PLAYCENTRE AOTEAROA NEW ZEALAND

AUDIT COMPLETION REPORT

FOR THE YEAR ENDED

31 AUGUST 2020

21 May 2021

Ruth Jones & Avis Stewart
Co-Presidents
Trustee Board
Playcentre Aotearoa Group

Dear Avis & Ruth,

We have pleasure in presenting our Audit Completion Report for our audit of the financial statements for Te Whānau Tupu Ngātahi o Aotearoa Playcentre Aotearoa ("Playcentre Aotearoa New Zealand") for the year ended 31 August 2020.

The report is intended solely for the use of the Board of Playcentre Aotearoa New Zealand and presents a summary of the more significant matters arising from our audit procedures in forming an audit opinion over the financial statements. It also includes reporting by us on matters we are required to under International Standards on Auditing.

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 on for audit purposes. Our examination may not have identified, and should not be relied upon to identify, all control weaknesses that may exist.

We take this opportunity to express our appreciation for the assistance and co-operation provided by Marina Cook and her staff during the audit.

Yours faithfully,
BDO WELLINGTON AUDIT LIMITED

Geoff Potter
Partner
Audit & Assurance Services

DDI: 04 498 3864
Email: Geoff.Potter@bdo.co.nz

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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

Our audit of Playcentre Aotearoa New Zealand's ("NZ Playcentre") financial statements for the year ended 31 August 2020 is substantially complete. Subject to the resolution of matters arising in this report, review of the final draft financial statements, receipt of a signed letter of representation, approval by the Board of the financial statements and the finalisation of our audit completion procedures.

We have issued a qualified audit opinion over the financial statements of NZ Playcentre, qualified over certain income types only due to a limitation of audit scope resulting in us being unable to conclude on the completeness of those revenue streams. This is a standard qualification for entities of your size and nature, and is the same qualification we have had for FY19. We would be more than happy to talk over this point further if you would appreciate that.

We welcome your feedback on the effectiveness of the audit process and are available to discuss our performance.

AREAS OF SIGNIFICANT RISK AND AUDIT EMPHASIS

Our audit approach considered the inherent risks in your business, their potential impact on the financial statements and the associated risk mitigations and controls in place. The significant matters arising from our audit work are:

- Revenue Recognition
- Completeness of Donations and Fundraising
- Management override of controls
- Property, Plant & Equipment
- Grant Income
- Consolidation
- COVID-19 Impacts
- Going Concern
- Ghost Employees

We were able to obtain sufficient and appropriate audit evidence in respect to these items and have no significant findings to bring to your attention. Refer to Section 2 for our comments in respect to each significant risk and area of audit emphasis.

SUMMARY OF UNCORRECTED MISSTATEMENTS

There were no errors left uncorrected at the conclusion of our audit.

INTERNAL CONTROLS

Our audit approach requires us to obtain an understanding of an entity's internal controls in order to identify assess the risk of material misstatement of the financial statements whether due to fraud or error but is not designed to provide assurance over the overall effectiveness of controls operating within NZ Playcentre.

We have included in Section 3 of this report, a summary of our findings and recommendations arising as a result of our audit procedures.

We have received full and frank cooperation from management and staff in respect to our audit. There is nothing we wish to raise solely with the Board.

2. KEY FINANCIAL STATEMENT AUDIT RISKS AND AREAS OF AUDIT EMPHASIS

Our audit procedures were focused on those areas of NZ Playcentre's activities that are considered to represent the key audit risks identified during the risk assessment process undertaken and communicated with you through the audit arrangements letter at the planning phase of the audit. Below we present a summary of the identified key areas of risk and audit emphasis and our conclusions in relation to each matter. We are satisfied that these areas have been satisfactorily addressed through our audit processes.

REVENUE RECOGNITION	
Area of Audit Emphasis	**Conclusion/Response**
Under International Standards on Auditing (NZ) there is a rebuttable presumption of fraud risk in relation to revenue recognition.	We have specifically reviewed the revenue recognition policy for appropriateness and have ensured that cut-off procedures are operating effectively. Other than one immaterial journal we were required to raise as a part of the FY20 audit, to recognise revenue in line with a grant contract (refer to Appendix 1 for journal raised), we noted no issues with revenue not being recognised appropriately.

