



VOGELTOWN SCHOOL

COMPLETION REPORT TO THOSE CHARGED WITH GOVERNANCE

**Statutory Audit
For the year ending 31 December 2021**

Date Final Issued – 20 June 2022

Report Purpose

We are pleased to present our completion report relating to our external audit of the financial statements ('the financial statements') of Vogeltown School ('the School'), for the year ending 31 December 2021 ('reporting date').

The purpose of this report is to update the Board ('Those Charged with Governance') on the outcome of, and, any significant matters that have arisen during the course of our audit.

Under the requirements of International Standard on Auditing (New Zealand) 260 '*Communication of audit matters to Those Charged with Governance*' ('ISA (NZ) 260'), we are required to communicate audit matters arising during our audit to those charged with governance of an entity.

Auditor Independence

We confirm that the engagement team, others in our firm as appropriate and the Baker Tilly Staples Rodway network of firms are independent of the School. We confirm that we comply with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board. We have no relationships with the School that in our professional judgement, may be reasonably be thought to bear on independence.

Overview of Planning Procedures

We undertook a risk-based audit of the School for the year ended 31 December 2021.

As part of our planning, the following matters and areas were identified as areas of significant or heightened audit risk.

Significant risks are risks of material misstatement that, in our judgement, require special audit consideration.

Heightened audit risk areas relate to areas that we have identified as being significant aspects of accounting practices and financial reporting, management's judgments and accounting estimates and financial statement disclosures. Heightened audit risk areas have a risk of material misstatement at the financial statement and assertion level but are not considered a significant risk.

Significant risks:

- Revenue – Local Funds (Fraud related to revenue recognition);
- Management override of controls; and
- Disclosure of related party transactions and balances.

Areas of heightened audit risk:

- Cyclical maintenance provision; and
- Sensitive expenditure.

Significant Financial Reporting Matters

RISK AREA & EXPLANATION	CONCLUSION
SIGNIFICANT RISKS	
<i>Revenue – Local Funds</i>	
<p>In accordance with auditing standards (NZ ISA 240) we are required to presume that there is a significant risk of material misstatement due to fraud in revenue recognition. The Office of the Auditor General has requested that in particular we focus on local funds revenue.</p> <p>We discussed the revenue recognition processes with management to ensure that our understanding of these processes is correct and to allow us to assess the design and operating effectiveness of internal controls to prevent material misstatement due to fraud in revenue recognition.</p> <p>We performed analytical review procedures to assess the reasonability of local funds revenue recognised in the current year, based on prior year income and known movements in income during the year.</p> <p>We also performed detailed testing over local funds revenue by selecting a sample of revenue receipts and agreeing these to supporting documentation to ensure that they had been accurately recognised during the year. We tested a selection of transactions for a period occurring after year end to ensure that all transactions were recognised in the correct accounting period.</p>	<p>We updated our understanding of the School's revenue recognition processes as well as the accounting policies in place during our planning and audit fieldwork. We are satisfied with the School's revenue recognition processes and accounting policies. We consider that the internal controls in place are appropriately designed and operating effectively to prevent material misstatement due to fraud in revenue recognition.</p> <p>No variances were noted between the transactions sampled and the supporting documentation these transactions were agreed to; all transactions examined had been accurately recognised.</p> <p>All transactions after year end which we examined had been recognised in the correct accounting period.</p>
<i>Management override of controls</i>	
<p>In accordance with ISA (NZ) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', management override of controls is a presumed significant risk.</p> <p>We carried out appropriate audit procedures over journal entries, accounting estimates and significant transactions that are outside the School's normal course of business or are otherwise unusual.</p>	<p>No significant issues were noted during the audit which may represent an indicator of management override of controls.</p> <p>We performed a review of all manual journal entries in the financial system during the period and no large or unusual transactions were noted which could not be explained by management.</p>

Significant Financial Reporting Matters (continued)

RISK AREA & EXPLANATION	CONCLUSION
<p><i>Disclosure of related party transactions and balances</i></p> <p>Ensure that all related party transactions and balances are appropriately disclosed in the financial statements in accordance with PBE IPSAS 20 <i>Related Party Disclosures</i>.</p> <p>A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For these reasons, knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.</p>	<p>No significant issues were noted during the audit which would suggest a significant deficiency in how related party transactions are identified and disclosed.</p> <p>We acknowledge that the School maintains an interest register, however, during the audit we identified a number of related party relationships which were not disclosed in the interest register. We have raised a recommendation below to provide guidance in relation to what is expected to be disclosed.</p> <p>We have assessed and reviewed relationships and transactions between management/members and related parties. No relationships or transactions were identified which we consider should be disclosed in accordance with PBE IPSAS 20 <i>Related Party Disclosures</i>.</p>

