

Report to the Board

Churton Park School

For the year ended 31 December 2020



1 June 2021

Matt Stanley
Principal
Churton Park School
90 Churton Drive
Churton Park, 6037

Dear Matt

CC: Kevin Brown, Chairperson

REPORT TO THE BOARD: YEAR ENDED 31 DECEMBER 2020

We have completed the audit of your School's financial statements for the year ended 31 December 2020.

Please find attached our Report to the Board in connection with the audit.

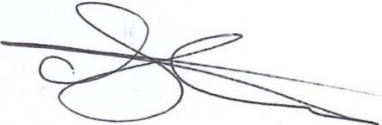
We would like to emphasise that our audit work involves the review of only those systems of internal controls in your School upon which we rely on for audit purposes. Our examination may not have identified and should not be relied upon to identify all internal control weaknesses that may exist.

We take this opportunity to thank the staff of your School for the co-operation provided to us during the course of the audit.

If we can be of further assistance, please advise.

Kind regards

Moore Markhams Wellington Audit



Andrew Steel
Appointed Auditor / Partner
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Introduction

Report purpose

This report details the processes, findings and recommendations from our audit of Churton Park School's (the School's) financial statements in accordance with International Standards on Auditing (NZ) ("ISA (NZ)") and the terms of our engagement as set out in our audit engagement letter.

We would like to thank the Principal and the staff of the School for their cooperation extended to us during the course of the audit.

Audit opinion

We have issued an unqualified audit opinion on the financial statements of the School for the year ended 31 December 2020.

Audit scope and responsibilities

As auditors of the School we are responsible for forming and expressing an opinion on the financial statements prepared by management with the oversight of governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities in relation to its preparation.

Overall, we are satisfied that the School has presented its results at the reporting date to an adequate level of compliance with applicable financial reporting standards.

We would like to 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 exist.

Confirmation of audit independence

In conducting our audit, we are required to comply with the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

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.

For the comfort of those charged with governance, we note that the following processes assist in maintaining our independence:

- No other work is permitted to be undertaken by any Moore Markhams office without the express approval of the audit engagement partner
- All services performed by any national Moore Markhams office will be reported to the those charged with governance.

We have no other relationship with, or interests in, the School.

Significant risk assessment conclusions

We have set out below our findings in areas we have identified as significant audit risks. We request that you review these outcomes on the significant accounting and audit matters identified to ensure that there are no further residual considerations or matters that could impact these issues, and that you concur with the resolution of the identified risks.

Risk identified	Background	Conclusion from work performed
Management override of controls	<p>There is a risk that controls can be circumvented by those in positions of management or governance, with a view to manipulating accounting records.</p> <p>Under ISA (NZ) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', management override of controls is a presumed significant risk, upon which material misstatement could occur within the financial statements.</p>	<p>We found no evidence of management override of controls giving rise to material misstatement.</p> <p>Any deficiencies in internal controls that we have identified have been reported in the overall result section within this report.</p>
Revenue recognition: Material misstatement due to fraud or error	<p>Under ISA (NZ) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', misstatement of revenue due to fraud or error is a rebuttable presumed significant risk upon which material misstatement could occur within the financial statements.</p>	<p>We documented and tested those financial statements areas where there might be the motivation or opportunity for misstatement of revenue due to fraud and or error. We considered whether there was any indication of such activity.</p> <p>Nothing untoward was identified from our work performed.</p>
COVID-19 and Going Concern	<p>With the outbreak of the COVID-19 pandemic, widespread effects are expected to be felt on the business activities of many schools, adversely affecting their financial results and position and sustainability.</p> <p>These effects might include, but are certainly not limited to, the following:</p> <ul style="list-style-type: none"> • Reduced locally raised funds (e.g. community grants, international student fees, fundraising income); • Increased cleaning expenditure; • Purchases of new IT equipment (e.g. devices and modems) and personal protective equipment; • The recoverability of accounts receivables. <p>The financial statements are ordinarily prepared on a going concern basis, the validity of which depends on the organisation meeting its targets and being able to meet financial obligations as they fall due.</p>	<p>We:</p> <ul style="list-style-type: none"> • Evaluated your assessment of the impact that COVID-19 might have on your School's activities • Reviewed your budget (and as appropriate the cash flow forecast) together with key documented assumptions and notes, for the foreseeable future (12 months from the expected signing date of our audit opinion) <p>Assessed the validity of the going concern basis of preparation of the financial statements.</p>

Risk identified	Background	Conclusion from work performed
Locally Raised Funds income	<p>Due to the nature of locally raised funds, often being cash, there is a risk of material misstatement around the completeness of locally raised funds income.</p>	<p>From our audit procedures performed, which include analytic review incorporating margin analysis, and reviewing supporting documentation, we found no exceptions regarding locally raised funds income and the related expenses in the financial statements.</p>
Novopay errors	<p>From the reports on Schools, the Ministry of Education and the OAG have identified that there continues to be some errors made in the processing of payroll nationally since the change to Novopay. Accordingly, there is a risk of material misstatement.</p>	<p>In accordance with our instructions from the OAG we have performed significant additional audit testing in relation to Payroll in response to the highlighted risk of material misstatement. Our analytic review and detailed testing did not reveal any significant exceptions, and we were able to take assurance over the completeness, existence and accuracy of payroll expenses.</p>
Cyclical Maintenance Provision	<p>Cyclical Maintenance is an area of judgment and complexity that could lead to material misstatement in the financial statements. For schools to be able to calculate the appropriate cyclical maintenance provision a 10 Year Property Plan (10YPP) needs to be prepared and/or reviewed and updated by an expert at timely intervals.</p>	<p>From our audit procedures performed we had not identified material misstatement in the provision for cyclical maintenance in the financial statements.</p>

Other reporting matters

Management judgements and estimates

Under ISA (NZ) we have a responsibility to ensure that you have been informed about the process used by the School in formulating particularly sensitive accounting policies, estimates, assumptions or valuation judgements.