COMPLETENESS OF DONATIONS AND FUNDRAISING	
Area of Audit Emphasis	**Conclusion/Response**
Due to the nature of Donations and Fundraising, in some cases being cash, there is a risk of material misstatement around the completeness of donation & fundraising revenue.	In common with other similar organisations, control over some cash revenues prior to being recorded is limited and there are no practical audit procedures to determine the effect of this limited control. Accordingly, the completeness of income from donations and fundraising is unable to be determined. Consequently, we were unable to determine whether any adjustments should be made to the reported amounts for income from these sources. Therefore, our audit report is qualified in regard to the completeness of this income, being a very standard qualification in the not-for-profit sector.

MANAGEMENT OVERRIDE	
Area of Audit Emphasis	**Conclusion/Response**
We have considered whether there are motivations (based on incentives) and opportunities for Management to override or circumvent the systems of internal controls for their advantage that could result in material misstatement of the financial results and position recorded in the financial statements.	Our audit required us to analyse the control environment to see if there were appropriate controls that we could rely on for our financial audit. We identified 2 key controls which we were able to rely on for our audit purposes this year, these were: • Double Signatory on the bank - This control requires two signatories on the account to release payment from the bank to an external party. This mitigates the risk of a fraudulent transaction. • Expense Approval and Segregation of duties – The accounts payable administrator enters invoices into Xero under the appropriate cost code. Approvers have been set up in Xero based on the Financial Delegations policy and have been allocated cost codes in line with this. We tested a sample of expenses throughout the year to check that the expenses had been approved within the delegated authority policy. We noted no issues with our testing. This process illustrates that there is a clear segregation of duties between the employee entering an invoice and the employee approving the invoice which mitigates the potential for a fraudulent invoice getting through. The core control environment from an audit perspective is strong at Head Office and mitigates the risk for fraudulent invoices to be paid out. We would also like to comment on the fact that Head Office adopted Timefiler in FY19. This system allows for electronic approval of timesheets. Although we have assessed a sample of employees' timesheets to check if they were being approved, we did not rely on this as a control for audit purposes due to staff costs being a significant balance in the financial statements and employees being widely dispersed. We understand this control has resulted in cost savings by enabling a clearer and more auditable trail for managers when approving an employee's timesheet. If you would like us to perform specific controls testing work in the future, including areas such as annual leave or any other areas, please get in touch and let us know the areas of concern. Otherwise we have not noted any issues with management override of controls through our audit testing.

PROPERTY, PLANT & EQUIPMENT

Area of Audit Emphasis	Conclusion/Response
As part of our FY19 audit, we explained there was a risk that the property, plant and equipment on the balance sheet is not complete, doesn't exist and is overstated. As part of that audit, we were able to satisfy ourselves that the Property, Plant & Equipment balance was complete and was not overstated, and we able to issue an unmodified "clean" opinion over that area. We commend management on their efforts and help with that work. Nonetheless, this is still a significant balance with a lot of properties, so the Property, Plant & Equipment balance remains an audit risk for our purposes.	We have reviewed movements in property, plant and equipment, obtaining evidence to support those movements. We also performed a review over the journals we raised in FY19 to ensure these were appropriately brought into the trial balance for FY20. One adjustment was required to recognise the Turua Land & Buildings. As explained in our audit plan, we performed title searches over a sample of land (& freehold buildings) to ensure Playcentre had risks and rewards of ownership over these assets. We did identify that South City Playcentre's land & buildings were being recognised when title was not held over those assets, so an adjustment was processed and further analysis was performed, however no other concerns were identified. Lastly, we considered the completeness of this balance by checking for capital items that might have been classified into repairs & maintenance, and also assessed where there were any assets that might require impairment. From the testing performed, we were able to conclude that the Property, Plant & Equipment balance was materially correct & appropriately disclosed within the financial statement notes.

GRANT REVENUE

Area of Audit Emphasis	Conclusion/Response
As part of our interim audit, we were notified that the Playcentre had secured an unconditional grant of $3.7m to support continual operations for another 12 months.	As correctly identified by management, as the grant is unconditional with no use or return clauses, the full amount is required to be recognised when received. The grant was not received until after balance date and therefore will only impact the FY2021 financial statements.

