

RSM Hayes Audit

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29 October 2020

The Chairperson
Board of Trustees
21 Rangipawa Road
One Tree Hill
Auckland

Dear Mr Paul Ruediger

Audit of your Financial Statements For the year ended 31 December 2019

We have substantially completed the audit of your financial statements for the year ended 31 December 2019.

Upon completion of your audit we will enclose a complete set of your school's financial statements together with our formal audit report issued on behalf of the Controller and Auditor-General, as required by legislation.

Please note that a PDF copy of the audit report and signed financial statements is required to be uploaded to the MOE's school's data portal as soon as you receive them. We also remind you that you are required to publish the final audited version of your annual report on your website.

This letter and accompanying report of Audit Findings includes observations on the school's accounting procedures. As the trustees are responsible for the financial operations of the school, we suggest this letter be considered at the next finance committee meeting and tabled at the next full board meeting.

Scope of the audit

Our audit is designed to provide an independent opinion on the board's financial statements which are a public document. As a secondary output of this work we also report on matters relevant to your financial and management systems that have come to our attention and are significant.

We have performed procedures to audit the information presented in your annual financial statements. We have also relied on representations made by your school's management team, including your accounting service provider. We assess the results of procedures and representations made when forming our audit opinion.

To ensure your school receives the maximum benefit from our audit we have turned our focus to the future and set out in the attached report some matters for the attention of your board. Our motive is to offer objective and constructive advice so that the accounting function and related issues can be improved in the future. Please note that this letter is sent only to you, with a copy to the Office of the Controller and Auditor-General. We do not send a copy of this letter to the Ministry of Education or any other party.

The audit doesn't end with our audit report

If you wish, we would be pleased to discuss with you our recommendations in this letter or any other aspect of the school's audit. If it is of value to your board, one of our audit directors or managers would be happy to attend a board meeting to discuss any finance related issues you have.

In recognition of the value we place on our association with your school, we think it is appropriate to waive our normal fee for attending a meeting. Please contact our office if you wish to take up this offer.

Our sincere thanks

This year's audit has been uniquely challenging with us being unable to complete an audit visit onsite due to the COVID-19 lockdown. This has meant we have had to work remotely, and more iteratively, with your team and we give thanks for the assistance from your principal, Bridget Lummis, and executive officer, Lesa Brownson, during this process. This unforeseeable disruption has resulted in some additional audit time incurred, and at a later time than normal, resulting in a number of schools not being able to have audited financial statements completed before the statutory deadline. This is common nationwide. As a result, a note to the financial statements has been added to disclose the breach of the statutory reporting deadline being due to the impact of COVID-19. The Ministry have confirmed that there will be no penalty for late filing of audited financial statements this year as a result.

Yours sincerely



Brendon Foy
Audit Partner





Oranga School

Audit Findings

For the year ended 31 December 2019

1. Introduction
2. Expected Content Of Our Formal Audit Report
3. Governance
4. The Financial Statements
5. The Day To Day Accounting System
6. Prior Year Recommendations

1. Introduction

We set out below our findings from the audit work we have performed during the audit of your financial statements for the 2018 financial year. Matters raised in this report have been discussed with your management team during the audit fieldwork.

Our work focussed on the systems and controls set by your board and implemented by your management team, to the extent necessary in forming an audit opinion. Any matters arising from the audit are detailed in this letter.

2. Expected content of our formal audit report

Subject to receipt of signed financial statements, letter of representation, and final update of events subsequent to balance date, we expect to issue an unmodified audit report in our standard wording with an emphasis of matter drawing attention to the disclosures in your financial statements around the impact of COVID-19 what will read as follows:

Emphasis of matter – COVID-19

Without modifying our opinion, we draw attention to the disclosures in note 25 on page 19 which outline the possible effects of the Alert Level 4 lockdown as a result of the COVID-19 pandemic.

3. Governance

Areas of significant audit focus

We believe it is best practice to communicate with you as the governing body regarding matters which form an important part of our audit process.

