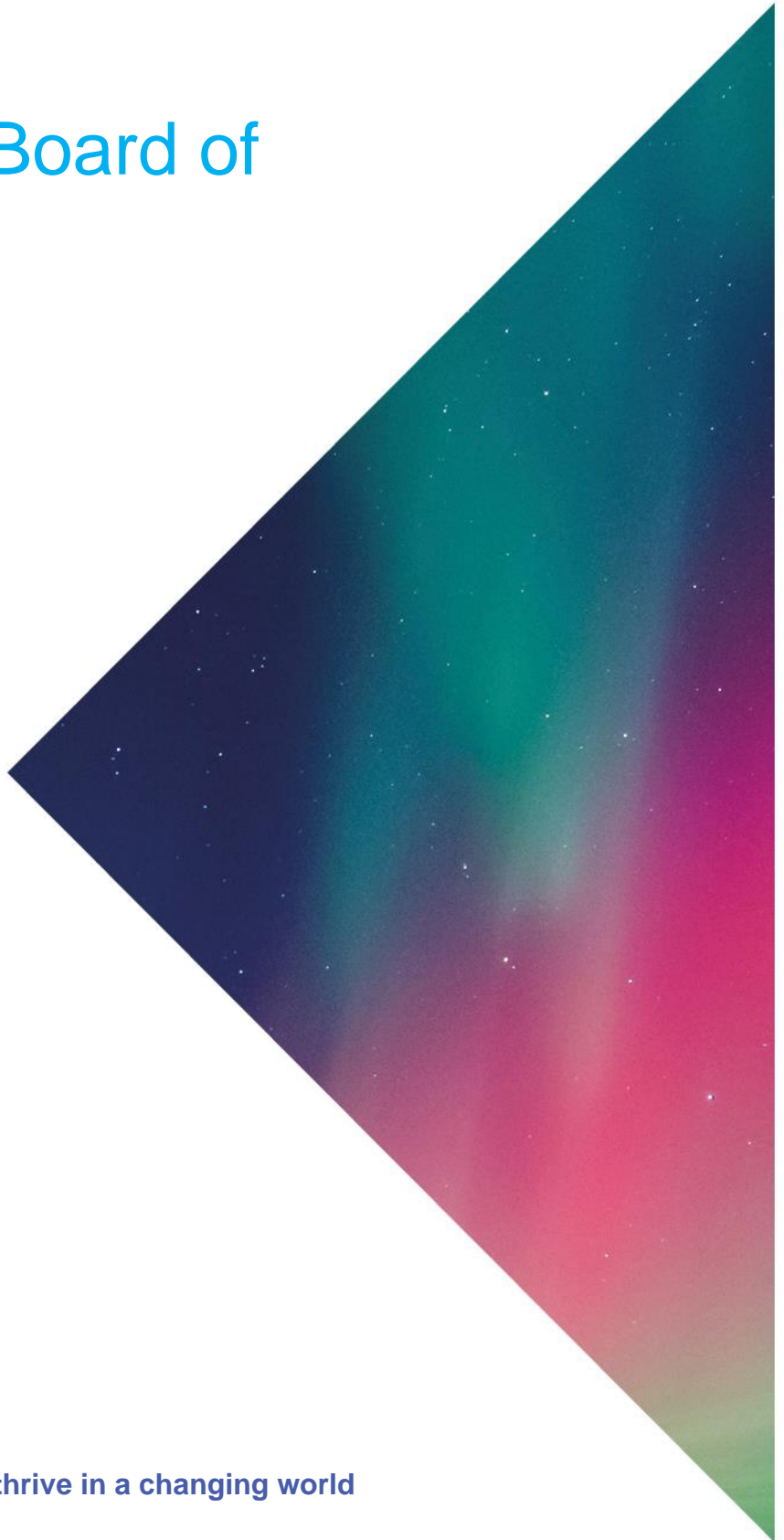


# Report to the Board of Trustees

South Featherston School

For the year ended 31 December 2019



10 June 2020

Mrs Tana Klaricich  
Principal  
South Featherston School  
45 South Featherston Road  
RD1  
Featherston 5771

Dear Mrs Klaricich

**REPORT TO THE BOARD OF TRUSTEES: YEAR ENDED 31 DECEMBER 2019**

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

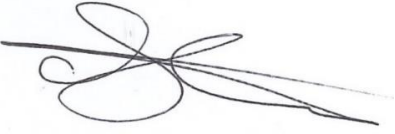
We would like to emphasise that our audit work involves the review of only those systems of internal controls in your School upon which we rely on for audit purposes. Our examination may not have identified and should not be relied upon to identify all internal control weaknesses that may exist.

