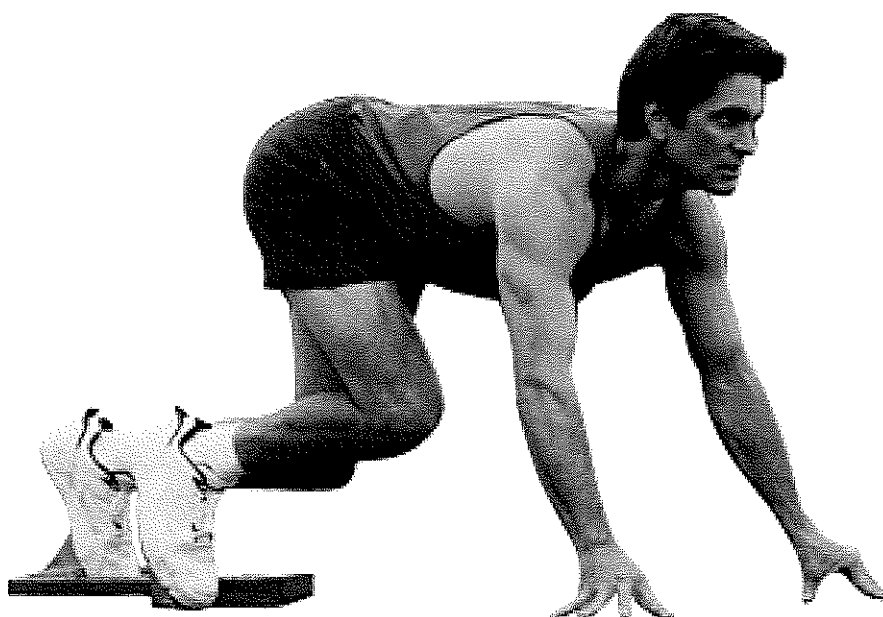


University Sport New Zealand  
Business Issues Report  
Financial Year Ended 31 December 2005

Grant Thornton 



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Chartered Accountants  
& Business Advisers

26 May 2006

Jim Ellis  
University Sport New Zealand  
Level 3  
73-87 Boulcott Street  
WELLINGTON

Dear Jim

**University Sport New Zealand**

We have completed the audit of the records and financial statements of University Sport New Zealand (USNZ) for the year ended 31 December 2005. An unqualified Auditors' Report will be issued in May 2006.

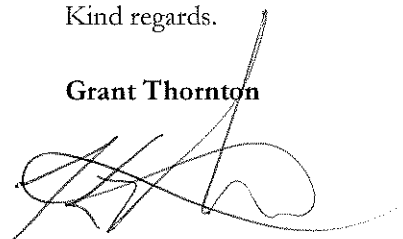
Grant Thornton performed the year-end audit for the purpose of determining whether the financial statements of USNZ fairly reflects the financial position for the year ended 31 December 2005 and the results of operations and cash flows for the year ended on that date. The Audit included testing of the 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.

Kind regards.

**Grant Thornton**



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**Partner**

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# 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 two-fold focus by:

- Recognising your organisations strengths.
- Highlighting other matters the board should be aware of which will effect the organisation in the near future.

## Your Strengths

### Strategic Management

We would like to congratulate the Executive Director and the Board for the positive stance taken in regards to the strategic management of the organisation.

As part of our preliminary work we viewed the website of USNZ, and were impressed by the content. A very polished and informative site.

Not only were the rules and therefore the objectives of the organisation readily accessible, but also minutes of all board and finance committee meetings, and monthly management reports containing actual versus budget information.

This degree of reporting and communication should strengthen the organisation, meeting the needs of stakeholders and ultimately increase student participation and involvement.

### Management Comment:

Thank you for your comments. USNZ has worked hard and invested significant resource to ensure that communication, especially with its members, is of a high quality. Much of this relates to the website but as an organisation we are keen to ensure that our financial activity is widely understood and is completely transparent.

### Financial Statement Disclosures

We commend the organisation for the level of informed reporting in your financial statements.

