS 2014/15

This contains the end-of-year performance information for the non-departmental other expenses appropriations contained in *The Estimates of Appropriations 2014/15* for Vote Customs. This performance information is not subject to audit.

The “Budget” figures are those included in *The Estimates of Appropriations 2014/15*. The “Revised Budget” figures are those from *The Supplementary Estimates of Appropriations 2014/15*.

## CHANGE IN DOUBTFUL DEBT PROVISION

**Scope of appropriation:** Provisioning of doubtful debts on Customs Crown revenue.

### STATEMENT OF BUDGETED AND ACTUAL EXPENSES AGAINST APPROPRIATION

2013/14		2014/15		
Actual \$000		Actual \$000	Revised Budget \$000	Budget \$000
1,962	Expenses	6,866	8,000	2,000
<b>1,962</b>	<b>TOTAL EXPENSES</b>	<b>6,866</b>	<b>8,000</b>	<b>2,000</b>

This appropriation provides for doubtful debts on the revenue collected by the New Zealand Customs Service on behalf of the Crown. The appropriation was increased (in *The Supplementary Estimates of Appropriations 2014/15* for Vote Customs) to recognise the increased Crown Revenue base and to be more reflective of the current debt management and economic environment.

### PERFORMANCE MEASURES AND STANDARDS

Measure	2013/14		2014/15		2015/16
	Actual	Standard	Actual	Variance	Standard
Debt write-offs as a percentage of total Crown revenue collected in that year	N/A – new measure	≤0.02%	0.03%	50%	≤0.06%

#### Explanation of variance

Every effort is made by the New Zealand Customs Service to collect debts and debt is only written off once all practical avenues to collect it have been exhausted. In 2014/15 the New Zealand Customs Service undertook an extensive review of aged Excise debt and determined that a portion was uncollectable, leading to it being written off. The standard for this measure was adjusted (to ≤0.06%) for 2015/16 to be more reflective of the current Crown Revenue base and debt management and economic environment.

## WORLD CUSTOMS ORGANIZATION

**Scope of appropriation:** New Zealand's contribution to the operating budget of the WCO.

### STATEMENT OF BUDGETED AND ACTUAL EXPENSES AGAINST APPROPRIATION

2013/14		2014/15		
Actual \$000		Actual \$000	Revised Budget \$000	Budget \$000
48	Expenses	50	50	52
<b>48</b>	<b>TOTAL EXPENSES</b>	<b>50</b>	<b>50</b>	<b>52</b>

This appropriation was used to meet New Zealand's commitment as a member of the World Customs Organization (WCO) to contribute to the annual running costs of the WCO.

### PERFORMANCE MEASURES AND STANDARDS

Measure	2013/14	2014/15			2015/16
	Actual	Standard	Actual	Variance	Standard
New Zealand's contribution to the operating budget of the WCO paid by the due date	N/A – new measure	Achieved	Achieved	–	Achieved



