

7 May 2021

The Board of Trustees
Benneydale School
PO Box 4
Mine Road
Benneydale

Dear Trustees,

Audit Management Letter For The Year Ended 31 December 2020

1. Introduction

We have completed the audit of Benneydale School's (the School) financial statements for the year ended 31 December 2020.

The purpose of this letter is to bring to the attention of those charged with governance the significant matters that arose during the course of our audit and matters of interest as required by *ISA (NZ) 260 Communication with Those Charged with Governance* and other ISA (NZ) standards.

You will appreciate that while our audit is carried out in accordance with the Auditor-General's auditing standards, it cannot, and should not, be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency.

The responsibility for public accountability and the implementation and monitoring of internal and management controls rests with management and the Board of Trustees.

This letter has been prepared for the Trustees and is intended only for use by you. We accept no responsibility to any other party in relation to whole or part of its contents.

2. Responsibilities and Scope in Relation to the Audit

The Board of Trustees is responsible for preparing the financial statements in accordance with Public Benefit Entity International Public Sector Accounting Standards Reduced Disclosure Regime (PBE IPSAS RDR) and for implementing appropriate internal controls with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

We are responsible for conducting the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) (ISA (NZ)) issued by the New Zealand Auditing and Assurance Standards Board, and forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

3. Timing of the Audit

The audit was completed and dated 7 May 2021.

4. Audit Opinion

We have issued our unmodified audit opinion on the financial statements for the year ended 31 December 2020.

5. Going Concern Assumption

The financial statements were prepared on the basis that the school is a going concern. As required by the Office of the Auditor-General, we reviewed this assumption in terms of the criteria set out in the Auditing Standard ISA (NZ) 570. Based on the supporting evidence we concluded that the use of the going concern assumption was appropriate given the School's funding sources and its operating budget for the following financial period.

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6. Management Judgements and Estimates

Under International Standards on Auditing (NZ) we have a responsibility to communicate with management and the governing body the process used by the School in forming 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 2020 appear reasonable.

The most significant areas of judgement, assumptions and estimates by management relate to:

- Provision for cyclical maintenance and cyclical maintenance expense
- Depreciation rates to ensure that fixed assets are written off over their estimated useful lives

We are not aware of any other sensitive accounting estimates, assumptions or valuation judgements made by the School.

7. Materiality and Adjusted/Unadjusted misstatements

In the context of an audit, materiality means, 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 level of work to be performed, which items and balances require work and for the evaluation of the financial report. Materiality is initially calculated at the planning stage and has an influence on the level of work we do. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.

During the course of our audit no material misstatements had been identified.

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.

8. 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 have tested a sample of expenses for the year, and we did not identify any such items to report. However, we remind you of the importance to remain vigilant in your oversight of school expenditure.

9. Findings Arising from the Audit

Payroll Issues – Novopay System

The assurance work carried out centrally on behalf of the Auditor-General has found that the Novopay system places substantial reliance on schools to check the accuracy of their payroll. It is therefore important that the fortnightly transactions and expenditure reports are scrutinised thoroughly by people independent of the routine payroll processing in a timely manner. We found that appropriate controls were operating in your school except as noted below.

Assurance work relating to Novopay that is carried out centrally on behalf of the Auditor-General, hasn't identified any major anomalies for investigation. We have received confirmation from the Board that the people on the end of year payroll report were employed during the year, and the total shown against each person is substantially correct.

