

Leamington School

REPORT TO THE BOARD for the year ended 31 December 2021

30 May 2022

The Board of Trustees
Leamington School
249 Lamb Street
Leamington
Cambridge 3432
New Zealand

Dear Board Members

Leamington School Board Report

We have recently completed the audit of your financial statements for the year ended 31 December 2021. Please find attached our Board Report in connection with the audit. The Report incorporates the responses from your Principal.

We would like to emphasise that our audit work involves the review of only those systems and controls in your organisation 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 exist.

We take this opportunity to thank the staff of Leamington School for the co-operation afforded to us during the course of the audit.

If we can be of further assistance, please advise.

Yours faithfully
PKF HAMILTON AUDIT LIMITED



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Encl: Board Report

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EXECUTIVE SUMMARY

This report details the processes, findings and recommendations from our audit of Leamington School (the "School") in accordance with International Standards on Auditing (NZ) and the terms of our engagement as set out in our audit engagement letter.

We would like to emphasise that our audit work involves the review of only those systems and controls in your organisation upon which we rely for audit purposes. Our examination may not have identified and should not be relied upon to identify all control weaknesses that exist.

Overall, we are satisfied that the School has presented its results for the year ended 31 December 2021 to a good level of compliance with applicable financial reporting standards, with no major adjustments made as a result of our audit and no significant unadjusted differences.

We would like to thank the staff of Leamington School for their co-operation extended to PKF Hamilton Audit Ltd, during the course of the audit. We have received full and frank co-operation. There is nothing we wish to raise solely with the Board.

CONFIRMATION OF AUDIT INDEPENDENCE

In conducting our audit, we are required to comply with the independence requirements of the Code of Ethics issued by the Professional Standards Board of the New Zealand Institute of Chartered Accountants and External Reporting Board.

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.

For the comfort of the Board, we note that the following processes assist in maintaining our independence:

- No other work is permitted to be undertaken by any other PKF office without the express approval of the audit engagement director.
- All services performed by any PKF office in New Zealand will be reported to the governing body.

We have not provided any non-audit services to Leamington School. We confirm the independence of PKF Hamilton Audit Ltd and its staff in relation to your audit.

KEY FINANCIAL STATEMENT AUDIT RISKS

We have set out below our findings in areas we have identified as significant or high risks. We request that you review these outcomes on the significant accounting and audit matters identified to ensure that there are no further residual considerations or matters that could impact these issues, that you concur with the resolution of the identified risks and that there are no additional issues you may be aware of that should be considered before finalisation of our audit report.

1. Locally Raised Funds

Identified audit risks

Due to the nature of locally raised funds (often being cash), there is a risk of material misstatement around the completeness of locally raised funds income.

Planned audit response

Our audit procedures will include discussions with the Presiding Member and Principal, to assess the control environment around local funds. We will complete Analytic procedures including a margin analysis, and will request supporting documentation for significant amounts.

2. Payroll not approved or checked

Identified audit risks

Payroll is processed by Novopay. The accuracy of payroll processing is dependent on appropriate approval of payroll changes and checking of the fortnightly SUE report.

Planned audit response

Our audit procedures include detailed analytics, a reconciliation, employee existence testing, and review of the fortnightly SUE reports for evidence of approval/checking.

3. Cyclical Maintenance Provision

Identified audit risks

Cyclical Maintenance is an area of judgment and could lead to material misstatement in the financial statements. For schools to be able to calculate the appropriate cyclical maintenance provision a 10 Year Property Plan (10YPP) needs to be prepared and/or reviewed by an expert.

Planned audit response

We will obtain and review the School's 10YPP, and assess whether the provision at balance date is materially correct.

4. Management Override

Identified audit risks

A key audit risk is in relation of Management Override. There is a rebuttable presumption under Auditing Standards that there is a risk of fraud in relation to Management Override.

Planned audit response

Our audit procedures will include reviewing the monthly management accounts and journals during the year and subsequent to year end to ensure there is no evidence of potential management override.

MANAGEMENT JUDGEMENTS AND ESTIMATES

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 by management in preparing the results for the year ended 31 December 2021 appear reasonable.

The most significant areas of judgement, assumptions and estimates applied 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.

