



## Welcome

In this issue we illustrate how Key Risk Indicators can be used to monitor your business. We also touch on the economic recovery and the increased lending for new housing construction and much more.

If you require any further information on any of the topics we covered, please contact Cutcher & Neale to discuss your needs and how we can work with you to meet these challenges.

**Jarrod Bramble**  
PARTNER

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# Investing in Key Risk Indicators to improve your business

*Key Risk Indicators (KRI's) act as early warning signals by indicating where risks are likely to impact your business outcomes.*

In contrast, Key Performance Indicators (KPI's) are performance measurements designed to provide reporting on results once events have already occurred.

Both are powerful tools, with KRI's having the advantage of being more forward looking and providing an indication of action that needs to be taken. KRI's and KPI's should complement each other, with both being aligned to the strategic vision of the business and with KRI's being collected on a more timely basis to provide management alerts – before any risks eventuate into an issue.

Examples of KRI's are:

- Customer retention rate
- Delivery time versus schedule
- Supplier on time delivery
- Workforce turnover rate
- Workplace accident rate

KRI's are not only doomsayers – they can also provide feedback on areas for improvement. Having useful and timely information at your fingertips can do wonders for generating ideas on how to improve your business and avoid less than desired outcomes.

Implementing KRI's in your business requires some thought in order to make the process meaningful and contributing to business success.

The key is to **identify, verify, collect** and, most importantly, **bring it all together**.

**IDENTIFY:** What strategies are aligned to your objectives and drive your business further? What financial data do you already have that could be collated and summarised. What non financial data can be harvested?



**COLLECT AND VERIFY:** How reliable is the data? Do collection mechanisms need to be upgraded or enforced through improved IT or employee training?

**BRING IT ALL TOGETHER:** What data is more meaningful when combined with other data? Can these be brought together in a simple “traffic light report” that indicates a call to action is required?

Traffic light reporting is an efficient method of KRI monitoring. It provides merging of data into one key management report. KRI's are flagged red, orange or green to indicate the results achieved/not achieved and or the time lines of response required.

The quality of KRI's is also important. Risk indicators are by their very nature indicators. They can be leading (indicative of potential issues that require investigation) or lagging (indicative that risks have become reality and should be arrested).

KRI's can only be useful if they are accurate and timely – after all, there's no point following up a risk that's not really there, or once it has already turned from a risk to an issue.

*Continued on page 2...*



# Investing in Key Risk Indicators to improve your business

This is where IT systems can make a significant impact. Whether it's financial or non-financial data, regularly recorded or on people's desks, systematising collection of KRI information can significantly improve your risk program, allowing for more timely decision making than just when the time for annual accounts comes around.

Not only does automating KRI data collection and reporting make the process more efficient, it also has the benefit of being more objective – although human interpretation is still required.

## 5 Do's and Don'ts for effective KRI's

	DO	DON'T
1	Develop KRI's that are meaningful to elements in your strategic plan.	Simply adopt generic KRI's if they don't appropriately target your risk areas.
2	Investigate and improve the ability of your IT systems to collect and report on data on a continuous basis.	Assume you'll "just know" when "the time is right". You may not realise until the risk has already become an issue.
3	Develop mechanisms to check the quality and accuracy of the data.	Fall victim to the GIGO principle – Garbage In, Garbage Out.
4	Act on KRI messages when red flags (or when green flag ideas) come up.	Think there'll be time to work on this later – it may be too late.
5	Review your KRI's on a regular basis and provide feedback to improve the program.	Let your KRI reporting fall by the wayside because its no longer relevant.

Collecting and reporting on key business data in a meaningful way provides strategies to respond proactively to minimise risk and maximise potential. A little bit of effort can go a long way in improving recognition of risk factors and shortening response times in the business. KRI's are there to support your business efforts, so why not harness the data at your fingertips to make your business more responsive and more profitable?

For more information on KRI's, alignment to your strategy and business, and automating reporting, please contact our assurance services advisors Mark O'Connor and Suzanna Mladenovic.

# Lending data indicates economic recovery is underway – or does it?



It also shows that consumers are consolidating their debt and paying off past debts such as credit cards. While this may not immediately translate into growing consumer demand, it does indicate the balance sheet of consumers is healthier, which should fuel future spending and demand.

Maybe some taxpayers were wise and used the \$900 Government cash incentive to pay off credit card debt!

Lending for “blocks of land” is soaring by an estimated annual rate of growth just under 50%, which is the strongest rate of growth since 2003 when the last housing boom was under way. Lending for “construction and purchase of dwelling” is also at a 34% annual pace which is also the strongest since the last boom.

