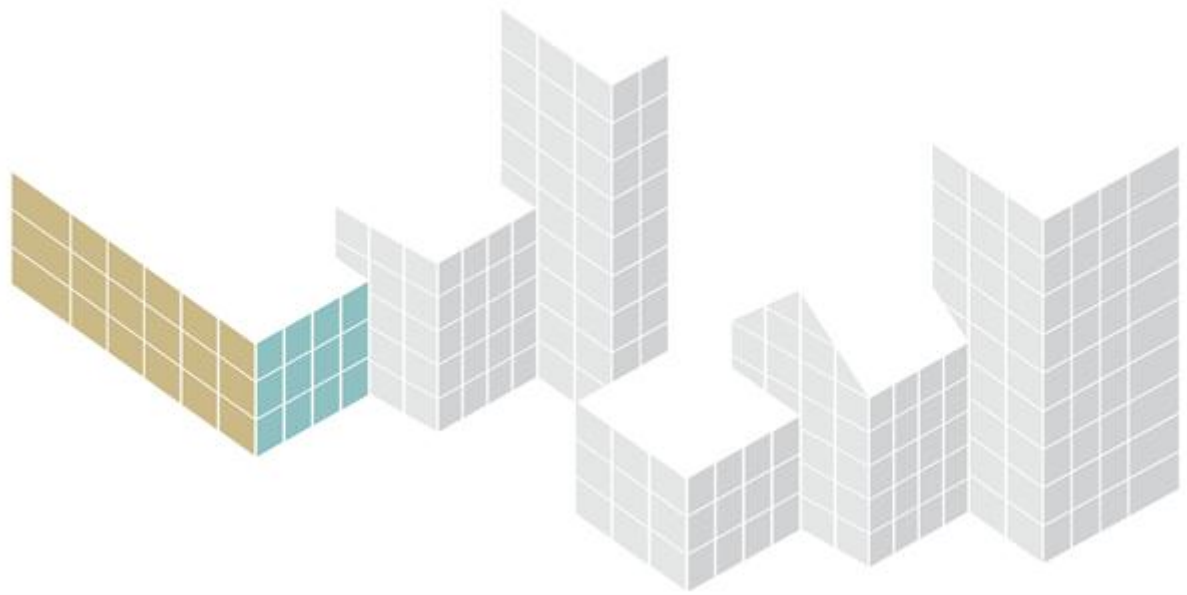


Real Estate Agents Authority

Annual Report

For the Year Ended 30 June 2011





To: The Honourable Minister of Justice

I have the pleasure of presenting to Parliament the Annual Report of the Real Estate Agents Authority pursuant to the provisions of the Crown Entities Act 2004. The report is for the year ended 30 June 2011.

Kristy McDonald, QC
Chair, Real Estate Agents Authority

October 2011
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Foreword from the Chair

The year ended 30 June 2011 was a challenging year for the real estate industry and for the Real Estate Agents Authority (the Authority).

The economic situation has presented challenges. A lower volume of property transactions and the Christchurch earthquakes have affected the industry significantly. Indications are also that the Real Estate Agents Act 2008 (the Act) is having an impact. Its purpose is to promote public confidence in the performance of real estate agency work by empowering and protecting consumers, and improving industry standards. This has meant higher entry standards for the benefit of consumers and visible action by the Authority to hold licensees to account for their actions. As a result of this combination of factors there has been a significant reduction in the number of active licensees in the industry.

The Authority, in its second year of operation, has built on its initial focus on licensing and complaints, to include broader ways of encouraging and requiring high levels of compliance with the Act and industry standards, for the benefit of consumers.

The Board gave priority to developing this broader approach in the second half of the year. It includes the use of information, advice and alternative dispute resolution alongside the Authority's original complaint handling, investigation and enforcement processes.

This introduction of a wider range of lower level interventions will reduce the workload on Complaints Assessments Committees and provide better solutions to consumers - a challenge recognised in the *Statement of Intent 2010 – 2013*.

The changes commenced on 1 July 2011 and provide for quicker resolution of consumers' concerns while continuing to hold licensees to account, and supporting the industry's own interest in increasing professionalism.

Alongside these changes the Authority also advanced the development of a modern, flexible and responsive continuing education framework, which will be introduced on 1 January 2012.

While this development work was given priority to ensure the Authority is well placed to operate as an effective and efficient regulator in challenging times, the Authority also managed a significant licensing and complaints handling work load including 11,812 licence renewals; approval of 1,281 new licence applications; 2,662 voluntary suspensions; the completion of 623 complaints that led to 100 determinations of unsatisfactory conduct; and 28 misconduct charges laid before the Real Estate Agents Disciplinary Tribunal.

It has also increased and enhanced the quality of its engagement with the real estate industry through consultation processes relating to continuing education and the development of a forum for engagement with industry leaders. Constructive engagement with the real estate industry is a critical part of achieving effective outcomes for consumers.

The Authority is well placed to support buyers, sellers and licensees to engage with confidence in the real estate market.



Kristy McDonald, QC
Chair

About the Authority

Legislation

The Authority is a regulatory body responsible for providing independent oversight of the real estate industry. For the purpose of the Crown Entities Act 2004, the Authority is a Crown Agent and was established by the Real Estate Agents Act 2008 (the Act).

The Act came into force on 17 November 2009, to promote and protect the interests of consumers that relate to real estate transactions and to promote public confidence in the performance of the real estate agency work.

Nature and scope of functions

The Authority's functions and responsibilities include:

- establishing, monitoring and developing entry, continuing education, and professional conduct and client care standards for the real estate industry
- licensing real estate agents, branch managers and salespersons and maintaining a public register of licensees
- informing, educating, advising and influencing consumers and licensees to support the integrity of real estate transactions
- responding to enquiries and complaints, investigating problems in the real estate market and ensuring appropriate action is taken to sanction any unsatisfactory conduct, misconduct or illegal behaviour.

These functions and responsibilities are typical of independent regulatory and compliance organisations in New Zealand and internationally – they focus on both consumer protection and improvement of the way the industry operates.

The Real Estate Agents Authority Board

The Real Estate Agents Authority's Board is comprised of seven members; at least two of whom are required to be licensees, or former licensees.

Kristy McDonald, QC was appointed Chair for the Authority in May 2009.

Funding and expenditure

The Authority and the Real Estate Agents Disciplinary Tribunal (the Disciplinary Tribunal) are funded by the real estate industry through annual levies and fees. Therefore, the number of licensees directly impacts the Authority's income. A total of 11,812 licensees renewed their licences in the year ended 30 June 2011; substantially fewer than the 16,000 forecast in the Authority's *Statement of Intent 2010-13* (SOI). The 1,281 new licence applications approved were below forecast of 1,800.

The Act provides for fees and levies to be imposed and adjusted to reflect costs arising from regulating the industry. In the year ended 30 June 2011, the Authority increased the operating levy from \$494 to \$690 (GST exclusive) per annum, and intends to maintain that level until at least the year ending 30 June 2015. This means the Authority will need to continue to manage expenditure carefully, in line with income, consistent with the Authority's statutory obligations. This includes extending the period of the Authority being in negative equity, and repaying the establishment loan to the Crown.

Operating Environment

Vision statement – Increased public confidence in the real estate industry

Outcomes framework

The outcomes framework (Figure 1) illustrates how the Authority meets its vision and the Government’s goal to build a ‘strong economy’.

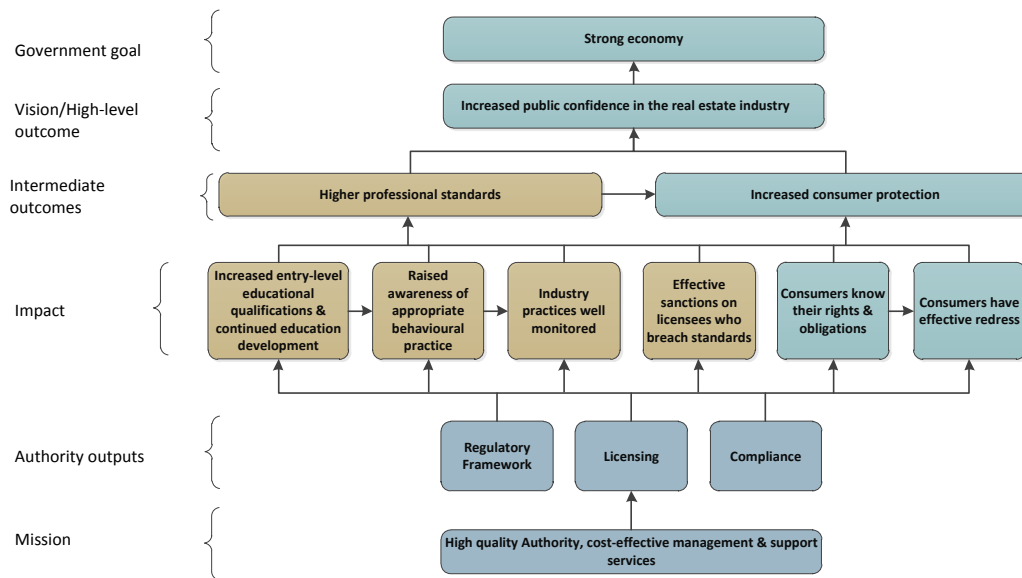


Figure 1 The Authority’s outcomes framework

Working for consumers

Consumers benefit from the Authority’s work in three ways. Firstly, buyers and sellers of real estate receive information produced by the Authority that informs them of their rights and obligations. Secondly, when things go wrong the Authority provides an avenue to address the public’s concerns, at no cost. Finally, the Authority aims to ensure licensees’ behaviour is consistent with consumers’ reasonable expectations and interests.

Working with the industry

The Authority works with licensees in many ways but principally through its licensing, continuing education and compliance activities. At a broader level it interacts with industry participants and representative groups to maintain and continually improve its knowledge of current and emerging industry practice.

Strategic direction

The Authority has, in the second half of the year, undertaken significant work to align its core operations with its strategic direction to develop broader ways of encouraging and requiring high levels of compliance with the Act, for the benefit of consumers.

This includes development of a revised compliance operating model, a new organisational structure that supports that model, and working with adjusted budgets within a reduced income as a result of the reduction in licensee numbers.

Compliance operating model

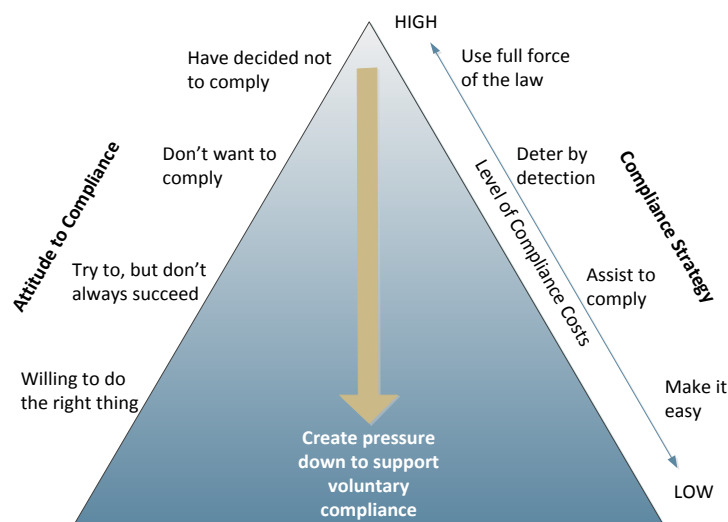


Figure 2 Compliance operating model¹

Application of the compliance model involves taking a problem-solving, risk-based and intelligence-led approach. This means that resources are targeted to areas that will provide both the greatest gains for consumers and improvements in industry behaviour.

Key features of this approach include:

- Focussing on pro-active information-based interventions. This means information is systematically gathered, analysed and used both to improve the Authority's policy and standards' frameworks, and to direct compliance activities.
- Screening or triage of enquiries. This is the ability to act quickly where appropriate, resolving matters of less detriment or significance, with less cost.
- Supporting CACs to address the most serious matters quickly and thoroughly.
- Recognising the contribution made by industry associations. For example the REINZ has codes of practice relating to auctions and tenders that assist licensees to comply with the law.

¹ This compliance operating model (Figure 3) is widely used in compliance agencies in New Zealand and internationally. It reflects the reality that a regulated population is made-up of people who are; willing to comply, willing but not able to comply, do not want to comply and those people who have decided not to comply. The compliance model shows that intervention costs increase with greater use of force and that less costly interventions can influence the majority of people in an industry.