We take this opportunity to thank you and Jo for the co-operation provided to us during the course of the audit.

If we can be of further assistance, please advise.

Kind regards

**Moore Markhams Wairarapa Audit**



Andrew Steel  
Appointed Auditor / Partner  
Andrew.steel@mooremarkhams.nz

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# Introduction

## Report purpose

This report details the processes, findings and recommendations from our audit of the South Featherston School (the School's) financial statements in accordance with International Standards on Auditing (New Zealand) ("ISA (NZ)") and the terms of our engagement as set out in our audit engagement letter.

## Audit opinion

We have issued an unqualified audit opinion on the financial statements of the School for the year ended 31 December 2019.

## Audit scope and responsibilities

As auditors of the School we are responsible for forming and expressing an opinion on the financial statements prepared by management with the oversight of governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities in relation to its preparation.

Overall, we are satisfied that the School has presented its results at the reporting date to an adequate level of compliance with applicable financial reporting standards.

We would like to emphasise that our audit work involves the review of only those systems and controls in your School 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.

## Confirmation of audit independence

In conducting our audit, we are required to comply with 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.

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 those charged with governance, we note that the following processes assist in maintaining our independence:

- No other work is permitted to be undertaken by any Moore Markhams office without the express approval of the audit engagement partner
- All services performed by any national Moore Markhams office will be reported to the those charged with governance.

We have no other relationship with, or interests in, the School.

## Significant risk assessment conclusions

Risk identified	Background	Conclusion from work performed
<b>Management override of controls</b>	<p>There is a risk that controls can be circumvented by those in positions of management or governance, with a view to manipulating accounting records.</p> <p>Under ISA (NZ) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', management override of controls is a presumed significant risk, upon which material misstatement could occur within the financial statements.</p>	<p>We found no evidence of management override of controls giving rise to material misstatement.</p> <p>Any deficiencies in internal controls that we have identified have been reported in the overall result section within this report.</p>
<b>Revenue recognition: Material misstatement due to fraud or error</b>	<p>Under ISA (NZ) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', misstatement of revenue due to fraud or error is a rebuttable presumed significant risk upon which material misstatement could occur within the financial statements.</p>	<p>We documented and tested those financial statements areas where there might be the motivation or opportunity for misstatement of revenue due to fraud and or error. We considered whether there was any indication of such activity.</p> <p>Nothing untoward was identified from our work performed.</p>
<b>Locally Raised Funds income</b>	<p>Due to the nature of locally raised funds, often being cash, there is a risk of material misstatement around the completeness of locally raised funds income.</p>	<p>From our audit procedures performed, which include analytic review incorporating margin analysis, and reviewing supporting documentation, we found no exceptions regarding locally raised funds income and the related expenses in the financial statements.</p>

Risk identified	Background	Conclusion from work performed
<b>Novopay (EdPay) Errors</b>	<p>From the reports on Schools, the Ministry of Education and the OAG have identified that there continues to be some errors made in the processing of payroll nationally since the change to Novopay (EdPay). Accordingly, there is a risk of material misstatement.</p>	<p>In accordance with our instructions from the OAG we have performed significant additional audit testing in relation to Payroll in response to the highlighted risk of material misstatement. Our analytic review and detailed testing did not reveal any significant exceptions, and we were able to take assurance over the completeness, existence and accuracy of payroll expenses.</p>
<b>Cyclical Maintenance Provision</b>	<p>Cyclical Maintenance is an area of judgment and complexity that could lead to material misstatement in the financial statements. For schools to be able to calculate the appropriate cyclical maintenance provision a 10 Year Property Plan (10YPP) needs to be prepared and/or reviewed and updated by an expert at timely intervals.</p>	<p>From our audit procedures performed we had not identified material misstatement in the provision for cyclical maintenance in the financial statements.</p>

We have set out below our findings in areas we have identified as significant audit 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, and that you concur with the resolution of the identified risks.

## Other reporting matters

### Management judgements and estimates

Under ISA (NZ) we have a responsibility to ensure that you have been informed about the process used by the School in formulating particularly sensitive accounting policies, estimates, assumptions or valuation judgements.

