



Ernst & Young
Level 4/93 Cambridge Terrace
Christchurch Central
Christchurch 8013 New Zealand
PO Box 2091 Christchurch 8140

Tel: + 64 3 379 1870
Fax: +64 3 379 8288
ey.com/nz

Private & Confidential

The Board of Trustees
St John of God Hauora Trust
189 Peterborough Street
Christchurch 8013

28 September 2021
Ref: 60670645

Dear Trustees

2021 Audit of St John of God Hauora Trust (the "Trust")

In order to carry out our duties and responsibilities as auditors, Ernst & Young is required by ISA (NZ) 260 "Communication with Those Charged with Governance" ("ISA (NZ) 260"), to communicate to you setting out the following matters in respect of the audit of the above named entity.

Our audit is largely complete. Subject to receiving the signed financial statements, management representation letter and completion of subsequent event inquiries, we plan to issue an unqualified audit opinion.

Qualitative aspects of accounting practices and financial reporting

The following key audit and accounting issues were discussed during the audit.

In our professional judgement, the findings below need to be communicated in writing to you.

Revenue recognition and accounts receivable

- ▶ We note that revenues are generated from a number of revenue streams being health services, grants, donations and other fundraising activities. This gives rise to the potential for material misstatement of revenue, which is a key risk for the entity.
- ▶ Effective controls were in place during the year to mitigate the risk of a material misappropriation of material revenue streams.
- ▶ We have obtained sufficient audit evidence by performing predictive and overall analytics on health services. We obtained and agreed grant contracts to significant grants received during the year. We have supplemented this with revenue reasonability and representative testing.
- ▶ We performed cut-off testing and testing over credit notes issued post year end.
- ▶ We have performed subsequent receipts testing on key account receivable
- ▶ We have not identified any significant issues.

Revenue in Advance

- ▶ PBE standards include specific requirements on revenue recognition and revenue deferral. Donations and grants are recorded as revenue when received unless there is both a performance obligation and a return obligation attached to the revenue. Therefore, each donation and grant shall be judged on its own specific contract terms and conditions.
 - ▶ This gives rise to the potential for material misstatement of revenue, deferred revenue, and accounts payable, which is a key risk for the entity.
 - ▶ We have reviewed the underlying contracts in support of deferred grants and donations sampled and determined this to be materially correct at balance date.
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COVID-19

- ▶ Management advised that there was little or no impact of the COVID-19 pandemic on the trust financial statements as at balance date. The trust continued to operate as an essential business and receive appropriate funding. The financial statements were not adjusted for any matters arising from the impact of COVID-19. It was considered that no disclosure was therefore necessary in the notes to the financial statements.

Cybersecurity

- ▶ This is a general reminder that the existence of cyber-attacks and payment scams in recent times have escalated and become more sophisticated. The directors and management should ensure they remain vigilant and have systems in place to counter these threats. A review of all security and access should be routinely undertaken. Great care should be taken with any change of bank account requests. Change of bank account within payroll should also be closely controlled.
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Internal financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you any significant deficiencies in internal control which have come to our attention during the course of our normal audit work.

We have discussed with management our observations on their processes and controls that came to our attention during the course of our audit. We are pleased to note there were no “High” or “Medium” risk matters or any matters that significantly impacted the completion of our audit procedures. We will not be issuing a separate management letter to management.

Observations from 2021 audit:

Lower Risk Observations and recommendations

Observation:

We noted there is a sundry creditors vendor account within the creditors aged trial balance which had an immaterial balance.

Recommendation:

Such transactions should be recorded in a sundry creditors general ledger account to allow greater visibility into the transactions that make up that account and should be reconciled regularly. Alternatively, each vendor should be set up individually in the Accounts Payable sub ledger.

Observation:

While testing the MOH funded residents register, we have noted that one resident was invoiced using the old contract rate for four months.

Recommendation:

We recommend using the correct rates in accordance with the updated contracts.

Independence

ISA (NZ) 260 requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence. The aim of these communications is to ensure full and fair disclosure by us to those charged with governance on matters in which you have an interest. We have performed no other non-audit procedures.

Listed in Appendix A are Ernst & Young's key firm-wide policies and processes to maintain independence and objectivity.

Uncorrected misstatements

During the course of our audit, we have not identified any uncorrected misstatements

Other matters that may be of interest to you

FRS 48 Service Performance Reporting effective for periods beginning on or after 1 January 2022 and requires the preparation of Statements of Service Performance.

Background

The NZASB has issued a new accounting standard for PBEs, FRS 48 Service Performance Reporting. This new standard is effective for periods beginning on or after 1 January 2022 and requires the preparation of Statements of Service Performance for PBEs that report in accordance with Tier 1 and Tier 2 PBE standards. The NZ AuASB have also issued a related auditing standard, AS 1 The Audit of Service Performance.

