

AC-5-3-3

2 September 2010

Treasury Circular 2010/10

Unrestricted Distribution

Chief Executives
Chief Financial Officers
Directors of Finance

MINISTERIAL CERTIFICATION OF RELATED PARTY TRANSACTIONS

Background

1. In Treasury circular 2010/05, we advised we have early adopted revised standard NZ IAS 24 *Related Party Disclosures* for the 2010 Crown accounting policies.
2. We also advised a new central process will be put in place to collect information from Ministers on their related party transactions for disclosure in your annual accounts and the consolidated Financial Statements of Government.
3. How the related party accounting standard applies to Ministers of the Crown has been ambiguous for some time. The New Zealand standard setter has now made some changes to the revised NZ IAS 24 including clarifying the disclosures of transactions with Ministers of the Crown¹ who are “key management personnel” of the Government (“the parent”).
4. Because Ministers are “key management personnel” of the parent, Ministers (and their close family members) are also related parties of all Government entities. Government entities include Offices of Parliament, departments, Crown entities and SOEs. Therefore, Government entities should disclose in their annual accounts related party transactions with Ministers if they exist and if the transactions meet the criteria stated below.
5. This circular covers:
 - the new central process for collecting Ministers’ related party transactions (including the agreed criteria for Ministers’ disclosures); and
 - what this new process means for your 2010 annual accounts and future reporting.

¹ Ministers of the Crown include Associate Ministers

New central process for collecting Ministers' related party transactions

6. Given the breadth of transactions the Government undertakes with citizens, designing a Ministerial certification with appropriate "bright lines" was a challenge.

7. The Treasury, the Office of the Auditor-General and the Cabinet Office have now agreed the criteria for disclosing Ministers related party transactions, including agreement that disclosures should:

- not capture transactions typical to all citizens like taxes;
- only capture certain transactions through seven specific questions, and mainly focused on transactions within a Minister's portfolio; and
- include a dollar threshold of \$100,000 in most cases.

8. A copy of the agreed Ministers' certificate plus accompanying guidance is attached for your information in Annex One. Cabinet has now approved this certificate under Cabinet minute reference CAB Min (10) 31/14.

9. Ministers will be required to complete and return this certificate annually. The Treasury will coordinate this and advise you of any relevant disclosures (if any).

2010 annual accounts

10. For this year Ministers are due to send their completed certificates to the Cabinet Office by Friday 17 September. We will notify you of any relevant related party transactions by Tuesday 21 September.

11. As we are very late advising you of the outcome of this process for your 2010 annual accounts we have agreed with the Office of the Auditor-General that it is acceptable for your entity to choose one of the following two options:

- Option A: Early adopt NZ IAS 24, therefore:
 - determine the required level of disclosure for transactions with government related entities², being those entities that are controlled, jointly controlled, or significantly influenced by the Crown; and
 - add any related party transactions from Ministers' certificates (if any).
- Option B: Not to early adopt NZ IAS 24; therefore:
 - use your latest related party note format;

² The revisions to NZ IAS 24 removed the previous disclosure exemption available to public benefit entities for transactions conducted on an arm's length basis with entities that were subject to common control or significant influence by the Crown.

- add any related party transactions from Ministers' certificates (if any) using your best endeavours; and
- ensure this is reflected in the "standards not yet adopted" accounting policy.

12. The Audit New Zealand Model Annual Report³ has not adopted NZ IAS 24 early but is a good source of disclosure information.

13. We understand that in some instances it may not be possible for you to incorporate any information from these certificates because your accounts will already be signed off and published by the time you receive details from us.

Future annual accounts

14. For future annual accounts we will co-ordinate the Ministers' certification process much earlier.

15. We understand Audit New Zealand will update their Model Annual Report to incorporate the revisions of NZ IAS 24 prior to the 30 June 2011 year end.

Contact Details:

16. We apologise for the late notification of this process. If you have any queries about Ministers' related party disclosures for your financial statements, please contact either:

Emma Taylor	(emma.taylor@treasury.govt.nz)	phone (04) 917 7035
Angela Ryan	(angela.ryan@treasury.govt.nz)	phone (04) 917 6102

Yours sincerely

Hugh Packer
for Secretary to the Treasury

³ Audit New Zealand model financial statements are found here: <http://www.auditnz.govt.nz/publications/central-government/model-financial-statements>

MINISTERIAL CERTIFICATE OF RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED 30 JUNE 2010

1. Overview

Financial Statements are required to disclose certain transactions of the entity with related parties.

