

Report of the

NEW ZEALAND ARTIFICIAL LIMB SERVICE

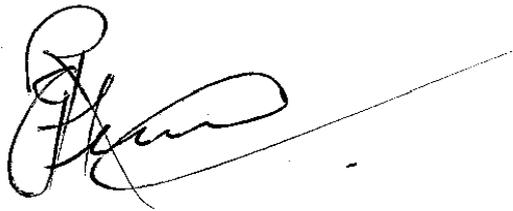
Peke Waihanga, Aotearoa

For the Year Ended
30 June 2014

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

To the Minister for Social Development

In accordance with the Crown Entities Act 2004, we present, on behalf of the New Zealand Artificial Limb Service, the Annual Report of the operations of the NZALS for the year ended 30 June 2014.



George Reedy
Chair

28 October 2014



Paula Tesoriero
Deputy Chair

28 October 2014

CONTENTS

| | <i>Page</i> |
|---|-------------|
| About the New Zealand Artificial Limb Service | 4 |
| Chair's Report | 6 |
| The Year in Review..... | 8 |
| Governance and Accountability Statement..... | 15 |
| Governance Philosophy | 17 |
| Our Operating Environment | 19 |
| Statement of Responsibility..... | 24 |
| Independent Auditor's Report..... | 25 |
| Statement of Service Performance..... | 28 |
| Statement of Comprehensive Income | 32 |
| Statement of Financial Position | 33 |
| Statement of Cash Flows | 35 |
| Notes to the Financial Statements | 36 |
| Contact Information | 57 |

About the New Zealand Artificial Limb Service

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

The functions of the NZALS Legislative mandate, as defined by the Social Welfare (Reciprocity Agreements, and New Zealand Artificial Limb Service) Act 1990, are to:

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

The activities of the NZALS have been aligned to the following Government priorities:

An efficient and effective health sector. We invest in our amputees of all ages through rehabilitative services. These changes make a positive contribution to New Zealand as amputees who become more mobile and independent, contribute more to society. We pride ourselves on providing a high quality and efficient service.

Provide value for money. We undertake a programme of constant improvement. Some examples to reduce costs and increase effectiveness this year have included:

- a “lean thinking” approach to business. We focus on stock and inventory control and appropriate individualised prescriptions that match components closely to amputee needs, mobility and lifestyle, leading to better outcomes for amputees
- research into and education around new technology and best practice
- training courses on amputee care for allied health professionals to increase knowledge/provide better service
- an outcomes measures project which consists of objective measures of an amputees’ progress during their first vital year with the service. They are fully integrated into our patient management database and are used by the clinical team to indicate where an amputee may benefit from allied health services
- professional development opportunities for personnel to update their skills as technology changes.

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

There are five Limb Centres located in Auckland, Hamilton, Wellington, Christchurch and Dunedin, each of which also provides Regional clinics to bring services to the following areas:

| From: | To: |
|--------------------------|---|
| Auckland Limb Centre | Whangarei Kaitaia New Plymouth |
| Hamilton Limb Centre | Gisborne Rotorua Tauranga |
| Wellington Limb Centre | Hastings Palmerston North Masterton Nelson Blenheim Wanganui |
| Christchurch Limb Centre | Greymouth |
| Dunedin Limb Centre | Invercargill |

The Limb Service provided by the NZALS includes consultation with Prosthetics Professionals, Orthopaedic Surgeons, Vascular Surgeons, Rehabilitation Physicians, Physiotherapists and Occupational Therapists.

Funded mainly through two national contracts; an annual provision from the District Health Board for health related amputations; and ACC providing for those amputations caused by trauma. There are a small number of war amputees who are funded separately, and a few artificial limbs are independently endorsed by private contracts. Co-operative relationships are promoted between Limb Service personnel and District Health Boards, Community Organisations, the Amputees Federation of New Zealand and its regional societies.

New Zealand Artificial Limb Service

Chair's Report

The New Zealand Artificial Limb Service has had another great year with continued focus on improving services to amputees through better quality systems, robust practices and professional development as prosthetic technology continues to advance. Balancing individual needs with expectations will continue to be a challenge with available funding.

NZALS concentrated on stakeholder engagement this year, especially those that have a substantial stake in our outcomes. We believe that by maintaining exceptional relationships with key stakeholders we can work together on projects that can be mutually beneficial; to enhance the lives of amputees.

It has been a busy year with our now two yearly client satisfaction survey concluded with some very interesting results. An overall satisfaction rating of 95% was received from those amputees currently using our services. This result is a testament to the dedication and hard work of our people who often go above and beyond to ensure that the needs of our amputees are being met.

An independent Rehabilitation survey was carried out in April 2014. This very specific survey, covering all amputees on NZALS' database, looked at how amputees were interacting with community support received after leaving our service. The results were thought provoking and highlighted gaps. Looking inward NZALS is winning in some areas, but needs support to make improvements in others. The opportunity now presents itself for NZALS to coordinate with others and close the gaps where necessary.

On behalf of the Board I also take the opportunity to thank respondents for participating in both surveys, your input is invaluable in identifying areas where our service can be improved.

We continued to invest in our organisational health and capability to deliver operational excellence. We placed a large amount of significance on ensuring our people were at the top of their game by reinforcing the Continuing Professional Development (CPD) and Prescription Review Programme now in its fourth year. Embracing new technology, state of the art L.A.S.A.R posture alignment tools, some of the most advanced equipment available in the field of prosthetics is being used every day throughout all our service centres. To ensure we are leading NZ by staying abreast of the latest technology we have a dedicated team, monitoring possible subjects for Osseointegration² for amputees. The procedure is expensive and complicated and would not be suitable for everyone hence the need for a team to oversee the viability of amputees who are interested in having the procedure done.

While rebranding the service during the year we took the opportunity to incorporate our Maori name – Peke Waihanga, Aotearoa. Our people reinforced their knowledge by completing Tikanga Maori cultural training for health sector employees.

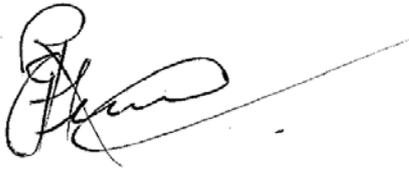
With the Rio 2016 Paralympic Games just two years away and athletes vying for registration in their chosen fields, NZALS is working collaboratively with Paralympics NZ and upcoming athletes to ensure we will be represented to our full capability. New Zealand Paralympians have an impressive record of bringing home medals from the Games in a variety of codes and we intend

² Technology where a metal implant is surgically inserted into a femur and over time attaches itself directly to the bone, growing around it and eventually supporting it firmly. This implant then becomes the support for prosthetic attachments forming a manoeuvrable leg that eliminates many of the difficulties associated with current prosthetic legs

on mobilising our champions with the best prosthetics we have to offer. As all of our prosthetics are bespoke, resources and time are our biggest challenges...but also a test of our skill and dedication. Our teams are dedicated to these extraordinary events.

Recognition goes to all those people whose commitment contributes so much to the success of our service – the Management, Staff, Physiotherapists and Medical Specialists. This appreciation is also extended to other agencies and organisations that we work closely with, who continue to support our work.

I have pleasure in submitting this Annual Report and the Financial Statements for the year ended 30 June 2014.

A handwritten signature in black ink, appearing to read 'George Reedy', with a long horizontal flourish extending to the right.

George Reedy
Chair

The Year in Review

With our Vision constantly at top of mind, the NZALS constantly strives not only to meet the varied needs of the amputees we care for on a daily basis, but allow them to exceed their own expectations and enable them to live a fulfilled and productive life in an accepting society. We strive to provide amputees with the best technology on offer and the latest advances in prosthetics paralleling international standards.

Towards the end of 2013, legislation passed in Parliament signalled changes for the New Zealand Artificial Limb Service. A change in title from New Zealand Artificial Limb Board to New Zealand Artificial Limb Service was officially announced in December 2013 to better reflect the extent of the organisation's activities. An amendment to the 2004 Crown Entities Act (CEA), also in late 2013, had ramifications for the organisation's reporting going forward.

The Service also announced its new Māori name 'Peke Waihanga, Aotearoa' in September 2013 which quite simply means Artificial Limbs, New Zealand. The service prioritised its commitment to its Maori and EEO strategies for 2015 with presentations to the Board, updated signage, promotion of equal opportunity in recruitment and Tikanga training implementation for all personnel.

The latest NZALS Client Satisfaction survey questionnaire which is carried out every two – three years was distributed to all current clients – being those amputees who had been in contact with NZALS in the last three years. This survey provides NZALS with considerable information on our clients and their satisfaction with the service we provide. Issues raised also provide the opportunity for NZALS to continually improve on service delivery.

To summarise the findings of the latest client satisfaction survey; most respondents became an amputee as a result of an accident (referred to as trauma in some of the graphs contained in this report); most respondents had a below-knee artificial limb; almost half of those surveyed reported that becoming an amputee had a 'major impact on their everyday life' (predominantly health related and financial impacts); 70% of all amputees received their most recent limb from NZALS in the last three years; the majority of respondents were satisfied with the most recent limb they received from NZALS.

Throughout the past year NZALS has been fostering a positive relationship with the New Zealand Amputees federation in view to improving our service and delivery engagement. Our intention is to keeping the federation informed of the latest developments and to maintain the channels of communication and information flow between us.

In March 2014 the Chief Executive and National Prosthetics Manager, attended the Amputee Federation conference held in Nelson to present the latest national initiatives being run in the field of Osseointegration. Then in May 2014 the Chief Executive and Chair met with the NZ Amputees Federation Executive to discuss some of their concerns. NZALS aims to work with the Federation to ensure a clear understanding of expectations. We are looking to identifying areas for an even more collaborative relationship and improved engagement going forward.

