

# Treasury, 2017b

## Preparing the Annual Report and End-of-Year Performance Information on Appropriations

Guidance for Crown Entities

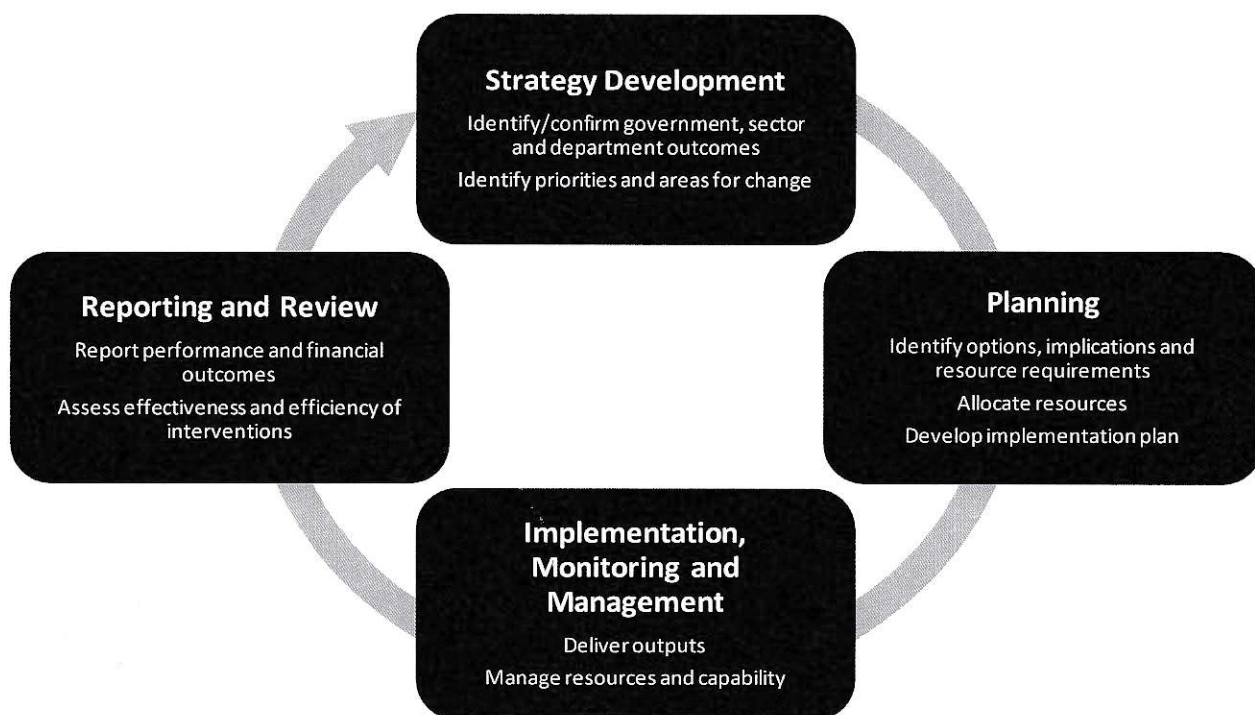
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Appendix 2  
p64



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#### Internet

The URL for this document on the Treasury's website is:  
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# What's new for 2017?

Cabinet Office Circular CO (15)5 includes requirements to report on asset performance. The requirements are set out in separate asset reporting guidance<sup>1</sup>, and will be rolled-out in progressive steps. For the 2016/17 reporting period there is a change in reporting requirements compared with those signalled last year. For 2016/17 investment-intensive agencies<sup>2</sup> must again provide the required information directly to the Treasury. There is no requirement to publish such information in the 2016/17 annual reports. (see section 2.12)

This document supersedes the *Preparing the Annual Report - Guidance and Requirements for Crown Entities* released in June 2016.

## What was new for 2014/15 and continues to apply?

This guidance incorporates key changes to year end reporting made in 2014/15:

- **Statement of performance replaces the statement of service performance** (refer to section 2.4).
- **End-of-year performance information on appropriations** – what is intended to be achieved, how performance will be assessed, who reports on performance and where that information is reported is now specified, for each appropriation, in the Estimates (or Supplementary Estimates). Greater flexibility exists around what this information looks like, where it is reported and who reports it at year end (refer to section 3).
- Crown entities can be nominated as the performance reporter for an appropriation and as a result have an obligation to prepare performance information and obtain an audit report for that performance information. This information is usually in the Crown entity's annual report. (refer to section 3).
- **The statement of responsibility**, was updated to reflect the responsibilities for reporting end-of-year performance information on appropriations (refer to section 2.7.6).
- **Changes to NZ GAAP** - The XRB introduced a two sector, multi-tier accounting framework. Crown entities financial reporting requirements may differ depending on the sector (for-profit or public benefit) and tier applicable (refer to section 2.7).
- **Changes to group reporting** - The default reporting requirement for a Crown entity group is consolidated reporting by the parent entity (refer to section 2.1).

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<sup>1</sup> Annual Report Guidance for Departments – Asset Performance Indicators can be found: <http://www.treasury.govt.nz/statesector/investmentmanagement/review/assetperfreporting>

<sup>2</sup> List of investment-intensive agencies: <http://www.treasury.govt.nz/statesector/investment-intensive-agencies>

# About this guidance

This guidance provides advice to boards, chief executives and staff of statutory Crown entities (Crown agents, autonomous Crown entities, and independent Crown entities) and Schedule 4A organisations on preparing their annual reports<sup>3</sup> and satisfying their requirements to provide end-of-year performance information on appropriations (where required). Some sections of this guidance apply to Schedule 4 and 4A organisations as these organisations have reporting requirements prescribed in the Crown Entities Act 2004 (CEA), including providing end-of-year performance information on appropriations (where required).

This guidance sets out what is required of Crown entities in terms of content and process in accordance with the CEA, and provides discussion and explanation of the main provisions and associated expectations.

Crown entities should also refer to:

- the Crown entity's establishing legislation, which may add to, or modify, the CEA requirements, and
- Subpart 1 of Part 5 of the Public Finance Act 1989 (PFA) for the first annual report for newly established Crown entities, the final annual report for disestablished Crown entities, and for annual reports where functions have been transferred to another entity.

This guidance should not be used as a substitute for reading the relevant legislation.

The guidance outlined in this document applies until this document is updated or replaced.

References to the CEA or PFA (unless otherwise stated) refer to the Act at June 2017. The Treasury consulted the State Services Commission and the Office of the Auditor General in the preparation of this document.

The table below provides information on which Government organisation can provide help to other types of Crown entities:

Agencies not covered by this guidance	Who provides advice and outlines requirements for the annual report
Crown Research Institutes	Ministry of Business, Innovation and Employment
Other Crown entity companies	Commercial Operations, the Treasury
School Boards of Trustees	Ministry of Education
Tertiary Education Institutions	Tertiary Education Commission

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<sup>3</sup> Throughout this guidance, references to "Crown entity" should be read as applying to "statutory Crown entities" (as defined under section 7(1)(a) of the CEA); and references to the "board" of a Crown entity should be read as also applying to the member of a corporation sole.



## Who should read this guidance

Those working on the annual report should read all of the material to ensure they understand the requirements and the expected standards of reporting.

Crown entity board members and senior managers of Crown entities may benefit from reading the overview to understand the purpose and overall content requirements of the annual report.

## Persistent URLs (PURLs)

This document has links to other guidance on the Treasury's website using persistent URLs (redirects maintained by the Online Computer Library Centre (OCLC) for bibliographic purposes) to ensure that users of this guidance will be redirected to the current location of guidance if the location changes on the Treasury website.

## Questions and feedback

Answers to frequently asked questions (FAQs) can be found on page 40 of this guidance.

General enquiries not addressed in this guidance can be directed to [performanceinfo@treasury.govt.nz](mailto:performanceinfo@treasury.govt.nz)

Specific Crown entity-questions should be raised with the entity's monitoring department.