For government entities, Ministers and their close family members (spouses, children, dependants) and the private entities they control (by themselves or jointly) are related parties.

The Treasury and the Office of the Auditor-General have agreed an interpretation of the accounting standard for related party transactions. This includes

- **not** capturing transactions typical to all citizens like paying taxes, and
- only capturing certain transactions as outlined below.

This certificate is **not** intended to capture Ministers' remuneration and allowances which are already collected under a separate process and reported in aggregate in the Financial Statements of the Government.

2. Application

Close family members are defined as your children and spouse or domestic partner, children of your spouse or domestic partner, and dependants of you or your spouse or domestic partner.

An **entity controlled or jointly controlled** means that you and/or any close family members have at least a 50% shareholding or at least 50% voting power in the entity.

Detailed descriptions, examples and a list of government entities within each portfolio are included in the attached guidance.

This certificate is applicable if, at any time during the year ended 30 June 2010, you held a warrant or letter of delegation to act as either the Minister or Associate Minister.

3. Transaction Identification

Excluding transactions typical to all citizens, did you, or your close family members or controlled entities (as defined above) have any of the following transactions during the year ended 30 June 2010:

	Yes	No
1. Were employed by a government entity within your portfolio ?	<input type="checkbox"/>	<input type="checkbox"/>
2. Were a member of a governing body of a government entity within your portfolio ?	<input type="checkbox"/>	<input type="checkbox"/>
3. Provided goods or services greater than \$100,000 to a government entity within your portfolio ?	<input type="checkbox"/>	<input type="checkbox"/>
4. Purchased or sold assets with a value greater than \$100,000 from or to a government entity within your portfolio ?	<input type="checkbox"/>	<input type="checkbox"/>
5. Received grants greater than \$100,000 from a government entity within your portfolio ?	<input type="checkbox"/>	<input type="checkbox"/>
6. Had debts forgiven or partially forgiven by any government entity?	<input type="checkbox"/>	<input type="checkbox"/>
7. Received a guarantee from any government entity?	<input type="checkbox"/>	<input type="checkbox"/>

If the answer is "yes" to any of these questions, please provide details of these transactions in section 5.

4. Declaration

In accordance with Cabinet Minute reference CAB Min (10) 31/14 I declare that, to the best of my knowledge, the information recorded in this certificate is a complete and accurate record of the matters set out in it.

I understand that this information is only collected for the purpose of preparing the financial statements of government entities, including the consolidated Financial Statements of the Government.

I acknowledge this certificate will be official information under and subject to the Official Information Act.

Minister or Associate Minister: [insert name]

Portfolio: [insert portfolios]

Signed
Date

5. Transaction Details

Please complete the following information for transactions identified in section 3 of this certificate. The information disclosed in this section will form the basis for disclosure in the financial statements of the particular entity and the Financial Statements of the Government.

Employment and Membership of Governing Bodies (questions 1 and 2)

Type of transaction	Entity Name
<i>e.g. employment e.g. board member</i>	<i>e.g. Ministry of Health e.g. Auckland District Health Board</i>

Other transactions (questions 3 to 7)

Type of transaction	Entity Name	Details of transaction	Total value of transaction for the year ended 30 June 2010 (\$)
<i>e.g. provision of goods and services</i>	<i>e.g. Capital Coast Health</i>	<i>e.g. Services provided by XYZ Consultancy, a business owned by spouse</i>	<i>e.g. \$123,000</i>

DEFINITIONS AND GUIDANCE

1. **Close family members** are defined as:

- Your children and spouse or domestic partner;
- Children of your spouse or domestic partner; and
- Dependants of you or your spouse or domestic partner.

Children include step, adoptive, dependant, non-dependant, adult children and children not living at home.

Spouse or domestic partner includes married, de facto, civil union partnerships, but excludes separated or divorced spouses or partners.

Dependants are any family members who are financially supported by you or your spouse or domestic partner and may include elderly dependants or disabled family members.

Close family members excludes siblings, parents and other extended family or whānau unless they are a dependant as defined above.