CONSOLIDATION	
Area of Audit Emphasis	**Conclusion/Response**
The Playcentre consolidation is a significant consolidation due to the number of centres being combined into the Group financial statements, and raises a significant risk around data collation and completeness of elimination journals from an audit perspective. We understand that Spotlight reporting is used to pull data from the Xero accounts for the centres, however there is still a risk around ensuring Spotlight is extracting the appropriate figures from Xero and that all eliminations are correctly made due to the number of inter-entity transactions. We were also aware that Centre's often account for transactions on a cash basis, whilst the Parent accounts on an accruals basis, meaning there can sometimes be one sided eliminations within the consolidation. Lastly, there are certain figures, such as the MoE ECE income, which are entered directly at Group level so may differ from the entity level financial statements. This means that there will always be a difference in opening equity for the individual entities.	We have obtained the consolidation schedules from management and have reviewed all eliminating entries. As part of our assessment of eliminating entries, we have reviewed prior consolidations for recurring eliminations, and some adjustments were required into the FY20 Group consolidation. To verify the accuracy of source data, we traced through a sample of Centre balances through to their underlying Xero accounts to gain assurance that the data had not been manipulated. Further, we performed checks to identify any duplicate centre names or duplicate balances, which would not be expected. Although there were some variances identified, these were trivial from an audit perspective so no adjustment was required from this point of view. As expected, we have also tested figures entered at a Group level (separate from the Parent) to ensure they are materially correct. Lastly, we performed analytics over all Centre's balances to ensure all movements appeared reasonable or were explainable. This is how we identified that Turua's land & buildings hadn't been added to the Centre's trial balance. Otherwise, no issues were identified from that testing. We were able to conclude that the consolidation appeared reasonable, & all group balances were materially correct. We commend management on their efforts.

COVID-19 IMPACTS

Area of Audit Emphasis	Conclusion/Response
The COVID-19 outbreak poses a serious global public health threat. It continues to interrupt the movement of people and goods throughout the world, and many levels of government are instituting restrictions on individuals and businesses. The resulting impact on financial reporting has been significant, however as noted within our interim arrangements report, we did not expect a significant impact for Playcentre.	We noted that COVID-19 has not had a significant financial impact on the Playcentre. Our audit testing has been tailored to each financial statement area with specific consideration around the impacts that COVID-19 might have had. Although no audit adjustments were required, we did recommend you disclose what business impact COVID-19 has had on your operations.

GOING CONCERN

Area of Audit Emphasis	Conclusion/Response
As explained within our interim audit arrangements report, we noted that whilst the Parent & Group continue to have positive working capital & liquidity, and significant reserves, losses of this magnitude are not sustainable. Although this wasn't a risk for audit purposes, we did raise this as an area of audit focus.	Based on our review of the financial position, FY21 budgets, and enquiries with management, we continue to agree that the application of the going concern assumptions appears reasonable. The subsequent receipt of the $3.7m grant has further supported this assessment. However, we do recommend that the financial position and forecasts continue to be closely monitored by both management and governance.

GHOST EMPLOYEES	
Area of Audit Emphasis	**Conclusion/Response**
As explained in our initial audit arrangements report, there was an audit risk that due to the size and geographical dispersion of the Group that some employees on the payroll system are "fake" and did not exist or work for Playcentre. Furthermore, there was a risk around employees processing timesheets for multiples roles fraudulently.	We selected a sample of employees from various payruns throughout the financial year. We traced these employees through to signed contracts, as well as seeking confirmation that the employee existed from someone who was independent from the payroll process. Furthermore, we assessed the risk of employees claiming for their time under multiple roles, and did not identify any material concerns. We understand this is linked to the implementation of Timefiler in FY19, and commend you on your efforts. We have not noted any issues with our testing.

3. INTERNAL CONTROL, EMERGING ISSUES AND OTHER AUDIT FINDINGS

This section of the report sets out the key internal control findings we have identified during the course of the audit and highlights control deficiencies requiring management attention. Our work has been limited to those controls relevant to the audit of your statutory financial statements. The purpose of our audit work on controls is not to provide assurance in its own right on the internal controls and therefore we may not necessarily disclose all matters that might be significant deficiencies or deficiencies that heighten the risk of a fraud being perpetrated.

