

RSM Hayes Audit

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29 May 2020

The Chairperson
Board of Trustees
Tauhoa School
Naumai Road
Tauhoa
Warkworth 0984

Dear Ms Tameris

Audit of your Financial Statements For the year ended 31 December 2019

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

Upon completion of your audit we will enclose a complete set of your school's financial statements together with our formal audit report issued on behalf of the Controller and Auditor-General, as required by legislation.

Please note that a PDF copy of the audit report and signed financial statements is required to be uploaded to the MOE's schools data portal by 31 May 2020. We also remind you that you are now also required to publish the final audited version of your annual report on your website.

This letter and accompanying report of Audit Findings includes observations on the school's accounting procedures. As the trustees are responsible for the financial operations of the school, we suggest this letter be considered at the next finance committee meeting and tabled at the next full board meeting.

Scope of the audit

Our audit is designed to provide an independent opinion on the board's financial statements which are a public document. As a secondary output of this work we also report on matters relevant to your financial and management systems that have come to our attention and are significant.

We have performed procedures to audit the information presented in your annual financial statements. We have also relied on representations made by your school's management team, including your accounting service provider, Education Services. We assess the results of procedures and representations made when forming our audit opinion.

To ensure your school receives the maximum benefit from our audit we have turned our focus to the future and set out in the attached report some matters for the attention of your board. Our motive is to offer objective and constructive advice so that the accounting function and related issues can be improved in the future. Please note that this letter is sent only to you, with a copy to the Office of the Controller & Auditor-General. We do not send a copy of this letter to the Ministry of Education or any other party.

The audit doesn't end with our audit report

If you wish, we would be pleased to discuss with you our recommendations in this letter or any other aspect of the school's audit. If it is of value to your board, one of our audit directors or managers would be happy to attend a board meeting to discuss any finance related issues you have.

In recognition of the value we place on our association with your school, we think it is appropriate to waive our normal fee for attending a meeting. Please contact our office if you wish to take up this offer.

Our sincere thanks

This year's audit has been uniquely challenging with us being unable to complete an audit visit onsite due to the COVID-19 lockdown. This has meant we have had to work remotely, and more iteratively, with your team and we give thanks for the assistance from your principal, Mrs Vivienne Goldsmith and executive officer, Mrs Denice Pride during this process. This has resulted in some additional audit time incurred through this unforeseeable disruption and has resulted in a number of schools not being able to have audited accounts completed by the 31 May deadline. We are pleased to say that in your case we have been able to work with your team to achieve this deadline.

We hope you and everyone at Tauhoa School are well and working towards resuming more normal operations now that schools have been allowed to re-open.

Yours sincerely



Don Aue
Associate Director



Tauhoa School

Audit Findings

For the year ended 31 December 2019

1. Introduction
2. Expected Content Of Our Formal Audit Report
3. Governance
4. The Financial Statements
5. The Day To Day Accounting System
6. Prior Year Recommendations

1. Introduction

We set out below our findings from the audit work we have performed during the audit of your financial statements for the 2019 financial year. Matters raised in this report have been discussed with your management team during the audit fieldwork.

Our work focussed on the systems and controls set by your board and implemented by your management team, to the extent necessary in forming an audit opinion. Any matters arising from the audit are detailed in this letter.

2. Expected content of our formal audit report

Subject to receipt of signed financial statements, letter of representation, minor narrative adjustments to the financial statements and final update of events subsequent to balance date, we expect to issue an unmodified audit report with an emphasis of matter referring to disclosures made in your financial statements about the impact of COVID-19 that will be worded as follows:

Emphasis of Matter – COVID-19

Without modifying our opinion, we draw attention to the disclosures in note 25 on page 19 which outline the possible effects of the Alert Level 4 lockdown as a result of the COVID-19 pandemic.

3. Governance

Areas of significant audit focus

We believe it is best practice to communicate with you as the governing body regarding matters which form an important part of our audit process.

An independent audit of your financial statements is a key part of ensuring that your organisation has appropriate controls in place regarding financial management and financial reporting. However, ultimately it is you, the governing body that remains responsible for your financial systems, internal controls including the detection and prevention of fraud, and financial statements.

While our audit necessarily involves evaluating your overall system of financial controls and reporting, the following are areas and issues we assessed as potentially significant risk areas in relation to your school during our audit. Accordingly, we believe that they are important issues that should be of interest to you in your governance capacity. In the case of your organisation in the current year these assessed areas of significant focus were as follows:

- Recognition and recording of locally raised funds income and expenditure and treatment of income in advance;
- Risk from limited segregation of duties;
- Expenditure being valid and appropriate for your school's purposes (probity of expenditure);
- Cyclical maintenance expense and provisioning being appropriate;
- Appropriate treatment of capital works funding and expenditure;
- Payroll controls in place at your school and accurate recording of payroll accruals;

In addition, we sought to ensure that your financial statements were in compliance with generally accepted accounting practice in New Zealand as appropriate to public benefit entities that qualify for Tier 2 reporting. That is that Public Benefit Entity Standards - Reduced Disclosure Regime (PBE Standards RDR) have been appropriately adopted and that the mandatory Kiwi Park model has been followed.

