

Report of the

**NEW ZEALAND
ARTIFICIAL LIMB SERVICE**

**For the Year Ended
30 June 2012**

*Presented to the House of Representatives pursuant to Section 150 (3) of
the Crown Entities Act 2004*

To the Minister for Social Development

In accordance with the Crown Entities Act 2004, we present, on behalf of the New Zealand Artificial Limb Board (officially known as the New Zealand Artificial Limb Service), the Annual Report of the operations of the New Zealand Artificial Limb Service for the year ended 30 June 2012.



Claire Johnstone
Chair

31 October 2012



George Reedy
Board Member

31 October 2012

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About the New Zealand Artificial Limb Service

The New Zealand Artificial Limb Service (NZALS) is an autonomous Crown entity that provides a national prosthetic limb service for New Zealand amputees¹.

The functions of the New Zealand Artificial Limb Service, as defined by the Social Welfare Transitional Provisions Act 1990, are to:

- *manufacture, import, export, market, distribute, supply, fit, repair and maintain artificial limbs and similar devices*
- *provide rehabilitative and other services to persons in connection with artificial limbs and similar devices*
- *carry out research and development in relation to artificial limbs and similar devices*
- *advise the responsible Minister on matters relating to artificial limbs and similar devices.*

Under the Statement of Intent, the activities of the New Zealand Artificial Limb Service have been aligned to the following Government priorities:

Value for Money. Cost/benefit is a core value in prescribing individualised limbs for people that reflect their particular mobility levels, health and life circumstances. People's circumstances change throughout life, and accordingly affect the artificial limbs prescribed.

Front-line Services. Most of the New Zealand Artificial Limb Service's operations are at the front line, delivering our services to New Zealand amputees in Limb Centres and regional clinics. The New Zealand Artificial Limb Service also helps raise the skill levels of other health professionals dealing with amputees, through providing in-service courses on amputee care.

Health – things done better, sooner and more conveniently. The New Zealand Artificial Limb Service has an ongoing project on efficiency and effectiveness that continues to contribute to these aims. A major example is digital tracing of limbs, which is cleaner and quicker for many amputees than the alternative method of plaster casting.

¹ The term "amputees" is a generic term used for the purposes of reporting. It includes those whose absence of limb/s is for congenital reasons, as well as through surgical interventions.

There are five Limb Centres located in Auckland, Hamilton, Wellington, Christchurch and Dunedin, each of which also provides services in outlying areas on a regular basis:

<i>From:</i>	<i>To:</i>
Auckland Limb Centre	Whangarei Kaitaia New Plymouth
Hamilton Limb Centre	Gisborne Rotorua Tauranga
Wellington Limb Centre	Hastings Palmerston North Masterton Nelson Blenheim
Christchurch Limb Centre	Greymouth
Dunedin Limb Centre	Invercargill

The Limb Service provided by the New Zealand Artificial Limb Service covers services that include consultation with prosthetics professionals, orthopaedic surgeons, vascular surgeons, rehabilitation physicians, physiotherapists and occupational therapists.

Contracts with the Ministry of Health and ACC provide the funding for most amputees, with a small number of war amputees being funded separately, and a small number of prostheses being provided by private contract. Co-operative relationships are fostered between staff of the Limb Service and district health boards, community organisations, the Amputees Federation of New Zealand and its regional societies.

New Zealand Artificial Limb Service

Chair's Report

Introduction

During the 2011-12 year the New Zealand Artificial Limb Service has continued to give its highest priority to providing individualised service to New Zealand amputees. The majority of our energies are expended in doing so, and our success is clear from the continued high satisfaction of our clients.

Another independent client satisfaction survey was held in June 2012, and results indicate that we have again reached the satisfaction levels of earlier surveys. Overall satisfaction with the service was 95%, with 63% giving the best possible rates of "very satisfied". This means that over six surveys at about 3 yearly intervals, overall satisfaction has ranged from 92%-96%, consistently high results. In 2012, satisfaction with the limb provided was 87%. As well, a large majority (91%) of those who were in paid employment reported their limb enabled them to work. It is good to know that our service succeeds in enabling amputees to take up their lives again after amputation, which is such a traumatic event for them.

Maintaining these high levels of service has been an increasing challenge within static funding levels over the past 13 years or so. The NZALS has worked hard to enhance its internal systems to achieve efficiency and effectiveness through a range of initiatives. In addition, it has addressed particular funding issues.

During the 2011-12 year, the Service identified an area of costs for consumable items that should be separately funded by the Ministry of Health, and is in discussions to this effect. It is also seeking a separate funding pool for high-cost components and high-cost individuals.

This year, the Board was keen to establish a health hub for amputees, and towards this end, an updated website. The website project was completed during the financial year and provided a virtual hub and a refreshed image. It has new information for amputees relating to artificial limbs and ancillary services.

We now have a new name that more appropriately reflects our service. The NZALS has continued its internal programme of enhancement of existing systems and monitoring to increase efficiency and effectiveness. We have a well-established programme of training and continuing professional development of our staff to ensure they remain updated with the latest developments and technology.

A long-established overseas surgical procedure called osseo-integration, usually used for above knee amputations, suddenly hit the headlines in 2012 through a well-publicised case in the media. At the time, there had been only about 150 cases in the world, and the procedure had not been widely adopted by surgeons because of infection problems. However, it has since raised considerable interest amongst New Zealand amputees. A current trial will assist in future ACC and Ministry of Health decisions surrounding the use of this surgical technique. It would have serious funding implications for the NZALS as high-cost micro-processor knees are often fitted in such cases.

This year, the staff in Christchurch continued to deal with earthquakes and their aftermath, and maintained an emergency service during a three week period when the Limb Centre had to be closed.

The Year in Review

Government aims in the health sector have formed a framework for the year's operations:

- *Value for Money*
- *Front-line Services*
- *Health – things done better, sooner and more conveniently*

The New Zealand Artificial Limb Service had a range of initiatives working towards these goals.

One of the Board's aims for the year was to create a hub of services available to amputees. We wished to update our website as a "virtual hub" to make it easier for amputees to access information relevant to amputation and prosthetics in general. This occurred during the year and we are proud of the result, which provides a fresh face to the organisation. It includes a range of new areas of interest including case studies of amputees and carers who have been generous enough to provide their stories to us, expanded links, a more extensive Frequently Asked Questions section, a news page, an expanded resources section and easy access for those with disabilities.

The website upgrade contributed to one of the government's priorities for Government ICT².

At five yearly intervals, the Board of the New Zealand Artificial Limb Service must undertake a statutory review. The Board completed this in 2012 and recommended that the legislation covering the Service become a stand-alone Act, and that the name of the organisation be changed.

First, the name "New Zealand Artificial Limb Board" implied an administrative organisation, rather than its unique function in government circles that combines being a manufacturer, a health service, and a sole national provider. This year our Minister agreed to a change of name to more appropriately reflect what we do, and as from February 2012 we have been known as the New Zealand Artificial Limb Service. "Service" is the trading or operational name for the Board as legislation has been introduced but is not expected to be passed until 2013.

Second, there will be a change of title of the governing Act, the Social Welfare Transitional Provisions Act 1990, to include "New Zealand Artificial Limb Service".

The legislative changes involving both these issues are planned for the 2012-13 year.

In the 2011-12 year we consolidated the foundations laid in the previous year, enhancing core internal procedures to ensure that:

- individual prescriptions were appropriate and within budget constraints
- quality issues in production were addressed, and
- patient notes were recorded fully and accurately.

Work on reducing stock continued. Stock levels went down even further than targets set at the beginning of the year.

Business continuity was again tested by the strong quake in Christchurch on 23 December 2011, which caused flood damage to the building. This experience re-emphasised the importance of having two limb centres to service the South Island, as we were able to redirect phones and some patients to Dunedin Limb Centre. We continued to provide emergency services and consumables to amputees, despite the centre being closed to the public for

² "Directions and Priorities for Government ICT" Priority 3.2 "Improve the management and content of government's web presence."

three weeks for safety reasons. Once again, I would like to extend our thanks to the staff for their hard work restoring full service to the Christchurch Centre.

Other property issues centred around lease arrangements at other Limb Centres. We have worked with the Ministry of Social Development to review and renew leases and made considerable progress, although signing is awaited in some instances. The most challenging has been in Dunedin, because the Southern District Health Board is as yet unclear about the future use of the building we occupy. We will continue to pursue these issues.

A strong point, and an essential one in a changing world, has been for staff to maintain skills concurrent with new components and technology. In 2011-12 we continued to emphasise continuing professional development (CPD). Staff kept up attendance at courses on new products and procedures. They trialled several new components to see if they were appropriate for New Zealand conditions and adopted some of them. Staff also attended technical training courses overseas.

We have made considerable changes to our systems over the years to keep up with technological changes. Among our achievements have been:

- a custom-built IT system that tracks patient care and records, that is integrated with other standard products addressing finance, stock management, human resources, etc.
- a digital tracing system for tracing limbs, that provides a more convenient system of measurement for amputees
- a package that measures and records outcome measures of amputees, and of the organisation.

