



## August 2016 Newsletter

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### Canterbury November Workshops

These 6-hour workshop cover some of the essentials for not-for-profit financial administration and management, such as record-keeping, grant accounting, internal controls and the new financial reporting standards for Charities. For more info and to register contact Lyndal Volunteering Mid & South Canterbury [volmsc@xtra.co.nz](mailto:volmsc@xtra.co.nz).

**Timaru - Saturday, 12 November 2016, 9.30 – 4**

**Fairlie – Saturday 19 November 2015, 9.30 - 4**

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#### This Issue

[Strategy Development](#) – It's the implementation that's the challenge.

[Workload and Fees](#) – Accountants under siege from the new standards.

[Income Tax](#) – If you don't have an IRD number you may still be liable.

[Charity Reporting](#) – What's the problem? Here's our Top 4.

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### Developing a Strategy

Many organisations conduct a strategy process, and with Christchurch's largest philanthropic funder, Rata Foundation, now asking applicants applying for \$20,000 or more to submit a strategic or business plan as part of their application, doing this has acquired some urgency for some.

Before you embark on it, be warned: the chances of successfully implementing a formally developed strategy are quite small. Although the research underlying this statement has focused on large businesses, the mechanism of failure is likely to be the same for smaller organisations.

The key obstacle are people: for strategy implementation to be successful, especially if a major change is required, everyone in the organisation has to 'live and breathe' it. This is incredibly hard to achieve, and many organisations have found that gains made in the early stages of strategy implementation have even been lost again as time progressed due to a lack of urgency and general inertia.

People buy-in is best achieved through empowerment, i.e. genuine participation in finding new concepts and doing things differently, not just asking for 'feedback'. Research by Mintzberg (1978) has found that where strategy implementation was successful it has not happened through an abstract analytical process but incrementally as a 'pattern in a stream of decisions'. Strategy finding and implementation were not sequential but intermingled, and strategy was as much about explaining the past as planning for the future.

One of the problems with an analytical approach to strategy according to another strategy guru, J B Quinn (1998), is that strategy is about the *unknowable*, not the uncertain. The future cannot be reliably predicted until it happens, and this becomes truer every day as we are in the middle of a technological and communications revolution.

Another key obstacle is a well-known side-effect of rigid plans or policy: they subdue innovation and fresh ideas and reduce an organisation's agility in responding to change or problems. The compliance-heavy and necessarily risk-averse not-for-profit sector has an especially hard time to come up with truly new ideas or approaches: in an organisation where paperwork dominates and people have to be scared to put a foot wrong innovators will quickly leave and find a more conducive place to work.

Whether your strategy is formal or incremental, it still needs good information. The strategy planning process is useful because it raises the organisation's awareness of where the organisation is and where it is going, even if any formal 'strategic plan' coming out of it is unlikely to be implemented in full. Finding strategy involves these steps:

1. Analysis of the present state. This includes external (government, legislation, funding, social/economic environment) and internal (capability and capacity, staff, processes) factors.
2. Designing a desirable future state. This must be realistic, and it must be economically achievable.
3. A concrete plan on how that future state could be achieved using the findings in step 1.

A strategy may not need to be overly ambitious - often enough maintaining the present state is not only good enough but the most desirable option for the community or members being served.

Good Luck.

*Harald*

## CCA Workload

The new reporting rules for Charities have contributed to our workload a lot more than we anticipated, and as a result a lot of financial statement and audit jobs are taking much longer to complete than what we or you are comfortable with. It's not just us – other accountants are struggling with the same problems and are facing blowouts in workload. We can really only ask for your patience as we get through the pile, and that you bring us your documents well in advance of your AGM or other deadline.

Due to circumstances beyond our control we also do not have as much volunteer support as usual at the moment. This is due to the needs of individual students and processes at their education institutions. We are expecting a new intake later this month, however.

To help with the work we have employed a new staff member, Leigh Brook, at this stage for a period of 3 months. Leigh is CCA's fifth staff member, joining Harald, Nick, Yvette and Rhys in the office.

## Fee Increases

Increased workload means increased cost, and **some of our fees will increase for jobs we receive after 1 October**. This will mainly affect larger organisations:

- Our full hourly rate increases from \$60 to \$65.
- Our subsidised hourly rate increases from \$30 to \$32.50
- Only organisations with less than \$150,000 in total income for the year and liquid assets of less than \$500,000 are now eligible for subsidised rates (at present \$204,000 and no liquid asset consideration).
- Rates for small organisations, such as our support subscription or audit fee remain unchanged.

Our policy of putting help before money has not changed: don't ever hesitate to contact us if you need any help with your accounts.

