

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 2019

The Auditor-General is the auditor of 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, 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 48 to 91 that comprise the statement of financial position as at 31 December 2019, the statement of comprehensive revenue and expense, statement of changes in net assets / equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the the University and group on pages 20 to 41; and
- the appropriation statement of the University on pages 44 and 45.

In our opinion:

- the financial statements of the the University and group on pages 48 to 91 present fairly, in all material respects, the financial position as at 31 December 2019, and the financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards;
- the statement of service performance of the University and group on pages 20 to 41 presents fairly, in all material respects, the the University and group's service performance achievements as compared with the forecast outcomes included in the investment plan for the year ended 31 December 2019 in accordance with Public Benefit Entity Standards; and
- the appropriation statement of the University on pages 44 and 45 presents fairly, in all material respects, what has been achieved with the appropriation and the actual expenses or capital expenditure incurred compared to the forecast expenses or capital expenditure.

Basis for our opinion

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and 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 Responsibilities of the auditor section of our report.

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

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

In addition to the audit of University and group, we have carried out an assurance engagement on the University's Performance-Based Research Fund external research income. This engagement is compatible with those independence requirements. Other than the audit of University and group and the assurance engagement, we have no relationship with or interests in the University or any of its subsidiaries.

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.

These matters were addressed in the context of our audit of the financial statements, statement of service performance and appropriation statement as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – Carrying value of building assets

The University's building assets are a significant balance within the financial statements with a carrying value at 31 December 2019 of \$1,098.239 million (2018: \$941.086 million), as disclosed in note 11. Since the Canterbury earthquakes of 2010 and 2011, the University continues to progress its capital programme and the \$51.066 million of capital additions recognised reflects the completion of new buildings and remediation of earthquake damaged buildings.

Buildings are carried in the statement of financial position at their fair value and the most recent valuation was as at 31 December 2019 using independent registered valuers.

Fair value is determined as if the buildings are undamaged and then this value is reduced for impairment from earthquake damage. The extent of damage is determined using independent quantity surveyors to estimate the costs to remediate individual buildings. As at 31 December 2019 the remaining impairment deduction from buildings' undamaged value is \$80 million (2018: \$84 million).

The carrying value of buildings is a key audit matter due to the large balances involved, the significant estimates and judgements in the fair value determination and the inherent uncertainties in the estimation of the remediation costs.

How did the audit address this matter?

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.

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.

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.

We obtained an understanding of the source data used for the valuation. We sample tested for errors or omissions in that data.

We assessed how the age and condition of the assets had been determined, and how this had been reflected in 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.

We considered 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.

We reviewed the overall valuation changes and sought explanations from the valuer for any significant or unusual changes in value.

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.

We reviewed the updated impairment estimates and assessed the external surveyor's expertise and objectivity for this work. We considered the consistency of the impairment estimates with other internal information, including the University's decisions about the future of specific buildings, and we tested a sample of costs to recent contracts to confirm the reasonableness of remediation cost estimates.

We found that the deductions from buildings fair value for impairment were based on the best available information of damage and the likely remediation approach, costed using reasonable assumptions about prices for the required remediation work.

Key audit matter – Accounting treatment of University of Canterbury Foundation (the UC Foundation) and University of Canterbury Trust Funds (the UC Trust Funds) – application of new accounting standard PBE IPSAS 35: Consolidated Financial Statements

PBE IPSAS 35 *Consolidated Financial Statements* applies for the first time for the University's financial year to 31 December 2019.

Having considered the requirements of PBE IPSAS 35, the University concluded that it controlled and would consolidate the UC Foundation. The University's reconsideration of the UC Trust Funds concluded that most of the trusts were no longer considered separate entities and the appropriate accounting policy was to treat the trusts as directly held by the University albeit with restrictions and under trust.

The effect of these changes in accounting approach are disclosed in note 24 to the financial statements. The University's judgements about the UC Foundation are disclosed in note 3 under the heading "Investment in controlled entities". The University's judgement about the UC Trust Funds is disclosed in note 2 under "Changes in accounting policies".

This is a key audit matter because of the judgements necessary in applying the control test in PBE IPSAS 35 to the UC Foundation and in assessing the appropriate accounting for trusts, and because of the significant value of assets within the UC Foundation and the UC Trust Funds.

How did the audit address this matter?

We reviewed the University's assessment of how PBE IPSAS 35 applied to the UC Foundation and the UC Trust Funds and its disclosures in the draft 2019 financial statements.

We read the trust deeds or founding documents of the UC Foundation, the Erskine Trust, the Endowment Trust and a sample of the other smaller trusts and bequests. We considered information on their establishment and their relationship with the University.

We considered how the key aspects of the accounting control test in PBE IPSAS 35 applied in the circumstances of the Foundation. We consulted with specialists within Audit New Zealand with expertise in the application

of PBE IPSAS 35 to foundations and trusts. We agreed with the University's assessment of the control status of the UC Foundation under PBE IPSAS 35.

We considered the appropriate accounting treatment for the unincorporated trusts and bequests within the UC Trust Funds. We consulted with our lawyers about the status of the trusts and bequests. We agreed with the University's judgements about the status of the UC Trust Funds and the resultant accounting treatment.

We tested the retrospective application of the changed accounting treatments in the prior period and confirmed that the disclosure of these matters met the requirements of generally accepted accounting practice.

Other information

The Council is responsible on behalf of the University and group for the other information. The other information comprises the information included on pages 1 to 3, 7 to 19 and 92 to 100, 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 the 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.

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

The Council is responsible on behalf of the University and group for the preparation and fair presentation of the University and group financial statements in accordance with the Public Benefit Entity Standards.

The Council is also responsible on behalf of the University and group for the preparation and fair presentation of a statement of service performance and appropriation statement in accordance with Public Benefit Entity Standards.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare financial statements, a 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 service 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, 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 Crown Entities Act 2004, the Education Act 1989 and the Financial Markets Conduct Act 2013.

Responsibilities of the auditor for the audit of the financial statements, statement of service performance, and the 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 can arise from fraud or error and 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.

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. We also:

- 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.
- 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.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.
- 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.
- obtain sufficient appropriate audit evidence regarding the financial statements, statement of service performance and appropriation statement 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.

We also provide the Council with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Council, we determine those matters that were of most significance in the audit of the consolidated financial statements, statement of service performance and appropriation statement of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.



Andy Burns
Audit New Zealand
On behalf of the Auditor General
Christchurch, New Zealand
26 February 2020