The IT system was upgraded during this financial year with provision made for increased storage capacity in future years. A document manager was added to the patient management and job costing platform, which enabled staff to scan documents and attach them directly to the patient record. This facility enabled us to electronically record rehabilitation plans in patient files.

In order to help us to comply with "*Directions and Priorities for Government ICT*", we have facilitated staff from our IT support agency to attend courses relating to these government requirements.

Every three years the service arranges for an independent survey of its clients to measure their satisfaction. This was initiated towards the end of the financial year. Main results from this report are included in the Chair's Introduction.

The survey covers a core section of standard questions, and another section that concentrates on a different topic each time. This year the emphasis was on older amputees, 65 years and older. This group were more likely to have become an amputee as a result of illness than accident. The majority (88%) lived at home, and 10% lived in rest homes. Regarding levels of dependency, 70% stated they were somewhat or fully dependent on others for help with their daily living. Help services were provided to 35% of this age group, most frequently for household cleaning and personal care. Mobility aids were widely used with 50% stating they used wheel chairs. However, use of the artificial limbs was also high, with only 12% stating they had not worn the limb on the previous day and only 3% saying they had given up wearing limbs completely.

This information will be valuable to the New Zealand Artificial Limb Service to help ensure we are providing services appropriate to this age group.

An amputee is cared for by many other health professionals, and the Limb Service puts considerable effort into ensuring that these professionals are trained in amputee care. It did so this year by providing in-service courses to a wide range of occupational groups, such as

theatre nurses, physiotherapists and medical specialists, and also by providing placements for students (e.g. prosthetics and orthotics, physiotherapy, podiatry) in the Limb Centres. This training will improve the front-line services provided to amputees externally.

Frontline services were made more convenient for amputees through:

- providing regional clinics at 13 centres from Kaitaia to Invercargill
- providing fitting through digital imaging for some patients, which is quicker and cleaner than traditional plaster casting

New patients had progress measured through outcomes-testing for mobility, independence, health related quality of life and employability. The results of this testing were analysed and contributed to setting benchmarks for the year.

Archives New Zealand conducted a recordkeeping audit that covered Limb Centres and National Office. No issues of high risk were identified. Policy on recordkeeping is required, and this will be covered by a policy review currently being carried out.

The NZALS has a Memorandum of Understanding with Paralympics New Zealand. There has been considerable effort expended as staff through the country undertook specialised work providing prostheses for high-performing athletes. Our Dunedin Limb Centre manager has coordinated this work as athletes prepared for the 2012 Paralympics in London.

The New Zealand Artificial Limb Service's finances overall show a deficit at the end of the June 2012 year, as was the case last year. This has emerged because funding levels were not increased for seven years from 1999, and since 2006 small increases have not kept pace with rising costs of materials and labour. For many years prudent management has enabled efficiencies and savings to help counter these steadily increasing costs and expectations of our consumers. Now we have applied for further new increases under our contracts for services to address the deficit issue.

In order to comply with requirements of the Human Rights Commission, the Limb Service conducted an equal employment opportunity (EEO) survey to establish benchmarks against which to report changes. This is reported under the EEO section of this report. The survey showed that 87% of staff were frontline or directly supporting frontline staff.

Financial Results

The Statement of Comprehensive Income shows gross revenue (excluding interest) applied to operations of \$7,937,000 which compares with \$7,852,000 in the previous year. Income is derived principally from contracts with ACC for trauma-based amputees and with the Ministry of Health's agent, Capital & Coast District Health Board, for amputees with illness-based amputations or long-standing trauma-based amputations. In addition, income is received from payments on behalf of war amputees, private insurers, health benefits and private supply.

Operational costs for the year totaled \$8,183,000, nearly identical to the previous year. Small increases in personnel and training research costs were offset with decreased other expenses. The balance of the Wellington Limb Centre upgrade of \$70,000 funded from Board reserves was included in other expenses. This resulted in a loss of \$246,000 on operations for the year. Interest earnings decreased this loss to \$79,000 compared with a loss of \$144,000 for the previous year.

The Year Ahead

During the coming year, the Board has identified the following main strategic priorities:

- providing a high quality rehabilitative service
- ensuring we have resources and staff to achieve our aims
- operating as an effective and efficient enterprise
- monitoring and evaluation, research and development.

It will continue to consolidate and develop current work items through:

- exploring funding options
- reviewing staff CPD and competencies
- continuing quality assurance and clinical compliance initiatives through its project to enhance efficiency and effectiveness in prescription of limbs
- funding and monitoring research projects
- continuing to implement outcomes measurement of all new patients and gathering data for further analysis
- providing technical support for amputee athletes as identified by Paralympics NZ/SPARC
- finalising premises for Dunedin Limb Centre for the future
- contributing to the public good through the provision of educational to health professionals and community health groups, especially rest home staff.

Membership of the Board

Board members are appointed by the Minister for Social Development under the Crown Entities Act 2004. Membership is determined by the Social Welfare (Transitional Provisions) Act 1990 which provides the nominating bodies and has a significant influence on the composition of the Board.

Richard Sainsbury is the temporary Deputy Chair pending a permanent appointment.

Lorraine Peacock, appointed to represent the interests of war amputees, was replaced by Paula Tesoriero from 1 September 2011.

Board membership at year-end was:

Chair	Claire Johnstone
Temporary Deputy Chair	Richard Sainsbury
Members	Lorraine L Peacock QSM (to 31 August 2011) George Reedy Paula Tesoriero (from 1 September 2011) Barry Tietjens Kerry Wilfred-Riley

Conclusion

The 2011-12 year marked another successful year for the New Zealand Artificial Limb Service with consolidation of internal practices and services to amputees, a “virtual health hub” through a new website, updated IT services and education courses for the wider community of health professionals.

Funding for the future is a concern, exacerbated by the considerable impact on the service of high technology/high cost components. We will continue to follow up options discussed above in the next year.

The New Zealand Artificial Limb Service is, in my experience, remarkable for the level of commitment shown by all those whose work contributes so much to New Zealand’s amputees - staff, the management, physiotherapists, and medical specialists. This commitment is reflected in the high satisfaction levels they achieve. Thanks also to staff from other agencies who support our work.

I have pleasure in submitting this Annual Report and the Financial Statements for the year ended 30 June 2012.

A handwritten signature in black ink, appearing to read 'C. Johnstone', written in a cursive style.

Claire Johnstone
Chair

Governance and Accountability Statement

Role of the Board

The Minister has appointed a governing Board. The Board's governance responsibilities include:

- communicating with stakeholders to ensure their views are reflected in New Zealand Artificial Limb Service planning and strategies
- determining the strategic priorities and focus necessary to achieve the outcomes expected by those stakeholders
- delegating responsibility for achievement of specific objectives to the Chief Executive
- monitoring organisational performance towards achieving objectives
- maintaining effective systems of internal control
- accounting to the Minister on plans and progress against those plans.

New Zealand Artificial Limb Service Operations

The Board has appointed a Chief Executive to manage all the New Zealand Artificial Limb Service operations. All other employees of the New Zealand Artificial Limb Service have been appointed by the Chief Executive and report to him. The Board directs the Chief Executive by delegating responsibility and authority for the achievement of objectives through setting policy.

Board members who have specific expertise provide mentoring and advice as appropriate.

Board Committees

As a relatively small Board, there has been little necessity for the appointment of standing committees of the Board, apart from one that deals with the performance review of the Chief Executive.

Working committees are appointed as needed, for example the Research Committee.

Equal Employment Opportunity

The New Zealand Artificial Limb Board developed an EEO plan that addressed the elements of being a good employer. There were no changes in permanent staff. Priorities for the year were that:

- review of prescription policy was continued
- remuneration was reviewed under the collective agreement with the Public Service Association
- job descriptions were to be reviewed where necessary
- monitoring of a review of continuing professional development of staff occurred

In addition, policies covering bullying and harassment and discipline were in place; health and safety issues were addressed through compliance with the relevant Government Acts such as the Hazardous Substance and New Organisms Act 1996, as well as through regular staff health and safety meetings.

The Limb Service conducted an EEO survey in April 2011 to establish benchmarks against which to report changes:

FTE: Changes from 45.3 at the beginning of the financial year, to 45.4, against a benchmark of 47.5.

Age: The staff were weighted higher in the older age groups than the general New Zealand workforce.

Ethnic profile: The staff were heavily weighted towards NZ European (86%) with the remainder describing themselves as Asian or Other. There were no Māori or Pacific staff, although two Māori staff resigned over the past four years.

Gender: The majority of the staff were male (62%) compared with female (38%). Support staff were predominantly female, and physiotherapists were all female.

The New Zealand Artificial Limb Service continued its practice of employing staff on a flexible or part-time basis (16%). In the disability area, the organisation provided a part time position under the Mainstream programme during the year.

Health and safety issues are of paramount importance in a manufacturing-type environment and were routinely addressed at staff meetings. Extensive training was received by staff and is written up elsewhere in this report. Opportunities for clinical placements were provided for students of prosthetics and orthotics, physiotherapy and podiatry.

