

Audit arrangements report

Greytown District Trust Lands Trustees

For the year ended 31 March 2019

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Executive summary

This report details the audit planning process of the Greytown District Trust Lands Trustees ('The Trust') in accordance with International Standards on Auditing (NZ) and the terms of our engagement as set out in our audit engagement letter. This report serves to communicate to you of the significant audit risks identified during the planning process and invites the Board to consider whether there are any further areas of risk they consider we should be focused as your auditors.

We would like to emphasise that our audit work involves the review of only those systems and controls in your organisation upon which we rely for audit purposes. Our examination may not have identified and should not be relied upon to identify all internal control weaknesses that may exist.

Audit scope and objectives

Moore Stephens Wairarapa Audit is appointed as the auditor of the Performance Report of the Trust.

Moore Stephens Wairarapa Audit's responsibilities include a requirement to express an opinion on your trust's performance report arising from our audit conducted in accordance with International Standards on Auditing (NZ).

Our audit objectives are to:

- report on whether the performance report shows a true and fair view, and
- report to management and those charged with governance about any significant weaknesses that are identified in the systems of internal control that should be addressed by your organisation.

A good internal control environment would have adequate segregation of duties over important financial processes, and independent reviews as compensating controls should it not always be practicable for the duties to be separated.

Confirmation of audit independence

In conducting our audit, we are required to comply with the independence requirements of the Code of Ethics issued by the Professional Standards board of the New Zealand Institute of Chartered Accountants and External Reporting board.

Our own internal policies and procedures are put in place to identify any threats to our independence, and to appropriately deal with and, if relevant, mitigate those risks.

We confirm we have performed audit conflict checks of all Partners and Associates of the Moore Stephens network firms and of all members of the audit engagement team, and we advise that there are no conflicts identified.

For the comfort of the Board, we note that the following processes assist in maintaining our independence:

- No other work is permitted to be undertaken by any Moore Stephens office without the express approval of the audit engagement partner.
- All services performed by any national Moore Stephens office will be reported to the Board.

We have not provided any non-audit services to your trust.

Audit logistics

Timetable

The agreed timetable for the audit is as follows:

	Date
Performance report ready for audit	13 May 2019
Reconciliations and working papers and availability of source records (per our audit preparation checklist)	13 May
Year-end audit, including on-site visit	15-17 May
Audit adjustments issued	13 June
Adjusted Performance report returned to Moore Stephens Wairarapa Audit	17 June
Audit clearance subject to satisfactory resolution of all outstanding matters	17 June
Audit report issued	21 June
Report to the Board issued	5 July

Personnel

The key members of our client service team are:

Engagement Partner: Michael Rania
 Audit Manager: Adrienne Dempsey
 Senior Auditor: Byron Lynds

Other auditors may also become involved in the audit.

Audit fee

Our fee for the audit of the 2019 performance report of the Trust is *in the range of \$7,150 and \$7,250 (2018: \$7,000)* exclusive of GST and out-of-pocket disbursements.

Our fee is based on our knowledge and perception of the trust's financial position, internal control environment and accounting and auditing standards.

Our fee is based on the following conditions:

- The performance report will be available at the commencement of the audit
- Clear 'mapping' between the trial balance and the performance report will be available by the commencement of the audit
- All balances are adequately reconciled and reconciliations, working papers and supporting documentation are provided for all key financial statements items including all revenue items, payroll, property plant and equipment and investment properties, GST etc as set out in our audit preparation checklist
- Cash flows statement is supported by a soft copy Excel spreadsheet workpaper
- Assistance is provided in an immediate manner to reasonable requests for additional information and schedules of analysis throughout the audit.

We have included a copy of the audit preparation checklist for you, which is a list of the information and documents that we would normally request during an audit. We wish to point out that the checklist is not intended to be an exhaustive list of our requirements, and additional information may be requested during the audit.

Key financial statement audit risks

We have set out below areas we have identified as risks, and our planned audit approach. We ask the Board to review this and if there are any further areas you consider as risks of misstatement in the year-end financial statements we invite you to make contact us to discuss so we may incorporate them into our audit plan.

1. Revenue Recognition

Identified audit risks

The Trust's key revenue is in the form of rents received, recoveries and annual investment property revaluations and gain/ (loss) on sale. A key risk of material misstatement is in relation to revenue recognition.

Under International Auditing Standards (New Zealand) there is also a rebuttable presumption of fraud risk in relation to revenue recognition.

Planned audit response

We will examine primary documentation and determine whether revenue has been recognised correctly with the applicable accounting standards.

2. Systems of internal control

Identified audit risks

The systems of internal control should be adequately kept and monitored over important financial processes where there is risk of material misstatement whether caused by error or fraud. Due to your limited number of staff, separation of duties may not always be practicable to achieve the desired level of internal controls. In these instances, review and approval processes should be employed as compensating internal controls.