Authority's Outcomes and Indicators

Tables 1 and 2 below include the outcomes and indicators the Authority presented in its SOI 2010-13 and refers to where these have been measured in this report.

Table 1: Indicators linked to consumer outcomes as presented in the SOI 2010-13

Outcomes (including intermediate outcomes)	Indicators (number / type)	Reference to measures reported
High-level (More than 5 years)		
Increased consumer protection	- complaints (as at 24 June 2010, the Authority had received 438 complaints) - determinations (as at 24 June 2010, the Authority had determined 57 complaints)	Both of these indicators are outlined under Complaints on page 7 and Complaint determinations on page 9.
Increased public confidence in the real estate industry	- comparative survey of professions	Outlined under Consumer confidence on page 7.
Intermediate / medium-level (3-5 years)		
Empowered consumers	- complaints	Outlined under Complaints on page 7 and Categories of complaints and allegations on page 9.
Intermediate / lower-level (1-3 years)		
Improved industry consumer oriented service	- enquiries responded to - complaints segmented by demographic data Note: These indicators will be developed over the period of this SOI.	The Authority is still developing its systems to report on; - enquiries responded to ² - complaints segmented by demographic data.
Access to consumer redress	- complaints enquired into	Up until 30 June 2011 the Authority's strategy was to inquire into every complaint. Since 1 July 2011 the Authority's strategy includes other means to resolve concerns as described in the compliance operating model on page 4.
Well-informed consumers	- enquiries responded to Note: This indicator will be developed over the period of this SOI.	The Authority is still developing its systems to report on enquiries responded to and aims to be able to report this data in future annual reports.

² Enquiries are contacts from the public, which do not lead to compliance actions. They could include advice of a more general nature.

Table 2: Indicators linked to industry outcomes

Outcomes (including intermediate Outcomes)	Indicators (number / type)	Reference to measures reported
High-level (More than 5 years)		
Enhanced practice & culture of real estate industry	<ul style="list-style-type: none"> - complaints - complaints as a percentage of transactions 	Outlined under Complaints on page 7.
Medium-level (3-5 years)		
Increased industry accountability to consumers	<ul style="list-style-type: none"> - complaints from consumers 	Outlined under Complaints on page 7.
Improved industry service standards	<ul style="list-style-type: none"> - licensees who make a complaint about other licensees <p>Note: This indicator will be developed over the period of this SOI.</p>	Outlined under Complainants on page 9.
Higher professional standards	<ul style="list-style-type: none"> - declined applications 	Outlined under Registrar licence determinations on page 10.
Trusted independent & transparent oversight of the real estate industry	<p>Note: The Authority will consider how to evaluate its impact on this outcome</p>	Outlined under Licensing on page 10.
More immediate-level (1-3 years)		
Appropriate monitoring of industry practices	<p>Note: The Authority will consider how to evaluate its impact on this outcome</p>	Outlined under Complaint determinations on page 10.
Enhanced entry educational standards	<p>Note: The Authority will consider how to evaluate its impact on this outcome</p>	On 1 July 2010 the entry-level qualifications for licensees increased from 28 to 47 credits. ³
Continued educational development	<ul style="list-style-type: none"> - approved applications under new criteria - licensees that undertake further educational requirements 	Outlined under Continuing education on page 11.
Raised awareness of appropriate behavioural practice	<p>Note: The Authority will consider how to evaluate its impact on this outcome</p>	Outlined under Complaint determinations on page 9.

³ For a link to the new entry qualification go to:
<http://www.nzqa.govt.nz/nzqi/search/viewQualification.do?selectedItemKey=1543>

The new standards include an additional focus on; legal matters, the Act, establishing a presence in the real estate market, appraisals, planning, and methods of selling real estate.

Tracking the Authority's Indicators

On 1 July 2011 the Authority's reporting focus changed from a primary focus on complaints to a broader focus on achieving compliance, in a variety of ways. This new strategy is to resolve concerns⁴ by the most appropriate means such as; providing compliance advice, offering alternative dispute resolution and using its complaints process. Future annual reports will provide progress on each of these interventions, as opposed to solely reporting on processing of complaints.

In the year ended 30 June 2011 the Authority received on average 170 contacts⁵ each week, of which on average; 11.5 became complaints⁶ and two became allegations⁷. The remainder of the contacts related to issues that:

- were not matters for the Authority
- required the provision of information
- were not followed through by the person who contacted the Authority⁸.

Consumer confidence

The Authority uses the UMR Mood of the Nation survey, which includes questions on occupational respect, to track changes in the public's respect for real estate agents (licensees). The surveys for 2008, 2009 and 2010 show an increase in the public's respect for agents⁹.

Complaints

In the year ended 30 June 2011 the Authority received 598 complaints, completed¹⁰ (or determined) 623 complaints (some of which were received prior to 1 July 2010), and 43 complaints were withdrawn. A complainant can request to withdraw a complaint at any stage. However, if the complaint has been referred to a CAC, the CAC may decide to continue its investigation.

The number of complaints received is just over half (58%) of the 1,040 complaints forecast for the year ended 30 June 2011. In comparison, for the period 17 November 2009 to 30 June 2010 the Authority received 456 complaints – annualised this would equate to 740 complaints.

For the year ended 30 June 2011, a ratio of approximately 1 per cent of New Zealand's 54,905 residential real estate transactions led to a complaint being lodged with the Authority¹¹.

⁴ A concern is any issue being raised about licensee behaviour or breach of legislation. A concern can either lead to the Authority providing information, assisting, resolving or enforcing.

⁵ 'Contacts' is a catch-all term that refers to any engagement by consumers and licensees with the Authority's Complaints Team.

⁶ A complaint must meet Regulation 4 of the Real Estate Agents (Complaints and Discipline) Regulations 2009.

⁷ Allegation is a term used to describe an issue raised with, and investigated by the Authority that does not meet the requirements of Regulation 4 of the Real Estate Agents (Complaints and Discipline) Regulations 2009.

⁸ Although a complainant may choose not to proceed with lodging their concern, the Authority can still investigate a concern or matter further.

⁹ A survey was carried out in 2008, 2009 and 2010. For a link to three surveys conducted by UMR research on occupational respect, go to: <http://www.umi.co.nz/Reports.php>. The surveys refer to licensees as real estate agents.

¹⁰ A completed complaint is one determined by a Complaints Assessment Committee (CAC).

¹¹ The majority of the complaint data relates to residential property transactions.

Figure 3 provides a high-level summary of complaints received and completed, and the overall number of complaints on hand¹², which decreased from 370 in July 2010 to 303 by June 2011.

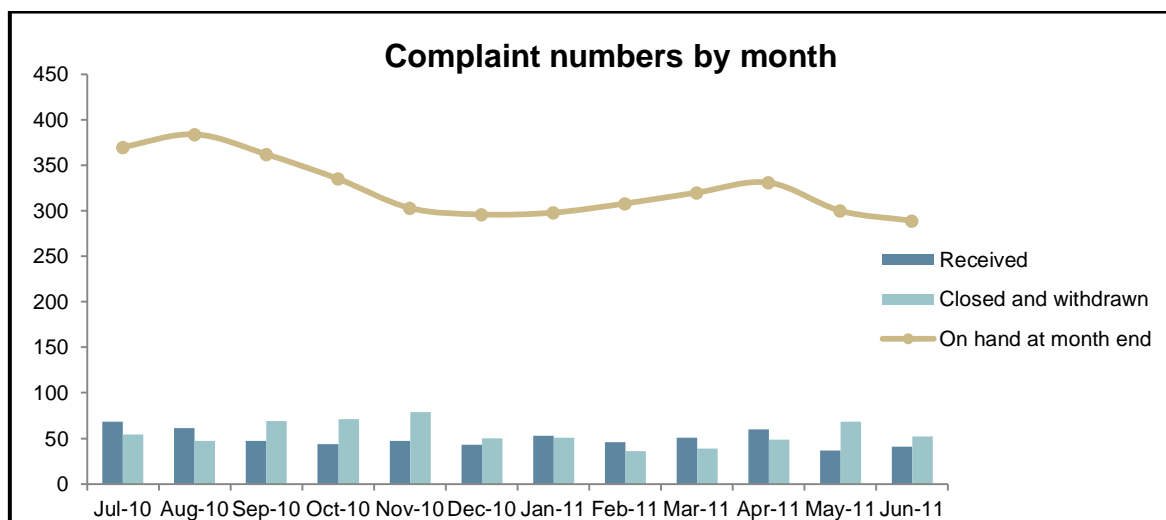


Figure 3 Complaint numbers by month

The number of accepted¹³ complaints open for over 160 working days increased over the first five months of the year ended 30 June 2011 (See Figure 4). This was due to the number of complaints and allegations requiring investigation exceeding the Authority’s investigative capacity in the first half of 2010, and the complexity and time involved in dealing with some of them. The Authority has since increased its investigative capacity and focused on aged cases. From December 2010 to June 2011 the number of complaints older than 160 working days fluctuated slightly.

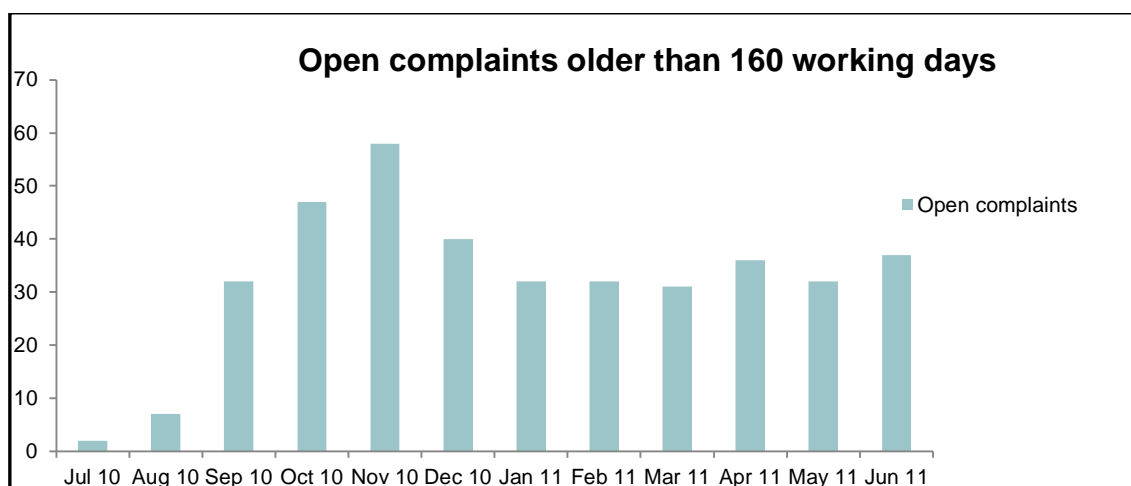


Figure 4 Open complaints older than 160 working days

¹² ‘Complaints on hand’ is the difference between complaints received and complaints completed. This measure does not include allegations and other proactive work.

¹³ Some complaints require further information before the Authority can accept them. Once they are accepted, all complaints are referred to a complaints assessment committee. The Authority then aims to determine 95% of all complaints within 160 working days.

Categories of complaints and allegations

Of the complaints and allegations the Authority received in the year ended 30 June 2011, the top three categories include; incompetency or negligence, marketing, and commission disputes. Figure 5 below provides a percentage breakdown of the categories of complaints and allegations¹⁴.

