

Peria School

AUDIT COMPLETION REPORT

FOR THE YEAR ENDED

31 December 2019



18 August 2020

Rebekah Dangen
Chairperson
Peria School
1430 Oruru Road
Peria 0482

cc: Ariana Williams
Principal

Dear Mrs Dangen,

We have pleasure in presenting our Audit Completion Report for our audit of Peria 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 and controls in your organisation 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 may exist.

We take this opportunity to express our appreciation for the assistance and co-operation provided by the School's staff, especially Toni Kemp during the audit. We have received full and frank cooperation. There is nothing we wish to raise solely with the Board.

Yours faithfully,
BDO NORTHLAND



Angela Edwards
Appointed Auditor / Audit Partner

Email: Angela.Edwards@bdo.co.nz

Cc: Ariana Williams, Principal, Peria School
Encl: Board Report

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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

BDO NORTHLAND ('BDO') is the Appointed Audit Firm of Peria School (the "School").

BDO's responsibilities include a requirement to express an opinion on the School's financial statements arising from our audit conducted in accordance with the Auditor-General's Auditing Standards which incorporate International Standards on Auditing (NZ).

This report details the processes, findings and recommendations from our audit of the School in accordance with the Auditor General's Auditing Standards, and the terms of our engagement as set out in our audit engagement letter.

Our audit of the School's financial statements for the year ended 31 December 2019 is complete. Subject to the resolution of matters arising in this report, review of the final draft financial statements, receipt of a signed letter of representation, approval by the Board of the financial statements and the finalisation of our audit completion procedures.

We intend to issue an unqualified audit opinion.

We welcome your feedback on the effectiveness of the audit process and are available to discuss our performance.

AUDIT SCOPE AND OBJECTIVES

Our audit objectives are to:

- report on whether the financial statements give a true and fair view, and
- report to Management about control environment issues that should be addressed by the school.

A strong control environment would feature adequate segregation of duties over important financial processes, and independent reviews as compensating controls should it not always be practicable for the duties to be separated.

We have documented, tested and assessed the controls supporting the school's key transaction streams, and there are no significant weaknesses to report. Control weaknesses identified during the audit have been included in the Internal Control and Other Findings section of this report.

AREAS OF SIGNIFICANT RISK AND AUDIT EMPHASIS

Our audit approach considered the inherent risks in your business, their potential impact on the financial statements and the associated risk mitigations and controls in place. The significant matters arising from our audit work are:

- Locally raised funds
- Payroll not approved or checked
- Cyclical maintenance provision
- Management Override

We were able to obtain sufficient and appropriate audit evidence in respect to these items and have no significant findings to bring to your attention. Refer to Section 2 for our comments in respect to each significant risk and area of audit emphasis.

SUMMARY OF UNCORRECTED MISSTATEMENTS

There were two errors left uncorrected at the conclusion of our audit. Uncorrected misstatements are documented at Appendix 1 and will be included in the letter of representation that you agree with Management's assertion that they are immaterial to the readers understanding of your financial statements.

INTERNAL CONTROLS

Our audit approach requires us to obtain an understanding of an entity's internal controls in order to identify assess the risk of material misstatement of the financial statements whether due to fraud or error but is not designed to provide assurance over the overall effectiveness of controls operating within the School.

We have not identified any material weaknesses in internal controls relating to the prevention and detection of fraud and error that have impacted on our ability to provide an opinion on the financial statements for the year ended 31 December 2019.

GOVERNANCE AND ACCOUNTABILITY

Good governance and accountability need and support each other and, if done well, enhance the public's trust in our public sector. Good governance encourages and can result in good accountability. In turn, accountability is a vital element of good governance.

The Auditor-General has published a report, Reflections from our audits: Governance and accountability. This report reflects on common issues, and highlights examples of good and emerging practise, which public entities can use to help improve their governance and accountability arrangements. It also identifies eight elements of good governance and looks at some trends that present new challenges and opportunities for enhancing accountability.

We encourage you to use the findings and examples in this report to consider the School's governance and accountability arrangements. This report is available on the OAG website at www.oag.govt.nz/2016/reflections

2. KEY FINANCIAL STATEMENT AUDIT RISKS AND AREAS OF AUDIT EMPHASIS

Our audit procedures were focused on those areas of the School’s activities that are considered to represent the key audit risks identified during the risk assessment process undertaken and communicated with you through the audit arrangements letter at the planning phase of the audit. Below we present a summary of the identified key areas of risk and audit emphasis and our conclusions in relation to each matter. We are satisfied that these areas have been satisfactorily addressed through our audit processes.