MATTERS REQUIRING BOARD INPUT

We have placed reliance on the School's review and approval of the following matters:

- Minutes of the Board meetings;
- Implementation of such controls as is needed to ensure that financial statements are presented fairly;
- Review and approval of management accounts;
- Review and approval of 2022 budget;
- Notification of fraud; and
- Review and approval of the financial statements.

ACCOUNTING POLICIES

Auditing standards require us to discuss with you the qualitative aspects of the School's accounting practices and financial reporting. There were no new accounting standards that had a significant effect on the School's financial statements for the year ending 31 December 2021.

MATERIALITY AND ADJUSTED/ UNADJUSTED DIFFERENCES

Materiality means, in the context of an audit, 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 for evaluating the financial report. Materiality is initially calculated at the planning stage and has an influence on the amount of work we do, as well as where we direct our audit efforts. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.

During the course of our audit we have identified the misstatements disclosed at Appendix 1.

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.

GOING CONCERN

We have undertaken a review of Management's and those charged with governance assessment of the ability of the School to continue as a going concern for 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.

The assumption of going concern was concluded as appropriate given the School's funding sources and its operating budget for the following financial period.

FRAUD

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.

NON-COMPLIANCE WITH LAWS AND REGULATIONS

We have made enquiries in relation to non-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.

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.

OVERALL RESULT

Our audit work is complete. We have issued an unmodified audit report on the financial statements of the School for the year ended 31 December 2021.

To enable management to set priorities on their action plans we have assessed our findings below.

These findings and recommendations are discussed and agreed with the School's management and those charged with governance.

SUMMARY OF FINDINGS

1. Audited Accounts Not Published Online

Observation

During the audit we noticed the school's 2020 audited annual accounts have not been published online.

Implication

Per the Education and Training Act 2020, a board must ensure that its annual report is available to the public online. Although we noticed the 2020 accounts have been published, these were not the audited accounts with the audit report attached.

Recommendation

We recommend you publish previous years audited annual report online and continue to do so in future years.

Management comments and actions

Agreed, the accounts that are online are not the audited accounts. This will be rectified for previous year accounts.

Responsibility	Mike	Target date	3 June 2022
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2. Principals Honorarium

Observation

As part of the audit, we reviewed the board of trustee's fees ledger and noted that Principal was receiving the same honorarium as the Board Chair.

Implication

This is a departure from NZSTA Governance guidance, \$55 is to be paid to trustees and \$75 to the Board of Trustee Chairperson.

Recommendation

We recommend that the fees for the board of trustees be reviewed in accordance with NZSTA guidelines

Management comments and actions

This was changed in 2021 following the audit report recommendation. The figures contained in the 2021 accounts reflect the 6 months prior to receiving the Audit report.

Responsibility		Target date	
	No action required – already in place		

3. Deficit Budgeting

Observation

We noted the Board has prepared and approved a deficit budget amounting to \$84,768.08 for the 2022 year.

Implication

While we note that the school has positive working capital, 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 for a particular year, we urge caution in using this approach because it is unlikely to be sustainable.

Recommendation

We recommend that the Board try to avoid deficit budgeting wherever possible, so the school budgets reflect the ability for it to live within its means.

Management comments and actions

Agreed, the Board acts responsibly with its working capital and only considers a deficit budget if working capital allows it. Only when the working capital becomes too high the Board considers extra initiatives to spend today's money on today's kids to avoid having excess working capital at the expense of capital not working for the children. With the rate of inflation not matching the rate of increase in operations grant deficit budgets is an issue we would welcome the Auditor taking up with MOE.

Responsibility	Discuss at next Board meeting	Target date	Week 8 Board meeting
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4. Fortnightly Payroll Reports Not Signed by Board Chair

Observation

The Staff Usage Entitlements (SUE) report is a critical document that lists all personnel paid in each pay run. As such, it is important that this is reviewed by the Board Chair on a regular basis as a check that the employees paid and the amounts are reasonable.

There was no evidence on SUE reports that this check had been carried out.

Implication

This is a departure from best practice.

Recommendation

The Board chair review the SUE report at regular intervals and evidenced this by way of signature and date.

Management comments and actions

The Presiding member checks and signs the Sue report twice termly which the auditor would have witnessed (so 2 out of every 6.) The Board is satisfied this is regular enough as the processes in place to avoid fraud. Going forward the only change might be that a random report is requested rather than the latest report prior to the board meeting.