Even lending for relatively highly discretionary spending “alterations and additions” is now growing by more than 20% a year, again the strongest since the last housing boom.

Given general consumer spending and spending on housing make up most of the demand in the economy; it looks like the recovery is well under way.

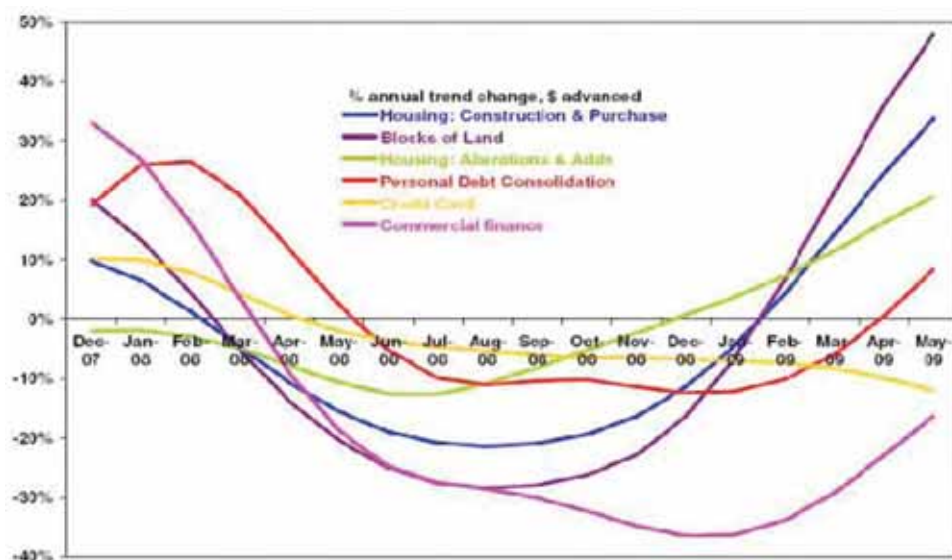
No doubt the Reserve Bank’s slashing of interest rates has also played a part in this turnaround, and it ought to when you consider they were raising rates into a slowing economy from 2005 to 2008, which caused a lot of our existing problems.

However let’s hope we are not creating our very own Australian Sub Prime disaster via first home buyers. The First Home Owners Scheme and associated Bonus scheme, made property acquisition very appealing for younger people trying to get started. One can only hope the banks and other lending institutions have lent money after extensive due diligence has been undertaken.

That is, lending with regard to collateral and ability to repay!

Otherwise the latest lending data maybe the beginning of a new round of debt induced problems and not a recovery at all.

The latest lending data released by the Bureau of Statistics on July 13 indicates the economic recovery is underway and being built on solid ground with significantly increased lending for new housing construction.





# Research and development need not become complicated

Making a claim for Research and Development (R&D) need not become the complicated administrative nightmare that business owners perceive it to be. R&D claims are not too dissimilar to job costing; it's all about having the right tools to do the job and have adequate training in the use of your accounting software.

To account for R&D you need only create an internal job to capture capital, direct and indirect expenditure attributed to R&D. Most entry level accounting packages feature functionality for tracking of job cost information. The issue comes from whether your existing accounting system can handle full absorption costing, i.e. the ability to track not just the costs of labour and material but also all the overhead costs, both fixed and variable. For example one of the costing features of Ostendo operational software is its ability to allow the business to apply a fixed and variable overhead to labour.

Internal systems need to be developed and the appropriate people trained to ensure the correct transactions are being "Tagged" with the internal job code so they can be reported later. Failure to develop and train staff on tracking costs generally results in unreliable information.

There is no point capturing your R&D transactions if they cannot be reported easily from your accounting system. The lack of flexibility in reporting from within entry level accounting systems such as MYOB and QuickBooks make them somewhat cumbersome when reporting internal costing information. Mid Tier and Add-on accounting solutions such as Ostendo provide business owners with the flexibility to capture all required transactions and present them through customised reporting options tailored to meet your reporting needs.

Products like Ostendo make it easy to substantiate your claim with the ability to link to relevant documents from within the job screen. These documents could include independent consulting validating your claim, details of other professional advice and policies relating to the management of technical risks etc.

If you would like any further knowledge on how Ostendo operational software may assist you manage costs within your business please visit [www.cutcher.com.au/Software/Ostendo](http://www.cutcher.com.au/Software/Ostendo). If you require any assistance in capturing your R&D expenditure, or would like a no obligation discussion on how your accounting software can work for you, please give Jeremy a call from the Business Software & System Solution team.