An external consulting team were employed to work with both the Auckland and Hamilton Centres in order to establish how these two centres might work more collaboratively and effectively. They also provided assistance to NZAOP in preparing for annual registration of all personnel that has clinical involvement as per the Board's directive.

The fourth annual external review of Continuing Professional Development (CPD) was completed and reported to the Board. Over time NZALS has ceased to be simply a supplier of artificial limbs, and is now arguably an Allied Health provider of bespoke artificial limb manufacturing and a clinical service provider of artificial limb assessment needs and fitting.

As such the organisation now follows prescription and procedures akin to any other Allied Health provider, and accordingly needs to ensure full compliance and adherence to broadly accepted international best practice. In order to enable this to occur in a meaningful and measured way, evidence based practice is essential. Active commitment to on-going professional development is the responsibility of the individual rather than the employer, and is traditionally supported by a specific professional organisation. Conversely, clearly established and consistently monitored quality assurance processes are the responsibility of the employer, and is performed by our Prescription Review Process and the annual review of Continuing Professional Development (CPD).

During the second quarter, the Chief Executive spoke with the current President of New Zealand Association of Orthopaedic Prosthetists (NZAOP) regarding re-registration of their members. The Board directed that by May 2015, all personnel working in a clinical setting are to have a practicing certificate issued by the NZAOP on a yearly basis consistent with the requirements of the HPCAA (Health Practitioners Competence Assurance Act).

Also during the second quarter the Chief Executive had a preliminary meeting with the Principal Advisor Regulations from MedSafe, regarding the possible impact of the implementation of the Australia New Zealand Therapeutic Products Agencies (ANZTPA) legislation. It would appear at this stage that NZALS would be exempt from any detailed compliance obligations because we are both a bespoke manufacturer and import the vast bulk of our components through Australian suppliers who are already required to comply with the Therapeutic Goods Act (TGA). At this time the proposed changes will not impact our services; however we will need to ensure the integrity of current exemptions that apply to our production.

NZALS and part of the New Zealand Positive Ageing Strategy supported an independent research study on 'Design and Implementation of Interdisciplinary Care Guidelines for Hospital Management of Amputees in Christchurch'. The results from this research were positive and ongoing.

The NZALS Contestable Research Fund was founded to promote innovation and expertise in related health and disability fields to benefit amputees throughout New Zealand. Notification of the available Contestable Research Fund was distributed widely to academic, research and medical institutions across New Zealand. In 2013 six applications were received for the NZALS funding grants and of these; three successful applications had contracts drawn up as follows:

The grants supported the undertaking of the following research projects:

- Professor Liz Franz on *Assisting amputees in controlling phantom limb pain (stage 2)*
- Andrew Reynolds on the *Impact of post-meal walking on glycaemic variability in people with type 2 diabetes.*
- Dr. Daniel Ribeiro an exploratory study on *Spinal muscle activity patterns during functional tasks in persons with lower limb amputation.*

All research projects have commenced and initial reports have been received with some interesting feedback to date.

Most of the Service's funding comes from contracts that it holds with the Capital Coast District Health Board (who manage the national health funding on behalf of DHB's) and ACC. The Service provides these agencies with a report each quarter confirming compliance with the terms and conditions of these contracts.

In July, NZALS approached the Health Quality and Safety Commission New Zealand (NZQSC) regarding the possibility of sharing information, in particular outcome measures on senior citizens, who represent a significantly high proportion of newly referred amputees. While interested to hear of our work, the NZQSC responded by saying that the specifics of mobility/aids in relation to amputees is not currently within the scope of their programme.

At their April 2014 Board meeting, the Board approved capital investment for the purchase of the L.A.S.A.R Posture and PROS.A Assembly kit alignment equipment, to enable enhanced static alignment and output of data to confirm accuracy of alignment. The recommendation to the Board included an overview, arising from the a recent prosthetic alignment course that a number of personnel had attended, concluding that these two pieces of equipment will effectively reduce the time required on dynamic alignment and improve consistency of fittings.

Microsoft ended support for their XP operating software in April 2014. Early risk assessment identified a number of computers still operating XP and planned migration was incorporated into our capital replacement programme. The final phase of this project included the replacement of the ortho-carver at Wellington Limb Centre.

Development of a SQL reporting cube began in early 2014. A datamart created from our live database will facilitate instant and consistent data for reporting and analysis. The biggest gains in efficiency will be demonstrated through the monthly, quarterly and yearly reports which were previously generated from a copy of the live database taken at fixed points in time. Previously this involved a manual extraction and running SQL scripts to make data "corrections" to tidy the data ready for reporting. With standard rules built into the Cube, data is then validated and a consistent base of data established from which we are able to extract our reports. It will also enable ad-hoc enquiry into data and trends.

In response to the new Government rules of sourcing as of October 2013, we carried out a review of the impact on NZALS which was submitted after the Briefing on the Government Rules of Sourcing with regard to proposed mandatory application for all Crown Entities. This included updating contracts for overseas supply contracts using AoG Procurement templates. NZALS participates in a number of AoG contracts including External Legal Services, External Recruitment Services and the most recently Air travel. This joins the other contracts that NZALS participate in IT Hardware, Office Consumables and Print Device and Management.

NZALS performed an annual review of their insurance business package and coverage, and the insurance premiums have been renewed with only very slight increase on last year.

A visual Rapid Earthquake Assessment of National Office and a visual structural inspection of the Wellington Limb Centre took place following the earthquake on Sunday 21 July 2013. Both inspections confirmed minimal or no obvious damage to the buildings. However, an external crib wall has been identified as a risk to the side wall on the lower level of the building currently occupied by the Wellington Limb Centre. MSD and a BECA engineer met with Wellington Limb Centre personnel regarding the earthquake risk concerns. MSD property management prepared an explanation leaflet to provide personnel and amputees with information on the building, risks and actions to address. Despite the building's 100% earthquake rating, the proximity of the crib wall to the building in that particular corner has resulted in the authorities issuing a yellow sticker. There is no immediate intention by the property owners to affect any remedial work on

the surrounding site and retaining wall, therefore the building remains yellow stickered.

Post script: the Board have now written to the Minister with a proposed way forward in this matter.

A thorough review of plant and equipment was carried out by Centre Managers, the National Prosthetics Manager and Manager of Finance and Corporate. As part of the 2014-15 budget plan and the NZALS ten year plan with regards to likely capital expenditure, a review was also undertaken to ascertain requirements for repairs and maintenance; health and safety and presentation of public areas. Subsequently unexpected items requiring urgent attention were fast-tracked due to health and safety concerns and water-tightness. The Auckland Centre had critical rewiring undertaken and Christchurch Centre had a dust extractor system replaced.

The further extension of the Dunedin Limb Centre lease from 2013 to 2016 as previously agreed by the Board has been executed, with all public areas receiving a fresh coat of paint in early 2014.

The Christchurch Centre Manager met with Burwood Hospital management to discuss the proposed Burwood redevelopment plans including access via the Limb Centre car park to the proposed new staff parking.

The Chief Executive and Christchurch Orthopaedic Surgeon, met with the National Health Board's Director of DHB Performance and Canterbury/West Coast's General Manager Planning & Funding in August 2013 in Christchurch to discuss the NZ evaluation of the Osseointegration trial. The Orthopaedic Surgeon provided his final evaluation review on Osseointegration to ACC, the Ministry of Health and NZALS Board in November 2013. This included a review of stock specifically earmarked for Osseointegration which NZALS currently holds an inventory of \$103,726 for surgical components relating to this evaluation.

The National Prosthetics Manager, in conjunction with a Christchurch Orthopaedic Surgeon, continued to monitor Osseointegration developments in New Zealand. Over the past year a clinical team called the Specialised Osseointegration Rehabilitation Team (SORT) was formed to bring Osseointegration into mainstream. The team consists of an Orthopaedic Surgeon who leads the team; Specialist Wound Care Nurse, Physiotherapist, Occupational Therapist, Psychologist, Prosthetist and Dietician. The team is based in Christchurch around WorkRehab (a specialist rehab organisation), who put the team together utilising their extensive experience in the rehab setting.

Our second mainstream Osseointegration patient went through the clinical team for selection and subsequent Osseointegration surgery during the earlier part of this year and is being fitted with his artificial limb during early July 2014. This professional team will help to streamline the process and select the candidates for Osseointegration.

The questionnaires for a nationwide Rehabilitation Evaluation survey of NZALS clients were distributed in April 2014. The study sought input from its clients with regard to post-limb fitting, to identify and address any barriers to rehabilitation or ongoing use of limbs. A very good response rate of 34% was well received and the results of the survey were delivered to the board in July 2013.

Key findings from the Rehabilitation report were that 81% of participants were wearing their prosthesis for most of the day. Those who never or seldom wear their prosthesis stated comfort was the significant issue with three quarters of participants finding their prosthesis comfortable to wear. Wearers of an above elbow prosthesis had the highest percentage of non or seldom users.

Over three quarters of all participants were happy with their progress. 70% felt their expectations had been met and 70% were happy with the information they received about their rehabilitation. In general 22% and 17% respectively cited transport and financial difficulties made it harder to get support. Many participants wished they had another amputee to talk with in the beginning phases of their rehabilitation and requested more information particularly regarding types of prostheses and options available. Some opportunity has arisen from this survey to improve our service delivery. We are very appreciative to all the participants for taking the time to complete and return their responses.

Specialised Technology and High Needs funding pools serve to meet the growing expectations of amputees with the advancement of technology and increased costs around componentry. This will ensure greater value for money and a shared risk among centres, providing some allowance for increased demand and escalating costs in a tight fiscal environment. Seven applications were approved over the last year, with three currently before the committee. Applications for microprocessor limbs represent the majority with two i-hands being applied for and one C-leg. NZALS personnel attended courses in Sydney on 'Advanced Fitting of above knee prosthetics'; 'Innovative Materials'; 'Microprocessor Arm Prosthetics' as well as attending a training course at the AOPA - Australian Orthotic Prosthetic Association Inc. congress held in Melbourne in August 2013.