## Further information

This guidance is available electronically at:

- <http://treasury.govt.nz/publications/guidance/reporting/annualreports-ce>, or
- <http://purl.oclc.org/nzt/g-cear>

Further planning and reporting guidance is available on the websites of the Treasury, the Office of the Auditor-General and the State Services Commission, including

- ***Crown Entities Act 2004 in particular Part 4***, which details the legislative requirements, and is available at: <http://www.legislation.govt.nz/default.aspx>
- ***Subpart 1 of Part 5 of the Public Finance Act 1989*** for those Crown entities that have been recently established, disestablished, have functions transferred, or for organisations named in Schedule 4 or 4A of this legislation. The legislation is available at: <http://www.legislation.govt.nz/default.aspx>
- ***Treasury Circulars*** on accounting standards covering changes to accounting standards and also details on Crown reporting. <http://www.treasury.govt.nz/publications/guidance/circulars>
- ***Model financial statements prepared by Audit New Zealand***. These are available at: <http://www.auditnz.govt.nz/publications-resources/mfs-under-new-pbe-standards/crown-entities>

- ***The Auditor-General auditing standards AG-4 Audit of Performance Reports.*** The latest version of AG-4 Audit of Performance Reports is available here: <http://www.oag.govt.nz/2014/auditing-standards/docs/ag-4-rev-service-performance.pdf>
- ***The Auditor-General's observations on the quality of performance reporting,*** June 2008, available at: <http://www.oag.govt.nz/2008/performance-reporting/docs/performance-reporting.pdf>  
Further reports produced by the Office of the Auditor-General that discuss performance information and how it is reported by public entities can be found at <http://www.oag.govt.nz/reports/performance-reporting>
- ***Performance measurement: advice and examples on how to develop effective frameworks*** (2008). Guide <http://www.ssc.govt.nz/performance-measurement>
- ***Requirements for tabling the annual report*** are set out in *Presentation of papers to the House* which is available at: <https://www.parliament.nz/en/pb/papers-presented/presentation-of-papers/>



# Overview

## The annual report and the Crown entities Act

### **Statutory requirement: Section 151(2) of the CEA:**

The annual report must provide the information that is necessary to enable an informed assessment to be made of the entity's operations and performance for that financial year, including an assessment of the entity's progress in relation to its strategic intentions as set out in the most recent statement of intent.

An annual report is one of the most important ways Crown entities are accountable to Members of Parliament and the public. It enables Members of Parliament to review the performance of agencies and sectors and to hold them to account for the use of resources and powers. The annual report is a key resource for select committees conducting annual reviews of Crown entities. Select Committee interest lies in what has been achieved with those resources and powers, and whether they have been used wisely, prudently, in the public interest, and in accordance with the law.

While the annual report covers the operations of the Crown entity during the preceding financial year (usually 1 July to 30 June), Crown entities are encouraged to include comparative (trend) information from earlier years to give a fuller picture of long-term progress.

## Crown entities and the annual report

The annual report is a mechanism to:

- enable effective governance and management of the Crown entity
- promote better understanding and debate on how to improve future performance, and
- assess the Crown entity's performance over time, including its performance collaborating with other entities about a common purpose.

## The annual report and the performance story

The annual report is part of a continuous management cycle that involves reviewing actual results against stated intentions, which then feeds back into the next cycle of direction-setting, planning, implementation and review.

The reporting in the annual report should give a clear picture of the overall performance for the Crown entity. So, in addition to the financial statements, the annual report should report on progress against the outcomes and measures detailed in the Statement of Intent, the Statement of Performance Expectations and any other information or measures necessary to provide this overall performance story.

Other than the mandatory audited statements<sup>4</sup>, Crown entities should focus most of their reporting effort on the critical aspects of their performance and assess these against their strategic intentions in their Statement of Intent.

Performance measurement and reporting is not a cost-free exercise, and the reader should get a clear sense of what matters most. When deciding which aspects of performance should be given most attention in explaining achievements and progress, Crown entities may find it useful to consider the significance of performance achievements and variances to intended performance in the context of:

- value for money
- the significance of the economic, social, and environmental impact, and
- the importance to the overall success and future operational effectiveness of the Crown entity.

### ***Characteristics of good performance information***

There are four qualitative characteristics of good performance information. They are:

- **Understandability** - The information must be understandable by users. Users are assumed to have a reasonable knowledge of the business and a willingness to study the information with reasonable diligence. Information about complex matters that should be included because of its relevance should not be excluded merely on the grounds that it may be too difficult for certain users to understand.
- **Relevance** – To be useful, information must also be relevant to the decision-making needs of the users. Information is relevant when it influences the users by helping them evaluate past, present or future events or confirms or corrects their past evaluations. In order to be relevant, information must also be timely. Materiality is also an important consideration as agencies need to avoid information overload. Information is material if its omission or misstatement could influence the decisions of users.
- **Reliability** – To be useful, information must also be reliable. Information is reliable when:
  - it represents what it purports to represent or could reasonably be expected to represent
  - it is presented in accordance with substance and reality and does not merely meet the legal requirements
  - it is neutral ie, free from bias
  - a degree of caution was exercised when judgements were needed in the face of uncertainty, and
  - it is complete, within the bounds of materiality.
- **Comparability** – To be useful, users should be able to compare performance through time and also with similar functions in other agencies.

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<sup>4</sup> Financial Statements and Statements of Performance.



For assistance in developing robust performance measurement frameworks, refer to *Performance Measurement: Advice and examples on how to develop effective frameworks*<sup>5</sup>. The State Services Commission and the Treasury, with the support of the Office of the Auditor-General, have developed the performance measurement guide to help state sector agencies to critically assess their progress to date and identify a clear path forward.

### ***Quality of non-financial performance information***

Central agencies and the Auditor-General continue to express concerns about the quality of non-financial performance information provided in annual reports. Crown entities are encouraged to think about the overall performance story that the annual report provides. This also applies to end-of-year performance information on appropriations.

It is also helpful to understand what the Auditor-General looks for when forming an independent opinion on service reporting. The Auditor-General assesses performance information on whether the information complies with generally accepted accounting practice (GAAP), and fairly reflects the Crown entity's performance for the year. To do this the auditor forms a view about:

- whether the strategic intentions provides an adequate framework for reporting performance, and
- whether the statement of performance complies with GAAP and fairly reflects the performance of the Crown entity.

Among other things, this requires the auditor to both:

- draw a conclusion on the appropriateness of the content of the statement of performance, and
- verify that content.

## **End-of-Year performance information on appropriations**

Where the Crown entity is funded by an appropriation and has been identified in the Estimates as the provider of the end of year appropriation performance information in its annual report, it must report the relevant information transparently in its annual report.

## **Structure of the annual report**

The CEA specifies the information that Crown entities must provide, but not the form in which it must be provided. The structure of the annual report is the responsibility of each Crown entity, as the document needs to reflect the nature and complexity of each entity's particular functions.

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5 <http://www.ssc.govt.nz/performance-measurement>

## Presenting reports in the same document

Crown entities can present and publish their annual report in a single document containing any other report or information with those of other Crown entities or departments. This flexibility allows Crown entities to present readers with a more complete picture of performance where multiple entities work towards the same outcomes. It also allows annual reports to be presented in the same document as strategic intentions. When utilising this flexibility, Crown entities must ensure **that all reports are separately identifiable within the overall document.**

## Assistance

Crown entities should seek assistance about preparing the annual report from their monitoring department(s). Monitoring departments will consult central agencies, as necessary, before providing advice.



# 1 Process and production of the annual report

## 1.1 Roles and responsibilities

### **Statutory requirement Section 150(1) of the CEA:**

- (1) A Crown entity must—
  - (a) as soon as practicable after the end of each financial year, prepare and report on the affairs of the Crown entity; and
  - (b) provide the report to its responsible Minister no later than 15 working days after receiving the audit report provided under section 156.

### 1.1.1 Responsibility of the Crown entity board

#### **Statutory requirement: Section 151(3) of the CEA:**

- (2) An annual report must be in writing, be dated, and be signed on behalf of the board by 2 members, or, in the case of a corporation sole, by the sole member.

Under section 150 of the CEA, the obligation to prepare an annual report is on the Crown entity, which in practice means the board. The expectation that boards are involved in the annual report process is reflected by the requirement that the annual report is signed and dated by two of the Crown entity's board members (or by the member of a corporation sole). This requirement can be met by having the board members sign and date a simple statement that they are pleased to present the annual report of the Crown entity, though normally the statement would also provide an overview of the Crown entity's achievements and challenges during the financial year.

#### **Statutory requirement: Section 155(d) of the CEA:**

The statement of responsibility must—...

- (d) be dated and signed on behalf of the board by 2 members, or, in the case of a corporation sole, by the sole member.

Two board members must sign the statement of responsibility, which is an explicit and detailed statement of the board's responsibility for the annual financial statements, the statement of performance (non-financial performance) and end-of-year performance information on appropriations provided by the Crown entity.



### **The board's collective duties**

#### **Statutory requirement: Section 50 of the CEA:**

The board of a statutory entity must ensure that the statutory entity performs its functions-

- (a) efficiently and effectively; and
- (b) in a manner consistent with the spirit of service to the public; and
- (c) in collaboration with other public entities (within the meaning of that term in the Public Audit Act 2001) where practicable.

#### **Statutory requirement: Section 51 of the CEA:**

The board of a statutory entity must ensure that the entity operates in a financially responsible manner and, for this purpose, that it

- (a) prudently manages its assets and liabilities; and
- (b) endeavours to ensure –
  - i) its long term financial viability; and
  - ii) that it acts as a successful going concern.

Two of the board's collective duties are that the Crown entity's functions must be performed efficiently, effectively and consistently with the spirit of service and that the Crown entity must operate in a financially responsible manner. The annual report is one way a board can demonstrate that it is meeting these collective duties.

### **1.1.2 Responsibility of the Auditor-General**

#### **Statutory requirement: Section 156(2) of the CEA:**

The Auditor-General must—

- (a) audit the statements referred to in subsection [156] (1)(a); and
- (b) provide an audit report on them to the Crown entity within 4 months after the end of each financial year.

