

## **2017/18 Audit – Management report by Moore Stephens Wairarapa Audit**

The management report prepared by the auditors on completion of the 2017/18 audit is attached as Appendix 1. It is normal practice for the Board to formally respond to any findings and recommendations.

There are two principal findings and recommendations. That related to the BNZ Bank Audit Certificate of bank balances as at 31 March has been noted on file and diarised for bring up prior to the end of the next financial year.

The other relates to the capitalisation of expenditure considered by the auditors to be of a repair and maintenance nature. Three transactions that triggered this recommendation are detailed in Appendix 2.

On review it is mine and Daniel Murphy's opinion that the sampling technique adopted by the auditors to identify these individual transactions has ignored the "big picture" of the over-riding driver for the work being undertaken in the first place. It is also worth recording that the auditors did not request any amendment to the Performance Report to address their concern, presumably because they did not consider the transactions to be material.

Daniel and I are clear in our minds what constitutes repairs and maintenance – this type of expenditure prolongs the life of an existing asset in the state it was when originally installed. The transactions referred to in Appendix 2 do not in our view meet this definition and we stand by our accounting treatment:

1. Any expenditure associated with the acquisition or sale of an asset should properly be offset against the value of the asset on sale or disposal and therefore capitalised. For example, this would include agents' fees for marketing and brokering a property sale or the legal costs involved in acquiring property.
2. Any expenditure, other than for purely decorative purposes, that results in a change to the fundamental condition or original layout of a property in order to meet a tenant's fit-out requirements should be capitalised as an improvement. For example, this would include demolishing existing partition walls that are otherwise in perfectly good and serviceable condition, installing new stud partition walls to create a new layout or laying a new floor covering where previously there was none.

The first transaction in Appendix 2 falls into category 1 above, being just one component of the cost of marketing our High Street, Carterton properties for sale.

Daniel and I are firmly of the opinion the other transactions fall into category 2. The concrete floor in what is now Bayleys was perfectly serviceable as it was but the tenant desired a specific finish in place of new carpet as part of a fit-out. The "no parking" sign was brand new and installed specifically at the tenant's request.

I recommend the Committee resolves to authorise me to draft a response to the management report, for Board approval at a later meeting, that notes the follow up action dealing with the 31 March BNZ Bank Audit Certificate and confirms the Board's satisfaction with its accounting treatment of investment property transactions.

Kevin Murphy  
General Manager