

assurance adviser

Grant Thornton 

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2007/08 Not for Profit Survey

We are currently working on the 2007/08 Grant Thornton Not for Profit Survey.

The survey gives the sector a forum to identify and voice key concerns and issues. There is also an opportunity for organisations to measure their practices against their peers.

If you would like to participate in this postal survey, please telephone Mary Tapp on 04 495 3786 or email: mtapp@gtwn.co.nz.

Charitable Donations

In the 2007 Budget the Government announced that the cap on the charitable donations rebate of \$630 (donations of \$1890) will be removed effective from the 2008/09 income year. Therefore, generally, donations to qualifying charitable organisations, made on or after 1 April 2008 will qualify for the 33.33% rebate, regardless of the level of donations made during that income year. The applicability of the rebate has also been extended to companies, whether listed public companies or private (close) companies, and Maori Authorities. The rebates/deductions will be limited to the donor's net taxable income.

These changes have been made as a result of a Government discussion paper released on October 2006 "Tax incentives for giving to charities and other non-profit organisations" and in a post Budget speech the Minister of Revenue, Peter Dunne gave an update on some of the other issues which were canvassed in that discussion paper, including:

Payroll Giving

The Minister noted that payroll giving is well accepted in other countries, eg Australia, for its simplicity, convenience and effectiveness in promoting charitable giving. However, before introducing payroll giving in New Zealand, the Minister stated that detailed consultation would take place to ensure that such an approach does not raise excessive costs for employers and is easy to administer. Given the extra burdens placed on both employers and Inland Revenue as a result of the KiwiSaver scheme we are of the opinion that this is vital.

Tax treatment of volunteers' reimbursement payments and honoraria

The Minister did not go into specifics but noted that it was a longstanding problem that should be issued as a matter of priority.

Refund of imputation credits to charities

The issue is extremely simple. The imputation system operates as a proxy for the taxation of individual shareholders. If the shareholders are exempt from tax then that tax withheld from their dividends should be refunded to them.

In respect of this longstanding and inequitable issue, the Minister noted that this issue is being examined as part of a wider review of imputation credits, and who should be entitled to those credits. We see no need for this item to be included as part of this review. Successive governments have probably benefited by hundreds of millions of dollars as a result of this inequity and this should be remedied immediately.

Outsourcing - A risky proposition?

Outsourcing does not have to be a debilitating proposition

Increasingly, as companies choose to devote key resources to core business activities, supporting functions are being outsourced. These can range from performing a specific task under the direction of the client to replacing entire business units or functions. In recent years, due to the drive for better cost and risk management, improved service delivery and greater speed to market, there has been a significant increase in the use of outsource service providers for key processes. These often include IT-intensive activities such as information processing and payroll.

Many of these services affect the client's financial statements. Because of the impact on the user's financial statements, auditors performing financial audits may need to obtain information about the services, the service organisation's controls, and their effects on the financial statements. To achieve this, compliance-conscious organisations need to take steps to ensure that their service providers:

- document their financial processes
- carry out a risk assessment
- have adequate controls over financial reporting that have been thoroughly tested for effectiveness.

This is the responsibility of the user organisation and should never be delegated to the service provider.

Which providers and functions can this apply to?

Service organisations performing functions that may affect their clients' financial statements include:

- custodian banks
- fund accountants
- bank trust departments that hold and service assets for employee benefit plans or for others
- mortgage bankers that service mortgages for others
- application service providers that provide software applications and a technology environment that enables customers to process financial and operational transactions

- payroll outsourcers
- outsourced data centres
- third party web-hosting of e-commerce
- customer relationship management databases.

Controls are needed

The business needs to develop a management infrastructure to establish and maintain internal controls and ongoing processes that ensure reliable regulatory compliance. IT, on the other hand, needs a technology framework that capitalises on existing resources and makes point solutions the exception rather than the rule.

These are important because complex operating models can compromise direct control over an organisation's data and IT systems. Earnings and capital could be at risk from negative public opinion as a result of poor service, disruption of service, or violations of consumer law. This can occur if a third-party's interaction with customers is not consistent with the organisation's policies or standards. It also occurs when there is negative publicity about adverse events involving an organisation.

Risks to earnings or capital may also arise from problems with service or product delivery. An effective business resumption plan and appropriate contingency plans will minimise risk.

If you use service providers you need to ask:

- What outsourced processes may affect your financial statements?
- Has the service provider conducted proper risk assessments focusing on processes, systems and people?
- Does the service provider have effective controls in place to mitigate, eliminate or avoid risks?
- Does your contract with the service provider appropriately address losses?
- Are you comfortable that changes to outsourced processes or systems will not have a material effect on financial information?

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

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