There were potential improvements in internal controls identified to bring to your attention.

The findings and recommendations have been discussed and agreed with the Group's Management.

<table>
<tr><th colspan="2">ANNUAL LEAVE BALANCES</th></tr>
<tr><th>Finding</th><th>Conclusion/Response</th></tr>
<tr><td>From our testing performed, we identified 80 employees who had leave balances that are greater than 20 days. This equates to $102k worth of annual leave entitlements.</td><td>Excessive accumulation of annual leave presents two major risks for the Group:
• The risk that key personnel could take a large portion of their leave and leave the Playcentre short of vital human resources, and
• When an employee has annual leave accrued to this level, the amount required to be paid out as a lump sum is higher than if the leave had been taken and paid out on a regular basis.
Although we understand this balance will fall with employees taking time off over the Christmas holidays, and there are processes in place where Management reviews leave balances 3-4 times per year, we encourage Management to actively work with employees to maintain annual leave levels below 20 days, where possible.</td></tr>
</table>

CONFLICT OF INTEREST REGISTER	
Finding	**Conclusion/Response**
During the FY20 audit, we were unable to receive a listing of potential conflicts to the Board. We review this register to identify any related parties we may not already be aware of, however lack of a formal register made it difficult for us and management to assess whether or not the related parties reported within the financial statements were complete.	Although we understand conflicts are updated at each Trustee meeting, we do recommend that an official register is maintained and updated that specifically notes any entities where a board member has the ability to significantly influence or participate in the financial and operational decision making of that entity. Review of the register should also remove any conflicts that no longer exist.

CREDIT CARD APPROVALS	
Finding	**Conclusion/Response**
We understand that due to the Board not responding on time for Sean's credit card statements to be approved, this approval was delegated to the CFO to avoid late payment penalties.	We recommend that credit card statements with all invoices attached are send to a one up authority to approve prior to payment being made. For the General Manager, this will mean a representative from the Board should be approving their credit card statement in a timely manner, prior to payment.

WHISTLEBLOWING & COMPLAINTS PROCESS

Finding	Conclusion/Response
In response to the engagement team being notified of the Kaiti Playcentre fraud, we have performed a detailed review over your internal processes specifically in regard to whistleblowing. According to ACFE's Report to the Nations, nearly half of all frauds occur due to internal control weaknesses, which we are required to gain an understanding over in our capacity as auditors. However, the objective of an external audit is not to identify fraud. The most effective method to identify fraud is via tips (such as complaints & whistleblowing). Therefore, for the FY20 audit, we investigated your processes here further.	We want to first commend management & governance on the internal processes already in place specifically in regard to Whistleblowing. We understand this whistleblowing policy is shared with new employees, reminded to Playcentre members throughout their employment, and then training is provided to ensure staff continually develop and maintain an appropriate level of skills. The only potential improvement & recommendation we could make from our review is public facing. We believe the most common way a member of the public might want to raise a complaint is via the 'Contact Us' section of an organisations website. However, when reviewing the Playcentre's 'Contact us', there is no explicit mention of how someone might be able to raise a complaint. We recommend reviewing this section of your website & disclosing how a member of the public might be able to raise a complaint. You may also wish to link the whistleblowing policy to that area. An example entity you want to compare to would be Plunket; https://www.plunket.org.nz/contact-us-2/.

LEASES

Finding	Conclusion/Response
On review of lease commitments, we noted that the Playcentre Group has 74 leases (out of the 155 identified) that have renewal dates prior to 31 August 2020, and have therefore expired. All 74 leases are specifically in regard to leasehold buildings you have on privately owned land (such as MOE or Council land). As these leases have expired, Playcentre has no contract to fall back on if the landowner wanted to reclaim their land, or required you to remove your buildings. This may have significant operational implications if you were required to move those buildings.	We recommend a review of these leases to ensure leases are renewed where they have expired. We do understand that this review process has started, and commend management on their efforts, however we did want to bring this to Governance's attention.

KOHA	
Finding	**Conclusion/Response**
We have noted that rather than staff expense claiming or using accounts to purchase sundry items & Koha, gift vouchers are being distributed instead leaving no record of the actual cost, GST, or item being purchased.	To enable transparency of expenditure and to allow for the Playcentre to claim GST on those sundry purchases, we do recommend that gift vouchers are not used.