Responsibility

Board Discussion

Target date

5. Alcohol Purchases			
Observation			
During our testing we noticed there was excessive expenditure for the purchase of alcohol using the schools funding. We discussed one invoice in particular with your Principal.			
Implication			
As per ministry's guidance, there is a general prohibition on public organisations paying for alcohol, except in specific circumstances and within prescribed limits. We believe the expenditure spent on alcohol throughout the year may be in excess to these limits and not justified. This would result in an inappropriate use of public money and a breach of accepted practices.			
Recommendation			
We recommend the school ceases or severely limits the use of school funding to purchase alcohol, except in specific circumstances with a clear justification and within prescribed limits.			
Management comments and actions			
As discussed with the Auditor we have a different definition of excess and what is justified. Staff moral, staff retention and staff well being is a priority. My recollection of the discussion with auditor was that we agreed the board would discuss. I would consider taking the staff out following another stressful lockdown and the first time our entire staff was allowed to be in the same room together meets the criteria.			
Responsibility	Discuss with Board	Target date	

6. No Conflict of Interest Register

Observation

During the audit we noted that the school does not have a conflict of interest register.

Implication

It is important that management implement a conflict of interest register to record Board Members financial interests, to assist the Board in identifying and managing any financial conflicts of interests.

Recommendation

We recommend that the school keeps a conflict of interests register to disclose all related parties, as best practice.

Management comments and actions

Conflicts of interest are raised and identified each meeting. These are recorded in the minutes. If/when a conflict is identified the board discuss how to handle it. This ensures we sidestep the limitation of a register ever becoming out of date. The board are firm believers of asking "what problem are we trying to solve?" and then "how can we best solve this problem?"

Responsibility	Discuss with the board.	Target date	
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7. Suspense accounts			
Observation			
During the audit we noticed there are credit card suspense accounts with balances at year end in accounts payable.			
Implication			
Suspense accounts should only be used to temporarily store transactions and items should be eliminated by the end of the financial year, otherwise you could be issuing financial statements that contain unidentified transactions and could lead to misstatement.			
Recommendation			
We recommend suspense account balances are eliminated by the end of each financial year.			
Management comments and actions			
Discuss with the accountant to receive advice.			
Responsibility	Accountant	Target date	

8. Payroll Controls			
Observation			
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.			
Implication			
These additional procedures have provided the necessary assurance over the payroll amounts in your financial statements			
Recommendation			
<p>We recommend that you include the following fortnightly changes in your fortnightly SUE Report review:</p> <ul style="list-style-type: none"> - Timesheet history - Leave history - Activity history <p>More guidance on this can be found online at the following link: https://www.edpay.govt.nz/includes/download.ashx?ID=162146</p>			
Management comments and actions			
Will discuss with Accountant.			
Responsibility	Accountant	Target date	

9. Cyclical Maintenance			
Observation			
We have been made aware that the ministry has provided resources to assist schools with their cyclical maintenance provision calculation and with their internal controls			
Implication			
Resources like this could assist your school going forward with the calculation of the cyclical maintenance provision and with assessing your internal controls going forward			
Recommendation			
We recommend that you review the following resources to assess whether it could assist your school finance function. Cyclical Maintenance - https://www.education.govt.nz/school/funding-and-financials/school-finances/#:~:text=ZIP%2C%2087%20KB%5D-,Cyclical%20Maintenance%20Provision%20Resources,-The%20Cyclical%20Maintenance Internal Controls - https://www.education.govt.nz/school/funding-and-financials/school-finances/#internal-control-resources			
Management comments and actions			
We regularly invite our Property Advisor to the school to discuss work about to be undertaken. On each occasion we are complimented that we have a school maintained to a very high standard. Based on this and the provisions we have in place we are satisfied our current systems are meeting the needs of the school and maximising our finances and property demands.			
Responsibility	NA	Target date	NA

10. Purchase of Tiger Turf			
Observation			
During the audit we noticed the school had purchased an Astro Turf without seeking MOE approval.			
Implication			
All improvements to Ministry land or buildings require the Ministry's approval, as per OAG guidance.			
Recommendation			
We recommend the school seeks MOE approval for any future improvements to Ministry land or buildings.			
Management comments and actions			
Noted.			
Responsibility	Principal	Target date	