The Chief Executive attended a 'Good Employer' workshop in May 2014 held by the Human Rights Commission, ensuring he is up-to-date on current requirements and developments in this area. Presented by the EEO Commissioner; and topics covered 'Managing a culturally diverse workforce', 'Employing disability in the workplace' and 'The impact of an ageing workforce on NZ Business'. All subjects being of a high importance; however with over half of its employees aged 50 years and over, the dynamics of an ageing workforce is of significant interest to NZALS.

Public good

Public good aspects of the work of the NZALS were incorporated into the Statement of Intent 2013-2016 and the Memorandum of Understanding with the Minister for Social Development. This remains an important part of the service and, as such, is closely monitored.

NZALS hosts in-service workshops and seminars to redress issues around amputee care in the wider medical community including Physiotherapists, Orthopaedic Registrars, Orthotists, Occupational Therapists, and Rest Home Personnel. This ongoing training also addresses the often high rotational rate of these professionals in regional areas of New Zealand.

During the 2013-14 year, 15 courses were delivered to 114 participants. NZALS is committed to improved quality of care in the fields of amputee care and prosthetics.

Our Limb Centres provided day placements and tours throughout the country for students. Four Physiotherapy students had day placements in our Limb Centres including a fourth year student who was placed at our Wellington Limb Centre for a month. Presentations were made to many groups by Centre Managers, Clinical Personnel and Physiotherapists enhancing public understanding of our work; the challenges facing amputees and the advances in technology in the move towards ever improved artificial limbs. Interested groups who visited the Centres included primary and secondary school students, together with technology students.

The NZALS carried out an eight week placement for a 'La Trobe University' student at the Wellington Limb Centre and at the September 2013 Board meeting he spoke about his

experience and the training offered by the 'La Trobe'. This student has since accepted permanent employment at the Wellington Limb Centre.

We provided resources to District Health Boards and Amputee Societies. Included were information packs about amputation and services available from the NZALS. In July 2013 a 'Grand Round' presentation was given on Amputee statistics, Osseointegration and new technology at The Princess Margaret Hospital in Christchurch by the National Prosthetics Manager and an accompanying Professor. Then in August 2013, the National Prosthetics Manager gave a presentation on Osseointegration at Canterbury & Westland Branch of the Physiotherapy Association AGM.

Paralympics New Zealand

Under the management and guidance of our Dunedin Limb Centre Manager who manages this relationship on behalf of NZALS, we continue to support athletes currently identified by Paralympics New Zealand as well as developing upcoming athletes with the vision of competing in the Rio Paralympic games in 2016.

Athletes are now supported by separate sporting codes such as New Zealand Athletics or New Zealand Cycling, where previously Paralympics NZ were endeavouring to bring all athletes under the one body making management and division of funding simpler. NZALS now liaises with a variety of sporting codes, individuals and coaches for every individual job being undertaken. In the past year limbs have been produced or are being developed to provide the highest performing limbs possible. These include a cycling limb; a sprinting limb; a set of bi-lateral sprint limbs and two weight lifting training arms.

The demand on our input is likely to increase as the Rio Paralympics get closer and as more athletes are recognised. NZALS looks forward to further assisting these athletes in helping them reach their full potential on the world stage.

We would like to express a special note of thanks to all the prosthetists and technical personnel who dedicate much of their own time to these special projects.

Financial Results

The Statement of Comprehensive Income shows gross revenue (excluding interest) applied to operations of \$8,718,000 in comparison with \$8,576,000 in the previous year. Income is derived principally from contracts with ACC for trauma-based amputees and Capital and Coast District Health Board who manage the national contract for amputees with illness-based amputations, congenital limb deficiencies or long-standing trauma-based amputations. In addition, income is received from payments on behalf of war amputees, private insurers, health benefits and private supply.

Operational costs for the year ended 30 June 2014 totalled \$8,150,000 (June 2013 by comparison was \$8,355,000) resulting in a surplus of \$568,000 on operations for the year before interest. This follows a small surplus on operations last year and is the result of tightened criteria on health funded multiple limbs as the NZALS puts in place new initiatives to contribute towards a sustainable service. Two pools held in reserve were established last year for this purpose as disclosed in Equity note 14 on page 51. Interest earnings increased this surplus to \$752,000 compared with a surplus of \$396,000 for the previous year.

Membership of the Board

Board members are appointed by the Minister for Social Development under the Crown Entities Act 2004. Membership is determined by the Social Welfare (Reciprocity Agreements, and New Zealand Artificial Limb Service) Act 1990 which provides the nominating bodies and has a significant influence on the composition of the Board.

Board membership at year-end was:

| | |
|-----------------------------------|---|
| Chair | George Reedy |
| Board elected Deputy Chair | Paula Tesoriero |
| Members | Richard Sainsbury Faye Sumner Barry Tietjens (up to March 2014) Kerry Wilfred-Riley <i>Professor Alan Thurston (from 1 July 2014)</i> |

The Year Ahead

To enable people with limb loss to achieve independence by delivering prosthetic and rehabilitation services we continue to

- identify barriers to service delivery
- build greater stakeholder engagement
- enhance partnerships
- improve efficiencies through technology and increased training
- plan strategically in terms of funding and future-proofing the service
- encourage and support research in order to deliver an exceptional service.

There is no doubt another busy year ahead of us, with plenty of activity anticipated throughout the country. Economic conditions and funding are likely to remain tight for the foreseeable future and new sources of funding must be investigated. This, together with the need to look at a more holistic approach to addressing amputee needs, signals a challenging twelve months ahead. We will endeavour to continue providing the highest quality service to our amputees while anticipating the future needs of both amputees and our organisation.

Governance and Accountability Statement

Role of the Board

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

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

NZALS Operations

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

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

Board Committees

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

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

Equal Employment Opportunity

The NZALS developed a policy that addressed the elements of being a good employer defined on our EEO Strategy 2013-2015.

NZALS EEO Strategy for the 2013-2015 was:

- Leadership
- Accountability
- Culture
- Recruitment
- Employee Development
- Flexibility and Work Design
- Remuneration, Recognition and Conditions
- Harassment and Bullying Prevention.

The New Zealand Artificial Limb Service conducted an EEO survey in April 2011 to establish benchmarks against which to report changes. The findings for 2013-14 were as follows:

FTE: Changes from 43.2 at the beginning of this financial year, to 44.9, against a benchmark of 47.5.

Age: Weighted higher in the over 50 age groups than the general New Zealand workforce.

Ethnic profile: Predominantly of NZ European descent (84%) with the remaining 16% describing themselves as Indian or Other. There were no Māori or Pacific personnel employed during the 2013-14 year.

Gender: The majority of personnel were male (61%) compared with female (39%). Support personnel were predominantly female, and Physiotherapists were all female.

Flexibility: The NZALS continued its practice of employing personnel on a flexible or part-time basis³ (22%). The organisation also employs an amputee in one of the limb centres.

Three National Office personnel left during the year with four new placements made. Two trainees were employed at Wellington Limb Centre and one each in both Auckland and Christchurch. Two Prosthetic Technicians were transferred from other centres into the Hamilton Limb Centre to fill vacancies.

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

Health and safety issues are of paramount importance in a manufacturing-type environment and were routinely addressed at centre meetings.

Extensive training was received by centre personnel and opportunities for clinical placements were provided for students of prosthetics and orthotics, physiotherapy and podiatry.

The NZALS continued to improve its “good employer” standing as outlined in the Human Rights Commission Annual Review Report 2007 - 2013 of Crown Entities which was published in 2014. Its rating as “Good Employer” has now been received and the NZALS is currently ranked 13 out of the 91 Crown Entities reviewed. This was an improvement of 6% to overall compliance from last year.

³ Part time is 30 or less hours per week

Governance Philosophy

Board Membership

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

Connection with Stakeholders

The Board acknowledges its responsibility to keep in touch with stakeholders and, in particular, to remain in touch with the responsible Minister's expectations⁴. Quarterly reports inform the Minister.

Division of Responsibility between the Board and Management

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

Accountability

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

Conflicts of Interest

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

Internal Control

While many of the Board's functions have been delegated, the overall responsibility for maintaining effective systems of internal control ultimately rests with the Board. Internal controls include the policies, systems and procedures established to provide assurance that specific objectives of the Board will be achieved. The Board have acknowledged their responsibility by signing the Statement of Responsibility on page 24 of this report.

⁴ The Minister for Social Development is the formal Minister responsible for the New Zealand Artificial Limb Service. However, the Minister for Senior Citizens has been given responsibility for day-to-day matters.

Risk Management

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

Legislative Compliance

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

Ethics

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

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

Directions Issued by Ministers

The Minister for Social Development provided NZALS with a Letter of Ministerial Expectations listing specific priorities for 2013 - 14:

- providing a high quality and more accessible rehabilitative service
- ensuring the Board has the resources and personnel to achieve targets
- operating as an effective and efficient enterprise
- monitoring and evaluation, research and development.

The Minister of State Services and the Minister of Finance under section 107 of the Crown Entities Act have issued functional leadership mandates for procurement, ICT and property. The directions take effect 1 February 2015.

Our Operating Environment

Quality through establishing Outcome Measures

In line with the new requirements arising from the 2013 amendments to the Crown Entities Act 2004 (CEA), under s149E the New Zealand Artificial Limb Service has no reportable outputs.

However in its 2013-2016 Statement of Intent, the NZALS outlined the framework⁵ for the outcome measures project and outlined the outcomes for New Zealand amputees that it aimed to measure:

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

A variety of objective and subjective measuring tools had been chosen to measure the outcomes,

- questionnaires and walking tests that measured new lower limb amputees at entry, three to six months later, and again a year later
- a postal survey that canvassed a significant proportion of all the NZALS amputees – this was carried out in June 2013⁶.

