PITCHER PARTNERS
ACCOUNTANTS AUDITORS & ADVISORS

Pitcher the difference

CONTACT 78 2012

Cut costs – *how hard?*

Don Rankin
National Chairman

With many businesses facing the impacts of a strong dollar, variable client demand and the prospect of little or no growth, business operating costs become an important consideration. The impacts of inflation, regulatory costs, and the increase in statutory charges are forcing costs up relentlessly and this is putting downward pressure on profits. Businesses are now more than ever, forced to look at cutting and managing costs.

The philosophy of cost reduction

'How hard should you go cutting costs and what level of priority should it have in a broad business management plan'?

Recently we have seen a strong move to offshoring and outsourcing which is primarily aimed at reducing costs but providing largely the same service.

Recent surveys indicate however, that the ease of doing business and customer service generally outweighs price when customers consider continuing to do business with a supplier, so it is important that any cost reduction plan take these factors into account. The vital elements of a cost reduction program designed to maintain the ease of doing business include the delivery of efficiency gains, the removal of layers of bureaucracy and the embracing of technology.

If your business is a low margin commodity type business where there is little differentiation of product, cost ***control*** and developing the most efficient delivery systems for the product or service will be vital and should be embedded as a core part of any business development strategy.

Where margins are high, cost ***management*** is the focus. If sales fall to near break-even, action to invigorate sales is generally the prime goal. If sales fall, then losses will occur rapidly and may lead to structural adjustments rather than cost management.

Where business performance has permanently dropped to an unsatisfactory level due to market circumstances, a cost ***management*** plan will not be sufficient. In this case, a structural adjustment to re-size the cost structure of the business will be required. This can be best achieved by rebuilding a cost model from the bottom up, rather than cutting back the existing structure. A bottom-up approach is far easier to implement if a costs target is determined and then a staffing and infrastructure model built around it. This takes the personal and emotional issues out of consideration until the implementation phase.

Costs should be categorized under the following headings:

- Costs that are variable with sales (compared to fixed)
- Essential costs

(continued on page 2)

Cut costs – how hard?

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- Necessary costs (ie. those required to keep the business running but not necessarily adding much value)
- Discretionary costs
- Avoidable costs

It is important to focus on the discretionary and avoidable costs first.

Pitcher Partners' Cost Reduction Plan

Pitcher Partners have devised a methodology to analyse operations costs in the categories above, and have established a cost management and performance regime to set cost reduction initiatives, monitor targets and set KPIs in a fully coordinated cost reduction plan.

Cost management should only be part of an overall strategy. How often have we seen businesses go in hard and cut costs, only to see them reappear because they were ill considered, compromised the service level, or lacked proper oversight. We are now in a world which is constantly changing and whose boundaries, through the use of technology and reduced trade barriers, are disappearing. These changes have the capacity to increase competition but also to open up opportunities.

Developing a cost control program for a business should tie in with a broader development plan for the future direction of the business, which may well involve investment of some of the cost savings back into new initiatives for growth. A business focussed solely on cost reduction will generally become introverted, negative and may ultimately fail.

For further information or for a copy of the Cost Reduction Plan, please go to *www.pitcher.com.au/costreductionform*

Feature

Nobody likes surprises, particularly when that surprise is your business failing to deliver products, services or a reliable work environment. Should this occur, there is a high likelihood that stakeholders will seriously question the competence and capabilities of business management and may seek to move their relationship elsewhere.

Business as usual – *building business*

Managing business resilience

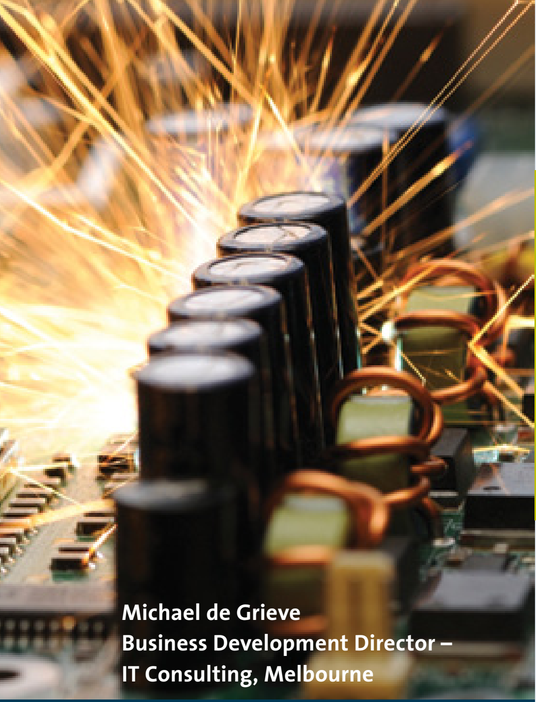
While there are a number of statutory and good corporate governance drivers and obligations behind the management of business resilience risks, one of the most compelling and broadly acknowledged, is the importance of avoiding any damage to business goodwill and reputation.