2. An **entity controlled or jointly controlled** means that you and/or any close family members have at least a 50% shareholding or at least 50% voting power in the entity (whether singularly or combined).

Types of entities include companies, partnerships, sole traders and trusts.

Examples of entities controlled or jointly controlled by you and/or any close family members are:

- A company where you have a 30% shareholding and your spouse has a 30% shareholding
- A partnership of two people where your spouse is one of the partners
- A trust where you and your spouse are two of three trustees

Examples of entities not controlled or jointly controlled by you and/or your close family members are:

- A company where you have a 25% shareholding and your spouse has a 20% shareholding
- A partnership of three people where your spouse is one of the partners
- A large accountancy practice with multiple partners where your child is a partner
- A trust where you and your spouse are two of five or more trustees
- Blind trusts
- A non-government company where your child is the chief executive and has a minor shareholding (i.e. a shareholding less than 50% or less than 50% voting power in the company)
- A non-government company where your spouse is a director of the board and has a minor shareholding (i.e. a shareholding less than 50% or less than 50% voting power in the company)
- A State-owned enterprise (SOE) or other Crown company where you are named as one of two shareholding ministers on behalf of the Crown.

3. **Transactions typical to all citizens** are excluded from this certificate. These transactions are where you and/or any close family members interact with a government entity as a citizen.

Examples of transactions typical to all citizens to be excluded from this certificate are:

- paying personal taxes or receiving tax refunds
- paying taxes or receiving tax refunds by an entity controlled or jointly controlled by you and/or any close family members
- receiving a social welfare benefit
- receiving KiwiSaver tax credits
- taking out a student loan and making repayments
- taking out a Kiwibank mortgage and making repayments
- making an ACC claim and receiving treatment or settlement
- receiving health services
- receiving state housing

- receiving education services or student allowances
 - getting a driver's licence
 - buying stamps and courier services from NZ Post
 - having electricity supplied from a SOE.
 - purchasing flights from Air New Zealand
 - lotto win
4. **Employment** of your close family members includes your close family members in full or part time positions through an employment contract with a government entity. This also includes employment for a fixed term or on a temporary basis.
5. A **governing body** is a board of directors or an equivalent body.
6. **Providing goods and services** to government entities means there will be a business agreement between you and/or your close family members or controlled entities (as defined above) and a government entity.
- Examples of the provision of goods and services to government entities within your portfolio to be included in this certificate (when over \$100,000):*
- Your spouse jointly owns an advertising agency that is contracted to develop the marketing strategy to roll out a public programme and design the web page on behalf of Inland Revenue.
 - Your son owns an IT company and sells PCs to ACC.
 - Your domestic partner owns an engineering consulting firm which provides advisory services to Transpower.
 - Your son jointly owns a construction company and his company wins the tender to re-build tramping huts for the Department of Conservation.
7. **Grants** received by close family members or entities owned by you and/or your close family members greater than \$100,000 are required to be disclosed. Grants are excluded from this certificate where the grant is a transaction typical to all citizens irrespective of the amount. Typical citizen type grants are automatically provided to all citizens once the standard criteria have been met.
- Examples of grants from government entities within your portfolio to be included in this certificate (when over \$100,000):*
- An arts grant from Creative New Zealand made to your spouse.
 - A science research grant from a Crown Research Institute to an entity that your spouse owns.
 - A NZ Trade & Enterprise grant provided to an entity owned by you.
 - A Te Puni Kōkiri grant provided to an entity owned by your spouse.
 - A Ministry of Education scholarship awarded to your child.
- Some examples of related party grants not to be included in this certificate are:*
- Legal Aid
 - EECA EnergyWise grants
8. **Assets** include plant, equipment, land, buildings or businesses. It also includes intangible assets like rights and quotas.
- Examples of sales or purchases of assets to be included in this certificate (when over \$100,000):*
- A business owned by your spouse is sold to NZ Post.
 - A piece of land owned by Landcorp is sold to a company owned by you.
 - An investment property owned by a trust that you and your spouse jointly control is sold to Housing New Zealand Corporation.
 - Fishing quota is sold by the Ministry of Fisheries to a company owned by your child.
9. When determining the value of **asset purchases or sales** market value should be used. Market value means an amount that knowledgeable, willing parties in an arm's length transaction would pay when a good, service or business is sold, purchased or exchanged.

