

Coromandel Independent Living Trust

Report to Ministry of Social Development
4 September 2008

Coromandel Independent Living Trust

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Executive Summary

1. The Ministry of Social Development (“MSD”) contracts Coromandel Independent Living Trust (“CILT”) to provide services to people with disabilities. This is one component of CILT’s overall operation. CILT currently offers part-time employment to seven people with disabilities under this contract. These seven people are also provided with community participation opportunities. Approximately thirty other disabled people are also provided with community participation opportunities, of whom ten work part-time in the community. The trustee manager and the accountant of CILT have a disability. *Refer to Section 1*
2. The repeal of the Disabled Persons Employment Promotion Act (“DPEP Act”) means that people working in business enterprises enjoy the same employment rights as people in other workplaces from 1 December 2007 onwards, including minimum wages, paid public holidays, annual leave and sick leave. Employers are still able to pay less than the minimum wage if Department of Labour inspectors think it is reasonable and appropriate to do so. In these situations the Department of Labour will issue minimum wage exemptions. *Refer to Section 1*
3. MSD engaged Deloitte to complete an independent review of CILT to determine its financial performance, the impact of the repeal of the DPEP Act and the Trust’s likely ongoing financial viability, its current financial position and the governance, current financial systems and controls in place. *Refer to Section 1*
4. CILT reported a small surplus of \$9,525 in the financial year ending 31 December 2006 and an increased surplus of \$55,045 in the 2007 year. CILT has recorded a healthy surplus for the first six months of the 2008 financial year. The repeal of the DPEP Act has not had an effect on the financial performance of CILT in the six month period following the repeal. *Refer to Section 2*
5. CILT was well prepared for the repeal of the DPEP Act. It ceased paying an attendance allowance and commenced paying a minimum wage at the beginning of 2005. We were advised that paying the minimum wage, rather than applying for an exemption, is more aligned to the philosophies of the Trust. This financial commitment has meant that CILT has had to work harder to secure

grants and donations and to ensure that good systems are in place. *Refer to Section 2*

6. CILT has experienced significant growth over the last two years. In striving to meet the needs of the community, CILT has expanded the breadth of its operations. It has been careful to restrict itself to areas in which funding is available; however this rapid growth has put pressure on management. To date the experienced management appears to have been successful in addressing the financial challenges that have arisen. *Refer to Section 2*
7. CILT is in a reasonable financial position. CILT has a healthy level of working capital and no long-term debt. *Refer to Section 3*
8. The financial reports produced by CILT as management tools were among the most comprehensive and useful of those produced by a business enterprise that we have seen. The reports enable the Trustees to clearly identify the profitability of each of the numerous different areas managed by CILT, as well as the projected cash-flow requirements. There is some room for improvement in CILT's governance and controls. These are detailed in the body of the report. *Refer to Section 4*

1. Introduction

Background

- 1.1 CILT was registered as a charitable trust on 24 February 1995. The Trust was established in 1994 to provide information about disability, following community consultation with the Midland Regional Health Authority.
- 1.2 MSD recognises CILT as a Business Enterprise and contracts CILT to provide services to people with disabilities. CILT holds an integrated contract that is managed by MSD and includes other agencies. CILT has developed as a service provider to the whole community and the service to disabled people is now only one component of CILT's overall operation.
- 1.3 The repeal of the DPEP Act means that people working in business enterprises enjoy the same employment rights as people in other workplaces from 1 December 2007 onwards, including minimum wages, paid public holidays, annual leave and sick leave. Employers are still able to pay less than the minimum wage if Department of Labour inspectors think it is reasonable and appropriate to do so. In these situations the Department of Labour will issue minimum wage exemptions.
- 1.4 CILT's mission statement is *"to enhance the well-being and welfare of all people in the upper Coromandel Peninsula"* and this is achieved by the Trust in a variety of ways. CILT currently offers part-time employment to seven people with disabilities under the business enterprise contract. These seven people are also provided with community participation opportunities. Approximately thirty other disabled people are provided with community participation opportunities, of whom ten work part-time in the community. The trustee manager and accountant of CILT have a disability.
- 1.5 The disabled employees are based at the CILT "Work Co-op", along with other recipients of the community participation services. The Work Co-op runs a day-time activity programme for people with disabilities that includes sewing, painting, personal development, life-skills, computer skills and music lessons. All seven employees are paid for a fixed three hours a week at the minimum wage rate, irrespective of the actual hours worked. Some work may be done on a

voluntary basis. They take on jobs for community members in need, such as lawn-mowing and gardening.