When auditing and advising our clients on the robustness and resilience of their business systems and technologies, we assess the adequacy of plans and controls in place that keep the business systems from failing and get the business up and running following an extended unplanned outage or disaster – such as those caused by the recent Brisbane floods and Victorian bushfires, or the flooded computer room caused by a quick cigarette after work in a spare office that set off the sprinklers (yes it has happened!)

How to mitigate risk

To mitigate the risk of an extended unplanned outage the following controls, which can be implemented by IT operations staff and business management, should be considered:

- **Business Continuity Plan (BCP)**
  A Business Continuity Plan ("BCP") is a document that describes how a business process or function will be recovered. BCP creation and testing can be time consuming and expensive and is only developed where an organisation's risk warrants the investment. As an alternative, we encourage the capture of the specific IT needs of each business function, (ie. determining the minimum number of phones, printers, internet connections, laptops and desks required) to provide a baseline level of services following an outage.
- **Business Impact Assessment (BIA)**
  A Business Impact Assessment identifies the most critical of your IT systems, data stores, key communication devices and the maximum timeframe your business can function without these being available. This provides invaluable information in IT budgeting and planning and gives business management a real feel for resilience risks and how much it will cost to effectively mitigate them.
- **IT Disaster Recovery Plan (DRP)**
  An IT Disaster Recovery Plan ("DRP") describes how to recover your business technology, and is a useful document to have available in the event of an unplanned outage. However, an untested DRP provides little risk mitigation in itself and we strongly advise clients to run a full DRP test each year and have the results recorded and discussed at a senior management level. Where a full DRP test is not possible, then conducting a DRP of one or more key business systems and business processes is worthwhile.
- **Documented Back-up Procedure**
  A documented back-up procedure is important in keeping costs and efforts to a minimum to meet business risks. It also reduces key person risks and ensures reliable back-up and restoration can be performed in the absence of the "back-up" person.



Michael de Grieve
Business Development Director –
IT Consulting, Melbourne

resilience

- **Full back-up restoration**
  The backing-up of data is not enough. A full restoration test of backed up data should be done at least once per year to ensure that data is not corrupted and can be used to restore business systems. Where full restoration is not possible, testing back-ups through the complete recovery of a core system, such as your finance system, CRM or ERP should be undertaken, so your IT team can prove that back-ups will be effective.
- **Store back-up data off-site**
  Do not store back-ups in the same vicinity as the systems they are required to restore - store at a location geographically removed from your core computer room. Using a third party provider with secure facilities and a regular, back-up, pick-up and drop-off service is preferable in order to reduce human risks impacting on the reliability of the back-up process.
- **Identify and manage business resilience risks and needs**
  We recommend that these types of risks (along with the plethora of other business and IT related risks) are reported and managed at a senior business level as part of a Risk Management Framework and Risk Register.

Conclusion

Resilient business systems don't just happen. They need to be planned for with appropriate levels of governance, money, and time expended - commensurate with, and proportional to, the level of risk to your business.

FBT car changes shift into gear

Gary Matthews
Senior Manager, Tax Consulting
Melbourne

The Government has recently legislated to change the rate at which car benefits are valued under the statutory formula for FBT purposes. Effectively, all cars acquired after the time and date of the Budget announcement (i.e. 7.30 pm on 10 May 2011) will ultimately be valued at a flat statutory percentage of 20% of the base value. Transitional rates will however apply over the next few years to ease the cost burden with the shift to the higher rates (see Table 1).

Whilst the old rates may continue to apply to cars acquired before the time of the Budget announcement (refer Table 2), the new rates will apply to those cars, if at some time after the announcement, they are subject to a new financial commitment involving either the employer or the employee, or both. Where a car is subject to a new financial commitment part way through a year, the new rates will apply from commencement of the next FBT year.