We assessed your financial statement disclosures as 'good'. An excellent rating would be provided if your reporting included some non-financial reporting for stakeholders. This form of reporting is typically contained in a 'Statement of Service Performance'. Such a statement outlines key non-financial measures that stakeholders would be interested in and seeks to report actual performance against them.

Reporting against budget figures in the financial statements and providing a statement of cash flows is very useful for stakeholders to enable them to assess the organisations performance.

### Management Comment

USNZ already undertakes a significant degree of non-financial reporting. All Minutes of General Meetings, Executive and sub-committee meetings are widely circulated and posted on the website.

All Executive members, including the Executive Director and President, make individual written reports to our bi-annual General Meetings where all members are in attendance. The General Meetings also receive updated versions of our annual Operating Targets.

The AGM in July and November General Meeting also receive end of year budget projections based on the most recent monthly statements.

We believe that our non-financial reporting is good and as an organisation we do not plan to undertake any amendments to this reporting in the near future.

## Other Matters of Note

### Unqualified Opinion

Last year we issued a qualified opinion in respect of controls over sponsorship and grant income prior to receipt. This is a common qualification for Not for Profit organisations such as USNZ. This qualification reflects the fact that often there are no audit procedures that could be undertaken to vouch certain revenue streams completeness prior to the amounts having been receipted. In USNZ's case this year we were able to undertake some additional procedures to substantiate sponsorship and grant income received. We therefore believe the qualification is not justified and have issued an unqualified opinion.

### Management Comment

We are delighted to receive an unqualified opinion regarding sponsorship and grant income. We understand that this is not common in the Not for Profit sector. We believe it reflects the openness of our financial activity as well as a much higher degree of accuracy in the manner in which we deal with external funding agencies.

### Desk Banking Procedures

We discussed with the Executive Director the risks of using desk banking due to some degree of inherent limitations of most of the major bank's desk banking systems.

One limitation is that a user can change bank account details of payees and as no exceptions reporting is printed any changes may be hard to identify.

We understand management has developed some policies and procedures in relation to the setting up of bank accounts.

We recommend that management undertake a security review of the process and implement approvals as required to minimise risks of errors or frauds going undetected.

### Management Comment

USNZ acknowledges the risk highlighted with regard to our internet banking through ASB. We will continue to monitor the issue and will again raise with the bank. As stated we do have a system in place at present that attempts to minimise this risk albeit, at present, it seems difficult to completely eliminate it.

While we will raise it with the bank, it does seem to be an ongoing issue with regard to many if not all internet banking systems. Perhaps it is an issue that the auditing bodies should consider raising directly with the banks?

### Charities Act 2005

The not-for-profit sector is facing major legislative changes that could significantly effect their reporting requirements and effect eligibility for tax – exempt status. These changes come in the form of the Charities Act 2005.

In April 2005 the Charities Act 2005 was passed. The Act established the Charities Commission, which came into being on 1 July 2005. The Commission is to provide:

1. A registration and monitoring system for charitable organisations; and
2. Support and education to the charitable sector on good governance and management.

The Act is relevant to your organisation due to its current tax charitable exemption on Income Tax and Non-Business Income. For the organisation to retain its tax-exempt status it will need to register with the Charities Commission.

It was expected that the Register will open within the first half of 2006, will all initial registrations to be completed by April 2007. It is expected that this registration will be open soon.

### Why Register?

Registration as a charity is voluntary. However the main benefit of registering is the retention of the organisations tax- exempt status and being deemed a “registered charity”.

Amendments to the Income Tax Act 2004 and Estate and Gift Duties Act 1968 means that only charities registered with the Commission will be eligible for tax-exempt status. Tax-exempt status means registered charities don't have to pay income tax, and donors of gifts to registered charities don't have to pay gift duty.

The registration process will not alter the legal status of the organisation. A charity that chooses not to register with the Commission will still be able to call itself a charity and solicit funds from the public.

### Who can Register?

An organisation can register as a charitable entity if:

- It is established and maintained exclusively for charitable purposes;
- It is not for the private profit of any individual or group;
- All the officers of the charitable organisation are qualified to be officers.

### **Registration Requirements**

To register, a charitable organisation will need to:

- Submit a copy of the rules;
- Provide information about their current and proposed charitable activities;
- Register the officers of the organisation.