1.6 A further group, called Artists in the Making, runs in Whitianga. We were advised that through the increased confidence gained by some of the disabled people as a result of attending this group, a number of attendees have gone into part-time employment.

1.7 CILT have now expanded to incorporate far more than a service to disabled people. There are ten further divisions, or projects, operated by the Trust. They can be summarised as follows:

- Adult and Community Education (ACE): Provision of a variety of courses funded by the Tertiary Education Commission and provided in conjunction with the Coromandel Area School.
- Community Development Scheme: Funded by the Department of Internal Affairs, the objective is to provide a co-ordination point for the implementation of projects outlined in the local Coromandel Community Plan.
- Community Partnership: Funded by the Department of Internal Affairs to provide digital solutions.
- Community Transport: A volunteer driver programme funded by Waikato DHB and a mobility van to Thames and Hamilton, to assist those in the community who need to travel to medical appointments.
- Computer Recycling: Unwanted computers are recycled and provided to others in the community with limited resources.
- Coromandel On Track – Huarahi Ora: Restoration and development of a system of walkways throughout the upper Coromandel Peninsula.
- Coromandel Resource Centre: Information and advice is provided, along with free broadband.
- Kiwi Can: The delivery of the Kiwi Can values programme, developed by the Kiwi Can Charitable Trust, to children at Coromandel Area School and Colville School.
- Samuel James: Refurbishment of the historic Samuel James building in the small reserve in the centre of Coromandel.
- Well-Housed Coromandel: The acquisition of seven Thames Coromandel District Council pensioner flats and the building of seven new flats to provide quality affordable housing in partnership with Housing New Zealand

Corporation, New Zealand Housing Foundation and Community Housing Aotearoa Incorporated. This is the first project of a Social Housing strategy.

- 1.8 Four of these projects commenced or expanded during the 2007 and 2008 financial year, resulting in a rapid increase in both revenue and expenditure during this period.

Scope of this Review

- 1.9 Specifically, we have been instructed to review and comment on:

- The financial performance of the organisation over the last two financial years, the forecast financial performance for the current year and the budgeted financial performance for the coming year (if available); and
- The financial impact of the repeal of the DPEP Act and the likely ongoing financial viability;
- The current financial position (specifically looking at working capital and solvency); and
- The governance, current financial systems and controls in place.

Limitation of this Review

- 1.10 The terms of this engagement and the scope of the work you have asked us to undertake are different from an audit or a review engagement, and the assurances associated with these reviews are not given. The financial and other information contained in this report have been provided by CILT's board and management. Our review was based on enquiries, analytical review procedures and the exercise of judgement. There is, therefore, an unavoidable risk that some material misstatements may remain undiscovered. Our review cannot be relied on to prevent or detect fraud or error.

Fieldwork

1.11 We completed our fieldwork for CILT in Coromandel on 20 August 2008. Our principal contacts during the review were:

- Michael Noonan (Trustee Manager)
- Brenda Carson (Financial Controller)
- Phil Anderson (Accountant)

1.12 We were provided with full access to CILT's financial records. The staff and management co-operated with our enquiries and review.

1.13 At the conclusion of our fieldwork we discussed our key findings with Michael and Brenda. We also provided CILT with a copy of our draft report on 29 August 2008.

2. Financial Performance

- 2.1 We were asked to review and comment on CILT's financial performance and assess the financial impact of the repeal of the DPEP Act and CILT's likely ongoing financial viability.

Financial performance

- 2.2 Set out below is a summary of CILT's actual financial performance for the years ended 31 December 2006 & 2007 and the six months ended 30 June 2008, along with the forecast financial performance for the year ended 31 December 2008.

