



31 March 2020

Auditor's Report to Those Charged with Governance

Soil & Health Association of New Zealand

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24 July 2020

The Executive Committee
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Dear Executive Committee Members

Annual Financial Statement Audit for the Year Ended 31 March 2020

We have recently completed our financial statement audit of Soil & Health Association of New Zealand (the "Group") for the year ended 31 March 2020, and we have pleasure in providing our report on the results of the audit process.

If you require further information on the matters raised in this report, please let us know.

We would like to take this opportunity to thank management and staff for the courtesy and assistance extended to us throughout the audit process.

Yours sincerely
Crowe New Zealand Audit Partnership

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1. Results of the Audit Process

1.1 Scope and purpose of audit engagement

We have completed our audit of the Group's annual financial statements for the year ended 31 March 2020 and issued our audit opinion. Based on our audit procedures we can confirm the annual financial statements presents fairly, in all material respects, the financial position of the Group as at 31 March 2020 and its financial performance and cash flows for the year then ended.

Obtaining reasonable assurance that the financial statements are free of material misstatement, involved us making an assessment of the risk of material misstatement, whether due to fraud or error, and then applying audit procedures, using our professional judgment, to mitigate that risk. While we considered internal control relevant to the preparation of your annual financial statements, our audit procedures mainly comprised substantive tests (i.e. transactional and confirmation type testing).

Our audit procedures are designed primarily for the purpose of expressing an opinion on your annual financial statements. We do not examine every transaction, due to the scope of the audit engagement; there is an unavoidable risk that some misstatements or errors may remain undiscovered. Our report does not include all possible improvements to your internal controls, which a more extensive review might satisfy.

1.2 Responsibilities of the Executive Committee

The Executive Committee is responsible for the preparation and fair presentation of the financial statements which fairly reflect the financial position of the Society as at 31 March 2020 and the financial performance and cash flows for the year ended on that date.

To meet this objective, the Executive Committee are ultimately responsible for the maintenance of proper accounting records and an adequate system of internal controls to minimise the risk of material financial statement misstatement.

1.3 Independence statement

Members of the Audit Team and Partners of Crowe have confirmed their independence from the Society for the year ended 31 March 2020.

1.4 Materiality

Materiality is defined as the magnitude of omission or misstatement individually, or in aggregate that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person would have been changed or influenced by such omissions or misstatement. It is a matter of professional judgment and is influenced by quantitative and qualitative factors.

For the 31 March 2020 audit the materiality level was set at \$181,000. We consider that the cumulative and individual effect of all balances and movements above materiality to be significant.

1.5 Outcomes from audit of key performance report risk areas

Key audit and accounting issues arising during the year relate to those areas of audit focus as listed below:

Audit Risk	Audit Response
<p>Fraud in revenue recognition</p> <ul style="list-style-type: none"> ▪ The risk of a material misstatement of revenue through fraud or error is a mandatory significant risk (though rebuttable in certain circumstances) to be addressed by the auditor. ▪ There are specific accounting judgements in the application of the Society’s accounting policies for key revenue streams. 	<ul style="list-style-type: none"> ▪ We made enquiries to understand the process and internal controls for significant revenue streams, including performing a walkthrough to confirm this understanding and ensure the process and internal controls are appropriate. ▪ We prepared an independent expectation of the Group’s revenue for the year and compared against actual revenue recorded. Explanations were sought for differences in excess of our tolerable variance. ▪ We analytically reviewed revenue categories against budget and prior year. ▪ We verified a sample of revenue transactions from the general ledger to supporting documents and bank statements and determined whether they adhered to the appropriate accounting policy for recognition of revenue. ▪ We reviewed board meeting minutes and other correspondence to confirm the completeness of revenue. <p>No evidence of material misstatement of revenue was found as a result of our procedures</p>
<p>Management override of controls</p> <ul style="list-style-type: none"> ▪ The risk of management overriding controls exists in all entities and is a mandatory significant risk to be addressed by the auditor. ▪ Material misstatement of financial statements due to fraud often involve the manipulation of the financial reporting process by recording inappropriate or unauthorised journal entries, bias in accounting estimates and the existence of significant transactions outside the normal course of business. 	<ul style="list-style-type: none"> ▪ Professional scepticism was maintained while undertaking audit procedures on subjective balances in the financial statements. ▪ Journals posted into the general ledger were selected on a sample basis and traced back to supporting documents to verify that they were appropriate. ▪ We made enquiries to identify and understand the key controls for significant financial reporting and internal control processes. We evaluated these as necessary depending on their impact on the audit. ▪ We performed specific tests to challenge significant estimates and judgements used in key financial statement balances to ensure these balances were free from material bias. <p>No indication of bias with regard to accounting estimates was noted during our audit. From our sample of journal entries posted during the year, we noted no evidence of an override of control that would indicate an elevated risk of material misstatement</p>

1.6 Observations and recommendations arising from the audit

We highlight the following matters for the attention of the Executive Committee, together with recommendations for management to consider, to further strengthen the internal control environment of the Society.

