



31 December 2019

# Audit Management Letter to the Board of Trustees.

West Gore School

# Contents

1. Results of the Audit Process .....	2
1.1 Scope and purpose of audit engagement .....	2
1.2 Responsibilities of the Trustees .....	2
1.3 Independence statement .....	2
1.4 Materiality .....	2
1.5 Outcomes from audit of key performance report risk areas .....	3
1.6 Observations and recommendations arising from the audit .....	3
1.7 Update on prior year observations and recommendations .....	5
1.8 Confidentiality .....	5
2. Other matters to be communicated .....	6
3. Summary of adjusted and unadjusted audit differences .....	7
3.1 Adjusted audit differences .....	7
3.2 Unadjusted audit differences .....	7

**Crowe New Zealand Audit Partnership**

173 Spey Street  
Invercargill 9810 New Zealand  
Private Bag 90106  
Invercargill 9840 New Zealand  
Tel +64 3 211 3355  
Fax +64 3 218 2581  
audit.invercargill@crowe.nz

18 May 2020

Board of Trustees  
West Gore School  
120 Kitchener Street  
**Gore 9710**

Via email: [cmacleod@westgore.school.nz](mailto:cmacleod@westgore.school.nz)  
CC: Linda Fraser, Principal: [lfraser@westgore.school.nz](mailto:lfraser@westgore.school.nz)

Dear Ceri

**Annual Financial Statement Audit for the Year Ended 31 December 2019**

We have recently completed our financial statement audit of West Gore School (the "School") for the year ended 31 December 2019, and we have pleasure in providing our report on the results of the audit process.

If you require further information on the matters raised in this report please do not hesitate to make contact.

We would like to take this opportunity to thank management and staff for the courtesy and assistance extended to us throughout the audit process.

Yours sincerely

**Crowe New Zealand Audit Partnership**



**Ken Sandri**  
Partner  
T +64 3 211 3371  
M +64 27 434 2890  
E [Ken.Sandri@Crowe.nz](mailto:Ken.Sandri@Crowe.nz)

## 1. Results of the Audit Process

### 1.1 Scope and purpose of audit engagement

We have completed our audit of the School's annual financial statements for the year ended 31 December 2019 and issued our audit opinion. Based on our audit procedures we can confirm the annual financial statements presents fairly, in all material respects, the financial position of the School as at 31 December 2019 and its financial performance and cash flows for the year then ended.

Obtaining reasonable assurance that the financial statements are free of material misstatement, involved us making an assessment of the risk of material misstatement, whether due to fraud or error, and then applying audit procedures, using our professional judgment, to mitigate that risk. While we considered internal control relevant to the preparation of your annual financial statements, our audit procedures mainly comprised substantive tests (i.e. transactional and confirmation type testing).

Our audit procedures are designed primarily for the purpose of expressing an opinion on your annual financial statements. We do not examine every transaction, due to the scope of the audit engagement; there is an unavoidable risk that some misstatements or errors may remain undiscovered. Our report does not include all possible improvements to your internal controls, which a more extensive review might satisfy.

### 1.2 Responsibilities of the Board of Trustees

The Board of Trustees are responsible for the preparation and fair presentation of the financial statements which fairly reflect the financial position of the School as at 31 December 2019 and the financial performance for the year ended on that date.

To meet this objective, the Board of Trustees are ultimately responsible for the maintenance of proper accounting records and an adequate system of internal controls to minimise the risk of material financial statement misstatement.

### 1.3 Independence statement

Members of the Audit Team and Partners of Crowe have confirmed their independence from the School for the year ended 31 December 2019.

### 1.4 Materiality

Materiality is defined as the magnitude of omission or misstatement individually, or in aggregate that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person would have been changed or influenced by such omissions or misstatement. It is a matter of professional judgment and is influenced by quantitative and qualitative factors.

Because of the matters noted above, the school has experienced a significant reduction in expected revenue and has not been able to reduce its costs as quickly (or experienced significant additional costs not budgeted for). As a result the school is experiencing financial difficulties. As explained in Note X to the financial statements, the Ministry of Education has provided the school with a letter of support to ensure it can meet its obligations as they fall due.

## 1.5 Outcomes from audit of key performance report risk areas

Key audit and accounting issues arising during the year relate to those areas of audit focus as listed below:

Audit Risk	Audit Response
<p><b>Fraud in revenue recognition</b></p> <ul style="list-style-type: none"> <li>Locally raised funds are a specific audit risk identified by the Office of the Auditor General. This revenue stream is susceptible to fraud risks over completeness of revenue.</li> <li>There are specific accounting judgements in the application of the School's accounting policies for key revenue streams.</li> </ul>	<ul style="list-style-type: none"> <li>We enquired and documented the revenue process and performed walkthrough.</li> <li>We analytically revenue transactions ensuring locally raised funds are materially complete and revenue recognised in the correct period for FFPS and other similar revenues.</li> <li>We compared an external confirmation of government grants paid to the School to the revenue recorded in the School's financial statements.</li> <li>We prepared an independent expectation of the School's revenue for the year and compared against actual revenue recorded. Explanations were sought for differences in excess of our tolerable variance.</li> </ul>
<p><b>Management override of controls</b></p> <ul style="list-style-type: none"> <li>The risk of management overriding controls exists in all entities and is a mandatory significant risk to be addressed by the auditor.</li> <li>Material misstatement of financial statements due to fraud often involve the manipulation of the financial reporting process by recording inappropriate or unauthorised journal entries, bias in accounting estimates and the existence of significant transactions outside the normal course of business.</li> </ul>	<ul style="list-style-type: none"> <li>Professional scepticism was maintained while undertaking audit procedures on subjective balances in the School's financial statements, including the provision for cyclical maintenance.</li> <li>Journals posted into the general ledger were selected on a sample basis and traced back to supporting documents to verify that they were appropriate.</li> </ul>
<p><b>Cyclical Maintenance</b></p> <ul style="list-style-type: none"> <li>The cyclical maintenance provision does not contain all obligations of the school and does not reflect management's best estimate.</li> </ul>	<ul style="list-style-type: none"> <li>We reviewed the calculation of the School's provision for cyclical maintenance and it's alignment with the School's 10YPP.</li> </ul>

## 1.6 Observations and recommendations arising from the audit

We highlight the following matters for the attention of the Board of Trustees together with recommendations for management to consider, to further strengthen the internal control environment of the School.

