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Partner appointment: Don MacKenzie

Grant Thornton has announced the appointment of Don MacKenzie as a Partner in its Christchurch office.

Don has over 22 years' experience as a chartered accountant in Christchurch, Auckland, London, New York and Malaysia, and was recently made a fellow of Chartered Accountants Australia New Zealand in recognition for his service to the accounting profession.

Prior to joining Grant Thornton, Don had 12 years' experience advising predominantly large corporate clients for big 4 firms.

Commenting on his appointment, Don said, "I am delighted to join a dynamic firm with a strong culture and values that helps organisations achieve their growth ambitions, and I'm looking forward to further developing our growing practice here in Christchurch".

His clients have included some of the largest corporates in New Zealand and he has advised on the tax structuring, due diligence of acquisitions and initial public offerings for a number of transactions including the acquisition and subsequent restructure of a New Zealand company for NZ$950m (making it one of the largest deals in New Zealand in recent years).

Don has recent experience of advising New Zealand clients with Chinese shareholders and has advised on tax structuring both inbound and outbound from New Zealand.

He has strong technical skills having worked in a variety of software roles heading up development teams. This combined with experience both within a professional services firm environment and in industry gives him a different perspective which often results in unique innovative solutions.

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Is your seismic assessment tax deductible?

Since the Christchurch earthquake sequence began in September 2010, it seems not a month goes by without a good sized jolt occurring somewhere throughout the country. Some of this is probably just an increased awareness for those of us in affected regions, as New Zealand is apparently one of the least geologically stable countries in the world.

The Christchurch earthquakes, and more recently those in Kaikoura and Wellington, highlighted that a lot of buildings in New Zealand will not withstand earthquakes and could be a real hazard to human life, so the Government introduced *The Building (Earthquake-prone Buildings) Amendment Act 2016*. This Act standardises the rules and processes that apply to identifying and remediating earthquake-prone buildings.

Consequently, taxpayers are now obtaining detailed seismic assessments to determine how their buildings are likely to cope in an earthquake. Expenditure for seismic strengthening is normally capital expenditure (and non-deductible) as the Commissioner of Inland Revenue considers it to be an improvement to a capital asset.

The recent decision in the *Trustpower* case also held that a lot of expenditure that taxpayers would have previously considered to be feasibility expenditure (and deductible) was capital in nature. A detailed seismic report could be considered to be feasibility expenditure.

So is the cost of obtaining a detailed seismic assessment report deductible?

The Office of the Chief Tax Counsel has recently published its view under the "Questions we've been asked" section of Inland Revenue's website; it sets out answers to enquiries received which may be of general interest to taxpayers. The answers are not binding on the Commissioner but give taxpayers some peace of mind about what the "right" answer is.

The published analysis comprises some seven pages – once again showing how tax law can make a seemingly straightforward question incredibly complicated!

The good news is that the costs incurred in obtaining a detailed seismic survey are generally deductible on the basis that merely finding out whether a building is earthquake prone does not add anything to the business structure, and does not create an identifiable asset or an improvement to an existing asset.

The exception (and there is almost always an exception with tax) is when the expenditure is used for an overall capital project. If the detailed seismic assessment is obtained as part of a project for seismic strengthening a building, then these costs will need to be capitalised into the overall cost of that project.

When is a detailed seismic assessment part of an overall capital project?

Presumably when the project is going ahead regardless of the outcome of the assessment, the assessment is only to determine the nature of the work required. This would mean that if there was no planned seismic strengthening and the seismic assessment is obtained in response to a city council request or to satisfy a tenant, then the expenditure would be deductible regardless of whether actual seismic strengthening was required as a result.

It is great for taxpayers to have some certainty about the deductibility of this kind of expenditure. But it is a shame that the test of deductibility provided is not black and white.

