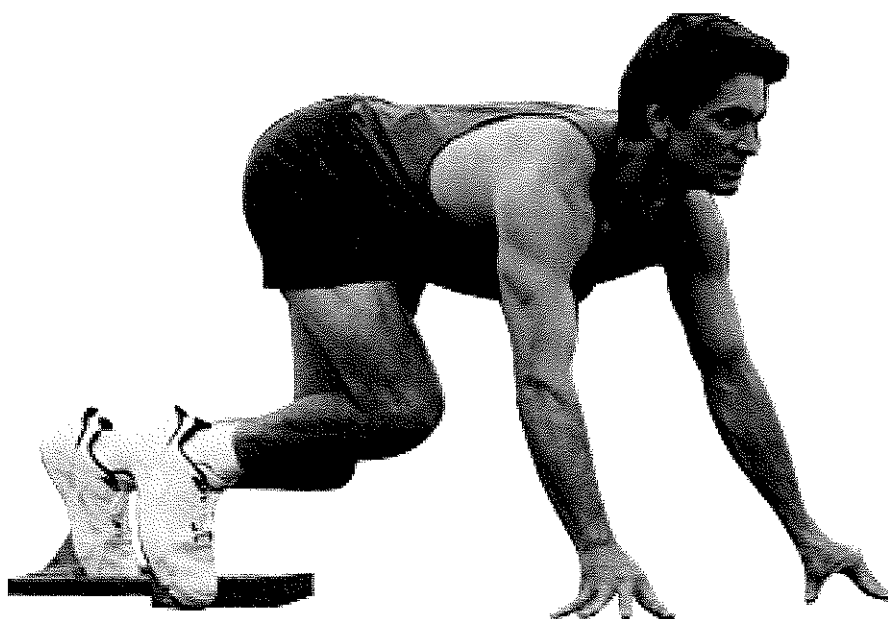


University Sport New Zealand
Business Issues Report
Financial Year Ended 31 December 2004

Grant Thornton 



6 July 2005

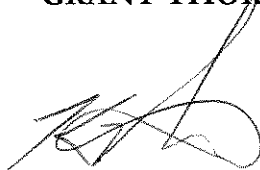
Jim Ellis
Executive Director
University Sport New Zealand Inc
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WELLINGTON

BUSINESS ISSUES REPORT – 31 DECEMBER 2004

It is with pleasure that we enclose final copy of Business Issue Report for the completion of the current years audit.

Kind regards.

GRANT THORNTON



Kerry Price
PARTNER

Contents

Introduction	3
Overall Assessment	4
Matters of Interest	5
- Your Strengths	6
- Issues and weaknesses	7
- Suggestions for Future Growth and Strength	10
Conclusion	12
Appendix	13

Introduction

We have completed the audit of the records and financial statements of University Sport New Zealand (USNZ) for the year ended 31 December 2004. A qualified Auditors' Report was issued on 30 May 2005. The qualification was due to control over income from sponsorship and grants prior to being recorded being limited and there are no practical audit procedures to determine the effect of this limited control.

Grant Thornton performed the year-end audit for the purpose of testing the truth and fairness of the financial statements of the organisation. The Audit included testing of the accounting systems and controls put in place to ensure the accurate reporting of USNZ's everyday transactions.

Our Audit procedures are designed primarily for the purpose of expressing our opinion on your financial statements. Consequently, our work cannot be relied upon to necessarily disclose fraud or other irregularities or to include all possible improvements to your internal controls which a more extensive controls review might identify.

The following report aims to provide an overview of the health of the financial records of USNZ and highlights matters of interest identified during the course of the audit. We focus on recognising your organisation strengths, highlighting issues and potential weaknesses and providing suggestions for future growth and strength.

Overall Assessment

Overview of Financial Assessment

The following table depicts the progress made by USNZ in improving the overall health of the financial records. A comparison of the ticks for the two years shows the ongoing progress achieved by USNZ in each of the Assessment areas.

	Excellent	Good	Satisfactory	Needs Attention	Inadequate
Assessment Area					
Strategic Management		✓			
Control Environment		✓			
Systems and Procedures		✓			
Accounting Records		✓			
Financial Statement Disclosures		✓			

See appendix for detailed explanation of the various assessment areas.

✓ = Current year (✓) = Last year

Key

Excellent	A model for best practice.
Good	On the whole operations are efficient. Some risk improvement is possible
Satisfactory	The procedures and controls in place address key concerns, however there would be possible cost benefits in improvements.
Needs Attention	Business Risks are not being adequately managed and systems and procedures appear to be weak. There are major areas for improvement
Inadequate	Risks are not being adequately managed and systems and procedures are not being complied with.