Significant Financial Reporting Matters (continued)

RISK AREA & EXPLANATION	CONCLUSION
AREAS OF HEIGHTENED AUDIT RISK	
<i>Cyclical maintenance provision</i>	
<p>We consider a risk exists that the cyclical maintenance provision may be incorrectly stated at year end due to the complex accounting requirements.</p> <p>We obtained the most recent 10 Year Property Plan directly from the School, which sets out a forecast schedule of obligations regarding regular maintenance of school buildings owned by the Ministry of Education.</p> <p>We reconciled the amount of the provision required as at 31 December 2021 based on the expected timing and costs for scheduled maintenance projects per the 10YPP to the amount included in the annual financial statements.</p>	<p>Based on our reconciliation of the provision at 31 December 2021, the amount included in the annual financial statements appears reasonable.</p> <p>We also noted that a maintenance project scheduled to be carried out during 2021 has been deferred to 2022. We have discussed this matter further in the Internal Control Findings section below.</p>
<i>Sensitive expenditure</i>	
<p>In accordance with the Public Audit Act 2001, as auditors, we are required to carry out testing and remain alert to public sector concerns, including issues and risks around effectiveness and efficiency, waste, a lack of probity or financial prudence and compliance with legislation.</p> <p>Throughout the audit we remained alert to issues around sensitive expenditure and conducted detailed testing; particularly in relation to expenditure transactions incurred by the Principal.</p> <p>This included obtaining an understanding of the attitude of management/the Board towards sensitive expenditure, the relevant systems and process in place and how the Board maintains oversight of such expenditure.</p>	<p>No significant issues were identified during the audit which would indicate any heightened risks in relation to the use of public funds.</p> <p>We encourage the Board and Management to remain vigilant and proactive in relation to managing sensitive expenditure. The Office of the Auditor-General have recently issued a good practice guide on managing sensitive expenditure which is a useful tool in refreshing awareness of your responsibilities.</p> <p>https://oag.parliament.nz/2021/sensitive-expenditure/docs/sensitive-expenditure.pdf</p>

Audit Differences

Materiality

ISA (NZ) 320 *Materiality in Planning and Performing an Audit* defines misstatements and omissions as being material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The determination of materiality is based on our professional judgment and is affected by our perception of the financial information needs of users of the financial statements.

The concept of materiality is applied throughout the audit process, including planning of the audit. Specifically, it is applied in evaluating the effect of identified misstatements and of uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Summary of Adjusted Audit Differences

DESCRIPTION	VALUE	EFFECT ON SURPLUS \$
Surplus per draft 1 financial statements		11,484
Recognise TAPESA wash-up for the year.	7,595	7,595
Reclassify Ministry of Education Site Split grant to operating grants.	31,592	-
Recognise prepayments for 2022.	8,096	8,096
Surplus per signed audited financial statements		27,175

Summary of Unadjusted Audit Differences

DESCRIPTION	REVENUE / EXPENSES		ASSETS / LIABILITIES		EQUITY	
	Dr	Cr	Dr	Cr	Dr	Cr
Recognise adjustment to the provision for cyclical maintenance.	12,455	-	-	12,455	-	-
Total	12,455	-	-	12,455	-	-
Net effect on Surplus						(12,455)

We will be requesting Those Charged with Governance to confirm that any unadjusted differences reported are not material to the financial statements.

Internal Control Findings

Our audit included the consideration of the School’s internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

With respect to the School’s following key cycles we updated our understanding of the internal controls and evaluated their design effectiveness.

- Revenue cycle
- Expenditure cycle
- Payroll cycle
- Manual journal process
- Financial statement preparation process

We did not identify any significant control weaknesses during the course of our audit that we believe should be brought the attention of Those Charged with Governance.

Our observations and recommendations in relation to areas where accounting controls can be further strengthened and other matters which came to our attention are outlined below.