In certain purchases and sales of assets, the market value may differ from the actual consideration. An extreme example is where a business which has a market value of \$1 million might be purchased from the

government for a nominal consideration of \$1. This transaction would need to be reported and described in this certificate.

10. **Debts forgiven or partially forgiven** by any government entity during the year are required to be disclosed in this certificate. This includes forgiveness of any of your debts and the debts of any close family members such as student loans and housing corporation debts.

11. **Guarantees provided** by any government entity during the year are required to be disclosed in this certificate. A guarantee is a legally binding promise of one party to assume responsibility for a debt or performance of an obligation of another party should that party default in some way. Guarantees generally relate to the payment of money, but may alternatively or in addition require the performance of services.

Examples of related party guarantees to be included in this certificate:

- Your spouse owns a finance company that has been accepted under the Government's Deposit Guarantee Scheme.

Examples of related party guarantees not to be included in this certificate:

- Guarantees for deposits that you have invested with a bank or finance company where the bank or finance company is guaranteed under the Government's Deposit Guarantee Scheme

12. For a list of **government entities by portfolio** please refer to appendix one.

Government Entities by Portfolio

Ministerial Portfolio	Entity name
ACC	Accident Compensation Corporation Department of Labour
Agriculture	Agriculture and Marketing Research and Development Trust Animal Control Products Limited Ministry of Agriculture and Forestry New Zealand Walking Access Commission
Archives New Zealand	Archives New Zealand
Arts, Culture and Heritage	Arts Council of New Zealand Toi Aotearoa (Creative New Zealand) Ministry for Culture and Heritage New Zealand Film Commission New Zealand Historic Places Trust (Pouhere Taonga) New Zealand Symphony Orchestra Te Papa
Attorney-General	Crown Law Office Parliamentary Counsel Office
Biosecurity	Ministry of Agriculture and Forestry
Broadcasting	Broadcasting Standards Authority Ministry for Culture and Heritage Ministry of Economic Development National Pacific Radio Trust New Zealand On Air (Broadcasting Commission) Radio New Zealand Limited Television New Zealand Limited The Treasury
Building and Construction	Department of Building and Housing
Civil Defence	Department of Internal Affairs
Climate Change Issues	Ministry for the Environment
Commerce	Accounting Standards Review Board Commerce Commission Ministry of Economic Development Securities Commission Standards Council Takeovers Panel Telarc Limited (Testing Laboratory Registration Council)
Communications and Information Technology	Crown Fibre Holdings Limited Ministry of Economic Development
Community and Voluntary Sector	Charities Commission Department of Internal Affairs Ministry of Social Development
Conservation	Department of Conservation Fish and game councils New Zealand Fish and Game Council New Zealand Game Bird Habitat Trust Board Reserves Boards
Consumer Affairs	Ministry of Economic Development
Corrections	Department of Corrections
Courts	Ministry of Justice

Customs	New Zealand Customs Service
Defence	Ministry of Defence New Zealand Defence Force
Disability Issues	Ministry of Social Development
Disarmament and Arms Control	Ministry of Foreign Affairs and Trade
Economic Development	Ministry of Economic Development New Zealand Trade and Enterprise New Zealand Venture Investment Fund Limited
Education	Career Services Learning Media Limited Ministry of Education New Zealand Qualifications Authority New Zealand Teachers' Council School Boards of Trustees
Education Review Office	Education Review Office
Energy and Resources	Electricity Commission Energy Efficiency and Conservation Authority Ministry of Economic Development
Environment	Environmental Risk Management Authority Ministry for the Environment
Ethnic Affairs	Department of Internal Affairs
Finance	Earthquake Commission Government Superannuation Fund Authority Guardians of New Zealand Superannuation New Zealand Government Property Corporation Reserve Bank of New Zealand The Treasury
Fisheries and Aquaculture	Ministry of Fisheries
Food Safety	Ministry of Agriculture and Forestry New Zealand Food Safety Authority
Foreign Affairs	Asia New Zealand Foundation Ministry of Foreign Affairs and Trade New Zealand Antarctic Institute Pacific Co-operation Foundation
Forestry	Ministry of Agriculture and Forestry
Government Communications Security Bureau	Government Communications Security Bureau
Health	Alcohol Advisory Council of New Zealand Crown Health Financing Agency District Health Boards Health and Disability Commissioner Health Research Council of New Zealand Health Sponsorship Council Mental Health Commission Ministry of Health New Zealand Blood Service Pharmaceutical Management Agency
Housing	Department of Building and Housing Housing New Zealand Corporation