Leasing and hiring land and buildings

We remind schools that Boards must use the Ministry standard agreement between schools and third-parties when leasing or hiring school land and buildings (i.e., school hall, swimming pool, or playing fields etc). The Ministry approval is required in most instances. We recommend that you review all lease and hire of land and building for activities to ensure the Ministry requirements are fully complied. For further details please refer to Ministry's website <https://www.education.govt.nz/school/property-and-transport/leasing-and-hiring/>

Board Minutes

Board meeting minutes demonstrate to stakeholders that the school/kura and its' board act appropriately and in accordance with legal and contractual requirements. They also document that

principles of good governance and informed decision-making are being followed. The minutes should record the following matters:

- Review and approval of the annual audited financial statements;
- Review and approval of the annual cyclical maintenance plan (painting);
- Review and approval of the School Annual Accrual Report (end of year payroll report);
- Review and approval of the budget (including an income statement, balance sheet, and cash flow), budget should include teachers' salary and notional lease;
- Review and approval of monthly financial statements;
- Approval of payments.

We noted the School has not approved the annual cyclical maintenance plan and the Annual SAAR Report for the financial year in the Board Minutes. Please ensure that these are reviewed, approved and minuted each year.

Motor Vehicle Policy

We note that the school has a School van in use. It is important to have policy in place ensure the school vehicles are used appropriately and safely. We strongly recommend that it would be good practice to adopt a motor vehicle policy to provide guidelines for the procedure, condition of use and safe of use of the vans.

Internet banking Policy

We noted during the audit that the School is using internet banking for payment of invoices. It is a best practice for School to adopt an Internet banking Policy to ensure that appropriate control procedures are in place. Key controls for internet banking include:

- Senior management sets up the supplier accounts and all payments are approved by two signatories.
- Passwords must be kept secure and never shared – they represent the key to your funds.
- Senior management occasionally perform spot checks to verify the bank account numbers of suppliers to ensure that payments have been made to the correct parties.
- Payments are only made on original invoices that have been processed through the creditors system.
- Once a payment is made, the invoice should be cancelled. That is, all paid invoices should be marked as paid and preferably have noted the payment method and date.
- Audit trails of processing should be retained. Following control systems such as these will help safeguard against fraud or the same invoice being paid twice.

Independent Checks on Principal's Credit Card

We noted during the school visit that there were no independent checks done on the school credit card. To strengthen the expenses' internal control, we recommend that a "one up" principle of authorisation applies. This means for example that the credit card transactions of a Principal should be approved by the Treasurer, Board or the finance sub-committee.

Related Party Transactions

We noted that not all related party transactions are being declared in your Board Minutes. We recommend that all conflict of interest should be minuted in the future to comply with the requirements of Education Act 2020.

Payroll - Relievers

We noted at the visit that the relievers were not all signing in to verify that they were at the school on any particular day. We recommend that the relievers sign in a book or at Vistab and this be checked off against the relievers MOE form and SUE report.

Leave Accumulation

We noted that the school's annual leave report shows a considerable number of days leave owing to 1 staff member i.e.greater than 50 days. This report needs to be reviewed and if inaccurate corrected. If the actual days leave owing are excessive i.e. say greater than 30 days you obviously need to address this issue.

Cyclical Maintenance plan

The Cyclical Maintenance provision (for painting) in the financial statements is an estimate based on the school's property plan. It is therefore important that the property plan is regularly updated. The school's 10-year property plan is required to be professionally reviewed every 3 years at which time the separate painting plan should also be updated, as this is used as the basis for calculating the painting provision figure.

Please ensure that the separate painting plan forms part of the 3-year review cycle and is updated and approved at that time. This needs to be reviewed and approved annually by the BOT to ensure the plan aligns with what is happening at the school.

10.Adjusted and Unadjusted misstatements

Please find attached Appendix 1 lists adjusted misstatements found during the course of our work.

There were no unadjusted misstatements.

