

SOUTHBROOK SCHOOL

FINAL REPORT TO THE BOARD
FOR THE YEAR ENDED 31 DECEMBER 2017





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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 2017 to a good level of compliance with applicable financial reporting standards, with two adjustments made as a result of our audit and one 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.

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 2017 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 2017 and 2018 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 2017. 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 two 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

There are no significant or material weaknesses arising from our audit.

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 2017.

We issued an interim report to the Principal in November 2017. We encourage the Board to review the matters raised in that interim report, if you have not already done so.

We have no additional findings arising from our subsequent audit procedures.

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)
Recognise new bank account	\$	\$ 9,131	\$	\$
Recognise income/expenses through new bank account	8,250/(280)			
Increase to Cyclical Maintenance Provision	(5,983)			
Net Effect of Adjustments made:	7,970	9,131		-

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)
Recognition of bank staffing overuse	\$ (5,560)		\$ 5,560	\$
Recognise MOE Teacher Salary overpayments (nil effect on surplus)	9482/(9,482)			
Net Effect of Adjustments not made:	(5,560)		5,560	-

APPENDIX 2 - UPDATE ON FINDINGS FROM PREVIOUS YEAR

TOPIC / ISSUES	DESCRIPTION	UPDATE	MANAGEMENT COMMENT
	<i>Nil findings</i>		