Governance Philosophy

Board Membership

Board members are appointed by the Minister for Social Development as the responsible Minister, on the nomination of various bodies as determined by the Social Welfare (Transitional Provisions) Act 1990. The Board is composed of members who have diverse skills and experience to bring a wide contribution to policy issues. Once appointed, all members are required to act in the best interests of the New Zealand Artificial Limb Service. Members acknowledge that the Board must stand unified behind its decisions; individual members have no separate governing role outside the Board.

Connection with Stakeholders

The Board acknowledges its responsibility to keep in touch with stakeholders and, in particular, to remain in touch with the responsible Minister's expectations. Quarterly reports inform the Minister.

Division of Responsibility between the Board and Management

A key to the efficient running of the New Zealand Artificial Limb Service is that there has been a clear division between the roles of the Board and management. The Board concentrates on setting policy and strategy, then monitors progress towards meeting objectives. Management is concerned with implementing policy and strategy. The Board endeavours to clearly demarcate these roles by ensuring that the delegation of responsibility and authority to the Chief Executive is concise and complete, while providing mentoring and ideas-based experience for assisting management.

Accountability

The Board meets approximately monthly to develop strategies and policies, to monitor progress toward its strategic objectives and to ensure that the affairs of the New Zealand Artificial Limb Service are being conducted in accordance with the Board's policies.

Conflicts of Interest

The Board ensures members are aware of their obligations to declare interests and act appropriately.

Internal Control

While many of the Board's functions have been delegated, the overall responsibility for maintaining effective systems of internal control ultimately rests with the Board. Internal controls include the policies, systems and procedures established to provide assurance that specific objectives of the Board will be achieved. The Board and management have acknowledged their responsibility by signing the Statement of Responsibility on page 15 of this report.

Risk Management

The Board acknowledges that it is ultimately responsible for the management of risks to the New Zealand Artificial Limb Service including business continuity. The Board has charged the Chief Executive through its risk management policy with establishing and operating a risk management programme. This has been reviewed and updated during the financial year.

Legislative Compliance

The Board acknowledges its responsibility to ensure the organisation complies with all legislation. It has delegated responsibility to the Chief Executive for the development and operation of a programme to systematically identify compliance issues and ensure that all staff are aware of legislative requirements that are particularly relevant to them. It monitors such compliance issues.

Ethics

The Board has adopted both the Public Service Code of Conduct and a New Zealand Artificial Limb Service Code of Conduct, and expects Board members and staff to maintain high standards of ethical behaviour and practise the principles of 'good corporate citizenship'.

Monitoring compliance with ethical standards is done through means such as monitoring trends in complaints and disciplinary actions; or any reports or indications that show non-conformance with the principles set out in the Code of Conduct.

Directions Issued by Ministers

No directions were issued by the Minister for Social Development. She did, however, provide a Letter of Expectations listing specific priorities for 2011-12:

- review business continuity plans, especially those relating to responding to a natural disaster
- review information and communication systems along with associated policies and, where necessary, update these to ensure that they are compliant with the recently promulgated *Directions and Priorities for Government ICT*
- Implement actions arising out of the statutory review of its operation carried out in 2010/11
- Implement actions arising out of the New Zealand Artificial Limb Service's 2010/11 property management review
- Review the ongoing level of support provided by the New Zealand Artificial Limb Service to high performing amputee athletes following the 2011 Paralympic Games.

Statement of Responsibility for the Year ended 30 June 2012

In terms of the Crown Entities Act 2004, the Board is responsible for the preparation of the New Zealand Artificial Limb Service's financial statements and the statement of service performance, and for the judgments made in them.

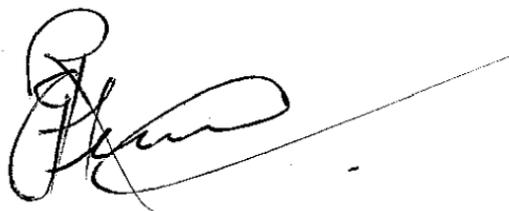
The Board of the New Zealand Artificial Limb Service has the responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In the opinion of the Board, these financial statements and statement of service performance for the year ended 30 June 2012 fairly reflect the financial position and operations of the New Zealand Artificial Limb Service.



Claire Johnstone
Chair

31 October 2012



George Reedy
Board Member

31 October 2012

Audit report

AUDIT NEW ZEALAND

Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of New Zealand Artificial Limb Service's financial statements and statement of service performance for the year ended 30 June 2012

The Auditor-General is the auditor of New Zealand Artificial Limb Board operating as the New Zealand Artificial Limb Service (NZALS). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the NZALS on her behalf.

We have audited:

- the financial statements of the NZALS on pages 30 to 54, that comprise the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the NZALS on pages 26 to 29.

Opinion

In our opinion:

- the financial statements of the NZALS on pages 30 to 54:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the NZALS's:
 - financial position as at 30 June 2012; and
 - financial performance and cash flows for the year ended on that date.
- the statement of service performance of the NZALS on pages 26 to 29:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects, for each class of outputs for the year ended 30 June 2012, the NZALS's:
 - service performance compared with the forecasts in the statement of forecast service performance for the financial year; and
 - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 31 October 2012. 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 Board and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable

assurance about whether the financial statements and statement of service performance are free from material misstatement.

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

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

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

Responsibilities of the Board

The Board is responsible for preparing financial statements and a statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect the NZALS's financial position, financial performance and cash flows; and
- fairly reflect its service performance.

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Social Welfare (Transitional Provisions) Act 1990.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

Independence

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

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



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

Matters relating to the electronic presentation of the audited financial statements and the statement of service performance

This audit report relates to the financial statements and the statement of service performance of New Zealand Artificial Limb Board operating as the New Zealand Artificial Limb Service (NZALS) for the year ended 30 June 2012 included on New Zealand Artificial Limb Service's website. The New Zealand Artificial Limb Service's Board is responsible for the maintenance and integrity of New Zealand Artificial Limb Service's website. We have not been engaged to report on the integrity of New Zealand Artificial Limb Service's website. We accept no responsibility for any changes that may have occurred to the financial statements and the statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and the statement of service performance named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and the statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and the statement of service performance as well as the related audit report dated 31 October 2012 to confirm the information included in the audited financial statements and non-financial performance information and the statement of service performance presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Statement of Service Performance for the Year ended 30 June 2012

Context

The New Zealand Artificial Limb Service provides a high quality service that enhances amputees' mobility and facility to fully participate in society. The New Zealand Artificial Limb Board provides services that routinely include consultation with and contributions from prosthetics professionals, orthopaedic surgeons, rehabilitation physicians, physiotherapists and occupational therapists.

The needs of amputees are both highly diverse and individual. Each limb is custom-made to fit the residual limb, and to take into account height, weight, activity levels and personal lifestyle. Staff also assist with gait training and facilitate contacts with other health and community services depending on the needs and circumstances of the individual. Close contact is maintained with local Amputee Societies.

New Referrals

During 2011-12, the number of new patients referred and registered at the New Zealand Artificial Limb Service was 393 compared with 412 for the previous year.

Of the new referrals, 64% were male and 36% female. The under-20 age group comprised 3%, 36% were between 20 and 59 years, and 60% were over 60 years, with the remaining 1% unknown. New Zealand Europeans made up the largest group at 66%, with 14% being Māori, 8% Pacific people, and a range of others making up the remainder.

Some patients came to the New Zealand Artificial Limb Service for a pre-amputation visit, to help them make up their minds about going ahead with an amputation. In addition, there was a group of patients who attended after amputation but were advised against using a prosthesis for a variety of reasons – too ill, too frail, or considered incapable of managing one. There was a further group of patients who did not get referred to the limb service at all after amputation because their clinicians had not advised this course. During the 2011-12 year, of the 393 people referred to the limb service, 46 were considered unsuitable for fitting, 17 decided of their own accord not to proceed, and 40 died during the year.

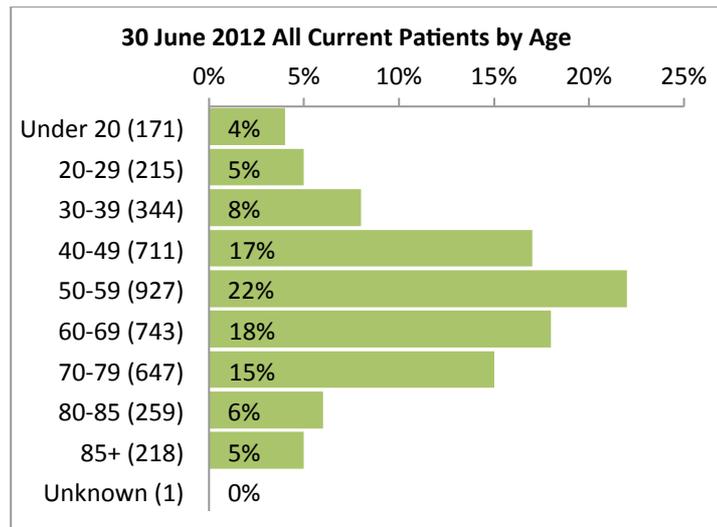
Those 393 newly registered had 430 amputations, which included 33 people with more than one amputation. Only 45% were at the below knee level, with 38% being above knee, and 6% being upper limb amputations. A range of minor categories made up the remainder, for example hip disarticulations.

