

# Report to the board

Greytown District Trust Lands Trustees

For the year ended 31 March 2019

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## Executive summary

This report details the processes, findings and recommendations from our audit of Greytown District Trust Lands Trustees (the Trust) performance report including the financial statements, entity information and statement of service performance in accordance with International Standards on Auditing (NZ) ("ISA (NZ)") and the terms of our engagement as set out in our audit engagement letter.

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 control weaknesses that exist.

Overall, we are satisfied that the Trust has presented its results for the year ended 31 March 2019 to an adequate level of compliance with applicable financial reporting standards.

We would like to thank Kevin Murphy, Helga Perry and Daniel Murphy for their cooperation extended to us during the course of the audit. We have received full and frank cooperation. There is nothing we wish to raise solely with the Board.

## Confirmation of audit independence

In conducting our audit, we are required to comply with the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards 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.

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 governing body.

We have no other relationship with, or interests in, the Trust.

## Key performance report audit risks

We have set out below our findings in areas we have identified as risks. We request that you review these outcomes on the significant accounting and audit matters identified to ensure that there are no further residual considerations or matters that could impact these issues, that you concur with the resolution of the identified risks and that there are no additional issues you may be aware of that should be considered before finalisation of our audit report.

### 1. 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 ISA (NZ) there is a rebuttable presumption of fraud risk in relation to management override of controls.

#### Conclusion of our work

We have assessed the systems of internal control throughout the course of our audit work and found these to be adequate.

Any deficiencies in internal controls that we have identified are reported in our Findings within this report.

## 2. Accounting for Property revaluation

### 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.

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### Conclusion of our work

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### Management judgements and estimates

Under ISA (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. Overall, we note that the judgements and estimates by management in preparing the results for the year ended 31 March 2018 appear reasonable.

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

- Revaluation of the property portfolio. We are aware that the Trust engaged the professional services of Garry M Dowse (FNZIV, FPINZ), Registered Public Valuer of the Blackmore Group, to carry out the 31 March 2019 property portfolio valuation.

### Matters requiring Board input

We have placed reliance on the Board's review and approval of the following matters:

- Minutes of the Board meetings;
- Implementation of such controls as is needed to ensure that performance report is presented fairly;
- Notification of fraud; and
- Performance Report.

### Accounting policies

Auditing standards require that we communicate to you qualitative aspects of the Trust's accounting practices and financial reporting. The Trust's performance report follows Simple Format Reporting – Accruals (SFR-A) for Not-for-Profit ("Tier 3") Reporting entities.

The Trust has elected to adopt the Public Benefit Entity International Public Sector Accounting Standard 16 Investment Property (PBE IPSAS 16) and Public Benefit Entity International Public Sector Accounting Standard 17 Property, Plant and Equipment (PBE IPSAS 17) in reporting on the Trust's property portfolio.

### Materiality and adjusted / unadjusted differences

Materiality means, in the context of an audit or review, if 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 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 we have identified no material misstatements which has been requested and made to the performance report. Refer to Appendix 1: *Adjusted and Unadjusted Differences*.

It should be noted that 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 planned materiality.

## Going concern

Management and governance are required to make a formal assessment on going concern. Under Auditing Standards, we are required to review this assessment for appropriateness.

Paragraph 15 of ISA (NZ) 570 (Revised) states:

15. *The auditor shall enquire of management as to its knowledge of events or conditions beyond the period of management’s assessment that may cast significant doubt on the entity’s ability to continue as a going concern.*

The assumption of going concern was concluded as appropriate.

## Fraud

During the audit, no matters relating to fraud, concerning either employees or management, have come to our attention in respect of the Trust. It should be noted that our audit is not designed to detect fraud however, should instances of fraud come to our attention, we will report them to you.

## Compliance with laws and regulations

We have made enquiries in relation to compliance with laws and regulations during the course of our audit. 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.

## Audit Readiness

The 2019 performance report, supporting accounting work papers and other information were supplied to us at the outset of the audit.

