

STEELSANDS CREDIT UNION

REPORT TO THE BOARD OF DIRECTORS
Financial Statements for the year ended 30 June 2018

13 September 2018

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The Directors
Steelsands Credit Union
C/- NZ Steel Ltd
Private Bag 92 121
Victoria Street West
AUCKLAND 1142

Dear Directors

Steelsands Credit Union– Board Report

We have recently completed the audit of Steelsands Credit Union financial statements for the year ended 30 June 2018. Please find attached our Board Report in connection with the audit. The Report incorporates the responses from your Management.

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 exist.

We take this opportunity to thank the staff of Steelsands Credit Union for the co-operation afforded to us during the course of the audit.

If we can be of further assistance, please advise.

Yours faithfully
PKF HAMILTON AUDIT LIMITED

Bernard Lamusse
Director

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Encl: Board Report

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EXECUTIVE SUMMARY

This report details the processes, findings and recommendations from our audit of Steelsands Credit Union (the “Credit Union”) in accordance with International Standards on Auditing (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 Credit Union has presented its results for the year ended 30 June 2018 to a high level of compliance with applicable financial reporting standards, with no adjustments made as a result of our audit and no significant unadjusted differences.

We would like to thank the staff of Steelsands Credit Union for their co-operation extended to PKF Hamilton Audit Ltd, during the course of the audit. We have received full and frank co-operation. There is nothing we wish to raise solely with the directors.

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.

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

- No other work is permitted to be undertaken by any PKF Hamilton Audit Ltd office without the express approval of the audit engagement director.
- All services performed by any PKF office in New Zealand will be reported to the governing body.

We confirm the independence of PKF Hamilton Audit Ltd and its staff in relation to your audit.

KEY FINANCIAL STATEMENT AUDIT RISKS

We have set out below our findings in areas we have identified as significant 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. Collectability of Loans

Identified audit risks

A risk exists that loans may be impaired due to the borrower losing the ability to repay the loan.

Audit findings from planned procedures

We obtained assurance through our substantive testing of the impairment loan provision that an adequate provision has been recognised. We have looked at the individual impairment system used and are of the view that the results obtained are substantially correct.

Based on our work performed, we are satisfied the loan impairment and valuation of loans has been recorded correctly.

2. Data Risk

Identified Audit Risks

The Credit Union is reliant upon the FACTS computer system which is bureau hosted through the NZACU. The risk is that the quality of the data produced by FACTS and the security of the information around this.

Audit findings from planned procedures

We have relied on the Type 2 report from PWC in respect of the audit of the controls around the FACTS system together with the assurances from Co-Op Money that there has been no functional changes done to FACTS in the past year.

3. General Legislative Risk

Identified audit risks

The Credit Union is governed by its trust deed and FMC requirements.

Audit findings from planned procedures

Prior to the start of the audit we obtained a Tripartite letter with yourselves and Covenant Trustees setting the audit approach to be taken and the report to be given to Covenant Trustees. We have communicated with your trustee during the course of the audit.

Based on the work performed we are satisfied that we will be able to report to your Trustees on compliance with the Trust Deed as required under their specific reporting requirements.

4. Dormant Accounts

Identified Audit Risks

Dormant accounts give rise to inherent fraud risk.

Audit findings from planned procedures

We followed a dual approach in testing this risk by comparing the dormant report for the past two years and testing the movement on some of the member's balances. The second part of the approach was to review the work done by your internal audit staff to ensure that sufficient and adequate work has been in respect of dormant accounts.

Based on the work performed, we are satisfied that there were no significant issues raised during the review of dormant accounts.

5. Related Party Risk

Identified Audit Risks

There is a risk of related party relationships and transactions not being disclosed.

Audit findings from planned procedures

As part of our audit procedures detailed testing was performed over the existing related party disclosures included within the financials and further work was performed over to satisfy ourselves there are no undisclosed related party transactions. We also performed Director and Shareholder searches over key management personnel and the Board and were mindful of any potential conflicts of interest throughout our audit work. We were able to conclude no other related party transactions were identified within the scope of the audit testing performed.

6. Industry Risk

Identified Audit Risks

The failure of another Credit Union may cause a domino effect of failure within the Credit Union sector in a similar manner to the Finance Companies.

Audit findings from planned procedures

Per discussions with the Board and Management no issues were raised.

7. Staff Accounts

Identified Audit Risks

We understand from management that the system prevents staff from accessing or transacting on their personal accounts or those of which they have interest, in their capacity as employees of the Credit Union.

Audit findings from planned procedures

From our reliance on the independent review of the FACTs system by PWC and our own observation we can confirm staff cannot transact on their own accounts.

8. Impairment of Base Capital Notes

Identified Audit Risks

There is a risk exists that base credit notes may be impaired as NZACU has been facing financial difficulties.

Audit findings from planned procedures

We have discussed the Base Capital Notes and the proposal to restructure Co-Op Money with you and agree with your conclusion that no impairment of the Base Capital Notes is required

9. Revenue Recognition

Identified audit risks

A risk arises in that revenue maybe deferred or brought forward into the financial statements to give a non fair value of results for the current year.

Audit findings from planned procedures

We obtained assurance through our substantive testing that there was no manipulation of income.

Based on our work performed, we are satisfied that revenue is fairly stated.

10. Management Override of Controls

Identified audit risks

Management has a unique position to perpetrate fraud within the entity and hence the standard risk around management override has been raised.

Audit findings from planned procedures

Key processes were reviewed for control weaknesses with no items of significance noted. Further, work was performed around journals posted throughout the year and at year-end.

From the work performed it has been accepted as reasonable that the financial statements are not materially misstated as a result of management override of controls.

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 Credit Union 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 30 June 2018 appear reasonable.

We are not aware of any sensitive accounting estimates, assumptions or valuation judgements made by the Credit Union.

MATTERS REQUIRING BOARD INPUT

We have placed reliance on the Credit Union'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 2019 budget;
- Notification of fraud; and
- Review and approval of the financial statements.

ACCOUNTING POLICIES

Auditing standards require us to discuss with you the qualitative aspects of the Credit Union's accounting practices and financial reporting. There were no new accounting standards that had an effect on the Credit Union's financial statements for the year ending 31 March 2018.

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 have identified no material misstatements.

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

We have undertaken a review of Management's and those charged with governance assessment of the ability of the Credit Union 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.

The assumption of going concern was concluded as appropriate given the Credit Union's funding sources and its operating budget for the following financial period.

FRAUD

During the audit, no matters 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.

NON-COMPLIANCE WITH LAWS AND REGULATIONS

We have made enquiries in relation to non-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 Credit Union.

OVERALL RESULT

There are no significant or material weaknesses arising from our audit.

Our audit work is complete. We have issued an unqualified audit report on the financial statements of the Credit Union for the year ended 30 June 2018.