CENTRE YEAR END BANK DOCUMENTATION	
Finding	**Conclusion/Response**
We would like to acknowledge that the collection of bank statements and term deposit certificates took some time this year, and was one of the last processes to be completed. Although we acknowledge the Centre's Xero's are linked directly to bank feeds to bring in sales & purchases, there is still a risk that there may be a mismatch of the closing bank balance in Xero to the actual bank balance per bank confirmations or bank statements. We also experienced an instance within the audit where reconciliations of transactions were performed after the Spotlight report was run, resulting in differences when comparing to their updated Xero.	By not receiving bank statements for all entities as part of the year end process and reviewing these to ensure this matches against what is recorded in the trial balances, this can open the Playcentre up to a level of fraud risk. We want to acknowledge that we do not assess all bank balances as this would take a significant amount of time. Therefore, we recommend a review process is undertaken by the Playcentre to gain your own extra level of comfort over those bank & term deposit balances, and also how they are disclosed, as short-term term deposit are required to be classified as cash & cash equivalents.

4. REQUIRED COMMUNICATIONS WITH GOVERNANCE

Matter	How the matter was addressed
Auditors responsibility under generally accepted auditing standards	We are responsible for completing an audit in accordance with generally accepted auditing standards in New Zealand. The detailed terms of which are set out in our audit engagement letter.
Confirmation of Audit Independence	In conducting our audit, we are required to comply with the independence requirements of PES-1 Code of Ethics for Assurance Practitioners issued by the 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. 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 BDO office without the express approval of the audit engagement partner. All services performed by any national BDO office will be reported to the governing body. Audit fees billed for the 2020 audit was $60,000. There were no other services provided by our firm for the 2020 financial year.
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 NZ Playcentre 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 August 2020 appear reasonable. Key matters impacting on our audit have been raised in sections 2 and 3 of this report if applicable.

Matter	How the matter was addressed
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 financial statements are presented fairly; • Review and approval of management accounts; • Review and approval of annual budget; • Notification of fraud; and • Review and approval of the financial statements.
Accounting policies	There were no changes in accounting policies or interpretations of accounting policies that impacted on your financial statements in the current year. Auditing standards require us to discuss with you the qualitative aspects of NZ Playcentre's accounting practices and financial reporting. There were no new accounting standards that had a significant effect on NZ Playcentre's financial statements for the year ending 31 August 2020.
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 financial statements. 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 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 identified misstatements which have been corrected in the financial statements these have been detailed in Appendix 1 of this report. 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.

Matter	How the matter was addressed
Going concern	We have undertaken a review of management and those charged with governance' assessment of the ability of the Playcentre to continue as a going concern for 12 months from the date of signing the audit report and therefore whether the going concern basis for the preparation of the financial statements is appropriate.
Fraud	During the audit, no matters, other than those disclosed to us specifically in regard to the Kaiti Playcentre, relating to fraud, concerning either employees or management, have come to our attention. 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 Playcentre.
Significant findings from the audit	Other than those documented in the executive summary and sections 2 and 3 of this report, there were no significant matters arising from the audit.
Disagreements with management	There have been no disagreements with management over matters of significance to the audit.
Difficulties encountered during the audit	There have been no significant difficulties encountered during the audit.
Consultations with other accountants and consultants	We have considered the need for other accounting specialists during our work and determined, due to the nature of the engagement and experience and knowledge of the engagement team, that no specialists were necessary for the current period.
Management representation letter	We have not requested specific representation from management in addition to those areas normally covered by our standard representation letter.