We comment only on those items which came to our attention during the normal course of our audit work and therefore our observations are not as comprehensive as they would be, should a special review of the School’s systems, procedures and controls be undertaken. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with management’s authorisation and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

It should be stressed that the comments made do not imply any lack of integrity or honesty on the part of the officers and employees of the School, from whom we have received every courtesy and co-operation during the course of our audit.

PRIORITY RATINGS FOR RECOMMENDATIONS		
HIGH	MEDIUM	LOW
Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Internal Control Findings (continued)

#	OBSERVATION & RISK	ISSUE AND RECOMMENDATION & MANAGEMENT RESPONSES
1	<p>School Payroll Controls</p> <p>During the year the Novopay Online transaction report was discontinued (in October 2021), and from about mid-2021 had not been a complete record of all transactions.</p> <p>Following OAG guidance, we do not consider that the review of the SUE report on its own is a strong enough control for schools to rely on to detect fraud or error, 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.</p> <p>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.</p> <p>These additional procedures have provided the necessary assurance over the payroll amounts in your financial statements.</p>	<p>EdPay have recently provided updated guidance on the controls within EdPay that should be operating at schools. 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:</p> <ul style="list-style-type: none"> • timesheet history; • leave history; and • activity history. <p>To ensure controls are effective, the School also needs to ensure that:</p> <ul style="list-style-type: none"> • it has segregation of duties between the processing and approval of transactions; • access to EdPay is controlled; • payroll transactions are approved in line with delegations; and • approvals are appropriately documented. <p>The guidance and resources for schools on payroll controls are available on the training page of the EdPay website.</p> <p><u>Management response</u></p> <p><i>Point noted.</i></p>
2	<p>Revenue Documentation</p> <p>Receipts or other supporting documentation were not available for a number of local funds revenue transactions we examined.</p> <p>Issuing receipts provides a record for later reference by yourselves, the person or organisation who made the payment, should any queries arise about a deposit. We consider that maintaining appropriate</p>	<p>We strongly recommend that receipts be written wherever possible because this provides the person providing the funds to your entity with evidence that the school has received the money. This also acts as a mechanism for the school in trying to ensure that all cash received is properly recorded and banked.</p> <p>We acknowledge that some payments may be made directly into the School's bank account, and that providing receipts in these cases may be impractical. However, we recommend that some form of documentation is obtained to support</p>

Internal Control Findings (continued)

#	OBSERVATION & RISK	ISSUE AND RECOMMENDATION & MANAGEMENT RESPONSES
	<p>documentation to support the nature and amount of revenue received by the School is crucial to the School's operations.</p>	<p>individually significant amounts, i.e., email correspondence with the payer.</p> <p><u>Management response</u></p> <p>Point noted.</p>
3	<p>Deficit budgeting</p> <p>The Board has prepared and approved a deficit budget for the coming year.</p> <p>We are concerned that continued deficit budgeting, if achieved, will reduce your school's equity. Although deficit budgeting may appear to be warranted when preparing the budget of a particular year, we urge caution in using this approach, because it is unlikely to be sustainable. We recommend that the Board continue to look for ways to improve the actual results against the budgeted deficit during the upcoming school year and ensure that spending does not exceed the amounts approved by the Board.</p>	<p>We recommend that the Board try to avoid deficit budgeting wherever possible, so the school budget reflects the ability for it to operate with its resources that are available.</p> <p><u>Management response</u></p> <p>Point taken on the deficit budget – though this should be seen in the context of the significant works we have been undertaking and a degree of uncertainty with respect to last year's actuals to inform budget as a consequence of Covid.</p>
6	<p>Deferred cyclical maintenance</p> <p>Although we are satisfied that the school has recorded an appropriate provision for cyclical maintenance in the financial statements, we note that the exterior painting of A, J, K, and N Blocks and interior painting of Blocks B, L and M, which was originally expected to be completed in 2021 has been deferred to 2022.</p> <p>The Property Occupancy Document (POD) gazetted in accordance with section 70 of the Education Act 1989 requires the Board to prepare and annually review a property plan that</p>	<p>The Board should consider the options for resourcing any remedial work and should ensure that future maintenance is carried out in accordance with the plan.</p> <p>We acknowledge that there may have been a shortage of available contractors and materials to carry out this work due to the ongoing effects of the pandemic.</p> <p><u>Management response</u></p> <p>Deferred Cyclical maintenance is in hand as part of the modernisation works now well advanced. This is clear when read in conjunction with our Opus developed work plan.</p>