APPENDIX 1 – ADJUSTED AND UNADJUSTED DIFFERENCES

Significant audit adjustments

Adjusted Errors:

Journal to move TAPESA Funding out of Other MOE Income and into Operations Grant Income

Code	Name	Group	Debit	Credit
G	Other MoE Grants	income	9,227.83	-
G	Operational Grants	income	-	9,227.83
			9,227.83	9,227.83

Journal to move Operational Grants out of Other MOE Grants and into Operational Grants

Code	Name	Group	Debit	Credit
G	Other MoE Grants	income	42,220.00	-
G	Operational Grants	income	-	42,220.00
			42,220.00	42,220.00

Journal to move Other Government Grants out of Other MOE Grants and into Other Government Grants

Code	Name	Group	Debit	Credit
G	Other MoE Grants	income	35,563.39	-
G	Other Government Grants	income	-	35,563.39
			35,563.39	35,563.39

Journal to adjust for the incorrectly recorded Use of Land and Buildings balance

Code	Name	Group	Debit	Credit
G	Use of Land and Buildings Grants	income	664,144.00	-
H	Use of Land and Buildings	expenses	-	664,144.00
			664,144.00	664,144.00

Journal to take banking staffing underuse out of receivables and put as a separate line item

Code	Name	Group	Debit	Credit
R	Receivables	assets	-	55,325.00
R	Banking Staffing Underuse	assets	55,325.00	-
			55,325.00	55,325.00

Journal to take receivable MOE income out of BASC and Kapa Haka Wages and into Other MOE Grants

Code	Name	Group	Debit	Credit
H	Other Funds Cost	expenses	26,949.99	-
G	Other MoE Grants	income	-	34,991.68
H	Curricular	expenses	8,041.69	-
			34,991.68	34,991.68

Journal to reclassify incorrectly classified Other MOE Grant per the SAAR

Code	Name	Group	Debit	Credit
G	Teachers' Salaries Grants	income	23,216.43	-
G	Other MoE Grants	income	-	23,216.43
			23,216.43	23,216.43

Journal to accrue for the ACC payable by the ministry

Code	Name	Group	Debit	Credit
R	Teacher Salaries Grant Receivable	assets	10,283.81	-
T	Employee Entitlements – Salaries	liabilities / equity	-	10,283.81
			10,283.81	10,283.81

Journal to recode incorrectly coded capital works project receipts received from the MOE

Code	Name	Group	Debit	Credit
G	Other Revenue	income	9,300.00	-
T	Soak Holes and Sumps	liabilities / equity	-	9,300.00
			9,300.00	9,300.00

Journal to bring in capital works expenditure for Soak Holes and Sumps relating to the 2021 year not recognized

Code	Name	Group	Debit	Credit
T	Soak Holes and Sumps	liabilities / equity	9,300.00	-
T	Accruals	liabilities / equity	-	9,300.00
			9,300.00	9,300.00

Journal to move ACC reimbursements out of wage expenses to Other Government Grants

Code	Name	Group	Debit	Credit
I	Employee Benefits Salaries – Learning Resources	expenses	2,330.00	-
G	Other Government Grants	income	-	9,940.00
H	Other Funds Cost	expenses	7,610.00	-
			9,940.00	9,940.00

Journal to move Kapa Haka wages from curricular expenses to learning resources salaries

Code	Name	Group	Debit	Credit
I	Employee Benefits Salaries – Learning Resources	expenses	24,122.55	-
H	Curricular	expenses	-	24,122.55
			24,122.55	24,122.55

Journal to correct cyclical maintenance provision

Code	Name	Group	Debit	Credit
H	Cyclical Maintenance Provision	expenses	14,057.00	-
U	Cyclical Maintenance – Current	liabilities / equity	-	3,977.00
U	Cyclical Maintenance – Term	liabilities / equity	-	10,080.00
			14,057.00	14,057.00

Journal to recognise disposal of the Hall

Code	Name	Group	Debit	Credit
H	Loss on Disposal of Assets	expenses	15,881.48	-
N	Buildings – School	assets	-	14,237.52
N	Building Improvements – Crown	assets	-	1,643.96
			15,881.48	15,881.48