

# Audit News

Autumn 2013

Serious about Success

Haere mai, welcome to the first national Moore Stephens Audit newsletter. The purpose of our newsletters is to provide you with information of use to your organisation, and to share news and views of life in the audit world. In this first newsletter we headline something that affects both not for profits and for profit entities – the new accounting standards framework.

## New accounting standards framework update

For those preparing general purpose financial statements (GPFS), you need to be aware of the accounting standards framework in place for the financial year beginning on or after 1 December 2012.

This new framework introduces a multi-sector and multi-tier approach, requiring entities to determine whether they are public benefit entities (PBE) or for profit entities.

In addition to the new framework, there is a Financial Reporting Bill (Bill) currently before Parliament. This will bring further changes to the framework, which is expected to be finalised later this year.

The framework is being implemented in three stages mainly involving the following:

1. Changes to the accounting standards for profit entities: effective for periods beginning on or after 1 December 2012
2. Changes to the accounting standards for public sector PBEs: expected to be effective for periods beginning on or after 1 July 2014
3. Changes to the accounting standards for private not for profit PBEs: expected to be effective for periods beginning on or after 1 April 2015.



### Public benefit entity

An important question any entity needs to answer is whether or not it is a PBE. If it is, it will need to use the PBE standards.

The standard XRB A1 (Accounting standards framework (for-profit entities update)) defines PBEs as “reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders”.

### New framework

The new framework introduces New Zealand International Financial Reporting Standards (NZIFRS) PBE standards for PBEs and NZIFRS RDR (reduced disclosure regime) for profit entities. Small and medium sized entities will still be able to use old GAAP (FRSs, SSAP, NZIFRS differential reporting) until the new Bill is enacted.

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## Directors' duties and conduct

At the start of the financial year, it's a good time to look at directors' duties, and whether your conduct as director of a company is in line with the Companies Act.

As a director you must:

- Act in good faith and in the best interests of the company
- Exercise powers for a proper purpose
- Comply with the Companies Act and the constitution of the company
- Exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances taking into account, but not limited to:
  - a) The nature of the company, and
  - b) The nature of the decision, and
  - c) The position of the director and the nature of the responsibilities undertaken by him or her.



And you must not:

- Trade recklessly, in other words:
  - a) Agree to the business of the company being carried on in a manner likely to create a substantial risk of serious loss to the company's creditors, or
  - b) Cause or allow the business of the company to be carried on in a manner likely to create a substantial risk of serious loss to the company's creditors, or
  - c) Agree to the company incurring an obligation unless you believe at that time on reasonable grounds, that the company will be able to perform the obligation when it is required to do so.

## Transfer pricing under scrutiny

Transfer pricing refers to the practice of shifting profits to the country that imposes the lowest tax cost. Among the methods used to achieve this is the use of Management Fees.

Transfer pricing rules have been in place in New Zealand since 1995. Thin Capitalisation Rules are part of the same process, that is, to ensure all profits are not remitted by way of interest charges.

The Inland Revenue Department (IRD) has stated that it will be pursuing an active and thorough policy in reviewing charges from overseas parent companies to New Zealand subsidiaries. The IRD realises that New Zealand is particularly vulnerable (as indeed is Australia to a lesser extent) as much of its commercial activity is overseas owned.

If your entity deals with an offshore related party, management needs to be particularly careful to ensure that all charges made upon the New Zealand subsidiary are supported by appropriate calculations.

In the case of Management Fees, the IRD has generally accepted these charges as bona fide if they apportion genuine Head Office overhead on a branch / subsidiary turnover basis. Alternatively, actual identifiable costs are acceptable. The important factor however is to be able to show that the charge has been fully considered, that it is fair and that appropriate documentation exists to justify the charge. If this does exist, the onus is on the IRD to prove the rationale is not valid.

The absence of this evidence at first inquiry by the IRD is taken by them as prima facie evidence that the charge is not genuine and the onus will then be on the taxpayer to prove it is. Calculations after the fact will clearly be seen to have been subjectively formulated to support a previously randomly taken position.

## Moore Stephens

Being an independent member firm of Moore Stephens allows us to call upon the resources of our nationwide and global contacts to deliver effective and efficient audit and assurance services.

In New Zealand, you will find a Moore Stephens audit firm in Auckland, Wairarapa, Hawke's Bay, Wellington and Christchurch.

Each team has extensive experience and knowledge to provide our clients with the audit and assurance services they require.

For more information on us and our services, please head to our website

[www.markhams.co.nz/audit](http://www.markhams.co.nz/audit)

## In brief

### Taxation (Annual Rates, Returns Filing and Remedial Matters) Act

A couple of interesting items from this Act, recently passed in Parliament:

- 1 April 2013 marks the increase of minimum employer and employee KiwiSaver contributions to 3 percent
- Businesses who have filed returns electronically will now be able to store electronic copies, thereby removing the need to store paper copies of the returns. This rule applies from the date of Royal assent, being 2 November 2012.

### Anti-Money Laundering and Countering Financing of Terrorism

The Anti-Money Laundering and Countering Financing of Terrorism Act (AML/CFT Act) 2009 comes fully into effect on 30 June 2013. It places obligations on New Zealand's financial institutions and casinos to detect and deter money laundering and terrorism financing. The Act will also require businesses to take appropriate measures to guard against money laundering and terrorism financing.

### Spot prizes

The Department of Internal Affairs recently clarified the position for those who give spot prizes at events. You do not require a licence from the Department of Internal Affairs if total prizes remain below \$5000. If prizes exceed this limit then you are required to have a licence.