We are pleased to advise that our testing of these assessed risks did not identify any significant issues or concerns. Any observations and recommendations related to these topics are detailed below.

Required communications

We are required by auditing standards to report specific matters to you as follows:

- We have had no disagreements with management during our audit nor any serious difficulties in dealing with management
- We have not identified any breaches of legislation during our audit
- We have not identified any instances of fraud involving management, or any other frauds that caused a material misstatement of the financial statements
- We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.

Audit independence

We reaffirm we are independent of your school, and that we have no relationship with your school that could impair our independence.

4. The financial statements

Unadjusted differences

There were no errors noted in the financial statements that remained uncorrected.

Adjustments made

Appendix A identifies all journal adjustments posted at our request in the final financial statements.

5. The day to day accounting system

It is important that we report any observations and areas for improvement in respect of the financial control environment at your school. As part of the RSM audit approach we review the accounting systems established by the board to the extent that they could have a significant impact on the annual financial statements. The following observation are brought to your attention.

Segregation of duties

In any organisation it is important that no single person has control over, or access to, all aspects of recording and control of school funds. Not only does this provide opportunity for abuse of the school funds, but also puts a great responsibility and burden of trust upon the person who has this control.

The separation of key accounting responsibilities is a critical internal control in any system to prevent misappropriation of funds, error, or unrecorded transactions.

Significant portions of the day to day payroll functions are primarily under control of the Principal, Vivienne Goldsmith. These activities include access to Novopay, entry of transactions, authorisation of payroll transactions and payroll changes and review of payroll reports. We wish to point out that nothing in our review of your

systems has lead us in any way to question the integrity of this employee. We appreciate that it would be difficult to segregate Vivienne's duties but with careful monitoring and oversight by the board, this risk can be mitigated.

Novopay

The Novopay system relies on schools to check the accuracy of their payroll. Consequently, we highlight the continued need for the fortnightly payroll transactions and SUE reports to be scrutinised thoroughly by people independent of the routine payroll processing. Additionally, if controls around authorisation and signing of payroll reports are not in place, this increases the amount of audit work we are required to perform and resulting interruption to your team. We noted the following opportunities for improvements with Novopay processing at your school:

- **Review and Authorisation of transaction reports**

In addition to the Staff Usage Entitlements (SUE) report, Novopay also provides a 'transaction report'. This is a critical document which lists all transactions entered against employees of your school. This document is available before the fortnightly SUE report is finalised and issued.

It is important that this report is reviewed by the appropriate independent of payroll function person of appropriate authority as a check that hours, rates and other information contained are accurate. The transaction report shows any changes made in the Novopay system by your staff each fortnight.

We noted that currently the transaction report from Novopay is retained and signed by the principal, however given the segregation of duties risk above we would like to suggest that a Board member or alternative staff member also reviews these reports. These checks are important to ensure any errors in payroll processing are picked up in a timely manner. All transaction reports should be retained for audit purposes so that transactions can later be verified, and as evidence of your review of these reports.

- **Review and authorisation of SUE reports**

SUE reports are not currently being signed by someone independent of the payroll system at your school. As the SUE report that shows all of the payments made under the Novopay system related to your school, an independent review of this report is an important control to ensure all payroll is correctly paid. We suggest that an appropriate person be assigned the responsibility of reviewing this report each fortnight and signing the SUE report as evidence of that review.

This is a carried forward point for prior year; however, we wish to emphasise the importance of independent review of these reports. We encourage the board acquire understanding of these reports and perform a review and ask questions when necessary to mitigate the risk of limited segregation of duties.

Controls over fundraising

During the year your school held successful fundraising events such as the Ag day and the Devonshire Tea fundraising event, where funds were collected by parents and teachers. While we commend the efforts of the board and school on raising local funds, there are usually limited controls over the initial collection of cash in such fundraising activities. Where there are such limitations, it is difficult for us as your auditors to conclude that there are sufficient controls to ensure all income received from this fundraising activity has been completely and accurately recorded by your school. We wish to point out that nothing from our testing of this fundraising stream caused us to question whether all income had not been accurately recorded.

We commend your school encouraging and implementing controls as best possible including the use of a carefully selected team of staff to count the cash at the reception. We further recognised your school implementing our recommended controls in issuing receipts where practical such as, the silent auction. We continue to encourage your school to implement such contracts where practical. Consideration should also be given to the use of 'token' or 'ticket' systems which will help provide a basis to compare actual monies received against 'tokens' or 'tickets' issued. This would provide the school a mean to gauge the reasonableness of cash

received and undertake further investigations should significant variances between actual receipts and estimated receipts be identified.