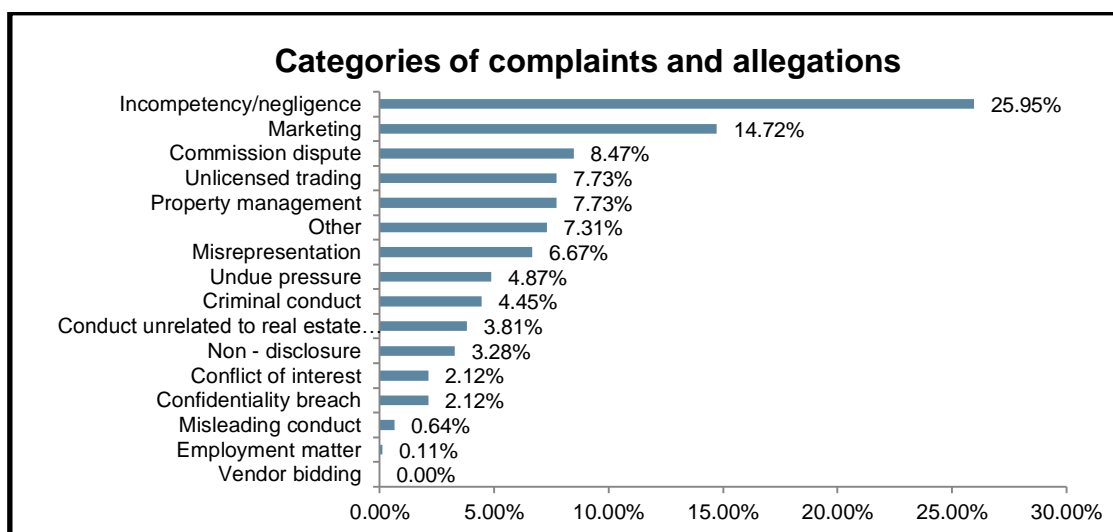


Figure 5 Categories of Complaints and Allegations

Complainants

In the year ended 30 June 2011, 27% of the complaints received were made by licensees complaining about other licensees, with the rest (73%) made by consumers, or the Authority deciding to open an investigation.

Complaint determinations

In the year ended 30 June 2011, the Authority's Complaints Assessment Committees (CACs) determined 100 cases of unsatisfactory conduct, 445 cases of no further action and laid 28 charges before the Disciplinary Tribunal.

All determinations published by CACs can be searched for on the Authority's website, www.reaa.govt.nz under the Complaint Decisions tab. Since inception the Authority has published 309 determinations.

¹⁴ A single complaint or allegation may include multiple categories of complaint. For this reason the sum of complaints and allegations is unlikely to ever equal the sum of categories of complaint.

Licensing

In the year ended 30 June 2011 the Authority approved 11,812 renewal applications, approved¹⁵ 1,281 new licence applications and processed 2,662 voluntary suspensions¹⁶ (Figure 6). Prior to the Real Estate Agents Act 2008, licensees could informally suspend for up to the three years without being charged for the reactivation of their licence. The increased number of suspensions in March (832) and April (1,107) were due to the economic downturn and the impact of the Christchurch earthquakes¹⁷. The total number of suspensions for the year ended 30 June 2011 was 2,662. The Authority waived the suspension fee for licensees affected by the Christchurch earthquakes who voluntarily suspended their licence. In addition, 858 Christchurch-based licensees' levy payments were deferred until 30 September 2011.

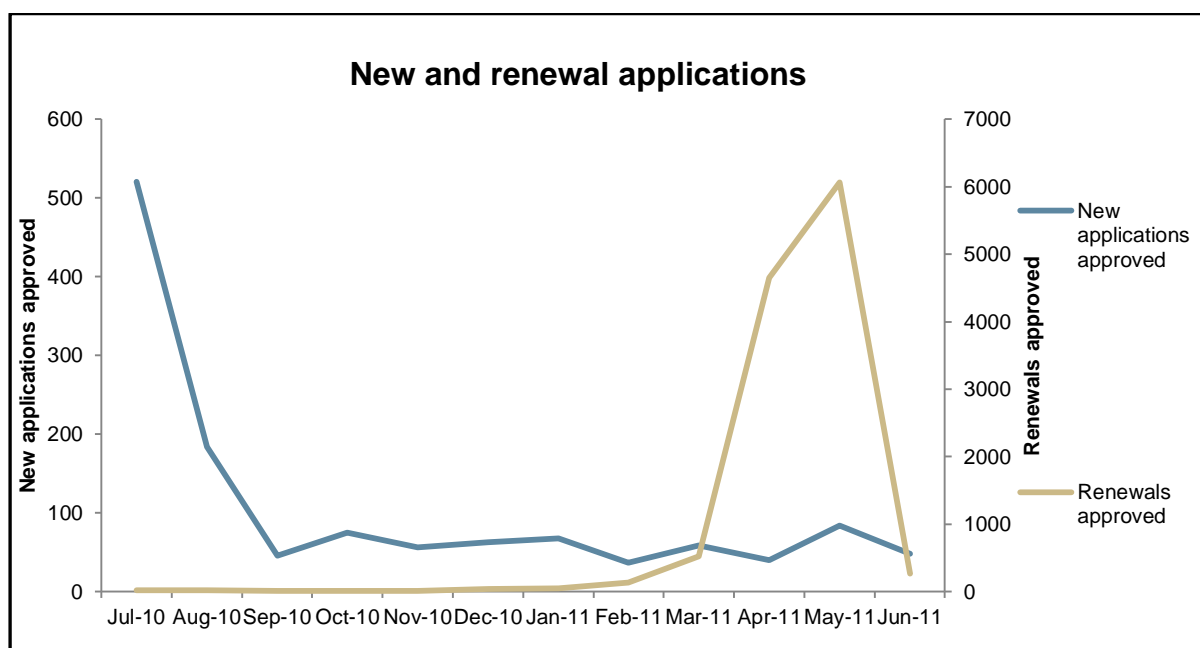


Figure 6 New and renewal applications

Registrar Licence determinations

Among a range of functions, the Authority's Registrar issues licences and has the power to decline an application for a licence. In such cases the applicant can apply to the Disciplinary Tribunal to review a determination from the Registrar (s112). In the year ended 30 June 2011 the Disciplinary Tribunal published three determinations relating to licensing reviews.

¹⁵ Approved means the applicant is a "fit and proper person" and meets licensing requirements.

¹⁶ Suspension means the licensee voluntarily suspended their licence.

¹⁷ Nationally 18% of licensees voluntarily suspended their licence compared with 20% in Christchurch.

Continuing education

New criteria for licence renewals

The Authority has developed a continuing education framework, which will be effective from 1 January 2012. The framework includes an assessment of the core skills required to operate in the industry and aims to address legitimate consumer expectations and interests. As a result, from 1 January 2013 all licensees making applications to renew a licence will need to demonstrate completion of those requirements before the Registrar can consider renewing their licence.

Compulsory continuing education requirements From 1 January 2012, all licensees will be required to undertake compulsory continuing education requirements comprised of at least 10 hours of verifiable compliance-focussed continuing education and at least 10 hours of non-verifiable industry-based training. In addition and from time-to-time, the Authority may give notice of further requirements in addition to those 10 hour minimums.

Structure of the Authority

At 30 June 2011, the Authority had 39 positions, an increase on the 32 positions as at 30 June 2010. These were filled by 37 staff in full-time equivalent roles with 2 additional staff working on a casual/part-time basis. The structure of the organisation up to 30 June 2011 is outlined in Figure 7.

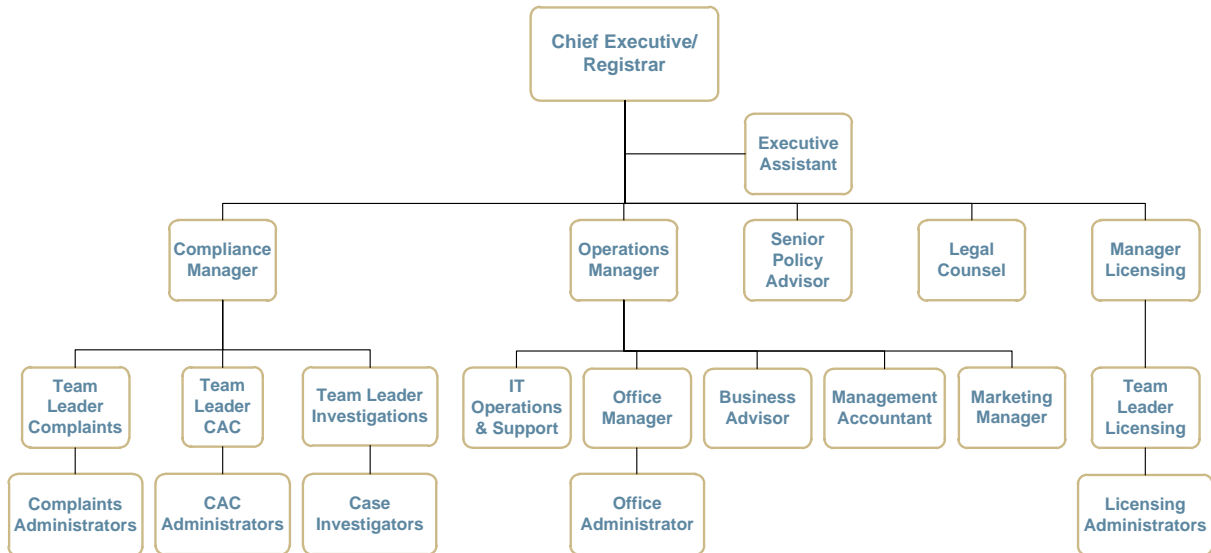


Figure 7 Organisation chart as at 30 June 2011

The Authority was divided into four business areas:

- Compliance
- Licensing
- Operations
- Policy and Legal.

Compliance

The Compliance Unit dealt with complaints, allegations and offences under the Act and provided administrative support to CACs.

Licensing

The Licensing Team administered the Authority's licensing function and maintained the public register of licensees.

Operations

The Operations Team provided corporate support to run the organisation. This included key functions such as communications, information technology, finance, human resource, government reporting, external and internal compliance, office support management, and contract management.

Policy and Legal

The Policy and Legal Team area provided legal and operational policy advice across Authority functions including the development of the continuing education framework.

Updated Structure

During the fourth quarter of the year ended 30 June 2011 the Authority reviewed its structure to align with its revised approach. The following structure was put in place with effect from 1 July 2011 (Figure 8).

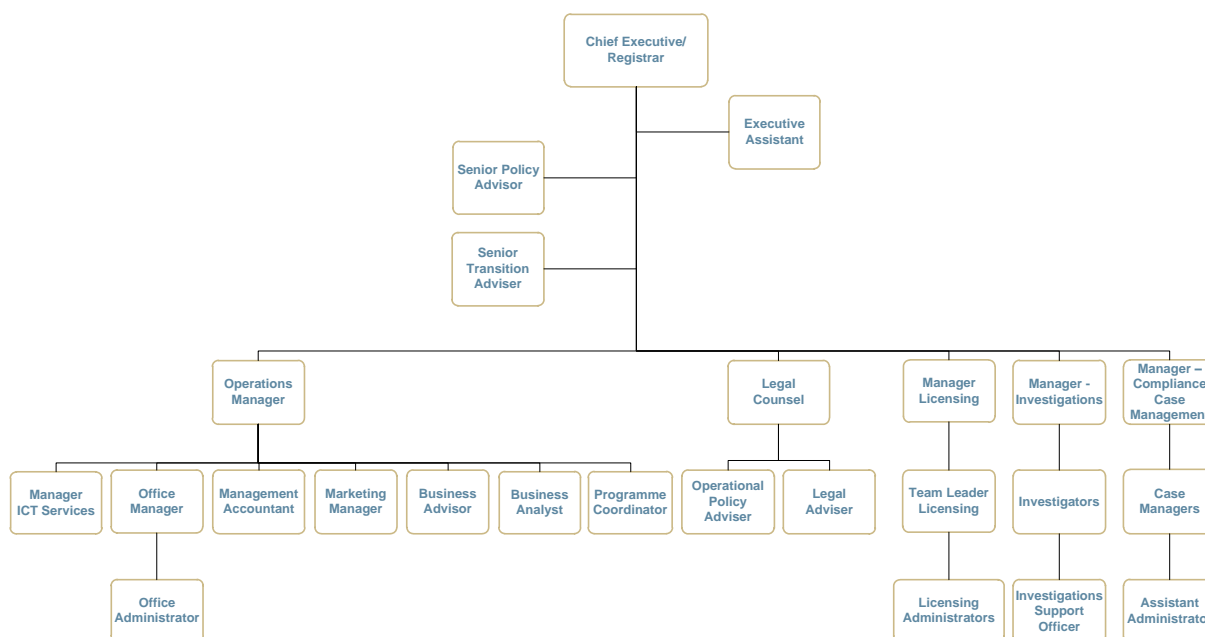


Figure 8 Updated organisation structure as at 1 July 2011

The key features of the new structure are that it:

- ensures the structure is better aligned with the Authority strategy and approach
- enables enhancements to administrative support, governance, legal and operational policy functions within a similar total cost
- better supports end-to-end case management
- provides for more direct lines of accountability in the Authority's management and a more balanced senior leadership team.

Workforce profile and equal employment opportunities

The Authority promotes equal employment opportunities (EEO) to ensure its people capability practices are in line with its obligations as a “good employer¹⁸”. A key focus has been improving staff knowledge of the real estate industry and developing the skills needed to operate a well-run regulatory authority.