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Number and diversity of cyber-attacks on the rise

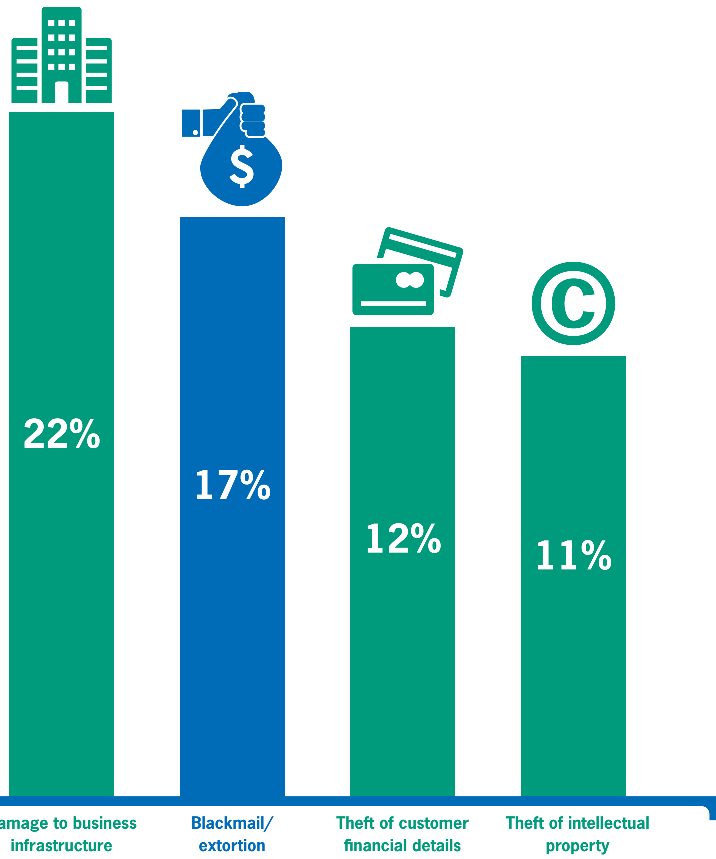
New figures from Grant Thornton's International Business Report (IBR) survey reveal that extortion and blackmail are more common forms of cyber-attacks on businesses than theft of data or intellectual property. This comes as the volume of attacks globally has risen sharply over the last 12 months. The findings lay bare the diversity of the threat to businesses today and the breadth of the response needed to remain resilient.

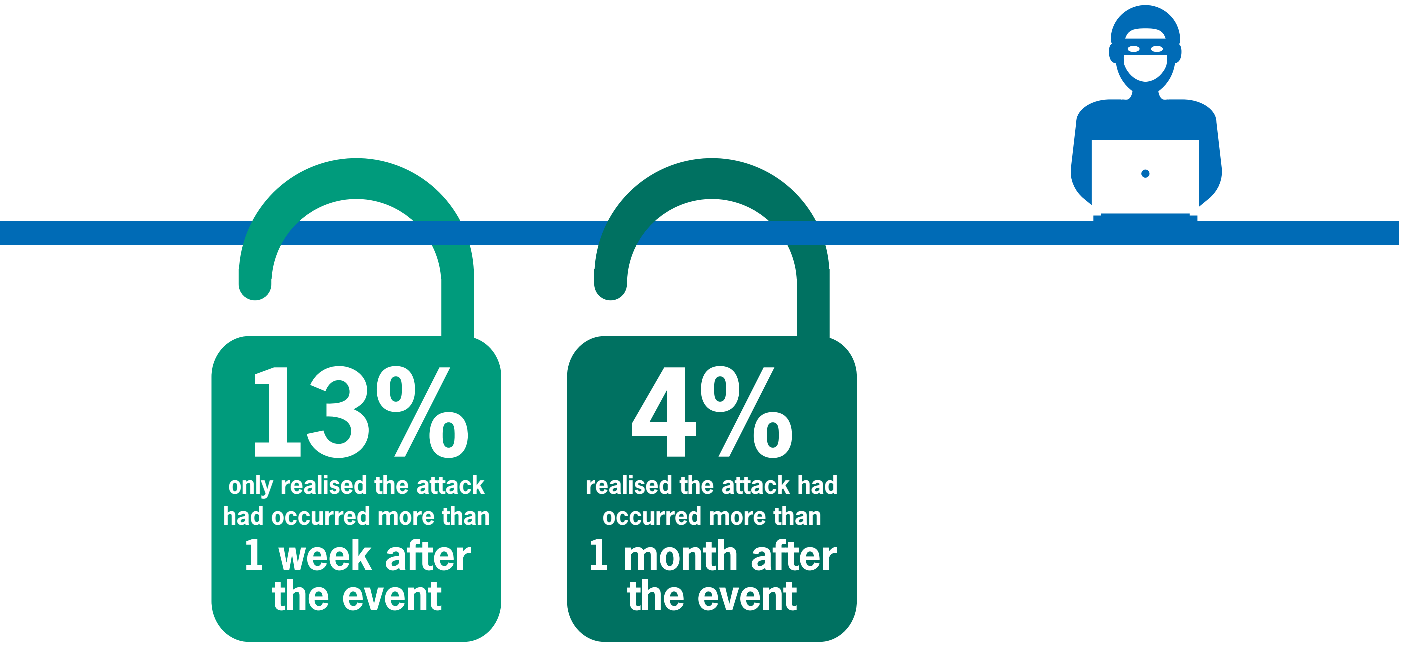
The report shows that in New Zealand, 28% of businesses surveyed have faced a cyber-attack over the past year, placing Kiwi businesses eighth in the league table of 37 countries surveyed.

