

REPORT TO THE TRUSTEES

Eastern & Central Community Trust
Statutory audit for the year ended 31 March 2017



23 March 2017

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1 Report Purpose

We are pleased to present our report relating to matters identified during the planning phase of our external audit of Eastern & Central Community Trust (the Trust), for the year ending 31 March 2017 ('reporting date').

Under the requirements of *International Standards of Auditing (New Zealand)* ('ISA(NZ)s') we are required to undertake certain activities. ISA(NZ) 260 '*Communication of audit matters to those charged with governance*' requires us to communicate certain matters arising from the audit of financial statements to those charged with governance of an entity.

This Report to the Trustees ('board') discharges part of the requirements of ISA(NZ) 260.

2 Audit Scope and Responsibilities

Management is responsible for preparing financial statements that are fairly presented and for implementing appropriate internal control systems. The board has oversight and ultimate responsibility for this process.

Our overall responsibility as external auditor of the Trust is to undertake our audit in accordance with ISA(NZ)s to express an opinion on the financial statements. Our audit does not relieve you of your responsibilities in relation to the financial statements. We will also provide a report on the Trust summary financial statements.

Our audit will be conducted in accordance with ISA(NZ)s to provide reasonable assurance that the financial statements present fairly, in all material respects, the financial position of the Trust as at reporting date and its financial performance and its cash flows for the period then ended in accordance with not-for-profit public benefit entities applying reduced disclosure requirements as applicable to Tier 2 entities (PBE IPSAS RDR).

3 Auditor Independence

We confirm we are independent of the Trust.

People and relationships

We confirm none of our directors or staff has any relationships with the Trust that in our professional opinion could impair our independence.

Services

Our firm does not provide any services which are incompatible with auditor independence.

4 Overview of Planning Procedures

We will undertake a risk based audit of the Trust.

Fraud risk

ISA (NZ) 240 '*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*', requires us to raise the following matters

- fraud risk in relation to revenue recognition is a presumed significant risk.
- management override of controls is a presumed significant risk.

RISK AREA	EXPLANATION	PLANNED AUDIT APPROACH
<i>Fraud related to revenue recognition</i>	There is a presumption that there are risks of fraud in revenue recognition under the auditing standards.	<p>We have updated our understanding of the Trust's revenue recognition processes as well as the accounting policies to be adopted.</p> <p>We are satisfied with the proposed revenue recognition processes and accounting policies.</p> <p>We will carry out substantive procedures over the Trust's revenue to assess the accounting treatment as being in line with the proposed accounting policies and accurately recorded and disclosed.</p>
<i>Management override of controls</i>	Management is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable nature in which such override could occur, there is always a risk of material misstatement due to fraud.	<p>During our audit planning we did not identify any specific additional risks of management override of controls.</p> <p>We will carry out appropriate substantive procedures over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or otherwise appear unusual.</p>

Financial statement risk

As part of our planning, the following matters have been identified as having heightened audit risk for material misstatement in the financial statements. These areas are those that we have identified as incorporating significant aspects of accounting practice and financial reporting, being subject to management's judgments and accounting estimates and financial statement disclosures.

RISK AREA	EXPLANATION	PLANNED AUDIT APPROACH
Valuation of portfolio investments	Portfolio investments are fundamental to the financial statements as they are significant and carried at fair value with changes in value reported in the Statement of Comprehensive Revenue and Expense (SOCRE).	We will carry out substantive procedures to ensure the investments are accurately recorded and properly disclosed. The revenue verification is a corollary of this work. We will be placing reliance on the reports from service organisations responsible for the investment reporting.
Valuation of derivative financial instruments	Derivatives are carried at fair value with changes in value reported in the SOCRE.	We will carry out substantive procedures to ensure the derivative financial instruments are accurately recorded and properly disclosed.
Accounting for and valuation of non-listed private equity investments	The designation of these investments will determine the accounting treatment. Fair value techniques will be applied to determine fair value.	We will review management's advice and assessment of the accounting treatment to be applied. We will also critically review the methodology applied in arriving at fair value.

5 Key Cycles

With respect to the following key cycles, we plan to update our understanding of the key controls and evaluate their design effectiveness.

- Revenue cycle
- Donations cycle
- Expenditure cycle

We plan to rely on the controls over the Donations cycle for the purposes of our audit testing.