¹⁸ “Good employer” is defined in the Crown Entities Act 2004 section 118 (2).

The Authority's workforce profile is outlined in the table below.

The Authority's workforce profile	
Gender profile	Women make up over half of the Authority's workforce (58%), which is comparable to the public sector average.
Age profile	The majority of the Authority's employees are aged between 20–40 years, which is comparable to the public sector average ¹⁹ .
Disability profile	The Authority's proportion of employees with a disability is low and is below the public sector rate ²⁰ .
Ethnicity profile	Ethnic diversity remains stable and below the public sector rates. ²¹

The Authority's initiatives against the seven key elements of a "Good employer" are summarised in the table below.

Good employer elements	Authority initiatives
Leadership, accountability and culture	<ul style="list-style-type: none"> ▪ Good employer practices in human resource management and well documented human resource policies are always available to staff.
Recruitment selection and induction	<ul style="list-style-type: none"> ▪ An equal employment opportunities policy. ▪ Recruitment and staff development practices with equal opportunities employment in mind. ▪ Appointments based on merit.
Employee development, promotion and exit	<ul style="list-style-type: none"> ▪ Personal development for all staff. ▪ Industry specific training.
Flexibility and work design	<ul style="list-style-type: none"> ▪ Flexible work hours (where possible).
Remuneration, recognition and conditions	<ul style="list-style-type: none"> ▪ Transparent, equitable and gender-neutral job evaluation practices.
Harassment and bullying prevention	<ul style="list-style-type: none"> ▪ Employee code of conduct and relevant policies available at all times. ▪ An employee assistance programme.
Safe and healthy environment	<ul style="list-style-type: none"> ▪ Strong focus on employee health, safety and wellbeing through provision of a range of support services including: <ul style="list-style-type: none"> - an employee assistance programme for staff - ergonomic workstation assessments - well-being policy.

¹⁹ The Authority does not record the age of each employee.

²⁰ The State Services Commission reports on disability profiles in the public sector <http://www.ssc.govt.nz/node/1672>

²¹ The Authority does not record the ethnicity of each employee.

Statement of Responsibility

In the year ended on 30 June 2011, the Board and management of the Real Estate Agents Authority was responsible for:

- the preparation of the annual financial statements, the Statement of Service Performance and for the judgements used therein;
- establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of the Authority's financial reporting.

In the opinion of the Board and management of the Real Estate Agents Authority, the financial statements and the Statement of Service Performance for the year ended 30 June 2011 fairly reflect the financial position and operations of the Authority.

Kristy McDonald, QC

Chair

Real Estate Agents Authority

28 October 2011

Denise Bovaird

Board Member

Real Estate Agents Authority

28 October 2011

Keith Manch

Chief Executive/Registrar

Real Estate Agents Authority

28 October 2011

Statement of Service Performance

For the year ended 30 June 2011

The following section outlines measures the Authority used to demonstrate its performance. These measures are linked to the Authority's outputs, which are the final goods and services the Authority delivers. The outputs are linked to the Authority's outcomes model, described in Figure 1 on page 3.

In the year ended 30 June 2011 the Authority reported to the Associate Minister of Justice on progress against the measures outlined in the Statement of Forecast Service Performance, every four months.

Output Class – Operate the Real Estate Agents Authority

The Authority has one output class through Vote Justice.

This output class pools the cost for the Authority's and the CACs delivery of services (outlined in Table 3). Ultimately the outputs the Authority produces are linked entirely to this Output class.

Table 3 Income and expenses

	Actual 2011 (\$000)	Forecast 2011 (\$000)	Variance 2011 (\$000)
Income and Expenses			
Income	8,633	7,943 ²²	690
Less expenses	8,396	9,450 ²²	(1,054)
Net Surplus/(Loss)	237	(1,507)	1,744

In the SOI 2010-13, the Authority divided its expenditure under seven outputs. Since then the Authority has revised the number of outputs from seven to three to better reflect the nature of the Authority's work. Costs for each of the seven outputs are detailed in the following table.

Table 4 Output costs

Output Costs	Actual \$000	Forecast 2011 (\$000)
1. Managing the work of the Complaints Assessment Committees (CACs)	2,612	3,468
2. Managing complaints & allegations	338	298
3. Investigating complaints & allegations, & prosecuting offences	2,487	2,530
4. Providing consumer information on real estate transactions and how to make a complaint	459	449
5. Administering the licensing regime	1,862	2,096
6. Monitoring Trust Account audits	527	373
7. Delivering practice rules for licensees	111	236
Total	8,396	9,450

²² Disciplinary Tribunal levies were originally included in the SOI 2010-13 in both the Income and Expenditure sections of the Statement of Comprehensive Income, they are no longer recognised as the Authority merely collects and passes this levy onto the Ministry of Justice. The forecast income and expenditure figures now exclude the \$533,000 Disciplinary Tribunal levies, previously shown.

The Consumer

The Authority's outputs aligned with the consumer are outlined in the tables below.

Output 1 - Managing the work of Complaints Assessment Committees

The Complaints Assessment Committees (CACs) are the independent quasi-judicial panels that make decisions on each complaint received by the Authority. The CACs must contain at least one member from the Authority's Board, as well as a lawyer with at least seven years' experience.

This output covers the costs of managing the CACs, coordinating their meetings, and ultimately the delivery of determinations and provision of reports on any complaints investigated.

It is important to note that the CACs are independent from the Authority, but are supported and administered by the Authority.

Output 1 - Managing the work of the Complaints Assessment Committees

	Performance Indicator	Actual 2011	Forecast 2011	Variance explanation ²³
1.1	<p>Quantity and Timeliness</p> <p>Percentage of accepted complaints determined within 160 working days.</p> <p><i>Demand driven – The forecast volume of complaints was 1,040 for FY 2011²⁴</i></p>	72%	95%	<p>Variance of -24%. Of the 623 cases determined, 186 were determined with an age greater or equal to 160 working days and 437 were determined within 160 working days. 37 complaints older than 160 working days also remained open on 30 June 2011.</p> <p>The cases determined for the year ended 30 June 2011 include complaints received in the previous financial period.</p> <p>In May 2011 the Authority employed external investigation resource to enable it to concentrate on completing investigations of the older cases.</p> <p>Figure 4 (on page 8) outlines by month, the number of cases over 160 working days.</p>
1.2	<p>Quality</p> <p>Percentage of appeals upheld²⁵ by the Disciplinary Tribunal.</p>	40% (2 appeals upheld)	Less than 10%	Of the five appeals heard by the Disciplinary Tribunal two were upheld.

²³ Variance explanations are provided for variances greater than plus or minus 10%.

²⁴ This does not include Authority initiated investigations and allegations.

²⁵ Upheld means the appellant is successful in their appeal to the Disciplinary Tribunal.

Output 2 - Managing complaints and allegations

The Authority processes every complaint or allegation received from the public and this requires an appropriate system to manage the inflow of information. The Compliance Unit (previously the Enforcement Unit) acknowledges all written complaints. Once accepted all complaints are then referred to a CAC²⁶.

This output covers the cost to the Authority to manage complaints and allegations and represents the final service the Authority provides.

Output 2 - Managing complaints and allegations				
	Performance Indicator	Actual 2011	Forecast 2011	Variance explanation
2.1	<p>Quantity and Timeliness</p> <p>Percentage of complaints from consumers actioned within five working days.²⁷</p>	96%	95%	Variance of 1%. KPI exceeded.
2.2	<p>Quantity and Timeliness</p> <p>Percentage of all complaints considered at an initial CAC meeting within 25 working days of the Authority accepting the complaint.</p> <p><i>Demand driven - The forecast volume of complaints was 1,040, for FY 2011.</i></p>	71%	90%	<p>Variance of -21%. 364²⁸ out of 515 complaints accepted by the Authority were considered at an initial CAC meeting within 25 working days.</p> <p>Delays in considering a complaint at an initial CAC may be attributed to:</p> <ul style="list-style-type: none"> • a combination of workload and constraints on resources. • delays in receipt of further information from complainants. • some complaints received being related to other cases already investigated. In such circumstances, and during the first quarter, the Authority waited and referred the new case to the CAC that had already considered the related case(s). This caused minor delays. The Authority now refers all new complaints to the next available CAC.
2.3	<p>Quality</p> <p>Percentage positive response from surveyed complainants about the process for dealing with a complaint²⁹.</p> <p>Note - To be developed in the year</p>	64%	None	Variance not applicable. 64% of surveyed respondents thought staff were competent and did what they said they would do ³⁰ .

²⁶ Since 1 July 2011 the Authority's new strategy has been to resolve concerns through additional means such as; compliance advice, alternative dispute resolution and a complaints process.

²⁷ An acknowledgement letter is sent to a complainant within five working days.

²⁸ This total is provided where dates are available.

²⁹ The Authority will use the State Services Commission's Common Measurements survey tool and cover the whole financial year.

³⁰ This is based on the response to two questions - staff competence and reliability. Responses are judged positive if awarded a 3, 4, or 5 out of 5. There were 84 survey responses from a possible 303.

Output 2 - Managing complaints and allegations

Performance Indicator	Actual 2011	Forecast 2011	Variance explanation
ended 30 June 2011.			

Output 3 - Investigating complaints and allegations, and prosecuting offences

Aim

The Authority must refer every complaint to a CAC and when directed by the CAC it must carry out further investigations. This output includes all costs associated with investigations and any prosecutorial costs.

Progress

In the year ended 30 June 2011 the Authority referred every complaint to a CAC and carried out investigations when directed by the CAC.

The Authority has redeveloped the design of its outputs listed in Table 4 – Output costs, to better reflect its business and the measures of its performance. As a consequence, the Authority will no longer develop a performance measure for Output 3 – Investigating complaints and allegations, and prosecuting offences; considering it an input into a final process.

Output 4 - Providing consumer information on CAC determinations, real estate transactions and how to make a complaint

Aim

The Authority provides consumer information to those thinking of buying or selling a property. This includes information on: agency agreements, sale and purchase agreements, licensing, commission, sales options and advertising.

The Authority also provides information on how to make a complaint for consumers unhappy with the real estate services received, or who have experienced difficulties with a real estate transaction.

Some of the products the Authority develops include fact sheets and the Authority's approved guides. In the financial year 2010/11 the Authority will review the approved guides to ensure they remain up to date and relevant. In addition, new fact sheets will be developed based on consumer feedback.

This Output includes all the associated costs of the provision of consumer information.

Progress

The Authority publishes CAC determinations if directed by the CAC. This is done to ensure the disciplinary process remains transparent, independent and effective. The publication of a determination ultimately aims to raise awareness of appropriate behavioural practice and increase industry standards.

The Authority made 623 determinations in the year ended 30 June 2011. Since inception the Authority has published 309 determinations. The practice of publishing determinations is now well established and it is anticipated that in future the majority will be published.

A total of 59,840 agency agreement guides and 104,950 sale and purchase agreement guides have been purchased by licensees (for distribution to sellers and buyers) in the year ended 30 June 2011.³¹ Electronic versions of the Guides are also available on the Authority's website.³²

The Authority has updated the approved guides and developed new information sheets. The Authority obtained anecdotal feedback throughout the year to inform the improvements to the approved guides and the new information sheets.

³¹ To support consumer protection and ensure consumers have the information they need at two important stages of the residential buying and selling process, two approved guides have been developed – one for agency agreements and one for sale and purchase agreements. Licensees must provide the relevant guide before each of these agreements is signed.

³² The Authority is unable to track the number of copies of the guides downloaded.

The Industry

The Authority's outputs aligned towards the industry are listed in the tables below.

Output 5 - Administering the licensing regime

The Authority's work in administering and managing the licensing regime includes considering whether licensees are 'fit and proper' to ensure that high-quality licensees operate in the real estate industry. This output covers the associated administrative costs of the licensing regime.