An independent audit of your financial statements is a key part of ensuring that your organisation has appropriate controls in place regarding financial management and financial reporting. However, ultimately it is you, the governing body that remains responsible for your financial systems, internal controls including the detection and prevention of fraud, and financial statements.

While our audit necessarily involves evaluating your overall system of financial controls and reporting, the following are areas and issues we assessed as potentially significant risk areas in relation to your school during our audit. Accordingly, we believe that they are important issues that should be of interest to you in your governance capacity. In the case of your organisation in the current year these assessed areas of significant focus were as follows:

- Recognition and recording of locally raised funds income and expenditure and treatment of income in advance;
- Risk from limited segregation of duties;
- Expenditure being valid and appropriate for your school's purposes (probity of expenditure);
- Cyclical maintenance expense and provisioning being appropriate; and
- Controls around payroll.

In addition, we sought to ensure that your financial statements were in compliance with generally accepted accounting practice in New Zealand as appropriate to public benefit entities that qualify for Tier 2 reporting. That is that Public Benefit Entity Standards - Reduced Disclosure Regime (PBE Standards RDR) have been appropriately adopted and that the mandatory Kiwi Park model has been followed.

We are pleased to advise that our testing of these assessed risks did not identify any significant issues or concerns. Any observations and recommendations related to these topics are detailed below.

Required communications

We are required by auditing standards to report specific matters to you as follows:

- We have had no disagreements with management during our audit nor any serious difficulties in dealing with management;
- Other than the breach of the statutory reporting deadline reported in the notes to your financial statements, we have not identified any other breaches of legislation;
- We have not identified any instances of fraud involving management, or any other frauds that caused a material misstatement of the financial statements; and
- We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.

Audit Independence

We reaffirm we are independent of your school, and that we have no relationship with your school that could impair our independence.

4. The Financial Statements

Unadjusted differences

Appendix A details unadjusted journal differences that we identified during the audit.

Adjustments made

Appendix B identifies all journal adjustments posted at our request in the final financial statements.

Failure to comply with section 87 of the Education Act 1989

Disclosure has had to be added to your financial statements stating the Board of Trustees has failed to comply with Section 87 of the Education Act 1989, as the Board were unable to provide their audited financial statements to the Ministry of Education by 31 May 2020. The disruption caused by the COVID-19 restrictions, including the closure of the school, meant that the audit could not progress as planned. This resulted in the school missing the statutory deadline.

Credit card reviews

We noted that credit card statements were not consistently reviewed and signed by the Chairman. We also noted credit card statements were not always signed and dated to indicate a timely review occurred. We note that your school adopted a credit card policy in July 2019, and we highlight the importance of this policy being followed.

We recommend that credit card statements are reviewed with a signature and date of the reviewer, to ensure that the review is timely. We wish to point out that nothing in our review of your systems has led us in any way to question the integrity of any staff.

Impairment of Assets Review

A review of fixed assets for impairment was not performed during the 2019 financial year. In addition to the annual consideration of asset impairment being a requirement of financial reporting standards, such a review is an important step in fixed asset management for the school as it identifies those assets which have decreased in value. This may be as a result of events other than normal wear and tear, such as significant damage, loss, technological obsolescence, or theft.

Such a review of the register should accurately ensure that the register reflects the assets currently owned and used by the school. It is important for adequate control to be exercised over fixed assets to ensure that all assets purchased, disposed, or replaced during the year are appropriately recorded or deleted as appropriate in the fixed assets register, which should reflect the actual assets in use by the school.

Budgeted Cash Flow Statement

Schools are required by S87(3)(i) of the Education Act 1989 to report budgeted figures for the cash flow statement that is now mandatory in your financial statements. Further, we consider that it is important to monitor the cash position of your school to ensure that funds are always available to meet day to day financial obligations.

We recommend that the preparation of a cash flow budget be integrated into your annual budgeting cycle so that this is available to your board and management for monitoring purposes at the commencement of the year, as well as to enable this to easily be included in the annual financial statements.

