The adoption of International Auditing Standards in New Zealand

In December 2005, the Professional Standards Board (PSB) issued its decision on adopting the International Standards of the International Auditing and Assurance Standards Board in New Zealand. Among other benefits, the major benefit of convergence was seen as the economic benefit that will flow from maintaining public confidence in the quality of audits and other assurance engagements.

It was decided that the exposure drafts of New Zealand Equivalent to International Standards on Auditing would be developed and issued by the PSB for public comment during 2006 and 2007. These exposure drafts would be submitted to the NZICA's Council for approval as final standards during 2007, with a single proposed affective date 1 January 2008.

The members were also advised to apply the existing Codified Auditing Standards in New Zealand until such time as the New Zealand Equivalents to International Standards on Auditing are issued in final form and are approved by Council. Members are required to be applying the International Standards on Auditing once issued and approved and the proposed date is 1 January 2008.

Implications

The most significant effect of adopting the New Zealand Equivalents to International Standards on Auditing is having to document a detailed understanding of the entity and its environment and assessment of the risks of material misstatements.

The International Standard on Auditing 315 requires more detailed documentation as well as documentation of the control environment at the higher level including Governance.

Among the specific documentation are:
1. The nature of the entity
2. Objectives and strategies and related business risk
3. Measurement and review of the entity's financial performance
4. Internal controls.

This implies that the auditors are required to do additional work on audits performed from 1 January 2008. Grant Thornton has developed audit software that facilitates the documentation of the entity's business and environment. It covers the higher level controls including Governance as well as activity level controls including the transaction cycles.

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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assurance adviser

Grant Thornton

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Office hours over Christmas period

The Partners and Staff of Grant Thornton would like to take this opportunity to wish you all the very best for the festive season.

Our office will be closed from 5.00pm Friday 21 December 2007, with a skeleton staff working from Monday 7 January 2008 and the full office opening on Monday 14 January 2008. If you wish to contact us during this period please phone 04 474 8500.

We look forward to continuing our association with you in the New Year.

IFRS adoption rules for small and medium-sized entities

In December 2002, the Accounting Standards Review Board (the Board) announced that New Zealand entities would be required to apply International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), for periods commencing on or after 1 January 2007. Early adoption is permitted for periods commencing on or after 1 January 2005.

The Board has since reviewed and approved the New Zealand equivalents to IFRS (NZ IFRS), developed by the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants.

To date, NZ IFRS have been adopted primarily by large companies, issuers, subsidiaries of overseas companies and the public sector. The applicability of IFRS to small entities has been the subject of significant debate. The Minister of Commerce advised the Board and FRSB that a Government review of the financial reporting requirements applying to small and medium-sized companies under Financial Reporting Act 1993 (The Act) will be undertaken in mid-2008.

If the possible outcome of the review is that small and medium-sized entities are not required to prepare financial statements complying with GAAP, the cost of adopting NZ IFRS now will outweigh the benefits.

The Board has decided that the mandatory adoption of NZ IFRS for certain small entities should be delayed. The option to delay the adoption of NZ IFRS is open to:

- companies that are not issuers, not required to file financial statements with the Registrar of Companies, and not large as defined by the Financial Reporting Act 1993
- entities that are not subject to the Financial Reporting Act 1993, not publicly accountable, and not large as defined in the Framework for Differential Reporting.

Once the Government review is completed, the Board will establish which companies affected by the decision will have to prepare GAAP compliant financial statements. The date will then be determined for the earliest mandatory date of transition to NZ IFRS. There will be a minimum of one year between the announcement of the adoption dates and the earliest year of adoption.

Retirement Villages

New act requirements for audited financial statements

The supervision of retirement villages has been strengthened and among the changes that took effect from May 2007 related to the preparation of financial statements and submitting them to the registrar. This affects all Retirement Village Schemes.

The Government has introduced changes to the Retirement Villages Act with respect to new requirements for audited financial statements.

Under section 13 (3)(b) of the Retirement Villages Act 2003 every retirement village is required to deliver to the registrar an annual return accompanied by the audited financial statements prepared under the Financial Reporting Act 1993.

From 1 November 2007, new and/or existing retirement villages which do not currently comply with the Securities Act 1978, must be registered under the Retirement Villages Act 2003 (RVA).

An unregistered village cannot make offers of occupancy from 1 November 2007 and will be in breach of the RVA if they do make such offers.

Please note, villages which have complied with the Securities Act 1978 have until 1 May 2008 to register under the RVA.

