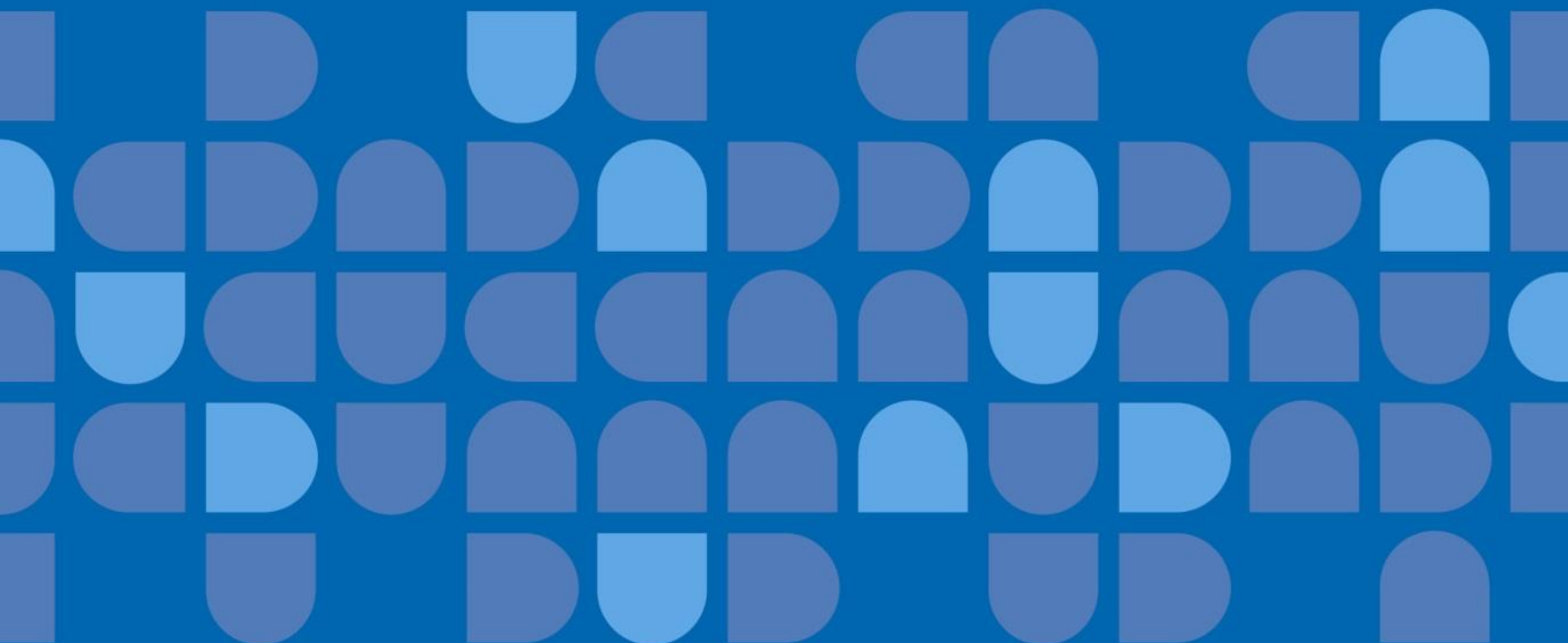


**Colville School**  
**Audit Management Letter**  
Year Ended 31 December 2019



29 May 2020

The Chairperson  
Colville School

**For e-mail transmission via the School**  
E-mail:

Dear Chairperson

**Management Letter – Year Ended 31 December 2019**

We have completed our audit of the financial statements of Colville School for the year ended 31 December 2019, in which we examined the annual financial statements and certain aspects of the Schools systems of internal control and accounting procedures.

In carrying out audit procedures various matters came to our attention which we believe should be reported to you as well as reporting on mandatory matters. Please find enclosed our management report on these matters together with recommendations on audit issues that arose during our visit.

We would be pleased to discuss with you any items mentioned in this report.

Yours faithfully  
**William Buck Audit (NZ) Limited**



Darren Wright  
**Director**

Copy to:       The Office of the Controller and Auditor-General  
                  The Principal

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William Buck Audit (NZ) Limited

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## Engagement

We have undertaken an audit of the financial report of Colville School ("the School") for the year ended 31 December 2019. Our audit was conducted in accordance with Auditing Standards published by the Auditor-General (<http://oag.govt.nz/2014/auditing-standards>), which incorporate the International Standards on Auditing (New Zealand). This report has been prepared for the Board of Trustees.