5. APPENDIX 1 – ADJUSTED AND UNADJUSTED DIFFERENCES

AUDIT ADJUSTMENTS – PARENT

Description	Surplus	Assets	Liabilities	Equity
	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)
Audit adjustments made:				
To derecognise $100k of Poneke project receivables, where contract milestones are not yet met	(100,000)	(100,000)		
Adjustment to transfer assets brought on into PPE additions from Equity		103,725		103,725
Adjustment to impair & recognise disposal of Ex East Waikato Assn Office Building, Ex Buller-Westland Assn Office Building, and to recognise disposal of South City Playcentre	(387,840)	(387,840)		
To reverse Xero journal that automatically reversed a prior year $50k revenue reclassification	Nil			
To recognise separately & gross up the P&L for the $150k NZ Lottery Grant	Nil			
To recognise funds held on behalf of the Canterbury Shop by National Office		154,151	154,151	
Total effect of adjustments	(487,840)	538,266	154,151	103,725

UNADJUSTED DIFFERENCES - PARENT

There have been no material misstatements identified but left uncorrected by management at the completion of our audit. We commend management on their efforts.

AUDIT ADJUSTMENTS – GROUP

Description	Surplus	Assets	Liabilities	Equity
	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)	Incr/(Decr)
Audit adjustments made:				
Adjustment to impair & recognise disposal of Ex East Waikato Assn Office Building, Ex Buller-Westland Assn Office Building, and to recognise disposal of South City Playcentre	(387,840)	(387,840)		
To reverse Xero journal that automatically reversed a prior year $50k revenue reclassification	Nil			
To net off balance sheet for $100k of Poneke Project Receivables, recognised both within AR & AP.		(100,000)	(100,000)	
Adjustments to correct Centre Support Wages elimination, eliminate inter-group transactions & balances, and balance the consolidation	(170,526)	(170,526)		
Adjustment to bring Turua Land & Buildings into the trial balance	116,760	116,760		
Total effect of adjustments	(441,606)	(541,606)	(100,000)	Nil.

UNADJUSTED DIFFERENCES – GROUP

There have been no material misstatements identified but left uncorrected by management at the completion of our audit. We commend management on their efforts.

6. APPENDIX 2 - UPDATE ON FINDINGS FROM PRIOR YEAR

PAYROLL	
Finding	**Update**
From our testing over payroll, we previously noted that employees had been set up more than once due to having multiple roles at multiple pay rates within the Group. As a result of this, some employees could take advantage of this and submit timesheets claiming to be working at the higher rates, or submit timesheets against more than one role for the same period of time, which results in double or triple payments at times.	We recommended that all records should be merged onto one timesheet for all business units utilising time filer (electronic timesheets). This will allow for greater transparency and act as a deterrent to employees who may try to take advantage. 2020 Update: CLEARED - For the 2020 audit, we have not identified any such instances occurring. We understand this has been achieved through the use of Timefiler, and commend you on your efforts. We will not raise this point going forward.

PAY CHANGES	
Finding	**Update**
We noted during our testing over payroll that there were instances where no documentation was filed within certain employee folders to support changes in pay rates/remuneration.	We recommended that where any changes to an employees' contract was made, documentation be filed to support these changes, otherwise this might lead to legal ramifications in the future. 2020 Update: CLEARED - Other than employees who received a pay increase in line with minimum wage changes, we did not identify any such instances where there was a lack of documentation to support pay changes. We commend you on your efforts and will not raise this point going forward.

SPACE REVENUE CALCULATION	
Finding	**Update**
The Parent earns SPACE Revenue, however we noted in 2019 that the way that this is manually calculated and what the calculation is based off poses a significant risk of the calculation being incorrect. The source data was based on the manual data kept by the SPACE teachers, therefore if this data was incorrectly recorded before input into a system, it raises the risk of manual error/override.	We acknowledge that a new student management system is in the process of being implemented. This should mitigate the risk of manual error and override depending on the internal controls within the system. We recommend that a process be put in place to allow check that no data has been missed from being recorded in the system. 2020 Update: CLEARED - The Playcentre implemented the Discover student management system, which we believe has improved the integrity of student attendance data. From our testing, we haven't identified any issues with the Discover system, having confirmed the accuracy and completeness of data directly with the MOE.

NEW SUPPLIERS	
Finding	**Update**
We noted in our 2019 audit that a new supplier can be set up in the system without a second approver being needed. This raises the risk that a fake creditor could be set up in the system undetected. There are mitigating factors such as dual authorisation, segregation of duties and expense approvals which reduce the risk of a payment going to fake creditor.	We note that in Xero, there is an assurance dashboard that shows where any changes have been made to creditors, and also shows where multiple creditors have duplicate bank accounts. By reviewing this, this may show where an employee has changed a creditor's account to their own. We recommended that a review of this report is performed on a monthly basis. 2020 Update: CLEARED - We now understand that this report is being reviewed as a part of the monthly reporting, which specifically states any changes in customer account details (such as bank numbers). We commend management on the implementation of this detective control.

