

REPOROA COLLEGE

AUDIT COMPLETION REPORT
FOR THE YEAR ENDED

31 December 2019



1 April 2021

Kerry Pearce
Chairperson
Reporoa College
Massey Road, Reporoa

cc: Brendan Carroll
Principal

Dear Kerry

We have pleasure in presenting our Audit Completion Report for our audit of Reporoa College'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 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 Limited



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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

BDO Rotorua Limited (“BDO”) is the Appointed Audit Firm of Reporoa College (“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.

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

There were no errors left uncorrected at the conclusion of our audit.

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 practice, 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.

Credit card expenditure not signed as approved

Finding	Conclusion
We noted that not all credit card statements are signed as evidence of independent review and approval by a 'one-up' officer.	We recommend all statements be reviewed and signed off by the on-up officer to ensure inappropriate spending is detected.

Invoices absent for Credit Card expenditure

Finding	Conclusion
From our review of credit card of credit card statements, we noted some instances where not all receipts were attached to the corresponding statement.	All detailed invoices and receipts should be attached to the monthly credit card statements supplied by credit card holders. Further, credit card statements and invoices should be subject to a "one up" review and approval for payment where detailed invoices are available. Any outstanding invoices should be followed up. In the unusual circumstances of an invoice not being available then a note of the spending detail should be recorded by the credit card holder in lieu of invoice.

Sensitive expenditure issue

Finding

We noted that family accommodation was booked and paid for by the school as part of a conference trip conducted around June 2019.

Conclusion

When attending school related conferences or trips, it is recommended unnecessary costs are minimised as the public's money is at use. In future, ensure bookings are made for the school representative only.

Annual report not available on the school website

Finding

Under section 87AB of the Education Act 1989, all schools are required to publish their annual report online.

We were not able to locate your previous year annual report on the school website.

Conclusion

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.

Segregation of Duties

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 highlight the importance of this matter to the Board. We appreciate that within a small team it is often impossible to segregate duties sufficiently to eliminate this risk. But with careful monitoring and oversight by management, perhaps including the periodic rotation of duties between team members and the Board this risk can be appropriately mitigated.

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 \$6,201.</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 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>There were no errors left uncorrected at the conclusion of the audit.</p> <p>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.</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 at the time we carried out our audit, your 2017 Annual Report had not been published 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 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)
	\$	\$	\$	\$
Banking staffing underuse receivable at year end.	38,658			(38,658)
Net Effect of Adjustments made:	38,658	-	-	(38,658)

APPENDIX 2 - UPDATE ON FINDINGS FROM PRIOR YEAR

Publishing of Your Annual Report

Finding

We noted that the School did not publish their 2017 year annual report on its website and therefore failed to meet its responsibility in regards to Section 87Ab of the Education Act 1989.

Update

During our audit, we were unable to locate the 2018 annual report on the School's website. 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.