## Appreciation for Assistance

We would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from all the staff at the School. We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

## Responsibility for the Financial Report

The Board of Trustees is responsible for preparing financial statements in accordance with the Public Benefit Entity International Public Sector Accounting Standards Reduced Disclosure Regime (PBE IPSAS RDR). The responsibility for producing the financial report and ensuring adequate internal controls and sound business practices is the responsibility of the management and is a part of management's overall responsibility for the ongoing activities of the School.

Policies and procedures developed by the School to safeguard its assets and to provide reasonable assurance that errors and irregularities or illegal acts are promptly identified, must be properly monitored to ensure that all staff are complying with the guidelines provided.

## Overall Audit Approach

Our responsibilities include expressing an opinion on the financial statements. Our audit procedures are tailored to our assessment of risk of material misstatement in the financial statements.

Our understanding of the internal control environment and financial risk areas determines the nature and extent of our audit testing. Given the level and nature of the activities of the School, our audit approach has been largely substantive in nature. We cannot in practice, and do not, examine every operating activity or accounting procedure carried out by the School, nor can we substitute for the Board of Trustee's responsibility to maintain adequate controls at all levels of operations.

## Audit Report

Based on our audit work we will issue an unmodified audit opinion.

## Summary of Adjusted Audit Differences

During the audit we identified that two adjustments were required to be made to the financial report. The details of the adjusted audit differences are as follows [increase to Surplus]:

Account	Amount
Cyclical Maintenance Provision	19,854
Banking staffing underuse	6,681
<b>Total Increase to Surplus</b>	<b>26,535</b>

Explanations for key adjustments:

- To adjust the cyclical maintenance's current and term provision as painting was done during the year through the funds held in capital project.
- Includes the banking staffing underuse position as at year end

A number of financial statement disclosures were also updated to be in accordance with accounting standards and the Kiwi Park School model.

## **Summary of Unadjusted Audit Differences**

There were no items identified that have not been adjusted for in the financial report.

## **Accounting Policies and Subjective Items**

The accounting policies used by the School are consistent with the previous year. Other than the cyclical maintenance provision, there are no material accounts subject to management judgement, and no material accounting estimates were made in the determination of the account balances in the financial statements.

## **Probity and Sensitive Expenditure**

Whilst carrying out our audit, on behalf of the Office of the Controller and Auditor General ("OAG"), we have been asked 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 expenditure of the School.

One of the internal control objectives, and key audit risk, relates to Sensitive Expenditure. We highlight to the Trustees the importance of ensuring appropriate controls over Sensitive Expenditure, and to remain up to date with Ministry of Education guidelines. Two of the main focus areas in the current year have been discussed in more detail below:

### **Overseas Travel**

Additional guidance was issued in the 2019 financial year relating to overseas trips, and the Ministry of Education (MOE) no longer requires schools to complete the overseas travel checklist. The MOE does expect that Board have a robust system in place to provide evidence of the approval of overseas travel. We would expect to see the following as proof of Board approval:

- A formal proposal for the Board's approval setting out the details of the trip, including the educational outcomes, a detailed budget, and how it will be funded.
- Consideration of the number of adults needed to supervise the children attending, and how the costs of those staff and/or parents and caregivers will be met.
- Consideration and approval of any personal elements of the overseas travel, such as an employee adding vacation time on to the end of a trip, or a family member accompanying an employee. Ideally, the school should set out the rules for this in its travel policy. The Board needs to ensure that the employees keep appropriate records of any personal costs, and evidence that the school has not paid for personal expenditure.
- Receipts for all expenditure incurred, including a reconciliation of any cash advances or overseas currency cards used, with evidence of the return of any unspent funds.
- After the trip, the Board should receive a report on the outcomes the trip achieved, and a detailed breakdown of costs against budget. This should include explanations for any costs incurred above budget, including how they have been funded.

### **Use of Credit Cards**

The MOE has noted that Generally schools have poor controls over credit cards, with many monthly statements not being approved by an independent person. Poor controls increase the risk of misuse of credit cards, including for personal use.

Although the Scholl currently does not have a credit card we raise this point in case it is considered for the future.

This also includes the use of fuel cards and overseas currency cards (which are essentially cash). We would expect to see one-up approval, meaning the Board Chairperson must authorise payments on the Principal's credit card and staff credit cards should be approved by the Principal.

## **Locally Raised Funds and the receipting of cash**

Schools are involved in the receipting of cash for a number of items, which could include items such as school donations, activity fees and fundraising. The level of EFTPOS transactions and internet banking's have increased over recent years, diminishing somewhat the level of cash transactions.