DOCUMENTATION	
Finding	**Update**
As a result of our 2019 audit over the Associations, we noted that due to a lack of control over the associations, management would be unable to provide us with either complete GL's of the association expenditure noted above, nor would they be able to provide us with invoices to match the expenditure incurred. As a registered charity, there is a requirement to hold and have available invoices to support that expenditure incurred is for a charitable purpose, and there is a requirement for GST purposes to hold GST invoices to support any deductions made.	We acknowledge that this shouldn't be an issue given the Associations have now amalgamated into the Parent, however this is a reminder that invoices and other documentation need to be kept by the Group to support its charitable purpose. 2020 Update: CLEARED - As above, we will not be raising this going forward however we do want to encourage you that documentation is kept for at least 7 years to meet the IRD's & Charities Services' requirements.

CENTRE ASSETS	
Finding	**Update**
Due to the vast majority of centres, we noted there was a risk over payments on repairs and maintenance or on new assets are not accounted for correctly. Through our work, we identified a few centres where they had purchased a new asset, however had expensed this through repairs and maintenance rather than capitalising it onto the balance sheet and then depreciating the asset.	We recommended that a process be implemented for more oversight over this area in particular. This can be done through more training on what expenditure is capital and what should be expensed and implementing more regular checks over these accounts across the centres to prevent significant items not being picked up on a regular basis. 2020 Update: CLEARED - We note that, for the 2020FY, a step has been added in preparing the consolidation where a review over repairs & maintenance accounts is performed. This year, that meant management capitalised $220k worth of assets that had been expensed throughout the financial year. Although we do recommend training is provided to centre administrators and treasurers on what should be capitalised & expensed, we commend management on their work and will not be raising this as recommendation going forward if this review continues.

7. APPENDIX 3 – UPDATE IN ACCOUNTING STANDARDS

PBE IPSAS 41 – FINANCIAL INSTRUMENTS

This standard comes into force for periods beginning on or after 1 January 2022, with early adoption permitted. It applies to all public benefit entities that report under PBE IPSAS or PBE IPSAS Reduced Disclosure Regime. Therefore, the Trust will be required to apply this standard for the first time for its financial reporting period ending 31 August 2023.

PBE IPSAS 41 brings new measurement requirements for financial instruments, with a different mixture of amortised cost and fair value. Some financial assets will need to be measured at fair value on balance sheet, and on an amortised cost basis for the profit and loss account. This change of classifications will require your financial instruments to be reassessed to work out what categories are now applicable, and how they should be measured. Another key change is that there is a new forward looking expected loss impairment model, which requires consideration of macroeconomic data and forecasts of future events. This is expected to mean that more conservative provisioning may be required against trade receivables, loans and investments than in the past.

At this stage we do not estimate there to be a material change to your financial statements. We will work with you to make sure the application of this standard is as smooth as possible. If you would like help with this, we are happy to discuss this further.

PBE FRS 48 – SERVICE PERFORMANCE REPORTING

This standard will require adoption by the Trust for the first time for its financial reporting period ending 31 August 2023. This standard establishes requirements for Tier 1 and Tier 2 public benefit entities to select and present service performance information. Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.

Tier 1 and Tier 2 PBEs will need to provide users with:

1. Sufficient contextual information to understand why the entity exists, what it intends to achieve in broad terms over the medium to long term, and how it goes about this; and
2. Information about what the entity has done during the reporting period in working towards its broader aims and objectives.

The standard establishes high level requirements to be suitable for a wide range of entities. The standard also requires disclosures about judgements made by a PBE in applying the standard.

While this is some way off, our recommendation is that you start this process sooner rather than later. We recognise that you may already have much of the information that you would report. The key task will be to summarise it appropriately, ensure that it is auditable, and link it to your financial statements.

Ultimately your annual performance report should tell the story of what you have achieved during the year and how much it has cost you to do it. To do this well, it may require showing your costs in a different way and clearly linking cost to the outputs you have achieved.