The Auditor-General must audit all Crown entities. The Auditor-General appoints auditors to undertake this function on his behalf. The auditor's role is to audit the financial statements, statement of performance of the Crown entity, including end-of-year performance information that the Crown entity is required to provide under section 19A of the Public Finance Act 1989, and any other material they have agreed or are required to audit. The auditor, on behalf of the Auditor-General, must then provide an independent audit report by the end of October each year for inclusion in the annual report. Recently established or disestablished Crown entities or Crown entities which have had functions transferred may have slightly different requirements (refer to section 2.11).

While the auditor is required to attest only to the audited information, the auditor has a responsibility to consider whether other information in the annual report (that they do not audit) is consistent with the audited information. Therefore, the auditor may ask questions about other matters in the annual report.



### 1.1.3 Responsibility of the Minister

**Statutory requirement: Section 150(3) of the CEA:**

A responsible Minister of a Crown entity (or another Minister, if subsection (6) applies) must present the entity's annual report to the House of Representatives within 5 working days after the responsible Minister receives the annual report or, if Parliament is not in session, as soon as possible after the commencement of the next session of Parliament.

The Crown entity's responsible Minister must present the annual report to the House. This reflects the Minister's own accountability to Parliament.

Where an annual report is being presented in a single document that contains other report(s) or set(s) of information, and another Minister is responsible for presenting the accompanying report(s) or set(s) of information then the other Minister may assume responsibility for presenting the annual report to the house.

### 1.1.4 Role of the monitoring department

**Statutory requirement: Section 27A of the CEA:**

The role of the monitor is, in relation to the monitored statutory entity,—

- (a) to assist the responsible Minister to carry out his or her role (which is described in section 27); and
- (b) to perform or exercise any or all of the following functions, duties, or powers:
  - (i) administering appropriations:
  - (ii) administering legislation:
  - (iii) tendering advice to Ministers:
  - (iv) any other functions, duties, or powers in this Act or another Act that may, or must, be performed or exercised by the monitor

The monitoring department provides advice to the responsible Minister, as required, on key aspects of a Crown entity's performance. If requested by the Crown entity, the monitoring department may assist the Crown entity in the production of the annual report. It can be useful for the Crown entity to advise the monitoring department as soon as possible of any issues arising from the annual report and to provide the monitoring department with a near-final copy of the annual report, so that the responsible Minister can be briefed on key issues in the report before it is presented to the House.

Crown entities should seek assistance from their monitoring department, in the first instance. Monitoring departments will consult central agencies, in particular the Treasury, as required before providing advice.

### 1.1.5 Role of central agencies

The Treasury's role is to provide advice on the legislative requirements set out in Part 4 of the CEA. Part 4 includes the annual report, and its companion accountability documents, the Statement of Intent and the Statement of Performance Expectations. The Treasury provides guidance and information on accounting policies for external financial reporting through its circulars.



The State Services Commission's role is to provide advice on the legislative requirements set out in Parts 1-3 of the CEA. These parts of the CEA include some areas that are required to be reported on in the annual report eg, the remuneration of board members (section 47) and where permission to act despite being interested in a matter is given to a board member (section 68).

### **1.1.6 Role of the Office of the Clerk (Bills Office)**

The Bills Office manages the process for presenting annual reports to the House. The requirements for printing and presenting annual reports, which covers size, number of copies and delivery requirements as outlined in the 6 July 2016 Office of the Clerk circular "Presentation of Papers to the House".<sup>6</sup> Questions on the presentation of reports should be directed to the Bills Office.

## **1.2 Structure and style of the annual report**

While there is no prescribed format for the annual report, it is sensible that:

- the annual report reflects the framework of the most recent Statement of Intent and Statement of Performance Expectations
- reportable outputs in the annual report are aligned with those in the Statement of Intent and in the Estimates of Appropriations, and
- the information is set out in a way that is clear and accessible, plain in style, concise, relevant, and focused on meeting the needs of Ministers and Members of Parliament.

Including a glossary and/or defining specialised terms is also useful.

### **1.2.1 Annual reports which are parliamentary papers**

Some Crown entity annual reports, once presented to the House, are treated as parliamentary papers and published under the authority of the House. These annual reports must conform to requirements for parliamentary papers, as specified by the Office of the Clerk. Under current requirements, parliamentary papers must be produced in A4 size and include the appropriate shoulder number in the top right-hand corner of the cover and title page. Shoulder numbers are issued by the Office of the Clerk (Bills Office). The title page should include the formal name of the Crown entity and the financial year to which the annual report relates. It should also indicate that it is presented to the House of Representatives pursuant to section 150(3) of the CEA. Crown entities are advised to contact the Bills Office if they are unsure whether their annual report is a parliamentary paper.

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<sup>6</sup> <https://www.parliament.nz/en/pb/papers-presented/presentation-of-papers/or> by contacting the Office of the Clerk.



### 1.2.2 Preparing for publication

As well as placing a copyright statement on your annual report you are also encouraged to insert a licence setting out the terms by which this copyright work can be re-used. Please refer to the New Zealand Government Open Access and Licensing framework (NZGOAL) which is government guidance approved by Cabinet (CAB Min (10) 24/5A refers) for agencies to follow when releasing copyright works and non-copyright material for re-use by others.

NZGOAL seeks to standardise the licensing of government copyright works for re-use using Creative Commons New Zealand law licences and recommends the use of 'no-known rights' statements for non-copyright material. Creative Commons licences are freely available copyright licences that enable the sharing of copyright works for re-use in a standardised way and in forms that are human, machine and lawyer readable.

Cabinet has:

- directed all Public Service departments, the New Zealand Police, the New Zealand Defence Force, the Parliamentary Counsel Office, and the New Zealand Security Intelligence Service
- strongly encouraged other State Services agencies (other than school boards of trustees, and
- invited school boards of trustees,

to:

- familiarise themselves with NZGOAL, in its current form and as may be updated from time to time, and
- take NZGOAL into account when releasing copyright material and non-copyright material to the public for re-use.

Please contact [opendata@linz.govt.nz](mailto:opendata@linz.govt.nz) for further information.

### 1.2.3 International standard serial number (ISSN)

An ISSN is a worldwide identification code for serial publications. There is no requirement for annual reports to have ISSNs. If a Crown entity does not have an ISSN for its annual report, it is not required to obtain one. If, however, a Crown entity already has an ISSN for its annual report, it may continue to use this. The ISSN for the annual report does not change between years, and should be printed on the cover in the bottom left-hand corner. Crown entities that wish to obtain a number for their annual report should contact the National Library of New Zealand within the Department of Internal Affairs.

## 1.3 Timetable for presentation and publication

Sections 1.3.1 to 1.3.3 below contain the legislative requirements and any other expectations about presentation of the annual report to the House, and the publication of the annual report by the Crown entity. Section 1.3.4 contains a consolidated timetable for this information.

### 1.3.1 Annual report provided to the Minister

**Statutory requirement: Section 150(1)(b) of the CEA:**

- (1) A Crown entity must—
  - (b) provide the [annual] report to its responsible Minister no later than 15 working days after receiving the audit report under section 156.

Crown entities have 15 working days from the time the audit report is provided to finalise and print their annual report as well as provide it to their responsible Minister so that the Minister can present it to the House.

### 1.3.2 Annual report presented to the House

**Statutory requirement: Section 150(3) of the CEA:**

A responsible Minister of a Crown entity (or another Minister if subsection (6) applies) must present the entity's annual report to the House of Representatives within 5 working days after the responsible Minister receives the annual report, or if Parliament is not in session, as soon as possible after the commencement of the next session of Parliament.

The CEA provides that annual reports may be presented to the House on any working day, whether or not the House is sitting at the time.

### 1.3.3 Annual report to be published

**Statutory requirement: Section 150(4) of the CEA:**

A Crown entity must publish its annual report as soon as practicable after it has been presented to the House of Representatives, but in any case not later than 10 working days after the report is received by the Minister, in a manner consistent with any instructions given under section 174.

Section 174 of the CEA provides for the Minister of Finance to issue instructions on minimum requirements for publications, and the ability to prescribe non-financial reporting standards. To date no instructions have been issued by the Minister of Finance.

As annual reports are public documents, they are required to be published. The version of the annual report that is published by a Crown entity must be the version that is presented to the House. Staff who are most likely to respond to public enquiries should be aware of the annual report, and the expectation that the annual report is made available for the public. Crown entities also need to ensure that they have sufficient printed copies to meet expected demand (where soft copies are not appropriate).



Electronic publication of annual reports is encouraged and should be in accordance with the practice recommended in the New Zealand Government Web Standards<sup>7</sup>. The auditors will insert a disclaimer into the audit reports for reports published electronically. The current Statement of Intent, Statement of Performance Expectations and previous versions of those documents and annual reports should also be available so that a reader can see the performance story over the longer term.

### 1.3.4 Combined presentation and publication timetable

The table below provides the timetable of the legislative requirements discussed in sections 1.3.1 – 1.3.3. The timetable takes account of the variation that will occur this election year.