Dealing with cash is an inherently high risk of fraud and is best managed by having effective segregation of duties and a high level of control. However, in some cases this is not practical in which case other controls are required. We recommend that schools become "cashless", to reduce the risk of misappropriation of cash. We would like to congratulate all our schools who have achieved this over the past few years. Refer to Appendix I, which discusses the completeness of income and segregation of duties in more detail.

## **Cyclical Maintenance**

The Ministry has updated its processes and expectations for school cyclical maintenance plans. The changes came into effect on 1 June 2019. We are expecting to see the quality of cyclical maintenance provisions improve for the 2020 year.

Improvements that came into effect from 1 June 2019 include:

- new walk around guidance for school Property Advisors that prompts discussion about cyclical maintenance issues during annual school visits;
- development of a video for schools on the annual school's property visit, to explain maintenance obligations and the need to set money aside for future maintenance; and
- a new requirement for Property Advisors to review a cyclical maintenance plan before their annual school visit.

## **Detailed Observations, Suggested Areas for Improvement**

As part of the audit we have identified Seven matters which we believe we should bring to your attention.

Where we determined, from our testing, that there exists a need for improvement in existing systems of internal control or if we detected that the School's staff are not complying with the critical accounting policies and procedures provided by management, we increased our year-end testing of account balances to ensure that audit risk was kept to an appropriate low level.

The comments and concerns expressed herein did not have a material effect on the School's financial statements and, as such, our opinion was unmodified. However, in order for the School to ensure the safeguarding of its assets and the accuracy of its records, we believe our comments and concerns should be taken into consideration by management. Our comments are not intended to reflect upon the honesty or competence of the School's employees. Set out below are observations, suggested areas of improvement and recommendations. Please provide us with your proposed action plan to resolve these/ this matter/ matters in due course.

### ***Matter 1: Segregation of Duties***

#### **Observation and implication**

- We note that significant portions of the day-to-day accounting functions are solely under control of *Sharmayne Novis, the school secretary or Tui McMillian the principal*. Apart from no reconciliation done to daily cash banking schedule, 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. 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.

#### **Suggestion for Improvement**

- The separation of key accounting responsibilities is a critical internal control in any system to prevent misappropriation of funds, error, or unrecorded transactions. We appreciate that it may be difficult to segregate one's duties, this can be compensated by careful monitoring and oversight by management and the Board. Where possible, one option is to have members of the team periodically rotate duties. As a minimum, it is important to have someone else on your team able to perform these tasks and doing so occasionally, such as when the key person takes leave. This person should also have forced periods of absence (e.g. two weeks minimum per year).

### ***Matter 2: Annual Library Stocktake***

#### **Observation and implication**

- Your school did not perform a full count of library resources at year-end due to the revamp project.
- Because schools are required to account for library resources in the financial statements, you need to carry out a full stocktake each year to determine the quantities of books and other resources on hand.

#### **Suggestion for Improvement**

- We recommend that you carry out an annual library stocktake.

### ***Matter 3: Prompt Banking***

#### **Observation and implication**

- Monies received are held for a week and sometimes for longer period of time before being deposited into the school's bank account. We understand that due to the location of the school it can be hard to get the money to the bank more frequently but raise this matter as a reminder of the risks. Prompt and regular banking is essential, it is also important that the banking schedule is signed by the person that did the banking to reduce opportunities for theft and to assist in the accurate recording of amounts received

#### **Suggestion for Improvement**

- Recommendation is that school's bank all money received as often as practicable, and at least once a week or fortnightly. We understand that this may not be possible however being aware of this and endeavouring to bank as often as practicable would be sufficient. We also encourage the use electronic banking more if possible and signing all banking schedule before banking.

#### ***Matter 4: Policy / Procedure regarding Circular 2013/06 – Payments of parents of students***

##### **Observation and implication**

- We noted that your school has not yet formally documented a policy/procedure on [Circular 2013/06 – Payments of parents of students](#). The Ministry of Education has been focusing on this in recent times, and Schools are now required to have appropriate policies/procedures to address the circular.

##### **Suggestion for Improvement**

- The circular contains useful information and guidance to Schools in preparing a policy/procedure and we recommend that the School puts an appropriate policy/procedure in place as soon as practicable.

#### ***Matter 5: Independent Review of Payroll Reports***

##### **Observation and implication**

- From enquiries of management we noted that there is no independent (i.e. by someone who does not have access to the payroll system) review of payroll reports conducted at the School. This heightens the risk of fraud as the duties have not been sufficiently segregated. We wish to point out that nothing from our enquiries has led us in any way to question the integrity of any employees.

##### **Suggestion for Improvement**

- The Office of the Auditor-General (“OAG”) recommends the person who checks the report is independent of the people that have access to the payroll system. However, we do understand that this may be difficult to achieve given the size of the School.