All Current Patients

As at 30 June 2012 the service catered to 4,236 current patients registered with the New Zealand Artificial Limb Service throughout New Zealand.

The group was made up of 74% males, and 26% females. In ethnicity, 73% were New Zealand European, 13% Māori, and 7% were from the Pacific Islands. A variety of other ethnic backgrounds made up the remaining 7%.

All age groups were represented as shown by the following chart.



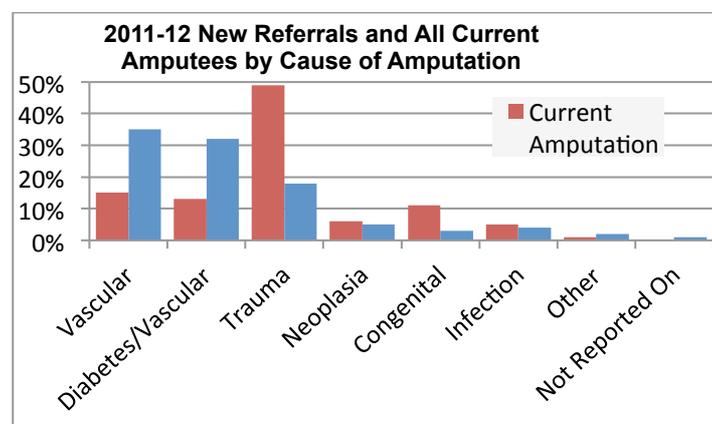
Of the 4,236 patients, trauma accounted for 49% of amputations, vascular failure 28% (including diabetes/vascular 13%), congenital limb loss 11%, and a variety of other causes such as infection and malignancy made up the remaining 12%.

Lower limb amputations of various types accounted for the bulk (88%) of the limb service patients, with 12% having amputations of the upper limb. As a generalisation the limb service is concerned with lower limb amputations anywhere between the mid-foot and the hip, and upper limb amputations between wrist and shoulder. Only a very few patients with amputations of the hand or fingers find prostheses useful. Amputations in the forefoot and of the toes are best dealt with by orthotics services.

Differences are evident when a comparison is made of new 2011-12 referrals entering the services against the current database as at 30 June 2012. These differences are shown in the table below.

Of the new referrals, 67% were for vascular failure (diabetes and peripheral vascular disease) compared to the existing database figure of 28%, and trauma accounted for 18% compared with the database figure of 49%.

These differences do not represent new trends, but reflect the short life expectancy of many vascular amputees compared with congenital amputees, traumatic amputees and many of the amputees for malignancy who are expected to spend many years as amputees.



Policy

During the year ongoing reviews of policy and procedures relating to prescriptions continued. This exercise has led to enhanced recording of patient notes and reasons underlying individualised prescriptions and will contribute to both quality of service and risk management.

In addition, a major review of internal policies and procedures has been undertaken to update and achieve consistency across the policy manual.

Productivity, efficiency and effectiveness

This project is now in its fifth year. Benchmarks for stock were further reduced and were below target, giving rise to both financial and operational efficiencies. Prescription policy was also involved in aspects of operations that fed into stock levels.

Direct delivery of overseas orders from four major suppliers has now been in operation for a full year. The new process has proved to be efficient and effective in the ways expected: improved delivery times and savings in freight costs of an estimated \$5,000 when factoring a modest 5% increase on last year's costs.

Improved stock management has led to a significant reduction in obsolete or unusable stock. Stock identified as impaired for 2012 was \$6,353 compared with \$43,000 in 2011. Further savings were made through participating in the All-of-Government procurement programme.

Two cost-efficiency measures had been introduced in 2010 relating to staffing. The first was to manage fulltime equivalent staff numbers while maintaining organisational capability. The benchmark was set at 47.5 (capped at 2009 levels). The FTEs at the beginning of the financial year were 45.3 and at the end of the financial year were 45.4.

The second measure was to reduce to 6% the proportion of staff with outstanding accumulated leave balances in excess of 30 days. The New Zealand Artificial Limb Service met this target.

Quality through establishing Outcome Measures

In its 2012-15 Statement of Intent, the New Zealand Artificial Limb Service outlined the framework³ for the outcome measures project and outlined the outcomes for New Zealand amputees that it aimed to measure:

- Mobility
- Independence
- Health-related Quality of Life
- Employability

A variety of objective and subjective measuring tools⁴ had been chosen to measure the outcomes, for example:

- a. annual statistics* on all new amputations (see under Objective 2, below);
- b. questionnaires and walking tests* that measured new lower limb patients at entry, three to six months later, and again a year later;
- c. a postal survey* that canvassed a significant proportion of all the New Zealand Artificial Limb Service patients – this was carried out in June 2012.

³ Consistent with ACC and Ministry of Health goals

⁴ The New Zealand Artificial Limb Service seems to be pioneering the package approach and has been invited to participate in a three-country major presentation of this work at the next world prosthetics conference in February 2013 in India

Results from patient cohorts consisting of new patients who entered the New Zealand Artificial Limb Board system in June years are collected. Rolling benchmarks are set at averages over the three most recent years. In December 2011, the cohort for 2009-10 was measured and forms the basis for the following figures.

Questionnaires and walking tests. These are designed to measure the extent to which amputees achieve mobility and independence after they are fitted with artificial limbs. Two tests are used - a questionnaire - the Locomotor Capability Index⁵, and a walking test - the Timed Up and Go⁶ test. For both tests, Measure 1 is taken shortly after being fitted with an artificial limb, and Measure 2 is taken six months later.

The aim for mobility testing was that 76% of new lower limb amputees received treatment plans from physiotherapists⁷. This target was met.

New patients who completed measures 1 and 2 of the Locomotor Capability Index improved their overall median scores by 25% or more, so the target of 25% was met.

The level of mobility and independence achieved six months after the initial limb fitting as a percentage of the optimal level of mobility and independence was 80% with a target of 75%.

Employability was measured in the client survey June 2012. Of all respondents, 33% were in paid employment, and 60% of the total were of working age 16 to 64 years. This is equivalent to 55% of those of working age in paid work, compared to 62% at the last survey, probably influenced by the economic downturn.

Of those in paid employment, 91% of amputees surveyed considered their limb enabled them to *work in employment*. Participation in voluntary work was reported by 17% of respondents.

Health-related Quality of Life was also measured with an internationally widely used questionnaire called the SF-12⁸, which measures both physical and mental health. Of those measured, 44% of the 2009-10 cohort completed all three measures. The average of the physical health scores went from 34 to 39, which is less than the US norm of 50 but is what one would expect, given the level of disability involved. The mental health scores reduced from 53.2 for Measure 1 to 52.8 for Measure 3, which is higher than the U.S. norm of 50⁹. They were higher physical health scores and lower mental health scores than a Swedish study¹⁰. Our results are likely to reflect the higher number of males and older people in the limb service database. These subgroups scored higher in the mental health scores in the two surveys with which we compared our results.

⁵ A tool especially designed for amputees and used extensively overseas

⁶ Walking test used for clinical purposes at individual level

⁷ This figure is equivalent to the number who are fitted and undergo a Measure 1 Timed Up and Go Test

⁸ This and the SF-36 (with 36 questions) are the most widely internationally used health related quality of life measures.

⁹ For further information see New Zealand Artificial Limb Board Statement of Intent 2012-15, pp 12

¹⁰ SF-36 PCS 37.7, MCS 53.7: *Prosthetics and Orthotics International Vol. 35 Issue 1 March 2011, p. 101*

Summary of Impact Measures

Focus	Impact Measure	Benchmark or Target
Mobility and independence	<p>The percentage gain in mobility and independence of primary lower limb amputees over a six month period after the initial limb fitting:</p> <p>The overall median scores of new patients who complete Tests 1 and 2 of the Locomotor Capability Index improve over six months by at least: 25% (average of last 3 years)</p>	Achieved: 25% - met target
Mobility and independence	<p>The level of mobility and independence achieved by new patients at 6 months after the initial limb fitting</p> <p>the median scores achieved after 6 months as a percentage of the optimal level of mobility and independence will be at least 75% (average of last 3 years)</p>	Achieved 80% - exceeded target by 5%
Health related quality of life	<p>Measured by SF-12¹¹ health survey:</p> <ul style="list-style-type: none"> o The physical health scores average: 40 (average over last 3 years) o The mental health scores average: 52 (average scores over last 3 years) 	<p>Achieved 39 – 1 below target</p> <p>Achieved 52.8 – 0.8 above target</p>
Employability	<p>This measure is undertaken only every three years: through client satisfaction survey</p> <p>Monitor extent to which artificial limb fitting contributes to amputees' participation in paid employment and voluntary work</p>	<p>Monitoring:</p> <p>91% of amputees in paid employment considered their limb provided them with the ability to work in paid employment</p> <p>17% were involved in voluntary work</p>

Working co-operatively with other agencies. Quarterly reports, including public good issues, were provided to the Minister for Social Development.

ACC and the New Zealand Artificial Limb Service continue to refine existing robust co-ordinated systems, supported by IT, that enable fast and efficient processing of assessments and invoicing so that amputees receive an excellent service.

