

HORORATA SCHOOL

AUDIT COMPLETION REPORT

FOR THE YEAR ENDED

31 December 2021





31 May 2022

Jodie Loos
The Presiding Member
Hororata School
2548 Bealey Road, Hororata, Darfield

cc: Marty Gameson
Principal

Dear Jodie

We have pleasure in presenting our Audit Completion Report for our audit of Hororata School's financial statements for the year ended 31 December 2021.

We emphasise that our audit work involves the review of only those systems and controls in your School 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 express our appreciation for the assistance and co-operation provided by the School and the School's service provider during the audit. There is nothing we wish to raise solely with the Board.

Yours faithfully,
BDO Christchurch

A handwritten signature in black ink, appearing to read 'W. Johnstone', written in a cursive style.

Warren Johnstone
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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

BDO Christchurch ('BDO') is the Appointed Audit Firm of Hororata 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 2021 is complete.

We have issued an unmodified audit opinion.

We welcome your feedback on the effectiveness of the audit process and we 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 for the School, and their potential impact on the financial statements, as well as the associated risk mitigations and controls in place. The significant matters arising from our audit work are:

- Locally raised funds
- Payroll controls
- Cyclical maintenance provision
- Management override of controls

We were able to obtain sufficient and appropriate audit evidence in respect to these items and we have no significant findings to bring to your attention. Refer to Section 2 for our comments in respect of each significant risk and area of audit emphasis.

SUMMARY OF UNCORRECTED MISSTATEMENTS

Our audit procedures have detected 1 uncorrected misstatement. Uncorrected misstatements are documented at Appendix 1 and will be included in the letter of representation to confirm 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 the School's internal controls in order to assess the risk of material misstatement in the financial statements whether due to fraud or error. However, 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 2021.

A number of topics of interest can also be found within Appendix 2 of this report. Further points can be located in our Audit plan issued following our interim work.

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 our Audit Plan issued to you 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, unless stated otherwise.

Locally Raised Funds	
Area of Audit Emphasis	Conclusion/Response
Due to the nature of locally raised funds (often being cash, or having limited segregation of duties), there is a risk of material misstatement around the completeness of locally raised funds.	We found no issues regarding the completeness of locally raised funds balances recorded in the financial statements.

Payroll not approved or checked	
Area of Audit Emphasis	Conclusion/Response
Payroll is processed centrally for all schools. The accuracy of payroll processing is therefore dependent on appropriate approval of payroll changes and checking of the fortnightly SUE report at the School.	Please refer to Appendix 3 of this report.

Cyclical Maintenance Provision

Area of Audit Emphasis	Conclusion/Response
<p>Cyclical Maintenance is an area of significant judgment and estimation which could lead to material misstatement in the financial statements if not considered properly by management. For Schools to be able to calculate the appropriate cyclical maintenance provision, a 10 Year Property Plan (10YPP) and cyclical maintenance calculation need to be prepared and/or reviewed by an expert.</p>	<p>We found no issues regarding the provision for cyclical maintenance recorded in the financial statements.</p>

Management Override

Area of Audit Emphasis	Conclusion/Response
<p>There is a non-rebuttable presumption under the Auditing Standards that management override presents a significant risk of material misstatement to the financial statements.</p>	<p>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 primarily relates to the processing of manual journals. We have used a risk-based approach to testing manual journals and focused on any areas with a risk of cut-off error or those requiring judgement or estimation. No issues with management override were identified.</p>

3. INTERNAL CONTROL AND OTHER AUDIT FINDINGS

This section of the report sets out the key findings we identified during the audit and highlights control deficiencies requiring attention from management. Our work has been limited to those controls relevant to the audit of your financial statements. The purpose of our audit work on controls is not to provide assurance 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.

There were no key findings identified during this year's audit that we need to bring to your attention.