#### ***Matter 6: Principal reimbursements***

##### **Observation and implication**

- It is good practice for the chairperson or board members as an independent party to review and authorise the principal's expense claims.
- We wish to emphasize that we have no issues with the reimbursements, and this point is made solely for good governance.

##### **Suggestion for Improvement**

- We recommend that principal reimbursements are authorised / approved and signed by the chairperson or other Board member. Appropriate segregation of duties should be implemented.

#### ***Matter 7: New Bank Account not included in the Accounting Records***

##### **Observation and implication**

- We noted that your school has set up a new bank account in the 2019 financial year amounting to \$9.53 as at balance date. This bank account has not been processed into the accounting records. This will result in understatement of income, expenses and the bank account balance at year end.

##### **Suggestion for Improvement**

- All bank accounts in the name of the school need to be processed into the accounting records of the school in a timely manner.



## **Annual Report**

The Education Act 1989 requires you to publish your Annual Report on-line. Your Annual Report contains your audited annual financial statements including our audit opinion, analysis of variance, list of trustees and Kiwisport statement. Making your Annual Report accessible to the school community is important for transparency and accountability. The expectation is that your Annual Report is published as soon as possible after your audit is completed, as the value of good accountability lessens over time.

Please ensure that once your 2019 Annual Report is submitted to the Ministry it is also published on your website. If you do not have a website, contact the Ministry of Education for guidance.

## **Going Concern**

No material uncertainties related to events and conditions were identified that may cast significant doubt on the School's ability to continue as a going concern or require further consideration or disclosure within the financial report.

## **Disagreements with Management**

There have been no disagreements with Management about matters that, individually or in aggregate, could be significant to the School's financial report or the auditor's report.

## **COVID-19**

We understand the COVID-19 lockdown period during the school audit season has made the process different to the years before. We would like to take the opportunity to thank the school principal, administrator and external service provider for their support and patience during this unusual time.

## **Independence**

We confirm that we are independent of the School. We are not aware of any relationships between William Buck and the School that, in our professional judgement, may reasonably be thought to impair our independence.

## **Disclaimer**

This report is prepared on the basis of the following limitations. This communication is prepared solely for the information of the Board of Trustees and is not intended for any other purposes. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Accordingly, management and the Board should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed, or potential instances of fraud that may exist. Our comments should be read in the context of the scope of our work. Findings within this report may have been prepared on the basis of management representations.

Suggestions for improvement should be assessed by the School for their full impact before they are implemented. This report has been prepared solely for your use as management of the School and should not be quoted in whole or in part without our prior written consent.

## **APPENDIX I**

### **COMPLETENESS OF INCOME**

It is the obligation of the Trustees to ensure that management have established an appropriate system of internal controls to ensure the completeness of all income. This means that all funds due to, and paid to, the School are correctly and appropriately banked in the school's bank accounts and appropriately recorded. We consider that the risk of schools relates to non-MOE items such as school donations, activity fees and fundraising activities.

When a school operates an activity, it needs to ensure, as much as practical, that there are suitable financial controls put in place to provide comfort over the level of income recorded. For example, the school puts on an annual school Play and tickets are sold to parents and friends. This may be used as a fundraiser for the school. Practical examples of internal controls for completeness of income for a Play, or even for a raffle, could include some or all of the following:

- Printing special pre-numbered tickets
- Totalling total cash/funds received from the tickets sold to ensure it matches
- Maintaining a detailed list of who has purchased the tickets
- Retaining unsold tickets

It is the obligation of the School to provide evidence to the auditors as to how they have determined that all cash and funds received have been appropriately banked and recorded by the School.

### **SEGREGATION OF DUTIES**

Segregation of duties in the finance function is a key component of internal control and reduces the inherent risk of fraud. At primary schools, it is often that portions of the day-to-day accounting functions are solely under control of one person. We appreciate that it is difficult to segregate these duties due to the size of Schools and administration resources available.

Due to the level of resources available, it is of increasing importance the careful monitoring and oversight by management and the Board of financial matters. The following are typical such controls that can be exercised:

- Development of a robust Budget with detailed underlying assumptions
- Regular reporting and explanation of actual income and expenditure to budget
- Detailed monthly financial reporting to the Board
- Regular overview of Sensitive Expenditure
- One-level up for approval
- Detailed Delegation of Authority levels in places
- Review and approval of monthly credit card statements
- Review and approval of Bank Reconciliations
- Review of receipting of cash into the Bank
- Review of reconciliation of Petty Cash account
- Approval of Journal Entries



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