After collecting cohorts for the past five years and evaluating lots of useful information and wanting to keep it in context; NZALS intends to publish a separate 'Outcomes report' which reflects the valuable information contained in these surveys.

Quality of Life

In 2011-12 there were 394 new referrals. Of this group, 211 or 54% were not tested for the SF-12, the first of our three measures. As such, a qualifying sub-group of 183 (those who completed the first SF-12 test) form the cohort measure – these were amputees over 18 with lower limb amputations. The total number of amputees completing all 3 measures was 78 (2010-11:96).

| Impact measure: Health related quality of life | Actual 2010-2011 cohort | Benchmark or Target | Actual 2011-2012 cohort |
|--|-------------------------|---------------------|-------------------------|
| <i>Measured by SF-12 health survey:</i> | | | |
| The physical health scores average | 39.8% | 39.5% | 38.2% |
| The mental health scores average | 53.2% | 52.5% | 52.9% |

⁵ Consistent with ACC and Health funded goals

⁶ NZALS Client Satisfaction survey carried out every 2 – 3 years

Employment

Employability was measured in the client satisfaction survey of June 2014. One-third of all respondents were currently in paid employment (38 percent), with most being in full-time employment, as a salary or wage earner (20 percent). Another 27 percent of respondents stated they were a retiree and 20 percent were a beneficiary. This varies by age, with respondents aged 45 and under and those aged between 45-64 more likely to report being currently in paid employment than those aged 65 years or more (45 percent, 52 percent and 13 percent respectively).

Two-thirds of respondents were employed prior to them becoming an amputee (66 percent) and almost two-thirds of these respondents reported needing to make changes when they became an amputee (63 percent). This was particularly the case for those who had lost their limb as a result of an accident compared with those who had lost their limb because of an illness (67 percent and 55 percent respectively).

Most respondents needing to make a change made a relatively significant change, including changing occupation - without training (28 percent), retrain for a new occupation (23 percent) or change jobs - but stay with their current employer (24 percent).

| Impact measure: Employability | 2012 Survey results | Benchmark/ Target | 2014 Survey results |
|---|---------------------|--------------------------------------|---------------------|
| <i>This measure is undertaken only every two - three years: through client satisfaction survey. Results August 2014 (previous survey June 2012)</i> | | | |
| Monitor extent to which artificial limb fitting contributes to amputee participation in paid employment and voluntary work | | | |
| % of amputees in paid employment that considered their limb provided them with the ability to work in paid employment | 91% | | 69% |
| % of amputees involved in community and volunteer work * | 17% | <i>no benchmark - monitored only</i> | n/a |
| % of respondents stated that they were able to participate in community or voluntary work 'as well as' they did before they became an amputee | n/a | | 76% |

*Community and volunteer work question widened in 2014

Mobility and Independence

Locomotor Capability Index (LCI5) is a set of questions based on activities of daily life. Seven questions are on basic activities and the LCI5 measures both Mobility and Independence, and has an advantage over the TUG test in that it is designed specifically for amputees. Its disadvantage over the TUG test is that it is a subjective tool rather than an objective one. The Physiotherapists find the LCI5 useful in goal-setting, and its questions prompt discussion with amputees. The LCI5 questionnaire is divided into sections: the basic activities of daily living and advanced activities.

The LCI5 test also provides information about employability, which is naturally closely tied to these measures. Those usually considered in the employability age groups of 18-65 years, showed higher scores in mastery of activities of daily life, with medians of 37 for Measure 1 and 52.5 for Measure 3. This compares with the over 65s of 19 for Measure 1 and 37.5 for Measure 3. Trauma related amputees scored a median of 41 for Measure 1 and 56 for Measure 3 – out of a possible 56. However, the samples were small for these groups, with correspondingly high margins of error.

What did we find using this measure with the 2011-12 cohorts?

We found that 86% of the base group completed Measure 1 of the LCI5 but only 43% completed all three LCI5 tests over the total 18 month period.

Of those who completed all three measures out of a total potential score of 56 points, the median increased from 27.5 (Measure 1) to 43.5 (Measure 3).

This indicates an overall increase of 58% in amputees' mobility and independence over a 12 month period after limb fitting. Only nine amputees scored lower on the third measure, and three scored the same. There were good reasons for this, related to high levels of co-morbidities.

| Impact measure: Mobility & independence | Actual 2010-2011 cohort | Benchmark or Target | Actual 2011-2012 cohort |
|---|--------------------------------|----------------------------|--------------------------------|
| <p><i>Measured by: Locomotor Capability Index (LCI5)</i></p> <p><i>The percentage gain in mobility and independence of primary lower limb amputees over a six month period after the initial limb fitting:</i></p> <p>The overall median scores of new amputees who complete Tests 1 and 2 of the Locomotor Capability Index improve over six months by</p> | 16% | 23% | 22% |
| <p><i>The level of mobility and independence achieved by new amputees at 6 months after the initial limb fitting</i></p> <p>The median scores achieved after 6 months as a percentage of the optimal level of mobility and independence will be at least</p> | 79% | 78% | 73% |

Demographic change

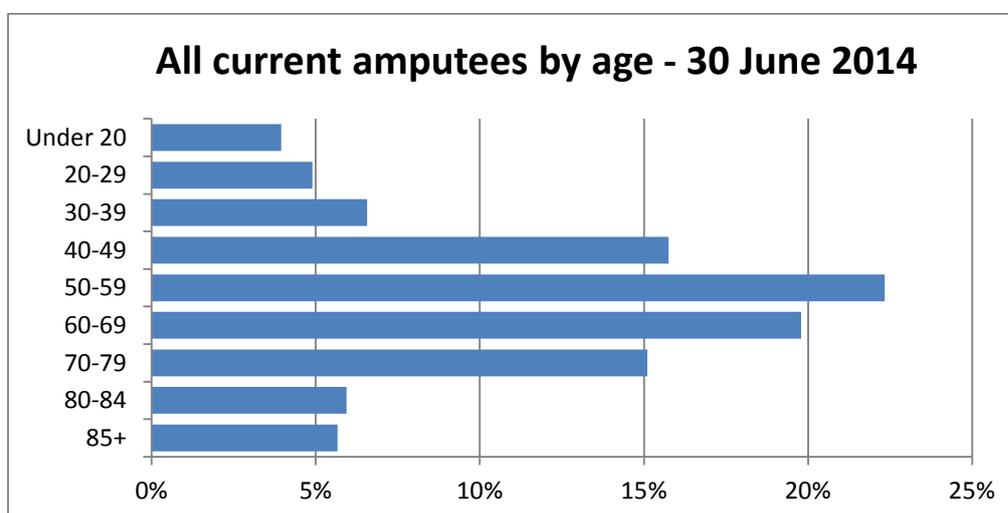
All Current Amputees

As at 30 June 2014, the service catered to 4,311 (2013: 4,259) current amputees registered with the NZALS throughout New Zealand.

The group was made up of 74% males and 26% females. In ethnicity, 71% were New Zealand European, 13% Māori, and 7% were from the Pacific Islands. A variety of other ethnic backgrounds made up the remaining 9%.

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

30 June 2014 - All Current Amputees by age group



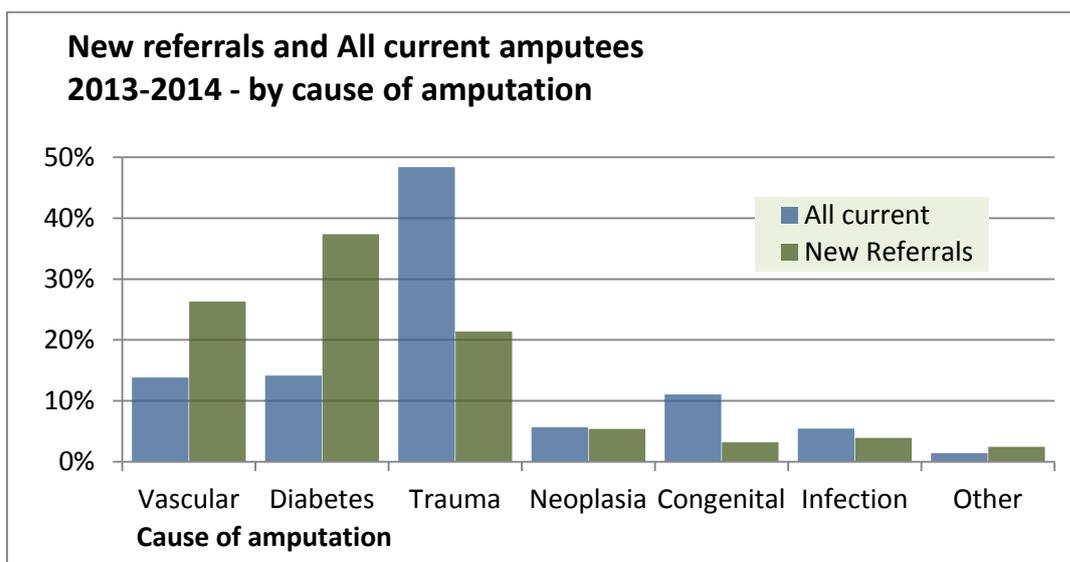
New Referrals

During 2013-14, the number of new amputees referred to and registered with the NZALS was 407 compared with 380 for the previous year.

New referrals as at 30 June 2014:

- 68% male/32% female
- 5% under 20
- 37% between 20 and 59 years
- 58% over 60 years
- <1% 'Unknown' age group
- New Zealand Europeans the largest group at 62%,
- Māori the second largest at 15%
- Pacific people at 10%
- Asian people at 4%
- 13% is comprised of ethnicity 'Other' and 'Unknown'.