Close relationships continued between Limb Centres and Amputee Societies at a local level and with the Amputees Federation of New Zealand at a national level. The Chair, Chief Executive and the National Prosthetics Manager of the New Zealand Artificial Limb Board delivered a presentation at the Annual General Meeting of the Amputees Federation of New Zealand in March 2012. It remains, however, that the cultural core of the agency is the interactions of the staff with individuals, giving an individualised service.

There has been close co-operation during the year between the Ministry for Social Development and the New Zealand Artificial Limb Service on a property plan, involving all the Limb Centres. A maintenance programme ensures the Limb Centres comply with building requirements. A report on earthquake strength of buildings showed compliance at all Centres and National Office.

¹¹ Short Form Health Survey, a 12 question survey divided into physical health and mental health sections

Repair work was also carried out on the roofs of several centres, with Wellington Centre remaining an ongoing problem.

The Ministry of Economic Development is the driver of the Government procurement project in which, like other Government agencies, the New Zealand Artificial Limb Service has participated. Savings have been achieved as a result.

Contract compliance. The New Zealand Artificial Limb Service has two main contracts, with the Ministry of Health and ACC.

The New Zealand Artificial Limb Service complied with its contractual requirements with the Ministry of Health and ACC, to whom it reported directly, and regularly through quarterly reports.

Quality through maximising referrals. Co-ordination between District Health Boards and the New Zealand Artificial Limb Service continued with regard to referrals of amputees, primarily through physiotherapists. This quality measure is designed to check that appropriate referral practices occur at hospitals, as well as making sure no amputee “falls through the gap”. The rate of referrals was 88%, the same as the previous year.

Those amputees not referred were for sound reasons – complicated above knee amputations, diabetes and older age groups associated with high levels of co-morbidities. We thank the Ministry of Health for its help with this aspect of our work.

Quality service through staff training. Emphasis is placed on training staff to keep them up to date with new overseas technology and procedures through training. In 2011-12, staff attended 14 technical courses, and 16 general training courses.

There has also been considerable emphasis on continuing professional development for staff during the 2011-12 year, and training and encouragement to staff to keep up continuing profession development folders have been provided.

Public good

Public good aspects of the work of the New Zealand Artificial Limb Service were incorporated into the Statement of Intent 2011-14 and the Memorandum of Understanding with the Minister for Social Development.

It had been noted in previous years that physiotherapists in the community were lacking in knowledge of amputee care and gait issues. The New Zealand Artificial Limb Service considered that workshops and seminars for physiotherapists on these topics could help redress this gap. Over time, the recipients of workshops and seminars have expanded to include orthopaedic registrars, orthotists, occupational therapists, and rest home staff.

In all, 18 such education courses were delivered during the year. A subsidiary aim was to collect data to measure the level of satisfaction with the courses in terms of skills enhancement to set targets for the following year. There were 150 participants in the 18 courses, of whom:

- 95% of those who completed evaluation forms¹² considered their understanding of amputee care had improved significantly or very significantly as a result of the course (used as satisfaction level)¹³.

Students also benefited from both day placements and extended placements at Limb Centres. Two prosthetics and orthotics students from La Trobe University (the only tertiary institution in

¹² 76% completed evaluation forms

¹³ Note 4% were neutral

Australasia providing courses on prosthetics and orthotics) and two physiotherapy students spent several weeks in Limb Centres.

We provided resources to district health boards and Amputee Societies. Included were information packs about amputation and services available from the New Zealand Artificial Limb Service.

Overall, the New Zealand Artificial Limb Service is confident that these initiatives will lead to enhanced care for amputees. The website upgrade also contributed to the public good aspect of our year's work.

Research

In order to support research that would ultimately benefit amputees, the Board established a contestable research fund that was intended primarily for research by summer students. The first applications were invited just before the end of the financial year.

The Dunedin Limb Centre has continued to work with Siliconcoach on a gait analysis software package specifically for prosthetics. Dunedin Limb Centre has been using this system for evaluation purposes over the last 18 months. So far the comparisons between measurement events have been so fine that they are difficult for prosthetists to gauge with their current skill levels. However, the package:

- gives an extremely good visual record of work completed that patients appreciate
- is useful as a teaching tool in that it can be used to show patients gait deviations and how we would like to correct them
- is used to record how limbs are set up as a record for future set-ups and limb deviations.

Other areas of research included:

- funding for Hemakumar Devan of the Otago Physiotherapy School for a survey on "Association between physical activity levels and low back pain in people with a traumatic above-knee amputation"
- funding for Steve Liggett of Unitec Institute of Technology, Auckland, to develop a low cost push button car starter for amputees
- funding to Chris Hollitt from the School of Engineering and Computer Science, Victoria University, to develop a generic shoulder relief appliance for arm patients
- internal research on
 - analysis of outcome measures
 - a compilation of New Zealand Artificial Limb Service annual statistics
 - hospital amputations statistics for the year 2010-11 through the Ministry of Health
 - three new components trials.

Paralympics New Zealand

Under a Memorandum of Understanding, artificial limbs, training and technical support were provided for high performing amputee athletes by the New Zealand Artificial Limb Service and funded by Paralympics New Zealand. The Dunedin Limb Centre Manager co-ordinated this work and liaised with Paralympic New Zealand. A number of plans and documents were developed over the year to facilitate administration.

Four supported athletes under the Memorandum of Understanding worked towards the London Paralympic Games in 2012, and we supported their case management. In addition to prosthetic support, a pack for the Paralympics was developed for each athlete, with travel documents and limb descriptions, along with contact details of prosthetists available to give support during the training camps in Great Britain.

Service Performance

Key Objectives

Key objectives of the Strategic and Business Plans adopted for the 2011-12 financial year were:

Objective 1

- assist New Zealand amputees by providing a high quality rehabilitative service through:
 - prescribing, constructing, fitting and servicing appropriate prostheses
 - contributing to amputee rehabilitation by working with other health service providers to develop a more integrated service.

Capacity. The service is demand-driven and the emphasis is therefore on maintaining capacity rather than increasing production. Capacity and overall production levels were the same as previous year, with some variations in the mix, as can be seen in the table above.

Output Measures

Focus	Output Measure	2012	
<i>Capacity</i>	Organisational capacity to make, fit and service prostheses to at least the same level		
		Actual 2011	Actual 2010
	New and Replacement Limbs Supplied	734	687
	Remodels	218	253
	Resockets	423	378
	Servicing Jobs	9,422	9,192
			Actual 2012
			748
			173
			406
			9,313
Focus	Output Measures	Benchmark or target	
<i>Receipt of treatment plans</i>	The percentage of new primary, lower limb adult amputees who receive treatment plans by limb service physiotherapists will be at least 76% ¹⁴	Met target: 76% received mobility testing	
<i>Quality measure re timeliness of limbs supplied</i>	2012 client satisfaction survey ¹⁵ : 92% or more of clients are satisfied with the timeliness of the limbs supplied (average of 2 surveys)	Exceeded target by 1%. Of respondents, 93% were satisfied with the timeliness of the limbs supplied, as per survey conducted June 2012	

¹⁴ Recipients of treatment plans = those tested for Measure 1 of the Timed Up and Go Test. Noted based on average of previous three years.

¹⁵ Note: The NZALB employs an external firm to conduct a client satisfaction survey every three years

Focus	Output measures	Benchmark or target
	<p>The average monthly total count of “Work in Progress” jobs active greater than six weeks will not exceed 12% (3% less than previous average over 12 months).</p> <p>The average percentage of those with unexplained delays¹⁶ will not exceed 50% (25% less than previous average over 12 months)</p>	<p>Target 12%. Achieved 16%. Did not meet target, but the majority were for “explained delays” (see below)</p> <p>Target 50%. Achieved 30%. Significant improvement on target¹⁷ - reduced unexplained delays by more than a third</p>
<i>Amputee satisfaction with the service</i>	2012 client survey: Client overall satisfaction with the service will be 94% or more (average of 4 surveys)	Exceeded target by 1%. Of respondents, 95% expressed overall satisfaction with the service, as per survey conducted June 2012

Cost Efficiency Measure

Focus	Cost Efficiency Measure	Benchmark or target
<i>Stock management (see p. 21)</i>	<p>To optimise the way in which the organisation holds inventory by working with overseas suppliers to</p> <ul style="list-style-type: none"> ○ customise procurement process ○ maximise efficiency ○ reduce losses incurred due to shelf life and obsolescence <p>Reported stock holding as at 30 June 2012 includes provision for stock impairment of \$4,000 (2011: \$43,000)</p>	<p><i>Benchmarks:</i> <i>Maximum material stock holding not to exceed \$850,000</i></p> <p>Improved on target: stockholding as at 30 June 2012 \$703,237 (2011: \$674,730)</p> <p><i>Average stock turnover to be no less than 3.2 times per year</i></p> <p>Improved on target: average stock turnover for 30 June 2011 5.3 times (2011: 5.4 times)</p> <p><i>Maximum value of material write off not to exceed 3% of total holding.</i></p> <p>Target exceeded: actual stock write-off 2012: 1% of total holding. (2011: 6%). Obsolete stock no longer supported by suppliers was returned from centres. Stock holding restructure now complete.</p>

¹⁶ Over six weeks. The aim is to get this percentage as low as possible.

