

**Gulf Harbour School**  
**Audit Management Letter**  
Year Ended 31 December 2018

30 May 2019

The Chairperson  
Gulf Harbour School

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

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

Dear Chairperson

**Management Letter – Year Ended 31 December 2018**

We have completed our audit of the financial statements of Gulf Harbour School for the year ended 31 December 2018, 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  
                          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 Gulf Harbour School ("the School") for the year ended 31 December 2018. 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**

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

## **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.

Additional guidance were issued in the 2018 financial year relating to overseas trips, refer to FISH Appendix C for more information. Also refer to the School Bulletin for School Leaders Issue Number 94 dated 30 July 2018 relating to gifts.

### **Income**

The MOE has issued guidance on receiving funds from parents. We attach as Appendix I a diagram from the MOE which documents by category. For example, schools can only request a donation for school camp where attendance is part of the schools total curriculum and can not exclude students due to inability or unwillingness to pay.

We have included as Appendix II comments regarding Completeness of Income, Receipting Cash and Segregation of Duties. We recommend you consider these items in respect of the operations at your school and have management report to you on how they manage these matters.

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

As part of the audit we have identified two 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: Annual Library Stocktake***

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

- Your school did not perform a full count of library resources at year-end.
- 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 2: 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.

**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.

We note that your 2017 Annual Report was only published after we reminded you as part of the 2018 audit. This does not allow for proper accountability to your community. The failure to publish your Annual Report on your website is a breach of section 87AB of the Education Act 1989.

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

We have not noted any inconsistencies in the other information included in the Annual Report.

**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.

**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.

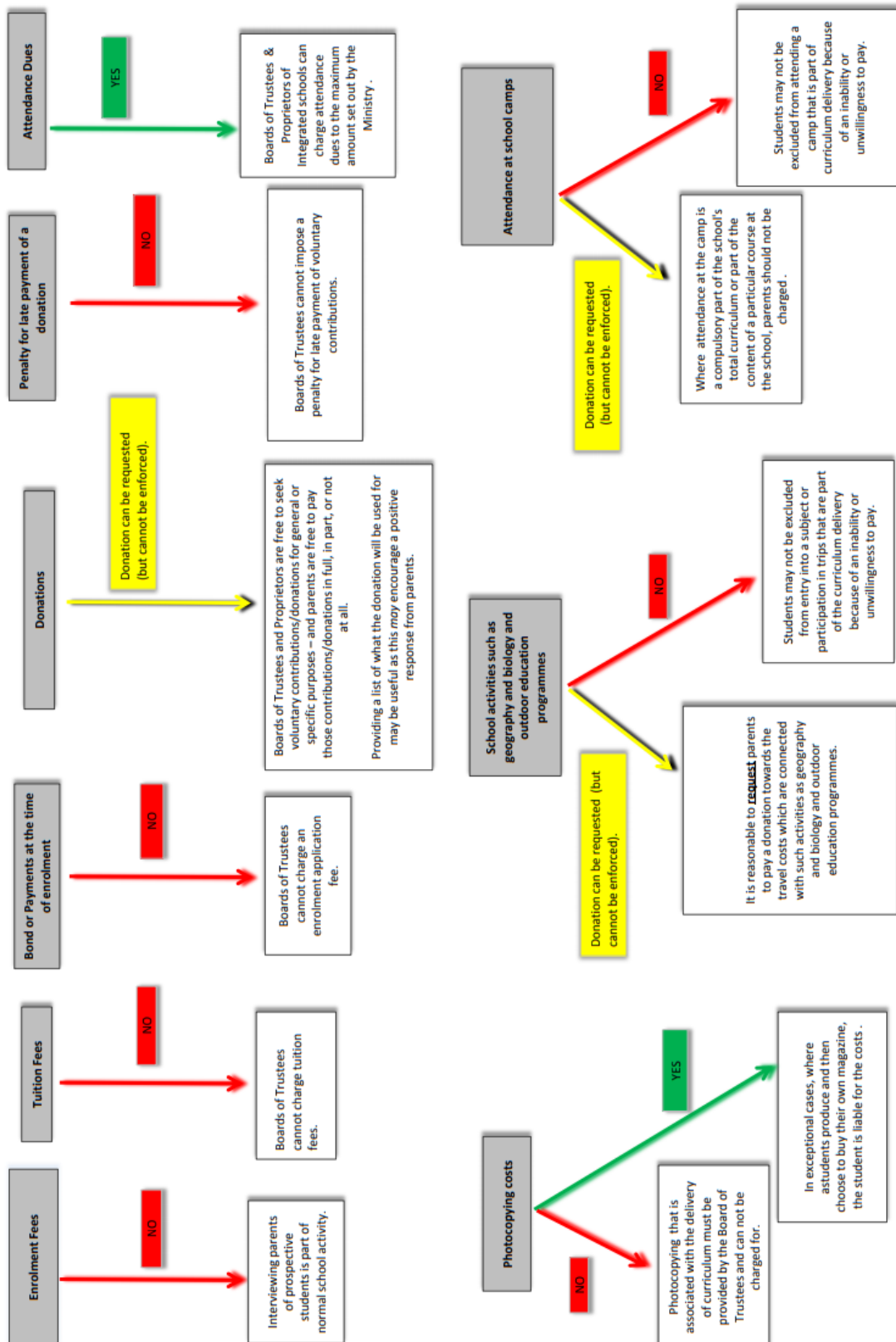
The matters raised in this report are only those that came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be 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.