Output 5 - Administering the licensing regime

	Performance Indicator	Actual 2011	Forecast 2011	Variance explanation
5.1	<p>Quantity and Timeliness</p> <p>Percentage of completed applications processed within six weeks.</p> <p><i>Demand driven - The forecast number of new applications is 1,800 for FY 2011.</i></p> <p><i>Demand driven - The forecast number of renewal applications was 16,000 for FY 2011.</i></p>	98%	90%	Variance of 9%. KPI exceeded.
5.2	Percentage of enquiries from licensees actioned within five working days.	89%	80%	Variance of 11%. KPI exceeded. Forecast proved to be too low. There was an absence of data on which to base the forecast, and since the figure was estimated, staff numbers have increased and queries have decreased. The Authority will not use this indicator next year.
5.3	<p>Quantity and Timeliness</p> <p>The notification of change requests actioned within five working days.</p> <p>Note - To be developed in the year ended 30 June 2011.</p>	91%	100%	Variance of -9%. KPI not met.
5.4	<p>Quality</p> <p>Percentage of applications considered (by an independent auditor) to have been well-processed.</p> <p>Note - To be developed in the year ended 30 June 2011.</p>	97%	100%	97% of renewal and new application process steps were considered 'well-processed' ³³ . There were no major errors.

³³ The Authority audited a sample of applications to assess each step of the renewal (4 steps) and new application processes (10 steps). Steps missed were deemed as errors, which totaled less than 3% of all the steps reviewed. The Authority decided to internally review this process, considering it sufficient for auditors appointed from the Office of the Auditor General to audit the Authority's review.

Output 6 - Monitoring trust account audits

The Real Estate Agents (Audit) Regulations 2009 require every real estate trust account to be audited three times each financial year, the final audit report for the period ending 31 March is provided to the Authority.

The Authority plays a role in further investigating those trust accounts that receive a qualified audit opinion (opinions produced by independent auditors), or for those that exhibit defaults or irregularities.

This output covers the Authority's administrative costs of monitoring trust account audits and investigating defaults or irregularities.

Output 6 - Monitoring trust account audits				
	Performance Indicator	Actual 2011	Forecast 2011	Variance explanation
6.1	<p>Quantity and Timeliness</p> <p>Percentage of trust account audits acknowledged within 10 working days.</p> <p><i>The forecast number of licensee trust account audits was 600 for the year ended 30 June 2011.</i></p>	100%	100%	<p>No variance³⁴.</p> <p>The Authority received 517 licensee trust account audits for the year ended 30 June 2011. At the time of forecasting the Authority did not know how many trust accounts each agent had, but knew there were approximately 600 company agent licences. The Authority received some Trust Account audits after 30 June 2011 that relate to activity for the year ended 30 June 2011.</p>
6.2	<p>Quantity</p> <p>Percentage of default or irregularity notifications from auditors investigated.</p>	100%	100%	No variance.
6.3	<p>Quality</p> <p>Positive opinion of the Authority's trust account audit process from independent expert.</p> <p>Note - To be developed in the year ended 30 June 2011.</p>	Refer to variance explanation	N/A	An independent auditor's test did not identify any significant failures in the current processing of the transaction types tested. However, the review identified a need to update existing process and procedure documentation to record the current practices.

³⁴ Deloitte reviewed the Authority's trust account audit process. The review encompassed the performance indicators: 6.1, 6.2 and 6.3.

Output 7 – Delivering practice rules for licensees

Aim

A key part of the Authority's work includes the review and update of practice rules for licensees.

This output covers the costs of any policy work, including general legislative costs.

In the financial year 2010/11 the Authority anticipates undertaking a number of policy projects, including:

- *developing practice rules for continuing education*
- *reviewing the Code of Professional Conduct and Client Care by 30 June 2011.*

Progress

The Authority has developed a continuing education framework, which will be effective from 1 January 2012.

The Authority has delayed the review the Code of Professional Conduct and Client Care, and will now carry-out the review in the year ending 30 June 2012 to ensure it is based on a sufficient volume of cases, experience and understanding of the industry.

Financial Statements

Statement of Comprehensive Income

For the year ended 30 June 2011

	Actual 2011 \$000	Budget 2011 \$000	Actual November 2009 to June 2010 \$000
Note			
Revenue			
Operating levy received	7,252	7,642	1,477
Suspension fees	242	-	-
Application fees	161	171	1,604
Fair value imputed loan interest	587	-	1,694
Other income	391	130	134
Total revenue	8,633	7,943	4,909
Expenditure			
Audit fee	49	-	40
Personnel costs	3,380	3,057	2,511
Finance costs	596	156	466
Depreciation	112	712	66
Amortisation	864	-	308
Specialist services	937	1,308	3,853
Legal fees	544	1,654	493
Board fees	165	246	192
Complaints assessment committee fees	381	851	94
Miscellaneous expenses	31	-	43
Computer and telecommunications	550	450	362
Printing, stationery and postage	142	414	701
Travel, meetings and entertainment	132	230	237
Occupancy	316	372	226
Provision for doubtful debts	197	-	-
Total expenditure	8,396	9,450	9,592
Total comprehensive income	237	(1,507)	(4,683)

Explanations of significant variances against budget are detailed in note 26 on page 51.

The Statement of Accounting Policies and the Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Financial Position

As at 30 June 2011

	Note	Actual 2011	Budget 2011	Actual November 2009 to June 2010
Current Assets				
Cash and cash equivalents	7	2,876	8,253	7,105
Investments		4,700	-	-
Debtors and other receivables	8	591	-	-
Prepayments		83	-	68
GST receivable		42	-	155
Approved guide stock		29	-	-
Total current assets		8,321	8,253	7,328
Non-Current Assets				
Property, plant and equipment	9	211	382	590
Intangible assets	12	694	2,193	1,077
Total non-current assets		905	2,575	1,667
Total assets		9,226	10,828	8,995
Current Liabilities				
Trade creditors and accruals	10	492	912	1,784
Provision for plastic licenses	11	-	-	180
Employee entitlements		96	-	52
Deferred operating levy		6,165	9,030	4,550
Establishment funding from Crown at fair value		-	1,316	296
Total current liabilities		6,753	11,258	6,862
Term Liabilities				
Rent rebate		91	-	137
Establishment funding from Crown at fair value	13	4,750	3,750	4,601
Total term liabilities		4,841	3,750	4,738
Total liabilities		11,594	15,008	11,600
Net assets		(2,368)	(4,180)	(2,605)
Public Equity				
Crown funding		2,078	2,078	2,078
Retained earnings		(4,933)	(4,751)	(4,683)
Litigation reserve	25	250	-	-
Current year surplus/(deficit)		237	(1,507)	-
Total public equity		(2,368)	(4,180)	(2,605)

The Statement of Accounting Policies and the Notes to the Financial Statement form an integral part of these Financial Statements

Statement of Changes in Equity

For the year ended 30 June 2011

	Note	Capital funding from Crown	Retained Earnings	Litigation Reserve	Total Public Equity
Actual Nov 2009 - 30 June 2010					
Public equity at beginning of year					
Capital funding from Crown		2,078	-	-	2,078
Total comprehensive income		-	(4,683)	-	(4,683)
Public equity at end of year		2,078	(4,683)	-	(2,605)
Actual 2011					
Public equity at beginning of year		2,078	(4,683)	-	(2,605)
Total comprehensive income		-	237	-	237
Establishment of litigation reserve		-	(250)	250	-
Public equity at end of year		2,078	(4,696)	250	(2,368)
Budget 2011					
Public equity at beginning of year		2,078	(4,751)	-	(2,673)
Total comprehensive income		-	(1,507)	-	(1,507)
Public equity at end of year		2,078	(6,258)	-	(4,180)

The Statement of Accounting Policies and the Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Cash Flows

For the year ended 30 June 2011

	Note	Actual 2011	Budget 2011	Actual November 2009 to June 2010
		\$000	\$000	\$000
Cash Flows from Operating Activities				
Cash was provided from:				
Receipts from licensees		8,588	15,781	8,244
Receipts from sale of publications		178	114	78
Rent rebate received		-	-	182
Interest income		151	30	55
Receipts from fines and penalties		35	-	-
		8,952	15,925	8,559
Cash was applied to:				
Payments to suppliers		(4,996)	(6,309)	(5,788)
Payments to employees		(2,965)	(3,013)	(1,877)
Payments to Inland Revenue for Resident Withholding Tax		(60)	-	-
Interest		(156)	(75)	(78)
Net GST paid		(62)	(1,185)	(55)
		(8,239)	(10,582)	(7,798)
Net cash flows from operating activities	15	713	5,343	761
Cash Flows from Investing Activities				
Cash was provided from:				
Sale of property, plant and equipment		5	-	-
		5	-	-
Cash was applied to:				
Purchase of property, plant and equipment		(41)	(162)	(656)
Purchase of intangible assets		(206)	(1,581)	(1,385)
Acquisition of investments		(4,700)	-	-
		(4,947)	(1,743)	(2,041)
Total cash flows from investing activities		(4,942)	(1,743)	(2,041)
Cash Flows from Financing Activities				
Cash was applied to:				
Capital injections from the Crown		-	-	2,078
Loan advanced from the Crown		-	-	6,307
Repayment to Crown		-	(1,952)	-
Total cash flows from financing activities		-	(1,952)	8,385
Net (decrease)/increase in cash and cash equivalents		(4,229)	1,648	7,105
Cash and cash equivalents at the beginning of the year		7,105	6,605	-
Cash and cash equivalents at the end of the year	7	2,876	8,253	7,105

Notes to the Statement of Cash Flows

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

The Statement of Accounting Policies and the Notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Accounting Policies

For the year ended 30 June 2011

Reporting entity

These are the financial statements of the Real Estate Agents Authority (the Authority), a Crown entity as defined by the Crown Entities Act 2004. The Authority is domiciled in New Zealand.

The Authority was established on 17 November 2009, so the comparatives to the financial statements are for the seven and a half months ended 30 June 2010. The comparatives to the Statement of Comprehensive Income also include costs incurred by the Ministry of Justice in the establishment of the Authority, in the two financial years preceding the Authority's establishment; therefore the financial statements are not entirely comparable. Other changes in comparatives are noted below.

The Authority's functions are defined in the Real Estate Agents Act 2008 and include; administering the licensing regime for real estate agents, setting professional standards, and providing services in relation to complaints' determinations.

The Authority is a public benefit entity for the purposes of New Zealand International Financial Reporting Standards (NZ IFRS).

The financial statements for the Authority are for the year ended 30 June 2011 and were approved on 28 October 2011 by the Board.

Basis of preparation

Statement of Compliance

The financial statements of the Authority have been prepared in accordance with requirements of the Crown Entities Act 2004 including the requirement to comply with New Zealand generally accepted accounting practice.

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

Measurement system

The financial statements have been prepared on an historical cost basis except for the establishment funding from the Crown which is at fair value.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000), unless otherwise specified. The functional currency of the Authority is New Zealand dollars.

Comparatives

The following changes have been made since the last financial statements. Comparatives have been restated to align with the current period's presentation.

Financial statements referred to	
<p>Statement of Comprehensive Income</p>	<p>Specialist services In 2010 legal fees of \$493,000 were reported as part of this category and are now disclosed separately to provide greater clarity on the Authority's spend in this area.</p> <p>Outsourced or Bureau Processing charges have been transferred to this category, which was previously included in Computer and Telecommunications costs, the actual value of these costs was \$72,000.</p> <p>Miscellaneous Expenses Previously included both Board and Complaints Assessment Committee fees that are now shown separately to provide greater clarity on the Authority's spend in this area. The value of Board and CAC fees for the period 17 November 2009 to 30 June 2010 was \$286,000.</p> <p>Computer and telecommunications Now includes a note on the different components of spend in this category, Outsourced and Bureau Processing has been transferred to Specialist Services.</p>
<p>Statement of Financial Position</p>	<p>Trade creditors and accruals Provisions were previously included in this category but are now shown separately to provide greater clarity on the movement in provisions over the year; namely the provision for plastic licenses from the year ended 30 June 2010 (\$180,000).</p> <p>Interest rate risk (note 16) In 2010 the interest rate risk table included financial investments, which are not subject to interest rate risk. Such financial instruments have been removed from this table.</p>
<p>Statement of Cash Flows</p>	<p>Receipts from fines and penalties Previously included in receipts from licensees, this has now been separately disclosed to provide greater clarity on the cash flows received from fines and penalties (\$35,000).</p> <p>Payments to Inland Revenue for Resident Withholding Tax Previously included with Net GST paid, this has been shown separately to include payments to the Inland Revenue Department that are not related to GST, in this case Resident Withholding tax on interest earnings (\$57,000).</p> <p>Interest Previously included in payments to suppliers, this has now been changed to show the total cash payments made to the Crown for interest on the Authority's capital funding of \$78,000 for the period 17 November 2009 to 30 June 2010.</p>
<p>Notes to the financial statements</p>	<p>16. Interest rate risk In 2010 the interest rate risk table had included financial instruments that are not subject to interest rate risk. Such financial instruments have been removed from this table.</p> <p>22. Commitments</p> <p>Operating lease commitments The premise's lease has a right of renewal on 1 July 2013. The 2010 lease commitment was overstated as it had included payments up to the final expiry date of 1 July 2019. The 2010 comparatives have been updated to reflect the renewal on 1 July 2013 and the inclusion of operating leases for print devices.</p>

Standards and interpretations effective in the current period

Minor Amendments to NZ IFRS and Improvements to NZ IFRS took effect during the year ended 30 June 2011 and have been adopted by the Authority for the first time. These amendments and improvements did not have a significant impact on the Authority's financial statements.