Some people came to the NZALS for a pre-amputation visit, to assist them with their decision regarding amputation. In addition, there was a group of amputees who attended after amputation but were advised against using artificial limbs for a variety of reasons – too ill, too frail, or considered incapable of managing one. There was a further group of amputees who did not get referred to the limb service at all after amputation because their clinicians had not advised this course. During the 2013-14 year, of the 407 people referred to the limb service, 47 were considered unsuitable for fitting, 13 decided of their own accord not to proceed, and 19 died during the year. Those 407 newly registered had 455 amputations, which included 37 people with more than one amputation. The largest proportion referred (236) had amputations below knee level, followed by 136 above knee, and 17 had upper limb amputations. A range of minor categories made up the remainder, including hip disarticulations and ankle (Symes).



Cause of amputation for the 4,311 current amputees comprised as follows:

- Trauma by far the largest at 49%
- Diabetes and Vascular both 14%
- Congenital 11%
- Neoplasia 6%
- Infection 6%
- Other and unknown causes made up just over 1% of the remainder.

The differences in numbers between new referrals and all current amputees do not represent new trends, but reflect the short life expectancy of many vascular amputees compared with congenital amputees, traumatic amputees and many of the amputees for malignancy who are expected to spend many years as amputees. These disparities are evident when a comparison is made of new 2013-14 referrals entering the services against the current database as at 30 June, as shown in the table above.

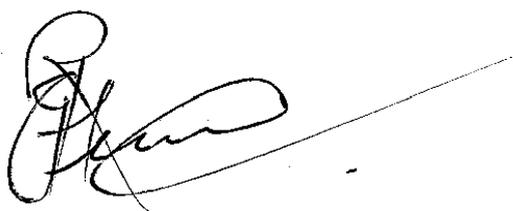
Lower limb amputations of various levels accounted for 82% of the newly referred limb service amputees, with 4% having amputations of the upper limb. In general, the limb service is concerned with lower limb amputations anywhere between the mid-foot and the hip, and upper limb amputations between wrist and shoulder. Only a very few people with amputations of the hand or fingers find prostheses useful. Amputations in the forefoot and of the toes are best dealt with by orthotics services.

Statement of Responsibility for the Year ended 30 June 2014

In terms of the Crown Entities Act 2004, the Board is responsible for the preparation of the NZALS' financial statements and the statement of service performance and for the judgements made in them.

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

In the opinion of the Board, these financial statements and statement of service performance for the year ended 30 June 2014 fairly reflect the financial position and operations of the NZALS.



George Reedy
Chair

28 October 2014



Paula Tesoriero
Deputy Chair

28 October 2014

Independent Auditor's Report

To the readers of New Zealand Artificial Limb Service's financial statements and non-financial performance information for the year ended 30 June 2014

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

We have audited:

- the financial statements of NZALS on pages 32 to 56, that comprise the statement of financial position as at 30 June 2014, 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 non-financial performance information of NZALS that comprises the statement of service performance on pages 28 to 31 and the report about outcomes on pages 19 to 21.

Opinion

In our opinion:

- the financial statements of NZALS on pages 32 to 56:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect NZALS's:
 - financial position as at 30 June 2014; and
 - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of NZALS on pages 28 to 31 and 19 to 21:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects NZALS's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:

- its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
- its 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 2014. 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 non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. 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 non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments; we consider internal control relevant to the preparation of NZALS's financial statements and non-financial performance information 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 NZALS's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non-financial performance information within NZALS's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

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

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 non-financial performance information that:

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

The Board is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the Crown Entities Act 2004 the Social Welfare (Reciprocity Agreements, and New Zealand Artificial Limb Service) Act 1990.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information 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 External Reporting Board.

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



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

Statement of Service Performance for the Year ended 30 June 2014

Output Class: The NZALS operates under one output class: Provision of prosthetic and rehabilitation services to New Zealand's amputees.

Output

During the year we continued to provide a life-long service to New Zealand amputees through:

- Limb Manufacture and Maintenance and
- Amputee Care and Rehabilitation.

These are very closely intertwined and interdependent. For example, the team approach to amputee care involves a Medical Specialist, Prosthetist, Prosthetic Technician, and Physiotherapist/Occupational Therapist. The contribution of each impact on the outcome for the amputee, but it would not be possible to separate them.

We therefore treat them as one output, but they are measured in different ways, as follows:

Limb Manufacture and Maintenance

For manufacture and maintenance we:

- prescribe
- fabricate
- maintain and repair
- replace limbs when they wear out or a change is required.

Maintenance and repairs are an essential part of the service - jobs such as fitting and alignment adjustments, replacing worn or broken parts, easing pressure areas, or repairing or replacing cosmetic covers. The reduction of reported numbers of these jobs is directly related to liners and sleeves now funded through Health benefits. Analysis of 2011–12 output found that 1,116 repair jobs were for supply of liners and sleeves; our current benchmark has not been reduced to reflect this.

While it is not possible to accurately estimate volume for this demand-driven service, we ensure that we maintain capacity to meet needs based on previous years as these fluctuate from year to year. This year was the first full year since its establishment that a measure of the impact of Health Funding for liners and sleeves was able to be quantified in our financial statements.

Two timeliness measures of Work in Progress have been developed that assume the limb will be completed within six weeks from the time an amputee is first seen by the clinical team. Six weeks has been chosen as a reasonable period to allow for healing time. Jobs over six weeks old are questioned by management to ensure that any delays are "explained". Explained delays are those beyond our control, such as incomplete healing, or the amputee has become ill or been unable to make appointments for limb-fitting. Unexplained delays are where NZALS is responsible and needs to redress the issue. Clearly, we want to keep these occurrences at a low level.

From stakeholder feedback and our experience since we introduced these, the measures can be

misleading and since introducing these measures we have refined the figures to make the percentages involved more consistent and realistic. In future, we will use the total number of jobs per annum as the comparator for both the Work in Progress jobs and change descriptions from jobs with “unexplained delays” to jobs with “delays for no good reason”.

Rehabilitation:

The NZALS is involved in only some of the amputee’s journey through rehabilitation.

| | | |
|--|--|--|
| Initial Rehabilitation <u>Hospital Physiotherapy</u> | Fitting to ambulation <u>NZALS Physiotherapy</u> | Post ambulation <u>Community Physiotherapy</u> |
|--|--|--|

As part of rehabilitation, amputees receive their first physiotherapy in hospital, further physiotherapy from NZALS and finally they are discharged into community physiotherapy care. Our rehabilitation is through early fitting and gait training. We provide maintenance and rehabilitation to ensure amputees continue to cope as changes occur throughout life. We contribute to amputee rehabilitation by working with other health service providers to develop greater expertise in amputee issues. A significant increase in in-service training offered by the NZALS is testament to the organisation’s increasing commitment to education and the sharing of information in amputee care and prosthetics.

It is important that rehabilitation is established early as this leads to better outcomes for amputees. Limb Service Physiotherapists routinely prepare treatment plans for amputees who are assessed for limb fitting. These plans include mobility tests, referrals where needed (e.g. to GPs where there is skin breakdown), goal setting, etc. all of which contribute to the rehabilitation and quality of life of amputees. A rehabilitation plan is developed by the NZALS to ensure that comprehensive ongoing care and rehabilitation is established, which is a quality measure. Collection of this information has a time delay built in to allow for healing.

Rehabilitation plans up until now, have been counted only for those who are fitted and complete the TUG test Measure 1 (walking test). From 2013 a new system will electronically count plans for all amputees. The ongoing effect of this is likely to lower the percentages of those who receive rehabilitation plans, as the larger group includes those who move overseas, become deceased etc. and the lower percentage is reflected in the estimates in the table below.

As this measure takes into account delays for healing the reported result is always going to be for the previous year’s referrals, in this case the current year relates to the 2012-2013 referral base.

For our single output we use the following measures:

| Output measure | Actual 2013 | Est. Demand/ Benchmark 2014 | Actual 2014 |
|-------------------------------------|--------------------|--|--------------------|
| <i>Manufacturing output:</i> | | | |
| <i>Quantity</i> | | | |
| New limbs supplied | 625 | 650-700 | 643 |
| Limbs remodelled | 56 | 120-150 | 42 |
| Resockets | 444 | 380-410 | 452 |
| Maintenance/Serviceing jobs | 8,587 | 9,400-9,600 | 7,990 |

| Timeliness | Actual 2013 | Est. Demand/ Benchmark 2014 | Actual 2014 |
|--|--------------------|--|--------------------|
| The average monthly total count of 'Work in Progress' jobs active greater than six weeks in comparison with all jobs will not exceed | NA (new measure)* | 3% | 6.33% |
| The average percentage of those with unexplained delays ⁷ in comparison with all jobs will not exceed* | NA (new measure)* | 1% | 0.83% |

*These are not new measures; however the measures have been redefined to reflect all jobs, where the previous measure was calculated on the number of jobs remaining in work in progress at the end of each month.

| Output measure | Actual 2012 | Est. Demand/ Benchmark 2014 | Actual 2014 |
|--|--------------------|--|--------------------|
| Quality | | | |
| Client satisfaction | | | |
| The percentage of clients who are satisfied with the ⁸ | | | |
| <ul style="list-style-type: none"> Services overall | 95% | 94% or more | 95% |
| <ul style="list-style-type: none"> Limbs | 87% | 88% or more | 85% |

| Output measure | Actual 2013 | Est. Demand/ Benchmark 2014 | Actual 2014 |
|---|--------------------------|--|--------------------------|
| Rehabilitation | <i>Referrals 2011-12</i> | | <i>Referrals 2012-13</i> |
| The percentage of new amputees for whom rehabilitation plans are developed* | 83%** | 82% | 86% |

*Timing takes into account delays for healing

**Measure expanded to all amputees referred to in the 2013-14 'Statement of Intent'

⁷ Over six weeks

⁸ Survey completed only every two-three years. Last survey carried out in June 2012.