Action		Final Date	
A. Provide annual financial statements, statement of performance and end-of-year performance information that the Crown entity is required to provide to the Auditor-General [section 156(1)(a)].*		By 30 September (within 3 months of the end of the financial year - 30 June).	
B. Provide draft annual report to Auditor-General [section 156(1)(b)].		By early October.	
C. Receive audit report from the Auditor-General [section 156(2)(b)].		By 31 October.	
D. Provide annual report to responsible Minister [section 150 (1)(b)].		Within 15 working days of C.	
The House is in session		The House is not in session, having been dissolved for a general election	
Action	Final Date	Action	Final Date
E. Responsible Minister presents annual report to the House [section 150(3)].	Within 5 working days of D.	F. Crown entity publishes the annual report [section 150(4)].	Within 10 working days of D.
G. Crown entity publishes the annual report [section 150(4)].	Within 10 working days of D.	H. Responsible Minister presents annual report to the House [section 150(3)].	On second day of the meeting of the new Parliament.**

\* All sections of legislation referred to in this timetable relate to the CEA.

\*\* As soon as possible after the commencement of the next session of Parliament. Standing Order 14 refers.

<sup>7</sup> <https://webtoolkit.govt.nz/standards>

## 2 The content of the annual report

### 2.1 Organisational coverage of the annual report

The annual report focuses on the Crown entity's performance. It encompasses the whole of the Crown entity's business, including interests in other entities.

#### 2.1.1 Single-parent subsidiaries

**Statutory requirement: Section 156A of the CEA:**

- (1) A Crown entity (entity A) that is a member of a Crown entity group need not comply with this subpart except as required by this section and section 156B.
- (2) Entity A must prepare a statement or report under this subpart if, at the relevant time,—
  - (a) entity A has 1 or more subsidiaries; and
  - (b) entity A is not a subsidiary of another Crown entity.
- (3) If entity A is required by this section to prepare a statement or report, this subpart—
  - (a) must be read as if it required the statement or report to include consolidated information in respect of the Crown entity group comprising entity A and its subsidiaries, rather than information in respect of entity A only; and
  - (b) otherwise applies with any necessary modifications

**Section 156B of the CEA:**

- (1) Despite section 156A, the Minister of Finance may, by notice in writing, require entity A or any other member of a Crown entity group (a specified entity) to prepare 1 or more statements or reports under this subpart as if it were not a member of a Crown entity group

Group reporting by the parent entity is now the default position. Only consolidated group financial information is required to be audited. The Minister of Finance has the right to require, in writing, any member of a Crown entity group to report separately. Such a notice must specify which statements and/or reports the Crown entity are required to produce and for which financial years the statements and/or reports are required.

Sections 7(1)(c) and 8 of the CEA define Crown entity subsidiaries as companies incorporated under the Companies Act 1993 that are controlled<sup>8</sup> by one or more Crown entities.

Where a subsidiary is controlled by a single parent, for reporting purposes it forms part of that parent's "Crown entity group" (as defined in section 136(1) of the CEA). This term also includes any entity that is a subsidiary for the purpose of a financial reporting standard that applies to the Crown entity under GAAP. This captures non-company subsidiaries such as trusts and incorporated societies, as well as companies that are not Crown entity subsidiaries

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<sup>8</sup> As defined in sections 5-8 of the Companies Act 1993



## **2.1.2 Multi-parent subsidiaries (other than those part-owned by School Board of Trustees or Tertiary Education Institutions)**

**Statutory requirement: Section 157(A) of the CEA:**

- (1) This section applies to a multi-parent subsidiary other than a multi-parent subsidiary to which section 157 applies.
- (2) The multi-parent subsidiary need not comply with this subpart except as required under this section.
- (3) The Minister of Finance may, by notice in writing, require the multi-parent subsidiary to prepare 1 or more statements or reports (as defined in section 156A(4)).
- (4) A notice must specify—
  - (a) which statements or reports are required; and
  - (b) the financial years or other period (which may be until further notice) for which each statement or report is required.
- (5) Before issuing a notice, the Minister of Finance must—
  - (a) consider the operations and functions of the multi-parent subsidiary; and
  - (b) consult the responsible Minister for each parent Crown entity of the multi-parent subsidiary; and
  - (c) be satisfied that each statement or report is necessary or desirable to enhance public accountability of the multi-parent subsidiary.

Group reporting by each parent entity is now the default position. Only the consolidated group financial information is required to be audited. The Minister of Finance has the right to require, in writing, any member of a Crown entity group to report separately. Such a notice must specify which statements and/or reports the Crown entity are required to produce and for which financial years the statements and/or reports are required.

## **2.1.3 Multi-parent subsidiaries with more than one entity group**

Some multi-parent subsidiaries have parents in more than one entity group (eg, District Health Boards and Tertiary Education Institutions). In these cases, reporting requirements must be established by reference to the CEA and any entity-specific provisions in the parent's establishing Act(s).

## **2.2 The period covered**

The annual report covers the operations of the Crown entity during the preceding financial year, which for most Crown entities is from 1 July to 30 June. However, Crown entities are encouraged to include comparative (trend) information from earlier years to give a fuller picture of long-term progress. Crown entities may also wish to consider presenting their Statement of Performance Expectations, containing forecast financial information, along with their annual report to provide more information.

For Information on annual reports of newly-established Crown entities, disestablished Crown entities, and operations that have been transferred to another entity (refer to section 2.11).



## 2.3 Audited information

### Statutory requirement: Section 156(1) of the CEA:

- (1) A Crown entity must forward to the Auditor-General,—
  - (a) within 3 months after the end of each financial year,—
    - (i) the Crown entity's annual financial statements and statement of performance (if applicable); and
    - (ii) **any end-of-year performance information that the Crown entity is required to provide under section 19A of the Public Finance Act 1989**; and
    - (iii) any other information that the Auditor-General has agreed, or is required, to audit; and
  - (b) the Crown entity's annual report in a timely manner to enable the Auditor-General to review that report before providing the audit report required under subsection (2)(b).

The Auditor-General is the Crown entity's auditor. The Auditor-General will appoint another auditor to act on his behalf. The Crown entity is responsible for producing its annual report and providing the relevant material to the auditor in a timely manner.

## 2.4 Statement of performance

### Statutory requirement: Section 153 of the CEA:

A statement of performance must, in relation to a Crown entity and a financial year,—

- (a) be prepared in accordance with generally accepted accounting practice; and
- (b) describe each **reportable class of outputs** for the financial year; and
- (c) include, for each reportable class of outputs identified in the entity's statement of performance expectations for the financial year,—
  - (i) the standards of delivery performance achieved by the entity, as compared with the forecast standards included in the entity's statement of performance expectations for the financial year; and
  - (ii) the actual revenue earned and output expenses incurred, as compared with the expected revenues and proposed output expenses included in the entity's statement of performance expectations for the financial year.

A statement of performance reports on the Crown entities performance against expectations set out in the Statement of Performance Expectations, prepared before the start of the year.

Reportable class of outputs, in respect of a financial year, means a class of outputs:

- (a) that the Crown entity proposes to supply in the financial year
- (b) that is directly funded (in whole or in part) by the Crown in accordance with an appropriation for the purpose, or by grants distributed under any Act, or by levies, fees, or charges prescribed by or under any Act; and
- (c) that is not exempted for that financial year by the Minister of Finance under section 149F.



Where a Crown entity does not supply any reportable outputs during the financial year, they are exempt from the requirement to produce a Statement of Performance (section 151 (1A) of the CEA).

The CEA requires Crown entities to report performance information in their Statement of Performance. The emphasis in preparing the annual report should be on providing a coherent account of achievement. Crown entities are required to present information to make clear how their work made an impact and advanced strategic objectives. A Statement of Performance is not complete unless the outcomes that the outputs are intended to contribute to are disclosed in the statement of performance or elsewhere in the annual report. Accordingly, Crown entities must present a range of non-financial performance information to comply with GAAP.

Auditors will provide detailed feedback on the Statement of Performance in accordance with audit standard (AG-4 Audit of Performance Reports): The audit of service performance reports and may include recommendations for improvement in service performance reporting<sup>9</sup> The auditors will form an opinion on whether the service performance report:

- complies with GAAP, and
- fairly reflects the performance of the Crown entity for the period.

## **2.5 End-of-year performance information on appropriations**

When a Crown entity is funded by an appropriation and has been identified in the Estimates as the provider of the end of year appropriation performance information in its annual report, it must transparently report the relevant information in its annual report. This means that the information in the annual report is consistent with information in the Estimates.