Example

John Smith was provided with a car by his employer, Acme Pty Ltd under a novated lease commencing on 30 September 2008. The term of the lease was 36 months and on expiration of that lease (30 September 2011), an extension to the lease was negotiated for a further 24 months. Based on these facts, although the initial acquisition date was prior to the Budget announcement, the date of the latest financial commitment (30 September 2011) is after the announcement. This means that for the 2012 FBT year, the car is to be valued under the old rates and for the 2013 FBT year and onwards, it is to be valued under the new rates.

Common instances where a car acquired prior to the Budget announcement may be subject to a new financial commitment include:

- The car is re-financed (e.g. lease extended);

Table 1
Transitional Rates applying to cars acquired after 7.30pm 10 May 2011, or acquired prior to the date but subject to a new financial commitment

	2012	2013	2014	2015
0–24,999 kms	20%	20%	20%	20%
25,000–40,000 kms	14%	17%	20%	20%
40,001+ kms	10%	13%	17%	20%

Table 2
Rates applying to cars acquired before 7.30pm 10 May 2011 which are not subject to a new financial commitment

	2012	2013	2014	2015
0–14,999 kms	26%	26%	26%	26%
15,000–24,999 kms	20%	20%	20%	20%
25,000–40,000 kms	11%	11%	11%	11%
40,001+ kms	7%	7%	7%	7%

FBT car changes shift into gear

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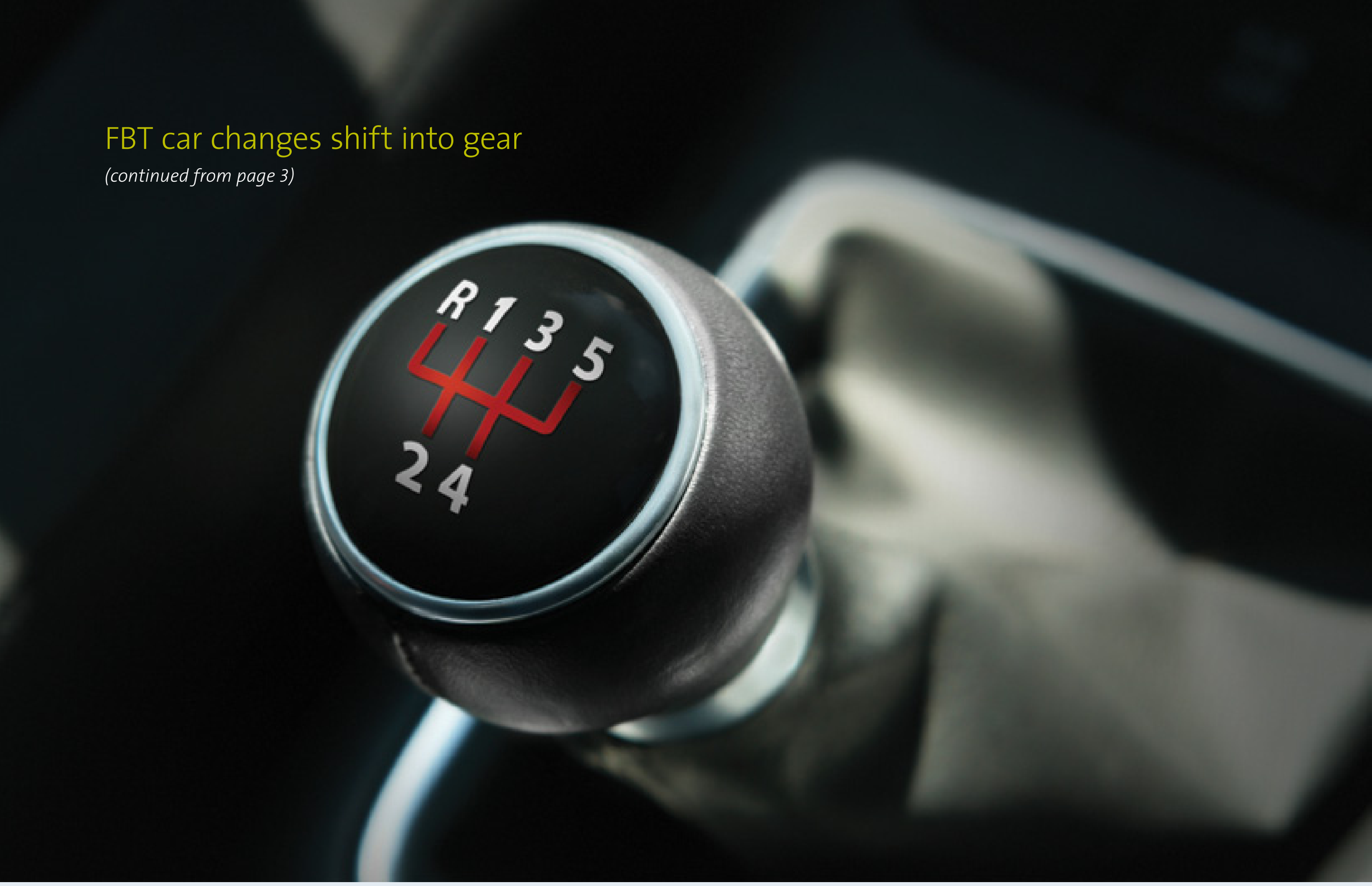


