

# assurance adviser

Grant Thornton 

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## Changes to the Incorporated Societies Act 1908

Changes to the Incorporated Societies Act 1908 came into force in December 2005. These changes included the following:

- Societies must now provide one copy of the rules (not two) to the Registrar
- When submitting an application for incorporation or rule change, an officer of the society or a solicitor must complete a certificate (rather than make a statutory declaration) and endorse the rules
- The Registrar is no longer required to return a copy of the rules to the society once they have been registered
- It is no longer compulsory for corporate bodies to affix a common seal when signing as a member applicant for incorporation
- The register of members maintained by the society no longer needs to record the members occupation, however the requirement to keep a register of members names, addresses and the dates they joined still applies.

Forms and information available on the Registrars website [www.societies.govt.nz](http://www.societies.govt.nz) have been updated to reflect these changes.

## Proposed Financial Reporting Act Changes

On the 22nd of December 2005 the Commerce and Small Business Minister Lianne Dalziel announced changes to the financial reporting system aimed at reducing business compliance costs.

**Small Companies** - The exempt companies system, which allows certain small to medium sized companies to produce financial statements in a simple format, has had the qualifying criteria extended.

Under the new system, a company will qualify if it meets at least two of the following three tests:

- Annual turnover of \$2 million or less (previously \$1 million)
- Total assets of \$1 million or less (previously \$450,000)
- No more than five full-time equivalent employees

The practical effect is that many companies will be able to move from the framework for differential reporting to the much simpler exempt companies system.

**Overseas Companies** - Changes are also planned to change reporting requirements for New Zealand-incorporated companies with 25% or more overseas ownership.

Overseas companies, which qualify for differential reporting or the exempt companies system, will no longer have to file audited financial statements with the Registrar of Companies.

This will result in reduced costs for financial statement preparation as small overseas-owned companies will no longer be excluded from the exempt companies system.

**Non-Active Reporting Entities** - Non-active entities will no longer be required to file financial statements with the Registrar of Companies. Instead, the directors will be able to certify that the entity has not been involved in any transactions during the course of the financial year.

**Reporting to Shareholders** - There will be greater flexibility for companies in relation to sending annual reports to shareholders. Companies will be able to notify shareholders of the availability of annual reports and shareholders will then be able to download the report from the company's website or request a hard copy.

**Changes to the Enforcement System** - An infringement notice system, incorporating instant fines, will be introduced for the late filing of financial statements. In future, when a company fails to file by the due date, the Companies Office will send a notice to each director of the company advising them that an infringement has occurred, that the company is required to comply and that the director is required to pay an infringement fee of \$7,000 within a certain time period.

**When?** - Some of the changes require amendments to the Financial Reporting Act and it is expected that Lianne Dalziel will introduce a Bill into Parliament in early 2006, with a view to enactment in the second half of 2006. Most of the changes should come into force shortly after the legislation is enacted.

## Not-For-Profit Organisations need more high calibre Board Members

A growing number of not-for-profit organisations are paying board members for their services, but many of them still have concerns about being able to attract high caliber individuals to serve at Board level.

These are among the findings of the Grant Thornton 2005 survey of not-for-profit organisations.

"We were not surprised to find that the three most challenging issues for this sector - financing, fund-raising and governance - were the same as in our last survey in 2003," said Grant Thornton Not for Profit Specialist Brent Kennerley.

"But it is of concern that, while more Not for Profits are doing their bit by providing some remuneration, they were still having trouble attracting people with business and other such skills to their boards. This says to us that they still have some mind-set barriers to overcome, and there probably has to be more work done on shifting perceptions of both how stimulating and rewarding these particular governance roles can be."

Some 36% of respondents said they now provided remuneration to one or more members of their boards. In the 2003 survey, the figure was only 24%.

Meanwhile, more than half of the respondents are concerned about their ability to attract high-calibre individuals to serve on their boards.

Some 46% are concerned their boards do not undergo sufficient training and 41% believe their boards lack adequate knowledge of relevant legislation. This is probably due to the fact that board members are drawn most commonly from internal sources, such as from regional or membership representatives.

From the survey we can see that only a minority look outside their organisations for board members and obviously very few are volunteering themselves in from outside these circles. This inward focus may be constraining the range of skills and experience available to govern not-for-profits.

Nearly half the respondents do not undertake periodic risk profile assessments. As a result, they may be highly vulnerable if they face major problems beyond their control. Even among those who undertake risk planning, there are gaps and few had contingency plans or insurance for the loss of key staff and less than half had "worst case scenario" plans for disaster, loss of key income sources, or adverse media attention.

A copy of the report can be downloaded from [www.grantthornton.co.nz](http://www.grantthornton.co.nz) or contact your local office.

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If you require further information on any of the featured topics or would like details on any other accounting matters, contact your local Grant Thornton office:

**Auckland**  
97-101 Hobson Street  
Auckland  
T 09 308 2570  
F 09 309 4892  
E [info@gtak.co.nz](mailto:info@gtak.co.nz)

**Christchurch**  
Level 9, Anthony Harper Building  
47 Cathedral Square  
Christchurch  
T 03 379 9580  
F 03 366 3720  
E [info@chch.gtnz.co.nz](mailto:info@chch.gtnz.co.nz)

**Dunedin**  
Level 7, Radio Otago House  
248 Cumberland Street  
Dunedin  
T 03 474 0475  
F 03 474 0477  
E [info@gtdn.co.nz](mailto:info@gtdn.co.nz)

**Wellington**  
Level 13, AXA Centre  
80 The Terrace  
Wellington  
T 04 385 2162  
F 04 385 2183  
E [info@wn.gtnz.co.nz](mailto:info@wn.gtnz.co.nz)

**Whangarei**  
Grant Thornton House, Level 1  
35 Robert Street, Whangarei  
T 09 470 0444  
F 09 438 7274  
E [info@gtwr.co.nz](mailto:info@gtwr.co.nz)

[www.grantthornton.co.nz](http://www.grantthornton.co.nz)

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