

# Independent Auditor's Report Te Pūrongo a te Kaitātari Kaute Motuhake

AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

## TO THE READERS OF THE UNIVERSITY OF CANTERBURY AND GROUP'S FINANCIAL STATEMENTS, STATEMENT OF SERVICE PERFORMANCE AND APPROPRIATION STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The Auditor-General is the auditor of the University of Canterbury (the University) and group. The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, the statement of service performance and the appropriation statement of the University and group on his behalf.

### Opinion

We have audited:

- the financial statements of the University and group on pages 42 to 77, that comprise the statement of financial position as at 31 December 2016, the statement of comprehensive revenue and expense, statement of changes in net assets/equity, statement of cash flows and statement of accounting policies for the year ended on that date and the notes to the financial statements that includes other explanatory information;
- the statement of service performance of the University and group on pages 20 to 36; and
- the appropriation statement of the University on pages 38 and 39.

In our opinion:

- the financial statements of the University and group on pages 42 to 77:
  - present fairly, in all material respects, the University and group's:
    - financial position as at 31 December 2016; and
    - financial performance and cash flows for the year then ended;
  - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Reporting Standards; and
- the statement of service performance of the University and group on pages 20 to 36 presents fairly, in all material respects, the University and group's service performance achievements measured against the proposed outcomes described in the investment plan for the year ended 31 December 2016; and
- the appropriation statement of the University on pages 38 and 39 presents fairly, in all material respects, what has been achieved with the appropriation by the University.

Our audit was completed on 1 March 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the key audit matters, responsibilities of the Council and our responsibilities, relating to the financial statements, statement of service performance and appropriation statement. We also comment on other information, and we explain our independence.

### Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibility of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those that, in our professional judgement, were of most significance in our audit of the financial statements, statement of service performance and appropriation statement for the current period.

We summarise those matters below and how we addressed them in our audit of the financial statements, statement of service performance and appropriation statement as a whole.

Any comments we make on the findings of our audit procedures should be read in that context and we do not provide a separate opinion on these matters.

**Carrying value of building assets**

The University's building assets of \$617.848 million, included within total property, plant and equipment of \$881.575 million, (disclosed in note 7) are carried in the statement of financial position at their fair value.

This fair value is determined by first assessing a valuation for the buildings as if they were undamaged and then reducing this value for impairment from earthquake damage. These two stages in the determination of the buildings fair value are both considered key audit matters for the reasons discussed below.

Key audit matter	How did the audit address this matter
<p><b>Valuation of building assets</b></p> <p>Valuations of building assets have been performed annually since the Canterbury earthquakes in 2010 and 2011 due to the extent of the damage to the buildings.</p> <p>This is a key audit matter due to the large balances and complex valuation methodologies. In particular:</p> <ul style="list-style-type: none"> <li>• There is risk that the underlying assumptions, including unit rates, may be inaccurate.</li> <li>• There is also a risk that the Valuer is not provided with complete and accurate information, including decisions relating to assets being upgraded or demolished.</li> </ul>	<p>Our audit procedures included:</p> <p>We read the valuation report and discussed the approach to the valuation with the valuer. We obtained representations that the valuation approach was in accordance with accepted professional valuation standards.</p> <p>We assessed the valuer's expertise for the work and their objectivity, including reading their terms of engagement and considering the existence of other engagements or relationships with the University.</p> <p>We confirmed our understanding of the valuation methodology and key assumptions. We assessed them for compliance with the requirements of the applicable financial reporting standard (PBE IPSAS 17) and evaluated their reasonableness based on our experience and knowledge of other specialised building valuations in the public sector.</p> <p>We determined how the age and condition of the assets had been determined, and how this had been reflected in the determination of the remaining useful life of the assets and the valuation calculation for those assets valued on a depreciated replacement cost basis. For those buildings planned for demolition, we confirmed that useful lives were consistent with demolition plans.</p> <p>We determined how unit rates for replacement costs had been determined. We confirmed the reasonableness of a sample of unit costs by reference to recent capital works undertaken by the University.</p> <p>We obtained an understanding of the source data used for the valuation. We sample tested for errors or omissions in that data.</p> <p>We reviewed the overall valuation changes and sought explanations from the valuer for any significant or unusual changes in value.</p> <p>We found that the unimpaired building valuation adopted by the University was supportable and used an approach consistent with our expectations for public sector specialised building valuations.</p>

