

### 'Fraud Proof' Your Business

As the economy worsens and times get tougher, fraud is likely to increase. Statistical evidence shows that the average fraudster is a person in their forties, working in a non-accountancy role but with ready access to cash. Moreover the average dollar amount of fraud committed in New Zealand and Australia is \$45,000 as a recent survey of not-for profit organisations revealed. It is known that the most common motivators for fraud are financial pressure due to debt, the pressure of maintaining lifestyle choices and the need to fund major life changing circumstances such as urgent medical intervention and when the country is facing a period of rising interest rates, increasing rents and declining property values. Given the motivation and the opportunity, there will be the temptation to commit fraud, especially if your enterprise controls are based on trust.

If, as the owner/manager of an enterprise, your management systems are largely trust based you may need to review your business organisation and its control systems to minimise the risk of fraud. Bear in mind control measures must be practical and easy to implement or staff will not follow them. You will also find staff 'buy-in' to changes if they feel they have some influence on them, so involve them in the process. Time-tested measures to implement will include:

- **Separation of responsibilities:**  
Tasks involving money should not be performed only by one particular person without adequate reporting processes. For example, the practice of opening the incoming mail and recording cheque receipts against Debtor balances should be segregated, overseen and reported on by more than one person so that the chance that monies could be removed undetected is minimised.
- **Spending authorities:**  
While most businesses have controls on who writes the cheques and pays the bills, not all have policies regarding the incurring of debt with good supervision practices.

For example, all employees should have specified limits to authorise expenditure on business items – e.g. the financial controller's authority is less than \$10,000, the office manager's authority is less than \$2,000 and the clerk is less than \$1,500 with each authority being responsible for overseeing the expenditure of those under them.

It is worth noting that if employees take pleasure in their work, enjoy good relationships with colleagues and management, they are less likely to commit fraud. Keep your workplace culture happy and healthy!



### Compliance Costs

It will be no surprise to farmers that the top five compliance costs for farm business are: IRD taxes, local government, Resource Management Act, ACC and Statistics NZ surveys. The main difference between farmers and other businesses is that farmers are much more concerned with local government and the RMA according to The Business NZ-KPMG compliance cost survey released recently. This survey seeks to measure the costs of complying with legislative and regulatory requirements as well as respondents' perceptions of changes in the compliance burden and the helpfulness or otherwise of central and local government agencies.

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## Warren Buffet's Current View On The Financial Markets

The following article was written by Warren Buffett (born August 30, 1930), the world's wealthiest person (\$62b at May 2008, no doubt less now – Forbes.com). His fortune is self-made. Warren lives in Omaha, Nebraska, USA, and is the chairman of Berkshire Hathaway Inc., a diversified investment company listed on the US Stock Exchange.



The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

So.. I've been buying American stocks. This is my personal account I'm talking about, in which I previously owned nothing but United States government bonds,(this description leaves aside my Berkshire Hathaway holdings, which are all committed to philanthropy). If prices keep looking attractive, my non-Berkshire net worth will soon be 100 per cent in United States equities.

Why?

A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions.

But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records five, ten or twenty years from now.

Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month – or a year – from now. What is likely, however, is that the

market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, Spring will be over!

A little history here – during the Depression, the Dow hits its low, 41, on July 8, 1932. Economic conditions, though, kept deteriorating until Franklin Roosevelt took office in March 1933. By that time, the market had already advanced 30 percent. Or think back to the early days of World War II, when things were going badly for the United States in Europe and the Pacific. The market hit bottom in April 1942, well before Allied fortunes turned. Again, in the early 1980's, the time to buy stocks was when inflation raged and the economy was in the tank. In short, bad news is an investor's best friend. It lets you buy a slice of America's future at a marked-down price.

Over the long term, the stock market news will be good. In the 20<sup>th</sup> Century, the United States endured two world wars and other traumatic and expensive military conflicts, the Depression, a dozen or so recessions and financial panics, oil shocks, a flu' epidemic, and the resignation of a disgraced President. Yet the Dow rose from 66 to 11,497.

You might think it would have been impossible for an investor to lose money during a century marked by such an extraordinary gain. But some investors did. The hapless ones bought stocks only when they felt comfort in doing so and then proceeded to sell when the headlines made them queasy.

Today people who hold cash equivalents feel comfortable. They shouldn't! They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value. Indeed, the policies that government will follow in its efforts to alleviate the current crisis will probably prove inflationary and therefore accelerate declines in the real value of cash accounts.

Equities will almost certainly outperform cash over the next decade, probably by a substantial degree. Those investors who cling now to cash are betting they can efficiently time their move away from it later. In waiting for the comfort of good news, they are ignoring Wayne Gretzky's advice: "I skate to where the puck is going to be, not to where it has been"!

I don't like to opine on the stock market, and again I emphasise that I have no idea what the market will do in the short term. Nevertheless, I'll follow the lead of a restaurant that opened in an empty bank building and then advertised: "Put your mouth where your money was"!

