



# **Brandon Intermediate School**

Statutory audit for the year ended 31 December 2019

## **AUDIT FINDINGS**

REPORT TO THE BOARD OF TRUSTEES

Issued 26 June 2020

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## Report Purpose

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We are pleased to present our report relating to our external audit of Brandon Intermediate School ('the School'), for the year ended 31 December 2019 ('reporting date').

The purpose of this report is to update the Board of Trustees ('the Board') on the outcome of our audit and of any significant matters that have arisen during the course of our work.

Under the requirements of New Zealand International Standard on Auditing (ISA) 260 'Communication with Those Charged with Governance' ('ISA 260'), we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Report to the Board, together with previous reports to the Board throughout the year, discharges the requirements of ISA 260.

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## Audit Scope and Responsibilities

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The Board is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand and for implementing appropriate internal control systems.

Our overall responsibility as external auditor of the School is to undertake our audit in accordance with the principles contained in the International Standards of Auditing (New Zealand) in order to form a view and express an opinion on the financial statements that will be prepared by Management with oversight from the Board. Our audit does not relieve you of your responsibilities in relation to the financial statements.

Our audit was conducted in accordance with International Standards of Auditing (New Zealand) to provide reasonable assurance that proper accounting records have been maintained and that the financial report:

- Complies with generally accepted accounting practice in New Zealand;
- Complies with Public Sector – Public Benefit Entity Standards, Reduced Disclosure Regime; and
- Gives a fair presentation of the financial position of the School, as at reporting date, and its results for the year then ended.

## Key Areas of Audit Focus

We undertook a risk-based audit of the School for the year ended 31 December 2019.

The following areas are significant risks that the New Zealand International Standard on Auditing (ISA) requires us to raise:

KEY AREA OF AUDIT FOCUS & EXPLANATION OF RISK	PLANNED AUDIT APPROACH	RESOLUTION
<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 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 local funds revenue receipts and agreeing these to supporting documentation to ensure that they had been accurately recognised during the year, and testing 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>

KEY AREA OF AUDIT FOCUS & EXPLANATION OF RISK	PLANNED AUDIT APPROACH	RESOLUTION
<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>
<p>Cyclical maintenance is an area of judgment and complexity that 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 and updated by an expert at timely intervals.</p>	<p>We obtained and reviewed the School's cyclical maintenance plan, ensuring it is prepared by someone with appropriate property experience, that the plan matches the requirements of the School, and assessed whether the provision at balance date was materially correct.</p>	<p>From our audit procedures performed we have not identified material misstatement in the provision for cyclical maintenance in the financial statements.</p>
<p>On 26 March 2020, New Zealand increased its COVID-19 alert level to level 4 and a nationwide lockdown commenced. As part of this lockdown all schools were closed. Subsequently all schools and kura reopened on 18 May 2020.</p> <p>The effect of this lockdown was a significant subsequent event, that impacted the operation and finances of all schools differently.</p> <p>We identified a risk that the effects of the lockdown might not be adequately disclosed in the financial statements.</p>	<p>We made enquiries with the School's Principal as to whether there were expected to be any significant effects on the Schools 2020 financial position, and whether any balances would be significantly impacted in that year. Our key considerations included potential impacts on the school's:</p> <ul style="list-style-type: none"> <li>- plans to earn revenue in 2020;</li> <li>- ability to collect amounts receivable;</li> <li>- ability to complete ongoing contracts; and</li> <li>- future financial sustainability.</li> </ul>	<p>From the work performed, we did not identify any balances in the financial statements that would be materially affected. The pandemic, and the resulting lockdown were also not expected to significantly affect the School's financial position in 2020.</p> <p>A disclosure describing the subsequent event was added to the financial statements in accordance with guidance from the Ministry of Education and the OAG. An "Emphasis of Matter" paragraph was added to our audit opinion to draw readers' attention to this disclosure.</p>

## Audit Opinion

We issued an unmodified opinion on 29 May 2020. This means that we are satisfied that the financial statements fairly reflect the School's activity for the year and its financial position at the end of the year.