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<sup>9</sup> AG-4 (R) was updated in March 2014, and can be found here <http://www.oag.govt.nz/2014/auditing-standards/docs/ag-4-rev-service-performance.pdf>



## 2.6 Exemptions from the statement of performance

**Statutory requirement: Section 149F of the CEA:**

- (1) The Minister of Finance may exempt, for 1 or more financial years or until further notice, 1 or more classes of outputs from—
  - (a) any statement of performance expectations required under section 149C or 149D; or
  - (b) any statement of performance required under section 151(1)(b).
- (2) The Minister of Finance must not exempt a class of outputs from a statement of performance expectations or a statement of performance unless he or she is satisfied that—
  - (a) the class of outputs is not material to the statement; or
  - (b) the class of outputs will be adequately reported on to the House of Representatives by a Minister, a department, or another public entity; or
  - (c) for any other reason, the exemption does not unreasonably compromise accountability for the performance of the Crown entity.

Outputs that are exempt from the Statement of Performance Expectations need not be included in the Statement of Performance.

Financial reporting requirements remain unchanged even when an exemption is granted under section 149F.

Where a Crown entity believes that it may qualify for an exemption, it should approach its monitoring department in the first instance. The monitoring department will liaise with the Treasury as required.

## 2.7 Annual financial statements

### 2.7.1 Reporting for a Crown entity group

Unless otherwise required by the Minister of Finance, a parent entity of a Crown entity group is required to produce **consolidated financial statements only**. See section 2.1 for more information.

### 2.7.2 Statements required by GAAP

**Statutory requirement: Section 154(3)(a) of the CEA:**

(3) The financial statements must—

- (a) comply with generally accepted accounting practice;

**Statutory definition: Section 136 of the CEA:**

**generally accepted accounting practice** has the same meaning as in **section 8 of the Financial Reporting Act 2013**

In this Act, financial statements, group financial statements, a report, or other information complies with **generally accepted accounting practice** only if the report, statements, or information comply with—

- (a) applicable financial reporting standard; and
- (b) in relation to matters for which no provision is made in applicable financial standards, an authoritative notice.

The annual financial statements required under the CEA must be prepared in accordance with GAAP. NZ GAAP for Crown entities, designated as public benefit entities, requires compliance with Public Sector PBE Accounting Standards as applicable. Refer to the XRB<sup>10</sup> or the Treasury's guidance<sup>11</sup> for more information regarding these standards.

This typically requires the Crown entity to report:

- a statement of comprehensive revenue and expense, either:
  - in a single statement, with the surplus/deficit section presented first followed by the other comprehensive revenue and expense section; or
  - in two statements: A statement of financial performance displaying the components of surplus/deficit and then a statement of comprehensive revenue and expense beginning with surplus/deficit and then displaying components of other comprehensive revenue and expense.
- a statement of financial position
- a statement of changes in equity
- a statement of cash flows

<sup>10</sup> [http://xrb.govt.nz/Site/Accounting\\_Standards/Current\\_Standards/Standards\\_for\\_Public\\_Sector\\_PBEs/StdS\\_for\\_PS\\_PBEs\\_T1-4.aspx](http://xrb.govt.nz/Site/Accounting_Standards/Current_Standards/Standards_for_Public_Sector_PBEs/StdS_for_PS_PBEs_T1-4.aspx)

<sup>11</sup> <http://www.treasury.govt.nz/publications/guidance/reporting/ipsas>



- a reconciliation of net cash flows from operating activities to the net surplus or deficit in the statement of comprehensive revenue and expense, and
- notes, comprising a summary of significant accounting policies and other explanatory information.

When preparing financial statements, Crown entities should refer to the model financial statements prepared by Audit New Zealand. These are available at:  
<http://www.auditnz.govt.nz/publications-resources/mfs-under-new-pbe-standards/crown-entities/index.htm>

### 2.7.3 Related party disclosures

The Treasury runs a central process to collect Ministers' related party transactions which may need to be disclosed under *PBE IPSAS 20: Related Party Disclosures*. The Treasury will ask Ministers to complete a Ministerial Certificate about transactions which may have to be disclosed as related party transactions in a Crown entity's financial statements.

The Treasury will advise entities of any relevant related party transactions for the year by 31 July.

In addition to the Ministerial disclosures entities need to identify transactions with government related entities (entities that are controlled, jointly controlled, or significantly influenced by the Crown) that are required to be disclosed in their individual annual reports.

### 2.7.4 Financial statement comparisons

**Statutory requirement: Section 154(3)(c) of the CEA:**

- (3) The financial statements must—
- (c) include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements.

GAAP requires entities to include comparative information from the prior reporting period for all items in the financial statements. In addition, the CEA requires the inclusion of the forecast financial statements for the reporting period.

### 2.7.5 Other financial information

**Statutory requirement: Section 154(3)(b) of the CEA:**

- (3) The financial statements must —
- (b) include any other information or explanations needed to fairly reflect the financial operations and financial position.

This might include more specific disclosures eg, explanations of significant variances from forecast or a breakdown of consultant costs.



## 2.7.6 Statement of responsibility

### **Statutory requirement: Section 155 of the CEA:**

The statement of responsibility must—

- (a) contain a statement of the signatories' responsibility for the preparation of the financial statements and statement of performance, and for the judgements made in them; and
- (b) contain a statement of the signatories' responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and
- (c) contain a statement that, in the opinion of the signatories, the financial statements and statement of performance for the financial year fairly reflect the financial position and operations of the Crown entity; and
- (ca) contain a statement of the signatories' responsibility for any end-of-year performance information provided by the Crown entity under section 19A of the Public Finance Act 1989, whether or not that information is included in the Crown entity's annual report; and**
- (d) be dated and signed on behalf of the board by 2 members, or, in the case of a corporation sole, by the sole member.

The Statement of Responsibility accompanies the annual financial statements and Statement of Performance. It is an explicit and detailed statement of the Board's responsibility for these other statements – both of which are audited by the Auditor-General.

The Statement of Responsibility now requires the signatories to take responsibility for end-of-year performance information provided by the Crown entity, whether or not that information is included in the Crown entity's annual report.

## 2.8 Audit report

### **Statutory requirement: Section 151(1)(e) of the CEA:**

- (1) An annual report must contain in respect of the financial year to which it relates
  - (e) the audit report in accordance with section 156.

The appointed auditor is required to provide an audit report for inclusion in the Crown entity's annual report.

The auditor forms an opinion about whether the financial statements, end-of-year performance information on appropriations and specified supplementary schedules comply with GAAP and presents fairly:

- the financial position of the reporting entity as at the balance date
- the results of the reporting Crown entity's operations and cash flows for the year ended on that date
- the standards of performance achieved compared with the forecast standards outlined in the Statement of Performance Expectations adopted at the start of the financial year



- the actual revenue earned and output expenses incurred, compared with the forecast revenues and output expenses outlined in the Statement of Performance Expectations adopted as the start of the financial year
- assets, and liabilities managed by the Crown entity on behalf of the Crown, and
- the end-of-year performance information on appropriations for the year ended (if required).

The 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 governing body
- the adequacy of disclosures in the financial statements and statement of performance, and
- the overall presentation of the financial statements and statement of performance.

## 2.9 Non-audited information

Not all the information provided in the annual report requires a formal audit opinion. However, the auditor is required to read the information provided elsewhere in the annual report to ensure it is not inconsistent with the audited statements.<sup>12</sup>

It is important that readers can see the links between the audited information and the other information provided on the Crown entity's operations and performance, as well as the links between financial and non-financial information in the audited statements.

### 2.9.1 Reporting on operations and progress in relation to strategic intentions

The annual report should provide sufficient information to allow the reader (particularly Ministers, MPs and select committees) to make an informed assessment of the Crown entity's performance during the financial year. This expectation is explicitly reflected in the CEA.

#### **Statutory requirement: Section 151(2) of the CEA:**

The annual report must provide the information that is necessary to enable an informed assessment to be made of the entity's operations and performance for that financial year, including an assessment of the entity's progress in relation to its strategic intentions as set out in the most recent statement of intent.

There is no prescribed format for reporting on a Crown entity's operations and performance. Each Crown entity should determine a format that suits the entity and that it believes will best promote understanding of its operations and performance. However, it is sensible that the annual report reflect the framework of the Statement of Intent and Statement of Performance

<sup>12</sup> In accordance with the External Reporting Board Auditing Standard ISA (NZ) 720: The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements.

Expectations, which is the plan against which the annual report provides an account of actual performance. The annual report must include an assessment against the relevant intentions, and performance indicators set out in the Crown entity's Statement of Intent and Statement of Performance Expectations. This generally includes reporting against:

- specific impacts, outcomes and objectives the Crown entity stated in its Statement of Intent that it was seeking to achieve or contribute to, and how it intended to conduct its operations to achieve those impacts, outcomes and objectives
- the Crown entity's main performance indicators for assessing:
  - those impacts, outcomes and objectives
  - the organisational health and capability of the Crown entity, and
- any other matters discussed in the Statement of Intent that are necessary to understand the Crown entity's performance.

When auditors form their independent opinion on the statement of performance they consider the context of outcome information (refer to section 2.4). Where Statement of Intent strategic intentions and objectives affect future years, the Crown entity should report on progress made towards meeting those future strategic intentions and objectives.