New and amended financial reporting standards (not adopted early by the Authority)

At the date of authorisation of the Authority's financial statements for the year ended 30 June 2011, the following standards and interpretations were in issue but not yet effective:

Standard/Interpretation		Effective Date
NZ IAS 24	Related party disclosures (revised 2009)	Annual periods commencing on or after 1 January 2011*
NZ IFRS 9	Financial Instruments	Annual periods commencing on or after 1 January 2013*
FRS 44	New Zealand additional disclosures	Annual periods commencing on or after 1 July 2011.

* All standards and interpretations will be adopted at their effective date (except for those standards and interpretations not applicable to the entity).

NZ IAS 24 Related party disclosures (revised 2009)

The amendments to NZ IAS 24 will be adopted by the Authority for the first time for the year ending 30 June 2012. The amendment to NZ IAS 24 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The amendment is not expected to impact significantly the Authority's accounting policies.

NZ IFRS 9 Financial instruments

The Authority will adopt NZ IFRS 9 for the first time for the year ending 30 June 2014. This standard reduces the number of categories of financial assets from four to two categories. All financial assets will now either be measured at amortised cost or at fair value. The classification is based on the entity's business model for managing the financial asset and contractual cash flow characteristics.

FRS 44 New Zealand additional disclosures

This standard prescribes the New Zealand specific disclosures which are required in addition to those required under NZ IFRS. This standard contains the new specific disclosure requirements which have been relocated from existing NZ IFRS and have been retained because they are considered important in the New Zealand environment.

Significant accounting policies

The following accounting policies that materially affect the measurement of financial performance and financial position have been applied.

Revenue

The Authority derives revenue through; an annual charge to real estate licensees, the sale of publications, interest on investments, and the receipt of fees and fines.

The annual charge to real estate licensees has two components; an operational levy to cover the on-going service provision of the Authority, and a disciplinary levy transferred to the Ministry of Justice to provide funding for the Disciplinary Tribunal). In addition, an application fee is charged to recover the additional costs of registration. The Authority also charges a fee for suspending a licence. The suspended licence is valid for 12 months, after which it should be reactivated, re-suspended or cancelled.

Most licences expire on 31 March and the licence renewal is payable at this time, therefore the Authority generally recognises 25% of revenue from renewed licences in the financial year the operating levy is received. The remaining 75% of the operational levy collected is deferred to the following financial year.

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

Levies

Operational Levies

Operational Levies are recognised when earned and are reported in the period to which they relate.

Disciplinary Levies

Disciplinary Levies are paid on receipt to the Ministry of Justice and are not recognised as income.

Fees

Application fees and suspension fees are recognised when due and received.

Fines

Fines are recognised when due and receivable.

Sale of Publications

Revenue from the sale of publications is recognised when the sale is made.

Interest

Interest is recognised using the effective interest rate method and recognised in the period to which it relates.

Capital charge

A capital charge of 7.5% is applied to the \$2.078 million capital funding received from the Crown and is recognised as an expense in the period to which the charge relates.

Leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Authority are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis, over the term of the lease, in the Statement of Comprehensive Income.

Cash and cash equivalents

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

Investments

Investments include deposits held with banks with original maturities greater than three months but less than one year. Investments in bank deposits are initially measured at fair value plus transaction costs.

After initial recognition investments in bank deposits are measured at amortised cost using the effective interest method, less any provision for impairment. Impairment is established when there is objective evidence the Authority will not be able to collect amounts due according to the original terms of the deposit. Significant financial difficulties of the bank, probability the bank will enter into receivership or liquidation, and default in payments are considered indicators the deposit is impaired.

Debtors and other receivables

Debtors and other receivables, comprising trade debtors, accrued interest and resident withholding tax recoverable from the Inland Revenue Department, are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

Impairment of a receivable is established when there is objective evidence that the Authority will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debt is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit. When the receivable is uncollectible, it is written-off against the allowance account for receivables.

Inventories

Inventories are valued at the lower of cost (using the First In First Out method) and net realisable value.

The amount of any write-down for the loss of service potential or from cost to net realisable value is recognised in surplus or deficit in the period of the write-down.

Property, plant and equipment

Property, plant and equipment consist of leasehold improvements, computer equipment, furniture and office equipment, and capital work in progress.

Additions

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

Disposals

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets. Gains and losses on disposals are included in the Statement of Comprehensive Income.

Subsequent costs

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

Costs of day to day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Income as they are incurred.

Depreciation

Property, plant and equipment are depreciated at rates that will write-off the cost of the assets to their estimated residual value over their useful life. The useful lives and associated depreciation rates used in the preparation of these statements are as follows:

Furniture and Office Equipment	5 years	20%	straight line
Computer Equipment	3 years	33%	straight line
Leasehold Improvements	4 years	25%	straight line

Intangible assets

Software acquisition and development

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

Costs associated directly with the development of software for the internal use of the Authority are recognised as an intangible asset. Direct costs include the software development and consultant's costs. Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of software with a finite life is amortised on a straight-line basis over its useful life. Amortisation commences when the asset is available for use and ceases when the asset is derecognised. The amortisation charge for each period is recognised in the Statement of Comprehensive Income.

The useful lives and associated rates have been estimated as follows:

Acquired and Developed Software	2-3 years	33%-50%	straight line
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The above treatment has been adopted for all items of acquired and developed software with the following exception:

- In the year ended 30 June 2011 the remaining useful life of the Authority's registration database was reassessed following the decision to replace it in the year ending 30 June 2012, this has increased amortisation by \$258,000.

Impairment of non-financial assets

Property, plant and equipment, and intangible assets that have a finite useful life, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of an asset's fair value, less costs to sell and value in use. The value in use is the depreciated replacement cost.

Creditors and other payables

Creditors and other payables are initially recognised at fair-value and subsequently measured at amortised cost.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Employee entitlements

Provision is made in respect of liability for annual leave, which is expected to be settled within 12 months of balance date (or approval is gained to carry forward leave), and measured at undiscounted nominal values based on an actual entitlement basis at current rates of pay.

Superannuation schemes

Obligations for contributions to Kiwisaver are accounted for as defined contribution superannuation schemes and recognised as an expense in the Statement of Comprehensive Income as incurred.

Establishment funding

The Crown has provided establishment funding to be repaid over a period of five years. This is recorded as a term liability at fair value on the Statement of Financial Position and subsequently measured at amortised cost in accordance with the effective interest rate method. The Authority plans to make the first repayment in April 2013.

Goods and services tax

The financial statements are prepared on a GST exclusive basis, except accounts receivable and accounts payable, which are prepared on a GST inclusive basis.

The net amount of GST recoverable from, or payable to, the IRD is included as a receivable or payable in the Statement of Financial Position.

Taxation

The Authority is a public authority in terms of the Income Tax Act 2007 and consequently is exempt from income tax.

Financial instruments

The Authority is party to a variety of financial instruments as part of its normal operations. A financial instrument is any contract that gives rise to both a; (recognised or, unrecognised) financial asset of one entity and a (recognised or, unrecognised) financial liability of another entity, or is any contract that demonstrates residual interest in the assets of an entity after deducting all its liabilities. These financial instruments include bank accounts, short-term deposits, accounts payable and accounts receivable. All financial instruments are recognised in the Statement of Financial Position and all revenue and expenses in relation to financial instruments are recognised in the Statement of Comprehensive Income.

Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income.

Cash flows are classified into three activities:

- operating activities include cash received from all income sources
- investing activities include cash received for sale, and cash payments made for the purchase of investments and any other non-current assets
- financing activities include capital contributions and other transactions relating to changes in equity of the Authority.

Budget figures

The Budget figures shown are derived from the SOI 2010-13 approved by the Board at the beginning of the financial year. The Budget figures have been prepared in accordance with NZ IFRS, using accounting policies consistent with those adopted by the Authority for the preparation of the financial statements. The budget figures have not been audited.

The income and expenditure values shown in the budget have been adjusted by \$533,000 to exclude the Disciplinary Tribunal values that were previously included in the SOI 2010-13. On receipt these funds are passed directly to the Ministry of Justice and are not included in the Statement of Comprehensive Income.

Equity

The Equity is the Crown's investment in the Authority plus any surpluses/less any deficits incurred through operations, and a litigation reserve for extraordinary unanticipated legal expenses.

Changes in accounting policy

The accounting policies are consistent with those used in the past-year except for the adoption of amendments to the New Zealand International Financial Reporting Standards. None of these amendments have materially changed the financial statements.

Critical judgements in applying the Authority's accounting policies

In the application of NZ IFRS, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities, not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors believed reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised;

- in the period the estimate is revised
- if the revision affects only that period, or in the period of the revision and future periods
- if the revision affects both current and future periods.

Judgments made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2011

1. Other income

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Sale of publications	178	78
Interest	173	56
Fines	35	-
Gain on sale of assets	5	-
Total other income	391	134

Section 127 of the Real Estate Agents Act 2008 requires agents to provide a copy of an approved guide to their clients; these guides are provided to agents on a cost-recovery basis by the Authority and recorded as sale of publications.

Interest earnings incorporate accrued interest on term deposit investments held with approved institutions, along with the interest paid on call account and operating account balances.

Following a change-over of desktop operating system the Authority decided to replace its i-phone handsets with more secure Blackberry units, consequently 13 i-phone handsets were disposed of for a \$5,000 net gain.

2. Personnel costs

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Salaries and wages	3,022	1,778
Other personnel costs	243	580
Employer contributions to Kiwisaver	38	18
Termination payments	33	83
Employee entitlements	44	52
Total personnel costs	3,380	2,511

Other personnel costs include temporary staff for permanent roles, additional resources for temporary roles, recruitment costs, allowances and training.

One staff member was made redundant on 30 June 2011 following the adoption of a new operating model and a restructure of the Authority's compliance and case management structure.

Employee entitlements represent the movement in annual leave balances between 30 June 2010 and 30 June 2011.

3. Finance costs

	Note	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Interest on capital funding from Crown		156	78
Unallocated pre-establishment funding		-	104
Fair value interest on Crown pre-establishment funding	13	440	284
Total finance costs		596	466

4. Specialist services

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Investigations support	271	-
Approved guide management	184	-
ICT and other systems consulting	180	1,001
Media and communications	117	186
Accounting support services	78	-
Outsourced or bureau processing	72	-
Advertising and publicity	58	230
Auditors - trust account services	37	-
Specialist services for hearings	22	-
Other specialist services	19	2,333
Transcription and translation services	15	-
Licence processing	12	-
Auditors - other services	8	-
Human resources support services	5	103
Property specialist services	2	-
Write-back provision for plastic licenses	(143)	-
Total specialist services	937	3,853

Auditors – other services includes the costs of additional accounting services work performed by BDO Wellington to assist in completing the financial statements for the year ended 30 June 2010 and reviewing the Authority’s draft Statement of Intent 2011-14.

ICT and other systems consulting 2009-10

The \$1 million shown for ICT and other systems consulting, for the period 17 November 2009 to 30 June 2010, includes \$405,000 pre-establishment ICT costs and a further \$596,000 spent by the Authority from 17 November 2009.

Other specialist services 2009-10

In the year ended 30 June 2011 the Authority changed its Other Specialist Services account structure to recognise and report on the categories shown in the above table. The following table shows the categories of the \$2.333 million Other Specialist Services costs from the year ended 30 June 2010.