Key audit matter	How did the audit address this matter
<p><b>Earthquake impairment of buildings</b></p> <p>The University's building assets disclosed in note 7 suffered damage as a result of the Canterbury earthquakes in 2010 and 2011. To assess the initial extent of the damage to its buildings, the University engaged independent quantity surveyors to inspect the buildings and estimate the costs to remediate the damage on an individual building basis. These estimated costs to remediate were quantified and an impairment charge was recognised at that time.</p> <p>The initial impairment charge needs to be continually reassessed throughout the building remediation program. As the remediation program progresses, the estimates are refined as further invasive building assessments provide more up to date information, damaged buildings are repaired or decisions are made to demolish buildings rather than repair. The total estimated cost to repair earthquake damaged buildings at 31 December 2016 was \$497.6 million (2015 \$511.2 million). As impairment can only be accounted for to a nil carrying value on a building by building basis, the total impairment recognised in the financial statements was \$113 million for 2016. (2015: \$154 million).</p> <p>This is a key audit matter due to the large balances involved, the inherent uncertainties in the estimation of the remediation costs and the key assumptions used in this process, such as the estimated cost of labour and materials.</p>	<p>Our audit procedures included:</p> <p>We reviewed the updated impairment estimates and discussed the approach to assessing the remediation costs with the independent quantity surveyors (the surveyors).</p> <p>We assessed the surveyors' expertise for the work and their objectivity, including reading their terms of engagement and considering the existence of other engagements or relationships with the University.</p> <p>We considered the surveyors' methodology against our expectations from our experience and knowledge of prior years and from other public entities with earthquake damaged assets. In particular, we considered and accepted the surveyors' approach to identifying and excluding betterment (including earthquake strengthening beyond a specified level) from the impairment calculations.</p> <p>As discussed in note 7, there are some significant uncertainties in the impairment estimates and we noted that in some cases the actual level of damage will only be determined once physical remediation work is underway. It was however evident from our discussions with the surveyors and management that an in-depth assessment of the level of damage and appropriate remediation approaches had occurred for all significant buildings.</p> <p>We assessed management's processes to confirm the appropriateness of the surveyors' cost estimates and the consistency of those estimates with other internal information, including the actual costs incurred for those buildings remediated to date. We tested a sample of unit costs to recent contracts to confirm the reasonableness of remediation unit costs.</p> <p>We compared the repair estimates on an individual building basis to the University's fixed asset register to confirm that impairment recognised on each individual building does not exceed its carrying value.</p> <p>We also considered whether the related disclosures in the financial statements were clear and informative and in accordance with the requirements of the applicable financial reporting framework.</p> <p>We found that the impairment recognised was the University's best estimate and was reasonable. It is based on the best available information of damage and the likely remediation approach, costed using reasonable assumptions about current prices for the required remediation work.</p>

**Responsibilities of the Council for the financial statements, statement of service performance and appropriation statement**

The Council is responsible on behalf of the University and group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Council is also responsible on behalf of the University and group for preparing a statement of service performance and appropriation statement that are fairly presented.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare financial statements, statement of service performance and appropriation statement that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, statement of performance and appropriation statement, the Council is responsible on behalf of the University and group for assessing the University and group's ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Council intends to liquidate the University and group or to cease operations, or has no realistic alternative but to do so.

The Council's responsibilities arise from the Education Act 1989, the Crown Entities Act 2004, and the Financial Markets Conduct Act 2013.

**Responsibilities of the auditor for the audit of the financial statements, statement of service performance and appropriation statement**

Our objectives are to obtain reasonable assurance about whether the financial statements, statement of service performance and appropriation statement, 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements, statement of service performance and appropriation statement.

For the budget information reported in the financial statements, statement of service performance, and appropriation statement, our procedures were limited to checking that the information agreed to:

- the University and group's Council approved budget for the financial statements;
- the investment plan for the statement of service performance; and
- the Estimates of Appropriations — Vote Tertiary Education for the appropriation statement.

We did not evaluate the security and controls over the electronic publication of the financial statements, statement of service performance and appropriation statement.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, statement of service performance and appropriation statement, 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.
- We 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 University and group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University and group'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, statement of service performance and appropriation statement 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 University and group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, statement of service performance and appropriation statement, including the disclosures, and whether the financial statements, statement of service performance and appropriation statement represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the statement of service performance of the entities or business activities within the group to express an opinion on the consolidated financial statements and the consolidated statement of service performance. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Council 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.

Our responsibilities arise from the Public Audit Act 2001.

**Other information**

The Council is responsible for the other information. The other information comprises the information included on pages 1 to 3, 7 to 18 and 78 to 85, but does not include the financial statements, statement of service performance and appropriation statement, and our auditor's report thereon.

Our opinion on the financial statements, statement of service performance and appropriation statement does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, statement of service performance and appropriation statement, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements, statement of service performance and appropriation statement or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Independence**

We are independent of the University and group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out other assurance engagements which were providing a report to the University's philanthropic bond trustees and a report on the University's Performance-Based Research Fund external research income. These engagements are compatible with those independence requirements.

Other than the audit and these engagements, we have no relationship with or interests in the University or any of its subsidiaries.



Andy Burns  
Audit New Zealand  
On behalf of the Auditor-General  
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