Crown entities should ensure that non-audited information in the annual report is consistent with the audited statements and the substance of the underlying information, and show the links between financial and performance information.

### **2.9.1.1 Directions issued by Ministers**

#### **Statutory requirement: Section 151(1)(f) of the CEA:**

- (1) An annual report must contain in respect of the financial year to which it relates
  - (f) any new direction given to the entity by a Minister in writing under any enactment during the financial year; as well as other such directions that remain current;

Any written direction issued by a Minister must be reported in the annual report.

Responsible Ministers can direct a Crown agent to give effect to, or an autonomous Crown entity to have regard to, government policy. Ministers do not have the power to direct an independent Crown entity to have regard to, or give effect to a government policy, unless the Crown entity's own establishing Act specifically provides for this (sections 103 – 105 of the CEA).

The Ministers of Finance and State Services may jointly issue *whole-of-government* directions, which may apply to a Crown entity (section 107 of the CEA). To date there have been five *whole-of-government* directions: the *Direction regarding all-of-government shared authentication services*,<sup>13</sup> as presented to Parliament on 22 July 2008. On 22 April 2014 a

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13 [www.ssc.govt.nz/sites/all/files/AoG-direction-shared-authentication-services-july08.PDF](http://www.ssc.govt.nz/sites/all/files/AoG-direction-shared-authentication-services-july08.PDF)



further three directions relating to *Procurement, ICT and Property* were given.<sup>14</sup> On 26 May 2016 a further direction about the *New Zealand Business Number* was given<sup>15</sup>.

The direction on use of authentication services issued in July 2008 continues to apply to all Crown agents, apart from those with sizeable ICT business transactions and investment specifically listed in the 2014 direction.

### 2.9.1.2 Equal employment opportunities

**Statutory requirement: Section 151(1)(g) of the CEA:**

- (1) An annual report must contain     in respect of the financial year to which it relates
  - (g) information on compliance with its obligations to be a good employer (including its equal employment opportunities programme);

A Crown entity should not simply state in its annual report that its obligations to be a 'good employer' have been met and that it has an Equal Employment Opportunities (EEO) programme in place. There needs to be a clear demonstration of this or a link to evidence that supports the Crown entity meeting good employer obligations. The EEO Commissioner's guidance is available at <http://www.neon.org.nz/crownentitiesadvice>

### 2.9.1.3 Other matters

**Statutory requirement: Section 151(1)(k) of the CEA:**

- (1) An annual report must contain     in respect of the financial year to which it relates
  - (k) any matters that relate to or affect the entity's operations that the entity is otherwise required, or has undertaken, or wishes to report on in its annual report.

Crown entities sometimes make voluntary commitments to provide specific information in their annual reports. For example, some Crown entities report on a triple bottom-line basis. In addition, a Crown entity may have specific reporting obligations imposed by other legislation or Government requirements. Crown entities need to comply with these when preparing their annual reports. Crown entities that are required to have a statement about prompt payments in their Statement of Intent or Statement of Performance Expectations should report against this in their annual report.

## 2.10 Further disclosures

All Crown entity spending must meet standards of probity that enable their spending to withstand Parliamentary and public scrutiny. Crown entities are also required to provide information in their annual report on payments to board and committee members, and payments to some employees, as well as information about indemnities provided or insurance cover effected.

<sup>14</sup> [www.parliament.nz/en-nz/pb/presented/papers/50DBHOH\\_PAP26152\\_1/directions-to-support-a-whole-of-government-approach-given](http://www.parliament.nz/en-nz/pb/presented/papers/50DBHOH_PAP26152_1/directions-to-support-a-whole-of-government-approach-given)

<sup>15</sup> [https://www.parliament.nz/en-nz/pb/papers-presented/current-papers/document/51DBHOH\\_PAP69116\\_1/crown-entities-act-2004-direction-to-support-a-whole-of](https://www.parliament.nz/en-nz/pb/papers-presented/current-papers/document/51DBHOH_PAP69116_1/crown-entities-act-2004-direction-to-support-a-whole-of)



### 2.10.1 Disclosure of payments in respect of members and committee members

**Statutory requirement: Section 152(1)(a),(b),(d),(e),(f) and (1A) of the CEA:**

- (1) The annual report must include, in respect of the Crown entity,—
- (a) for each member, the total value of the remuneration (other than compensation or other benefits referred to in paragraph (d)) paid or payable to the member in his or her capacity as a member from the entity during that financial year; and
  - (b) for each committee member who is not a board member or an employee, the total value of the remuneration (other than compensation or other benefits referred to in paragraph (d)) paid or payable to the member in his or her capacity as a committee member from the entity during that financial year; and
  - (d) the total value of any compensation or other benefits paid or payable to persons who ceased to be members, committee members, or employees during the financial year in relation to that cessation and the number of persons to whom all or part of that total was paid or payable; and
  - (e) details of any indemnity provided by the entity during the financial year to any member, office holder, or employee; and
  - (f) details of any insurance cover effected by the entity during the financial year in respect of the liability or costs of any member, office holder, or employee.
- (1A) Despite section 156A, the annual report of a Crown entity that has 1 or more subsidiaries must include the information specified in subsection (1) in respect of each subsidiary as well as in respect of the Crown entity.

In the case of a Crown entity group, the annual report must include the disclosures above for each Crown entity in the group.

### 2.10.2 Disclosure of payments in respect of employees and office holders

**Statutory requirement: Section 152(1)(c),(d),(e),(f) of the CEA:**

- (1) The annual report must include, in respect of the Crown entity or, in the case of a Crown entity group, for each Crown entity in the group, —
- (c) the number of employees to who, during the financial year, remuneration (other than compensation or other benefits referred to in paragraph (d)) was paid or payable in their capacity as employees, the total value of which is or exceeds \$100,000 per annum, and the number of those employees in brackets of \$10,000; and
  - (d) the total value of any compensation or other benefits paid or payable to persons who ceased to be ... employees during the financial year in relation to that cessation and the number of persons to whom all or part of that total was paid or payable; and
  - (e) details of any indemnity provided by the entity during the financial year to any..., office holder or employee; and
  - (f) details of any insurance cover effected by the entity during the financial year in respect of the liability or costs of any..., office holder or employee.



The State Services Commissioner annually discloses the remuneration of chief executives and other senior personnel in the Public Service and State sector. The disclosures include information about the remuneration of the chief executives of Crown entities and Crown entity subsidiaries where the State Services Commissioner has an influence over a chief executive's remuneration i.e.:

- the boards of District Health Boards are required to seek the State Services Commissioner's consent on the chief executives' remuneration, and
- the boards of other Crown entities are required to consult the State Services Commissioner on their chief executive's remuneration.

The publication of this information by the State Services Commissioner does not remove the responsibility from Crown entities to publish in their own annual reports all the information required under section 152 of the CEA.

### 2.10.3 Disclosure of ultra vires transactions with natural persons

**Statutory requirement: Section 151(1)(i) of the CEA:**

- (1) An annual report must contain in respect of the financial year to which it relates:
- (i) information required by section (20)3 (which relates to the enforcement of certain natural person transactions);

**Statutory requirement: Section 20(3) of the CEA:**

A statutory entity must report, in its annual report, each transaction that the entity has performed in the year to which the report relates that was invalid under section 19 but was enforced in reliance on this section.

**Statutory requirement: Section 19(1) of the CEA:**

- (1) An act of a statutory entity is invalid, unless section 20 applies, if it is—
- (a) An act that is contrary to, or outside the authority of, an Act [of Parliament]; or
  - (b) An act that is done otherwise than for the purposes of performing its functions...

Ultra vires is a Latin phrase for *beyond the powers*. Each Crown entity must report in its annual report each transaction it has performed in the year that was invalid under section 19 (because it was outside its authority/function) but enforced under section 20 of the CE<sup>16</sup>.

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16 For a definition of a natural person transaction, refer section 24 of the CEA.



## 2.10.4 Permission to act despite being interested in a matter

### **Statutory requirement: Section 151(1)(j) of the CEA:**

- (1) An annual report must contain in respect of the financial year to which it relates
  - (j) information required by section 68(6) (which relates to the permission to act despite being interested in a matter).

### **Statutory requirement: Section 68(6) of the CEA:**

The board must disclose an interest to which a permission relates in its annual report, together with a statement of who gave the permission and any conditions or amendments to, or revocation of, the permission.

Interests, if not disclosed, registered and managed properly, have the potential to lead to conflicts that could undermine decisions taken by a board and the confidence held by Ministers, stakeholders and the public in the actions of the Crown entity. Therefore, a member who is interested in a matter relating to a Crown entity must not vote or take part in any discussion or decision of the board or any committee relating to that matter [section 66 of the CEA]. However, the chairperson of a Crown entity, or a deputy or temporary deputy chairperson or in particular circumstances the responsible Minister, may exempt one or more board members from this requirement if it is in the public interest to do so [section 68 (1) of the CEA]. Where such an exemption is given, this must be disclosed in the annual report.