Labour Codes

List Detail

Labour Code: LAB GENERAL Unit: Hours

Description: General Labour

Barcode: Status: Active

Labour Settings: Additional Fields

Category: Software Analysis Group: Power Distribution

Department: Engineering Tax Group: TAXABLE

All Timesheet Entries create new Job or Assembly Lines

Notes

General Notes

Sales Notes

Job Notes

Purchase Notes

Assembly Notes

Job Orders

List Detail Lines

Order No: 100430044 Order Date: 3/08/2009 Status: InProgress

Description: New Software development 2010

Job Type: R&D Job Style: Company Asset

Job Sheet Status: Not Printed Tracking Code:

Settings: Additional Fields: Priority: Pricing & Supply

Credit Terms: 30 days of Month Purchase Order: Internal

Tax Group: Sales Person: Ron Wishart

Project: Job Category: R&D

Job Order Properties

Company Asset: Software Development

New Software: Asset currently at: Company Site Asset Tracking:

Job Discounts

Total Discount: 0 \$0.0000 Batch Update Discount %:

Instructions

Job

Invoice



# It's all good – until you are fined

## Employers responsibilities

In NSW employers and principal contractors are subject to the New South Wales Occupational Health & Safety Act 2000 (OH&S The Act). The Act aims to protect the health, safety and wellbeing of all people at work. The Act sets out general requirements for all employers to ensure that, employees, contractors and other parties have a safe place at work. Such duties include:

- Maintaining safe work sites.
- Ensuring safe use, handling, storage and transport of plant, materials and other substances.
- Providing and maintaining safe systems of work.
- Providing ongoing training and supervision necessary to ensure a safe working environment.
- Providing adequate facilities for employees.

## Penalties and offences

Where there is a failure in the duty to comply with the requirements under the Act, employers are exposed to potential civil fines and penalties. With respect to corporations such penalties can be as high as \$550,000 per event and \$55,000 for individuals.

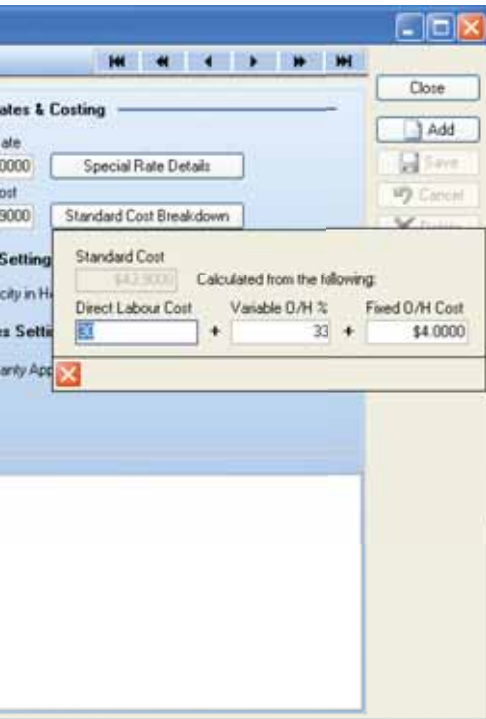
## Claims scenario

In a real case scenario two companies were fined a total of \$305,000 following the death of a Sydney warehouse worker. The warehouse worker died in hospital from head injuries suffered when hit by electrical goods which fell from a forklift on one of the company's premises.

## Solution

Statutory Liability Insurance provides cover for the civil fine imposed and the legal defence costs incurred for unintentional and unintended breaches of prescribed legislation such as the OH&S Act 2000. The policy extends to protect the corporation and individuals including Directors. There are a number of alternative cover and premium solutions to satisfy the individual requirements of larger and smaller businesses. Statutory Liability is cost effective and provides businesses with peace of mind.

For further information please contact Scott Slings, Director of PSC Insurance Group Newcastle on 0408 248 757 or email [scott@pscocoastwide.com.au](mailto:scott@pscocoastwide.com.au)





# Spilling the Beans

*Business Digest speaks with Peter Wakeman, Financial Director from Sunengy.*



**SUNENGY**  
Affordable Solar Power

[www.sunengy.com](http://www.sunengy.com)

Sunengy Pty Limited was incorporated in 2005 after four years preliminary R&D by Scientist and Inventor Phil Connor, on the Liquid Solar Array (LSA) solar power collector. LSA is the first real opportunity for the cost of solar power to be quickly reduced to price parity with coal fired power.