We would also like to remind you that should the level of cash fundraising continue to increase we may need to consider more closely the controls over the collection of such funds. Where we are unable to reconcile funds received or where we have concerns over the completeness of income this may potentially lead us to consider whether we need to modify our audit opinion in respect of cash fundraising, as it is often impracticable for us to audit this effectively.

We further encourage the board to closely monitor these receipts by reconciling management reporting with income received from these events.

Accounting for livestock

During the year, your school has initiated the trading of livestock. The school currently records the purchase and sale of livestock as trading revenue when livestock is sold and expenses when livestock is purchased. This does not appear to be consistent with the appropriate accounting treatment. Adjustments have been raised as part of the audit to correctly recognise and reflect this in your financial statements.

You are also required to disclose material farming activities, including livestock trading separately in the financial statements, including revenue, expenses, assets, and liabilities. Furthermore, where the value of livestock is considered to be significant, you should also carry out a stocktake at least yearly with any changes in the value of livestock accounted for as a gain or loss in the statement of comprehensive revenue and expense.

Please note that should the balance of livestock be of a significant balance in the future, we may be required to attend a stock take at year end as part of our audit procedures.

Update of the Cyclical Maintenance Plan

We noted that your cyclical maintenance plan is currently working in line with expectation. It appears the plan is being followed and work is being completed relatively consistent with the plan. This highlights the Board's commitment to provide good quality facilities as part of a safe and pleasant learning environment for your pupils and staff.

We only wish to recommend that since it was last reviewed in 2017, that it be checked by a professional and possibly updated in 2020. This will ensure that in the future, the plan will continue to be accurate and prevent any delays.

6. Prior year recommendations

Prior Year Recommendation	Current Year Progress
<p>Deficit budget</p> <p>We recommended the Board try to avoid deficit budgeting wherever possible, so the school budgets reflect the ability for it to live within its means.</p>	<p>Implemented. The school has budgeted for a surplus of \$67 for FY 2020.</p>
<p>Publishing your annual report online</p> <p>We reminded you of your ongoing requirements to ensure 2018 and future annual reports are also filed on your website, along with being submitted electronically to the MOE through the schools data portal.</p>	<p>Implemented. We visited your school website and noted the 2018 financial statements are available on the website.</p>
<p>Budgeted cash flow statement</p> <p>We recommended the preparation of a cash flow budget be integrated into your annual budgeting cycle so that this is available to your board and management for monitoring purposes at the commencement of the year, as well as to enable this to easily be included in the annual financial statements.</p>	<p>Implemented. We noted your service provider has prepared a budgeted cash flow statement for FY 2020.</p>

Board of Trustees interests

The Board should create and maintain a register of Board member's financial interests, to assist the Board in identifying and managing any financial conflicts of interest.

This will help to ensure that the stakeholders have confidence that the member concerned has not influenced the awarding of the decision in any way.

We also draw your attention to section 103A of the Education Act. This section disqualifies people from being members of the Board where they are interested or concerned in contracts in excess of \$25,000 with the Board, without prior approval of the Ministry of Education. We suggest that the school ensures that all Board members are aware of the main provisions of this section of the Act.

No progress. We note that the school does not maintain an interest register, however, should there be any conflict of interests these are to be recorded in the board minutes.

To ensure that any conflict of interests is recorded, we encourage an interest register be maintained and be reviewed throughout the year for updates of any board members with conflict of interests.

Credit card approval

We recommend that a "one-up" principle of authorisation of credit cards should be applied. This means, for example, that the credit card transactions of a principal should be approved by the board or a finance sub-committee of the board.

Implemented. We noted a board member reviews and signs on the monthly credit card statements.

Recording low value fixed assets

We recommend that you only capitalise fixed assets with a cost over \$1,000 as per your accounting policy. Where there are groups of low value items, e.g. chairs and desks which individually have a value of less than \$1,000, they should still be included in the asset register as a group.

This will allow you to concentrate on maintaining focus and control over more expensive items within the school.

In progress. We understanding the school is currently reviewing the fixed asset register for low value assets and impairment of assets.

Appendix A

Journal adjustments made in the final financial statements at our request

Name	Account No	Income Statement		Balance Sheet	
		Debit	Credit	Debit	Credit
Inventory - Livestock	RSM 1			9,870	
Cost of sale	RSM 3		(9,870)		
Being the recognition of livestock asset at year end.					
Inventory - Livestock	RSM 1				(3,600)
Cost of sale	RSM 3	3,600			
Being the recognition of cost of goods sold during the year					
Inventory - Livestock	RSM 1			792	
Gain/Loss on sale of livestock	RSM 2		(792)		
Being the recognition of changes in valuation of ewes at year end.					
Inventory - Livestock	RSM 1			2,900	
Cost of sale	RSM 3		(2,900)		
Being the recognition of lambs reproduced by ewes held at year end.					
Livestock Purchases	8170	2,900			
Other income	RSM 4		(2,900)		
To recognise lambs held on hand at year end.					