Nearly one in four businesses worldwide (21%) have faced a cyber-attack over the last 12 months, compared to 15% who said the same a year ago.

Of those who were attacked, the most common form of cyber-attack cited globally was damage to their business infrastructure (22% of firms). But other forms of cyber-attack experienced include using blackmail or extortion to obtain money (17%), a more common occurrence than theft of customer financial details (12%) or theft of intellectual property (11%).

Blackmail and extortion have been experienced more than theft because these types of attacks exploit the weakest link in an





organisation, which is often people who are unaware of how their actions can open their organisation up to some serious vulnerabilities. The success of these attacks is also helping to fund more cyber-crime.

In New Zealand there's a common misconception that our physical location somehow shields us from cyber-attacks. Unfortunately the tyranny of distance doesn't serve us well in this instance; our physical remoteness is irrelevant to attackers and is of no consequence to the exposure to cyber-attacks.

Businesses will face larger financial loss from reputational damage, theft of customer details and intellectual property, and infrastructural damage.

Regardless of the type of attack, it's not a question of 'if', but 'when' your business will be attacked, so cyber security must become a priority for all organisations.

Our own research here in New Zealand has revealed that cyber-security is one of the key top-of mind risks for organisations, but for most, risk management is increasingly being viewed as just a compliance or box-ticking exercise. It is really important organisations not only identify risks but proactively manage them.

The IBR findings also reveal that globally, of those business leaders who have faced a cyber-attack in the last 12 months, nearly one in eight (13%) only realised the attack had occurred more than a week after the event. For 4%, it took longer than a month.

We need to realise security for an organisation is a system of protection, prevention and response that requires people, process and technology. We have too often focused on the technology component, leaving ourselves exposed to common threats like ransomware, because we are not investing in security training for people and improving our general security processes. This requires urgency and an investment in minimising the damage when the inevitable happens.

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How to minimise the risk of corruption

A good reputation can be lost in an instant.

After a recent high profile corruption case hit the headlines in New Zealand, you might be wondering if it could happen within your organisation. How would you know? What can you do about it?

A company's culture is a good place to start. A culture of "doing the right thing" and having values centred around integrity are all very well and good, but these are little more than words unless underpinned with some simple yet practical tactics:

1 Enable whistleblowers to act

Many of these events are detected via whistleblowing. So encourage a culture where this is seen as a positive action, but also provide a real, independent channel where people can raise a concern, secure in the knowledge that information will be received and used fairly and dispassionately.