Locally Raised Funds	
Area of Audit Emphasis	Conclusion/Response
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.	From our audit work performed we found no issues regarding locally raised funds income or expense balances in the financial statements.

Payroll not approved or checked	
Area of Audit Emphasis	Conclusion/Response
Payroll is processed by Novopay. The accuracy of payroll processing is dependent on appropriate approval of payroll changes and checking of the fortnightly SUE report.	From our audit work performed we found no issues regarding payroll balances included in the financial statements.

Cyclical Maintenance Provision

Area of Audit Emphasis

Cyclical Maintenance is an area of judgment and 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 by an expert.

Conclusion/Response

From our audit work performed, there were no issues regarding the provision for Cyclical Maintenance in the Financial Statements.

Management Override

Area of Audit Emphasis

There is a rebuttable presumption under the International Auditing Standards that there is a risk of management override.

Conclusion/Response

We have assessed the segregation of duties and risk of management override as part of our planning process, and concluded that the risk of fraud from management override of controls is primarily through the processing of manual journals. We have used a risk based approach to testing manual journals, and focused on any areas where a risk of judgement, estimation or cut-off risk exists with management override in mind. No issues with management override we noted.

3. INTERNAL CONTROL AND OTHER AUDIT FINDINGS

This section of the report sets out the key internal control findings we have identified during the course of the audit and highlights control deficiencies requiring management attention. Our work has been limited to those controls relevant to the audit of your statutory financial statements. The purpose of our audit work on controls is not to provide assurance in its own right on the internal controls and therefore we may not necessarily disclose all matters that might be significant deficiencies or deficiencies that heighten the risk of a fraud being perpetrated.

The findings and recommendations have been discussed and agreed with the School’s Management.

Significant percentage of operations grant funding teachers’ salaries - re-raised

Finding	Conclusion
<p>From discussions with the Ministry of Education, we note that the average school uses around 50-55% of its operations grant to fund teacher salaries.</p> <p>Your school used 71% (down 8% from 79% in the prior 2018 year-end) of its operations grant to fund teacher salaries in the 2019 year, which is significantly higher than the national average.</p>	<p>Using a high proportion of the operations grant to fund salaries creates a potential risk that there may not be enough operations grant left over to fund other school expenses.</p> <p>It is the school’s choice how to allocate operations grant funding, and there are a number of reasons why a school could choose to fund additional salaries through the operations grant. We raise this not as a recommendation for change, but as a point for discussion for the Board of Trustees, to ensure you are aware of it.</p>

Address to be updated with the Bank - re-raised

Finding	Conclusion
<p>Upon receipt of the year end bank confirmation, it was noted that the postal address was to a “Bray, McCormack, Dow”.</p> <p>The bank confirmation is an important piece of audit evidence that is used in confirming not only your year-end bank balances but ensures all disclosures are correctly included within the</p>	<p>We recommend that you contact your local bank, and have it stated on your account that future year end bank confirmations requested are forwarded to the following address;</p> <p>BDO Northland Limited PO Box 304 Kerikeri 0245</p>

financial statements. Without this kind of confirmation received each year, we would not be able to sign off on the audit engagement in a timely manner.

We want to emphasise that this has in no way impacted on the audit process in 2019 and has been raised to simply ensure that in future years, no issues arise around the time of sign off.

Budgeting for a deficit and inclusion of approved budget figures -re-raised

Finding

The Board has prepared the 2020 budget with an approved deficit of (\$-43,141). In addition to this, it was noted that the approval in the meeting minutes did not state what the surplus or deficit was for the year's budget.

We are concerned that continued budgeting for deficits, if achieved, will reduce your School's equity. Although deficit budgeting may appear to be warranted when preparing the budget for a particular year, we urge caution as it is unlikely to be sustainable. We are also not able to verify that budget figures included within the year end financial statements are from the approved budget at start of each year.

