

Viscount School

AUDIT COMPLETION REPORT

FOR THE YEAR ENDED

31 December 2022



21 August 2023

Tinei Tagaloa-Leniu
Chairperson
Viscount School
65 Viscount Street
Mangere, Auckland 2022

cc: Shirley Hardcastle
Principal

Dear Tinei

We have pleasure in presenting our Audit Completion Report for our audit of Viscount School's financial statements for the year ended 31 December 2022.

We emphasise that our audit work involves the review of only those systems and controls in your School upon which we rely on for audit purposes. Our examination may not have identified, and should not be relied upon to identify, all control weaknesses that may exist.

We express our appreciation for the assistance and co-operation provided by the School and the School's service provider during the audit. There is nothing we wish to raise solely with the Board.

Yours faithfully,
BDO Auckland



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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

BDO Auckland ('BDO') is the Appointed Audit Firm of Viscount School (the "School").

BDO's responsibilities include a requirement to express an opinion on the School's financial statements arising from our audit conducted in accordance with the Auditor-General's Auditing Standards which incorporate International Standards on Auditing (NZ).

This report details the processes, findings and recommendations from our audit of the School in accordance with the Auditor General's Auditing Standards, and the terms of our engagement as set out in our audit engagement letter.

Our audit of the School's financial statements for the year ended 31 December 2022 is complete.

We have issued an unmodified audit opinion.

We welcome your feedback on the effectiveness of the audit process and we are available to discuss our performance.

AUDIT SCOPE AND OBJECTIVES

Our audit objectives are to:

- report on whether the financial statements presented fairly in all material respects; and
- report to Management about control environment issues that should be addressed by the School.

A strong control environment would feature adequate segregation of duties over important financial processes, and independent reviews as compensating controls should it not always be practicable for the duties to be separated.

We have documented, tested, and assessed the controls supporting the School's key transaction streams, and there are no significant weaknesses to report. Control weaknesses identified during the audit have been included in the Internal Control and Other Findings section of this report.



AREAS OF SIGNIFICANT RISK AND AUDIT EMPHASIS

Our audit approach considered the inherent risks for the School, and their potential impact on the financial statements, as well as the associated risk mitigations and controls in place. The significant matters arising from our audit work are:

- Locally raised funds
- Payroll not approved or checked
- Cyclical maintenance provision
- Management override of controls

We were able to obtain sufficient and appropriate audit evidence in respect to these items and we have no significant findings to bring to your attention. Refer to Section 2 for our comments in respect of each significant risk and area of audit emphasis.

SUMMARY OF UNCORRECTED MISSTATEMENTS

Our audit procedures have detected that the surplus of the School is potential understated by \$67,509. Uncorrected misstatements are documented at Appendix 1 and will be included in the letter of representation that you agree with Management's assertion that they are immaterial to the readers understanding of your financial statements.

INTERNAL CONTROLS

Our audit approach requires us to obtain an understanding of the School's internal controls in order to assess the risk of material misstatement in the financial statements whether due to fraud or error. However, is not designed to provide assurance over the overall effectiveness of controls operating within the School.

We have included in Section 3 of this report, a summary of our findings and recommendations arising because of our audit procedures.

2. KEY FINANCIAL STATEMENT AUDIT RISKS AND AREAS OF AUDIT EMPHASIS

Our audit procedures were focused on those areas of the School’s activities that are considered to represent the key audit risks identified during the risk assessment process undertaken and communicated with you through our Audit Plan issued to you at the planning phase of the audit. Below we present a summary of the identified key areas of risk and audit emphasis and our conclusions in relation to each matter. We are satisfied that these areas have been satisfactorily addressed through our audit processes, unless stated otherwise.

Locally Raised Funds	
Area of Audit Emphasis	Conclusion/Response
Due to the nature of locally raised funds (often being cash, or having limited segregation of duties), there is a risk of material misstatement around the completeness of locally raised funds.	We found no issues regarding the completeness of locally raised funds balances recorded in the financial statements.

PAYROLL NOT APPROVED OR CHECKED	
Area of Audit Emphasis	Conclusion/Response
Payroll is processed by Edpay. The accuracy of payroll processing is dependent on appropriate approval of payroll changes and checking of the fortnightly SUE report.	Payroll is not processed by Diana Tui and approved by Shirley Hardcastle (Principal). We found no issues regarding payroll except for the 1 corrected adjustment re banking staff overuse. See appendix 1 for details of misstatement identified.

