

**RSM Hayes Audit**

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7 December 2020

The Chairperson  
Board of Trustees  
Fruitvale School  
9 Croydon Road  
New Lynn  
Auckland 0600

Dear Mr Eruera

## 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 school's data portal as soon as you receive them. We also remind you that you are 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. 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 and 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.

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## 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, Mr Donal McLean and office manager, Ms Jacqui Edwards, during this process. This unforeseeable disruption has resulted in some additional audit time incurred, and at a later time than normal, resulting in a number of schools not being able to have audited financial statements completed before the statutory deadline. This is common nationwide. As a result, a note to the financial statements has been added to disclose the breach of the statutory reporting deadline being due to the impact of COVID-19. The Ministry have confirmed that there will be no penalty for late filing of audited financial statements this year as a result.

Yours sincerely



**Brendon Foy**  
Audit Partner





# Fruitvale Primary 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

## 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, signed minutes from December 2019, and final update of events subsequent to balance date, we expect to issue an unmodified audit report in our standard wording, with the following emphasis of matter paragraph that draws attention to the impact of the Covid-19 pandemic.

### Emphasis of matter – COVID-19

Without modifying our opinion, we draw attention to the disclosures in note 26 on page 21 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; and
- 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;
- Other than the breach of the statutory reporting deadline reported in the notes to your financial statements, we have not identified any other breaches of legislation;
- We have not identified any instances of fraud involving management, or any other frauds that caused a material misstatement of the financial statements; and
- 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**

Appendix A details unadjusted journal differences that we identified during the audit.

### **Adjustments made**

There were no journal adjustments made to the financial statements as a result of our audit.

### **Compliance with section 87 of the Education Act 1989**

As a result of the delays from COVID-19 lockdowns, the Board of Trustees has been unable to comply with Section 87 of the Education Act 1989, as the Board were unable to provide their audited financial statements to the Ministry of Education by 31 May 2020. The disruption caused by the COVID-19 restrictions, including the closure of the school, meant that the audit could not progress as planned. This resulted in the school missing the statutory deadline. This fact has had to be disclosed in your 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 observations are brought to your attention.

### **Health and wellbeing payments**

When reviewing items of sensitive expenditure during our audit, we noted wellness payments made to all staff members. We understand these were effectively a cash payment to staff members, but on the understanding the staff members used those funds to improve their own wellbeing. Your principal has provided us additional information as to the reasons for the payments.

While such payments are allowed to be made by the board, we note several matters in relation to those payments which should have been considered:

- The manner in which these payments have been made is likely to be recognised as income to the individuals and should therefore have been taxed. We understand this has not been done.

- To clearly demonstrate the use of public funds has been appropriate, it would be better to have all staff be reimbursed for payments and provided invoices, to show how the funds have been used as intended by the board. We understand receipts were not always provided by every staff member.
- Any teachers paid under a collective contract are not allowed to be paid over and above what they are entitled to under that collective contract. The wellness payments identified may fall into that category and we suggest you should seek guidance as to whether or not this is the case to protect yourselves as a board from external scrutiny.

We recognise your responsibility to your staff to be a good employer. It is important however when you are making payments to members of staff, such as these wellness payments, you consider all the potential implications of doing so. To protect yourselves, you may wish to consider requesting advice from the MOE as to whether such payments are able to be made and the appropriate processes around doing so.

### **Overseas Travel**

We bring to your attention that before approving any Crown funded travel, the board must complete the Funding Overseas Travel Using Crown Funding Checklist. This can be found in Appendix C in the Ministry of Education's Financial Information for Schools Handbook (FISH).

We understand this checklist was not completed by the board before approving costs for the Principal's conference in Sydney which took place in March 2019. The board may use Crown funding (as opposed to locally raised funds) for overseas travel if they can demonstrate that the two main conditions have been met:

- The overseas travel supports student achievement; and
- They have considered the proposed spending against competing priorities.

The board must keep the signed and completed checklist, along with the board minutes of each decision and make these available for audit purposes. All expenditure should be accounted for and receipts returned following the trip.

While there is unlikely to be any travel in 2020 or until New Zealand's borders re-open, if and when overseas travel recommences, you will need to consider this process for any future trips.

### **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 SUE reports**

SUE reports are not consistently being signed by someone independent of the payroll system at your school. As the SUE report 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 have sighted that the principal acts the independent reviewer, however we would like to point out that the principal has access to Novopay. As this is a Ministry of Education requirement, we would expect a member of the Board to sign off the report. However, we accept the Board of Trustees is able to delegate this responsibility out to someone independent of the Novopay system. We suggest that an appropriate person, perhaps the deputy principal, be assigned the responsibility of reviewing this report each fortnight and signing the SUE report as evidence of that review.

– **Review and Authorisation of transaction reports**

In addition to the 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 principal, or some other appropriate independent person 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 currently not being retained. 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.

**Signing of In-committee Minutes by Chairperson**

Not all the in-committee minutes of the Board’s meetings were signed by the chairperson to indicate that they had subsequently been approved as a true and correct record of the meeting.

To achieve best practice, we suggest the in-committee minutes, together with other key supporting documents are signed by the chairperson when approved at the subsequent meeting. Accordingly, we recommend that in-committee minutes be formally documented and retained, especially for any resolutions made.

**Segregation of Duties**

In any organization 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 accounting functions are solely under control of your office manager, Jacqui Edwards. We wish to point out that nothing in our review of your systems has led us in any way to question the integrity of this employee. We appreciate that it would be difficult to segregate Jacqui’s duties but with careful monitoring and oversight by management and the board this risk can be mitigated. A further control is someone else on your team being able to perform these tasks and this occurring occasionally such as when the key person takes leave.

**Credit card reviews**

While credit card statements were correctly reviewed and signed by the Chairman, the date of review for credit card statements was not documented. This does not allow us to confirm that the statements are being signed in a timely manner.

We recommend credit card statements are reviewed with a signature and date of the reviewer, to show the review is timely.

## Appendix A

### Unadjusted differences arising from our audit

The following differences have been identified during our audit and remain unadjusted at the conclusion of our work. Whilst we request that these do be amended, given their value, we nevertheless are still able to provide an unmodified opinion should they remain unadjusted in the final approved financial statements.

Name	Account No	Income Statement		Balance Sheet	
		DR	(CR)	DR	(CR)
MOE Teachers Salaries	65088		(4,601)		
Accrual - Banking Staffing Overuse	93028			4,601	
To adjust for banking staffing overuse as per OAG spreadsheet					
Grounds R & M	71828		(25,435)		
Orig Cost - Building Improvements	95211			25,435	
To capitalise the Concrete Pathways					
Cyclical Maint - Increase Prov	71415		(12,464)		
Prov for Cyclical Maintenance (93057)	93057			36,319	
Prov for Cyclical Maintenance (98025)	98025				(23,855)
To adjust for Cyclical Maintenance Expense					