- Ownership or the financial obligation of the car is transferred to a new employer (even if within the same group); or
- An employee allocated the car is transferred to a new employer within the same group.

A pool or fleet car reallocated to a new employee by the same employer would not constitute a new financial commitment as long as the car remains a pool or fleet car which is not subject to any salary sacrifice or financial commitment by the employee to whom it is allocated.

What the changes mean

Under the new rates, fleet managers will have to be vigilant in tracking all changes in financial commitments for cars acquired before the time of the Budget announcement, to ensure that the correct rates apply for all future FBT years.

Besides the need to monitor changes in financial commitments, the new valuation rules will mean that in many cases, employers may see a substantial increase in FBT for cars that typically travel 25,000 kilometres or greater each year (in some cases, up to almost treble the FBT).

How to mitigate the costs

Use of log books

One way to mitigate the increases in FBT is through the use log books for cars which travel over 25,000 kilometres and have some business use. If the percentage of business use is sufficiently high, the operating cost method for valuing the car benefit will often produce a lower taxable value than would otherwise be the case using the new statutory percentages.

Pay car allowance

Another option to reduce the FBT costs is to pay a car allowance to an employee to use their private car for work rather than allocating a work vehicle, particularly if the expected business travel by the employee is not likely to be substantial.

Re-evaluate salary packaging arrangements

Where an employee is in receipt of a car under a salary packaging arrangement, in which the initial costings and the tax effectiveness of the package may have been based on the old rates, any change to the new rates through a change in car (or via any of the circumstances described above) should be re-evaluated to ensure that it remains tax effective. In cases where the employee usually travels more than 25,000 kilometres, it is likely that the tax effectiveness of the package will be reduced. However, if the employee normally travels less than 15,000 kilometres, the tax effectiveness of the package will increase.

In conclusion, the changes to the valuation rules for car fringe benefits mean that employers should implement strategies to ensure compliance, and to mitigate the potential for an increase in FBT costs. These strategies include monitoring changes in financial commitments of cars acquired prior to the Budget announcement, the use of log books, particularly for cars which travel in excess of 25,000 kilometres per annum and cashing out some cars which have low business use. Employers should also advise their employees to review their individual salary packaging arrangements to ensure they remain tax effective, particularly if they normally travel in excess of 25,000 kilometres per annum.

Business Intelligence

Have you ever been frustrated by your sales system, knowing that you have captured key information about a customer but have no idea how to obtain it in a meaningful way? Or have you had to run two separate reports from different systems to try and solve what should be a simple business problem?