	Pre- Establishment Costs \$000	Authority Costs from Nov 2009 to June 2010 \$000	Actual as at 30 June 2010 \$000
Finance, administration and other contractors	515	-	515
Implementation programme contractors	472	-	472
Ministry of Justice	-	433	433
Other specialist services	11	398	409
Implementation project management	325	-	325
Provisions	-	179	179
Total other specialist services 2009/10	1,323	1,010	2,333

5. Legal fees

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Legal fees	-	493
Disciplinary Tribunal prosecutions	213	-
Legal advisory services	196	-
CAC appeals to Disciplinary Tribunal	114	-
Licensing reviews	18	-
Trust account audits	2	-
High Court appeals	1	-
Total legal fees	544	493

The Authority has changed the classification of expenditure for both specialist services and legal fees. In the financial statements for the period ended 30 June 2010, legal fees were included with specialist services; now separated into the categories above.

The \$493,000 legal fee expenditure shown for the period 17 November to 30 June 2010 in the above table includes \$179,000 pre-establishment costs with \$314,000 incurred by the Authority in the period following 17 November 2009.

6. Computer and telecommunications

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Network support and maintenance	368	-
Software support and maintenance	29	-
Telecommunications	133	-
Other computer and telecommunications costs	20	362
Total computer and telecommunications	550	362

Datacom provides the majority of network support and maintenance services to the Authority and supports its network infrastructure and desktop operating systems. Catalyst IT is the provider of network and software support services for the Authority's registration database.

Telecommunications costs include call charges and monthly rentals for both cellular and land-line calls and rental charges.

7. Cash and cash equivalents

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Cash at bank	726	4,105
Funds held on call	2,150	3,000
Total cash and cash equivalents	2,876	7,105

The Authority has invested \$4.7 million in two separate term deposits of less than 12 months duration.

8. Debtors and other receivables

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Trade debtors	719	-
Less provision for doubtful debts	(207)	-
Accrued interest	22	-
Resident withholding tax receivable	57	-
Total debtors and other receivables	591	-

Following the February Christchurch earthquake, the Authority allowed affected licensees a 6 month deferral on the payment of their levy. The total value of the deferred levies was \$564,000 (858 licensees at \$657 per license). The Authority recognises a significant portion of these debtors are unlikely to be able to pay their levy that is due in September 2011. Therefore a provision for doubtful debts has been made based on the ratio of Canterbury and West Coast licensees who did not renew their licence this year (35%).

Reconciliation of provision for doubtful debts

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Opening balance	-	-
Additions	207	-
Less: reductions	-	-
Total provision for doubtful debts	207	-

9. Property, plant and equipment

	Computer equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Capital work in progress \$000	Total \$000
Gross carrying amount					
Balance at 17 November 2009	-	-	-	-	-
Additions	225	115	6	310	656
Sales/transfers	-	-	-	-	-
Balance at 30 June 2010	225	115	6	310	656
Balance at 1 July 2010	225	115	6	310	656
Additions	38	1	2	-	41
Sales	(5)	-	-	-	(5)
Transfer of capital work in progress	8	-	-	(283)	(275)
Write-off of capital work in progress	-	-	-	(27)	(27)
Balance at 30 June 2011	266	116	8	-	390
Accumulated depreciation and impairment					
Balance at 17 November 2009	-	-	-	-	-
Depreciation expense	50	15	1	-	66
Sales/transfers	-	-	-	-	-
Balance at 30 June 2010	50	15	1	-	66
Balance at 1 July 2010	50	15	1	-	66
Depreciation expense	87	24	2	-	113
Sales/transfers	-	-	-	-	-
Balance at 30 June 2011	137	39	3	-	179
Net carrying amounts					
At 17 November 2009	-	-	-	-	-
At 30 June 2010	175	100	5	310	590
At 30 June 2011	129	77	5	-	211

10. Trade creditors and accruals

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Trade creditors	151	356
Accrued expenses	302	803
Other payables	4	12
Disciplinary levy payable	35	613
Total trade creditors and accruals	492	1,784

11. Provision for plastic licences

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Opening balance	180	-
Additions	-	180
Less: amount used	(37)	-
Less: write-back provision for plastic licences	(143)	-
Total provision for plastic licences	-	180

In the year ended 30 June 2010 a \$180,000 provision for plastic licences was made to recognise the outstanding commitment to provide free plastic proof-of-licence cards to all licensees. This commitment expired on 1 April 2011 and at that time a closing balance of \$143,000 was written-back to the Statement of Comprehensive Income in the year ended 30 June 2011.

12. Intangible assets

	\$000
Gross carrying amount	
Balance as at 17 November 2009	-
Additions	1,385
Sales/transfers	-
Balance as at 30 June 2010	1,385
Balance at 1 July 2010	1,385
Additions	206
Transfer from capital work in progress	275
Sales	-
Balance at 30 June 2011	1,866
Accumulated amortisation	
Balance at 17 November 2009	-
Amortisation expense	308
Balance as at 30 June 2010	308
Balance at 1 July 2010	308
Amortisation expense	864
Disposals	-
Balance at 30 June 2011	1,172
Net carrying amount	
At 17 November 2009	-
At 30 June 2010	1,077
At 30 June 2011	694

Within intangibles is the Authority's registration database, as at 30 June 2011 the carrying amount was \$468,000 and the remaining amortisation period is one year. In June 2010 the carrying amount was \$1.033 million with a remaining amortisation period of two years.

Other intangible assets include the Authority's website, knowledge-base and intranet, financial management information system and desktop software.

13. Non-interest bearing loans provided by the Crown to assist with establishment

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Opening recognised balance	4,897	-
Cash value of loan received throughout the year	-	6,307
Less: fair value imputed loan interest	(587)	(1,694)
Recognised balance at fair value	4,310	4,613
Current year interest recognised	440	284
Total value of the loan	4,750	4,897
Represented by:		
Current portion of loan	-	296
Non-current portion of loan	4,750	4,601
Total value of loan	4,750	4,897

Non-interest bearing loans

The Crown expects the Authority to repay the full value of its establishment funding over a five year period, the total value of funding advanced was \$6.307 million.

The terms of repayment agreed with the Ministry of Justice have been amended in the year ended 30 June 2011 and are now as follows:

- The first repayment of the establishment funding is to be deferred from 30 April 2011 to 30 April 2013 and will be for \$500,000.
- Annual repayments of \$1.261 million are expected on 30 April in each successive year from 2014 – 2017.
- The final payment will be made on 30 April 2018 and will be approximately \$761,000.
- Payments are subject to the Authority making surpluses, positive cash position and ability to continue to operate sustainably.

14. Categories of financial assets and liabilities

The carrying amounts of financial assets and liabilities in each of the NZIAS 39 Financial Instruments: Recognition and Measurement categories, are as follows:

	Loans and receivables	Financial liabilities measured at amortised cost	Total carrying amount	Fair value
	\$000	\$000	\$000	\$000
2011				
Current financial assets				
Cash and cash equivalents	2,876	-	2,876	2,876
Investments - term deposits	4,700	-	4,700	4,700
Debtors and other receivables	534	-	534	534
Total current financial assets	8,110	-	8,110	8,110
Total financial assets	8,110	-	8,110	8,110
Current financial liabilities				
Trade creditors and accruals	-	488	488	488
Total current financial liabilities	-	488	488	488
Term financial liabilities				
Establishment funding from Crown	-	4,750	4,750	4,750
Total term financial liabilities	-	4,750	4,750	4,750
Total financial liabilities	-	5,238	5,238	5,238
2010				
Current financial assets				
Cash and cash equivalents	7,105	-	7,105	7,105
Total current financial assets	7,105	-	7,105	7,105
Total financial assets	7,105	-	7,105	7,105
Current financial liabilities				
Trade creditors and accruals	-	1,772	1,772	1,772
Establishment funding from Crown	-	296	296	296
Total current financial liabilities	-	2,068	2,068	2,068
Term financial liabilities				
Establishment funding from Crown	-	4,601	4,601	4,601
Total term financial liabilities	-	4,601	4,601	4,601
Total financial liabilities	-	6,669	6,669	6,669

15. Net cash flows from operating activities

Reconciliation of Statement of Comprehensive Income surplus/(deficit) with net cash flow from operating activities:

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Net surplus / (deficit) for the period	237	(4,683)
Non-cash items		
Depreciation	112	66
Amortisation	864	308
Gain on sale	(5)	-
Prior year capital work in progress expensed	32	-
Fair value imputed loan interest	(587)	(1,694)
Interest on pre-establishment funding from Crown	440	284
	856	(1,036)
Movements in working capital items		
Trade debtors, other receivables and prepayments	(608)	(68)
Inventory	(29)	-
GST receivable	113	(155)
Rent rebate received	(46)	137
Trade creditors, other payables and provisions	(1,468)	1,964
Deferred operating revenue	1,614	4,550
Employee entitlements	44	52
	(380)	6,480
Net cash flows from operating activities	713	761

16. Financial risk management objectives

The Authority does not enter into or trade financial instruments for speculative purposes. The Authority's activities expose it primarily to the financial risks of interest rates.

Interest rate risk

Fair-value interest rate risk is the risk the value of a financial instrument will fluctuate due to changes in market interest rates.

Cash flow interest rate risk is the risk that cash flows from a financial instrument will fluctuate because of changes in market interest rates.

The Authority is exposed to cash flow interest rate risk as it has cash on call at floating interest rates. The Authority manages its interest risk by investing in on-call and short term deposits of less than one year with highly graded financial institutions (AA or above).

The Authority's interest rate risk is limited as the interest rate on investments is fixed and investment terms are less than one year.

The following tables detail the Authority's exposure to interest rate risk.

Interest rate risk

	Weighted average effective interest rate %	Variable interest rate bearing	Non-interest bearing	Total
	\$000	\$000	\$000	\$000
2011				
Financial assets				
Cash and cash equivalents				
- Cash at bank	1.65	726	-	726
- Call account	3.10	2,150	-	2,150
Investments - term deposits				
- Westpac term deposit	3.60	2,700	-	2,700
- UDC term deposit	4.40	2,000	-	2,000
Total financial assets	-	7,576	-	7,576
Financial liabilities				
Non-interest bearing loans	7.5	-	4,750	4,750
Total financial liabilities	-	-	4,750	4,750
2010				
Financial assets				
Cash and cash equivalents				
- Cash at bank	1.75	4,105	-	4,105
- Call account	2.75	3,000	-	3,000
Total financial assets	-	7,105	-	7,105
Financial liabilities				
Non-interest bearing loans	7.5	-	4,897	4,897
Total financial liabilities	-	-	4,897	4,897

The effective interest rate used for calculating the fair value interest charge is the same as the interest rate applied to the Crown capital funding (7.5%).

Credit risk management

Credit risk is the risk a third party will default on its obligation to the Authority, causing the Authority to incur a loss.

Financial instruments that potentially subject the entity to credit risk principally consist of bank balances. The Authority very rarely extends credit, and deposits its cash with Westpac, which is included in the Crown Retail Deposit Guarantee Scheme with all deposits up to \$1 million held with Westpac, guaranteed by the Crown.

Westpac and UDC are both rated AA institutions under Standard and Poor's investment grading criteria.

Maximum exposures to credit risk at reporting date are:

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Maximum exposures to credit risk		
Cash and cash equivalents	2,876	7,105
Investments - term deposits	4,700	-
Debtors	534	-
Total	8,110	7,105

No collateral is held on the above amount. There is no maturity date on the current bank balances as these represent cash held in transactional and cash management accounts. Term deposits classed as cash and cash equivalents have a maturity date of less than three months.

The following table shows debtors that are past due but not impaired.

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Current	28	-
0-30 Days	172	-
31-60 Days	500	-
61 and Over	19	-
Total Debtors	719	-

Fair value of financial instruments

The Authority considers the carrying amount of assets and financial liabilities recorded in the financial statements approximates their fair values.

Liquidity risk

Liquidity risk is the risk the Authority will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Authority aims to maintain flexibility in funding by keeping committed credit lines available.

All of the Authority's commitments owing at balance date, comprising creditors, provisions and accruals, have a contractual maturity of less than six months. The Authority has sufficient cash on hand to meet these commitments as they fall due.

The table below analyses financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

Contractual cash-flows from financial liabilities

	Carrying amount	Contractual cash flows	Less than 6 months	6-12 months	Later than 1 year
2011					
Creditors and other payables	488	488	488	-	-
Non-Interest bearing loans	4,750	6,307	-	-	6,307
Total	5,238	6,795	488	-	6,307
2010					
Creditors and other payables	1,772	1,772	1,772	-	-
Non-Interest bearing loans	4,601	6,307	-	315	5,992
Total	6,373	8,079	1,772	315	5,992

Currency risk

Currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Authority is not subject to currency risk as it does not participate in any such financial instruments.