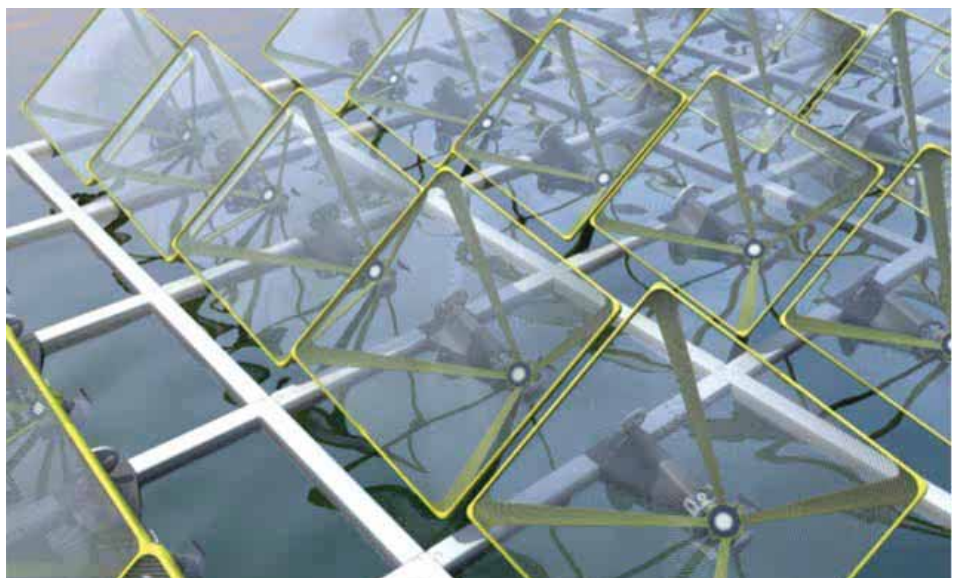
Phil Connor and co-founder Peter Wakeman have been driving both the technical and commercial development of Sunengy for the past four years, working and travelling extensively on a part time basis, to promote and seek investors for LSA. Traditionally, raising capital for R&D within Australia is very difficult as investors and innovators have different perspectives on bringing a product to market; if the product is already developed then capital is much easier raise.

The difficulties in getting through the R&D process are twofold. Investors often don't have a technical understanding of the R&D process but want to gain control; and Innovators

often don't have an understanding of commercial reality but want to hold on too to much to their technology.

Exacting KPI's to time lines and budgets when it comes to R&D is difficult and often the Innovator will want to overstate for practical reasons and the Investor will want it quicker and cheaper. This is all the more difficult when we start to talk about renewable energy and clean technologies and Sunengy has been experiencing these difficulties first hand.

"There are lessons in this process for all" says Sunengy Director Peter Wakeman, "it comes down to the same thing as with any successful venture, the people involved. Let the technology take a back seat for a moment, is there a strong market need and do all parties involved have what it takes to get a good result? Innovators should not take their technology to investors till they're supremely confident and Investors need to understand more about it".



# Cutcher & Neale

## – your one stop shop for all things financial



All you need to do is make one quick phone call and we will provide you with a comparison of competitive quotes from a multitude of lenders. You then select the lender and we will prepare the application and manage it through to settlement and delivery of the equipment.

We have also adopted a similar procedure to assist you with your residential, investment and business lending requirements. In this instance we will arrange a meeting to discuss and analyse your needs and ongoing requirements. We will then provide you with a product matrix and a detailed summary of the four most competitive home or investment products that will fit with your requirements.

Once you have selected the product that you are happy with we prepare and manage your application through to settlement. We will keep you informed on the progress of your application throughout the process.

Cutcher & Neale are always on the look out to add value for our clients. We now have access to Residex Property Comparison Analysis Reports that can be provided to clients when they are considering buying or selling residential property.

The report provides an estimated valuation of the property, sales history, the demographics of the area and up to 40 comparative sales of similar properties in the immediate area. This is an invaluable tool to assist in the negotiation of the sale or purchase of your residential property.

