



May 2012 Newsletter

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Looking After Your Money – Take control of your accounts, don't be controlled!

Using Contractors – Beware of Withholding Tax;

Of Audits and Reviews – Does either give you what you want?

Coming Up

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

Register through Community Law Centre 0508 CANLAW, susan@canlaw.org.nz

Details on Facebook.

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Looking After Your Money



There's a misconception out there that accounting is something you do only to satisfy your auditor and/or the IRD. But it is actually much more about getting information to manage your group.

Accounting is, to a large part, the art of creating the right accounts: the ones that give you the information you want. As non-profits grow they often have to change their set of accounts from merely recording expenditure by category (such as wages, telephone, office overheads, advertising etc) to recording by activity (for example: T-Shirt fundraiser, Awareness Day, Management and Admin, Support Service Delivery etc). Even smaller ones often need some activity accounts, and some groups run offices in different locations that should be tracked separately. This, then, gives you the actual cost and income for particular activities and allows you to find out where exactly changes will have the most effect. It also makes budgeting easier and more meaningful.

Accounting is not nearly as prescribed as people think: it is about creating financial information that is useful for managing the operation, not about keeping IRD or funders happy. There are no accounting standards that force you to have separate accounts for Bank Fees, Telephone or Internet, or even wages or salaries, for example. It is entirely up to you what you want to track and therefore which accounts you create, with the only exception that it needs to make sense to the readers of your Financial Statements. It is definitely worthwhile to spend some time thinking about what financial information you need.

It probably takes nerds like us to find accounting liberating rather than restricting, but we're here to help you get the most out of your paperwork.

Harald

Using Contractors

Probably most non-profits will occasionally use contractors to get a job done, such as running an event, setting up a web site, fundraising etc. Some simply try to avoid the hassle of employment such as filing PAYE returns.



If you are thinking about contracting somebody for ongoing work (such as coordinating your operations or doing your administrative work) it is a good idea to seek legal advice first as you have to have a good reason to contract rather than employing a person.

You are also not necessarily free of the paperwork: Withholding Tax (WT) raises its ugly head here. The activities for which you have to pay WT are listed at the back of the Tax Code declaration form (IR330), and you can also find them online here: <http://www.ird.govt.nz/payroll-employers/make-deductions/withholding-tax/emp-deductions-salaries-wt-activities.html>.

Here are some of the most common situations for non-profits and the rate of Withholding Tax:

- Honoraria (for example payments to Board members or volunteers): 33%
- Contributions to newsletters etc: 25%
- Lecturers, presenters or entertainers at events: 20%
- Gardening or any form of building work: 20%

Non-profits are also often not aware that as far as IRD is concerned there is no such thing as a donation or Koha if it is made in exchange for any of those things above.



Example:

A Charitable Trust invites a speaker to give a presentation to members. They decide to give the speaker a koha for \$50. This is a payment liable for Withholding Tax, at a rate of 20%.

The Trust will need to get the speaker's IRD number and list the payment in their next Employers Monthly Schedule (IR 348). They would pay the speaker \$40, and IRD gets \$10 (20% of \$50).

If the Trust wanted the speaker to end up with \$50, the total payment would be $\$50/80\% = \62.50 . In this case the speaker would get \$50 and IRD \$12.50 (20% of \$62.50).

The speaker will find the payment listed in their next Summary of Earnings from IRD and can use it in their tax return.

Of Audits and Reviews

Audit time is upon a lot of us, and don't we love it. There's some misconceptions about what an audit actually is, and we thought we'd try to clarify some of those.

Many non-profits are relieved to hear that they can do a 'review' instead of an 'audit', at a smaller price tag. The term 'audit' is not legally protected, however. The Institute of Chartered Accountants has guidelines for

audits and reviews, which are binding only on its members, Chartered Accountants. For any other accountant calling it an 'audit' or a 'review' is largely semantics unless they refer to those standards in their report.

Auditing standards have been developed for commercial reasons, and they are not a good fit for non-profits. They are there to give investors assurance that their company's financial disclosures are accurate. For the investors it is quite irrelevant how the money is spent on a day-to-day basis, how high the expense account of the CEO is, whether more than one signatory is required for financial transactions etc. What matters is whether or not the company is capable of making good profits, and this information is derived mainly from the company's Balance Sheet and also their Income Statement using various analytical tools. Obviously it is vital that those Statements are accurate therefore.

Non-profits do not have investors that are interested in profits – they have funders and donors who want to know how their money has been spent. Non-profits are required to apply donations to the purpose they were given for, and funders like to be reassured that a non-profit has a good system in place to track expenditure on their grant.

This is not part of Generally Accepted Auditing Standards and therefore not examined nor certified in an audit, however. If you want an assurance about your grant tracking or other financial systems you'll have to *ask* your auditor to specifically examine this *and mention it in the audit report*.

Also keep in mind that an audit (or review or any other name) is not a clean bill of financial health. It will usually only certify that your Financial Statements are accurate.

If you want your financial systems examined, ask us – we can help, and usually for free.