



Waikite Valley School

AUDIT COMPLETION REPORT
FOR THE YEAR ENDED

31 December 2020





8 December 2021

Board of Trustees
Chairperson
Waikite Valley School
1090 Waikite Valley Road
Waikite Valley

cc: Teresa Topp
Principal

Dear Trustee

We present our Audit Completion Report for our audit of Waikite Valley School's financial statements for the year ended 31 December 2020.

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 during the audit. We have received full and frank cooperation. There is nothing we wish to raise solely with the Board.

Yours faithfully,
BDO Rotorua

A handwritten signature in blue ink, appearing to be 'Stephen Graham', written over a horizontal line.

Stephen Graham
Partner
Audit & Assurance Services



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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

BDO Rotorua ('BDO') is the Appointed Audit Firm of Waikite Valley 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 2020 is complete.

We have issued 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

Our audit procedures have detected that the surplus of the School is potential overstated by \$9,723. 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 included in Appendix 1 of this report, a summary of our findings and recommendations arising as a result of our audit procedures.



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

Significant Events - COVID-19	
Area of Audit Emphasis	Conclusion/Response
With New Zealand experiencing a nation-wide lock down in response to the Coronavirus pandemic we considered management and board's assessment of the impact of this event on the school's financial performance and position.	The impact of the Coronavirus pandemic had not adversely impacted the school's financial position or operating budget for the 2021 year.



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.

Below are our findings and recommendations:

Depreciation Rates

Finding

Some assets held under library resources were not being depreciated using the diminishing value accounting policy adopted. While not material, it is best practice to ensure that the depreciation rates align with the rates disclosed in the financial statements.

Conclusion

We would recommend the School liaise with your accountant to ensure all assets are depreciated using the correct method and that these are consistent with the accounting policies disclosed in the school's financial statements.

Credit Card Receipts

Finding

We noted that in some instances from our testing of credit card expenditure where receipts were not attached to the credit card statement reconciliation at month end.

Keeping receipts attached to the credit card statements ensures that all costs are able to be easily substantiated to source records should query arise and also enables an efficient review of costs incurred.

Conclusion

We suggest that all relevant supporting documents be attached to your credit card statements. This will ensure that all documentation relevant to the credit card payment is kept together and is adequately controlled. It will also provide appropriate support to the person on your Board who is authorising the expenditure.



Credit Card Receipts

Finding

Segregation of duties associated with the recording and reporting of financial transactions is a fundamental control designed mitigate the risk of misappropriation of funds, human data input error, or unrecorded transactions. The importance of this control is further heightened in environments where income streams are cash based. In the context of a school, finance departments are generally limited to a few individuals and the handling of cash is commonplace. Segregating duties as far as possible is therefore extremely important to ensure the heavy burden of trust is not borne by one individual.

During the course of our audit work we have observed instances where duties have been seen to be appropriately segregated and we wish to note that nothing has come to our attention which would lead us in any way to question the integrity of any of your employees, however we have not reviewed all of the school's systems in detail.

Conclusion

Given that our audit did not include a detailed review of all of the school's systems we feel it is our responsibility to once again highlight the importance of this matter to the Board.

We note from review of Schools of similar size and staffing, that it is often impossible to segregate duties sufficiently to eliminate risk altogether, however with the careful oversight of management, combined with rotation of duties between team leaders and Board Members, this risk can be appropriately mitigated.

3. REQUIRED COMMUNICATIONS WITH GOVERNANCE

Matter	How the matter was addressed
Auditors responsibility under generally accepted auditing standards	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.
Confirmation of Audit Independence	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. 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. Audit fees billed for the 2020 audit were \$3,853. There were no other services provided by our firm for the financial year.
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 2020 appear reasonable. Key matters impacting on our audit have been raised in sections 2 and 3 of this report if applicable.

Matter	How the matter was addressed
Matters requiring Board of Trustee 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 annual budget; • 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. 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. All unadjusted differences (none of which we consider material, either individually or in aggregate) have been detailed in Appendix 1 of this report. During the course of our audit, we identified misstatements which have been corrected in the financial statements these 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.

