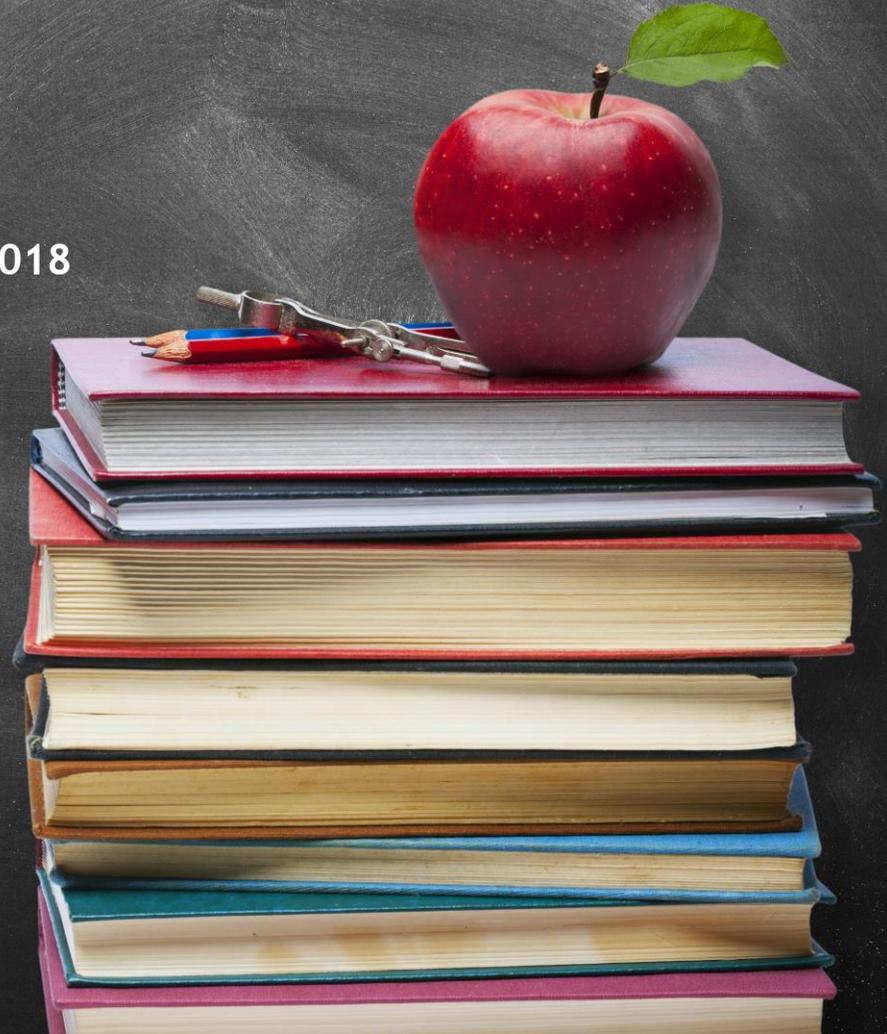


# SOUTHBROOK SCHOOL

FINAL REPORT TO THE BOARD  
FOR THE YEAR ENDED 31 DECEMBER 2018



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## EXECUTIVE SUMMARY

This report details the processes, findings and recommendations from our audit of Southbrook School (the “School”) in accordance with the Auditor General’s Auditing Standards which incorporate International Standards on Auditing (NZ), and the terms of our engagement as set out in our audit engagement letter.

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 for audit purposes. Our examination may not have identified and should not be relied upon to identify all control weaknesses that exist.

Overall, we are satisfied that the School has presented its results for the year ended 31 December 2018 to a good level of compliance with applicable financial reporting standards, with one adjustments made as a result of our audit and no significant unadjusted differences.

We would like to thank the staff of the School for their cooperation extended to BDO, during the course of the audit. We have received full and frank cooperation. There is nothing we wish to raise solely with the Board.