CILT's Statement of Financial Performance				
Financial Year Ending 31-Dec	2006 Actual \$ '000	2007 Actual \$ '000	30/06/2008 Actual 6 months \$ '000	2008 Forecast with actual to 31/7/08 \$ '000
- Revenue				
Grants & Allowances	118	237	200	441
Contract receipts	196	260	158	304
Donations	64	75	36	96
Other	22	40	55	111
Total revenue	400	612	449	952
Expenditure				
Communications	(9)	(12)	(6)	(12)
Professional fees	(4)	(18)	(13)	(17)
Rent	(32)	(57)	(37)	(73)
Salaries & wages	(264)	(355)	(193)	(436)
Staff development & training	(5)	(11)	(6)	(10)
Travel allowance	(6)	(8)	(9)	(11)
Depreciation	(10)	(10)	(6)	(12)
Other expenditure	(60)	(86)	(65)	(310)
Total expenditure	(390)	(557)	(335)	(881)
Net Profit	10	55	114	71
Source: Audited financial statements as at 31/12/06 & 31/12/07, management accounts for the six months ended 30/06/08 and forecast for the year ended 31/12/08, incorporating actuals to 31/07/08.				

- 2.3 The forecast for the year ending 31 December 2008 is based on CILT's actual results for the seven months to 31 July 2008, combined with the budget for the final five months of the year.

Revenue & Gross Profit

- 2.4 There has been a significant increase in revenue as a result of the additional projects that have been taken on. This is particularly evident in the increase in both grant and contract income.
- 2.5 Some of the grants that are received are for the purpose of capital expenditure and accordingly there has been a large increase in fixed assets.
- 2.6 Grant income for the first half of 2008 includes a one-off grant for the "On Track" project of \$100k from Power NZ .
- 2.7 The grant income (and the reported surplus) is also overstated at 30 June 2008 by approximately \$28.5k, as it includes receipt of a Lotteries Grant that should be spread over the next twelve months.
- 2.8 CILT has several contracts with MSD. The vocational MSD contract has increased by 3.5% for 2008. The main increase in contract income has come about from an MSD contract for "Well-Housed Coromandel" for \$80k that commenced in September 2007.
- 2.9 A Tertiary Education Commission contract commenced in July 2007 for the Adult and Community Education programme. This contract provides funding of approximately \$84k per annum,

Expenses

- 2.10 By far the most significant expense for CILT is salaries and wages. This expense has not increased as a result of the repeal of the DPEP Act, but rather as a result of the rapid growth in projects taken on by CILT. We were advised that part-time staff numbers grew from approximately 36 in 2006 to approximately 44 in 2007. The number of employees is currently close to 50. Most staff members are employed on either a casual or part-time basis.

- 2.11 The buildings that are used for the Resource Centre, the Work Co-op and the Artists in the Making are not owned. CILT pays a market rental and is susceptible to rental increases. We were advised that a budgeted rental increase will take effect from September 2008 at the Work Co-op premises.
- 2.12 There are some expenses included in “other expenditure” that have been forecast for the 2008 year that have not yet been incurred. The forecast includes \$64,790 of Community Partnership costs that will encompass capital expenditure on equipment and employing a part-time ICT manager.
- 2.13 A further \$25,000 has been forecast for building renovation costs in the Samuel James Reserve project. Tenders for this process have just been advertised and the renovation is likely to commence in the new financial year.
- 2.14 Therefore, approximately \$90,000 of the forecast expenditure is unlikely to be incurred in 2008 and when it does eventuate a considerable portion will be capital expenditure and as such will not impact on the Trust’s financial performance. Another \$65,160 of forecast expenditure for track work has been delayed and may also not be incurred until the 2009 financial year.

Net profit

- 2.15 CILT reported a small surplus of \$9,525 in the financial year ending 31 December 2006 and an increased surplus of \$55,045 in the 2007 year. CILT has recorded a healthy surplus for the first six months of the 2008 financial year. The repeal of the DPEP Act has had no effect on the financial performance of CILT in the six month period in which it occurred as the Trust were well prepared for the required changes. This is discussed under changes to the business model below.
- 2.16 Both revenue and expenditure are increasing and CILT does not appear, barring a material unforeseen event, to be in danger of reporting a deficit. CILT is aware that a significant proportion of the surplus that it has generated is to be committed to capital expenditure in accordance with the needs of certain projects, and it is carefully managing expenditure.