Financial Performance

| Output class: | Actual | Budget | Actual |
|--|---------------|---------------|---------------|
| Provision of prosthetic and rehabilitation services | 2014 | 2014 | 2013 |
| | \$000 | \$000 | \$000 |
| Income | | | |
| Revenue from Crown | 8,559 | 8,559 | 8,373 |
| Interest income | 184 | 167 | 175 |
| Other revenue | 159 | 86 | 203 |
| Total income | 8,902 | 8,812 | 8,751 |
| | | | |
| Expenditure | 8,150 | 8,772 | 8,355 |
| | | | |
| Net surplus/(deficit) | 752 | 40 | 396 |

Cost effectiveness

The Service continues to closely monitor and manage its efficiency in the delivery of service. Stock was further reduced this year and below target, giving rise to both financial and operational efficiencies.

We continue with the direct delivery of overseas supplied components to each Limb Centre, stock transfers out of the Wellington Central Store were reduced to approximately 25% of the volume previously transferred to branches, resulting in significant efficiencies including time, repackaging and courier costs. With the reduction in stock levels the likelihood of stock impairment due to shelf life and obsolescence is decreased.

| Cost Efficiency Measure: Stock management | Actual 2013 | Benchmark 2014 | Actual 2014 |
|---|--------------------|-----------------------------------|--------------------|
| To optimise the way in which the organisation holds inventory by working with overseas suppliers to: | | | |
| <ul style="list-style-type: none"> • customise procurement process • maximise efficiency • reduce losses incurred due to shelf life and obsolescence | | | |
| Maximum stock holding | \$674,567* | <i>not to exceed</i> \$750,000 | \$681,202 |
| Average stock turnover per year | 5.7 | <i>no less than</i> 5.3 | 5.0 times |
| Material write off, maximum % of total holding value of | 4.5% | <i>not to exceed</i> 3% | 1.4% |

* Stockholding has been adjusted to exclude parts held in support of osseointegration assessment on behalf of Canterbury DHB and ACC.

Statement of Comprehensive Income for the Year ended 30 June 2014

| | Note | Actual 2014 \$000 | Budget 2014 \$000 | Actual 2013 \$000 |
|--|-------|-------------------------|-------------------------|-------------------------|
| Income | | | | |
| Revenue from Crown | 2 | 8,559 | 8,559 | 8,373 |
| Interest income | | 184 | 167 | 175 |
| Other revenue | | 142 | 86 | 194 |
| Gains | 3 | 17 | - | 9 |
| <i>Total income</i> | | 8,902 | 8,812 | 8,751 |
| Expenditure | | | | |
| Personnel costs | 4 | 3,289 | 3,471 | 3,378 |
| Depreciation and amortisation expense | 10,11 | 137 | 184 | 154 |
| Other expenses | 5 | 4,534 | 4,947 | 4,648 |
| Rehabilitation | | 72 | 80 | 85 |
| Training & Research | | 118 | 90 | 90 |
| <i>Total expenditure</i> | | 8,150 | 8,772 | 8,355 |
| Net surplus/(deficit) | | 752 | 40 | 396 |
| Total comprehensive income/(loss) | | 752 | 40 | 396 |

Explanations of significant variances against budget are detailed in note 24.

The accompanying notes form part of these financial statements.

Statement of Financial Position as at 30 June 2014

| | Note | Actual 2014 \$000 | Budget 2014 \$000 | Actual 2013 \$000 |
|--------------------------------------|------|-------------------------|-------------------------|-------------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 6 | 806 | 620 | 637 |
| Debtors and other receivables | 7 | 808 | 806 | 944 |
| Prepayments | | 50 | 32 | 30 |
| Inventories | 8 | 1,212 | 920 | 936 |
| Investments | 9 | 4,218 | 3,385 | 3,678 |
| <i>Total current assets</i> | | 7,094 | 5,763 | 6,225 |
| Non-current assets | | | | |
| Property, plant and equipment | 10 | 1,012 | 1,339 | 878 |
| Intangible assets | 11 | 20 | 36 | 34 |
| <i>Total non-current assets</i> | | 1,032 | 1,375 | 912 |
| Total assets | | 8,126 | 7,138 | 7,137 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Creditors and other payables | 12 | 576 | 537 | 419 |
| Employee entitlements | 13 | 485 | 370 | 409 |
| <i>Total current liabilities</i> | | 1,061 | 907 | 828 |
| Non-current liabilities | | | | |
| Employee entitlements | 13 | 63 | 80 | 59 |
| <i>Total non-current liabilities</i> | | 63 | 80 | 59 |
| Total liabilities | | 1,124 | 987 | 887 |
| Net Assets | | 7,002 | 6,151 | 6,250 |
| Equity | | | | |
| General funds | 14 | 4,214 | 3,752 | 3,804 |
| Board created reserves | 14 | 2,788 | 2,399 | 2,446 |
| Total equity | | 7,002 | 6,151 | 6,250 |

Explanations of significant variances against budget are detailed in note 24.

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the Year ended 30 June 2014

| | Note | Actual 2014 \$000 | Budget 2014 \$000 | Actual 2013 \$000 |
|-----------------------------------|------|-------------------------|-------------------------|-------------------------|
| Balance at 1 July | | 6,250 | 6,111 | 5,854 |
| Total comprehensive income/(loss) | | 752 | 40 | 396 |
| Balance at 30 June | 14 | 7,002 | 6,151 | 6,250 |

Explanations of significant variances against budget are detailed in note 24.

The accompanying notes form part of these financial statements.

Statement of Cash Flows for the Year ended 30 June 2014

| | Note | Actual 2014 \$000 | Budget 2014 \$000 | Actual 2013 \$000 |
|---|------|-------------------------|-------------------------|-------------------------|
| Cash flows from operating activities | | | | |
| Receipts from Crown revenue | | 8,716 | 8,539 | 8,211 |
| Interest received | | 159 | 171 | 162 |
| Receipts from other revenue | | 117 | 86 | 194 |
| Payments to suppliers | | (4,875) | (5,065) | (4,942) |
| Payments to employees | | (3,209) | (3,447) | (3,398) |
| Goods and services tax (net) | | 62 | 14 | (31) |
| <i>Net cash from operating activities</i> | 15 | 970 | 298 | 196 |
| Cash flows from investing activities | | | | |
| Acquisition of investments | | (540) | 310 | (145) |
| Purchase of property, plant and equipment | | (261) | (550) | (49) |
| Purchase of intangible assets | | - | (38) | (15) |
| <i>Net cash from investing activities</i> | | (801) | (278) | (209) |
| Net increase/(decrease) in cash and cash equivalents | | 169 | 20 | (13) |
| Cash and cash equivalents at the beginning of the year | | 637 | 600 | 650 |
| Cash and cash equivalents at the end of the year | 6 | 806 | 620 | 637 |

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

Explanations of significant variances against budget are detailed in note 24.

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1 Statement of accounting policies for the year ended 30 June 2014

Reporting entity

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

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

The financial statements for the NZALS are for the year ended 30 June 2014, and were approved by the Board on 28 October 2014.

Basis of preparation

Statement of Compliance

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

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

NZALS is a qualifying entity under the Framework of Differential Reporting as it is not deemed publicly accountable for this purpose and is a small entity.

Accordingly, NZALS has taken the following exemptions allowed under the Framework

- IAS 1 paragraph 122 & 125
- IAS 8 paragraph 30
- IAS 24 paragraph 16
- IFRS 7 paragraph 25
- IFRS 7 paragraph 27 – 42

Measurement base

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

Functional and presentation currency

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

Changes in accounting policy

There have been no changes in accounting policy.

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

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

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a Tier Strategy) developed by the External Reporting Board (XRB). Under this Accounting Standards Framework, the NZALS will be eligible to apply the reduced disclosure regime (Tier 2 reporting entity) of the public sector Public Benefit Entity Accounting Standards. The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. Therefore, the NZALS will transition to the new standards in preparing its 30 June 2015 financial statements. The NZALS has not assessed the implications of the new Accounting Standards Framework at this time.

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

Significant accounting policies

Revenue

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

Revenue from the Crown

The NZALS principally derives its revenue from the Crown through contracts with the Health funding and ACC for services to third parties. The funding is restricted in its use to the purpose of meeting the NZALS objectives as specified in the statement of intent.

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

Interest

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

Provision of services

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

Leases

Operating leases

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

Grant expenditure

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

Cash and cash equivalents

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

Debtors and other receivables

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

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

Investments

At each balance sheet date the NZALS assesses whether there is any objective evidence that an investment is impaired.

Bank deposits

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

Inventories

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

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

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

Accounting for foreign currency transactions

Foreign currency transactions are translated into New Zealand dollars (the functional currency) using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the surplus or deficit.

The NZALS does not currently use forward exchange contracts to hedge exposure to foreign exchange risk.

Property, plant and equipment

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

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

Additions

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

An item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

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

Subsequent costs

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

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

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

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

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

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

Intangible assets

Software acquisition and development

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

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

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

Costs associated with the development and maintenance of the NZALS website is recognised as an expense when incurred.

Amortisation

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

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

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

Impairment of property, plant, and equipment and intangible assets

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

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the NZALS would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

Creditors and other payables

Creditors and other payables are recorded at their face value.

Employee entitlements

Short-term employee entitlements

Employee entitlements that the NZALS expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

The NZALS recognises a liability for sick leave to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date; to the extent the NZALS anticipates it will be used by personnel to cover those future absences.

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

Long-term employee entitlements

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

The calculations are based on:

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

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

Presentation of employee entitlements

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

Superannuation schemes

Defined contribution schemes

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

Defined benefit schemes

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

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme. Further information on this scheme is disclosed in note 17.

Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and reported as a “finance cost”.

Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components.

- General funds
- Board created reserves

Property occupancy reserve

This reserve is a contingency for purchase of property, relocation of limb centre, major modification or for alternative premises.