The most significant areas of judgement, assumptions and estimates applied by management relate to:

- Provision for cyclical maintenance, and cyclical maintenance expense

We are not aware of any other sensitive accounting estimates, assumptions or valuation judgements made in the preparation of your School's financial statements.

Matters requiring input by those charged with governance

We have placed reliance on the governing body's review and approval of the following matters:

- Minutes of Board meetings;
- Management accounts;
- Implementation of such controls as is needed to ensure that the financial statements are presented fairly;
- Notification of fraud;
- 2020 and 2021 budgets
- The 10 Year Property Plan (Cyclical Maintenance Plan); and
- The financial statements.

Materiality and adjusted and unadjusted differences

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 for evaluating the financial statements. Materiality is initially calculated at the planning stage and has an influence on the amount of work we do, as well as where we direct our audit efforts. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.

For any material misstatements which we may have identified and requested adjustment of within the financial statements, please refer to Appendix 1: Adjusted and Unadjusted differences.

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.

Going concern

Management and governance are required to make a formal assessment on going concern. Under Auditing Standards, we are required to review this assessment for appropriateness.

Paragraph 15 of ISA (NZ) 570 (Revised) states:

15. *The auditor shall enquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern.*

The assumption of going concern was concluded as appropriate.

Fraud

During the audit, no matters relating to fraud, concerning either employees or management, have come to our attention in respect of the School. It should be noted that our audit is not designed to detect fraud however, should any instance of fraud come to our attention, we will report this to you.

Compliance with laws and regulations

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.

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.

Novopay

We appreciate the issues created for the School by the introduction of the Novopay pay system in 2012. While this has created many issues at an administration level, for audit purposes we are required to be able to conclude the payroll expense recognised in the financial statements is materially correct.

The auditor of the Ministry of Education has reviewed your staff annual accrual report (SAAR) and concluded that we may be able to rely on it for the purposes of our audit. In addition the Principal and Chair have reviewed this report and while acknowledging it may not be perfect, in substance it was found to be materially correct.

While we have relied on the work of the Ministry's auditor in conjunction with the Principal's and Chair's assertions we have performed other procedures to gain the assurance we need that payroll is not materially misstated. We had performed:

- review of internal control procedures around the fortnightly payroll reports
- a reconciliation of the payroll per the general ledger and the financial statements to the Staff Annual Accrual Report (SAAR)
- a review of the schedule "Schools Detailed Leave Liability and Error Schedule Reports" for material items impacting on the financial statements
- existence testing on a sample of employees
- an analytic review by staff member for a sample of employees
- an analytic review of the reasonableness of the expense in aggregate; and
- disclosure checklist review around payroll are consistent with the guidance provided by the OAG.

Given the procedures above we are satisfied the payroll is materially correct for your School.

Significant difficulties encountered

There were no significant difficulties encountered during the audit process. We have received full and frank cooperation. There is nothing we wish to raise solely with those charged with governance.

The financial statements, supporting accounting work papers and other information were supplied to us at the outset of the audit.



AUDIT FINDINGS – THE
OVERALL RESULT

Audit findings – the overall result

Summary of findings

To enable management to set priorities on their action plans we have assessed our findings on the following basis, namely, critical, high, moderate, and low based on our assessment of the importance of each finding. Classifications of findings are detailed in Appendix 2: Finding ratings.

These findings and recommendations have been provided to the School's management for comment.

There have not been any other significant matters arising during the audit that were discussed, or subject to correspondence with management, that have not otherwise been set out in this report.

	Critical	High	Moderate	Low
Number of findings	-	-	-	-

Provided below is a summary of key findings:

Item no	Findings and recommendations	Rating
-	-	-

A detailed assessment of each finding is presented in the following pages.

Appendix 1: adjusted and unadjusted differences

Adjusted differences

The following differences were identified arising from the audit that have been adjusted in the financial statements at our request.

Description	Assets	Liabilities	Equity (Reserves)	Net Surplus / (Deficit)
	\$	\$		\$
Net surplus/(deficit) for the year	1,657,069	238,726	1,418,343	(27,046)
Net effect of adjustments made:	-	-	-	-
Final net surplus/(deficit) for the year	1,657,069	238,726	1,418,343	(27,046)

We had also identified a small number of presentation differences and differences in the statement of cash flows arising from the audit that have been adjusted in the financial statements at our request.

Unadjusted differences

There were no unadjusted differences at the conclusion of the audit.

Appendix 2: finding ratings

The following framework for ratings has been developed to facilitate discussion with the School's management in order to prioritise issues according to their relative significance.

Rating	Definition
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.

Appendix 3: update on findings from previous years

Topic / issue	Description and recommendation	Update	Management's comment
<p>Budgeting</p> <p>2018 Report to the Board</p>	<p>Within the School's 2018 Budget the following areas that do not appear to have been considered and budgeted appropriately:</p> <ul style="list-style-type: none"> • Activities revenue under-budgeted by \$48k • Activities expenses under-budgeted by \$52k • Interest earned under-budgeted by \$15k <p>Upon review of the 2019 budget we note that the under-budgeting practice appears to have been repeated.</p> <p>Without a reasonably complete and reliable budget, it's makes it difficult for the Budget to be used as an appropriate tool to track the school's spending and working capital position throughout the year.</p> <p>We recommend that the school tighten up the budgeting process to ensure all line items are considered and reasonably budgeted for in line with the school's expectations.</p>	<p>We commend you for implementing this.</p> <p>This matter is now resolved.</p>	

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your nearest firm.



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