## 2.11 Newly established and disestablished Crown entities and transferred operations: reporting for periods of less than or more than 12 months

There are occasions when the annual report may cover a longer or shorter period than normal, such as when a Crown entity is established or disestablished during the financial year or when operations are transferred to another entity. These are discussed below.

### 2.11.1 First annual report of newly-established Crown entities

#### **Statutory requirement: Section 45I of the PFA:**

- (1) The Minister may (at the Minister's discretion) exempt an entity that is established during the last 4 months of a financial year from the obligation to provide an annual report for that financial year.
- (3) An entity that is exempted under subsection (1) must, after the end of the entity's first full financial year, provide an annual report that covers the period from the date on which the entity is established until the end of the entity's first full financial year.
- (4) To avoid doubt, the annual report referred to in subsection (3) must contain the information required to be included in the entity's annual report (except that the information must be in respect of the period referred to in that subsection).
- (5) Subsections (1) to (4) also apply to an entity that, during the last 4 months of a financial year, becomes subject to the requirement to provide an annual report for presentation to the House of Representatives.



The Minister of Finance may exempt a newly established Crown entity from the requirement to provide an annual report, where the Crown entity has been established during the last four months of a financial year.

Where an exemption has been granted, the first annual report for the following year must cover the entire period of the Crown entity's operations to that date.

Where an exemption is sought, the Crown entity should contact its monitoring department in the first instance. That monitoring department should liaise with the Treasury to organise an exemption.

### 2.11.2 Final annual report for disestablished Crown entities

**Statutory requirement: Section 45J of the PFA:**

- (1) An entity that is disestablished must provide a final report for the period—
- “(a) commencing at the start of the financial year in which the entity is disestablished; and
  - “(b) ending on the date on which the entity is disestablished (the **disestablishment date**).
- “(2) The final report must be—
- “(a) prepared as if it were an annual report; and
  - “(b) provided not later than 3 months after the disestablishment date.
- “(3) If the Minister is satisfied that it is necessary or expedient to transfer some or all of the responsibility for providing a final report to another party,—
- “(a) the Minister may approve the transfer of that responsibility; and
  - “(b) if the Minister does so, each party with responsibility for providing the final report must sign the statement of responsibility for the report in respect of the matters in the report for which the party is responsible.

A Crown entity that is disestablished prior to the end of a financial year must still produce an annual report for the period up until the date of disestablishment.

To illustrate this point: if the Crown entity was disestablished on 31 March, it would need to have provided the relevant information to the Auditor-General by around 28 July (ie, within 3 months plus 20 working days of disestablishment). This is the maximum time available. Information can be provided earlier.

In the above scenario, the audit report would be due around 29 August, and the audited report due with the responsible Minister within a further 15 working days.

Where the Minister of Finance has approved the transfer of some or all of the responsibility for completing a final report to another party, the party that assumes responsibility must sign the statement of responsibility.



### 2.11.3 Transferred operations

**Statutory requirement: Section 45L of the PFA:**

- (1) This section applies if—
  - (a) an entity is disestablished during the entity's financial year; and
  - (b) that entity's operations are transferred to 1 or more entities; and
  - (c) those operations are, at the time of the transfer, to be carried out on substantially the same terms by the entity to whom they are transferred.
- (2) The Minister may exempt the entity from whom operations are transferred from the requirement to include in its final report—
  - (a) a statement of service performance; and
  - (b) a full report on its operations.
- (3) The Minister may grant an exemption under subsection (2)—
  - (a) on the condition that—
    - (i) the information referred to in subsection (2)(a) and (b) is subsequently included, at the end of that financial year, in the annual report of the entity to whom the operations are transferred; and
    - (ii) the entity to whom those operations are transferred has not been exempted under section 45I; and
  - (b) only if the Minister is satisfied that the inclusion of that information in the other entity's annual report in accordance with paragraph (a)(i) does not unreasonably compromise accountability for the performance of those operations during that financial year.

The Minister of Finance may exempt a Crown entity that is being disestablished during the financial year, and whose operations are transferred to another entity, from the requirement to include a statement of performance and a full report on its operations in its final report. If an exemption is granted, the information for the period up to the point of transfer must instead be included in the annual report of the entity to which the operations were transferred.

Crown entities that wish to seek an exemption or transfer of responsibility under any of these sections are advised to contact their monitoring department in the first instance. That department should liaise with the Treasury to organise an exemption.



## 2.12 Asset performance indicators

**Mandatory:** Cabinet Office Circular CO (15)5:

Expectations relating to reporting on investment performance by agencies.

Paragraph 61: Agencies must report on relevant asset performance indicators in their Annual Reports.

Expectations relating to asset management.

Paragraph 62: Agencies must capture and use in internal management and decision-making processes, relevant indicators of past and projected asset performance, such as asset utilisation, condition and fitness for purpose.

Cabinet Office Circular CO (15)5 includes requirements to report on asset performance. The Treasury is working with agencies and the Office of the Auditor-General to roll-out this policy in several steps over time. Reporting requirements are set out in Treasury's separate asset reporting guidance<sup>17</sup>. For the **2016/17** reporting period, **investment-intensive agencies**<sup>18</sup> must report the required information to the Treasury by 1 September 2017. The Investment Management and Asset Performance (IMAP) team will publish it in the Treasury's *Investing for New Zealand* annual report<sup>19</sup>. This means for the 2016/17 reporting period, investment-intensive agencies are not required to publish the asset performance indicators in their own annual reports.

At this stage, agencies should plan to meet the Cabinet requirements by publishing the required asset performance information in their **2017/18** annual reports.

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17 Annual Report Guidance for Crown Entities – Asset Performance Indicators can be found: <http://www.treasury.govt.nz/statesector/investmentmanagement/review/assetperreporting>

18 List of investment-intensive agencies: <http://www.treasury.govt.nz/statesector/investment-intensive-agencies>

19 For the Treasury's Investment Management and Asset Performance, please see *Investing for New Zealand: Insights from 2015/16*: <http://www.treasury.govt.nz/statesector/investmentmanagement/publications/ipannualreport/2015-16>



### 3 End-of-year performance information on appropriations

**Statutory requirement:** [Section 19C of the PFA] –

The end-of-year performance information for an appropriation must include the following:

- (a) an assessment of **what has been achieved with the appropriation** in the financial year; and
  - (b) a comparison of the **actual expenses or capital expenditure incurred** in relation to the appropriation in the financial year with the **expenses or capital expenditure that were appropriated** or forecast to be incurred.
- (2) In the case of a multi-category appropriation, subsection (1)(a) and (b) must be read as if the references in those paragraphs to an appropriation included a reference to each category of expenses or capital expenditure within that appropriation.
- (3) The end-of-year performance information for an appropriation must be prepared in accordance with generally accepted accounting practice, to the extent that the information is of a form or nature for which provision is made in financial reporting standards that form part of generally accepted accounting practice.

The information for an appropriation must include a comparison of the **actual expenses or capital expenditure** incurred for the appropriation in the financial year with the **expenses or capital expenditure that were appropriated or forecast to be incurred**.

The “*What is Intended to be Achieved with this Appropriation*” and “*How Performance will be Assessed*” supporting information, in the Estimates or updated in the Supplementary Estimates, provide the basis for end-of-year performance reporting on what was achieved with appropriations.

The Estimates of Appropriations (or Supplementary Estimates) must contain, for each appropriation (or category of a multi-category appropriation).<sup>20</sup>

1. What is intended to be achieved with an appropriation.<sup>21</sup>
2. How performance will be assessed (not required for exempt appropriation).<sup>22</sup>
3. Who will report on performance for the appropriation and the document this information will be presented to the House (not required for exempt appropriations).

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<sup>20</sup> For more information on exemptions and the estimates process, refer to <http://www.treasury.govt.nz/publications/guidance/planning/estimates/tech-est>

<sup>21</sup> <http://www.treasury.govt.nz/publications/guidance/planning/performanceexpectations-achieved>

<sup>22</sup> <http://www.treasury.govt.nz/publications/guidance/planning/performanceexpectations-assessed>



### 3.1 Performance information provided by Crown entities

Where a Crown entity has been identified as the performance reporter for an appropriation, it must ensure that the information specified above is:

- prepared as soon as practicable after the end of the financial year (section 19A(2)) of the PFA,
- provided to the auditor general no later than 30 September (three months following the end of the financial year) – although it may be helpful to share drafts earlier than this.

Once an audit report in respect of the above information has been received by the department (which shall occur no later than **31 October**), the following must be completed within **15 working days** (section 19A(3)):

- (a) the performance reporter must, unless the performance reporter is the appropriation administrator, provide the information and the audit report to the appropriation administrator (monitoring department); and
- (b) the appropriation administrator must provide the information and the audit report to the appropriation Minister; and
- (c) the appropriation Minister must ensure that the information is presented to the House of Representatives in the document most recently specified for that purpose in the supporting information for an Appropriation Act.

Where a Crown entity is funded by an appropriation and has been identified in the Estimates as the provider of the end of year appropriation performance information in its annual report, it must report the relevant information in its annual report. When choosing a suitable way to present this information within their annual report, Crown entities should consider the needs of the reader and the need to tell a complete and meaningful performance story.