11.Key Financial Statement Audit Risks and Issues to be Communicated

<i>Key Matters</i>	<i>Responses</i>
Revenue Recognition	We documented the revenue systems, carried out appropriate controls testing and substantive audit procedures to address the risk of fraud in revenue recognition. We did not identify any material errors in relation to revenue recognition, whether due to fraud.
Locally Raised Funds	We documented the system on Locally Raised Funds, assessed the control environment and completed analytical audit procedures to address the risk of material misstatements around the completeness of locally raised funds due to its nature-often being cash. We have not identified any material misstatements, due to fraud.
Payroll	Payroll is processed by Novopay. The reliability of payroll processing is dependent on appropriate approval of payroll changes, checking of the fortnightly SUE report and review of School Annual Accrual Report (SAAR). We have discussed with management and documented controls on payroll, carried out control testing, analytical procedures and substantive audit procedures to address the risk identified on payroll. We have not identified any material misstatements in payroll, whether due to fraud or error. However, we have made some recommendations in this letter.
Cyclical Maintenance Provision	Cyclical Maintenance is an area of judgement and could lead to material misstatement in the financial statements. For schools to be able to calculate the appropriate provision a painting plan needs to be prepared and/or reviewed by a suitably qualified person. We have obtained and reviewed the School's Plan and assessed that the provision at balance date is reasonably correct. However, we have raised some recommendation in this letter.
Management override	We have discussed with management controls on expenditure authorisation, tested manual journals, reviewed accounting estimates and significant transactions that are outside the normal course of business to address the presumed significant risk on management override. We have not identified any instances of management override.
Qualitative Aspects of Accounting Practices	The accounting policies used by the entity are consistent with the previous year. We reviewed the accounting policies, accounting estimates and financial disclosures, we believe that these are appropriate.

Significant difficulties	During the audit, we encountered no significant difficulties.
Disagreements with Management	We have had no disagreements with management during our audit nor have we had any serious difficulties in dealing with management.
Written management representations	We received the standard signed representation letter for the year ended 31 December 2020. No other specific representations were requested.
Other information	No material inconsistencies or misstatements were identified relating to the other information in the financial statements.
Other Significant matters	No other significant matters were raised from the audit.
Auditor Independence	We reaffirm we are independent of your organization, and that we have no relationships with your organization that impairs our independence.
Going Concern	No material uncertainties related to going concern were noted.
Non-compliance with Law or regulation	We have not identified any instances of noncompliance with Law or regulation.
Significant deficiencies in internal control	No significant deficiencies in internal control were noted, however we have made some recommendations in this letter.
Fraud	We have not identified any instances of fraud involving senior management or any other frauds that have caused material misstatement in the financial statements.
Significant Risks	We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.

12. Conclusion

We remind the school to submit a single PDF file of your annual report, including audited financial statements and required signatures to the Ministry of Education via the Ministry's [School Data Portal \(external link\)](#). These audited accounts must be minuted at your next Board of Trustees' meeting.

Please advise us in due course of the actions you propose to take in relation to the matters raised in this letter.

We wish to acknowledge the friendly assistance provided by your staff during the audit. If there is any further information you require, please do not hesitate to contact us.

Yours faithfully
Owen McLeod & Co Ltd


Marilyn Castillo

Benneydale School

Year ending 31 December 2020

Appendix 1

Adjusted Errors:

To account for Banking Staffing Underuse for 2020 as per PP26. Refer R1-1b

Code	Name	Group	Debit	Credit
	Banking Staffing Underuse	assets	6,050.00	-
	Teachers salaries grant	income	-	6,050.00
			6,050.00	6,050.00

To correct the classification of playgroup fund transfer initially coded to fundraising expenses. Refer T3-1

Code	Name	Group	Debit	Credit
	Fundraising (costs of raising funds)	expenses	-	2,861.00
	Fundraising	income	43.00	-
	Funds held in trust	liabilities/ equity	2,818.00	-
			2,861.00	2,861.00

To recognize the income and expenses from Playgroup under fundraising initially coded to funds held in trust.
Refer T3-1

Code	Name	Group	Debit	Credit
	Fundraising	income	-	709.00
	Fundraising (costs of raising funds)	expenses	2,827.00	-
	Funds held in trust	liabilities/ equity	-	2,117.00
			2,827.00	2,826.00