## Are You Liable for Income Tax?

CCA quite regularly comes across organisations that 'fly under the radar' of Inland Revenue: they are not registered Charities but also have never registered with Inland Revenue and therefore have no IRD number.

Some organisations believe that having registered as a Society automatically makes you a not-for-profit and entitles you either to a tax exemption or at least to an exemption from filing tax returns if your net income is below \$1,000. This is incorrect.

By default, **all** organisations are taxable entities, whether you are a Charitable Trust, Society, Company or have no legal form at all. If you have registered as a Charity you are automatically exempt from Income Tax. In all other cases any tax exemption or concession must be applied for in writing with Inland Revenue.

Full Income Tax exemptions are also available for a very limited set of other organisations, such as amateur sports or the improvement of an area or district. If you are not one of those organisations that is eligible for a full income tax exemption, then you can apply for the exemption that provides a \$1000 deduction for not-for-profits. There are certain clauses that must be present in your constitution before Inland Revenue acknowledges not-for-profit status, a key one being a clause that prohibits you from distributing any surplus as private income ('pecuniary benefit').

If Inland Revenue does acknowledge you as a not-for-profit you become entitled to an automatic deduction of \$1,000 from your net income. You do not have to file a tax return if your profit prior to the deduction is less than \$1000, but you should retain an annual set of accounts. If the organisations profit exceeds \$1000 then a tax return is required and the \$1000 deduction may be claimed in the accounts.

Some not-for-profit income, such as membership fees, grants or donations, does not count towards your taxable income at all, virtually guaranteeing that most not-for-profit organisations will end up with a loss for tax purposes even if they have a cash surplus

For more information on tax exemptions and the \$1,000 deduction see the Inland Revenue web site here:

<http://www.ird.govt.nz/non-profit/np-gst/exemption/>

## Charity Reporting: Top Four Problems

The introduction of the new reporting standards for Charities is certainly not going smoothly. Here's a selection of our top four problems, which is by no means an exhaustive list:

- **Outputs and Outcomes not being understood.** There is low awareness by both Charities and accountants that a 'Statement of Service Performance' (or 'Statement of Service Activity' as we call it around here) is now required, and we are yet to see a set of Statements submitted to us by an accounting firm, Chartered or otherwise, that is compliant in this respect. We have to explain what is meant by these terms to almost all clients, and most first drafts that we are getting are general statements about what the organisation is about, not what it has done in concrete and what has been achieved. There is also no understanding that, being part of an accounting standard, this information now has to be included in an audit as well and therefore needs to be backed up by evidence.
- **XRБ Templates.** Sometimes perfectly good financial statements are being converted to the XRБ templates because the organisation believes these now have to be used, even though they are not nearly as easy to read and the financial information is not very transparent in them. Sometimes organisations give us two sets of statements, one in the 'usual' format to be presented to the AGM and one on the XRБ-issued template for reporting to Charities.
- **Xero Tier 3 and 4 Reports.** Good on Xero for being the only accounting software to actually make a stab at this. Unfortunately, the figures in these new Xero reports so far never matched the underlying information from the profit & loss report and balance sheet, somehow not pulling through correctly. The Tier 4 report also has non-compliant Notes, some of which can't be edited. To generate the Tier 3 and 4 reports in Xero involves so much manual work (and are difficult to audit) that it might be better to continue using the 'normal' profit & loss, cash statement and balance sheet reports and supplement these with manually generated Entity Information, Statement of Service Activities and Notes. In all likelihood the 'normal' financial reports are compliant with the relevant requirements, and if they are not then the Xero-generated Tier 3 and 4 reports won't be either because they are based on the same information.
- **Statement of Cash Flows.** Called 'Statement of Receipts and Payments' in the official Tier 4 documentation, this is now a mandatory part of all Tiers. At the moment only Xero and our CCA spreadsheets can create these in a compliant format, and so far we had to do these for almost all our clients, adding significantly to our 'normal' workload. Because this statement is not used by small or medium businesses, and not required for tax purposes, accountants are not used to generating it. Software widely used in small accounting firms (such as MYOB Accountants Office) can generate a Statement of Cash Flows, but it is compliant only with Tier 2, not 3 or 4. Combined with the extra work required on the other Charity-exclusive requirements, already busy smaller accounting firms with only a handful of Charity clients may decide that they don't need the extra stress...

### References

Mintzberg, H. (1978), "Patterns in Strategy Formation", Management Science vol 24 (9) pp 934-48

Quinn, J.B & Voyer J (1998), "Logical incrementalism: Managing strategy formation". In: "The Strategy Process: Concepts, Contexts, Cases, 3<sup>rd</sup> ed" Prentice Hall, Englewood Cliffs, New Jersey pp95-8.