5. The day to day accounting system

It is important that we report any observations and areas for improvement in respect of the financial control environment at your school. As part of the RSM audit approach we review the accounting systems established by the board to the extent that they could have a significant impact on the annual financial statements. The following observation are brought to your attention.

Novopay

The Novopay system relies on schools to check the accuracy of their payroll. Consequently, we highlight the continued need for the fortnightly payroll transactions and SUE reports to be scrutinised thoroughly by people independent of the routine payroll processing. Additionally, if controls around authorisation and signing of payroll reports are not in place, this increases the amount of audit work we are required to perform and results in interruption to your team. We noted the following opportunities for improvements with Novopay processing at your school:

– Review and Authorisation of SUE reports

SUE reports are not currently being signed by someone independent of the payroll system at your school. As the SUE report shows all of the payments made under the Novopay system related to your school, an independent review of this report is an important control to ensure all payroll is correctly paid.

We have sighted that the principal reviews these reports, however the principal also has access to Novopay which means this review may not be independent. Your controls in this area could be improved by having payroll reports reviewed and signed by someone without access to Novopay, possibly a board member.

– Review and Authorisation of transaction reports

In addition to the SUE report, Novopay also provides a 'transaction report'. This is a critical document which lists all transactions entered into against employees of your school. This document is available before the fortnightly SUE report is finalised and issued.

It is important that this report is reviewed by the principal, or some other appropriate independent person as a check that hours, rates, and other information contained are accurate. The transaction report shows any changes made in the Novopay system by your staff each fortnight.

We note the transaction report from Novopay is currently not being retained. Evidence of checks is important to ensure any errors in payroll processing are picked up in a timely manner. All transaction reports should be retained for audit purposes so that transactions can later be verified, and as evidence of your review.

– **User Access to Novopay system**

A previous employee, Helen Armstrong, still has online access into Novopay. This presents a risk to the school that unauthorised transactions could be processed by the Service Centre. We recommend that you introduce tighter controls over computer access and passwords and ensure when employees leave, all such points of access are removed.

Advances to Employees

We noted that a \$500 advance had been made to an employee during the financial year. We note that this was in lieu of sick leave yet to be processed. Our understanding is that such loans are technically a breach of the Education Act 1989, although we appreciate in this case the amounts are very small.

Making such loans is undesirable because it could lead to losses for the school if the amounts are not repaid, as is the case here. Such loans can also add unnecessary complications to the employer/employee relationship. We understand you did pursue settlement of this debt but were unable to recover the amount outstanding.

We strongly recommend that the school does not continue to provide staff advances.

6. Prior year recommendations

Prior Year Recommendation	Current Year Progress
<p>Internet banking user profile</p> <p>From our review of the ASB bank user profile, we note that Lesa Brownson has her personal email, lesamike@ihug.co.nz registered with the account. We suggest all the users should access the banking account using the school’s email address only.</p>	<p>Based on conversations with Lesa, with the audit team, and ASB bank, we understand that the personal email address cannot be altered. We have also sighted that the email address is not operating. Therefore, we have kept the point in the management letter as the issue cannot be resolved until subsequent periods.</p>

Appendix A

Unadjusted differences arising from our audit

The following differences have been identified during our audit and remain unadjusted at the conclusion of our work. Whilst we request that these do be amended, given their value, we nevertheless are still able to provide an unmodified opinion should they remain unadjusted in the final approved financial statements.

Description	Account No	Income Statement		Balance Sheet	
		DR	(CR)	DR	(CR)
Cyclical Maint-Increase Prov	71415		(7,600)		
Prov Cyclical Maintenance	98025			7,600	
Adjustment to Cyclical Maintenance					

Appendix B

Journal adjustments made in the final financial statements at our request

Description	Account No	Income Statement		Balance Sheet	
		DR	(CR)	DR	(CR)
MOE Teachers Salaries Grant	10025	6,135			
Banking Staffing Underuse	91024				(6,135)
Adjustment to align banked staffing underuse with final MOE confirmation					
Tchr Salaries (MOE)	65088	14,897			
Leave liability	RSM10				(14,897)
To accrue leave liability at year-end.					