Matters of Interest

The matters of interest identified during the course of the year end audit have a three-fold focus by:

- Recognising your organisations strengths. Including acknowledgement of improvements from previous year.
- Highlighting issues and potential weaknesses that have come to our attention.
- Suggestions for future growth and strength.

Your Strengths

Overview of Financial Assessment

We are pleased to report on the progress made by USNZ towards achieving an “excellent” rating in each of the areas of assessment noted above. USNZ has achieved a “good” rating in all areas of assessment of its overall financial health. We encourage USNZ to maintain the good standard of financial reporting that was evident in 2004 and to consider the recommendations of this report as opportunities to enhance the efficiency of USNZ further.

We would like to congratulate USNZ on the tidiness of the accounting records prepared for the year end audit. The state of the filing system appears to have been tidied up compared to last year.

Management Comment:

USNZ has taken steps in the last 12 months to improve its financial accounting. In addition to the ongoing engagement of Curtis McLean to undertake much of the accounting work USNZ has:

1. Ensured that monthly statements with comment are sent to all members.
2. Moved to electronic processing of many of the accounts in recognition of the fact that account signatories are not always based in Wellington and to improve efficiency in the processing of accounts.
3. Set and met financial deadlines agreed to by the Executive & Finance Committee.
4. Significantly reduced the number of outstanding debtors through implementing systematic follow up procedures.
5. Improved interest income through better cash flow management and the investment of reserves and unneeded funds in various term deposits.
6. Implementation of a finance committee to give an organisation focus to financial matters.

Issues and Weaknesses

Desk-banking Computerised Payments

USNZ is operating a desk-bank computerised payments system for its expenditure. This software comes with controls that require two authorised passwords from the appropriate people to transact the payment. We have tested the controls and procedures surrounding the system and can confirm that except for the following observations the system is operating correctly and appropriately.

There is no procedure in place to check the setting up of new bank details of new suppliers to be paid or being changed at a later date.

This is a significant risk as supplier bank accounts could be altered and payments are made to unauthorised suppliers or individuals.

Some systems have exception reports that show all changes made. More appropriately such changes should be restricted requiring authorised signatories to log in to effect that change.

Management Comment:

USNZ's internet banking service (ASB's Fastnet Office) does not have a system for online authorisation of new (or amended) bank account details by both signatories. However USNZ's Finance Committee will consider the best practicable system for verifying bank account details for debtors which will ideally require both signatories to sign off on the setting up of new payee details once adequate information outlining bank account details have been provided by suppliers.

Authorisation of Invoices

Current operating policies and procedures are in place to ensure adequate internal controls for reviewing and authorising payments.

However from our review of invoices paid during the year, we noted a number of requisitions were not signed or initialled, the invoice/statement had not been appropriately authorised. We understand this procedure is occurring and have observed this process however it is not always evidenced within the documentation.

We recommend that all invoices, credit cards and requisitions are appropriately authorised and signed by the relevant persons to evidence that firstly, the payment is appropriate and secondly, has been made.

Management Comment:

USNZ will ensure that all cheque requisitions are signed by signatories and will stamp all invoices with a paid stamp once payment has occurred to ensure there is no confusion.

Trust Accounts Held

Trust funds are held by various Sports Councils. We suggest a separate bank account be opened to maintain these funds as they are effectively held in trust for the individual clubs. A separate account would ensure their funds do not get used to meet the operational costs of USNZ.

We suggest that the chairman/treasurer of each Sports Council receive a reconciliation of their funds on a regular basis, for example quarterly. This would ensure any errors or mistakes will go undetected.

Management Comment:

USNZ will set up a separate bank account for sports council funds. This will be reported against as a supplement to the budget and all sports councils will receive a twice yearly reconciliation.

Bank Reconciliations

From review of the year end bank reconciliation, we noted that there were two instances of reconciling items which although immaterial needed to be followed up.

We recommend that bank reconciliations be reviewed by someone other than the preparer. In order to ensure the accuracy and completeness of month end bank reconciliations, we recommend they be reviewed by the Executive Director.

Management Comment:

USNZ's Executive Director will review monthly bank reconciliations as per the recommendation.

Property Insurance

USNZ have an insurance policy with New Zealand Insurance Ltd (through Crombie Lockwood Insurance Brokers) covering all accidental physical loss or damage to property, and including theft and earthquake cover.