Changes to CILT's business model

- 2.17 CILT was well prepared for the repeal of the DPEP Act. CILT was aware of the Pathways for Inclusion model and anticipated what this would mean for the Trust. A decision was made to cease paying a participation allowance and to commence paying a minimum wage in 2005 to those who were able to take on jobs within the community such as gardening, lawn-mowing etc.
- 2.18 CILT have never run a traditional sheltered workshop model and CILT advised that they felt that paying a minimum wage rather than a lower wage, to those not in a community participation programme was more aligned to the philosophies of the Trust.
- 2.19 CILT commenced paying a minimum wage to workers at the beginning of 2005. There are currently seven disabled employees at the Work Co-op who are all paid for three hours a week. Any revenue that they generate from work in the community is usually paid by koha, either in cash or kind. It is not invoiced and is held separately to put towards special activities run at the Work Co-op.
- 2.20 The additional cost of paying these employees varies depending on the number of participants, but the current cost is \$252 a week. CILT advise that they have had to make more effort to obtain donations and grants to cover this cost.

CILT's Ongoing Financial Viability

- 2.21 The repeal of the DPEP Act, has not had a financial impact on CILT at the time that it occurred. CILT's ongoing financial viability is currently dependent on continuing to obtain contracts, grants and donations to fund its numerous projects and to also continue to manage the rapid growth that has occurred.
- 2.22 CILT is very aware of the necessity of keeping good financial records that identify the numerous projects that are being managed and accounts for all of these individually. Detailed reports are produced for each project and informative high level reports are produced for reporting to the Trustees. Cash-flow is monitored closely and any surplus or deficit that is occurring for any area is easily identifiable.

2.23 Although CILT faces the normal challenges presented by rapid growth, the close monitoring of the financial situation in conjunction with the assurance from CILT that it only takes on projects for which there is funding available, gives us confidence that the ongoing financial viability of the Trust is not presently under threat.

3. Financial Position

- 3.1 We were asked to review and comment on CILT's current financial position. Set out below is a summary of CILT's financial position at 30 June 2008. The financial position at 31 December 2006 and 2007 is included for comparative purposes.

CILT's Statement of Financial Position			
As at 31 Dec	2006	2007	30-Jun-08
	\$ '000	\$ '000	\$ '000
Current assets			
Bank – Current account	121	174	110
Bank – Savings & Term Deposit	0	41	239
Accounts receivable	31	26	11
	<u>152</u>	<u>241</u>	<u>360</u>
Current liabilities			
Accounts payable	(40)	(19)	(16)
Holiday Pay Accrual	0	(22)	(22)
GST Payable	(3)	(2)	(25)
Deferred Income	(37)	(79)	(159)
	<u>(80)</u>	<u>(122)</u>	<u>(222)</u>
Working capital	72	119	138
Fixed Assets	36	44	139
Net Assets	<u>108</u>	<u>163</u>	<u>277</u>
Source: Audited financial statements as at 31 December 2006 and 2007. Management accounts as at 30 June 2008			

- 3.2 CILT is in a reasonable financial position. CILT has a healthy level of working capital, of \$138,000, which equates to approximately 2 -3 months worth of total expenditure, and has no long-term debt. CILT is able to pay its debts as and when they fall due.
- 3.3 Operating surpluses have been directed to increase fixed assets in the 2008 year. The primary addition has been the introduction of the seven existing pensioner flats, for which rent is now being received.

- 3.4 We were advised that there is an intention to construct seven further pensioner flats as a step toward the Trust's vision of being able to provide social housing in the community. This will be possible with a loan from Housing NZ that will require no interest payments for the first ten years. Feasibility studies conducted by CILT have concluded that the debt can be retired with the rental income received.

4. Governance, Financial Systems and Controls

- 4.1 CILT has most of the basic elements of good financial governance in place. CILT is currently recruiting for a fifth trustee, to complement the skills and network contacts of the current Trustees. The four existing Trustees appear to have a broad range of skills and experience. The Trustees meet quarterly and minutes are kept. They also confer by email between face-to-face meetings and we viewed copies of emails recorded in the minute book also.
- 4.2 The accounting records of CILT are maintained mainly on Accomplish Cash Manager accounting software. CILT maintains a full accrual accounting system. Records are filed in a tidy and logical fashion. The monthly management accounts include actual and budgeted results.
- 4.3 The financial reports produced by CILT as management tools were among the most comprehensive and useful of those produced by a business enterprise that we have seen. The reports enable the Trustees to clearly identify the profitability of each of the numerous different areas managed by CILT, as well as the projected cash flow requirements.
- 4.4 Bhavesh Ranchhod, chartered accountant, audits CILT's annual financial statements. CILT has received unqualified opinions from its auditor for the 2005, 2006 and 2007 years.

Controls

- 4.5 CILT's controls are generally good. However, there are a few processes that could be improved, which we set out below.