17. Capital management

The Authority's capital is its equity comprised of accumulated funds and other reserves. Equity is represented by net assets.

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

The Authority manages its equity as a by-product of prudently managing income, expenses, assets, liabilities, investments, and general financial dealings to ensure the Authority effectively achieves its objectives and purpose, whilst remaining a going concern.

18. Board remuneration

The following table represents the total value of remuneration paid or payable to Board members during the year.

	Board Fees	CAC Fees	TOTAL	Board Fees	CAC Fees	TOTAL
	2011	2011	2011	November 2009 to June 2010	November 2009 to June 2010	November 2009 to June 2010
	Actual	Actual	Actual	Actual	Actual	Actual
	\$000	\$000	\$000	\$000	\$000	\$000
Kristy McDonald Q.C.	40	-	40	75	-	75
Peter McDermott	18	3	21	22	-	22
Joan Harnett-Kindley	22	12	34	18	2	20
Denise Bovaird	25	11	36	15	3	18
John Auld	18	11	29	22	2	24
Barrie Barnes	20	8	28	20	1	21
David Russell	22	6	28	18	2	20
Unallocated MOJ payment	-	-	-	2	-	2
TOTAL Board Remuneration	165	51	216	192	10	202

No Board members received compensation or other benefits in relation to cessation. Board members receive a set fee of \$20,000 per year with the Chair receiving \$40,000. Members of the Board are required to sit on CACs and are paid an hourly rate.

19. Related party transactions

The Authority is a wholly-owned Crown entity significantly influenced by the Government.

The Authority has entered into a number of transactions with Government departments, Crown agencies, and state-owned entities; on an arm's length basis, and in the course of its normal dealings.

Where those parties are acting in the course of their normal dealings with the Authority, and the transactions are at arm's length, related party disclosures have not been made.

During the year ended 30 June 2010, the Authority received an interest free loan of \$6.307 million from the Crown. This loan remains outstanding as at 30 June 2011, details of the loan are included in note 13.

The Authority paid \$156,000 (2010: \$75,000) of interest on capital funding from the Crown.

20. Key management personnel compensation

The compensation of the Chief Executive/Registrar and the Board members, being the key management personnel of the Authority, is set out below:

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Short term employee and termination benefits	421	398
Post-employment benefits	4	-
Total key management personnel compensation	425	398

Short term employee benefits include salary, annual leave and board fees.

21. Employee remuneration

Remuneration and other benefits of \$100,000 per annum or more, (excluding payments for compensation or other benefits in respect of employment cessation), received by employees in their capacity as employees were:

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Remuneration range		
\$100,000 - \$109,999	1	2
\$110,000 - \$119,999	4	-
\$120,000 - \$129,999	-	1
\$140,000 - \$149,999	1	-
\$150,000 - \$159,999	1	-
\$160,000 - \$169,999	1	-
Total employees	8	3

During the year ended 30 June 2011, one employee received a cessation payment totalling \$33,000. In 2010 the Authority paid-out a total of \$83,000 in cessation payments to two employees.

The 2010 numbers have been restated to exclude cessation payments. The employee restated has been moved from \$160,000-\$169,999 remuneration range to \$120,000-\$129,999 remuneration range.

22. Commitments

(i) Capital commitments

There are no capital commitments at reporting date.

(ii) Operating lease commitments

Commitments for non-cancellable operating leases are as follows:

	Actual 2011 \$000	Actual November 2009 to June 2010 \$000
Operating Lease Commitments		
Less than one year	310	299
Later than one year and not later than five years	326	635
Later than five years	-	-
Total operating lease commitments	636	934

The operating lease commitments are largely for the lease of level 2 Deloitte House, 10 Brandon Street, Wellington. The lease term is for six years, with a right of renewal on 1 July 2013, at the current market rental. The Authority does not have the option to purchase the leased asset at the expiry of the lease period.

(iii) Other commitments

The Authority has made the following other commitments:

- An agreement with Datacom Ltd to host the financial management information system, payroll system and to maintain and distribute approved guides and code of conduct publications. This agreement expires in October 2011 and is charged at \$8,573 per month.
- An agreement with Datacom Ltd to provide support of the Microsoft desktop infrastructure. This agreement expires in June 2013 and is charged at \$9,500 per month.
- A contractual commitment with Zintel-Cogent for telephony and PABX services, which would cost 3 months' average billing to cancel (approximately \$10,000).

23. Contingent liabilities

There are no contingent liabilities at reporting date.

24. Subsequent events

Since balance date the Authority has been subject to an Ombudsman's enquiry regarding the charging of suspension renewal fees for those licensees who had suspended their licence prior to the introduction of the fee on 1 January 2011. The financial impact of a decision against the Authority in this matter is estimated to be less than \$100,000.

There are no other events subsequent to the reporting date the Authority is aware of that would have a material impact on the financial statements for the year ended 30 June 2011.

25. Litigation reserve

The Authority has established a \$250,000 litigation reserve for extraordinary unanticipated legal expenses. The litigation reserve represents the potential legal costs which, in the Authority's opinion, could arise from one or more significant matters.

26. Significant budget variances

Budget values are sourced from the forecast financial statements shown in the Authority's SOI 2010-13.

Explanations of significant budget variances are provided as follows:

Operating levy received

The Authority has experienced a significant increase in the number of licensees either suspending or cancelling their licence in the year ended 30 June 2011. The Authority defers the portion of any operating levy received that relates to future financial years. The majority of licensees renew at 31 March with 75% of the operating levy being deferred to the next financial year. As a result the full impact of reduced renewal and application volumes is not reflected until the following financial year. This means revenue for the year ended 30 June 2011 is largely in line with forecast as the majority of the income forecast for the year ended 30 June 2011 was deferred from the year ended 30 June 2010.

The SOI 2010-13 revenue assumptions were based on a levy of \$807.25 and licensee volumes of 17,800 (including new applications) for the year ended 30 June 2011. The actual operating levy charged from 1 January 2011 was \$657, and the final number of active licensees at 30 June 2011 was 13,964 (including new applications).

Suspension fees

The Authority introduced a \$95 fee for suspending licences from 1 January 2011 that was not charged prior to this date, this reflects the actual recovery of costs involved in processing a suspension.

Fair value imputed loan interest

The first repayment of the establishment funding loan has been deferred to April 2013 and this has resulted in a fair value interest adjustment, which was not included in the SOI 2010-13.

Other income

Income from the sale of the approved guides has been higher than anticipated. Interest earnings have also increased in line with higher interest rates and placement of \$4.7 million on term deposit.

Personnel costs

The budget for personnel for the SOI 2010-13 did not include a \$327,000 allowance for complaints assessment committee (CAC) support staff. This was originally included with total CAC costs.

Finance costs

Finance costs under the SOI 2010-13 only included the capital interest charge on the Crown's capital funding. Since then, the Authority has recognised a \$440,000 fair-value interest expense on the Crown establishment funding term liability.

Depreciation and amortisation

The Authority has accelerated the amortisation expense on the registration database following the decision to replace the system before the year ending 30 June 2012.

Specialist services

Underspend is mainly the result of an unused consulting allowance of \$220,000.

Write-back Provision for Plastic Licences

The \$180,000 provision for plastic licences was expected to be fully utilised before the year ended 30 June 2011 renewal period. This was not the case and the remaining provision of \$143,000 was written back on 1 April 2011.

Legal fees

The following table demonstrates the variance in categories of legal fees between the SOI 2010-13 and actual spend for the year ended 30 June 2011.

	Actual \$000	SOI 2010-13 \$000	Variance \$000
CAC appeals to the Disciplinary Tribunal	114	348	(234)
Prosecution for offences under the Act	2	230	(228)
READT prosecutorial services	213	374	(161)
Contingency	-	139	(139)
Contract and commercial advice	-	120	(120)
General counsel support	-	115	(115)
Trust account audits	1	100	(99)
High Court appeals	-	86	(86)
Licensing reviews to READT	18	50	(32)
Real Estate Agents Act 2008 advisory	196	92	104
Total Legal Fees Variance	544	1,654	(1,110)

The CAC appeals to the Disciplinary Tribunal, prosecution for offences under the Real Estate Agents Act (2008), and the Disciplinary Tribunal prosecutorial services have the largest variances.

CAC Appeals to the Disciplinary Tribunal were originally budgeted on the assumption that 100 appeals would be lodged with the Disciplinary Tribunal throughout the year and that each case would cost \$3,456. The actual number of appeals lodged with the Disciplinary Tribunal is 32 at a cost-per-case of \$3,556.

(i) Prosecution for offences under the Real Estate Agents Act 2008

Budgeted at 24 cases per year at a cost of \$9,600 per case, the actual number of prosecutions has been significantly lower than this amount as the Authority has focused on the volume of complaints received rather than engaging in proactive prosecutions.

(ii) Disciplinary Tribunal prosecutorial services

Budgeted at 48 cases for the year at a cost-per-case ratio of \$7,800, the actual case volumes have been 32 at a cost-per-case of \$6,645.

(iii) General Counsel support

General Counsel support has been charged to temporary staff costs rather than legal fees.

(iv) Trust account audits

No trust account audit issues have been referred for legal advice. The budgeted litigation allowance of \$100,000 has not been required.

The underspend in legal fees has also been brought about by the Authority engaging its own in-house general counsel who has been able to provide legal advisory services at a lower cost than was estimated for external suppliers.

The \$246,000 shown as Board fees in the SOI 2010-13 included all Board costs, including travel and accommodation charges. Total Board costs for the year ended 30 June 2011 are \$210,000.

Complaints assessment committee fees

The SOI 2010-13 included all CAC costs (including Authority personnel costs) in this category.

Computer and telecommunications

Contract and non-contract network support charges have been higher than originally estimated since the Authority incurred significant support charges following the Authority's change-over from an open-source network and desktop infrastructure.

Printing, stationery and postage

The majority of printing costs in the SOI 2010-13 were associated with anticipated mail-out costs for the licence renewal round. These estimates included allowances for renewal application packs to be mailed-out to licensees, return postage costs and an allowance for invoices and receipts to be posted. These costs have not materialised due to the Authority providing downloadable application forms on the Authority's website, and upgrading the financial system, allowing invoices and receipts to be emailed directly to licensees.

Travel, meetings and entertainment

Costs of travelling for investigators, expert witnesses and Disciplinary Tribunal hearings have been lower than anticipated and actively managed to a minimum.

Independent Auditor's Report

TO THE READERS OF REAL ESTATE AGENTS AUTHORITY'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

The Auditor-General is the auditor of the Real Estate Agents Authority (the Authority). The Auditor-General has appointed me, Rhys Barlow, using the staff and resources of BDO Wellington, to carry out the audit of the financial statements and statement of service performance of the Authority on her behalf.

We have audited:

- the financial statements of the Authority on pages 24 to 53, that comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Authority on pages 16 to 23.

Opinion

In our opinion:

- the financial statements of the Authority on pages 24 to 53:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Authority's:
 - financial position as at 30 June 2011; and
 - financial performance and cash flows for the year ended on that date.
- the statement of service performance of the Authority on pages 16 to 23:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects, for each class of outputs for the year ended 30 June 2011, the Authority's:
 - service performance compared with the forecasts in the statement of forecast service performance for the financial year; and
 - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 28 October 2011. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of all disclosures in the financial statements and statement of service performance; and
- the overall presentation of the financial statements and statement of service performance.

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

Responsibilities of the Board

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

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

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

The Board's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the Auditor

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

Independence

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

In addition to the audit we have carried out assignments in the areas of assistance in financial statements and review of the statement of intent, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Authority.



Rhys Barlow
BDO Wellington
On behalf of the Auditor-General
Wellington, New Zealand

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

This audit report relates to the financial statements and statement of service performance of the Real Estate Agents Authority for the year ended 30 June 2011 included on Real Estate Agents Authority's website. The Real Estate Agents Authority's Board is responsible for the maintenance and integrity of the Real Estate Agents Authority's website. We have not been engaged to report on the integrity of the Real Estate Agents Authority's website. We accept no responsibility for any changes that may have occurred to the financial statements and statement of service performance since they were initially presented on the website.

The audit report refers only to the financial statements and statement of service performance named above. It does not provide an opinion on any other information, which may have been hyperlinked to or from the financial statements and statement of service performance. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and statement of service performance as well as the related audit report dated 28 October 2011 to confirm the information included in the audited financial statements and statement of service performance presented on this website.

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

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