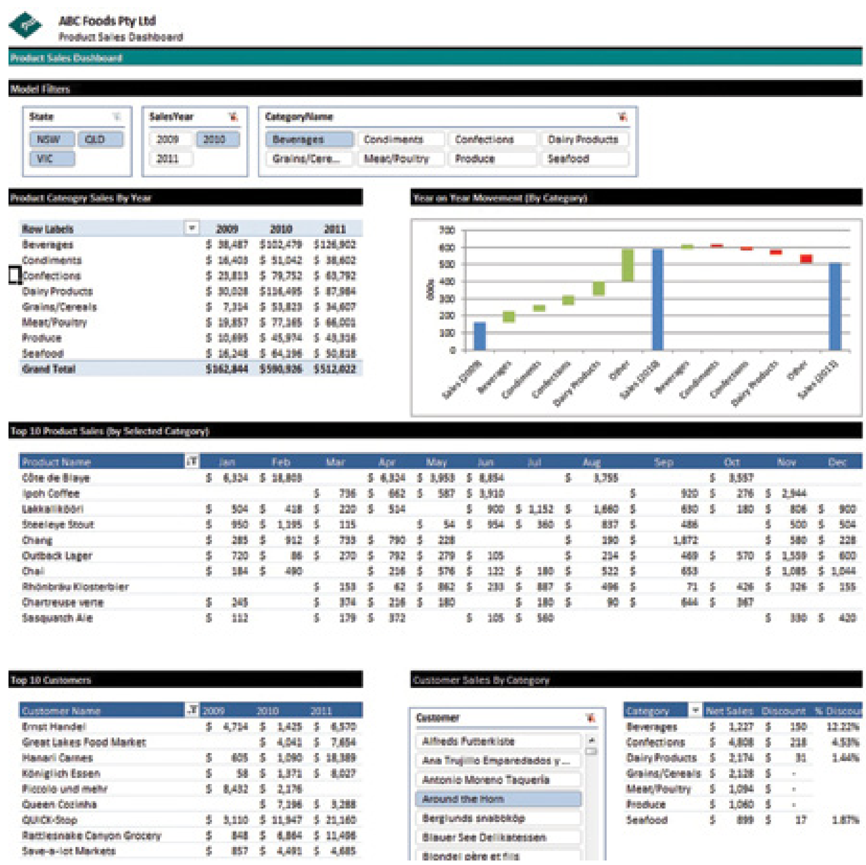
Every day, large volumes of data are captured in operational systems such as Finance, Sales, HR, Payroll and CRM. But what is done with this information? In most cases suites of reports are built in each of the siloed systems, offering users a limited insight to what is captured. What if the data captured was collated and accessible to all users in the organisation?

One of the primary goals of Business Intelligence (BI) is to help organisations improve their decision making. When used correctly, Business Intelligence tools can help organisations improve their decision making through:

- Eliminating the guess work and delivering fact based information;
- Answering business problems quickly;
- Presenting key business metrics through structured reports and interactive dashboards in a timely manner;

Over the years the cost of BI technologies has been prohibitive to smaller businesses, thus restricting them to out-of-the-box reporting solutions. Recently however, Microsoft has focused their time on Business Intelligence and released a suite of tools that allow these organisations to build more advanced systems at a fraction of the price. In most cases, organisations actually already own much of the infrastructure required to build these solutions.

One such tool is PowerPivot, an add-in to Microsoft Excel. PowerPivot is a powerful self-service reporting tool which allows users to connect to their operational systems and analyse data captured on a daily basis. The analysed data is then presented to staff through interactive dashboards and summaries. PowerPivot's advanced filtering techniques allow you to further explore the detail behind each summary. For example Sales by Month may be filtered by Sales Person, Region or Year to better understand trends in Sales, an example of this can be seen in the screen shot provided above.



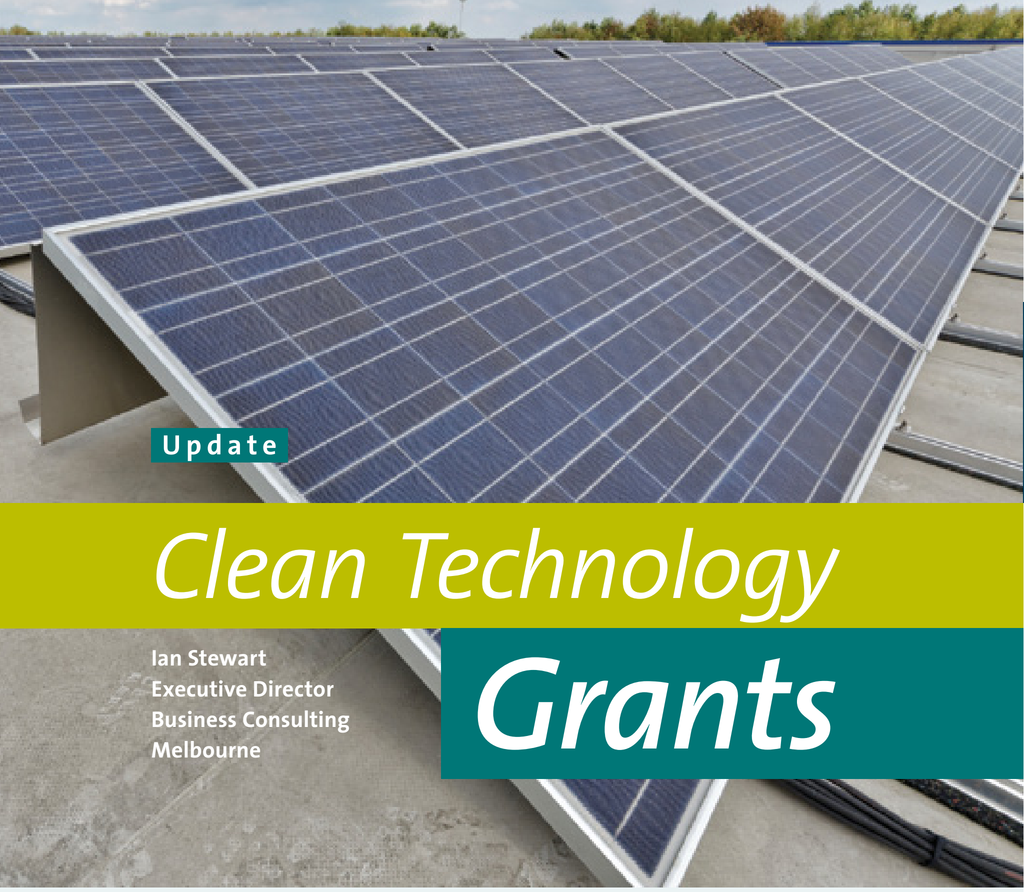
Screen shot of PowerPivot's filtering capabilities