### New Code of Conduct for Real Estate Agents

The Professional Conduct and Client Care Practice Rules (Code of Conduct) that set the minimum standards for New Zealand's real estate agents has been updated by the Real Estate Agents Authority. The new Code of Conduct came into effect on 8 April 2013.

### Depreciation facts

- Taxpayers were entitled to add an additional loading to the specified rate for assets acquired prior to 21 May 2010. This loading has now been removed for assets acquired from that date. If the asset was depreciated at a rate with loading before 21 May 2010, it can continue to be depreciated at that rate for that asset's lifetime
- From the 2011–12 income year, depreciation cannot be claimed for tax purposes on buildings with an estimated useful life of 50 years or more (i.e. the rate is set at nil). This applies to both commercial and residential properties, including leasehold property
- Although depreciation on buildings can no longer be claimed for taxation purposes, financial reporting standards still require depreciation to be provided for, unless the building is recorded as an investment property. We will be reviewing this matter on each audit.

### Annual General Meetings

Just a quick reminder of the importance of recording minutes of financial discussions at AGMs. It is best practice to:

- Record the appointment of auditor / reviewer of financial statements
- Record acceptance of the previous year's financial statements
- Record appointment of members of the governing body for the next year.



## Team news

### Auckland

We are pleased to announce two additions to our team. Rukshan Mather joins us from the University of Auckland as a graduate. John Reale is with us for four months on secondment from Moore Stephens Melbourne. Joyce Zhou will return from secondment with Moore Stephens Singapore in early May.

### Wairarapa

Rob Blackett has joined our team and Russell Stewart has recently retired. Rob, together with Mike Flower will be responsible for the delivery of our audit services.

### Wellington

We are pleased to announce that Miecio (Mitch) Czudaj has recently been granted a full licence to undertake audits of issuers. Both Partners in the Moore Stephens Wellington Audit practice are now licenced auditors and the practice is a registered audit firm under the Auditor Regulation Act 2011.

Bruce Mcniven, Christy Chui and Mala Keshav have been promoted to Senior Auditor roles. Congratulations to them all!

### Christchurch

We are pleased to announce that Richard Ineson is a licensed auditor and Moore Stephens Markhams Christchurch is a registered audit firm under the Auditor Regulation Act 2011. This means the practice can undertake issuer audits. Congratulations Richard!

Welcome to Christi Naude who has joined the audit team from Moore Stephens South Africa.

From late June, the Christchurch team will be moving from the current temporary premises in Marshland Road to a new, purpose-built office at 335 Lincoln Road. We look forward to showing you around the brand new office soon.

## Audit reports and opinions explained

The audit report is the final product of an audit. It provides readers with confidence over the quality of the financial statements they're reading. By engaging an independent auditor, it shows that the governing body has good governance policies in place. The audit as a whole, and the audit report itself are governed by International Standards on Auditing (NZ), as issued by the External Reporting Board.

A general purpose audit report refers to the financial statements audited, the responsibilities of the governing body, and the responsibilities of the auditor. Some audit reports may contain other matter paragraphs or emphasis of matter paragraphs where the auditor wishes to highlight important matters to the reader, such as going concern, without qualifying their audit opinion.

The bottom half of the audit report contains the most important section - the auditor's opinion.

An auditor of general purpose financial statements has four different types of audit opinions available:

1. **Unmodified opinion (or unqualified):** The auditor issues a clean report, to the effect that the financial statements present a true and fair view. If an audit report is unmodified, the section is simply titled Opinion
2. **Qualified opinion:** The auditor finds there are material, but not pervasive (ie widespread), misstatements in the financial statements. Or, the auditor cannot obtain sufficient and appropriate audit evidence on which to base the opinion, but concludes that the possible effects of undetected misstatements, if any, could be material but not pervasive
3. **Adverse opinion:** The auditor believes the financial statements are misleading, in other words that the misstatements are both material and pervasive to the financial statements
4. **Disclaimer of opinion:** The auditor issues this type of report when they are unable to obtain sufficient and appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. In other words, no opinion is given.

In the event of opinions two to four above, being a possibility for your organisation's audit, you can be assured that the audit team will raise this matter for discussion on a timely basis.

*“Whatever the size or requirements of your organisation, Moore Stephens Markhams will deliver robust and compliant audit and assurance services with integrity and credibility.”*

Should you have any questions about any of the articles in this newsletter, please contact your local audit team.

### **Moore Stephens Markhams Auckland Audit**

Level 10, 203 Queen Street  
PO Box 2194, Auckland 1140, New Zealand  
T +64 (0)9 309 6011  
[www.markhams.co.nz](http://www.markhams.co.nz)

### **Moore Stephens Markhams Christchurch Audit**

335 Lincoln Road, Addington  
PO Box 13 104, Christchurch 8141, New Zealand  
T +64 (0)3 379 6710  
[www.markhams.co.nz](http://www.markhams.co.nz)

### **Moore Stephens Hawkes Bay Audit**

405 King Street North  
PO Box 40, Hastings 4156, New Zealand  
T +64 (0)6 878 2549  
[www.hbaudit.co.nz](http://www.hbaudit.co.nz)

### **Moore Stephens Markhams Wairarapa Audit**

40 Perry Street  
PO Box 190, Masterton 5840, New Zealand  
T +64 (0)6 377 4139  
[www.markhams.co.nz](http://www.markhams.co.nz)

### **Moore Stephens Wellington Audit**

Level 11, 34-42 Manners Street  
PO Box 24324, Wellington 6142, New Zealand  
T +64 (0)4 910 1093  
[www.mmda.co.nz](http://www.mmda.co.nz)