IT enhancement reserve

This reserve is for major upgrade of IT infrastructure outside the normal replacement of equipment in use.

Centre upgrading reserve

Purpose and future use of this reserve is for maintaining the presentation of centres.

Research and development reserve

This reserve supports the contestable research fund and other research and development projects within the field of amputee services.

Special funding reserve

Donated proceeds held by NZALS with individual caveats on how funds are to be spent.

High needs pool

Established in 2013 this reserve is funded by an amount set aside from the annual health contract

allocation to meet future service requirements of high-cost individuals; generally young amputees with multiple amputations.

Specialised technology pool

Established in 2013 this reserve is funded by an amount set aside from the annual health contract allocation to meet future requirement for specialised technology.

Goods and Service Tax (GST)

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

Income Tax

The NZALS is a public authority and consequently is exempt from the payment of income tax. Accordingly, no charge for income tax has been provided for.

Budget figures

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

Critical accounting estimates and assumptions

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

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

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

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

The NZALS has not made significant changes to past assumptions concerning useful lives and residual values.

Long service leave

Note 13 provides an analysis of the exposure in relation to estimates and uncertainties surrounding long service leave liabilities.

Critical judgements in applying accounting policies

Leases classification

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

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

2 Revenue from Crown

The NZALS has been provided with funding principally from the Crown for the specific purposes of the NZALS as set out in its founding legislation. Apart from these general restrictions, there are no unfulfilled conditions or contingencies attached to Government funding (2013: nil).

3 Gains

| | Actual 2014 \$000 | Actual 2013 \$000 |
|----------------------------|-------------------------|-------------------------|
| Net foreign exchange gains | 17 | 9 |
| Total gains | 17 | 9 |

4 Personnel costs

| | Actual 2014 \$000 | Actual 2013 \$000 |
|--|-------------------------|-------------------------|
| Salaries and wages | 3,098 | 3,286 |
| Employer contributions to superannuation schemes | 111 | 113 |
| Increase/(decrease) in employee entitlements (note 13) | 80 | (21) |
| Total personnel costs | 3,289 | 3,378 |

5 Other Expenses

| | Actual 2014 \$000 | Actual 2013 \$000 |
|---|-------------------------|-------------------------|
| Fees to auditor | | |
| Audit fees for financial statement audit | 32 | 31 |
| Board members' fees | 70 | 78 |
| Board members' expenses | 16 | 17 |
| Material costs | 3,618 | 3,792 |
| Operating lease expense | 65 | 127 |
| Consultancy | 30 | 51 |
| Net loss on sale of property, plant and equipment | 4 | - |
| Other | 700 | 552 |
| Total other expenses | 4,534 | 4,648 |

6 Cash and cash equivalents

| | Actual 2014 \$000 | Actual 2013 \$000 |
|--|-------------------------|-------------------------|
| Cash on hand and at bank | 806 | 637 |
| Total cash and cash equivalents | 806 | 637 |

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

7 Debtors and other receivables

| | Actual 2014 \$000 | Actual 2013 \$000 |
|--|-------------------------|-------------------------|
| Trade debtors | 718 | 862 |
| Other receivables | 10 | 27 |
| Interest accrual | 80 | 55 |
| Total debtors and other receivables | 808 | 944 |

The carrying value of receivables approximates their fair value.

8 Inventories

| | Actual 2014 \$000 | Actual 2013 \$000 |
|--------------------------|-------------------------|-------------------------|
| Materials | 773 | 674 |
| Work in progress | 439 | 262 |
| Total inventories | 1,212 | 936 |

The NZALS does not currently hold any inventory for distribution (2013: nil).

The write-down of materials held for production amounted to \$9,400 (2013: \$32,000).

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

9 Investments

| | Actual 2014 \$000 | Actual 2012 \$000 |
|---|-------------------------|-------------------------|
| Current investments are represented by: | | |
| Term deposits | 4,218 | 3,678 |
| Total investments | 4,218 | 3,678 |

The weighted average effective interest rate for term deposits is 4.14% (2013: 4.38%).

There were no impairment provisions for investments.

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

10 Property, plant and equipment

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

| | Leasehold Improve ments \$000 | Plant & equip ment \$000 | Furniture and fittings \$000 | Computer Equipment \$000 | Total \$000 |
|---|--|-----------------------------------|---------------------------------------|--------------------------------|----------------|
| Cost or valuation | | | | | |
| Balance at 1 July 2012 | 998 | 771 | 344 | 231 | 2,344 |
| Additions | - | 4 | 30 | 15 | 49 |
| Disposals | - | - | (4) | (19) | (23) |
| Balance at 30 June 2013 | 998 | 775 | 370 | 227 | 2,370 |
| Balance at 1 July 2013 | 998 | 775 | 370 | 227 | 2,370 |
| Additions | - | 209 | 8 | 45 | 262 |
| Disposals | - | (9) | (8) | (94) | (111) |
| Balance at 30 June 2014 | 998 | 975 | 370 | 177 | 2,520 |
| Accumulated depreciation and impairment losses | | | | | |
| Balance at 1 July 2012 | 269 | 595 | 311 | 198 | 1,373 |
| Depreciation expense | 49 | 61 | 12 | 19 | 141 |
| Impairment losses | - | - | - | - | - |
| Eliminate on disposal | - | - | (3) | (19) | (22) |
| Balance at 30 June 2013 | 318 | 656 | 320 | 198 | 1,492 |
| Balance at 1 July 2013 | 318 | 656 | 320 | 198 | 1,492 |
| Depreciation expense | 44 | 41 | 15 | 24 | 124 |
| Impairment losses | - | - | - | - | - |
| Eliminate on disposal | - | (6) | (8) | (94) | (108) |
| Balance at 30 June 2014 | 362 | 691 | 327 | 128 | 1,508 |
| Carrying amounts | | | | | |
| At 1 July 2012 | 729 | 176 | 33 | 33 | 971 |
| At 30 June and 1 July 2013 | 680 | 119 | 50 | 29 | 878 |
| At 30 June 2014 | 636 | 284 | 43 | 49 | 1,012 |

There are no restrictions over the title of the NZALS plant and equipment, nor are there any plant and equipment pledged as security for liabilities.

11 Intangible assets

Movements for each class of intangible assets are as follows:

| | Acquired software \$000 | Internally generated software \$000 | Total \$000 |
|---|----------------------------|--|----------------|
| Cost | | | |
| Balance at 1 July 2012 | 256 | 540 | 796 |
| Additions | 15 | - | 15 |
| Balance at 30 June 2013 | 271 | 540 | 811 |
| Balance at 1 July 2013 | 271 | 540 | 811 |
| Additions | - | - | - |
| Disposals | (8) | - | (8) |
| Balance at 30 June 2014 | 263 | 540 | 803 |
| Accumulated amortisation and impairment losses | | | |
| Balance at 1 July 2012 | 224 | 540 | 764 |
| Amortisation expense | 13 | - | 13 |
| Balance at 30 June 2013 | 237 | 540 | 777 |
| Balance at 1 July 2013 | 237 | 540 | 777 |
| Amortisation expense | 13 | - | 13 |
| Eliminate on disposal | (7) | - | (7) |
| Balance at 30 June 2014 | 243 | 540 | 783 |
| Carrying amounts | | | |
| At 1 July 2012 | 32 | - | 32 |
| At 30 June and 1 July 2013 | 34 | - | 34 |
| At 30 June 2014 | 20 | - | 20 |

There are no restrictions over the title of the NZALS intangible assets, nor are there any intangible assets pledged as security for liabilities.

12 Creditors and other payables

| | Actual 2014 \$000 | Actual 2013 \$000 |
|---|-------------------------|-------------------------|
| Creditors | 320 | 65 |
| Income in advance | 21 | 31 |
| Accrued expenses | 166 | 210 |
| GST | 69 | 113 |
| Total creditors and other payables | 576 | 419 |

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

13 Employee entitlements

| | Actual 2014 \$000 | Actual 2013 \$000 |
|--|-------------------------|-------------------------|
| Current employee entitlements are represented by: | | |
| Accrued salaries and wages | 168 | 105 |
| Annual leave | 272 | 252 |
| Sick leave | 16 | 16 |
| Long service leave | 29 | 36 |
| <i>Total current portion</i> | 485 | 409 |
| Non-current employee entitlements are represented by: | | |
| Long service leave | 63 | 59 |
| <i>Total non-current portion</i> | 63 | 59 |
| Total employee entitlements | 548 | 468 |

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

In determining the appropriate discount rate the NZALS considered the interest rates on NZ Government bonds which have terms to maturity that match, as closely to possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns by an independent actuary. A weighted average discount rate of 4.5% (2013: 4.2%) and an inflation factor of 3.0% (2013: 3.0%) were used.

If the discount rate were to differ by 1% from the NZALS estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$4,000 higher/lower.

If the salary inflation factor were to differ by 1% from the NZALS estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$4,000 higher/lower.