For more structured business reporting, reports can be built and hosted through Microsoft SQL Server Reporting Services. Like PowerPivot, data can be collated from multiple systems, however using Reporting Services it can be presented to users in highly formatted and easily distributable reports. These reports can be filtered, offering users information relevant to them depending upon their role in the organisation.

Traditionally BI Projects have been led by IT Departments. But whilst technology is a key component of the process, one of the most difficult parts of BI is not the technology but rather defining what information is the key to business decision making. This is why our Business Consulting Group in Melbourne have been working with a number of clients to develop tools to better aid decision making.

With the technology now far more accessible, business owners need to be thinking about what information they are potentially missing out on because it is inaccessible and how they can maximise customer penetration by analysing existing sales information?

If you would like further information in regards to the work being done please contact Matthew Hodder (matthew.hodder@pitcher.com.au)



Update

Clean Technology Grants

Ian Stewart
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Business Consulting
Melbourne

As part of the Federal Government's Clean Energy Future (carbon pricing) plan applications for grants to assist industry invest in energy efficiency have opened.

The grants are available to Australian manufacturers to assist with their investment in energy efficient capital equipment and low pollution technologies, processes and products. A separate scheme exists for businesses in the Food and Foundries industries.

Grant sizes and the ratio of grant to applicant spending varies as per the following table:

Grant amount	Annual Turnover	Applicant spend to Grant ratio
\$25,000 – \$500,000	Less than \$100m	Up to 1:1
\$25,000 – \$500,000	\$100m or more	Up to 2:1
\$500,000 – \$10m	N/A	Up to 2:1
> \$10m	N/A	3:1

The grants are competitive and merit based, so applications will need to be thoroughly prepared and with the minimum delay. They are also capped in terms of the total Government spend which is \$200 million for the Food and Foundries program and \$800 million for other manufacturing industry.

For more information, please consult your local Pitcher Partners' contact.

Feature

Reaching your

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The risks faced by organisations can impact on the achievement of corporate objectives and create a level of uncertainty within the business. Risks can range from a minor nuisance dealt with on a day to day basis to an event that significantly impacts on the future of the organisation. Formal processes for managing risk are continuing to improve and are becoming more relevant for middle market organisations.

