

Gulf Harbour School
Audit Management Letter
Year Ended 31 December 2017



24 May 2018

The Chairperson
Gulf Harbour School
For e-mail transmission

E-mail: n.bonner@ghs.school.nz

Dear Chairperson

Management Letter – Year Ended 31 December 2017

We have completed our audit of the financial statements of Gulf Harbour School for the year ended 31 December 2017, 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. We take this opportunity to thank your management team and staff for their cooperation during the course of the audit

Yours faithfully
William Buck Audit (NZ) Limited



Darren Wright
Director

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

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Engagement

We have undertaken an audit of the financial report of Gulf Harbour School (“the School”) for the year ended 31 December 2017.

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.

Responsibility for the Financial Report

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.

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 Gulf Harbour School.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

Audit Report

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

Summary of Adjusted Audit Differences

We did not note any significant items that required adjustment to the financial report.

Summary of Unadjusted Audit Differences

During the audit, we noted one item that we did not require to be adjusted in the financial report.

The effect of this difference did not have a material effect on the School's financial statements and, as such, our audit opinion thereon was unmodified. The details of the unadjusted difference is as follows:

Account	Amount
Banking Staffing Underuse	\$10,114
Total Increase/(Decrease) to Surplus	\$10,114

Independence

The engagement team and others in the firm as appropriate, the firm and network firms are independent in accordance with relevant ethical requirements and any regulatory requirements that apply to the audit engagement.

Details of relationships that may reasonably have a bearing on auditor independence, as outlined in relevant ethical requirements relating to audit engagements have been requested and may have been identified; however the related safeguards have been applied to eliminate threats to independence or reduce them to an acceptable level.

Probity

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 and such items to report. However, we remind you of the importance to remain vigilant in your expenditure.

Novopay

During 2012 the Ministry of Education (“MOE”) introduced a new payroll system, Novopay. That resulted in many errors in 2012 and some minor errors in 2013 to 2017 throughout the sector. It appears that the School has had no, or only minor, errors during the 2017 financial year. The Ministry hasn’t informed the School about any major adjustments that are required. Assurance work relating to Novopay that is carried out centrally on behalf of the OAG hasn’t identified any major anomalies for further investigation.

We have received confirmation from the Board that the people on the end of year payroll report were employed during the year and the total shown against each person is substantially correct. Our audit has not found anything to suggest otherwise.

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
- Detailed Delegation of Authority levels in places
- 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

Receiving Cash

The school’s office is involved in the receipting of cash for a number of items, which could include items such as school donations and activity fees. 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.

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.

Sensitive Expenditure

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 update with Ministry of Education guidelines. We attach as Appendix 1 an example from last year of where inappropriate expenditure has been reported in the press.

Copying Management Letter to Service Centre / Accountant

We suggest you give a copy of this letter to your service centre / accountant. It would be helpful to liaise with them when considering adopting the changes that we have suggested.

Detailed Observations, Suggested Areas for Improvement

As part of the audit we have not identified any significant matters which we believe we should bring to your attention.

Prior Year Management Letter Points Update

The management letter points raised in the prior year have been adequately addressed by the School with the exception of the following:

Matter 1: Independent review of payroll

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.

Material Uncertainties Related to Events and Conditions that may cast Significant Doubt on the School’s Ability to Continue As a Going Concern

No material uncertainties 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 about Matters that, Individually or in Aggregate, could be Significant to the School’s Financial Report or the Auditor’s Report.

There have been no disagreements with Management during the audit.

Fraud

During the audit we have not identified or been notified by your office of any circumstances of fraud.

Laws and Regulations

During the audit there has been no evidence that the School has not complied with laws and regulations pertaining to the School.

Matters to be Considered for Next Year’s Audit

The matters that require consideration for next year’s audit have been discussed above.

Conclusion

We have issued an unmodified audit opinion on the financial statements for the year ended 31 December 2017 as adopted by the Board of Trustees. Once again we would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from all your staff. We look forward to being of service to the School in the future.

Disclaimer

This report is prepared on the basis of the limitations set out below:

This communication is prepared solely for the information of the Board of Trustees and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

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 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 Gulf Harbour School for their full impact before they are implemented.

This report has been prepared solely for your use as management of Gulf Harbour School and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

APPENDIX 1 – SENSITIVE EXPENDITURE

Ride-on mowers and 'wellbeing' payments for principals: School spending flagged

18 Dec, 2017 3:04pm

5 minutes to read



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The Auditor-General has highlighted school spending including overseas travel, a \$7000 staff party and gifts for principals including a ride-on mower and "wellbeing" payments.

Another school did not pass on \$3700 collected specifically for Fiji flood victims.

Prime Minister Jacinda Ardern today said she had not seen the report, but the spending as described sounded "hugely surprising".

"I would find that hugely surprising given the environment our schools are operating in. And particularly parents who are paying donations I think would also be surprised by that kind of spending," Ardern said during her weekly post-Cabinet press conference.

"Unless that ride-on lawnmower was given to him so he could chop the fields of that school, I would be very surprised by that. It's not something I have been briefed on."

The Ministry of Education told Newstalk ZB it will follow up with the Blockhouse Bay Intermediate Board of Trustees to make sure they understand what has happened at the school.

Concern surrounded \$7000 spent on a farewell party and \$3000 on a leaving gift for the principal.

The report also found the school didn't pass on \$3700 that it collected specifically for Fiji flood victims - instead using the money for school purposes.

The Ministry said any action it takes will depend on what it finds after speaking to the board. Blockhouse Bay's board of trustees chairman Russell Matthews could not be reached for comment tonight.

Report reverberations

The Office of the Auditor-General today published the [results](#) of the 2016 school audits, and provided the same information to the Secretary for Education.



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