April/May 2013 Newsletter

This Issue

Coming Up

28 May: CCA Workshop: Goods and Services Tax. 12:30 – 1:30

11 June: CCA Workshop: Accrual Accounting/Journal. 10:30 – 12:30

25 June: CCA Workshop: Payroll 10:30 - 11.30

More info here. To register click here. Note New Dates/ Times for Workshops.

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Accounting in Order to Manage

In my recent CCA Management Accounting workshop, the idea that your accounting system should primarily be designed to suit *your* needs, not the needs of external stakeholders, raised a few eyebrows. So used are we to thinking that our organisation's books need to reflect what *funders* want that we don't spare a thought about whether it suits what *we* need.

An Accounting Information System (as the assortment of accounting software, spreadsheets and your loose bits of paper with important scribbles on it is collectively known) needs to be able to tell you what it costs you to run a project, for example: and that's the total cost, including the time it takes to manage and administer it, as well as the use of depreciable assets. For this you need information: what projects or activities exactly are you spending your time on. What percentage of funding applications is successful? (The cost of the unsuccessful ones still needs to be recovered). What are my organisation's fixed overheads that I need to allocate to the project cost? And so on.

Information is power, and financial information enables smart decision making. It tends to be management and admin staff that become the victims of poor financial information, as they end up overworked and underpaid. It seemed such a good idea to apply for funding to get a worker to meet a specific need in the community – but how come ***I*** am so run down lately?

So, my advice is: when you have a minute make a list of what information would really help you manage your organisation, then map this to documents or computer outputs that could give you this information. You may find that some documents (for example timesheets) may only need some tweaking to give you much better information, or that your accounting software can actually do a lot more than you thought.

Harald

Audit relief from MOBIE

The Ministry of Business, Innovation and Enterprise have substantially lifted the thresholds above which they propose registered Charities have to have a review or audit by a Chartered Accountant. This is now set at $400,000 in expenses (for at least two consecutive years) for reviews and $1m for audits. The initial proposal had $200,000 for reviews and $300,000 for audits.

CCA has made a submission for the new proposals, which can be found here. We have raised concerns about what exactly is meant by 'review', and the lack of required *not-for-profit* expertise of auditors, but overall we think this bill merely legislates the status quo and will have very little, if any, impact on the sector.

About Depreciation and Valuing Assets

Depreciation seems to be one of those end-of-year exercises that often seems to produce little useful results. A lot of organisations, for example, happily conduct their meetings on chairs and around a table of a combined book value of no more than $10 or so, before going back to workspaces with computers some of which are written down to about $1. Does this make any sense?

No, it doesn't. Depreciation is not well understood. To an accountant it is the allocation of the economic value of an asset over its lifetime (not the loss of market value over time, as many people think). The depreciation rate is a result of determining how long you will be using the asset (and subtracting any market value it may have at the end of this period). If you tend to use computers for five years before replacing them, then your depreciation rate for computers should be 20%, not 40% or 50%.

Many organisations simply use the IRD depreciation tables. These are produced for income tax purposes and therefore do not apply for tax-exempt charities. Also, IRD's depreciation rates are fairly generous (as is their concession to allow business income tax payers to simply expense all asset purchases under $500). They do not forgo any taxes here, they merely defer collection of it, and in the process help business with their cash flow. This doesn't mean, however, that you can't use them as a guide.

The point of depreciation is to arrive at a reasonable value for your assets in your Balance Sheet. If you think what you own is worth more than is showing in your non-current asset section, then your depreciation rates are too high (and you make yourself look poorer than you are). We have seen many insurance payouts for lost assets after the earthquake, which were a multiple of what those assets were worth according to the books. Ask yourself: would you be happy if your insurance paid you just the figure that's in your books?