1.6.1 Approval of Budget – Soil & Health (First raised in 2019)

During our walkthrough of the expenditure process, it was noted that the budget for the 2021 financial year was not approved in the board meeting minutes during the period.

Recommendation

It is recommended that a process or timetable is put in place regarding the budget so that in future accounting periods there is no chance that it is not completed and approved.

Management comments

We regret a record-keeping oversight has led to this concern from our Auditor. The National Council prepared, discussed, and approved a budget in March 2020 for the coming Financial Year (20/21) however this decision was unfortunately not recorded in the meeting minutes.

We will continue to prepare forward annual budgets in March of each year.

1.6.2 Subscription Database – Soil & Health (First raised in 2019)

During our testing of subscription revenue, the entity was not able to provide reporting that could detail current subscribers.

It is important to be able to track subscription details for a given period. This kind of reporting should be reconciled with Xero to ensure that all subscriptions for a given period have been captured and that any outstanding subscriptions can be followed up.

Recommendation

We recommend that the database be updated to be able to produce reporting which can provide details on the current year subscriptions listing.

Management comments

We are pleased to report that a new database solution has been implemented (from June 2020) which will allow us to comply with any future subscription reporting requests.

1.6.3 Advertising agreements – Soil & Health (First raised in 2019)

We noted that advertising agreements that are uploaded to Xero are unsigned word versions documents. The signed agreement forms the basis of the contractual arrangement between Soil & Health and the advertiser, as such uploading the signed agreement provides the benefit of having a secure offsite backup of source documentation related to the entity's operations.

Recommendation

We recommend that once an advertising agreement has been signed that the signed document be uploaded into Xero.

Management comments

Signed advertising contracts are currently held on file with office personnel. We will consider the best way of ensuring these remain available into the future, whether through Xero or another document storage system.

Our uncorrected and corrected audit differences are included in Section 3 of this report for the consideration of the Executive Committee.

1.7 Update on prior year observations and recommendations

In our audit for the year ended 31 March 2019, we identified a number of matters for the attention of the Executive Committee together with recommendations for management to consider. We consider the following matters to have been sufficiently addressed.

Prior Year Recommendation	Current Year Observation
<p>Approval of Payment</p> <p>We recommend that the payment processing function be separated from the online banking payment authorisation function. There should be two online signatories for all payments</p>	<p>Per Xero History for expenditure transactions it shows segregation of duties from those preparing the expense transaction and an approver – usually Marion.</p>
<p>Review of fee details</p> <p>We recommend that there is an independent check of the fees detailed on each invoice against the standard fee schedule.</p>	<p>Limited staff numbers, existing control environment considered to be sufficient for client.</p>

1.8 Confidentiality

This report is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibility to report to the Executive Committee of the Society directly.

The contents of this report should not be disclosed to third parties without our prior written consent.

2. Other matters to be communicated

In compliance with International Auditing Standards, we have an obligation to communicate certain aspects of our audit to you. The critical areas have been detailed in the previous sections, and the other matters that require communication are summarised as:

Matter to be communicated	Crowe comments
Significant accounting policies adopted or changed	No changes or new accounting policies were adopted during the year.
Management judgements and estimates	Other than what has been disclosed in Section 1.5, no material accounting judgements have been identified.
Disagreement with management over the application of accounting principles, scope of the audit and disclosures	There have been no disagreements with management during the audit.
Any instances of fraud or non-compliance with legislative, regulatory or contractual requirements	No instances of fraud or non-compliance were detected during the audit.
Material uncertainty related to going concern	No matters of material uncertainty were noted.

3. Summary of adjusted and unadjusted audit differences

3.1 Adjusted audit differences

In performing our audit for the year ended 31 March 2020, we have not identified any uncorrected adjustments or errors that could, in our judgement, either individually or in aggregate have a significant effect on the financial statements.

3.2 Unadjusted audit differences

In performing our audit for the year ended 31 March 2020, we have not identified any uncorrected adjustments or errors that could, in our judgement, either individually or in aggregate have a significant effect on the financial statements.