6 Audit Timetable

The following outlines the audit timetable that we have agreed with management:

Audit planning with management	23 January 2017
Planning visit & on-site work	28 February 2017
Audit & Risk Committee - plan presentation	23 March 2017
Draft financial statements due	4 May 2017
Audit field work commence	4 May 2017
Audit field work finish	12 May 2017
Audit partner clearance	22 May 2017
Audit & Risk Committee - clearance on financial statements	25 May 2017
Board sign-off annual report	26 May 2017
Annual report in Gazette	30 June 2017
Annual public meeting	TBA

7 Materiality

Auditing standards define misstatements and omissions as being material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Our preliminary assessment of the Trust's materiality is based on the level of donations made by the Trust. This is considered to be the most relevant figure for the users of the financial statements of a donor organisation.

Our quantitative preliminary assessment is set at 3% of donations which is \$159,000. We will report to the Board any unadjusted differences identified during the audit that are greater than \$13,500.

We will encourage management to correct any errors identified by audit however, if uncorrected, we will request the Board to confirm that these amounts are not material to the financial statements.

8 Factors Impacting Financial Reporting

DEVELOPMENT	KEY REQUIREMENT	IMPACT
The International Auditing and Assurance Standards Board ("the IAASB") has made a number of changes to the structure and content of audit reports.	<p>These changes have been brought about by the issue of a new International Standard on Auditing ("ISA") and the revision of a number of existing ISAs. The new and revised ISAs are effective for audits of financial statements for periods ending on or after 15 December 2016.</p> <p>The key changes introduced by the new and revised standards are:</p> <ul style="list-style-type: none"> • The requirement to present the audit opinion at the beginning of the audit report • An increased focus on going concern matters • A new requirement to communicate key audit matters (this is only required for the audits of financial statements of FMC reporting entities (ie not the Trust)). <p>Key audit matters are those matters that the auditor views as most significant. The audit report will be required to identify key audit matters, and, for each key audit matter:</p> <ul style="list-style-type: none"> • State why the matter was one of most significance to the audit • Explain how the matter was addressed in the audit • Reference any related disclosures in the financial statements. <p>Matters related to going concern may be determined to be key audit matters (as going concern may be a significant auditor judgement in forming the opinion on the financial statements as a whole).</p>	<p>The IAASB's new and revised standards have been adopted by the New Zealand Auditing and Assurance Standards Board ("the NZAuASB"), which is a sub-board of the External Reporting Board, for application in New Zealand.</p> <p>We have prepared a template audit report to show what the audit report for 2017 is expected to look like.</p>

9 Fees

Our fee estimates for the year ended 31 March 2017 (as detailed in our audit proposal) are as follows:

	2017	2016
<i>Assurance services:</i>		
Audit of the financial statements	\$16,800	\$18,100
Reporting on summary financial statements	\$920	\$1,220
TOTAL ASSURANCE SERVICES	\$17,720	\$19,320
<i>Other services:</i>	n/a	n/a
TOTAL OTHER SERVICES	n/a	n/a
TOTAL	\$17,720	\$19,320

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Our Team

Your Staples Rodway Audit Limited audit team is:

Engagement partner	Philip Pinckney	ppinckney@stapleshb.co.nz
Audit manager	Vipin Thomas	vthomas@stapleshb.co.nz
Audit team	Corey Hamilton, Tane Huata	



www.staplesrodway.co.nz



INDEPENDENT AUDITOR'S REPORT

To the Trustees of Eastern and Central Community Trust

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Eastern and Central Community Trust (the Trust) on pages 2 to 3, which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statement of financial position of the Trust as at 31 March 2017, and its statement of comprehensive income and its statement of cash flows for the year then ended in accordance with Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR).

This report is made solely to the Trustees of Eastern and Central Community Trust, in accordance with the Community Trusts Act 1999. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustees of Eastern and Central Community Trust, for our audit work, for this report or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Trust in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, Eastern and Central Community Trust.

Responsibilities of the Trustees for the Financial Statements

The Trustees are responsible on behalf of the Trust for the preparation and fair presentation of the financial statements in accordance with PBE IPSAS RDR, and for such internal control as the Trustees determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible on behalf of the Trust for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Trustees and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.

We communicate with the Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is Philip Pinckney.

STAPLES RODWAY AUDIT LIMITED

25 May 2017