2 Systematically identify where fraud could occur as part of a risk management programme

Understanding where and when your organisation is exposed to the risk of fraud or corruption allows the implementation of appropriate controls; this ensures a consistent understanding of what's acceptable (ie, when does "helping out a mate" become corruption?) to drive a consistent culture of integrity.

3 Look out for the less obvious

You can be forgiven for thinking that here in New Zealand with our famous "two degrees of separation," corruption can often be less obvious and therefore harder to manage. However, simple measures include conflict of interest management, which exists in many organisations but sadly is often not managed with the rigour that keeps organisations safe. The proactive organisations that we work with have procurement strategies in place which involve:

- making sure all staff members are educated on how to manage relationships with vendors
- reviewing their practices and processes on how vendors are engaged and set up in their systems
- reviewing their inventory management practices.

If you're concerned about the presence of corruption and risk in your business, best practice and advice will not only give you peace of mind – your organisation will also benefit from better efficiencies that lift profits. If you haven't done so already, the time to act is now.

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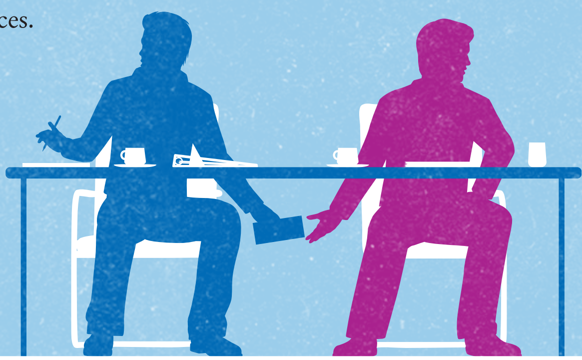


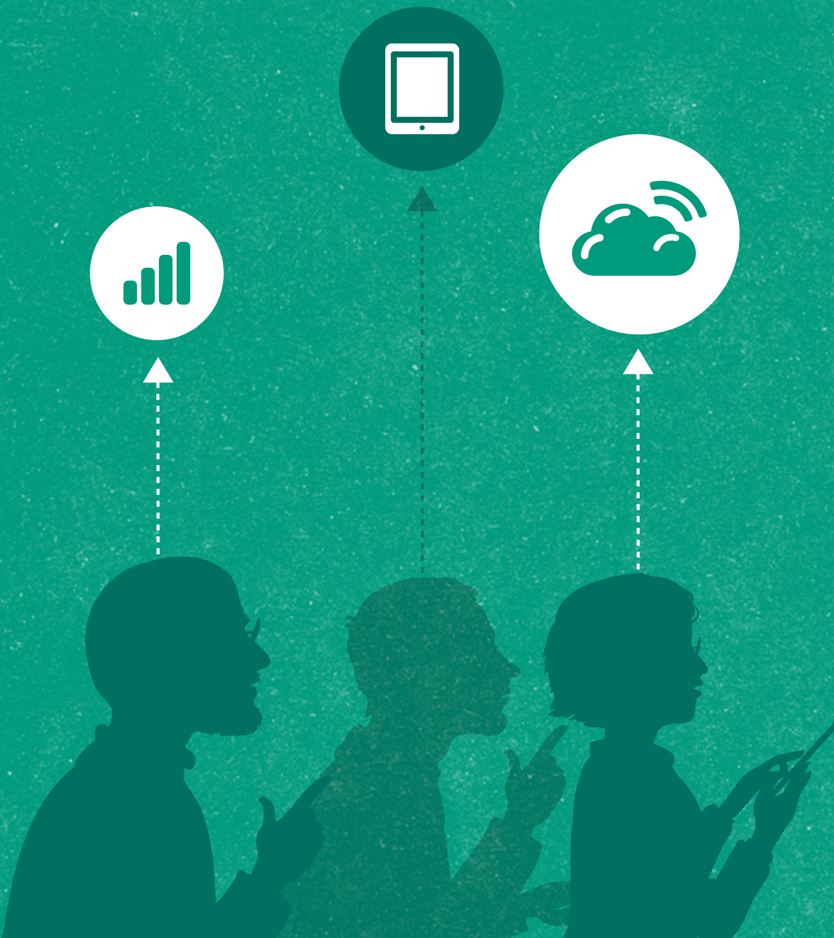
Four steps Boards can take to embrace digital

Grant Thornton's latest corporate governance report; *Boards of the future: Steering organisations to thrive*, draws on insights from our International Business Report (IBR), plus data and interviews from Grant Thornton teams around the world. It explores what skills the Boards of 2025 will need, and what needs to happen between now and then to get there.

