No.7 Winter 2003

assurance adviser

Grant Thornton

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2003 Not for Profit Survey

The Grant Thornton 2003 Not for Profit Survey has been launched. This survey will highlight issues concerning those working in the highly valued charitable and not for profit sector.

It will provide a unique snapshot of how a cross-section of New Zealand charitable and not for profit organisations view the key challenges they face.

The survey will ask about the nature of these organisations and their activities, the changing environment in which they operate, their employees and volunteers. Looking to the future, the survey will also ask about the concerns of the sector, especially in respect of funding, red tape and the role of regulators.

If you wish to participate or receive a copy of the survey results please contact the survey co-ordinator Mary Tapp on mtapp@wn.gtnz.co.nz or download the survey from: www.grantthornton.co.nz

Managing risk with confidence

Risk management is about achieving the right balance between risk and reward. This applies as much to not for profit organisations as to the wider business world.

Commercial organisations as well as not for profit organisations face some level of risk in most of the things they do. "Major risks" are those which have a high likelihood of occurring and which would have a severe impact on operational performance, achievement of aims and reputation of the organisation.

Risk management should not be seen purely as a compliance issue or the prevention of disaster, although a continuity plan is still important. The governing body must focus on the mitigation of risks that would prevent the organisation achieving its strategic objectives.

The risks faced depend very much on the size, nature and complexity of the activities undertaken and on the finances of the organisation itself. The risk management process will therefore always need to be tailored to fit the circumstances of each organisation, including any subsidiaries, trading companies and associated trusts.

Operations risks must be considered - service quality and development, contract pricing, employment issues, health and safety issues, public liability and fraud.

Governance risks include inappropriate organisational structure, recruiting executive and management members with relevant skills and potential conflicts of interest.

Financial risks include the accuracy and timeliness of financial information, adequacy of reserves and cash flow, diversity of income sources and investment management.

External risks include public perception and adverse publicity, protection of the organisation's brand, demographic changes, government policy and use of suppliers and volunteers. Compliance with law and regulations must be considered.

Risk tolerance may also be a factor. A relief charity operating in a war zone may, for example, need to tolerate a higher level of risk to staff than might be acceptable in its NZ-based activities. Similarly commercial organisations may face increased risks through geographic localities where they trade.

The responsibility for the management and control of a any organisation rests with the governing body and as such their involvement in the key aspects of the risk management process is essential. The governing body needs to set the boundaries to ensure a clear understanding of the acceptable and unacceptable risks.

International Financial Reporting Standards

On the 19 December 2002 the Accounting Standards Review Board (ASRB) announced that International Financial Reporting Standards (IFRS's) will apply to financial reporting by New Zealand entities from 1 January 2007. However entities have the option to adopt these from 1 January 2005.

Due to Australia deciding to adopt IFRS it left New Zealand with no other option than to follow. The Australian and New Zealand economies are closely aligned with many international investors seeing them as a single unit. Should New Zealand have held back the decision to adopt IFRS there would have been a risk to the credibility of our financial reporting.

New Zealand has been working towards adopting international standards and the Australian decision has encouraged a faster uptake of this process.

Two major issues highlighted by the ASRB for adoption of IFRS's were:

(i.) incorporation in standards of any reporting requirements specific to public sector entities (and all not for profit private sector entities); and

(ii.) determination of a basis for full or partial exemption from application of IFRS's to avoid imposing reporting requirements for which the benefit would be less than the cost of compliance.

The Financial Reporting Standards Board (FRSB) has established a review group to research these issues. Following resolution of the benefit/cost issue for financial reporting, the ASRB and FRSB will announce the programme for implementation of IFRS's.

The process for compliance with IFRS's needs to commence two years before the first financial statements are released. This is to ensure that the comparative information is compliant. To assist companies with the compliance process, and to assist in understanding the effect of IFRS's on their financial statements and debt covenant ratios, Grant Thornton can assess the current financial statements compliance with IFRS's and highlight changes required.

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