The most significant areas of judgement, assumptions and estimates applied by management relate to:

- Provision for cyclical maintenance, and cyclical maintenance expense

We are not aware of any other sensitive accounting estimates, assumptions or valuation judgements made in the preparation of your School's financial statements.

### Matters requiring input by those charged with governance

We have placed reliance on the governing body's review and approval of the following matters:

- Minutes of Board meetings;
- Management accounts;
- Implementation of such controls as is needed to ensure that the financial statements are presented fairly;
- Notification of fraud;
- 2019 and 2020 budgets
- The 10 Year Property Plan (Cyclical Maintenance Plan); and
- The financial statements.

### Materiality and adjusted and 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 statements. 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.

For any material misstatements which we may have identified and requested adjustment of within the financial statements, please refer to Appendix 1: Adjusted and Unadjusted differences.

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

Management and governance are required to make a formal assessment on going concern. Under Auditing Standards, we are required to review this assessment for appropriateness.

Paragraph 15 of ISA (NZ) 570 (Revised) states:

15. *The auditor shall enquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.*

The assumption of going concern was concluded as appropriate.

## Fraud

During the audit, no matters relating to fraud, concerning either employees or management, have come to our attention in respect of the School. It should be noted that our audit is not designed to detect fraud however, should any instance of fraud come to our attention, we will report this to you.

## Compliance with laws and regulations

We have made enquiries in relation to 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 School.

## Probity, waste and performance

We are required to consider whether any approved payments could be considered extravagant or wasteful, or show a lack of probity or financial prudence. We did not identify any issues of concern with respect to probity, waste and performance.

## Novopay (EdPay)

We appreciate the issues created for the School by the introduction of the Novopay pay system in 2012. While this has created many issues at an administration level, for audit purposes we are required to be able to conclude the payroll expense recognised in the financial statements is materially correct.

The auditor of the Ministry of Education has reviewed your staff annual accrual report (SAAR) and concluded that we may be able to rely on it for the purposes of our audit. In addition the Principal and Chair have reviewed this report and while acknowledging it may not be perfect, in substance it was found to be materially correct.

While we have relied on the work of the Ministry's auditor in conjunction with the Principal's and Chair's assertions, we have performed other procedures to gain the assurance we need that payroll is not materially misstated. We had performed:

- review of internal control procedures around the fortnightly payroll reports
- a reconciliation of the payroll per the general ledger and the financial statements to the Staff Annual Accrual Report (SAAR)
- a review of the schedule "Schools Detailed Leave Liability and Error Schedule Reports" for material items impacting on the financial statements
- existence testing on a sample of employees
- an analytic review by staff member for a sample of employees
- an analytic review of the reasonableness of the expense in aggregate; and
- disclosure checklist review around payroll are consistent with the guidance provided by the OAG.

Given the procedures above we are satisfied the payroll is materially correct for your School.

## Significant difficulties encountered

There were no significant difficulties encountered during the audit process. We have received full and frank cooperation. There is nothing we wish to raise solely with those charged with governance.

The financial statements, supporting accounting work papers and other information were supplied to us at the outset of the audit.





# AUDIT FINDINGS – THE OVERALL RESULT

# Audit findings – the overall result

## Summary of findings

To enable management to set priorities on their action plans we have assessed our findings on the following basis, namely, critical, high, moderate, and low based on our assessment of the importance of each finding. Classifications of findings are detailed in Appendix 2: Finding ratings.

These findings and recommendations have been provided to the School's management for comment.

There have not been any other significant matters arising during the audit that were discussed, or subject to correspondence with management, that have not otherwise been set out in this report.

	Critical	High	Moderate	Low
Number of findings	-	2	1	-

Provided below is a summary of key findings:

Item no	Findings and recommendations	Rating
1.	One-up approval of principal's visa statements and receipts	<b>High</b>
2.	Independent review of GST returns	<b>Moderate</b>
3.	Fundraising – cash received	<b>High</b>

A detailed assessment of each finding is presented in the following pages.

<b>1. One-up approval of principal's visa statements and receipts</b>	<b>Rating of finding: High</b>
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<b>Background</b>
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From our review of a sample of credit card transactions, we noted that there is no independent review of the principal's credit card expenses.

<b>Implications</b>
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Credit cards can be reasonably easily subject to error and fraud and have led to allegations of inappropriate expenditure for some schools. It is important that you have all appropriate supporting documents and are checking statements thoroughly on a timely basis to prevent errors or unauthorised payments.