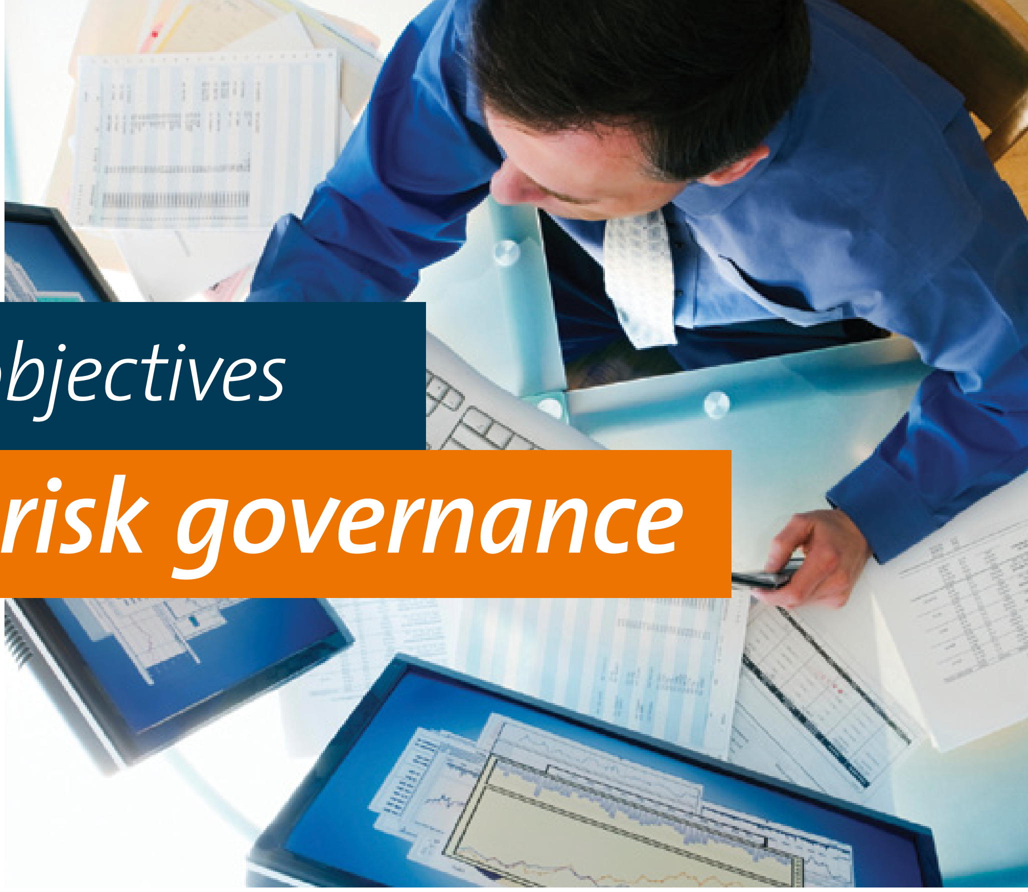
Risk management in Australia

Interestingly, Australia is leading the world in structuring and implementing organisational processes for managing risks. We have always recognised that risk management is part of effective management practice and that risk based thinking needs to be embedded in each corporate decision. Companies that understand and manage risk exposure tend to become more resilient to the changing environment and are better able to identify and harness opportunities.

A decade on, the Australian Risk Management Standard 4360 initially developed in 1994 and revised in 2004, has become the basis for the International Risk Management Standard ISO 31000:2009 with processes applied by Australian organisations being directly transposed into the international standard with little change.

Deriving value from an established risk management process

The reason for Australia's success in developing world leading, risk management processes, boils down to our



organisational objectives

improved risk governance

recognition that risk management is a key component in achieving better practice corporate governance and assisting company directors and executives in meeting their key risk management duties.

Established risk management processes help:

- Improve the ability to identify risks (at all levels) and ensure these are understood and managed by staff with sufficient authority to undertake appropriate actions;
- Provide methods for assessing the level of risk exposure and whether mitigation mechanisms (e.g. business process controls, insurance, contractual agreements) reduce the risk to acceptable levels;
- Prioritise actions and investment in risk reduction;
- The organisation to do more with less, by identifying areas which may be over controlled or inefficient; and
- Build a risk aware culture where employees consider how their actions can expose themselves and the company to risk.

It is sometimes hard to quantify the true benefits of risk management as one may not know whether a risk would have eventuated without effective mitigation measures. Rather, the benefits are more evident when assessing organisational failures and poor business decisions. These include highly publicised risk management and corporate governance failures such as HIH Insurance ($5 billion in losses and the imprisonment of members of management) through to thousands of small to medium company failures recorded every year.

While some believe that Risk Management processes are only applicable to larger organisations, this attitude is changing. We are now seeing many middle market and even smaller organisations establishing effective risk management processes.

Are your risk management processes working as expected?

In addition to the formalisation of informal and intuitive risk management practices, company directors and executives are looking for increased comfort that risk management processes and controls are working effectively, and as expected. This is often addressed by an Internal Audit function. Internal Audit whether managed internally, co-sourced or outsourced, is independent of management, generally reports to the CEO and Board and is tasked with:

- Assisting in the development and review of risk management processes. This can include providing training and tools as well as providing detailed suggestions on the structure of the risk management processes;
- Reviewing management's assessment of risks and whether key controls are working as expected;
- Providing ways to improve business processes that produce improved results with higher efficiency and lower levels of risk; and
- Identifying areas that may be over controlled and presenting strategies for shifting resources to parts of the business that have a higher exposure to risk.