Immigration	Department of Labour
Infrastructure	The Treasury
Internal Affairs	Department of Internal Affairs New Zealand Fire Service Commission New Zealand Lotteries Commission New Zealand Lottery Grants Board Office of Film and Literature Classification
International Climate Change Negotiations	Ministry of Foreign Affairs and Trade
Justice	Electoral Commission Human Rights Commission Independent Police Conduct Authority Legal Services Agency Ministry of Justice Privacy Commissioner Public Trust Real Estate Agents Authority Sentencing Council
Labour	Department of Labour
Land Information	Land Information New Zealand
Law Commission	Law Commission Ministry of Justice
Local Government	Auckland Transition Agency Department of Internal Affairs
Maori Affairs	Te Puni Kokiri (Ministry of Maori Development) Te Reo Whakapuaki Irirangi (Maori Broadcasting Funding Agency) Te Taura Whiri I Te Reo Maori (Maori Language Commission) The Maori Trustee
Ministerial Services	Department of Internal Affairs
National Library	National Library
New Zealand Security Intelligence Service	New Zealand Security Intelligence Service
Pacific Island Affairs	Ministry of Pacific Island Affairs Pacific Island Business Development Trust
Police	New Zealand Police Serious Fraud Office
Prime Minister	Department of the Prime Minister and Cabinet
Racing	Department of Internal Affairs
Regulatory reform	Ministry of Economic Development The Treasury
Research, Science & Technology	AgResearch Limited Crop & Food Research (merged with HortResearch in 2008) Foundation for Research Science and Technology HortResearch (merged with Crop & Food Research in 2008) Industrial Research Limited Institute of Environmental Science & Research Limited Institute of Geological & Nuclear Sciences Limited Landcare Research NZ Limited (Manaaki Whenua) Ministry of Research, Science and Technology National Institute of Water & Atmospheric Research (NIWA) NZ Forest Research Institute Limited (Scion) The NZ Institute for Plant & Food Research Limited Research and Education Advanced Network New Zealand Limited The Treasury

Revenue	Inland Revenue Department
Rugby World Cup	Ministry of Economic Development
Senior Citizens	Ministry of Social Development
Small Business	Ministry of Economic Development
Social Development and Employment	Children's Commissioner Department of Labour Families Commission Ministry of Social Development New Zealand Artificial Limb Board Retirement Commissioner Social Workers Registration Board
Sport and Recreation	Drug Free Sport New Zealand Ministry for Culture and Heritage Sport and Recreation New Zealand
State Owned Enterprises	Airways Corporation of New Zealand Limited AsureQuality Limited Electricity Corporation of New Zealand Limited Genesis Power Limited Kordia Group Limited Landcorp Farming Limited Meridian Energy Limited Meteorological Service of New Zealand Mighty River Power Limited New Zealand Post Limited New Zealand Railways Corporation/KiwiRail Quotable Value Limited Solid Energy New Zealand Limited The Treasury Timberlands West Coast Limited Transpower New Zealand Limited
State Services	Leadership Development Centre Trust State Services Commission
Statistics	Statistics New Zealand
Tertiary Education	Ministry of Education Tertiary Education Commission Tertiary Education Institutions
Tourism	Ministry of Economic Development New Zealand Tourism Board
Trade	Ministry of Foreign Affairs and Trade New Zealand Trade and Enterprise
Transport	Civil Aviation Authority of New Zealand Maritime New Zealand Ministry of Transport New Zealand Transport Agency Road Safety Trust Transport Accident Investigation Commission
Treaty of Waitangi Negotiations	Ministry of Justice Ngai Tahu Ancillary Claims Trust
Veterans' Affairs	Ministry of Social Development New Zealand Defence Force
Whanau Ora	Te Puni Kokiri (Ministry of Maori Development)
Women's Affairs	Ministry of Women's Affairs
Youth Affairs	Ministry of Social Development