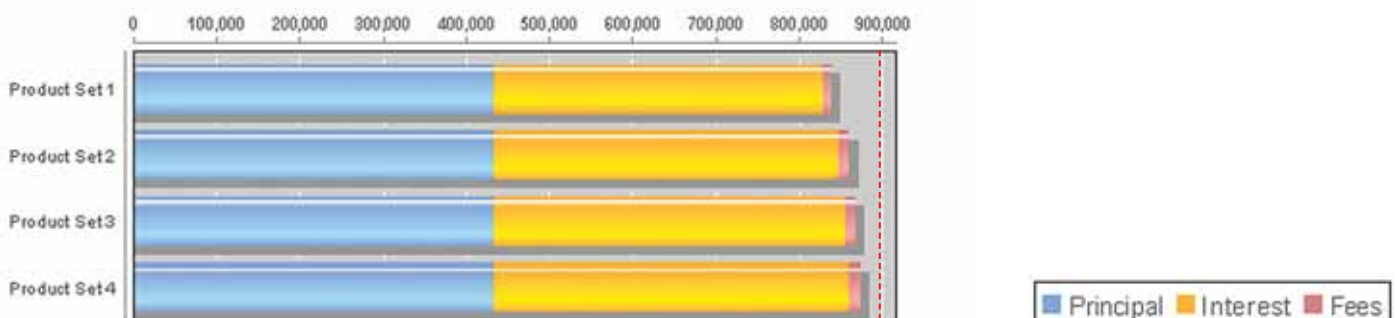
Please contact Alan Johnston, Lending Manager regarding the above services and how we can assist you in reviewing your current lending structure.

In putting into practice the 'one stop shop' concept we are now providing our clients with a few new time saving services.

We now provide comparison quotes for the financing of your vehicle, plant, equipment, trucks and insurance premium funding requirements.

### Summary Report (Settlement Date: July 2009)

	Lender	Product	Principal	Interest	Fees	Total	Difference
Product Set 1		Premium Plus \$250,000 - \$500,000	\$432,500.00	\$396,222.99	\$9,047.00	\$837,769.99	\$0.00
Product Set 2		MAV Standard Variable \$350,000 - \$750,000	\$432,500.00	\$416,122.34	\$10,500.00	\$859,122.34	\$21,352.35
Product Set 3		Breakfree Package Standard Variable \$250,000 - \$700,000	\$432,500.00	\$422,847.76	\$10,200.00	\$865,547.76	\$27,777.77
Product Set 4		Premier Advantage Equity Access \$250k+	\$432,500.00	\$427,559.23	\$11,850.00	\$871,909.23	\$34,139.24



# Diary Dates

## September 2009

- 07 Monthly payroll tax instalment for August.
- 21 Monthly activity statement for August due for lodgement and payment.

## October 2009

- 07 Monthly payroll tax instalment for September.
- 21 Monthly activity statement for September due for lodgement and payment.
- 21 Annual PAYG instalments due for payment.
- 28 Quarterly activity statements for quarter 1, 2009-2010 due for lodgement and payment.
- 28 Superannuation contributions for quarter 1, 2009-2010 to be made.

## November 2009

- 02 Lodgement date for all company and super funds with 1 or more prior returns outstanding at 30 June 09.
- 09 Monthly payroll tax instalment for October.
- 23 Monthly activity statement for October due for lodgement and payment.

## December 2009

- 01 Income tax payment due for companies and super funds that in 2008 were taxable large/medium businesses, companies and super funds with 2 November 2009 lodgement date and super funds which had one or more prior year returns outstanding at 30 June 2009.
- 07 Monthly payroll tax instalment for November.
- 21 Monthly activity statement for November due for lodgement and payment.

# Recent employment taxes changes



## Overseas employment income

Changes have been made to the section 23AG exemption rules for foreign employment income derived by Australian residents who are engaged in foreign service for a continuous period of 91 days or more. This will have the following implications from 1 July 2009:

- An exemption from income tax on foreign employment income will only be available if your foreign service is directly attributable to certain limited types of employment.
- Possible double taxation on fringe benefits provided to Australian resident employees working outside Australia may now apply.
- Employers with workers whose foreign-earned income is no longer exempt are now required to comply with the PAYG withholding rules and may need to withhold two lots of tax.

## Donations made under salary sacrifice arrangements

The FBT Act will be amended to ensure that donations to deductible gift recipients made via salary sacrifice do not result in employers incurring a FBT liability. This amendment is to take effect from the start of the 2008-09 FBT year.

## Superannuation guarantee/contributions

The ATO has recently finalised its public ruling on the meaning of OTE and has included 'ex-gratia' bonuses in OTE where the payment is made in relation to ordinary hours of work. In addition, payments in lieu of notice are now included as OTE.

The Government amended the Superannuation Guarantee (Administration) Regulations 1993 to clarify that employers are not required to provide superannuation guarantee contributions during paid parental leave including under any statutory paid parental leave scheme, or for ancillary leave payments.

From 1 July 2009, salary-sacrificed superannuation contributions made on behalf of employees need to be recorded and reported by employers on employee annual payment summaries (as well as in the annual withholding report for the Commissioner of Taxation).

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