In addition to the above, The Minister for Building and Construction, Hon Clayton Cosgrove, announced his decision on proposed variations to the Retirement Villages Code of Practice, which came into effect on 25 September 2007. The Retirement Villages Code of Practice 2006 covers the day-to-day operation of the village. All operators must comply with the Code of Practice from 25 September 2007.

The Code of Practice covers the following areas:

- Staffing of retirement village
- Safety and personal security of residents
- Fire protection and emergency management
- Transfer of residents within retirement village
- Meetings of residents with operator and resident involvement
- Complaints facility
- Accounts
- Maintenance and upgrading
- Termination of occupation right agreement by operator or resident
- Communication.

Obligations of retirement village operators

The operator of a retirement village is typically the developer or owner of the village, who often also manages the village. In some cases, an operator appoints a manager, who then takes on the operator's responsibilities and obligations on behalf of, and with the authority of, the operator. Operators have obligations under occupation right agreements as well as other obligations set out below.

The obligations of operators focus on the following areas:

The village

- registering their retirement villages (existing villages must apply for registration by 1 November 2007)
- making annual returns to the Registrar of Retirement Villages, including audited financial statements
- appointing an approved statutory supervisor for each village (unless it's exempted) and complying with the deed of supervision and the statutory supervisor's directions
- providing information on certain changes and other matters to the Registrar, to the statutory supervisor, and to residents and intending residents
- running the village properly, including keeping it in good condition, fully insuring it and following a long-term maintenance plan
- accounting for all money received, and keeping this in accounts in financial institutions.

Intending residents

- ensuring that advertising is accurate
- providing each intending resident, before they sign an occupation right agreement, with a disclosure statement that complies with the Act, regulations and Code of Practice, together with copies of the agreement, the Code of Residents' Rights and the Code of Practice. The Department of Building and Housing has developed a disclosure statement template
- ensuring that intending residents receive independent legal advice before they sign the occupation right agreement, as certified by their lawyer
- providing a minimum cooling-off period of 15 working days
- providing for residents to cancel their agreements for delay if the village or unit is not yet completed six months after the proposed completion date.

Residents

- having a clear and unambiguous occupation right agreement with each resident that complies with the Act, the regulations and the Code of Practice
- providing residents with what they promised them
- communicating with residents, consulting residents on changes, and involving them in decision-making in the village
- calling an annual general meeting within six months after the end of the village's financial year, and calling other meetings when they're asked for by the residents' committee, 10% of the residents or the statutory supervisor, and providing all relevant and requested information for those meetings
- providing all residents with a copy of the statement forecasting income and expenditure, including what residents pay, within three months of the start of the village's accounting year, and providing a copy of the financial statements to residents if they ask for them
- providing a copy of, and complying with, the Code of Residents' Rights
- providing a copy of, and complying with, the Code of Practice (although a village may be exempted from particular provisions in the Code). This includes having written policies and procedures for each of the 10 topics covered by the Code, telling residents and intending residents about these, and providing copies of the Code on request. Operators must also have an induction process for residents and staff on the Code's requirements. In addition they must monitor and review these policies and procedures and consult residents on any changes
- providing a complaints facility. This must comply with the Code of Practice from 25 September 2007, and must include procedures for complaints to be resolved simply, fairly and quickly
- appointing and paying for a disputes panel after a dispute notice has been given under the Act's dispute resolution provisions and the Retirement Villages (Disputes Panel) Regulations.

Responsibilities of directors, trustees, managers and promoters

Directors, trustees and managers of retirement villages must also take all reasonable steps to make sure that the operator's obligations are carried out. Promoters of retirement villages also have some obligations relating to advertising.

Grant Thornton 2007/08 Not for Profit Survey

We are currently writing the Not for Profit Survey report. Below are some of the key findings which have emerged about the sector.

- The **three most challenging** issues for the Not for Profit sector are financing and fundraising, governance and the retention and motivation of key staff.
- Over half of survey respondents continue to be concerned about the **sustainability of their key sources of income.** However most organisations are confident about the funding they have in place for the next 12 months with 86% budgeting to make a surplus or at least break-even.
- 60% of respondents believe that their organisation will benefit from the **Taxation Changes on Donations** announced in the 2007 Budget.
- **Performance monitoring** is largely seen as the domain of the CEO. Not for Profits are coming under increasing scrutiny and pressure to demonstrate that their activities are delivering 'best value', whether they are competing for the public's charitable donations, grants or public sector service contracts.

The full report will be launched in February 2008.

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