## AUDIT SCOPE AND OBJECTIVES

BDO Christchurch (‘BDO’) is the Appointed Audit Firm of 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).

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 Summary Findings section of this report.

## CONFIRMATION OF AUDIT INDEPENDENCE

In conducting our audit, we are required to comply with the independence requirements of the Code of Ethics issued by the Professional Standards Board of Chartered Accountants Australia and New Zealand and the External Reporting 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 the Board, we note that the following processes assist in maintaining our independence:

- 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.

We have not provided any non-audit services to the School. We confirm the independence of the BDO Christchurch audit engagement team.

## KEY FINANCIAL STATEMENT AUDIT RISKS

We have set out below our findings in areas we have identified as risks.

### 1. Revenue Recognition

#### ***Identified audit risks***

A key audit risk is in relation to revenue recognition. There is a presumption under Auditing Standards that there is a risk of fraud in relation to revenue recognition.

#### ***Conclusion of our work***

From our audit work performed we found no issues regarding revenue recognition in the financial statements.

### 2. Locally Raised Funds

#### ***Identified audit risks***

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. That is, there is a risk that not all funds raised have been collected and appropriately recorded in the financial statements.

### ***Conclusion of our work***

From our audit work performed we found no issues regarding locally raised funds income balances in the financial statements.

## **3. Payroll not approved or checked**

### ***Identified audit risks***

The School's 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.

### ***Conclusion of our work***

From our audit work performed we found no issues regarding payroll balances included in the financial statements.

## **4. Cyclical Maintenance Provision**

### ***Identified audit risks***

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 of our work***

From our audit work performed, there were no issues regarding the provision for Cyclical Maintenance in the Financial Statements. The provision was updated to reflect the boards current plans.

## **MANAGEMENT JUDGEMENTS AND ESTIMATES**

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 2018 appear reasonable.

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 by the School.

## MATTERS REQUIRING BOARD INPUT

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

- 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 2018 and 2019 budgets;
- Review and approval of 10 Year Property Plan;
- Notification of fraud; and
- Review and approval of the financial statements.

## ACCOUNTING POLICIES

Auditing standards require us to discuss with you the qualitative aspects of the School's accounting practices and financial reporting. There have been no significant changes to any applicable accounting standards for the year ended 31 December 2018. We reviewed the financial statements of the School against the Kiwi Park Model and noted no material departures from the requirements.

## MATERIALITY AND ADJUSTED / 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 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.

During the course of our audit we have identified one material misstatements. All unadjusted differences (none of which we consider material, either individually or in aggregate) have been detailed in Appendix 1 of this report.

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.

## 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 states:

*15. The auditor shall enquire of those charged with governance as to their knowledge of events or conditions beyond the period of their 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 given the School's funding sources and its operating budget for following financial period.

## FRAUD

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.

## 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.

## OVERALL RESULT

Our audit work is complete. We have issued an unmodified audit report on the financial statements of the School for the year ended 31 December 2018.

We issued an interim report to the Principal in November 2018. We encourage the Board to review the matters raised in that interim report, if you have not already done so.

Further to that interim report, we noted the following findings when completing the final audit work. 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 of this report.

	Critical	High	Moderate	Low
Number of findings	-	1	2	-

Provided below is a summary of key findings:

ITEM NO	FINDINGS AND RECOMMENDATIONS	RATING
1	Board Review of Payroll	High
2	Budgeting for locally raised funds	Moderate
3	Annual Report not available on the school website	Moderate

## SUMMARY OF FINDINGS

1. Board Review of Payroll		Rating of finding: High	
Background			
The salaries and wages comprise a large percentage of all payments made by the school. It is therefore critical that these payments receive the same level of scrutiny and control as other forms of payments.			
Implications			
As these payments are direct credited by the payroll service, it is possible for the transfer of funds to take place without any form of direct authorisation.			
Recommendation			
We recommend that a thorough review of the payroll situation be made by the principal and a board member. The review would include comparing wages to budget, reviewing the staff-banking position to ensure the school was on target to use up its full teacher entitlement, and forecasting potential staffing issues. This exercise could be formally acknowledged by the principal and board member signing each SUE payroll report. We have included a sample fortnightly verification form that may be useful (see Appendix 3)			
Management comments and actions			
Responsibility		Target date	

