

Financial reporting for Incorporated Societies that are not Registered Charities

Currently most incorporated societies (which are not registered charities or FMC reporting entities) will be preparing financial statements under Financial Reporting Standards (FRS) with or without the differential reporting exemptions. With FRS's effectively being withdrawn for balance dates commencing 1 April 2015, incorporated societies now need to consider which financial reporting path they should take.

Incorporated societies should first look to their constitution to see whether it specifies how their financial statements should be prepared. For example if the constitution states that financial statements should be:

- prepared under Generally Accepted Accounting Practice (GAAP); or
- prepared in accordance with Public Benefit Entity (PBE) Standards; or
- prepared as General Purpose Financial Reports (GPFR).

Then the incorporated society will need to adopt the new PBE standards applicable to their relevant tier. Refer to page 2 of the Summer 2014 edition of Audit News for the tier criteria.

If the constitution is silent on the matter, then there are two options:

1. Prepare and file financial statements that comply with section 23 of the Incorporated Societies Act 1908, being a statement showing:
 - a. the income and expenditure of the society during the society's last financial year
 - b. the assets and liabilities of the society at the close of the said year
 - c. all mortgages, charges, and securities of any description affecting



any of the property of the society at the close of the said year.

The Act also states that the statement shall be accompanied by a certificate signed by some officer of the society to the effect that the statement has been submitted to and approved by the members of the society at a general meeting.

2. Prepare and file financial statements that comply with the new PBE standards as applicable to their relevant tier.

As there is no clear direction as to what Option 1 should encompass, we favour Option 2. Further, it appears that the new Incorporated Societies Act, currently being drafted, will most likely require all

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incorporated societies to prepare financial statements under new PBE standards.

The recent Law Commission report "A new act for incorporated societies" stated that "The default position for incorporated societies should ... be that financial reports are required. The standard of reporting (GPFs or cash accounting-based) will depend on the annual payment levels of the society... We have therefore recommended that incorporated societies continue to prepare financial reports. Reports ought to be prepared to the appropriate standards, meaning societies with payments over \$125,000 will need to produce GPFs and others can take advantage of the cash accounting-based standard developed for not-for-profit entities by the XRB."

Given the above, it makes sense that incorporated societies adopt the new standards now. The Government has agreed to the Law Commission's recommendation to replace the Incorporated Societies Act 1908 with a new Incorporated Societies Act. A draft Bill is expected to be released for public comment in 2015.

Moore Stephens

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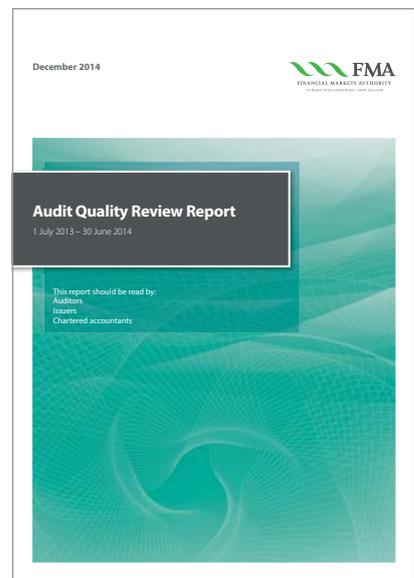
FMA issues 2013-2014 Audit Quality Review Report

The Financial Markets Authority (FMA) has recently released its Audit Quality Review Report for the year ended 30 June 2014. They have recommended that all issuers and chartered accountants read this report.

One of the key findings was the insufficient disclosure and reporting of issues on going concern. The FMA said that "The disclosure of going concern in the financial statements, and the audit work required to obtain sufficient audit evidence regarding the assumptions made by directors or management of the issuer can be challenging."

However, it is important that those charged with governance provide appropriate evidence regarding the going concern assumption. This includes providing a forecast / budget for 12 months after the date of the audit report. The FMA has recommended that Directors and audit committees:

- Familiarise themselves with the requirements of ISA(NZ) 570 [available from http://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Auditing_Standards/default.aspx] in relation to the going concern assumption in the financial statements, as this standard places additional requirements on going concern disclosures in the financial statements.
- Ensure that appropriate evidence is provided to the auditor regarding management's assumptions on the going concern assumption in the financial statements.



A copy of the report is available from <http://www.fma.govt.nz/keep-updated/reports-and-papers/audit-quality-review-report-2014>



Team News

The national Moore Stephens Markhams Conference was held at the end of February. This conference takes place over three days and was held in Auckland this year. It gives all Moore Stephens Markhams offices in New Zealand the chance to network and get the latest training and professional development opportunities in order for us to provide the best service to our clients.

Auckland

The Auckland team is back into things after the summer break. Rukshan Mather passed his PCE2 / PAS course and will shortly become a full member of the Institute. The transition to Caseware is continuing well and we are pleased to have been appointed auditor of one of the first Partnership Schools.