Internal Control Findings (continued)

#	OBSERVATION & RISK	ISSUE AND RECOMMENDATION & MANAGEMENT RESPONSES
	<p>includes all the maintenance requirements of the school over a continuous ten-year period. The expectation is that maintenance of the buildings and other facilities will be carried out in accordance with this plan. Continuing to defer the maintenance may have a negative impact on the quality of facilities of the school and also increase the risk of health and safety issues arising.</p>	
7	<p>Publishing Annual Report</p> <p>The Education and Training Act 2020 requires the School's Annual Report to be published on-line. The Annual Report contains the audited annual financial statements including our audit opinion, analysis of variance, list of trustees and the Kiwisport statement. The Annual Report is required to be accessible to the School community for transparency and accountability purposes. The expectation is that your Annual Report is published as soon as possible after your audit is completed, so that the information will be available on a timely basis. While the School's 2019 annual report was published on the School website following completion of the 2020 audit, we note that in order to view the report, users need to first request access, which must be manually granted by the School. Therefore, we do not consider that this fulfils the requirement that the School's Annual Report is available to the School community.</p>	<p>We suggest that management investigate whether the Annual Report can be made freely available to view directly on the School website, without users first needing to request, and be granted, access. This may require discussion between management and the website developer.</p> <p>This is a mandatory requirement under the Education and Training Act 2020.</p>

Internal Control Findings (continued)

Furthermore, while we did not identify any significant control weaknesses during the course of our audit, the OAG would also like to highlight the following matters so that they are brought to the attention of Those Charged with Governance.

#	OBSERVATION & RISK	ISSUE AND RECOMMENDATION & MANAGEMENT RESPONSES
1	<p>Segregation of Duties</p> <p>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 on the person who has this control.</p> <p>The separation of key accounting responsibilities is a critical internal control in any system to prevent misappropriation of funds, error, or unrecorded transactions.</p> <p>We note that significant portions of the day-to-day accounting functions are solely under control of the School administrator. 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 or any other employee.</p>	<p>We appreciate that it may be difficult to achieve appropriate segregation of duties because of the small number of administration staff at the school. Where this is the case, management needs to provide careful monitoring and oversight to mitigate against the risk of fraud or error.</p> <p>The Ministry of Education has recently published an internal control checklist and a segregation of duties matrix on its website which the school may find useful when assessing the adequacy of its internal controls. Further guidance on internal controls can be found in the Ministry's Financial Information for Schools Handbook.</p> <p><u>Management response</u></p> <p><i>Segregation of responsibilities is supported by the two to sign Bank systems with supporting oversight from EdServices and BoT Treasurer.</i></p>
2	<p>Related parties</p> <p>While we have not noted any particular concerns, we would like to raise recommended best practices for the identification and disclosure of related parties, we would like to raise recommended best practices for the identification and disclosure of related parties, in line with PBE IPSAS 20 <i>Related Party Disclosures</i>.</p> <p>There is a risk that the related parties identified might not be complete and accurate. This has an effect on the disclosure in the financial statements.</p>	<p>We recommend ensuring that the following procedures are in place:</p> <ul style="list-style-type: none"> • Ensuring that Those Charged with Governance are aware of their various legal obligations and the requirements of PBE IPSAS 20 <i>Related Party Disclosures</i>; • Ensuring that staff members are trained on the definition of a related party so that they can identify related party transactions; • Documenting related parties in an interest register, which should be reviewed on an annual basis by the Board; • Approval of related party transactions to be performed by the Board to ensure they are at arms-length;

Internal Control Findings (continued)

#	OBSERVATION & RISK	ISSUE AND RECOMMENDATION & MANAGEMENT RESPONSES
		<ul style="list-style-type: none">• Review by the members of the related parties interest register alongside the review of the financial statements to ensure that the related party disclosures are complete.