<b>2. Budgeting for Locally Raised Funds</b>		<b>Rating of finding: Moderate</b>	
<b>Background</b>			
We noted that local funds income and expenditure were missing or incomplete in your school's annual budget.			
<b>Implications</b>			
It is important that the annual budget capture all income and expenditure items, measured on an accruals basis, so that the budget is consistent and comparable with the annual financial statements, and so that robust monthly budgeting can occur.			
<b>Recommendation</b>			
Accordingly, we recommend that these items be included when the annual budgets are prepared, based on the best estimate responsible. We note this has been rectified in the 2019 budget.			
<b>Management comments and actions</b>			
<b>Responsibility</b>		<b>Target date</b>	

<b>3. Annual Report not available on the school website</b>		<b>Rating of finding: Moderate</b>	
<b>Background</b>			
Section 87AB of 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.			
<b>Implications</b>			
Transparency and accountability are important for all public entities. Schools are funded by the community, so it is the school's job to report back to the community in a timely way.			
We are required to report to the Office of the Auditor General if the annual report is not published on the school's website in a reasonable timeframe.			
<b>Recommendation</b>			
We recommend the annual report is published online as soon as possible after the audit is completed and all prior annual reports are published as soon as possible.			
<b>Management comments and actions</b>			
<b>Responsibility</b>	BOT	<b>Target date</b>	ASAP

## APPENDIX 1 - ADJUSTED AND UNADJUSTED DIFFERENCES

### Adjusted differences

The following audit adjustments were made to the financial statements:

Description	Profit	Assets	Liabilities	Reserves
	Inc / (Dec)	Inc / (Dec)	Inc / (Dec)	Inc / (Dec)
	\$	\$	\$	\$
Adjustment of cyclical maintenance provision	33,325		(33,325)	
Net Effect of Adjustments made:	33,325		(33,325)	-

### 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	Profit	Assets	Liabilities	Reserves
	Inc / (Dec)	Inc / (Dec)	Inc / (Dec)	Inc / (Dec)
	\$	\$	\$	\$
Being accumulated novopay funding code errors		6,411	(6,411)	
Net Effect of Adjustments not made:		6,411	(6,411)	-

## APPENDIX 2 - FINDINGS RATING

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
Critical	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.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.

## APPENDIX 3 - PAYROLL INTERNAL CONTROL FORM (SAMPLE)

PAY PERIOD: XXXX

PERIOD ENDED: XXXX

Total Payment per SUER	\$XXX
Total Payment per bank statement	\$XXX
SUE Report matches bank statement	YES / NO
Relievers / changes checked & correct	YES / NO
All staff listed valid employees	YES / NO
There were no errors identified	YES / NO
Banked Staffing balance consistent with school model	YES / NO
Banked Staffing - no major unders or overs	YES / NO
Support staff annual leave checked and correct	YES / NO
All Support staff have under 20 days annual leave owed	YES / NO
Support staff increments checked and up to date	YES / NO
Management Units checked and correct	YES / NO
New / leaving staff documentation approved by Principal	YES / NO
Board approves change to Principal remuneration, if any	YES / NO / N/A

For **NO answers**, record the error (or variance) and corrective action, for example:

**Error <#>:** Teacher on Maternity leave continues to be paid despite school notification on <date> to Novopay

**School action:** email to Novopay

Management Sign off & Date

**1. Preparer (Finance Admin)**

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**2. Authoriser (Principal)**

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Board Sign off & Date

**3. Authoriser (Board Member)**

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