## **Log Prices Keep Rising**

Export log prices have increased for the third successive month as the owners of New Zealand's third largest forestry estate send out fliers to prospective buyers of its 134,000 hectares of radiata pine. Big falls in shipping rates and the New Zealand dollar gave the NZX Agrifax Export Log Indicator its largest monthly boost in the six years it has been running. The Index rose by just over \$1 to \$76.80 a tonne because of higher export returns, particularly in the South Island.



Matariki –a consortium of American forestry company Rayonier, AMP Capital and Deutsche Bank's REEF Infrastructure – announced in August that it was putting its forests up for sale. Matariki's estate is spread throughout New Zealand, with about 20,000ha in Northland, 30,000ha in the Bay of Plenty, 20,000 in Hawkes Bay, 7,000 ha in the lower North Island, 30,000 in Canterbury and 30,000ha in Otago and Southland.

The last major New Zealand forestry deal was in 2006 when Carter Holt Harvey sold 187,000ha of forest to Hancock Timber Resource Group for \$1.6 billion. If Matariki was able to command a similar price – approximately \$9,000 per hectare – its estate would fetch \$1.26 billion. However, a forestry industry spokesman said it was generally accepted that the CHH estate went for a premium and that Matariki would struggle to get a similar price.

In August Matariki cited the falling New Zealand dollar, the prospect of falling shipping rates and Russia raising export tariffs on its own logs as reasons why it was a good time to sell.

The latest Agrifax logs report said log shipping rates had continued to fall – typically down to about US\$10 (NZ\$16) to US\$55 (NZ\$88) a metre but were extremely volatile.

Exporters think further significant falls are likely next month, but a rebound at some stage is also on the cards because China is running down stocks of many commodities and these will need replenishing at some stage.

## **IRD And LACQ Audits**

In September 2008, the Inland Revenue Department mailed out letters, 45,000 in total, to the directors of every LAQC (Loss Attributing Qualifying Company) that has taxable activity involving residential rentals, as recorded with the IRD.

The objective of this initiative, as we understand it, is to stop situations where a LAQC company owns a domestic residence and lets it back to either the company's shareholders or their family members. Losses arising from such LAQCs are not deductible.

Any disclosures made by the shareholders of these LAQCs as a result of the September mail-out will qualify them for a penalty reduction (of 100%), on the basis that the disclosure is a voluntary pre-audit notification.

## **Filing Cabinets For Sale**

Four drawer filing cabinets for sale – surplus to requirements. Please contact Tricia Byrne for more information on 869 1234.

## **Newsletters Via The Web**

A reminder, we would prefer to send an e-mail to clients advising that our latest newsletter is on our website. We consider this to be a more efficient and cost effective way of getting the newsletter to you.

If you would like to receive future newsletters by e-mail, please go to our website at [www.grahamdobson.co.nz](http://www.grahamdobson.co.nz), click on the "Register for Electronic Newsletter" icon and complete the registration screen.



# Noah In 2008

In the year 2008 the Lord came unto Noah, who was now living in New Zealand, and said:  
'Once again, the earth has become wicked and over-populated, and I see the end of all flesh  
before me.

Build another Ark and save 2 of every living thing along with a few good humans.'

He gave Noah the blueprints, saying: 'You have 6 months to build the Ark before I start the  
unending rain for 40 days and 40 nights

Six months later, the Lord looked down and saw Noah weeping in his yard - but no Ark.

Noah! He roared, I'm about to start the rain! Where is the Ark? Forgive me, Lord, begged Noah,  
'but things have changed. I needed a building permit.

I've been arguing with the inspector about the need for a sprinkler system.

My neighbours claim that I've violated the District Plan by building the Ark in my yard and exceeding the  
height limitations. We had to go to the Environmental Court for a decision

Then Contact Energy demanded a bond be posted for the future costs of moving power lines and other  
overhead obstructions, to clear the passage for the Ark's move to the sea.

I told them that the sea would be coming to us, but they would hear nothing of it..

Getting the wood was another problem. There's a ban on cutting local trees in order to save the Tuis.

I tried to convince the environmentalists that I needed the wood to save the Tuis - but no go.....

When I started gathering the animals, an animal rights group sued me. They insisted that I was confining wild  
animals against their will. They argued the accommodations were too restrictive, and it was cruel and  
inhumane to put so many animals in a confined space

Then the GDC rules that I couldn't build the Ark until they'd conducted an environmental impact study on  
your proposed flood

I'm still trying to resolve a complaint with the Human Rights Commission on how many minorities I'm  
supposed to hire for the building crew

Immigration Services are checking the visa status of most of the people who want to work

The Dept of Labour say I can't use my sons. I have to employ only union workers with Ark building  
experience.

The IRD seized all my assets, claiming I am trying to leave the country illegally with endangered species.

So, forgive me, Lord, but it would take at least 10 years for me to finish this Ark.

Suddenly the skies cleared, the sun began to shine and a rainbow stretched across the sky

Noah looked up in wonder and asked, "You mean you're not going to destroy the world?"

"No", said the Lord, 'The government beat me to it'!