



## July 2012 Newsletter

### This Issue

**Audit squeeze for non-profits** – Proposed legislative changes.

**Mileage Reimbursements** – Are your reimbursements reasonable?

**Accounting course for non-profits** - Are you in?

### Coming Up

**4 September: Financial Governance Workshop**—1-3pm.

Register through Community Law Centre 0508 CANLAW, [susan@canlaw.org.nz](mailto:susan@canlaw.org.nz)

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### Contact



PO Box 13 625; Ph 669 0542; 901a Ferry Rd

Harald: [harald@commaccounting.co.nz](mailto:harald@commaccounting.co.nz); Rhys: [rhys@commaccounting.co.nz](mailto:rhys@commaccounting.co.nz).

## Putting the Squeeze on Non-Profits

I am a little puzzled why the government is so intent at the moment to tighten financial accountability of small non-profits.

Earlier this year the Ministry of Economic Development (now Ministry of Business, Innovation and Employment) approved changes to the New Zealand financial reporting framework, which made creating standardised financial statements mandatory for *all* non-profits, and accrual accounting mandatory for all non-profits with a turnover of over \$40,000 (the new Public Benefit Entity tiers 3 and 4 of the Framework). At the same time the government is making moves to abolish the equivalent tiers for for-profit organisations with income of up to \$3 million, who will no longer have to create financial information other than for tax purposes at all, arguing that the compliance cost of doing so for businesses outweighs the benefits.

This is odd, as, contrary to businesses, financial performance and position are not a key measure of performance for non-profits overall. Funders and donors favour causes, not surpluses.

The Ministry wants to take this one step further by making financial audits mandatory for organisations over \$300,000 income, and financial reviews mandatory over \$200,000. While almost all non-profit organisations of that size would already have an audit or review done on a regular basis, the added twist is that the Ministry now wants them to go only to Chartered Accountants or otherwise registered auditors, forcing non-profits into the most expensive segment of the accounting market. They also want all Financial Statements to conform

with GAAP, or Generally Accepted Accounting Practice, which essentially means New Zealand's variety of International Accounting Standards.

There are lots of problems with this. Neither GAAP nor auditing standards have been developed with non-profits in mind. In our submission to the Ministry about their proposals we have pointed out how GAAP accounting often distorts the Financial Statements of a non-profit. Auditing standards are not much better: they give no assurance at all of how a non-profit has spent their funds, or where the money came from. All they give assurance about is the *how much*, the only thing investors in a company are interested in, for whom auditing standards have been developed.

I am also worried about the price tag of this proposal. The current practice of auditors helping finalise Financial Statements for small organisations will all but disappear, as the auditor needs to be completely independent from the accountant of the organisation. And not only will organisations have to dish out more for audits and reviews, creating the Financial Statements to the new standards will also require more time and expertise. Yet the Ministry believes that its proposals (including the changes to the reporting Framework) will *save* non-profits money by standardising accounts and by making reviews (rather than audits) a more well-known option for groups under \$300,000.

Possibly the most disappointing aspect of all this is that instead of considering *helping* non-profits with accounting and financial management the Ministry is wielding the heavy axe of mandatory compliance, and leaves community groups at the mercy of a profession which is not trained in the non-profit business model and its accounting peculiarities.

At some stage these proposals will come before parliament and be subjected to another submission process. I sincerely hope that non-profits will not be caught napping over this issue when that time comes.

Harald

## Mileage Reimbursements

Here's a short and simple truth: If you are reimbursing your staff and volunteers for using their own vehicle for work trips at the IRD rate of 74 cents/km you are probably paying way too much.



IRD accepts this rate as a 'reasonable estimate of costs incurred', but they also say that the reimbursement 'must be a reasonable estimate of the cost *likely* to be incurred by the employee' (see their web site here: <http://www.ird.govt.nz/payroll-employers/make-deductions/staff-benefits/allowances/emp-deductions-allowances-mileage.html#02>). In

other words, if an IRD inspector would ever call you might have to find a reason why you think your employee's 20 year old Toyota Corolla costs \$74 to run for every 100 kms it does.

Petrol costs only account for usually about 50-70% of the cost of running a car and they can vary widely between cars. A 'normal' car built in the last 15 or so years will not use more than 10 litres of petrol for every 100 kilometres driven. At a cost of \$2 per litre of petrol this gives you *20 cents/kilometre*. Most cars will use less, but four-wheel-drives, small trucks, people movers etc may go up to 15 litres per 100 kilometres, or 30 cents/kilometre.

The other costs of running a car are mainly fixed costs, most notably depreciation.

Here is a relatively generous example calculation based on a used car being used for 15,000 kilometres per year and being worth \$10,000.

**Costs per year:**

Depreciation: 20%            \$2,000  
Full insurance:                \$ 500  
Registration and warrants: \$ 300  
Services:                        \$ 250  
Repairs and other consumables (oils): \$500

Total cost per year:        **\$ 3,550;**

Total cost per kilometre: \$3,550/15,000 kms = **23.5 cents.**

**The total cost of an employee running this example car, including 20c/km for petrol, is 43.5 cents per kilometre – well below the IRD rate.**

The single biggest item on the list is the depreciation of the car. In order to arrive at the IRD rate of 74 c/km your car would need to depreciate by about \$7,000 per year.

A second option becomes feasible where work trips make up a substantial portion of an employee's car use overall. In this case the organisation may consider reimbursing *actual cost*: the employee would have to maintain a log book for trips, and from there work out a percentage of work use over total use of the car. The organisation will then reimburse that percentage for all costs incurred for that car, including petrol, insurance, repairs, service etc.

Money can also be saved when you want your employee to do a longish day trip, especially if you reimburse at the IRD rate, by hiring a car.

This example calculation is for a day trip to Timaru to attend a workshop or give a presentation:

Distance Chch-Timaru x 2 = approx 400 km

Reimbursement at IRD rate: **\$ 296**

Fully insured rental car for a day: max \$120

Petrol for 400 km (9 l/100km):        \$ 72

Total cost of rental vehicle:            **\$192**

**Saving: \$104**

## Accounting for Non-Profits Course

We've come across a number of organisations who have grown a bit in the last few years, but their financial and accounting systems haven't quite kept up. As there are various legislative changes in the pipeline which require more compliance with Generally Accepted Accounting Practice from non-profits we thought it would be useful to put on a course which gives staff in such non-profits a working knowledge of accounting and financial reporting.

We are planning a five-session course to be held in October/November, aimed at administrators, managers or others with a direct involvement in an organisation's accounts and financial management. This would be most useful for organisations who are employing staff, have a reasonable turnover (\$40,000 or more) or expect to grow a lot in the next few years.

The content will be around:

- Accounting principles.
- Accrual accounting.
- Cashbooks and Financial Statements.
- Accounting for fixed assets.
- Accounting for grants.
- Management accounting (budgets, tracking performance).
- Special accounts (petty cash, staff loans, credit cards etc).
- Tax matters for non-profits.

A few people have already expressed interest when we floated this idea. At this stage we're looking for what times would be suitable (we're thinking a weekday 9-11 or 10-12) and any other subjects you think we should cover. There will probably be a charge for the course. Email [harald@commaccounting.co.nz](mailto:harald@commaccounting.co.nz)