To assist in the timely completion of subsequent audits however, please ensure the following documents are also provided at commencement:

- Settlement statements prepared by the Lawyers to support all Agreements for Sales and Purchase of Real Estate.

## Overall result

There are no material weaknesses arising from our audit.

Our audit work is essentially complete. We have issued an unmodified audit report on the Trust's 2019 performance report.

To enable management to set priorities on their action plans we have assessed our findings on the following basis, namely, critical, high, moderate, and low based on our assessment of the importance of each finding. Classifications of findings are detailed in Appendix 2 of this report.

These findings and recommendations are discussed and agreed with the Trust's management and those charged with governance.

	Critical	High	Moderate	Low
Number of findings	-	-	1	-

Provided below is a summary of key findings:

Item no	Findings and recommendations	Rating
1	Revaluation decrements are not recognised in the Fixed Asset Register	Moderate

## Summary of findings

1. Revaluation decrements are not recognised in the Fixed Asset Register	Rating of finding: <b>Moderate</b>
<b>Background</b>	
We noted that revaluation decrements are not recognised in the fixed asset register.	
<b>Implications</b>	
The fixed asset register should be reconciled and agree to the statement of financial position.	
<b>Recommendation</b>	
We recommend that the fixed asset register be updated for all annual revaluation increments and decrements.	
<b>Management comments and actions</b>	
Xero does not allow us to enter in negative movements (at the fixed asset register level) – so we have an excel reconciliation to cover off the correct position, but the asset register cannot be fully reconciled within Xero because of the software restriction.	
This can be corrected in a financial year where the net increase in value is realised upwards. So it is not always an issue year on year. ie. This year Land is ok, but buildings went down.	
This is something we had previously flagged up to Bruce, and we agreed that the workpaper outside of Xero would have to suffice as the master document in the above case.	
9 July 2019	
Responsibility:	Target date:

## Appendix 1: Adjusted and unadjusted differences

### Adjusted differences

The following differences were identified from the audit and adjusted into the financial statements at our request.

Description	Assets	Liabilities	Equity (Reserves)	Net Surplus/(Deficit)
	\$	\$		\$
Net surplus/(deficit) for the year				787,886
Net effect of adjustments made:				-
Final net surplus/(deficit) for the year				787,886

### Unadjusted differences

There were no unadjusted differences at the conclusion of the audit.

## Appendix 2: Findings rating

The following framework for ratings has been developed to facilitate discussion with the Trust's management in order to prioritise issues according to their relative significance.

Rating	Definition
<b>Critical</b>	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.
<b>High</b>	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.
<b>Moderate</b>	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.
<b>Low</b>	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.

Appendix 3: Update on findings from previous year

Topic / issue	Description and recommendation	Update	Management's comment
<p><b>Improvements to Investment Property Transactions account</b></p> <p>2017 Report to the Board</p>	<p>Audit noted that this account records certain improvements to properties held in the trust's portfolio. At year-end these transactions are essentially capitalised and washed up into the revaluation account.</p> <p>There is nothing wrong with this treatment, except that some transactions within this account are of a repairs and maintenance nature and should instead be expensed through the statement of financial performance. For example – purchase of a parking sign, plastering, re-carpeting are repairs and maintenance transactions, which should not be capitalised.</p> <p>The trustees could consider establishing a separate expense code where repairs and maintenance work is recorded but that can still be presented in your accounting records (ledger) as property improvements.</p>	<p>No exceptions noted.</p>	<p>Noted.</p>
<p><b>BNZ bank audit certificate</b></p> <p>2016 Report to the Board</p>	<p>We noted that the BNZ bank audit certificate is not sent directly to us. A requirement of the auditing standards is that confirmations are sent directly to auditors. Please contact BNZ and request that future bank audit certificates are sent to us. (The WBS certificate is sent directly to us).</p>	<p>Matter resolved.</p>	<p>To action.</p>