Board of Trustee Minutes

- 4.6 The Chairperson is not currently signing the minutes. We suggest that when the Board of Trustees resolves to accept the minutes at the following meeting, the Chairperson signs the minutes. This will provide a clear audit trail of which minutes have been resolved as being correct.

Timeframe – Immediate

Trustees

- 4.7 Michael Noonan serves as a Trustee as well as the Manager and has done so for a number of years. This is less than ideal because the governance and operational aspects of CILT are not totally separate. Michael assures us that he is able to separate the two roles however we are of the view that the Trust should reconsider whether or not it is still comfortable with Michael continuing to fill both roles, particularly given the rapid increase in the operational activity at CILT.

Timeframe – for consideration

Internet Banking Facility

- 4.8 When considering Internet banking, it is critical to bear in mind that the bank only refers to the payee's bank account number entered and does not refer to the payee's name when processing payments. It is therefore important to have adequate controls over the establishment and maintenance of the payee details to prevent someone altering the system so that an appropriate creditor has an incorrect bank account number (eg. Telecom is listed as the payee, but John Smith's bank account number is entered into the bank account details).
- 4.9 In order to gain confidence that the payee's details have been correctly loaded into the system, we suggest:
- Those who have the ability to create or approve payments should not have the ability to set-up or otherwise modify the payee's details. The person who sets up the payees' details should only enter the bank

account number into the system when he or she receives an original bank deposit slip from the payee. This original bank deposit slip should be maintained on a master file.

- When approving payments on the Internet, we suggest the authorisers randomly select a few payments in each batch authorised and check that the bank account details on the Internet match the bank account details held on the master file. The authorisers should also ensure that each payment is supported by an approved invoice (or payroll) and the expenditure appears reasonable (as per cheque payments).

Timeframe – Immediate

Credit Card

- 4.10 Michael Noonan has been issued with a CILT corporate credit card. Our experience is corporate credit cards can be risky, because there are few effective controls to prevent the card user from purchasing unauthorised goods or services. Provided CILT still wishes to use a credit card we recommend that CILT considers:

- Asking Michael to obtain a personal credit card.
- Michael only uses the credit card for Trust business.
- The Trust pays for all credit card fees.
- Michael presents the credit card statements and all supporting invoices to the Trustees for payment each month.
- The Trustees review and approve the expenditure as appropriate.
- The Trust pays the credit card company for all legitimate expenditure.
- No automatic payments or direct debits are paid to the credit card.

- 4.11 If Michael was to spend significant sums on non-Trust business, this arrangement should help protect the Trust from being liable for paying the credit card account.

Timeframe – Immediate

Authorisation of Payments

- 4.12 We noticed that some invoices in the paid creditors file had not been authorised for payment. We were advised that not all standard items of expenditure (e.g. regular stationery items) are individually authorised. Staff should formally authorise expenditure (according to pre-determined levels) for payment. Before approving payments, the authoriser should at least confirm the goods or services were received, the price charged is fair, the expenditure was appropriate, and the invoice is correct. If the Manager does not have time to approve all invoices, he can delegate his authority with an appropriately low approval limit to another senior staff member. We suggest CILT employs a formal authorisation process. Many organisations use a rubber stamp to act as a prompt to help ensure that each payment is approved correctly. We have set below an example of a stamp that would prompt the required information:

<i>Goods/Services Received</i>	_____
<i>Pricing Agreed</i>	_____
<i>Adds Checked</i>	_____
<i>Coding \$</i>	_____
<i>Payment Authorised</i>	_____
<i>Date Processed</i>	_____
<i>Chq no/Batch no</i>	_____
<i>Chq/Batch Signatories:</i>	_____

- 4.13 Signatories should only sign cheques (or approve internet payments) after reviewing the supporting approved invoice.

Timeframe – Immediate

Approval of invoices

- 4.14 We recommend that at each meeting the Trustees are presented with a list of the paid accounts since the last meeting for approval. This provides an additional level of comfort that Trustees are aware of the individual expenditure items.

Timeframe – next quarter

Computer File Backups

- 4.15 CILT presently backs up computer files weekly on a memory stick and backs up the financial records whenever they are altered. We were advised that it is planned to introduce a dedicated offsite backup. It is considered good practice to backup daily and to also maintain a copy of any backups off-site as a safeguard against information loss caused by fire or theft.

Timeframe – This quarter

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