Here's a couple of things to keep in mind:

- If you have assets that make up a significant part of your Balance Sheet, then knowingly over- or understating their value is potentially fraudulent. If you have a market valuation for an asset (for example a building) which is substantially different to the value in your books, you **must** adjust the value of this asset in your books to avoid the impression of deliberately misleading your stakeholders.
- If you are expensing assets under $500 (or any other value) you must have a specific policy to do so and it **must be stated in the Notes** to your Financial Statements. Many accountants forget the difference between information produced for tax purposes and the kind of Financial Statements that not-for-profits produce, and more often than not we find this disclosure absent.

Who Are XRB?

Awareness of the changes proposed by XRB to the way not-for-profits have to present their financial information has been increasing over the last few months or so. But who exactly is XRB and what is there connection to the not-for-profit sector?

You may be excused for never having heard of them before. The 'External Reporting Board' are the New Zealand standard-setters (accounting and auditing, that is), and were only created in 2011. Before the creation of the XRB, which is under the direct control of the Ministry of Business, Innovation and Enterprise (or 'MOBIE'), the standards were set by the New Zealand Institute of Chartered Accountants.

The main reason for internationally uniform accounting standards in the first place is to prevent large commercial entities from presenting themselves in a better light than may be justified, and fool investors with impressive-looking figures. The Standards give company auditors the tools to be able to say what is and isn't a 'true and fair view' of the financial position of a company and leaving little or no grey areas.

In the 1990s and early 2000s, however, a number of costly accounting scandals shook up the business world in North America. Large companies such as Enron and others imploded, even though their books looked rather sound. Their accounts, of course, were fudged– and auditors could reasonably have been expected to pick that up. Suspicions of collusion arose (and were in some cases proven). The scandals not only left a lot of investors out of pocket, it also undermined any faith an investor could have in the accuracy of what was being presented to them. This kind of stuff can bring an economy to its knees.

The political response in the USA was merciless. The Sarbane Oxley Act 2002 (or' SOX' as it is known for short) not only clarified that company directors bear full responsibility for the accuracy of Financial Statements (and will be sent to prison for up to 20 years for shady deals), it also wrested regulation of the accounting sector away from itself. Until then, as in New Zealand, accounting and auditing standards were set by professional accounting bodies without any public oversight. In a newly created regulatory Board of five, charged with oversight of the sector and reporting to the government, three members (i.e. a majority) by law now ***must not*** be members of professional accounting bodies. The US government no longer trusted accountants and auditors to effectively regulate themselves. What's more, the law mandated that certain things from now on will have to be done in (more or less) plain English.

New Zealand, belatedly, followed suit, sort of. After some high-profile failures of finance companies here, the government created the XRB to give MOBIE and hence the government oversight to accounting and auditing in New Zealand, which until then has been the sole responsibility of the profession itself. However, unlike the US, there is no requirement for non-accountants to be represented. As a result, the three separate Boards that make up the XRB are firmly in the hands of present or former members of the New Zealand Institute of Chartered Accountants, and some of the members still chair some of NZICA's committees (see here for who's on the Accounting Standards Board). Incidentally, none of their bios indicate any not-for-profit experience at all.

Why the newly formed XRB has set its sights on the not-for-profit sector as one of its first initiatives is a bit of a mystery. Given the potential damage accounting fraud can do in the private sector, any damage arising from such fraud in the small not-for-profit organisations being targeted are petty cash by comparison. With no apparent not-for-profit expertise or interest on the Accounting Standards Board, which came up with the proposals, it is also hard to see where the impetus for this came from in the first place. Neither the Department of Internal Affairs nor the Ministry of the Voluntary and Community Sector, both a lot closer to the not-for-profit sector than either MOBIE or XRB, appear to have any significant involvement.

Need Admin Staff?

If you are looking for part-time people to keep (or bring) your books in order, keep in mind that we have student volunteers at CCA. Both Cristian and Yvette have been working on not-for-profit accounts for several months now and come with a good understanding of not-for-profit accounting.

Two Months – One Newsletter

So you noticed? There was no April newsletter due to unusual circumstances, but we will continue to produce this newsletter monthly.