There should be a clear line of sight between the relevant appropriation in the Estimates and the actual performance reported in the Crown entity annual report. This information should be transparent and easy to find in the Crown entity annual report.

Financial and performance information in the Estimates may not be the same as in the Crown entities '*Statement of Performance Expectations*'. Section 19C of the PFA requires the Crown entity to report on the financial and performance information for the relevant appropriation in the Estimates, possibly updated in the Supplementary Estimates. This may require separate or additional disclosure of financial and performance information.

### 3.1.1 Reporting on Multi Category Appropriations (MCAs) by Crown entities

The appropriation administrator is responsible for reporting performance information for MCAs. This information is reported in a Department's annual report. Departmental annual reports are usually presented to the House **before** Crown entity annual reports. Where a Crown entity is providing performance information that is to be reported in a departmental annual report or presented with a departmental annual report, it is advisable to liaise with the applicable department to ensure that the appropriate timeframes are met.



## 4 Public Finance Act 1989 Schedule 4 organisations

Schedule 4A companies are non-listed companies in which the Crown is a majority or sole shareholder. These companies are subject to the annual reporting requirements of the CEA (section 45OA of the PFA) as detailed in the first sections of this guidance.

Reporting requirements for organisations in Schedule 4 of the PFA are outlined below. This information covers only **reporting** requirements for information on other requirements, organisations should refer to Part 5 (Schedule 4 organisations) and Part 5AAA (Schedule 4A organisations) of the PFA.

### **Statutory requirement: Section 45M(1)(b) of the PFA:**

- (1) The following provisions of the Crown Entities Act 2004, and any regulations that apply to the matters in those sections, apply to a Schedule 4 organisation as if the organisation were a Crown entity under that Act:
  - (b) Sections 154 to 156 (which relate to annual financial statements, statements of responsibility, and audit reports):

An organisation named or described in Schedule 4 must comply with sections 154 to 156 of the CEA as if the organisation were a Crown entity. These sections require the Schedule 4 organisation to:

- prepare annual financial statements (refer to section 154)
- include a statement of responsibility with the annual financial statements (refer to section 155), and
- obtain an audit report on the annual financial statements from the Auditor-General (section 156).

### **Statutory requirement: Section 45M(1) (d) and (f) of the PFA:**

- (1) The following provisions of the Crown Entities Act 2004, and any regulations that apply... to those sections, apply to a Schedule 4 organisation as if the organisation were a Crown entity under the Crown Entities Act 2004:...
  - (d) if there is a tick in a column of the table in Schedule 4 of this Act alongside the name or description of the organisation, the section indicated in the heading of that column:....
  - (f) if section 150 of the CEA...applies to the organisation under paragraph (d), sections 151 (other than subsection (1)(b), 152 and 154 to 157A of that Act (which also relate to annual reports).

Schedule 4 organisations need to read the current version of the PFA to know which of the following sections of the CEA apply to it.

If the organisation is required to prepare, present and publish an annual report (section 150 of the CEA) then it must also comply with the following:

- form and content of the annual report (other than the requirement to include a statement of performance) (refer to section 151 of the CEA).
- disclosure of payments in respect of members, committee members, and employees (refer to section 152 of the CEA).
- annual financial statements, statement of responsibility and an audit report (refer to sections 154-156 of the CEA).
- reporting by multi-parent subsidiaries (refer to section 157 of the CEA).

Schedule 4 organisations that are required to produce a statement of performance must present that statement to the House of Representatives with the annual financial statements required above.

Schedule 4 and 4A organisations **must** transparently report end-of-year performance information on appropriations if they are identified, in the Estimates or Supplementary Estimates, as a performance reporter.



## Frequently asked questions

Question	Guidance Reference
What has changed since last year?	Refer to "What's new" on page 3.
How long should my annual report be?	There is no set length or page restriction. However, the annual report must provide the information necessary to enable an informed assessment of the Crown entity's performance as compared to the Crown entity's statement of intent, Statement of Performance Expectations and any other information necessary to enable an informed assessment of the entity's operations and performance.
Are diagrams okay in the annual report?	Yes, where they help to illustrate a point or situation. They are also very useful for showing longer-term trends over time.
Does the annual report have to follow a particular template?	No, the document should be structured in a way that best communicates the performance story of the Crown entity. It is however sensible that the annual report align as much as possible with the preceding year's Statement of Performance Expectations and Statement of Intent.
Who do I talk to if the Crown entity wants to seek any exemptions in relation to the annual report from the Minister of Finance?	In the first instance, the Crown entity should talk to your monitoring department, who in turn will liaise with the Treasury.
Can the annual report be presented in a document containing the annual reports of other Crown Entities and/or Departments as well as our SOI and SPE?	Yes – the annual report can now be presented in a document containing any other set of information or report provided that all individual reports and sets of information remain separately identifiable.

# Checklist

Users of this checklist should not lose sight of the need for the annual report to tell the entity's performance story.

CEA Section	Information required to be included in the annual report	Index	Area covered
151, 152	Coverage of the annual report.	2.1 & 2.2	
151(2)	Information to enable an informed assessment of performance.	Overview & 2.9.1	
151(1)(f)	Directions issued by Ministers.	2.9.1.1	
151(1)(g)	Compliance with EEO policies.	2.9.1.2	
151(1)(k)	Other matters relating to the Crown entity's performance.	2.9.1.3	
151(1)(h), 152(1)(a),(b)	Remuneration to board / committee members.	2.10.1	
151(1)(h), 152(1)(c)	Number of employees earning over \$100,000.	2.10.2	
151(1)(h), 152(1)(d)	Compensation and other benefits.	2.10.1 & 2.10.2	
151(1)(i)	Disclosure of ultra vires transactions with natural persons.	2.10.3	
151(1)(j)	Permission to act despite being interested in a matter.	2.10.4	
	<b>Specific information to be included in the annual report covered by the Audit opinion</b>		
151(1)(c), 154(1), (3)(a)	Financial statements comply with GAAP.	2.7.2	
151(1)(c), 154(3)(c)	Forecast financial statements for comparison.	2.7.4	
154(3)(b)	Other financial information.	2.7.5	
151(1)(b), 153	Statement of Performance.	2.4	
19(c) (of the PFA)	End-of-year performance information in for appropriations (where required)	3	
	<b>Other requirements</b>		
151(1)(d), 155	Statement of Responsibility - signed by two board members.	1.1.1 & 2.7.6	
151(1)(e), 156	Audit Report.	2.8	
151(3)	Annual report signed and dated by two board members.	1.1.1	
156(1)	Financial statements and annual report provided to the Auditor-General.	2.3	
150(1)	Annual report provided to the responsible Minister.	1.3.1	
150(3)	Annual report presented to the House.	1.1.3 & 1.3.2	
150(4)	Annual report published.	1.3.3	
150(4)	Annual report available publicly as soon as it is published.	1.3.3	



# Glossary and acronyms

Capability	What an organisation needs in terms of access to leadership, skills, people, culture, relationships, processes and technology, physical assets, and structures to efficiently deliver the goods and services required to achieve the results sought by the Crown entity - whether those results are set by reference to Government policy or by statute.
CEA	Crown Entities Act 2004 and its amendments
Intervention	Interventions include legislation, policies, transfers, programmes and service delivery arrangements.
Impacts	The contribution made to an outcome by a specified set of outputs, or actions, or both. (Definition from section 2(1) of the Public Finance Act.1989)
Monitoring department	A department or agency that provides support to a Minister in carrying out that Minister's role and responsibilities in relation to Crown entities.
Objectives	<p>"Objectives" are not defined in the Crown Entities Act or the Public Finance Act, so the term has the ordinary meaning of "goal" or "aim". Its inclusion in the Crown Entities Act alongside "impacts" and "outcomes" recognises that not all outputs and activities are intended to achieve "outcomes" (refer to definition of outcomes below).</p> <p>Some outputs and activities do not target a direct societal, economic or environmental effect, and their effectiveness should not be judged on that basis. Nevertheless, they can be important in the context of Crown entities' performance, and objectives will feature in the shaping of some entities' results-focused planning. Examples include expenditure for administrative or support services internal to the Crown (intra-Government activities) and capital expenditure.</p>
PFA	Public Finance Act 1989 and its amendments
Reportable Outputs	<p>reportable class of outputs, in respect of a financial year, means a class of outputs—</p> <p>(a) that the Crown entity proposes to supply in the financial year; and</p> <p>(b) that is directly funded (in whole or in part) by the Crown in accordance with an appropriation for the purpose, or by grants distributed under any Act, or by levies, fees, or charges prescribed by or under any Act; and</p> <p>(c) that is not exempted for that financial year by the Minister of Finance under section 149F</p>
Schedule 4 organisation	Organisations listed or described in Schedule 4 of the Public Finance Act
SPE	Statement of Performance Expectations.
Standard	A target or an intended level of performance within a stated timeframe.