

RSM Hayes Audit

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20 May 2019

The Chairperson
Board of Trustees
Otaua School
Maioro Road
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Waiuku

Dear Mr Roden

Audit of your Financial Statements For the year ended 31 December 2018

We have completed the audit of your financial statements for the year ended 31 December 2018.

Upon completion of your audit we will enclose a complete set of your school's financial statements together with our formal audit report issued on behalf of the Controller and Auditor-General, as required by legislation.

Please note that a PDF copy of the audit report and signed financial statements is required to be uploaded to the MOE's schools data portal by 31 May 2019. We also remind you that you are now also required to publish the final audited version of your annual report on your website.

This letter and accompanying report of Audit Findings includes observations on the school's accounting procedures. As the trustees are responsible for the financial operations of the school we suggest this letter be considered at the next finance committee meeting and tabled at the next full board meeting.

Scope of the Audit

Our audit is designed to provide an independent opinion on the board's financial statements which are a public document. As a secondary output of this work we also report on matters relevant to your financial and management systems that have come to our attention and are significant.

We have performed procedures to audit the information presented in your annual financial statements. We have also relied on representations made by your school's management team, including your accounting service provider. We assess the results of procedures and representations made when forming our audit opinion.

To ensure your school receives the maximum benefit from our audit we have turned our focus to the future and set out in the attached report some matters for the attention of your board. Our motive is to offer objective and constructive advice so that the accounting function and related issues can be improved in the future. Please note that this letter is sent only to you, with a copy to the Office of the Controller & Auditor-General. We do not send a copy of this letter to the Ministry of Education or any other party.

The Audit Doesn't End With Our Audit Report

If you wish, we would be pleased to discuss with you our recommendations in this letter or any other aspect of the school's audit. If it is of value to your board, one of our audit directors or managers would be happy to attend a board meeting to discuss any finance related issues you have.

In recognition of the value we place on our association with your school, we think it is appropriate to waive our normal fee for attending a meeting. Please contact our office if you wish to take up this offer.

Our Sincere Thanks

We would like to take this opportunity to thank your principal, Carol Graham and, accounts person Maria Kelsey for their assistance and co-operation during our audit. The assistance from the school team greatly influences the efficiency of the whole audit process.

We would also like to thank the trustees for selecting RSM Hayes Audit as your auditors. We appreciate our relationship with your school and look forward to continuing to provide a valuable service to you.

Yours sincerely



Don Aue
Associate Director





Otaua School

Audit Findings

For the year ended 31 December 2018

1. Introduction
2. Expected Content Of Our Formal Audit Report
3. Governance
4. The Financial Statements
5. The Day To Day Accounting System

1. Introduction

We set out below our findings from the audit work we have performed during the audit of your financial statements for the 2018 financial year. Matters raised in this report have been discussed with your management team during the audit fieldwork.

Our work focussed on the systems and controls set by your board and implemented by your management team, to the extent necessary in forming an audit opinion. Any matters arising from the audit are detailed in this letter.

2. Expected content of our formal audit report

Subject to receipt of signed financial statements, letter of representation and final update of events subsequent to balance date, we expect to issue an unmodified audit report in our standard wording.

3. Governance

Areas of Significant Audit Focus

We believe it is best practice to communicate with you as the governing body regarding matters which form an important part of our audit process.

An independent audit of your financial statements is a key part of ensuring that your organisation has appropriate controls in place regarding financial management and financial reporting. However, ultimately it is you, the governing body that remains responsible for your financial systems, internal controls including the detection and prevention of fraud, and financial statements.

While our audit necessarily involves evaluating your overall system of financial controls and reporting, the following are areas and issues we assessed as potentially significant risk areas in relation to your school during our audit. Accordingly we believe that they are important issues that should be of interest to you in your governance capacity. In the case of your organisation in the current year these assessed areas of significant focus were as follows:

- Payroll controls in place at your school and accurate recording of payroll accruals
- Recognition and recording of locally raised funds income and expenditure
- Risk from limited segregation of duties
- Revenue recognition and treatment of income in advance
- Expenditure being valid and appropriate for your school's purposes (probity of expenditure)
- Cyclical maintenance expense and provisioning being appropriate

In addition, we sought to ensure that your financial statements were in compliance with generally accepted accounting practice in New Zealand as appropriate to public benefit entities that qualify for Tier 2 reporting. That is that Public Benefit Entity Standards - Reduced Disclosure Regime (PBE Standards RDR) have been appropriately adopted and that the mandatory Kiwi Park model has been followed.

We are pleased to advise that our testing of these assessed risks did not identify any significant issues or concerns. Any observations and recommendations related to these topics are detailed below.

Required Communications

We are required by auditing standards to report specific matters to you as follows:

- We have had no disagreements with management during our audit nor any serious difficulties in dealing with management
- We have not identified any breaches of legislation during our audit
- We have not identified any instances of fraud involving management, or any other frauds that caused a material misstatement of the financial statements
- We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.

Audit Independence

We reaffirm we are independent of your school, and that we have no relationship with your school that could impair our independence.

Deficit Budget

A deficit budget has been prepared and approved by the board for the coming year. While we appreciate a conservative approach appears to be being taken to budgeting, we question whether your budget is in fact as realistic an estimate as it could be. We are also concerned that deficit budgeting, if achieved, will result in deterioration of your school's equity. Whilst deficit budgeting may appear to be warranted when preparing the budget for a particular year, we urge caution in the use of this approach as it is unlikely to be a sustainable one long-term. We recommend that the board seeks to avoid deficit budgeting in the future wherever possible so as the schools budget reflects the ability for it to live within its means. As always it remains important that your board continues to monitor your financial results against the budget during the year and we applaud your ongoing efforts in this regard.

4. The Financial Statements

Unadjusted differences

Appendix A details unadjusted journal differences that we identified during the audit.

Adjustments made

There were no journal adjustments made to the financial statements as a result of our audit.

Publishing your annual report online

As a result of changes to the Education Act 1989, you are now required to publish your annual report on your school website. During our audit process we noted your 2017 annual report was not on your website. After making your management team aware of this, they have rectified this situation. While there are no timeframes stipulated in the legislation for when publishing on your website must occur, we believe this should be done as soon as possible after the audit is completed.

We remind you of your ongoing requirements to ensure 2018 and future annual reports are also filed on your website, along with being submitted electronically to the MOE through the schools data portal.

5. The Day To Day Accounting System

It is important that we report any observations and areas for improvement in respect of the financial control environment at your school. As part of the RSM audit approach we review the accounting systems established by the board to the extent that they could have a significant impact on the annual financial statements. The following observations are brought to your attention.

We are pleased to report that there are no matters related to the day-to-day accounting system that we have found necessary to be brought to the attention of your board.