Cyclical Maintenance Provision

Area of Audit Emphasis

Cyclical Maintenance is an area of significant judgment and estimation which could lead to material misstatement in the financial statements if not considered properly by management. For Schools to be able to calculate the appropriate cyclical maintenance provision, a 10 Year Property Plan (10YPP) and cyclical maintenance calculation need to be prepared and/or reviewed by an expert.

Conclusion/Response

During the review of Cyclical Maintenance Provision, we noted that the Room 5-10 and 22-27 will be demolished in the stage 1. Provision related to these blocks amounted to \$146,038. Hence, we raised an uncorrected adjustment to reverse the provision.

See appendix 1 for details of misstatement identified.

Management Override

Area of Audit Emphasis

There is a non-rebuttable presumption under the Auditing Standards that management override presents a significant risk of material misstatement to the financial statements.

Conclusion/Response

We have assessed the segregation of duties and risk of management override as part of our planning process and concluded that the risk of fraud from management override of controls primarily relates to the processing of manual journals. We have used a risk-based approach to testing manual journals and focused on any areas with a risk of cut-off error or those requiring judgement or estimation. No issues with management override were identified.

3. INTERNAL CONTROL AND OTHER AUDIT FINDINGS

This section of the report sets out the key findings we identified during the audit and highlights control deficiencies requiring attention from management. Our work has been limited to those controls relevant to the audit of your financial statements. The purpose of our audit work on controls is not to provide assurance and therefore we may not necessarily disclose all matters that might be significant deficiencies or deficiencies that heighten the risk of a fraud being perpetrated.

The following key findings were identified during this year’s audit:

Capital Works	
Finding	Conclusion
<p>We noted from the review of capital works note disclosure that;</p> <p>1) Capital works table is omitting the receipt from MOE for CCTV project. Per discussion with Lata, this was incorrectly recorded by Edtech in 2021, where the payment was not received until 2022. Hence it was treated as grant income, not capital works in FY2022. We raised an uncorrected adjustment to reverse this revenue.</p> <p>2) 3 projects (Asbestos Project, Artificial turf, 5YA) had a recoverability issue. Among these, we noted that 5YA had the major amount, which does not of project # allocated. Hence, we raised an uncorrected adjustment to reverse capital works and record the R&M expense. Remaining projects are not material to audit.</p> <p>3) We noted there have been 2 insurance claims (Window Smashed Hall & Rm 11 & 17, Burst Water Pipe & Hall Flooding) but recorded in capital works. As these are not going to be reimbursed from MOE, we raised an uncorrected adjustment to reverse capital works and record the expense/other income.</p>	<p>We noted several issues in maintaining the capital works ledger and disclosures within the financial statements which included:</p> <ol style="list-style-type: none">1) Omitting of projects,2) recoverability of projects and3) insurance claims recorded within the capital work projects. <p>We recommend that management review its capital works ledger and make appropriate adjustments to ensure that the capital works transactions are recorded accurately and presented correctly within the financial statements.</p>

4. REQUIRED COMMUNICATIONS WITH GOVERNANCE

Matter	How the matter was addressed
Auditors responsibility under generally accepted auditing standards	<p>We are responsible for completing an audit in accordance with generally accepted auditing standards in New Zealand. The detailed terms of which are set out in our audit engagement letter.</p>
Confirmation of Audit Independence	<p>In conducting our audit, we are required to comply with the independence requirements of AG PES-1 <i>Code of Ethics for Assurance Practitioners</i> issued by the External Reporting Board.</p> <p>Our own internal policies and procedures are put in place to identify any threats to our independence, and to appropriately deal with and, if relevant, mitigate those risks.</p> <p>For the comfort of the Board, we note that the following processes assist in maintaining our independence:</p> <ul style="list-style-type: none"> • No other work is permitted to be undertaken by any BDO office without the express approval of the audit engagement partner or the OAG. • All services performed by any national BDO office will be reported to the governing body. <p>There were no other services provided by BDO during the year.</p>
Management Judgements and Estimates	<p>Under International Standards on Auditing (NZ), we have a responsibility to ensure that you have been informed about the process used by the School in formulating particularly sensitive accounting estimates, assumptions, or valuation judgements. Overall, we note that the judgements and estimates made by management in the preparation of the financial statements for the year ended 31 December 2022 appear reasonable. Key matters impacting on our audit have been raised in sections 2 and 3 of this report if applicable.</p>