Wellington

We have been quite busy after the summer break. In February we said farewell to Sarah Gane who moved to an accounting position in an accountancy practice in Upper Hutt. We wish Sarah all the best for her future career.

Christchurch

All Christchurch team members have returned from a lovely summer holiday break.

Christi Naude spent most of her holidays in Africa, travelling with her husband to Botswana and South Africa. The rest of the team stayed closer to home.

Richard Ineson spent much of the summer break establishing the garden around his new house. Pauline Loach-Ponga and family spent a week camping with friends (staying in a tent on a powered site sounds more like 'glamping'). Jennifer Rapanut and her husband have started building a new house. Foundations down, completion date yet to be confirmed.

Jennifer Rapanut and Christi Naude have enrolled in a CPIT course Taxation in New Zealand, which they will complete by July this year. This is a comprehensive course which will increase the depth of taxation knowledge within the audit team.

Prioritise your priorities in 2015

In the age of information we're constantly being distracted and stimulated by people, advertising and messages. It's time to limit procrastination and filter the white noise. Here are a couple of useful tips to get you started on the right foot this year.

Multitasking is a myth

Humans are like computers: when we open two programs, things run slower. Next time you jump tasks or decide to work on another project 'simultaneously', ask yourself if it's because it will produce effective results or because you're bored or you've finished the easy part? We all need diversity but flicking between many tasks is messy and unproductive.

Boycott your email

Take your automatic email pop up off so you're not distracted every time you receive an email. Realistically if the emailer doesn't follow up with a call immediately then it can wait a couple of hours.

Hold an unsubscribe-athon

Are your 'rubbish' emails reaching system critical? If each morning you're sifting through the online store newsletters to find your emails then it's time for an 'unsubscribe-athon'! Click that unsubscribe button at the end of the newsletter and follow the prompts to complete the process.

Seek support in your quest to be efficient

Email communications should be short, to the point and easy to digest. Emails should be used only when a conversation is not possible or necessary.

Implement LOCKDOWN

Lockdown is a regular period of self imposed isolation. Block out two hours in your calendar, shut the door and put that phone on DND (do not disturb!). Make sure your colleagues are aware that they shouldn't interrupt you unless it is really urgent.

You'll plough through work quickly with a higher standard. And when time is up or the job done, reply to your emails, return necessary calls and revel in your achievement. Lockdown works best with regular intervals!

All the best for a positive and productive 2015!

Interesting articles online

There are many interesting articles online to assist in keeping you up to date. Below we have listed a few that you might find useful. You'll find the links are on our website <http://www.markhams.co.nz/audit/newsletters>

Directors Guide: FMA

Includes the essentials of being an effective director, best practice and legal requirements.

<http://www.fma.govt.nz/help-me-invest/getting-the-right-information/brochures/>

Smart Business Guide: IRD

A guide to tax obligations, record keeping and how to treat income and expenses for businesses and not for profit organisations.

<http://www.ird.govt.nz/forms-guides/number/forms-300-399/ir320-guide-smart-business.html>

Running an Incorporated Society / Charitable trust: Companies office

A guide to what you must do when running an incorporated society or charitable trust.

<http://www.societies.govt.nz/cms/incorporated-societies/running-a-society>

<http://www.societies.govt.nz/cms/charitable-trusts/running-a-trust>

Community Resource Kit: CommunityNet Aotearoa

A guide to setting up and running community groups in New Zealand. Includes topics such as governance, financial management and raising funds.

<http://www.community.net.nz/resources/community-resource-kit/contents-of-the-community-resource-kit/>

Tax information for charities registered under the Charities Act 2005 (IR256): IRD

Summarises the exemptions and benefits available to registered charities and informs you on how to comply with the tax exemption requirements.

<http://www.ird.govt.nz/forms-guides/number/forms-200-299/ir256-guide-registered-charities.html>

Charitable and donee organisations (IR255): IRD

Explains taxes for charitable and donee organisations - the different types of taxes, the tax exemptions available and tax obligations of these organisations.

<http://www.ird.govt.nz/forms-guides/number/forms-200-299/ir255-guide-charitable-organisations.html>

Ways to protect your name, brand and business ideas: Intellectual Property Office

Shows the different types of intellectual property protections for your organisation, including copyright, trademarks, and patents.

<http://www.iponz.govt.nz/cms/pdf-library/iponz/types-of-ip-protection.pdf>

Creating a successful business booklet: Moore Stephens Markhams

Provides information on buying and running a business as well as the different structures (companies, trusts etc) that you can use.

<http://www.markhams.co.nz/resources>

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

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

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

Moore Stephens Wairarapa Audit

40 Perry Street
PO Box 190, Masterton 5840, New Zealand
T +64 (0)6 929 7734

www.markhams.co.nz/audit

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