

RSM Hayes Audit

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28 May 2021

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

Dear Trustees

Audit of your Financial Statements For the year ended 31 December 2020

We have substantially completed the audit of your financial statements for the year ended 31 December 2020.

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 2021. 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. 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

We would like to take this opportunity to thank your principal, Mr Donal McLean and office manager, Ms Jacqui Edwards, for their assistance and co-operation during our audit. The assistance from the school team greatly influences the efficiency of the whole audit process.

We would also like to thank the trustees for selecting RSM Hayes Audit as your auditors. The 2020 year represents the final year of our three-year cyclical appointment as your auditors. We have appreciated our relationship with your school over that time. The formal tender and appointment processes for the next three years will be initiated by the Office of the Auditor General and carried out during 2021.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Brendon Foy'.

Brendon Foy

Audit Partner



Fruitvale Road School

Audit Findings

For the year ended 31 December 2020

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 2020 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, and final update of events subsequent to balance date, we expect to issue an unmodified audit report in our standard wording.

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); and
- Cyclical maintenance expense and provisioning being appropriate.

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; 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

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

Budgeted Cash Flow Statement

Schools are required by S87(3)(i) of the Education Act 1989 to report budgeted figures for the cash flow statement that is now mandatory in your financial statements. Further, we consider that it is important to monitor the cash position of your school to ensure that funds are always available to meet day to day financial obligations.

We note that while your school has presented a cash flow statement budget in your year-end financial statements, this has been generated from your income statement and balance sheet budgets as part of the financial statements preparation process.

In future, we recommend that 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.

Crown Energy Efficiency Loan

This year the school has entered into the Crown energy efficiency loan scheme whereby the Energy Efficiency and Conservation Authority (EECA) agreed to lend the school a sum of \$26,586 free of interest for the purpose of replacing existing lighting for LED lights. The aim of the scheme is to assist government funded organisations in reducing energy consumption.

Since the loan was entered outside of normal market conditions (being free of interest), for accounting purposes the loan is required to be measured as if it were entered under normal market conditions. As this has not been done in the draft financial statements, we have recalculated the fair value of the loan. Based on an interest rate of 6% a small difference in the loan value would arise. As the amount is not large, we have accepted this adjustment not being made in the final version of the 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.

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 accounting functions are under control of 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.

Documenting approval of sensitive expenditure

During our testing of sensitive expenditure, we identified the Board of Trustees had purchased a wedding gift for Donal, for the value of \$300.

On discussing this point with management, we understand this was discussed with the Board members, however we are unable to trace back the initial approval of the gift, through the board minutes. We note that the chairperson had signed a letter retrospectively agreeing the cost of the gift and confirming the boards prior approval for its payment. We recognise the individual transaction was not large in value, however we remind you of your obligations around the documentation of approval of public funds so decisions made by the board are able to be appropriately reviewed should any questions be raised in respect of the appropriateness or validity of such expenditure.

6. Prior year recommendations

Prior Year Recommendation	Current Year Progress
<p>Novopay</p> <p>In 2019, we recommended that SUE and Transaction reports be reviewed and signed off as authorised by the principal and someone independent of the Novopay system.</p>	<p>SUE and transaction reports are now being reviewed and signed off by the principal and chairperson.</p>
<p>Signing of In-committee Minutes by Chairperson</p> <p>In 2019, we recommended that in-committee minutes be reviewed and signed off as authorised by the chairperson.</p>	<p>Our review of in-committee minutes suggests these are still not being signed. We suggest minutes of all meetings are signed by the chair to confirm they are a valid record of decisions made.</p>
<p>Credit card reviews</p> <p>In 2019 we noted that the review of credit card statements were being reviewed, but not dated.</p>	<p>While authorised, the statements still appear to be undated. We suggest statements are dated when they are signed so there is a clear record of when the review is performed.</p>

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)
Cyclical Maintenance - Increase Prov	71415	3,126			
Prov for Cyclical Maintenance (93057)	93057			34,375	
Prov for Cyclical Maintenance (98025)	98025				(37,501)
To adjust per Cyclical Maintenance provision					
Sundry Income	14068	4,601			
Teachers' Salaries Grant	10025		(4,601)		
Reclass from Sundry Income to Teachers Grants for 2019 banking staffing					

Appendix B

Journal adjustments made in the final financial statements at our request

Name	Account No	Income Statement		Balance Sheet	
		DR	(CR)	DR	(CR)
MoE Other Grants	10064	24,300			
MoE SIP Project - Covered Outdoor Learning Area	93303				(24,300)
Capital Work receipt from MOE not reconciled to project					