The sum insured equals \$49,000. This insurance cover appears light when compared to the fixed assets schedule which records the original cost of fixed assets for USNZ at \$85,721 (Book Value \$5,053).

We recommended that when the insurance policy comes up for renewal in August 2005 that the Executive reassess the level of cover required on fixed assets to satisfy themselves they are not under insured for replacement.

Management Comment:

USNZ is in the process of reviewing its insurance needs and will include this recommendation in our deliberations.

Suggestions for Future Growth and Strength

Development of a Policies and Procedures Manual

We acknowledge that the Executive Committee has entrusted the day-to-day running of USNZ to the Executive Director and office staff. They are currently in the process of documenting procedures and policies for USNZ operations of the financial systems and associated functions.

The advantage of a full Policy & Procedures manual is that the operation of the financial system and associated functions is examined in detail, and a comprehensive and cohesive system is put in place – and documented for future reference of staff.

Documented procedures that are not in place or regularly maintained can lead to three potential weaknesses:

- a) a number of procedures that could be in place and serving to protect and enhance your organisation will not be there
- b) tasks may not be happening in accordance with standard accounting practice as they have not been designed in conjunction with other policies and procedures
- c) tasks that you have defined may well be implemented differently to your expectations.

We strongly support that USNZ continue to develop a Policies & Procedures Manual for the upcoming financial year.

Management Comment:

The USNZ Finance Committee has committed to developing a Policies and Procedure Manual and a draft has been prepared. A final manual should be signed off within the next 3-4 months.

Grants, Donations and Sponsorship File

An organisation of your nature often receives a large amount of funding in the form of grants, donations and sponsorship. This form of funding usually has requirements attached that are agreed to by USNZ when funds are received.

We suggest that all correspondence, agreements or contracts in connection to charitable funding received be maintained in a separate folder. This folder should also include documentation of the funding requirements being met (i.e. copies of expenditure invoices paid for by funding).

This will assist our audit testing and work as an internal check that all funding requirements have been met.

Management Comment

USNZ will develop a separate file for gaming grant applications and subsequent paperwork. USNZ has made significant efforts over the last 12 months to rectify past procedural errors and omissions with regard to the audit process for gaming grants and this has led to significant improvement in the relationship with relevant Trusts.

Conclusion

The audit of your organisation was planned and undertaken with a view to delivering our two key audit products:

- The Auditor's Report and
- The Business Issues Report

To ensure that this Business Issues Report adds value to your organisation we have:

- Provided an overall assessment of the health of the financial records.
- Identified matters of interest including your strengths, issues and weaknesses and suggestions for future growth and strength.
- Brought to your attention any important accounting, audit and tax issues identified while conducting our standard audit procedures.
- Provided the opportunity to include your comments in the report.

If you have any concerns or queries in regards to the matters of interest that have arisen as a result of the audit we would be happy to discuss these further with you.

We would like to acknowledge the courtesies and assistance afforded us by the staff at University Sport New Zealand during the audit.

Appendix

Strategic Management

Is strengthened by effective communication within the organisation and from the governing body. Accordingly, aspects of the strategy require formalising the organisations:

- Mission Statement
- Code of Conduct
- Financial and Non Financial Standards
- Budgets
- Monitoring

Control Environment

Sets the tone for the organisation and steers the entity towards its stated goals and objectives.

This is accomplished by:

- Translating the strategy into operational terms.
- Keeping records that demonstrate compliance with the system of internal controls.
- Organisational motivation towards the achievement of internal control goals.
- Setting standards that the progress of the organisation can be compared to.

Systems and Procedures

Directs the organisations day- to- day activities ensuring its objectives are achieved. To achieve “best business practice” we suggest management undertake three implementation steps:

- Identify the risks affecting the business.
- Establish a policy to mitigate and monitor these risks.
- Develop manual procedures to monitor the policy including documentation of compliance.

Accounting Records

Should facilitate decision-making by being structured in a way that provides the information to monitor and manage. The quality of the information is often dependent on:

- Monthly management reports
- Trial Balances
- Reconciliation's
- Audit Trail

Financial Statement Disclosure

As members of the Institute of Chartered Accountants of New Zealand we have a duty to encourage the preparers of financial reports to comply with generally accepted accounting practice and any material departures from this would be referred to in the audit report.

We consider the provision of fair and informative financial reporting is strengthened by financial statement disclosures that exceed minimum requirements.