### 1.6.1 Limited segregation of duties

As is common with schools of size such as yours, adequate segregation of duties to establish a good overall effective internal control environment is not always possible in all instances. An environment with inadequate segregation of duties increases the risk of fraud or errors going undetected and an audit cannot be relied upon to mitigate this risk. Organizations with minimal accounting personnel result in many key accounting tasks being performed by the same person.

Based on our audit observations and testing we are concerned that the School is lacking on activity level internal controls surrounding key processes especially on the cash receipts. They were created approved and

reconciled by the same individual.

**Recommendation**

Management and the Board need to remain alert to the risk when a full segregation of accounting duties is not possible and ensure adequate monitoring controls are in place to reduce the risk to a satisfactory level.

These controls will include ensuring monthly financial statements are tracked against budget and expectations by parties independent of staff involved in the processing of transactions.

**Management comments****1.6.2 Appropriate review of sensitive expenditures**

We noted during our testing of sensitive expenditure, a sample of travel expenditure was reviewed and approved by the same person who went traveling. Such expenditure should have been reviewed and approved by an independent individual and one-up in the chain of authority to ensure that travel claim is for business purposes to provide clear evidence that segregation of duties in place operates effectively and efficiently.

**Recommendation**

We recommend that sensitive expenditure is reviewed and approved by appropriate person.

**Management comments****1.6.3 Approval of provision of cyclical maintenance**

We noted when reviewing the provision of cyclical maintenance that the provision has not been reviewed and approved by the Board of Trustees on an annual basis. We reviewed the minutes of the meetings and there was no evidence of discussions around the cyclical maintenance.

**Recommendation**

We recommend that the following steps be taken by the Board to ensure that the ten-year plan is maintained.

- The Board of Trustees should review the maintenance plan annually at budget time to allocate funding for the current year and the future years maintenance.
- Annually at the end of each year add another year onto the plan to maintain the 10 years of planning.

The maintenance of the ten-year maintenance plan will ensure that the School can be maintained to a high standard and that there is adequate finance to complete the work planned.

To ensure that the 10-year maintenance plan is adequate a qualified person should review the plan every three years

**Management comments****1.6.4 Publishing of Annual Report online (first raised 2018)**

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.

**Prior year recommendation**

Please ensure that once your 2018 Annual Report is submitted to the Ministry it is also published on your website.

**Prior year management comments**

*This will be attended to.*

**Current year observations**

We reiterate the importance of publishing your Annual Report online for ease of the readers to see the School’s transparency and accountability.

**Current year management comments**

Our uncorrected and corrected audit differences are included in Section 3 of this report for the consideration of the Board of Trustees.

## 1.7 Update on prior year observations and recommendations

In our audit for the 31 December 2019, we identified a number of matters for the attention of the Board of Trustees together with recommendations for management to consider. We consider the following matters to have been sufficiently addressed.

Prior Year Recommendation	Current Year Observation
<p><b>Deficit Budgeting (first raised in 2015)</b></p> <p>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. It is vital that you continue to look for ways to improve the actual results against the budgeted deficit during the upcoming school year and ensure that spending does not exceed the amounts approved by the Board. 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.</p>	<p>We obtained and perused the Year 2020 budget and are pleased to see that the School is budgeting for a small surplus.</p>

## 1.8 Confidentiality

This report is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibility to report to the Board of Trustees of the School directly.

The contents of this report should not be disclosed to third parties without our prior written consent.

## 2. Other matters to be communicated

In compliance with International Auditing Standards, we have an obligation to communicate certain aspects of our audit to you. The critical areas have been detailed in the previous sections, and the other matters that require communication are summarised as:

Matter to be communicated	Crowe comments
Significant accounting policies adopted or changed	The School has early adopted PBE IFRS 9 Financial Instruments but this did not result in any monetary changes to the financial statements. Appropriate disclosure changes have been made in accordance with the MoE model financial statements.
Management judgements and estimates	Other than what has been disclosed in Section 1.5 no material accounting judgements identified.
Disagreement with management over the application of accounting principles, scope of the audit and disclosures	There have been no disagreements with management during the audit.
Any instances of fraud or non-compliance with legislative, regulatory or contractual requirements	No instances of fraud or non-compliance were detected during the audit.
Material uncertainty related to going concern	No matters of material uncertainty were noted.

## 3. Summary of adjusted and unadjusted audit differences

### 3.1 Adjusted audit differences

In performing our audit for the year ended 31 December 2019, we have not identified any corrected adjustments or errors that could, in our judgement, either individually or in aggregate have a significant effect on the financial statements.

### 3.2 Unadjusted audit differences

In performing our audit for the year ended 31 December 2019, we have not identified any uncorrected adjustments or errors that could, in our judgement, either individually or in aggregate have a significant effect on the financial statements.