Conclusion

It is vital that you continue to look for ways to improve the actual results against the budgeted deficit during the upcoming school year and ensure that spending does not exceed the amounts approved by the Board. We recommend that the Board try to avoid deficit budgeting wherever possible, so the school budgets reflect the ability for it to live within its means and in addition, include the budgeted surplus or deficit within the meeting minutes that approve the annual budget each year.

Approval of Pay changes

Finding

From our review of Novopay Payroll changes we noticed that the change requests are being authorised by the Office Manager who is also responsible for sending these change requests to Novopay and communicating with Novopay about issues or errors.

Conclusion

Where there is no segregation of duties, the responsibility and burden of trust is placed on the person who has sole control. The separation of key accounting responsibilities, such as changes to payroll details is a critical internal control to prevent error whether caused inadvertently or otherwise.

Novopay payroll changes should be signed and dated by the Principal as a 'one-up' authority as evidence of this check, before being submitted by the Office Manager.

Breach of Law - Statutory Reporting Timeframe

Finding

The Board has failed to comply with section 87(C) of the Education Act 1989 by not providing audited financial statements to the local Ministry of Education Management Centre by 2 June 2020.

The above breach has been adequately disclosed in your financial statements, so we have not needed to refer to it in our audit opinion.

Conclusion

One of the reasons for the breach was that you did not provide all the required documentation or sign off the financial statements before the due deadline. Due to this, we could not complete our audit by the 2 June 2020 which has resulted in the breach.

To avoid this situation recurring, we recommend that the Board and management team prepare an annual financial reporting timetable which assigns tasks and responsibilities and ensures that the required deadlines are met. We would be happy to discuss strategies for meeting these deadlines at a convenient time before the end of the school year. We would also like to acknowledge the significant impact COVID-19 has had on the school's ability to meet these deadlines.

4. REQUIRED COMMUNICATIONS WITH GOVERNANCE

Matter	How the matter was addressed
Auditors responsibility under generally accepted auditing standards	<p>We are responsible for completing an audit in accordance with generally accepted auditing standards in New Zealand. The detailed terms of which are set out in our audit engagement letter.</p>
Confirmation of Audit Independence	<p>In conducting our audit, we are required to comply with the independence requirements of PES-1 Code of Ethics for Assurance Practitioners issued by the External Reporting Board.</p> <p>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.</p> <p>For the comfort of the Board, we note that the following processes assist in maintaining our independence:</p> <ul style="list-style-type: none"> • No other work is permitted to be undertaken by any BDO office without the express approval of the audit engagement partner. • All services performed by any national BDO office will be reported to the governing body. <p>Audit fees billed for the 2019 audit were \$4,250.</p> <p>There were no other services provided by our firm for the financial year.</p>
Management Judgements and Estimates	<p>Under International Standards on Auditing (NZ), we have a responsibility to ensure that you have been informed about the process used by the School in formulating particularly sensitive accounting estimates, assumptions or valuation judgements. Overall we note that the judgements and estimates by management in preparing the results for the year ended 31 December 2019 appear reasonable. Key matters impacting on our audit have been raised in sections 2 and 3 of this report if applicable.</p>

Matter	How the matter was addressed
Matters requiring Board of Trustee input	<p>We have placed reliance on the Board’s review and approval of the following matters:</p> <ul style="list-style-type: none"> • Minutes of the Board meetings; • Implementation of such controls as is needed to ensure that financial statements are presented fairly; • Review and approval of management accounts; • Review and approval of annual budget; • Review and approval of 10 Year Property Plan • Notification of fraud; and • Review and approval of the financial statements.
Accounting policies	<p>Auditing standards require us to discuss with you the qualitative aspects of the School’s accounting practices and financial reporting. We reviewed the financial statements of the School against the Kiwi Park Model and noted no material departures from the requirements.</p>
Materiality and adjusted/ unadjusted differences	<p>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 report. 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.</p> <p>All unadjusted differences (none of which we consider material, either individually or in aggregate) have been detailed in Appendix 1 of this report.</p> <p>It should be noted that 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.</p>