Under International Auditing Standards (New Zealand) there is a rebuttable presumption of fraud risk in relation to management override of controls.

Planned audit response

We will document, test and evaluate the systems of internal control. We will also consider the fraud risk factors by which material misstatement could occur in your organisation, and design our audit procedures in response to those risks.

We will report to management and those charged with governance any significant weaknesses identified during the year and maintain a watching brief over those weaknesses reported in the previous year's Report to the Board, together with recommendations for improvement.

3. Going Concern

Identified audit risks

The performance report is prepared on a going concern basis, the validity of which depends on the Trust's ability to settle its obligations in the foreseeable future as they fall due (12 months from signing our Independent Auditor's Report).

Planned audit response

We will consider and review the going concern assumption in accordance with ISA (NZ) 570 *Going Concern*.

Should there continue be a working capital shortfall and projected working capital shortfall for the foreseeable future, then we would expect to be presented with the following year's (2020) Budget together with notes and assumptions and a body of supporting evidence for the going concern assumption or otherwise.

We would then assess whether the preparation of the performance report on the going concern basis is appropriate.

Management judgements and estimates

Under International Standards on Auditing (NZ) we have a responsibility to ensure that you have been informed about the process used by the Trust in formulating particularly sensitive accounting estimates, assumptions or valuation judgements.

The most significant areas of judgement, assumptions and estimates applied by management relate to:

- Investment Property revaluations
- Going concern.

We are not aware of other sensitive accounting estimates, assumptions or valuation judgements made by The Trustees.

Matters requiring Board input

So you are aware as part of our audit we will be placing reliance on the Board's review and approval of the following matters:

- Board meeting minutes
- Implementation of such controls as is needed to ensure that performance report are presented fairly
- Management accounts
- 2019 budget and 2020 budget if available
- Notification of fraud; and
- Performance Report.

In addition, towards the end of the audit we will be seeking a letter of representation from the Chair of the Board. This will seek confirmation that appropriate accounting policies have been effectively applied, all statutory requirements have been met, all relevant legislation complied with and all material transactions have been included in the performance report.

In accordance with Auditing Standards we will present management and those charged with governance any errors identified during our audit testing that remain uncorrected in the performance report that are greater than 'clearly trivial'. The clearly trivial threshold will be determined in accordance with Moore Stephens methodology. You will be required to approve any errors left uncorrected at the conclusion of the audit (should there be any).

We will also report to management any weaknesses we may identify in the systems of internal control and procedures related to monitoring the prevention and detection of fraud and error. However, we remind the Board it remains the responsibility of those charged with governance for establishing and maintaining systems of internal control designed to reduce the opportunity for fraud through misstatement or misappropriation to occur in your organisation.

Accounting policies

Auditing standards require that we communicate to you qualitative aspects of the trust's accounting practices and financial reporting.

You have elected to prepare Public Benefit Entity Simple Financial Reporting – Accruals (PBE SFR–A). There have been no changes in accounting standards for periods beginning on or after 1 January 2018 which would affect The Trust.

Materiality and adjusted and unadjusted differences

Materiality means, in the context of an audit or review, if financial or non-financial information is omitted, misstated or not disclosed it has the potential to affect the decisions of users of the performance report. Materiality is used by auditors in making judgements on the amount of work to be performed, which balances require work and for evaluating the financial information in the performance report. Materiality is initially calculated at the planning stage and has an influence on the amount of work we do, as well as where we direct

our audit efforts. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.

During the course of our audit if we identify material misstatements we will report them to you in our Report to the Board. If there are any unadjusted differences (none of which we consider material, either individually or in aggregate) we will also report these to you.

The auditing standards do not require us to communicate misstatements that are considered “clearly trivial” and as such, if we identify such misstatements we will not communicate these to you. We consider “clearly trivial” to be 5% or less of our performance materiality.

Going concern

As part of our audit planning we will undertake a review of the ability of the trust to continue as a going concern for 12 months from signing the audit report and whether the going concern basis for the preparation of the performance report is appropriate.

The assumption of going concern will be concluded as appropriate based on the trust’s funding sources and its operating budget for following financial period. We will review this as part of our audit procedures.

Fraud

During the audit, if any matters relating to fraud, concerning either employees or management, come to our attention we will report them to you. It should be noted that our audit is not designed to detect fraud however, should instances of fraud come to our attention, then we will report them to you.

Compliance with laws and regulations

From our enquiries made we have not become aware of any instances of non-compliance with laws and regulations which has materially impacted the financial position or performance of the trust. We will continue to consider legal and regulatory compliance throughout the audit engagement.