The Standard describes service performance information as information about what an entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.

The standard establishes principles and high-level requirements for the reporting of service performance information rather than specifying detailed reporting requirements. This is due to the standard being applied to a wide range of PBEs. Entities also use a variety of terms and approaches to explain what they do, why they do it and what they have achieved.

The performance information will generally be a mix of qualitative and quantitative reporting. Examples of quantitative measures are the quantity of goods and services, the cost of goods and services, the time taken to provide goods and services, levels of satisfaction using a rating scale on a questionnaire or survey, and numerical measures for service performance objectives or goals. Examples of qualitative measures are descriptors such as compliance or non-compliance with a quality standard, ratings such as high, medium or low, or ratings assigned by experts. PBE FRS 48 reflects the view that service performance information is an essential part of a general purpose financial report and that an entity should report its service performance information alongside its financial statements.

Not-for-profit entities do things for a reason - generally they want to help others or make some sort of difference to individuals, society or the environment. Not-for-profit entities often talk about "telling their story". Service performance information is a critical part of that story. Annual reports should tell the story of the entity's performance - both in terms of its financial performance and its service performance and explain the links between the two.

Impact on St John of God Hauora Trust

It is important that entities start to consider how they will apply this standard to their own organisation. For entities subject to audit, one factor to consider in deciding the mix of service performance information to report is whether information can be verified by supporting evidence.

An explanatory guide to FRS 48, called EG A10, has been issued by the XRB and is published on their website (<https://www.xrb.govt.nz/accounting-standards/not-for-profit/explanatory-guide-eg-a10/>). The explanatory guide has been published with the intention of helping entities apply the new requirements.

Both FRS 48 and AS 1 (the Audit of Service Performance auditing standard) are applicable for reporting periods beginning on or after 1 January 2022. FRS 48 requires the entity to present comparatives in the first year of adoption. Therefore, although the first year of adoption may be some time away, entities need to be thinking about how they will gather and present the relevant information to ensure they are able to present comparatives.

Although the auditor is not required to audit the comparative financial information, they are required to obtain sufficient appropriate audit evidence about whether the comparative information has been presented in accordance with the requirements for comparative information in the applicable financial reporting framework.

Entities will need to determine how they tell their story through the use of both quantitative and qualitative performance measures. These measures need to be adequately defined and measurable.

Other Matters

The Auditor's responsibilities section of our audit report refers to the XRB website (<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities>) to give a further description of our responsibilities for the audit of the financial statements. This description forms part of our auditor's report.

This letter has been prepared for the sole use of the Board of Trustees, management and others within the Trust. It must not be disclosed to a third party or quoted to or referred to without our written consent. No responsibility is assumed by EY to any other person.

Finally, we would like to take this opportunity to thank your staff for the co-operation we have received throughout our audit. If there are any further matters which you wish to discuss concerning our audit, please do not hesitate to call us.

Yours faithfully
Ernst & Young



John Hodge
Associate Partner - Assurance

Appendix A

Ernst & Young (EY) has policies and procedures that instil professional values as part of Firm culture and ensure the highest standards of objectivity, independence and integrity are maintained. Listed below are some of the key policies and processes in place within E&Y New Zealand for maintaining objectivity and independence:

Financial Interests	<p>Our Partners are prohibited from investing in any audit client around the World. Our client facing (technical) staff are prohibited from investing in any audit client of Ernst & Young New Zealand.</p> <p>Our partners and staff are required to confirm their compliance each year with our Firm's independence policies. We track this compliance through a Worldwide investment tracking system.</p>
Training	<p>Our partners and staff are required to undergo regular mandatory training on our independence and ethical policies and processes.</p>
Partner rotation	<p>The Firm has detailed policies on the rotation of the audit engagement partner and, in the case of issuer clients: key audit partners and independent partners.</p>
Consultation	<p>The Firm requires that the audit team consult with a panel of experienced partners on complex accounting and auditing matters.</p>
Non-audit Services	<p>Our audit engagement partners must approve any non-audit services offered to their clients. This allows them to:</p> <ul style="list-style-type: none"> ensure the objectives of the proposed engagement are not inconsistent with the objectives of the audit of the financial statement. identify and assess any related threats to our objectivity; and assess the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. <p>Where no satisfactory safeguards exist, we do not carry out the non-audit service.</p>
Ethics	<p>Our global code of conduct provides an ethical framework on which we base our decisions and our actions—as individuals and as members of our global organisation. We have also established the EY/Ethics hotline which will allow any person, inside or outside of Ernst & Young, to report confidentially and anonymously any activity that they believe may involve conduct that is unethical, illegal, in breach of professional standards, or is otherwise inconsistent with our established policies or code of conduct.</p>