Digital experience is not just needed for today's business issues; it's about being able to spot the challenges and opportunities of the future – and our research found evidence that many of these won't appear on Boards' radars any time soon.

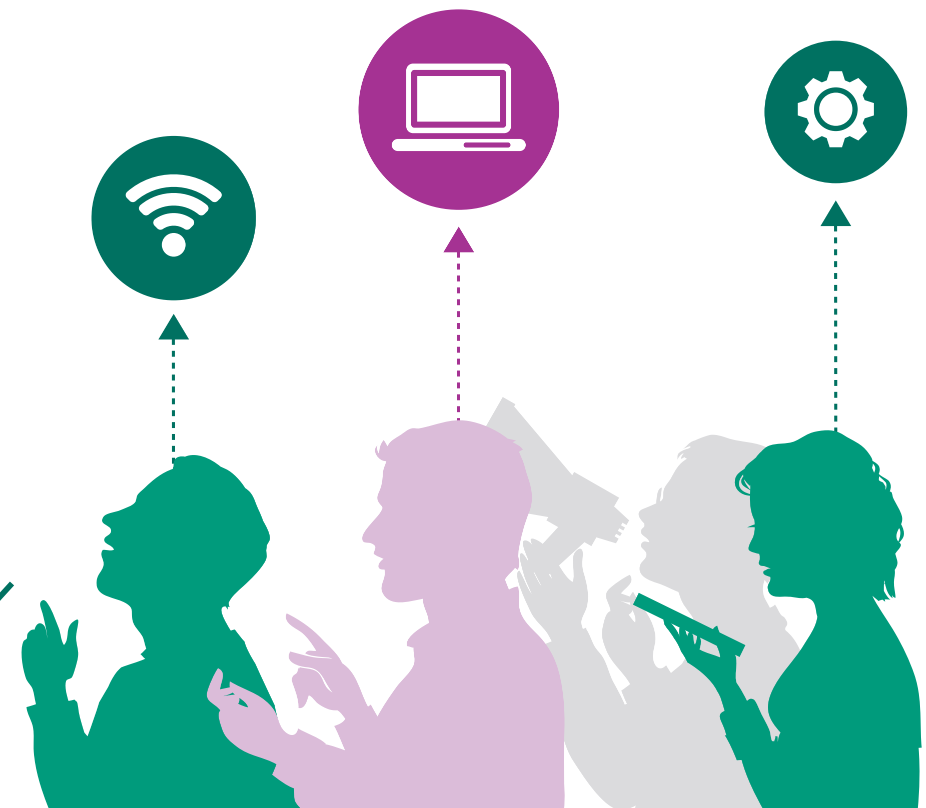
The report reveals that only one in four businesses surveyed across the globe said that their Boards should increase the focus on digital expertise over the next ten years. The digital economy sits a little higher on the agenda of New Zealand Boards; 39% of survey participants rated this as a priority area which ranks us fourth place in a league table of 36 countries surveyed behind Indonesia (50%), Mexico (45%), and India (40%), and ahead of our biggest APAC neighbours Australia (31%) and China (26%).

While it's promising that we have a heightened awareness of the role digital has to play in the business community compared to the rest of the world, what about the remaining 61% of Kiwi businesses who don't see digital as a priority in the not-so-distant future?