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 AG PES-1 <i>Code of Ethics for Assurance Practitioners</i> 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 or the OAG. • All services performed by any national BDO office will be reported to the governing body. <p>There were no other services provided by BDO during the 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 made by management in the preparation of the financial statements for the year ended 31 December 2021 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; • Management accounts; • Annual budget; • 10 Year Property Plan/maintenance plan; • Notification of fraud; and • 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/ unadjusted 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 when evaluating the financial statements. Materiality is initially calculated at the planning stage of our audit and has an influence on the amount of work we do, as well as where we direct our efforts. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.</p> <p>All adjusted and unadjusted differences identified during our audit (if any) 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 the Board and management’s assessment of the ability of the School to continue as a going concern for at least 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 led us to conclude the going concern assumption could not 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 and Training Act 2020 requires you to publish your Annual Report online. 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.</p> <p>We note that you have published your prior year Annual Report on the School's website.</p>

APPENDIX 1 -UNADJUSTED DIFFERENCES

UNADJUSTED DIFFERENCES

The following misstatements have been identified during 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)
	\$	\$	\$	\$
TAPECSA Final Washup		(4,833)		4,833
Net Effect of Adjustments not made:		(4,833)		4,833

APPENDIX 2 - TOPICS OF INTEREST

SCHOOL PAYROLL CONTROLS

Background / Introduction

During the year the Novopay Online transaction report was discontinued (October 2021), and from about mid-2021 has not been a complete record of all transactions.

Because the Novopay Online transaction report has not been available throughout the year we have been unable to rely on payroll controls as part of our audit work. This has meant we have had to carry out additional audit work on payroll. These additional procedures have provided the necessary assurance over the payroll amounts in your financial statements.

Impact on Internal Controls

We consider the main risk to the accuracy of payroll payments is transactions being incorrectly processed, because of either fraud or error. The EdPay system relies on schools checking the accuracy of the payroll transactions processed by the school, as this information is not checked centrally.

We do not consider that a review of the SUE report on its own is a strong enough control for schools to rely on to detect fraud or error. This is because it does not include details of changes to pay, or Masterfile changes. The lack of a complete Masterfile change report could also potentially provide an opportunity for a fraud to go undetected.

To ensure the accuracy of payroll payments, our expectation is that schools have the following key controls:

- effective access controls to EdPay, limiting access to “authorised users”;
- changes to Masterfile data - such as bank account changes, new starters, or payments to non-salaried staff (such as relievers) - have appropriate supporting documentation and are appropriately authorised;
- checking of the fortnightly draft payroll (SUE) report and Novopay Online transactions report for accuracy; and
- review of the final fortnightly payroll (SUE) report by someone independent of staff who has access to EdPay.

Updated guidance on payroll controls is now available within EdPay

Updated guidance on the controls within EdPay that should be operating at schools has recently been published on the EdPay website. The main change is that the Novopay Online transaction report has been replaced by several reports. To review and approve pay changes the following transaction histories should be saved, checked, and signed, ideally after transactions have been processed and prior to payment:

- timesheet history
- leave history
- activity history.

To ensure controls are effective schools also need to ensure that:

- there is segregation of duties between the processing and approval of payroll transactions;
- access to EdPay is controlled;
- payroll transactions are approved in line with delegations; and
- approvals are appropriately documented.

The guidance and resources on payroll controls for schools are available on the training page of the EdPay website. They consist of:

- A checklist of best practice payroll controls - School internal processes and controls - payroll.
- A video - How to use EdPay transaction histories (for checking and approving transactions).
- A printable 'how to' guide showing the transaction checking process - Checking transactions using the activity history and timesheet and leave histories.

No current report in EdPay to check and approve Masterfile changes

The online activity history for Masterfile changes, such as bank account and other changes to personal details within EdPay is still in development. The updated payroll guidance (referred to above) does suggest some interim procedures, consisting of taking screen shots of changes and having those approved. However, as this will not provide a list of all changes made, the Board needs to consider how it gets comfort that all changes are made with appropriate authorisation. Without a list of all Masterfile changes that can be approved by a second person (as segregation of duties is required for an effective control), this remains an area susceptible to fraud.

Recommendation

We recommend that the Board ask Management for assurance that appropriate controls are in place at the school over payroll transactions, consistent with the updated guidance.

BUDGETING FOR STATEMENT OF CASH FLOWS AND STATEMENT OF FINANCIAL POSITION

Schools are required by section 135 of the Education and Training Act 2020 to report budgeted figures for the Statement of Financial Position and Statement of Cash Flows.

It is important to consider the budgeted financial position and cash flows of the school of the school to ensure that the Board can effectively manage its working capital as well as possible legislative requirements, such as borrowing limits. It is also required to disclose the budgeted amounts for these statements in its financial statements.

Recommendation

We recommend that the Board produce a budgeted Statement of Financial Position and Statement of Cash Flows at the start of each year as part of your budget setting routine, to enable this to easily be included in the annual financial statements.