14 Equity

| | Actual 2014 \$000 | Actual 2013 \$000 |
|---|-------------------------|-------------------------|
| General funds | | |
| Balance at 1 July | 6,250 | 5,854 |
| Surplus/(deficit) | 752 | 396 |
| Balance at 30 June | 7,002 | 6,250 |
| Less Board-created reserves | | |
| Property occupancy reserve | (1,471) | (1,451) |
| IT enhancement reserve | (189) | (183) |
| Centre upgrading reserve | (145) | (155) |
| Research and development reserve | (341) | (329) |
| Special funding reserve | (12) | (12) |
| Health funded high needs pool | (315) | (158) |
| Health funded specialised technology pool | (315) | (158) |
| Closing general funds | 4,214 | 3,804 |
| Movement in Board reserves | | |
| Property occupancy reserves | | |
| Opening balance | 1,451 | 1,413 |
| Transferred from general funds | 20 | 38 |
| Balance as at 30 June | 1,471 | 1,451 |
| IT enhancement reserve | | |
| Opening balance | 183 | 178 |
| Transferred from general funds | 6 | 5 |
| Balance as at 30 June | 189 | 183 |
| Centre upgrading reserve | | |
| Opening balance | 155 | 183 |
| Transferred from general funds | (10) | (28) |
| Balance as at 30 June | 145 | 155 |
| Research and development reserve | | |
| Opening balance | 329 | 316 |
| Transferred from general funds | 12 | 13 |
| Balance as at 30 June | 341 | 329 |
| Special funding reserve | | |
| Opening balance | 12 | 12 |
| Transferred from general funds | - | - |
| Balance as at 30 June | 12 | 12 |
| High needs pool | | |
| Opening balance | 158 | - |
| Transferred from general funds | 157 | 158 |
| Balance as at 30 June | 315 | 158 |
| Specialised technology pool | | |
| Opening balance | 158 | - |
| Transferred from general funds | 157 | 158 |
| Balance as at 30 June | 315 | 158 |
| Total Board created reserves | 2,788 | 2,446 |

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

| | Actual 2014 \$000 | Actual 2013 \$000 |
|---|-------------------------|-------------------------|
| Net surplus/(deficit) | 752 | 396 |
| Add/(less) non-cash items | | |
| Depreciation and amortisation expense | 137 | 154 |
| <i>Total non-cash items</i> | | 154 |
| Add/(less) items classified as investing activities | | |
| (Gains)/losses on disposal of property, plant and equipment | 4 | - |
| <i>Total items classified as investing activities</i> | | |
| Add/(less) movements in working capital items | | |
| Debtors and other receivables | 116 | (252) |
| Inventories | (276) | (38) |
| Creditors and other payables | 157 | (43) |
| Employee entitlements | 80 | (21) |
| <i>Net movements in working capital items</i> | 77 | (354) |
| Net cash from operating activities | 970 | 196 |

16 Capital commitments and operating leases

| | 2014 \$000 | 2013 \$000 |
|------------------------------------|---------------|---------------|
| Capital commitments | - | - |
| Property, plant and equipment | 43 | - |
| Total operating commitments | 43 | - |

Operating leases as lessee

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

| | 2014 \$000 | 2013 \$000 |
|---|---------------|---------------|
| Not later than one year | 40 | 40 |
| Later than one year and not later than five years | 10 | 50 |
| Later than five years | - | - |
| Total non-cancellable operating leases | 50 | 90 |

The NZALS has commercial leases on two properties:

- Dunedin Centre lease – a three year variation has been agreed, extending the lease to April 2016. No commercial rent is payable with fixed outgoings of \$20,754 per annum.
- Wellington, the National Office lease expires September 2015.

Auckland, Hamilton, Wellington and Christchurch Limb Centres are in premises provided as Crown assets at nominal rents and are managed through the Ministry of Social Development. Formal lease/sub-lease arrangements for Auckland and Hamilton were renewed during the 2012 year, assignment of lease for Wellington was executed 2013. Christchurch sub-lease has been signed by NZALS and is awaiting execution by MSD and CDHB. NZALS is responsible for all associated outgoings and maintenance of these premises.

17 Contingencies

Contingent liabilities

Superannuation schemes

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

As at 31 March 2014, the scheme had a past service surplus of \$16.2 million, being 8.0% of total liabilities (2013: \$17.4 million - 7.7% of total liabilities). This amount is exclusive of Employer Superannuation Contribution Tax. This surplus was calculated using a discount rate equal to the expected return on the assets, but otherwise the assumptions and methodology were consistent with the requirements of NZ IAS 19.

The Actuary of the Scheme has recommended the employer contributions are suspended with effect from 1 April 2011.

There are no other contingent liabilities (2013:\$nil).

Contingent assets

The NZALS has no contingent assets (2013:\$nil).

18 Related party transactions

The NZALS is a wholly owned entity of the Crown.

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

Significant transactions with government-related entities

The Government significantly influences the role of the NZALS in addition to being its major source of revenue. The NZALS has been provided with funding, mainly through contracts from

entities controlled, significantly influenced, or jointly controlled by the Crown of \$8.559 m (2013: \$8.373 m) for the provision of services to amputees.

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

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

The NZALS also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2014 totalled \$0.183 million (2013: \$0.250 million). These purchases included the purchase of electricity from Genesis, air travel from Air New Zealand, purchase of services from District Health Boards, and postal services from New Zealand Post.

Related party transactions disclosure:

| Transaction | Transaction value year ended 30 June | | Balance outstanding year ended 30 June | |
|---|--------------------------------------|-------|--|-------|
| | 2014 | 2013 | 2014 | 2013 |
| C Johnstone Consultancy | - | 2,000 | - | - |
| B Tietjens Clinical services & attendance fees (ii) | 4,600 | 4000 | 600 | 2,200 |

(ii) The NZALS paid fees to one individual Board member in relation to clinical services as a Consulting Surgeon. Amounts were billed based on normal rates for such services and were due and payable under normal commercial terms.

19 Board member remuneration

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

| | Actual 2014 \$000 | Actual 2013 \$000 |
|--|----------------------|----------------------|
| G Reedy (Chair – new apt 2013) | 25 | 16 |
| C Johnstone (retiring Chair Feb 13) | - | 19 |
| R Sainsbury | 10 | 10 |
| F Sumner | 10 | 3 |
| B Tietjens | 7 | 10 |
| P Tesoriero | 10 | 10 |
| K Wilfred-Riley | 10 | 10 |
| Total Board member remuneration | 72 | 78 |

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

No Board members received compensation or other benefits in relation to cessation (2013: Nil).

20 Employee remuneration

| Total remuneration paid or payable | Actual 2014 | Actual 2013 |
|------------------------------------|----------------|----------------|
| 100,000 – 109,999 | - | 1 |
| 110,000 – 119,999 | 2 | 2 |
| 120,000 – 129,999 | - | 1 |
| 130,000 – 139,999 | 2 | 1 |
| 140,000 – 149,999 | - | - |
| 150,000 – 159,999 | - | - |
| 160,000 – 169,999 | - | - |
| 170,000 – 179,999 | - | - |
| 180,000 – 189,999 | - | - |
| 190,000 – 190,999 | - | 1 |
| 200,000 – 209,999 | 1 | - |
| Total employees | 5 | 6 |

During the year ended 30 June 2014, no employees received compensation and other benefits in relation to cessation (2013: \$ nil).

21 Events after the balance date

There were no significant events after the balance date.

22 Categories of financial assets and liabilities

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

| | Actual 2014 \$000 | Actual 2013 \$000 |
|---|-------------------------|-------------------------|
| <i>Loans and receivables</i> | | |
| Cash and cash equivalents | 806 | 637 |
| Term deposits | 4,218 | 3,678 |
| Debtors, other receivables and prepayments | 858 | 974 |
| Total loans and receivables | 5,882 | 5,289 |
| <i>Financial liabilities measured at amortised cost</i> | | |
| Creditors and other payables | 576 | 419 |
| Total financial liabilities measured at amortised cost | 576 | 419 |

23 Capital management

The NZALS capital is its equity, which comprises accumulated funds and other reserves. Equity is represented by net assets.

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

24 Explanation of significant variances against budget

Explanations for significant variations from the NZALS budgeted figures in the statement of intent are as follows:

Statement of Comprehensive Income

Revenue

Revenue saw a small increase of \$90,000 on budget was a combination of increased other revenue, interest earned and foreign exchange gains. Other revenue included \$17,000 of donated funding specifically for the purpose of the Rehabilitation Survey conducted April 2014.

Operating expenses

Other expenses were greater than budgeted by \$214,000; material costs being the most significant due to purchase of technically advanced microprocessor limb componentry.

NEW ZEALAND ARTIFICIAL LIMB SERVICE

Contact Information

BOARD AND NATIONAL OFFICE

Chief Executive
 Manager Finance & Corporate
 National Prosthetics Manager

M G Monk
 G A Forster
 G J Flanagan

Level 4 Quinovic House
 32 Kent Terrace
 PO Box 19160
 WELLINGTON 6149

Telephone: (04) 385 9410
 Fax: (04) 385 9412
 E-mail: info@nzals.govt.nz
 Website: www.nzals.govt.nz

AUCKLAND LIMB CENTRE

Manager: P Bargh

7 Horopito Street
 AUCKLAND 1024

Telephone: (09) 630 0644
 Fax: (09) 631 0041

HAMILTON LIMB CENTRE

Manager: C W Dobbs

222 Pembroke Street
 P O Box 1418
 HAMILTON 3204

Telephone: (07) 838 3269
 Fax: (07) 838 3271

WELLINGTON LIMB CENTRE

Manager: R V Binet

42-46 Mein Street
 P O Box 7281
 Newtown
 WELLINGTON 6021

Telephone: (04) 389 2045
 Fax: (04) 389 8552

CHRISTCHURCH LIMB CENTRE

Manager: G J Flanagan

330 Burwood Road
 CHRISTCHURCH 8083

Telephone: (03) 383 0501
 Fax: (03) 383 3566

DUNEDIN LIMB CENTRE

Manager: M A McDowall

C/o Public Hospital
 Great King Street
 DUNEDIN 9016
 Fraser Bldg. 464 Cumberland Street
 DUNEDIN 9016

Telephone: (03) 470 9428
 Fax: (03) 479 2413

Copyright Statement

To the best of the New Zealand Artificial Limb Service's knowledge, under New Zealand law:

- there is no copyright or other intellectual property rights in this Annual Report in New Zealand; and
- it may be copied and otherwise re-used in New Zealand without copyright or other intellectual property right related restriction.

The New Zealand Artificial Limb Service will not be liable to you, on any legal basis (including negligence), for any loss or damage you suffer through your use of this material, except in those cases where the law does not allow us to exclude or limit our liability to you.