4 steps every Board can take to enhance digital capability

1. **Collaborate.** Head towards new digital innovations rather than running away from them, in order to understand them and how they can be harnessed.
2. **Seek advice.** As well as looking at ways to boost digital expertise around the table, make the most of external advice and counsel too. For example, game changing innovations from the last few decades like the advent of smartphones will become more frequent and make investment decisions tougher.
3. **Research.** Assess the ways in which your business is using data to drive research and development, investment and business development strategies. Could it be doing more?
4. **Strategise.** If there is no cyber strategy currently in place, waste no time in developing one. Then, if it isn't already, make cyber strategy a standing agenda item for every single Board meeting. Staying one step ahead of the criminals will be a necessity.



The Board members we interviewed as part of our research see an opportunity over the next decade to blend digital skills into business strategy and operations. This involves all Board members embracing digital and their digital know-how. For example, India recognises that there is a digital skills gap in boardrooms; their government has recently launched the Digital India initiative to enhance the quality of service to citizens through the adoption of technology.

Big data, advanced analytics and automation can support dynamic organisations of the future to understand their customers better, boost productivity and carve out a competitive advantage. And in a world where data has exploded alongside greater connectedness between organisations, firms can protect themselves from those looking to take advantage – legally or otherwise.

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Number of NZ senior business roles held by women growing at a glacial pace

A new report based on Grant Thornton's annual survey of 5,500 businesses in 36 economies reveals the global proportion of senior business roles held by women has hit a high of 25%.

Women in Business: New perspectives on risk and reward, reveals that while there is some progress, it remains slow. The global figure for 2017 is an increase of just one percent from 2016, and the proportion has only improved six percent since the research began in 2004.

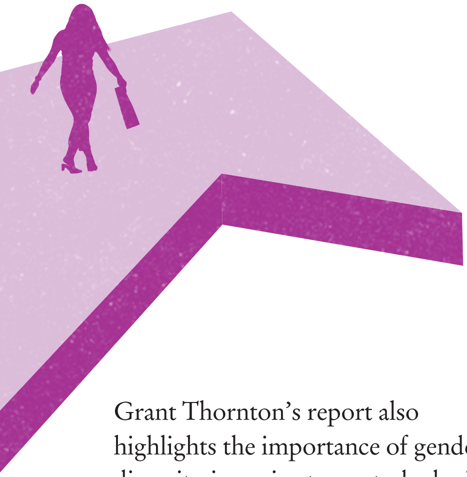
By comparison, in New Zealand, 20% of senior roles are held by women in 2017, also up 1% from the last two years, but still down 11% from where we were in 2004. This keeps us at 28th place out of 36 countries surveyed.

The percentage of businesses globally with no women in senior management has also risen, from 33% in 2016 to 34% in 2017. In New Zealand, 37% of businesses have no women in senior management, down from 42% last year – one of the first positive changes since 2012. Having said that, New Zealand shouldn't be proud of its placing in the "bottom 10 pack".

This year, global businesses have reached a milestone, with a quarter of senior roles held by women for the first time. But this is a marginal improvement and we're still only halfway there. In New Zealand, we are still lagging well behind. Despite evidence linking diversity and improved business performance, the dial is shifting at a painfully slow rate. This is a real concern for business growth as it suggests we aren't maximising the potential out there.

The reasons for this lack of progress are so varied, and they depend on the culture of individual businesses and the broader culture of the country or region in which they sit. However, this year we encountered a concerning sense that the issue has plateaued, as companies perhaps assume the diversity challenge has been dealt with. The evidence tells us this is not the case.

Companies today need to be more productive, more innovative and in many ways more open if they are to grow. Diversity will be key to their success. Those that remain closed are putting themselves at risk of not tapping in to their full potential, and losing access to diversity of thinking.



Grant Thornton's report also highlights the importance of gender diversity in senior teams tasked with managing risk.

The report emphasises the increase in businesses without gender diversity in senior management comes at a time when uncertainty is dominating the business agenda. It explores the role of gender when it comes to spotting and managing risks, by either seizing the opportunity or managing the threat that risk can bring.

Grant Thornton's findings show that men and women perceive and respond to risk in different ways, contrasting in how they balance speed and decisiveness with careful consideration. Brought together, these strengths facilitate effective risk strategies for the sustainable growth of dynamic businesses.