¹⁷ In other words, “explained delays” were 70%, where staff had followed up jobs over six weeks and recorded a reason for the delay.

Objective 2

- Manage and enhance resources and skills to provide quality services in a changing environment.

Cost Efficiency Measure

Focus	Cost Efficiency Measure	Benchmark or target
<i>Management of staffing level</i> (p. 21)	Actively manage full-time equivalent (FTE) staff numbers, capped at 2009 levels whilst maintaining organisational capability	Progress against Benchmark of 47.5 FTEs Improved on target: 45.4 as at 30 June 2012 (2011: 45.3)
<i>Reduction of accumulated leave</i> (p. 21)	To reduce the proportion of staff with outstanding accumulated leave balances in excess of 30 days	Benchmark: 6% of staff will have leave balances above 30 days by 30 June 2011 6%: 30 June 2011 (2011: 18%) Met target.

Objective 3

- Initiate and access research and development to ensure the New Zealand Artificial Limb Service is in the forefront of professional progress.

Focus	Output/Outcomes	Benchmark or target
<i>Service to amputees: enhancement through product and staff development: research, shared ideas and new information</i> (p. 22)	A total of at least 20 training sessions delivered to allied health professionals/ACC staff, and placements for students. Monitor attendance and measure their satisfaction levels in terms of skill enhancement. 2012: 150 (76%) of attendees completed evaluation forms.	Met target: 18 training sessions delivered to allied health professionals (2011: 24) 4 extended placements for students (2 physiotherapy, and 2 prosthetics and orthotics) (2011: 6) Satisfaction level: 96% satisfaction levels¹⁸ in terms of skill enhancement¹⁹

¹⁸ 96% of those who completed evaluation forms

¹⁹ 4% were neutral

Financial Performance – Artificial Limb Service

	Actual 2012 \$000	Budget 2012 \$000	Actual 2011 \$000
Income	8,104	7,851	8,038
Expenditure	8,183	7,946	8,182
Net surplus/(deficit)	(79)	(95)	(144)

Statement of Comprehensive Income for the Year ended 30 June 2012

	Note	Actual 2012 \$000	Budget 2012 \$000	Actual 2011 \$000
Income				
Revenue from Crown	2	7,813	7,608	7,764
Interest income		167	147	186
Other income		124	97	88
<i>Total income</i>		8,104	7,852	8,038
Expenditure				
Personnel costs	3	3,237	3,266	3,202
Depreciation and amortisation expense	9, 10	158	181	154
Other expenses	4	4,627	4,290	4,640
Rehabilitation		92	94	125
Training & Research		69	116	61
<i>Total expenditure</i>		8,183	7,947	8,182
Net surplus/(deficit)		(79)	(95)	(144)
Other comprehensive income		-	-	-
Total comprehensive income		(79)	(95)	(144)

Explanations of significant variances against budget are detailed in note 23.

The accompanying notes form part of these financial statements.

Statement of Financial Position as at 30 June 2012

	Note	Actual 2012 \$000	Budget 2012 \$000	Actual 2011 \$000
Assets				
Current assets				
Cash and cash equivalents	5	650	560	635
Debtors and other receivables	6	700	630	739
Prepayments		22	36	30
Inventories	7	897	960	913
Investments	8	3,533	3,434	3,486
<i>Total current assets</i>		5,802	5,620	5,803
Non-current assets				
Property, plant and equipment	9	971	1,153	1,062
Intangible assets	10	32	33	40
<i>Total non-current assets</i>		1,003	1,186	1,102
Total assets		6,805	6,806	6,905
Liabilities				
Current liabilities				
Creditors and other payables	11	462	485	517
Employee entitlements	12	411	370	383
<i>Total current liabilities</i>		873	855	900
Non-current liabilities				
Employee entitlements	12	78	62	72
<i>Total non-current liabilities</i>		78	62	72
Total liabilities		951	917	972
Net Assets		5,854	5,889	5,933
Equity				
General funds	13	3,752	3,818	3,760
Board created reserves	13	2,102	2,071	2,173
Total equity		5,854	5,889	5,933

Explanations of significant variances against budget are detailed in note 23.

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the Year ended 30 June 2012

	Note	Actual 2012 \$000	Budget 2012 \$000	Actual 2011 \$000
Balance at 1 July		5,933	5,984	6,077
Total comprehensive income		(79)	(95)	(144)
Balance at 30 June		5,854	5,889	5,933

Explanations of significant variances against budget are detailed in note 23.

The accompanying notes form part of these financial statements.

Statement of Cash Flows for the Year ended 30 June 2012

	Note	Actual 2012 \$000	Budget 2012 \$000	Actual 2011 \$000
Cash flows from operating activities				
Receipts from Crown revenue		7,819	7,584	7,647
Interest received		181	153	155
Receipts from other revenue		124	97	88
Payments to suppliers		(4,754)	(4,412)	(4,744)
Payments to employees		(3,203)	(3,247)	(3,150)
Goods and services tax (net)		(38)	(7)	46
Net cash from operating activities	14	129	168	42
Cash flows from investing activities				
Receipts from sale of property, plant and equipment		-	-	-
Acquisition of investments		(47)	54	(1,851)
Purchase of property, plant and equipment		(64)	(222)	(46)
Purchase of intangible assets		(3)	(10)	(19)
Net cash from investing activities		(114)	(178)	(1,916)
Net increase/(decrease) in cash and cash equivalents		15	(10)	(1,874)
Cash and cash equivalents at the beginning of the year		635	570	2,509
Cash and cash equivalents at the end of the year	5	650	560	635

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Explanations of significant variances against budget are detailed in note 23.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1 Statement of accounting policies for the year ended 30 June 2012

Reporting entity

The New Zealand Artificial Limb Board (now known as the New Zealand Artificial Limb Service) is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. As such, the New Zealand Artificial Limb Board's ultimate parent is the New Zealand Crown.

The New Zealand Artificial Limb Service's primary objective is to provide public services to the New Zealand public, as opposed to that of making a financial return. Accordingly, the New Zealand Artificial Limb Service has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements for the New Zealand Artificial Limb Service are for the year ended 30 June 2012, and were approved by the Board on 31 October 2012.

Basis of preparation

Statement of Compliance

The financial statements of the New Zealand Artificial Limb Service have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

New Zealand Artificial Limb Service is a qualifying entity under the Framework of Differential Reporting as it not deemed publicly accountable for this purpose and is a small entity.

Accordingly, New Zealand Artificial Limb Service has taken the following exemptions allowed under the Framework

- IAS 1 paragraph 122 & 125
- IAS 8 paragraph 30
- IAS 24 paragraph 17
- IFRS 7 paragraph 25
- IFRS 7 paragraph 27 – 42

Measurement base

The financial statements have been prepared on a historical cost basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). The functional currency of the New Zealand Artificial Limb Service is New Zealand dollars.

Changes in accounting policy

There have been no changes in accounting policy.

The New Zealand Artificial Limb Service has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

- Amendments to NZ IAS 1 Presentation of Financial Statements. The amendments introduce a requirement to present, either in the statement of changes in equity of the notes, for each component of equity, an analysis of other comprehensive income by item. New Zealand Artificial Limb Service has no comprehensive income to report.

There are no further standards, amendments and interpretations issued that are relevant to New Zealand Artificial Limb Service.

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

- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following main phases: Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Service (XRB). Under this Accounting Standards Framework, New Zealand Artificial Limb Service is classified as a Tier 2 reporting entity and it will be required to apply the Public Benefit Entity Accounting Standards Reduced Disclosure Regime (PAS RDR). These standards are being developed by the XRB based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2012. This means New Zealand Artificial Limb Service expects to transition to the new standards in preparing its 30 June 2015 financial statements. As the PAS RDR are still under development, New Zealand Artificial Limb Service is unable to assess the implications of the new Accounting Standards Framework at this time.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all the new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

Significant accounting policies

Revenue

Revenue is measured at the fair value of consideration received or receivable.

Revenue from the Crown

The New Zealand Artificial Limb Service principally derives its revenue from the Crown through contracts with the Ministry of Health and ACC for services to third parties. The funding is restricted in its use to the purpose of meeting the New Zealand Artificial Limb Service's objectives as specified in the statement of intent.

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates.

Interest

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the original effective interest rate.

Provision of services

Revenue derived through the provision of services to third parties is recognised upon completion at the balance date.

Leases

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the New Zealand Artificial Limb Service are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the statement of comprehensive income.

Grant expenditure

Discretionary grants are those where the New Zealand Artificial Limb Service has no obligation to award on receipt of the grant application and are recognised as expenditure when deliverables approved by the Board have been met.

Cash and cash equivalents

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

Debtors and other receivables

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

Impairment of a receivable is established when there is objective evidence that the New Zealand Artificial Limb Service will not be able to collect amounts due according to the original terms of the

receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due).

Investments

At each balance sheet date the New Zealand Artificial Limb Service assesses whether there is any objective evidence that an investment is impaired.

Bank deposits

Investments in bank deposits are initially measured at fair value plus transaction costs. After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest method. For bank deposits, impairment is established when there is objective evidence that the New Zealand Artificial Limb Service will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability that the bank will enter into bankruptcy, and default in payments are considered indicators that the deposit is impaired.