Matter	How the matter was addressed
Going concern	<p>We have undertaken a review of management and those charged with governance' assessment of the ability of the School to continue as a going concern for 12 months from the date of signing the audit report and therefore whether the going concern basis for the preparation of the financial statements is appropriate.</p> <p>We identified no issues or concerns that lead us to conclude the going concern assumption cannot be relied upon.</p>
Fraud	<p>During the audit, no matters relating to fraud, concerning either employees or management, have come to our attention. It should be noted that our audit is not designed to detect fraud, however, should instances of fraud come to our attention, we will report them to you.</p>
Compliance with laws and regulations	<p>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.</p>
Significant findings from the audit	<p>Other than those documented in the executive summary and sections 2 and 3 of this report, there were no significant matters arising from the audit.</p>
Disagreements with management	<p>There have been no disagreements with management over matters of significance to the audit.</p>
Difficulties encountered during the audit	<p>There have been no significant difficulties encountered during the audit.</p>
Consultations with other accountants and consultants	<p>We have considered the need for other accounting specialists during our work and determined, due to the nature of the engagement and experience and knowledge of the engagement team, that no specialists were necessary for the current period.</p>

Matter	How the matter was addressed
Management representation letter	We have not requested specific representation from management in addition to those areas normally covered by our standard representation letter.
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.
Publishing Annual Report on the School's Website	<p>The Education Act 1989 requires you to publish your Annual Report on-line. Your Annual Report contains your audited annual financial statements including our audit opinion, analysis of variance, list of trustees and Kiwisport statement.</p> <p>Making your Annual Report accessible to the school community is important for transparency and accountability. The expectation is that your Annual Report is published as soon as possible after your audit is completed, as the value of good accountability lessens over time. We note that you did publish your 2018 Annual Report on your website. The failure to publish your Annual Report on your website is a breach of section 87AB of the Education Act 1989.</p>

APPENDIX 1 - ADJUSTED AND UNADJUSTED DIFFERENCES

AUDIT ADJUSTMENTS

There was one audit adjustments to be made to the financial statements at the conclusion of the audit.

Description	Assets	Liabilities	Reserves	Profit
	Dr(Cr)	Dr(Cr)	Dr(Cr)	Dr(Cr)
	\$	\$	\$	\$
Repairs and Maintenance - Pool				-12,800
Funds held for capital works		12,800		
<i>To reclassify repairs and maintenance as capital works.</i>				
Net Effect of Adjustments not made:		12,800		-12,800

UNADJUSTED DIFFERENCES

The following misstatements have been identified during the course of our audit, and *have not* been adjusted as they were considered by management not to be material:

Description	Assets	Liabilities	Reserves	Profit
	Dr(Cr)	Dr(Cr)	Dr(Cr)	Dr(Cr)
	\$	\$	\$	\$
Debtors	1,137.00			
Creditors		-3,015.70		
Employee Benefits - Salaries				1,878.70
To bring in ACC on teachers' salaries grants receivable and payable not accrued - and bring in bulk grant payables not accrued.				
Painting Contract liability (current and term)		2,976		
Cyclical maintenance				-2,976
To adjust PMS contract liability.				
	1,137.00	-39.70		-1,097.30

APPENDIX 2 - UPDATE ON FINDINGS FROM PRIOR YEAR

Budget to include Cash Flows- resolved

Finding	Update
<p>We note that the 2018 budget approved by the Board of Trustees consisted only of Revenue and Expenditure items and a balance sheet budget.</p> <p>The Education Act 1989 requires that budgets are shown in Statements of Financial Performance (Income Statement) and Statements of Financial Position (Balance Sheet). In addition to this, the IPSAS Reporting standards that the school falls under also requires a Cash Flows budget. By not producing a budget that including these items is a departure from the reporting requirements of the School.</p>	<p>We recommend that the budget should be used to forecast the expected Statement Cash Flows.</p> <p>The cash flow budget should be reviewed quarterly, and the cash flow forecast for the rest of the year updated. Boards of trustees are encouraged to maintain a rolling forecast of their year-end positions, based on the actual year to date and budget or forecast figures for the remainder of the year. This will ensure that the board knows that it has sufficient funds to the end of the year.</p>

Significant percentage of operations grant funding teachers' salaries - re-raised

Finding	Update
<p>From discussions with the Ministry of Education, we note that the average school uses around 50-55% of its operations grant to fund teacher salaries. Your school used 79% of its operations grant to fund teacher</p>	<p>We recommend that the budget should be used to forecast the expected Statement Cash Flows.</p> <p>The cash flow budget should be reviewed quarterly, and the cash flow forecast for the rest of the year updated. Boards of trustees are encouraged to maintain a rolling forecast of their year-end positions, based on the actual year to date and budget or</p>

salaries in the 2018 year, which is significantly higher than the national average.