Matter	How the matter was addressed
Matters requiring Board of Trustee input	<p>We have placed reliance on the Board’s review and approval of the following matters:</p> <ul style="list-style-type: none">• Minutes of the Board meetings;• Implementation of such controls as is needed to ensure that financial statements are presented fairly;• Management accounts;• Annual budget;• 10 Year Property Plan/maintenance plan;• Notification of fraud; and• Financial statements.
Accounting policies	<p>Auditing standards require us to discuss with you the qualitative aspects of the School’s accounting practices and financial reporting. We reviewed the financial statements of the School against the Kiwi Park Model and noted no material departures from the requirements.</p>
Materiality and adjusted/ unadjusted differences	<p>Materiality means, in the context of an audit or review, if financial information is omitted, misstated, or not disclosed, it has the potential to affect the decisions of users of the financial statements. Materiality is used by auditors in making judgements on the amount of work to be performed, which balances require work and when evaluating the financial statements. Materiality is initially calculated at the planning stage of our audit and has an influence on the amount of work we do, as well as where we direct our efforts. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.</p> <p>All adjusted and unadjusted differences identified during our audit (if any) have been detailed in Appendix 1 of this report.</p> <p>It should be noted that the auditing standards do not require us to communicate misstatements that are considered “clearly trivial” and as such, if we identify such misstatements, we will not communicate these to you. We consider “clearly trivial” to be 5% or less of our planned materiality.</p>

Matter	How the matter was addressed
Going concern	<p>We have undertaken a review of the Board and management’s assessment of the ability of the School to continue as a going concern for at least 12 months from the date of signing the audit report, and therefore whether the going concern basis for the preparation of the financial statements is appropriate.</p> <p>We identified no issues or concerns that led us to conclude the going concern assumption could not be relied upon.</p>
Fraud	<p>During the audit, no matters relating to fraud, concerning either employees or management, have come to our attention. It should be noted that our audit is not designed to detect fraud; however, should instances of fraud come to our attention, we will report them to you.</p>
Compliance with laws and regulations	<p>We have made enquiries in relation to compliance with laws and regulations during the course of our audit. We have not become aware of any instances of non-compliance with laws and regulations which has materially impacted the financial position or performance of the School.</p>
Significant findings from the audit	<p>Other than those documented in the executive summary and sections 2 and 3 of this report, there were no significant matters arising from the audit.</p>
Disagreements with management	<p>There have been no disagreements with management over matters of significance to the audit.</p>
Difficulties encountered during the audit	<p>There have been no significant difficulties encountered during the audit.</p>
Consultations with other accountants and consultants	<p>We have considered the need for other accounting specialists during our work and determined due to the nature of the engagement and experience and knowledge of the engagement team, that no specialists were necessary for the current period.</p>

Matter	How the matter was addressed
Management representation letter	We have not requested specific representation from management in addition to those areas normally covered by our standard representation letter.
Probity, waste and performance	We are required to consider whether any approved payments could be considered extravagant or wasteful, or show a lack of probity or financial prudence. We did not identify any issues of concern with respect to probity, waste and performance.
Publishing Annual Report on the School's Website	<p>The Education and Training Act 2020 requires you to publish your Annual Report online. Your Annual Report contains your audited annual financial statements including our audit opinion, analysis of variance, list of trustees and Kiwisport statement.</p> <p>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.</p> <p>We note that you have published your prior year Annual Report on the School's website.</p>

APPENDIX 1 - ADJUSTED AND UNADJUSTED DIFFERENCES

ADJUSTED DIFFERENCES

The following misstatements have been identified during our audit, and *have* been adjusted:

Description	Assets	Liabilities	Reserves	Profit
	Dr(Cr)	Dr(Cr)	Dr(Cr)	Dr(Cr)
	\$	\$	\$	\$
Banking staff overuse		(54,500)		54,500
Net Effect of Adjustments made:	-	(54,500)	-	54,500

UNADJUSTED DIFFERENCES

The following misstatements have been identified during our audit, and *have not* been adjusted as they were considered by management not to be material:

Description	Assets	Liabilities	Reserves	Profit
	Dr(Cr)	Dr(Cr)	Dr(Cr)	Dr(Cr)
	\$	\$	\$	\$
Judgemental adjustment for reversal of Cyclical Maintenance Provision		146,038		(146,038)
BoT Contribution for Capital Works (FY2021)	56,413		(56,413)	
BoT Contribution for Capital Works (FY2022)		(56,413)		56,413
Judgemental adjustment for Provision of non-recoverable Capital Works		(21,852)		21,852
Project 234902 (FY 2021)	30,099		(30,099)	
Project 234902 (FY 2022)		(30,099)		30,099
Burst Water Pipe & Hall Flooding - recognised as other income	18,127			(18,127)
Judgemental adjustment for repairs and maintenance for door and roof		(11,769)		11,769
Judgmental adjustment for accelerated depreciation	(33,073)			33,073
Impact of brought forward unadjusted differences from FY2021 relating to banking staff usage and GST error			56,850	(56,850)
Net Effect of Adjustments not made:	71,566	25,905	(29,662)	(67,809)

APPENDIX 2 - UPDATE ON FINDINGS FROM PRIOR YEAR

Cyclical Maintenance Provision

Finding

From our audit work performed, we identified that the provision was reviewed by a property expert in FY2021, however, the calculation did not take into account the weather tightness effect of Blocks 1, 3 and 7.

Update

Unresolved.

However, as the school is going through a demolition and re-build process, this maintenance will be minimised.

Audit team raised an uncorrected adjustment re this matter, to reverse the cyclical maintenance provision for the blocks due for demolition soon. Hence, we recommend the Board to take this factor into consideration in the following year's CM Provision calculation. The calculation should also be prepared or at least reviewed by the Property Expert, listed in MoE.

Impairment of School Hall

Finding

From our work completed we note that that the Hall has weathertightness issues based on the report from ASC Jacobs dated November 2021 and may need to be demolished or rebuilt or requires remediation work.
As a result of the above, the estimated useful life of the school hall needs to be reviewed in light of the expected economic benefit.

Update

Unresolved.

However, as the school is going through a demolition and re-build process, this maintenance will be minimised.

Audit team raised an uncorrected adjustment re this matter, to record the accelerated depreciation of the Hall. Hence, we recommend the Board to consider the estimated useful lives of the PPE including the Hall. It is required by the PBE IPSAS 17 that the management should assess the useful lives of the PPE at least one a year.

Expense Misstatement

Finding

From our work on expenses in current year, we noted that there were cut off errors whereby an invoice dated within FY2020 were recorded within FY2021.

Update

Resolved.
The School is monitoring invoices and ensuring they are received and paid in the correct months. BDO noted no such misstatements during the audit.

Locally Raised Fund Misclassification

Finding

BDO noted that \$121,101 of the community grant was incorrectly recorded under fees for donations

BDO also noted that other expense relating to MOE Healthy Lunch Programme were misclassified under school activities cost which should be under school administration expense.

Update

Resolved.
New service provider worked on this matter and she was proactive. BDO noted no such misstatements during the audit.

GST on Donations

Finding

Our sample testing of locally raised fund showed that GST appeared to have been incorrectly claimed on occasion.

GST was accounted for \$10,050 from Bike on NZ and NZCT community grants.

Update

Resolved.
New service provider worked on this matter and she was proactive. BDO noted no such misstatements during the audit.

SCHOOL PAYROLL CONTROLS

Finding

We consider the main risk to the accuracy of payroll payments is transactions being incorrectly processed, because of either fraud or error. The EdPay system relies on schools checking the accuracy of the payroll transactions processed by the school, as this information is not checked centrally.

To ensure the accuracy of payroll payments, our expectation has been that schools had the following key controls:

- effective access controls to EdPay, limiting access to “authorised users”;
- changes to Masterfile data - such as bank account changes, new starters, or payments to non-salaried staff (such as relievers) - have appropriate supporting documentation and are appropriately authorised;
- checking of the fortnightly draft payroll (SUE) report and Novopay Online transactions report for accuracy; and
- review of the final fortnightly payroll (SUE) report by someone independent of staff who has access to EdPay.

During the year the Novopay Online transaction report was discontinued (in October 2021), and from about mid-2021 had not been a complete record of all transactions.

We do not consider that the review of the SUE report on its own is a strong enough control for schools to rely on to detect fraud or error, because it does not include details of changes to pay, or Masterfile changes. The lack of a complete Masterfile change report could also potentially provide an opportunity for a fraud to go undetected.

Because the Novopay Online transaction report has not been available throughout the year we have been unable to rely on payroll controls as part of our audit work. This has meant we have had to carry out additional audit work on payroll. These additional procedures have provided the necessary assurance over the payroll amounts in your financial statements.

Update

Resolved.

Payroll is not processed by Diana Tui and approved by Shirley Hardcastle (Principal).