Inventories

Inventories are held for the provision of services and measured at the lower of cost (calculated using the weighted average cost method) and current replacement cost. Where inventories are acquired at no cost or for nominal consideration, the cost is the current replacement cost at the date of acquisition. Inventories include stock on hand and work in progress.

Inventories classified as work in progress are valued at the weighted average cost at the time they were used. Labour is included at cost.

The write-down from cost to current replacement cost or net realisable value is recognised in the statement of comprehensive income in the period when the write-down occurs.

Accounting for foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars (the functional currency) 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 surplus or deficit.

The New Zealand Artificial Limb Service does not currently use forward exchange contracts to hedge exposure to foreign exchange risk.

Property, plant and equipment

Property, plant and equipment asset classes consist of leasehold improvements, plant and equipment, furniture and fittings and computer equipment.

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

Additions

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

Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income.

Subsequent costs

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

The costs of day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, 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:

Leasehold Improvements	4.75 to 50 years	(2%-21%)
Plant and equipment	10 years	(10%)
Furniture and fittings	5 years	(20%)
Computer equipment	3 years	(33%)

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

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

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with the development and maintenance of the New Zealand Artificial Limb Service's website are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the statement of comprehensive income.

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

Acquired computer software	5 years	(20%)
Developed computer software	5 years	(20%)

Impairment of property, plant, and equipment and intangible assets

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

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 New Zealand Artificial Limb Service 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.

Creditors and other payables

Creditors and other payables are recorded at their face value.

Employee entitlements

Short-term employee entitlements

Employee entitlements that the New Zealand Artificial Limb Service expects to be settled within 12 months of balance date are measured at undiscounted 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 Artificial Limb Service recognises a liability for sick leave to the extent that compensated 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 the New Zealand Artificial Limb Service anticipates it will be used by staff to cover those future absences.

The New Zealand Artificial Limb Service recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where there is a past practice that has created a constructive obligation.

Long-term employee entitlements

Long service leave entitlements that are payable beyond 12 months have been calculated on an actuarial basis.

The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cash flows.

The discount rate is based on the weighted average of interest rates for Government stock with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Presentation of employee entitlements

Sick leave, annual leave, and vested long service leave are classified as a current liability. Non-vested long service leave expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to Kiwisaver and the NZ Artificial Limb Service Superannuation Scheme are accounted for as defined contribution superannuation scheme and are recognised as an expense in the statement of comprehensive income as incurred.

Defined benefit schemes

The New Zealand Artificial Limb Service makes contributions to the Defined Benefit Plan Contributors Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in note 16.

Provisions

The New Zealand Artificial Limb 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 expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 an interest expense and reported as a “finance cost”.

Goods and Service Tax (GST)

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income Tax

The New Zealand Artificial Limb Service is a public authority and consequently is exempt from the payment of income tax. Accordingly, no charge for income tax has been provided for.

Budget figures

The budget figures are derived from the Statement of Intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the New Zealand Artificial Limb Service for the preparation of the financial statements.

Critical accounting estimates and assumptions

Estimating useful lives and residual values of property, plant and equipment

At each balance date, the useful lives and residual values of property, plant, and equipment are reviewed. Assessing the appropriateness of useful life and residual value estimates of property, plant, and equipment requires a number of factors to be considered such as the physical condition of the asset, expected period of use of the asset by the New Zealand Artificial Limb Service, and expect disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will affect the depreciation expense recognised in the surplus or deficit, and carrying amount of the asset in the statement of financial position. The New Zealand Artificial Limb Service minimizes the risk of this estimation by:

- physical inspection of assets;
- review of second hand market prices for similar assets

The New Zealand Artificial Limb Service has not made significant changes to past assumptions concerning useful lives and residual values.

Long service leave

Note 12 provides an analysis of the exposure in relation to estimates and uncertainties surrounding long service leave liabilities.

Critical judgements in applying accounting policies

Leases classification

Determining whether a lease agreement is a finance or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the New Zealand Artificial Limb Service.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate present value of the minimum lease payments. Classification as a finance lease means that the asset is recognised in the statement of financial position as property, plant, and equipment, whereas for an operating lease no such asset is recognised.

2 Revenue from Crown

The New Zealand Artificial Limb Service has been provided with funding principally from the Crown for the specific purposes of the New Zealand Artificial Limb Service as set out in its founding legislation and the scope of the relevant Government appropriations. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to Government funding (2011: nil).

3 Personnel costs

	Actual 2012 \$000	Actual 2011 \$000
Salaries and wages	3,098	3,034
Employer contributions to defined contribution plans	105	116
Increase/(decrease) in employee entitlements (note 12)	34	52
Total personnel costs	3,237	3,202

Employer contributions to defined contribution plans include contributions to Kiwisaver, NZ Artificial Limb Board Superannuation Plan with New Zealand Retirement Trust and the National Provident DBP Contributors Scheme.

4 Other Expenses

	Actual 2012 \$000	Actual 2011 \$000
Fees to auditor		
Audit fees for financial statement audit	30	29
Board members' fees	80	81
Board members' expenses	27	19
Material costs	3,672	3,639
Operating lease expense	136	136
Consultancy	12	57
Net foreign exchange losses	-	12
Net loss on sale of property, plant and equipment	5	-
Other	665	667
Total other expenses	4,627	4,640

5 Cash and cash equivalents

	Actual 2012 \$000	Actual 2011 \$000
Cash on hand and at bank	650	635
Cash equivalents – term deposits	-	-
Total cash and cash equivalents	650	635

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value.

The weighted average effective interest rate for term deposits is 5.02% (2011: 4.67%).

6 Debtors and other receivables

	Actual 2012 \$000	Actual 2011 \$000
Trade debtors	653	663
Other receivables	5	20
Interest accrual	42	56
Total debtors and other receivables	700	739

The carrying value of receivables approximates their fair value.

7 Inventories

	Actual 2012 \$000	Actual 2011 \$000
Materials	703	675
Work in progress	194	238
Total inventories	897	913

The New Zealand Artificial Limb Service does not currently hold any inventory for distribution (2011: nil).

The write-down of materials held for production amounted to \$2,814 (2011: \$43,444). This included a reversal of write-down for materials from 2011 of \$1,186.

There are no inventories pledged as security for liabilities; however some inventories are subject to retention of title clauses until paid for in full.

8 Investments

	Actual 2012 \$000	Actual 2011 \$000
Current investments are represented by:		
Term deposits	3,533	3,486
Total investments	3,533	3,486

There were no impairment provisions for investments.

The carrying amount of term deposits with maturities less than twelve months approximate their fair value.

9 Property, plant and equipment

Movements for each class of property, plant and equipment are as follows:

	Leasehold Improvements \$000	Plant & equipment \$000	Furniture and fittings \$000	Computer Equipment \$000	Total \$000
Cost or valuation					
Balance at 1 July 2010	998	733	350	244	2,325
Additions	-	9	8	27	44
Disposals	-	(1)	(2)	(31)	(34)
Balance at 30 June 2011	998	741	356	240	2,335
Balance at 1 July 2011	998	741	356	240	2,335
Additions	-	31	18	15	64
Disposals	-	(1)	(30)	(24)	(55)
Balance at 30 June 2012	998	771	344	231	2,344
Accumulated depreciation and impairment losses					
Balance at 1 July 2010	170	479	302	214	1,165
Depreciation expense	50	58	18	16	142
Impairment losses	-	-	-	-	-
Eliminate on disposal	-	(1)	(2)	(31)	(34)
Balance at 30 June 2011	220	536	318	199	1,273
Balance at 1 July 2011	220	536	318	199	1,273
Depreciation expense	49	60	14	24	147
Impairment losses	-	-	-	-	-
Eliminate on disposal	-	(1)	(21)	(25)	(47)
Balance at 30 June 2012	269	595	311	198	1,373
Carrying amounts					
At 1 July 2010	828	254	48	30	1,160
At 30 June and 1 July 2011	778	205	38	41	1,062
At 30 June 2012	729	176	33	33	971

There are no restrictions over the title of the New Zealand Artificial Limb Service's plant and equipment, nor are there any plant and equipment pledged as security for liabilities.

10 Intangible assets

Movements for each class of property, plant and equipment are as follows:

	Acquired software \$000	Internally generated software \$000	Total \$000
Cost			
Balance at 1 July 2010	234	540	774
Additions	19	-	19
Balance at 30 June 2011	253	540	793
Balance at 1 July 2011	253	540	793
Additions	3	-	3
Balance at 30 June 2012	256	540	796
Accumulated amortisation and impairment losses			
Balance at 1 July 2010	202	539	741
Amortisation expense	11	1	12
Balance at 30 June 2011	213	540	753
Balance at 1 July 2011	213	540	753
Amortisation expense	11	-	11
Balance at 30 June 2012	224	540	764
Carrying amounts			
At 1 July 2010	32	1	33
At 30 June and 1 July 2011	40	-	40
At 30 June 2012	32	-	32

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

11 Creditors and other payables

	Actual 2012 \$000	Actual 2011 \$000
Creditors	223	160
Income in advance	11	14
Accrued expenses	132	199
GST	96	144
Total creditors and other payables	462	517

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 approximated their fair value.