Considering internal audit from a risk management and business process improvement perspective represents a shift from a pure transaction testing and compliance-based approach, and means that organisations can derive increased value from their internal audit functions.

Internal audit considers the interaction of the business processes within areas internal and external to the organisation, as well as technology platforms, structure and support for staff and policies and procedures.

A modern internal audit approach is aimed at delivering an output that has a broader organisational impact. It has a greater focus on how the business processes are operating from an effectiveness and efficiency perspective, and helps ensure that business process risks are appropriately mitigated and controlled.

While improvements identified through internal audit activates can be varied, one common and topical improvement category involves the increased utilisation of IT systems in controlling processes and automating laborious work tasks. From a risk mitigation perspective, well established IT system controls provide consistent and ongoing comfort that the processes are functioning as required. Efficiency gains are realised through streamlining operations and reducing manual or paper based processes.

What's **New**

For comments on this edition or if you wish to be removed from the *Contact* mailing list please email us at **editor@pitcher.com.au**

Out and about

Opportunities abound on the subcontinent

A recent sabbatical to the subcontinent which included delivering audit training to Pitcher Partner network firms in Bangladesh, India and Sri Lanka has inspired Pitcher Partners Technical Standards Partner Dianne Azoor Hughes to book her return ticket. Her experience of three very different cultures, each with thriving business environments and manufacturing industries buoyant with competitive production was both exciting and invigorating. Clients interested in cross border activity should consider investigating these regions.

Tax **Diary** April, May & June 2012

21 April 2012	• Lodgment and payment of the March 2012 monthly BAS / IAS. • Lodgment and payment of the third quarter PAYG instalment activity statement by head companies of tax consolidated groups.
28 April 2012	• Lodgment and payment of the third quarter BAS / IAS. • Payment of superannuation guarantee contributions for the third quarter.
30 April 2012	• Quarterly TFN report for closely held trusts for TFNs quoted to trustees by beneficiaries between 1 January 2012 to 31 March 2012.
15 May 2012	• Lodgement and payment of 2011 income tax returns for individuals, companies, superannuation funds, partnerships and trusts not required earlier.
21 May 2012	• Lodgment and payment of the April 2012 monthly BAS / IAS.
28 May 2012	• Lodgment and payment of fringe benefits tax return for the year ended 31 March 2012.
21 June 2012	• Lodgment and payment of the May 2012 monthly BAS / IAS.
30 June 2012	• End of financial year.

Super Trade Mission to India

The Premier of Victoria Ted Baillieu led the state's largest-ever trade mission to India in February, with representatives from over 220 Victorian companies, to boost Victoria's two-way trade and investment partnership with Indian businesses and the Indian community. Rohini Kappadath, Head of Cross-Border Business, represented Pitcher Partners at the Super Trade Mission, along with 300 company and institutional leaders, to explore the substantial new export and investment opportunities for Victorian businesses.

The trade mission included ten major sectors of the Victorian economy including automotive, aviation and aerospace, cleantech, education, food and beverage, ICT, life sciences, professional services, sustainable urban design and tourism. A number of deals were secured across various sectors including education, food, bio-technology, films and research resulting in greater collaboration between Indian and Victorian institutions. A customised schedule of meetings was designed for each sector, with large scale networking events held across various metropolitan cities to showcase top Victorian capability.

Government organised trade missions present an excellent opportunity for Australian companies to make a soft entry into unfamiliar markets. Having access to a large cohort of peers with common goals reduces the challenge and makes the journey of international expansion far more accessible, interesting and achievable.

"There is extraordinary growth occurring in our neighbourhood and we are encouraging Victorian companies to move quickly to capitalise on new opportunities in high growth markets, particularly India and China", said Ms. Kappadath

The last trade mission, led by Louise Asher was estimated to have generated more than $63 million in new exports, $19 million in capital investment and more than 500 jobs in Victoria. The Super Trade Delegation which engaged with businesses in Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Ahmedabad and Pune should surpass that.

It is our understanding that other states are planning Trade Missions to India during 2012. If you would like further information on Australian Trade Missions to India, or the next Victorian Trade Mission to China later in the year, please contact Rohini Kappadath on Rohini.kappadath@pitcher.com.au

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