<b>Recommendation</b>
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We recommend that you apply a "one-up" principle of approving credit card expenditure. We suggest that the principal's monthly credit card expenses be approved by the Board or finance sub-committee, alongside accompanying receipts and invoices.

<b>Management comments and actions</b>
--

Credit card statements and invoices are always presented to Ed Services along with any receipts (if payments were Dr Debit in nature) but also if the card is used to purchase anything. The card has a limit of \$1000, which is consistent with 'Discretionary Principals Expenditure' in our Finance Policy.

Ed Services provide a governance report which itemises the expenditure on the visa. The board sees this each month and the visa statement is included in board meeting documents and uploaded to the BoT Shared Drive monthly.

Responsibility:	Target date:
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**2. Independent review of GST returns**Rating of finding: **Moderate****Background**

We noted that your GST reconciliations are prepared by Education Services Limited, but there was no evidence of an independent review, by the school, of the reconciliations.

**Implications**

The GST reconciliation is a key check over the completeness of school's liability to the Inland Revenue for GST paid and collected on behalf of the government.

**Recommendation**

We recommend that the school reviews the GST returns and checks the payments made or received to the school's bank account. We recommend this is evidenced as having taken place by way of signature or similar.

**Management comments and actions**

We pay Ed Services a substantial amount to make sure this is done correctly! Also, Jo (office manager) checks what is taken out - she checks the GST against the bank statement. She also checks it when it 'hits' the bank account as she needs to code it correctly. Jo would also query if the amount is not consistent with income from operational funding.

Responsibility:

Target date:

3. Fundraising – cash received	Rating of finding: <b>High</b>
<b>Background</b>	
<p>We note, being a small school, there is a shortage of individuals available to receive and count cash received</p>	
<b>Implications</b>	
<p>This has led to a weakness in your controls over incoming cash, where the cash received may not be reconciled to the daily banking and checked by an independent person who has not processed the cash received.</p>	
<b>Recommendation</b>	
<p>We suggest the office keeps a daily cash summary that records the revenue received from various sources (classroom, stationery room, office, etc.). The total of this daily cash summary should then be agreed to the daily banking, and this check initialled as evidence of the person performing the control and an independent person who has checked the banking.</p>	
<b>Management comments and actions</b>	
<p>We record all incoming cash in our receipt book. Online payments are recorded within our SMS. We take in such a low amount of cash, in any given week, that we only bank as needed (in accordance with our 'Managing Income and Expenditure" procedures in our Finance policy.</p>	
<p>All money is kept securely locked in the filing cabinet until Armour-guard are called to come and do a pick-up.</p>	
Responsibility:	Target date:

## Appendix 1: adjusted and unadjusted differences

### Adjusted differences

The following differences were identified arising from the audit that have been adjusted in the financial statements at our request.

Description	Assets	Liabilities	Equity (Reserves)	Net Surplus / (Deficit)
	\$	\$		\$
Net surplus/(deficit) for the year				(3,749)
To clear the Friends of South Featherston School suspense account year-end balance	(965)			(965)
Final net surplus/(deficit) for the year				(4,715)

We had also identified a small number of presentation differences arising from the audit that have been adjusted in the financial statements at our request.

### Unadjusted differences

There were no unadjusted differences at the conclusion of the audit.

## Appendix 2: finding ratings

The following framework for ratings has been developed to facilitate discussion with the School's management in order to prioritise issues according to their relative significance.

Rating	Definition
<b>Critical</b>	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.
<b>High</b>	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.
<b>Moderate</b>	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.
<b>Low</b>	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.

## Appendix 3: update on findings from previous years

Topic / issue	Description and recommendation	Update	Management's comment
<b>Irregular frequency of "one-up" approval of the Principal's credit card purchases</b>  2018 Report to the Board	Although the chairperson did occasionally approve and sign-off on the Principal's credit card statements, these were not on a regular basis. Around mid-way through the year the Board encountered some departures of Board members and that there were not the same levels of robust Board scrutiny that had been evident in the past.	On-going – re-raised in Current year	As stated above, regularly reviewed at monthly
<b>Financial oversight by the Board (minuted)</b>  2018 Report to the Board	Our review of the Board minutes found that some details that were recorded in the minutes of your Board meetings were frequently brief and, at times, inconclusive.	Matter now resolved.	Accepted



## CONTACT US

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