12 Employee entitlements

	Actual 2012 \$000	Actual 2011 \$000
Current employee entitlements are represented by:		
Accrued salaries and wages	136	76
Annual leave	254	283
Sick leave	8	5
Long service leave	13	19
<i>Total current portion</i>	411	383
Non-current employee entitlements are represented by:		
Long service leave	78	72
<i>Total non-current portion</i>	78	72
Total employee entitlements	489	455

The present value of long service leave obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liability.

In determining the appropriate discount rate the New Zealand Artificial Limb Service considered the interest rates on NZ Government bonds which have terms to maturity that match, as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns by an independent actuary. A weighted average discount rate of 3.5% (2011:6.2%) and an inflation factor of 3.0% (2011: 3.0%) were used.

If the discount rate were to differ by 1% from the New Zealand Artificial Limb Service's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$5,400 higher/lower.

If the salary inflation factor were to differ by 1% from the New Zealand Artificial Limb Service's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$5,400 higher/lower.

13 Equity

	Actual 2012 \$000	Actual 2011 \$000
General funds		
Balance at 1 July	5,933	6,077
Surplus/(deficit)	(79)	(144)
Balance at 30 June	5,854	5,933
Less Board-created reserves		
Property occupancy reserve	(1,413)	(1,483)
IT enhancement reserve	(178)	(178)
Centre upgrading reserve	(183)	(183)
Research and development reserve	(316)	(317)
Special funding reserve	(12)	(12)
Closing general funds	3,752	3,760
Movement in Board reserves		
Property occupancy reserves		
Opening balance	1,483	1,561
Transferred from general funds	(70)	(78)
Balance as at 30 June	1,413	1,483
IT enhancement reserve		
Opening balance	178	178
Transferred from general funds	-	-
Balance as at 30 June	178	178
Centre upgrading reserve		
Opening balance	183	215
Transferred from general funds	-	(32)
Balance as at 30 June	183	183
Research and development reserve		
Opening balance	317	346
Transferred from general funds	(1)	(29)
Balance as at 30 June	316	317
Special funding reserve		
Opening balance	12	12
Transferred from general funds	-	-
Balance as at 30 June	12	12
Total Board created reserves	2,102	2,173

14 Reconciliation of net surplus/(deficit) to net cash from operating activities

	Actual 2012 \$000	Actual 2011 \$000
Net surplus/(deficit)	(79)	(144)
Add/(less) non-cash items		
Depreciation and amortisation expense	158	154
<i>Total non-cash items</i>	158	154
Add/(less) items classified as investing activities		
(Gains)/losses on disposal of property, plant and equipment	8	-
<i>Total items classified as investing activities</i>	8	-
Add/(less) movements in working capital items		
Debtors and other receivables	47	(156)
Inventories	16	(21)
Creditors and other payables	(55)	157
Employee entitlements	34	52
<i>Net movements in working capital items</i>	42	32
Net cash from operating activities	129	42

15 Capital commitments and operating leases

	2012 \$000	2011 \$000
Other operating commitments		
Property, plant and equipment	-	63
Total operating commitments	-	63

Operating leases as lessee

The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows

	2012 \$000	2011 \$000
Not later than one year	101	112
Later than one year and not later than five years	40	69
Later than five years	50	-
Total non-cancellable operating leases	191	181

The New Zealand Artificial Limb Service has commercial leases on two properties:

- Dunedin Limb Centre, lease expires in April 2013.
- National Office in Wellington, lease expires September 2015 with one option to vacate the premises at the lease renewal date of September 2012.
- Lease for the Auckland Limb Centre, and sub-leases for Hamilton & Wellington Limb Centre's have been renewed during 2012. These premises are provided as Crown assets at nominal rentals and are managed through the Ministry of Social Development. The sub-lease for Christchurch Limb Centre is nearing completion. New Zealand Artificial Limb Service is responsible for all associated outgoings and maintenance of these premises.

16 Contingencies

Contingent liabilities

Superannuation schemes

The New Zealand Artificial Limb Service is a participating employer in the DBP Contributors Scheme ("the Scheme"), which is a multi-employer defined benefit scheme. If the other participating employers ceased to participate in the Scheme, the New Zealand Artificial Limb Service could be responsible for any deficit in the Scheme. Similarly, if a number of employers ceased to participate in the Scheme, the New Zealand Artificial Limb Service could be responsible for an increased share of any deficit.

As at 31 March 2011²⁰, the Scheme had a past service surplus of \$37.582 million (exclusive of Specified Superannuation Contribution Tax). This surplus was calculated using a discount rate equal to the expected return on the assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19.

The Actuary of the Scheme has recommended the employer contributions are suspended with effect from 1 April 2012.

Contingent assets

The New Zealand Artificial Limb Service has no contingent assets (2011: \$nil)

²⁰ Reported is the most current valuation; the National Provident Fund actuary valuation is not available until December of each year.

17 Related party transactions and key management personnel

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

All related party transactions have been entered into on an arms' length basis.

Significant transactions with government-related entities

The Government significantly influences the role of the New Zealand Artificial Limb Service in addition to being its major source of revenue. The New Zealand Artificial Limb Service has been provided with funding, mainly through contracts from entities controlled, significantly influenced, or jointly controlled by the Crown of \$7.813m (2011: \$7.764m) for the provision of services to amputees.

Collectively, but not individually, significant, transactions with government-related entities

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

The New Zealand Artificial Limb Service also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2012 totalled \$0.325 million (2011: \$0.301 million). These purchases included the purchase of electricity from Genesis, air travel from Air New Zealand, purchase of services from District Health Boards, and postal services from New Zealand Post.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	Transaction	Ref	Transaction value year ended 30 June		Balance outstanding year ended 30 June	
			2012	2011	2012	2011
L Peacock	Amputees' Federation	ii	-	228	-	-
B Tietjens	Clinical services & attendance fees	i	4,000	2,210	2,000	1,400

(i) The New Zealand Artificial Limb Service paid fees to one individual Board member in relation to clinical services as a consulting surgeon. Amounts were billed based on normal rates for such services and were due and payable under normal commercial terms.

(ii) The New Zealand Artificial Limb Service paid registrations for the Chair and Chief Executive to attend the Amputees' Federation Conference. L Peacock is the National Coordinator, L Peacock retired from the Board September 2011.

18 Board member remuneration

The total value of remuneration paid or payable to each Board member during the year was:

	Actual 2012 \$000	Actual 2011 \$000
A G Hall (Chair - retired)	-	19
C Johnstone (Chair – new apt 2011)	30	19
L L Peacock	2	10
P Tesoriero	8	-
G Reedy	10	3
R Sainsbury	10	10
B Tietjens	10	10
K Wilfred-Riley	10	10
Total Board member remuneration	80	81

There have been no payments made to committee members appointed by the Board who are not members of the Board during the financial year.

No Board members received compensation or other benefits in relation to cessation (2011: Nil).

19 Employee remuneration

Total remuneration paid or payable	Actual 2012	Actual 2011
100,000 – 109,999	2	2
110,000 – 119,999	1	2
120,000 – 129,999	1	-
130,000 – 139,999	-	-
140,000 – 149,999	-	-
150,000 – 159,999	-	-
160,000 – 169,999	-	-
170,000 – 179,999	-	-
180,000 – 189,999	-	1
190,000 – 190,999	1	-
Total employees	5	5

During the year ended 30 June 2012, no (2011: nil) employees received compensation and other benefits in relation to cessation (2011: \$nil).

20 Events after the balance date

There were no significant events after the balance date.

21 Categories of financial assets and liabilities

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

	Actual 2012 \$000	Actual 2011 \$000
<i>Loans and receivables</i>		
Cash and cash equivalents	650	635
Term deposits	3,533	3,486
Debtors and other receivables	722	739
Total loans and receivables	4,905	4,860
<i>Financial liabilities measured at amortised cost</i>		
Creditors and other payables	462	517
Total financial liabilities measured at amortised cost	462	517

22 Capital management

The New Zealand Artificial Limb Service's capital is its equity, which comprises accumulated funds and other reserves. Equity is represented by net assets.

The New Zealand Artificial Limb Service is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

The New Zealand Artificial Limb Service manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities and general financial dealings to ensure the New Zealand Artificial Limb Service effectively achieves its objectives and purpose, whilst remaining a going concern.

23 Explanation of significant variances against budget

Explanations for significant variations from the New Zealand Artificial Limb Service's budgeted figures in the statement of intent are as follows:

Statement of Comprehensive Income

Revenue

Revenue increase of \$233,000 on budget was a combination of increased output and the impact of increasing componentry costs due to advanced technologies, including use of liner interface in prescription of new and replacement limbs.

Interest revenue

Interest revenue was higher than budgeted by \$20,000 due to tailoring investments to bank special interest rates; all term investments are generally greater than 90 days.

Operating expenses

Other expenses were greater than budgeted by \$337,000, material costs being the most significant due to a mix of the following contributing factors: increased output of new and remodeled limbs; use of more technically advanced componentry and increased use of liners and sleeves.

NEW ZEALAND ARTIFICIAL LIMB SERVICE

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