Once registered, organisations will need to:

- File an annual return within six months of their nominated balance date;
- Notify the Commission if certain information about the organisation changes.

### **Inland Revenue Department (IRD) Responsibilities**

IRD remains responsible for administering the revenue acts and retains the right to audit charitable entities to ensure they continue to be eligible for tax exempt status. Procedures are being streamlined so that registration with the Commission leads to tax exemption and donee status. This would mean that a charitable entity would not need to apply separately to Inland Revenue for these various exemptions.

The main consideration for the Board is to ensure that the organisation continues to focus its primary activities on the objectives set out in the organisation's constitution/rules.

Over time, all registered charitable entities will be required to file financial reports with the Charities Commission accompanying their annual return. Grant Thornton can assist in this process once the registration process has been finalised.

### **Management Comment**

USNZ is not a registered charity so we would wish clarification on whether the changes brought about by the Charities Act 2005 are relevant to us as an incorporated society without charitable status.

### **Adoption of International Financial Reporting Standards (IFRS) in New Zealand**

The formal introduction of international accounting standards in New Zealand is imminent. The implications for New Zealand reporting entities will be significant, including changes to the reported results and financial position, due to differences between IFRS and current New Zealand generally accepted accounting practice (GAAP).

### **Adoption Dates**

The adoption of IFRS will be mandatory for reporting entities with accounting periods beginning on or after 1 January 2007. We recommend that you plan for the implementation of IFRS and assess the impact it will have on your organisation. As adjustments will need to be made to the opening balance sheet of the comparative year, the adoption process needs to be considered well ahead of adoption

### **Ramifications of international standards**

The likely ramifications for USNZ of adopting IFRS include the following:

- Changes to the format of the financial statements
- Items may be given different classifications under IFRS
- Certain additional assets and liabilities may be recognised
- Some existing assets and liabilities may be derecognised
- Increased levels of disclosure
- Accounting policies may have to be changed, resulting in changes to your accounting systems

### **The implications for your audit**

The transition to IFRS will include the preparation of an opening balance sheet under IFRS, the preparation of comparative figures, and final results prepared using IFRS. All these account balances, adjustments and their disclosure in the financial statements will need to be audited. As

your auditors we will need to review the additional disclosure required under IFRS, including: reconciliations between current New Zealand GAAP and IFRS, accounting policies, opening balances, and closing balances. In the year that IFRS is first adopted more audit work will be required. There will also be implications on the costs of preparation of this information.

#### Management Comment

USNZ notes the proposed changes and will discuss with our accountants, Curtis Mclean, regarding specific implications.

#### Finance Lease

We note that USNZ entered into a lease agreement subsequent to balance date.

In most instances a photocopier lease meets the definition of a finance lease as the lease transfers all the risks and rewards incident to ownership of an asset to the lessee, regardless of whether the title may or may not eventually be transferred.

Therefore the photocopier should be capitalised in the 2006 financial year, ie included in fixed assets, with a corresponding lease liability recognised in the statement of financial performance.

We recommend the Executive Director instruct their accountants to recognise the lease as a finance lease.

#### Management Comment

USNZ's Finance Committee has considered this recommendation and has yet to be convinced of the reasoning suggesting that the photocopier should be capitalised in 2006. Further clarification is sought.

#### Sports Council Liabilities

Last year we recommended that USNZ place the funds held on behalf of sports councils in a separate Bank Account. We understand the board decided not to do this, as they did not wish to sacrifice any interest income. We still believe that a separate bank account or short term deposit account should be created to keep sports council funds fully separate from USNZ's general funds, and so that sports council liabilities are readily accounted for on the face of the financial statements to enhance readers understanding.

#### Management Comment

USNZ has, after the 2004 audit, created a specific rolling monthly term investment for the sports council funds. This identifies them as being separate to our own reserves while allowing interest income to be retained (which would have been lost by creation of a new bank account).

Sports council funds activity is low and the monthly maturing of the term investment allows USNZ to adjust the level of the term investment to match any expenditure or income received during the previous month. This system has worked well for the last year and the comment above suggests that this has not been recognised. USNZ does not propose to amend.

## 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.