Review of prior year findings

OBSERVATION & RISK	RESOLUTION
<p>Capital budgeting</p> <p>Capital expenditure has not been included in the 2021 budget prepared by the School. Specifically, cash outflows for cyclical maintenance and capital projects scheduled to be carried out during 2021 have not been considered when forecasting the net cash movement for the year.</p>	<p>Resolved</p> <p>Capital expenditure included in School's 2022 budget.</p>
<p>Inconsistencies in 10 Year Property Plan</p> <p>We noted that the cyclical maintenance schedule in the latest 10 Year Property Plan prepared by the Property Consultant engaged by the School contains inconsistencies in the dates that maintenance projects were last carried out. Estimates of when work is next expected are also inconsistent with the school's expectation of when works need to be carried out.</p>	<p>Resolved</p> <p>The estimated dates for project completion have been revised appropriately.</p>
<p>Payroll – Review of draft SUE reports</p> <p>We examined a sample of draft SUE reports which had been signed as reviewed by the BOT chairperson (although, in some cases there were delays of up to two months between the generation date for the report and the review date). However, there was nothing indicated on the draft SUE reports, and no other evidence available, to indicate that these reports had been reviewed by management prior to the scheduled payments being made.</p>	<p>Partially resolved</p> <p>We refer to the recommendation raised above in relation to payroll controls under the new EdPay system.</p>
<p>Deferred Cyclical Maintenance</p> <p>Although we are satisfied that the school has recorded an appropriate provision for cyclical maintenance in the financial statements, we note that a number of maintenance projects scheduled to be completed during prior years</p>	<p>Unresolved</p> <p>Issue raised again in the current year.</p>

OBSERVATION & RISK	RESOLUTION
<p>(comprising exterior painting of Blocks J, K and N, and interior painting of Blocks B, L and M), which were deferred to 2020 have now been further deferred to 2021. We acknowledge that, as noted above, the School's latest 10 Year Property Plan contains discrepancies regarding the timing of these projects, which are incorrectly listed as having been completed during 2019.</p>	
<p>Duplicate payment</p> <p>During the year, the School purchased iPads from Noel Leeming at a cost of approximately \$2,400. A payment was made to Noel Leeming for this amount, then this was subsequently paid a second time in error. This duplicate payment was identified by management, and this erroneous payment was repaid to the School.</p>	<p>Resolved</p> <p>No issues noted in the current year, audit is satisfied that this appears to be a one-off error which was identified by the School.</p>
<p>Credit card expenditure approval</p> <p>The credit card policy currently in place requires that monthly credit card statements are reviewed and signed off as approved by the Principal. While we emphasise that we did not identify any unusual or irregular transactions, we note that the Principal is directly responsible for a number of purchases made using the credit card during the year and is therefore responsible for approving their own expenditure.</p>	<p>Resolved</p> <p>No issues noted in the current year.</p>
<p>Publishing Annual Report</p> <p>While the School's 2019 annual report was published on the School website following completion of the 2019 audit, we note that in order to view the report, users need to first request access, which must be manually granted by the School. Therefore, we do not consider that this fulfils the requirement that the School's Annual Report is available to the School community.</p>	<p>Unresolved</p> <p>Matter raised again in the current year.</p>

OBSERVATION & RISK	RESOLUTION
<p>Revenue Documentation</p> <p>Receipts or other supporting documentation were not available for several revenue transactions we examined, including in relation to bulk deposits for fundraising events held during the current year, which were comprised of numerous low value amounts. Supporting documentation and/or reconciliations were not available to support the bulk amounts banked.</p>	<p>Unresolved</p> <p>During the current year, we identified two low value local funds revenue items which were unable to be agreed to supporting documentation.</p>

Representations

We requested Those Charged with Governance to provide us with representations on specific matters relating to the preparation of financial statements that are free from material misstatement, whether due to fraud or error in accordance with the applicable financial reporting framework, as set out in the terms of the audit engagement.

Prior to the completion of the audit, we provided a template of these representations to Those Charged with Governance. We requested that Those Charged with Governance confirm any unadjusted differences reported are not material to the financial statements.

Other Matters

ISA (NZ) 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management; and
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the School's financial statements for the year ended 31 December 2021.

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About Baker Tilly Staples Rodway

Baker Tilly Staples Rodway Taranaki is a full service locally owned and operated business providing accountancy, audit and assurance, and business advisory services.

We are part of Baker Tilly Staples Rodway – a New Zealand-wide group of firms and a member of Baker Tilly International. Our people benefit from the training and expertise that comes with being part of a national Chartered Accounting network and an international accountancy and business advisory network.

Baker Tilly Staples Rodway Audit Limited trading as Baker Tilly Staples Rodway is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.



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