### Misstatements

The financial statements are free from material misstatements, including omissions.

DESCRIPTION OF ADJUSTMENT	VALUE \$	EFFECT ON PROFIT
Surplus/(Deficit) per draft 1 financial statements		(23,733)
To record banking staffing underuse for 2019	(3,522)	(3,522)
Surplus/(Deficit) per signed audited financial statements		(20,211)

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## Internal Control Environment

The purpose of our audit was to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

### Significant deficiencies in internal control - ISA (NZ) 265

OBSERVATION	ASSOCIATED RISK	RECOMMENDATION	MANAGEMENT RESPONSE
Audit was unable to determine that dual counts of cash revenue received were performed to ensure completeness of revenue received.	Without adequate segregation of duties in cash handling, there is an increased risk of errors or theft occurring and going undetected.	We recommend that sheets used to verify cash counts at the school office and at events are counter-signed by a second staff member and retained for our audit team to sight at year end.	
Audit noted that expense claims made by Board Members are approved by the Principal. This is not appropriate "one-up" approval.	There is a risk that inappropriate or unauthorized expenditure could occur without best practice approval process in place.	We recommend that the Board Chair approve all board of trustees members' expense claims, other than their own, which should be approved by the Deputy Chair.	
Audit noted that the 2018 annual report was not published on the school's website.	This a breach of s87AB of the Education (Update) Amendment Act 2017	We recommend that the 2018 annual report and all future annual reports are published on the School's website.	

This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the procedures performed. The audit assurance engagements are not designed to identify all matters that may be relevant and accordingly they do not ordinarily identify all such matters.

## Significant Accounting Policies, Disclosures and Estimates

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### **Accounting policies and estimates**

The accounting policies of the School are set out on pages 6 to 12 of the financial statements. Our audit work has not identified any instances of policies that are inappropriate for the School's circumstances, nor policies that have not been applied correctly.

### **Accounting disclosures**

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with the Public Sector – Public Benefit Entity Standards, Reduced Disclosure Regime.

Other than the addition of a note about the Covid-19 pandemic, there were no disclosures requested to be updated in the financial statements

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## Communication Requirements

We are required by the Auditing Standards (ISA (NZ) 260 – Communication with Those Charged with Governance) to communicate with the Board various matters related to the audit.

<b>Significant qualitative aspects of accounting practices (ISA 260 para 16a)</b>	We report that there were no significant qualitative aspects of accounting practices which we wish to bring to the Boards attention.
<b>Significant difficulties encountered (ISA 260 para 16b)</b>	We did not experience any significant difficulties during the audit.
<b>Significant matters discussed with management (ISA 260 para 16ci)</b>	We report that there were no significant matters discussed with management.
<b>Written representations (ISA 260 para 16cii)</b>	As part of our audit we obtained written representation from ASB regarding the School's account balances. The Board has also provided representations relating to the completeness of information provided to us and the accuracy of the financial statements.
<b>Significant findings relevant to the financial reporting process (ISA 260 para 16d)</b>	There were no significant findings as a result of the audit.
<b>Statement of auditor independence (ISA 260 para 17).</b>	<p>We confirm that, for the audit of the School's financial statements for the year ended 31 December 2019, the engagement team and others in the firm as appropriate have complied with relevant ethical requirements regarding independence in accordance with the requirements of Chartered Accountants Australia and New Zealand. We advise, in accordance with NZ ISA 260 – Communication with those charged with Governance, that:</p> <ol style="list-style-type: none"> <li>1. We have complied with relevant ethical standards regarding independence; and</li> <li>2. Considered all relationships, other matters and fees that may affect independence; and</li> <li>3. That related safeguards have been applied to eliminate identified threats to independence or reduce them to an acceptable level (if required).</li> </ol>