Our research challenges the assumption that women are risk adverse and slow to act; men may be more inclined to jump to a yes or no decision, which facilitates action. But by the same measure, men can act too quickly because they feel something has to happen fast. However women will not rush to label a situation as a risk and mitigate it, but will consider the context fully and respond in ways that recognise the wider environment.

These differences can be a strength for companies. The international business environment has become more volatile, and the ability to manage uncertainty is becoming more important. Diversity of thinking at the senior level gives management teams a wider peripheral vision of what constitutes a risk, and provides a more balanced approach for reacting to it, either as an opportunity or a threat. Gender diversity in firms' decision-making teams could ultimately be the difference between reaping success or failure.

Read the full report *Women in Business: New perspectives on risk and reward* **at grantthornton.co.nz/insights**

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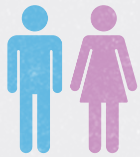
Build mixed gender teams **for effective** risk management



25%

proportion of senior roles held by women

Only 1%

growth in women in senior leadership over the last year

Global business survey finds split in optimism across Asia Pacific heading into 2017

Business leaders across the Asia Pacific region report a split in optimism heading into 2017. The findings, from Grant Thornton's most recent quarterly global survey of 2,600 businesses in 37 economies, reveal that emerging and developed Asia Pacific economies are travelling in different directions when it comes to their outlook for the New Year. Globally, the research finds that the majority of business leaders start 2017 in a positive frame of mind.

Research from the Grant Thornton International Business Report (IBR) reveals that business optimism among developed Asia Pacific economies has fallen 8pp in Q4 2016 to net -16%. Japan in particular has fallen 8pp to -45%. However, among emerging Asia Pacific economies, the picture is much brighter. Business optimism has increased by 11pp to 53%. The region's biggest economy, China, has seen optimism bounce back from 30% to 46% in Q4 2016.

There is a striking split in the direction of travel between business leaders in emerging and developed Asia Pacific countries. Part of the reason for this could be the likely scrapping of the TransPacific Partnership (TPP), out of which developed economies – like those of Australia and New Zealand – stood to gain the most. However, China is looking to implement its own regional economic partnership, which could fill some of that gap. The high levels of optimism in emerging economies reflect what can happen when closer economic ties are in place, with the ASEAN Economic Community agreed in 2015.

Global optimism is at its highest since Q3 2015. This reflects a view among the business community that uncertainty over the outcome of major events like the EU referendum and the US presidential election is now behind them; they now have a clearer steer on key issues such as taxes, jobs and trade policy.

Findings from Grant Thornton's IBR reveal that across the Asia Pacific region as a whole, the outlook on a number of key indicators is strong heading into 2017. The proportion of firms expecting profitability to increase over the next 12 months has gone up to 34%, the highest in almost two years. Employment expectations remain healthy at 29%, and research and development plans for 2017 (31% plan to increase investment) are higher than this time last year (23%) – but down from the 32% recorded in Q3.

Globally, the proportion of firms expecting revenue to increase in 2017 has gone up by 5pp to net 50% - the highest figure in nearly two years. China (+14pp) and the US (+11pp) reported particularly strong swings in revenue expectations in Q4.

However, the IBR also reveals that the picture outside Asia is not entirely positive. Business optimism in Mexico has fallen to just 8% in Q4 – the lowest quarterly figure it has ever recorded. In Russia, optimism has fallen 13pp to -7%. In addition, the proportion of firms in the EU citing exchange rate fluctuations as a constraint on growth has increased by 8pp to 21%, as elections in France and Germany have the potential to cause market uncertainty.

There will be challenges in 2017, including the impact of further rate rises from the US Federal Reserve. But these shouldn't mean that growth plans across Asia Pacific should be abandoned. They may be focused on investing for greater efficiency, hiring new skilled workers, or researching new markets and services. Dynamic firms with the ability to think long-term and pay attention to their operations will be the big winners.

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