Matter	How the matter was addressed
Going concern	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. We identified no issues or concerns that lead us to conclude the going concern assumption cannot be relied upon.
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.
Significant findings from the audit	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.
Disagreements with management	There have been no disagreements with management over matters of significance to the audit.
Difficulties encountered during the audit	There have been no significant difficulties encountered during the audit.
Consultations with other accountants and consultants	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.

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	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. 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 2019 Annual Report on your website. We also remind the School that the failure to publish your Annual Report on your website is a breach of section 87AB of the Education Act 1989.



APPENDIX 1 - ADJUSTED AND UNADJUSTED DIFFERENCES

AUDIT ADJUSTMENTS

The following misstatements have been identified during the course of our audit, and have been adjusted:

Description	Assets	Liabilities	Reserves	Profit
	Dr(Cr)	Dr(Cr)	Dr(Cr)	Dr(Cr)
	\$	\$	\$	\$
Adjustment to Remove \$10,000 (excluding GST) of Grants received in the 2021 financial year from the 2020 Annual Report.	(11,500)	1,500		10,000
To record the TAPESA Wash-up per recommendation by Ministry of Education.		(513)		513
Net Effect of Adjustments made:	(11,500)	987		10,513



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)
	\$	\$	\$	\$
2020 Bulk Grant Accrual		(9,723)		9,723
Net Effect of Adjustments not made:		(9,723)		9,723



APPENDIX 2 - UPDATE ON FINDINGS FROM PRIOR YEAR

Automatic Payments

Finding

In the current year, during our review of post year end payments, we noted an automatic payment that the school had set up for Stead Construction during the 2018 year had not been cancelled. Therefore, a payment of \$5,554 was deducted from the school bank account in January 2020.

Update

As noted through discussions with the Principal and School Administrator, automatic payments were reviewed and those not required were cancelled. Auditor followed up on the status of the Stead Construction refund and was informed it had been refunded and the automatic payment cancelled. This matter has been resolved.

BOT Funded Payroll

Finding

From discussions, and guidance, with the Ministry of Education, we note that the average school uses around 50-55% of its operational grant to fund bulk grant salaries.

During the 2019 year we noted that your school used approximately 87% of its operational grant. However, this would be reduced by other MoE grants received to fund teacher aides.

Update

In the prior year we discussed this with the Board of Trustees to ensure that there was an awareness of how the MOE Operational Grant is allocated, as the School utilised a high-portion of its Grant to fund teacher's salaries.

From the review over the 2020 year, the Auditor's noted the portion of Operational Grant funding allocated to Teacher's Bulk Grant Salaries reduced to 60% with additional funding received over and above operations funding to offset the additional wage costs.



Banking	
Finding	Segregation of duties associated with the recording and reporting of financial transactions is a fundamental control designed to mitigate the risk of misappropriation of funds, human data input error, or unrecorded transactions. The importance of this control is further heightened in environments where income streams are cash based. In the context of a school, finance departments are generally limited to a few individuals and the handling of cash is extremely important to ensure the heavy burden of trust is not borne by one individual. During the course of our audit work we have observed instances where duties have been seen to be appropriately segregated and we wish to note that nothing has come to our attention which would lead us in any way to question the integrity of any of your employees, however we have not reviewed all of the school's systems in detail.
Update	
Auditor has raised this point again during the 2020 Audit. Please see this comment at "Internal Control and Other Audit Findings". No significant concerns identified.	

Banking	
Finding	During our review of receipts, we noted that schedules are prepared and coded for Education Services. These schedules are signed by the Principal. However, we were unable to locate banking reconciliation schedule.
Update	
During the 2020 Audit, the Auditor noted banking of cash was completed when required, as the School is more often taking Eftpos or direct transfers from students and parents. Where cash was taken and deposits were required, these were completed by Kelly when able, and reconciliations were supplied to ESL, following the advice from the 2019 Audit Completion Report.	