The Education Act 1989 requires that budgets are shown in Statements of Financial Performance (Income Statement) and Statements of Financial Position (Balance Sheet). In addition to this, the IPSAS Reporting standards that the school falls under also requires a Cash Flows budget. By not producing a budget that including these items is a departure from the reporting requirements of the School.

forecast figures for the remainder of the year. This will ensure that the board knows that it has sufficient funds to the end of the year.

Address to be updated with the Bank - re-raised

Finding

Upon receipt of the year end bank confirmation, it was noted that the postal address was to a “Bray, McCormack, Dow”.

The bank confirmation is an important piece of audit evidence that is used in confirming not only your year end bank balances but ensures all disclosures are correctly included within the financial statements. Without this kind of

Update

We recommend that you contact your local bank, and have it stated on your account that future year end bank confirmations requested are forwarded to the following address;

BDO Northland Limited
PO Box 304
Kerikeri 0245

We want to emphasise that this has in no way impacted on the audit process in 2018 and has been raised to simply ensure that in future years, no issues arise around the time of sign off.

confirmation received each year, we would not be able to sign off on the audit engagement in a timely manner.

Review of Creditor Schedules Prior to Payment - resolved

Finding

Although processes have improved during the year, we noted during our testing that creditor schedules are not always signed as reviewed by the delegated authority before payments are made. To enable us to verify that these approvals are taking place at our year end audit, we need to sight payment schedules with delegated authority signature and agree all invoices attached are per the approved schedule and the total payment per the bank is agreed to the schedule total. If any one-off payments are processed outside this process, in addition we need to be able to verify approval of the payment by verifying the delegated authority authorisation and agree the payment to the bank.

Update

A lack of review of the creditors listing before payment can result in inappropriate payments whether inadvertently or otherwise could go undetected.

We recommend that a creditors schedule is prepared before payments are scheduled, with all invoices due for payment attached, and have the delegated authority review the schedules before signing and dating them as evidence of timely approval prior to payment.

Evidence of Review of SUE Reports - resolved

Finding

While we understand that Novopay Staff Usage and Expenditure (“SUE”) Reports have been reviewed, there is no formal evidence of the extent of those reviews and approval as the SUE Reports do not display the signature of the reviewer and date.

Without independent and systematic review of SUE Reports there is a risk that payroll processing errors whether caused inadvertently or otherwise, could go undetected over payroll being the School’s single largest expense.

Update

Best practice is that the SUE Reports should be systematically reviewed and signed and dated in a timely manner once approved by the Principal as the Head of Management.

Independent review of Locally raised funds - resolved

Finding

For inward monies received over the counter by the School and reconciled to the cash summary there is currently no independent review systematically carried out. Such a system of internal control would ensure all inwards cash receipted is correctly recorded in the cash summary and banked intact.

Update

A system of internal control should be implemented whereby review by a “one-up” independent officer of the person banking the monies should take place to ensure that inward monies are reconciled and banked intact.

Any discrepancies should be investigated, and explanations obtained.

Approval should be evidenced by way of displaying the signature of the reviewer and date over which year end audit can verify the control.

Currently, inwards monies received could be misappropriated and go undetected.

Budgeting for a deficit and inclusion of approved budget figures - partially re-raised

Finding

The Board has prepared the 2019 budget with an approved deficit of -\$29,427. In addition to this, it was noted that the approval in the meeting minutes did not state what the surplus or deficit was for the years budget.

We are concerned that continued budgeting for deficits, if achieved, will reduce your School's equity. Although deficit budgeting may appear to be warranted when preparing the budget for a particular year, we urge caution as it is unlikely to be sustainable. We are also not able to verify that budget figures included within the year end financial statements are from the approved budget at start of each year.

Update

It is vital that you continue to look for ways to improve the actual results against the budgeted deficit during the upcoming school year and ensure that spending does not exceed the amounts approved by the Board. We recommend that the Board try to avoid deficit budgeting wherever possible, so the school budgets reflect the ability for it to live within its means and in addition, include the budgeted surplus or deficit within the meeting minutes that approve the annual budget each year.