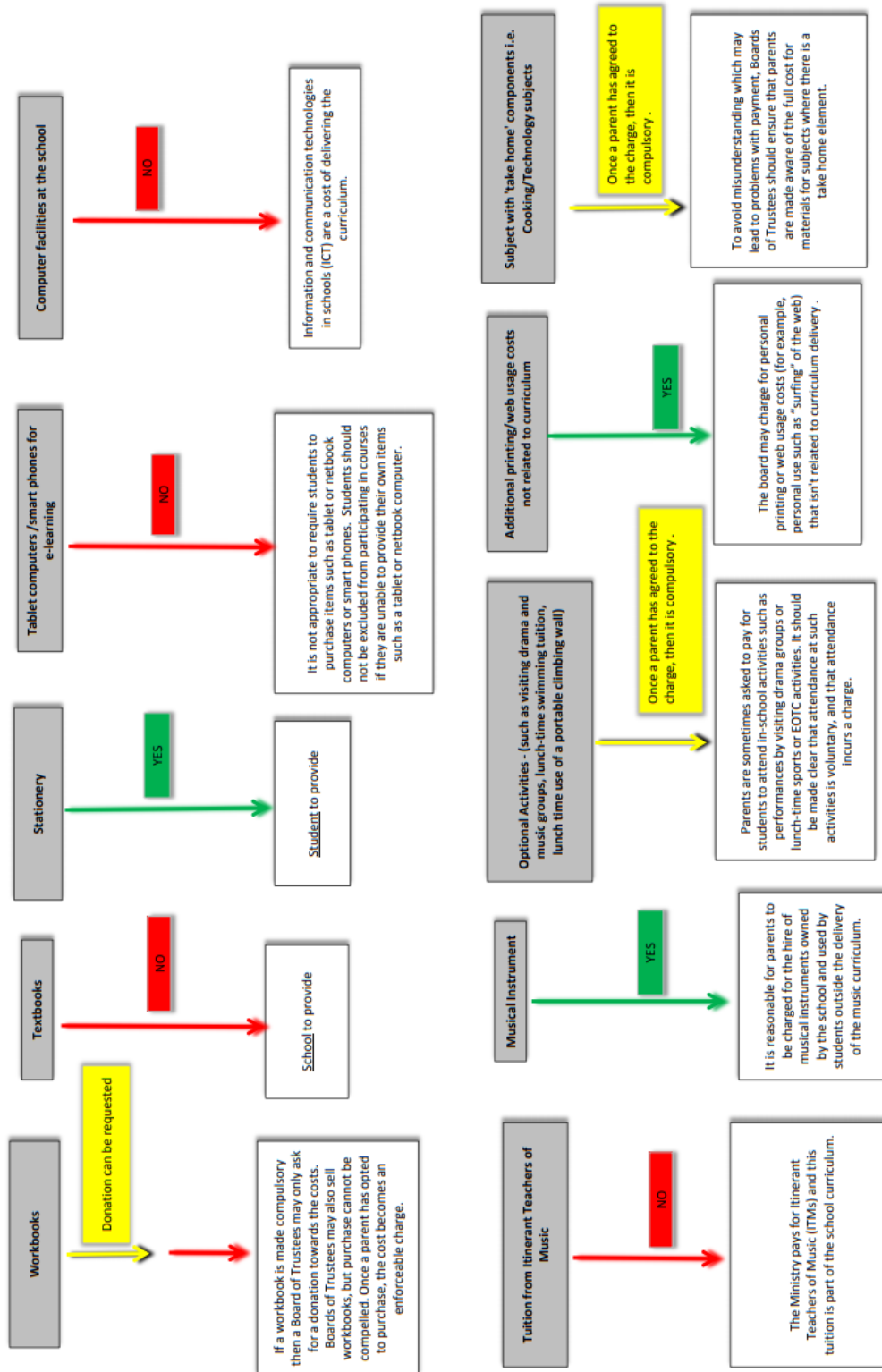
Accordingly, management and the Board should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed, or potential instances of fraud that may exist. Our comments should be read in the context of the scope of our work. Findings within this report may have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

Fees and Donations in Schools - Compulsory/Not Compulsory Flowchart







## **APPENDIX II**

### **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**

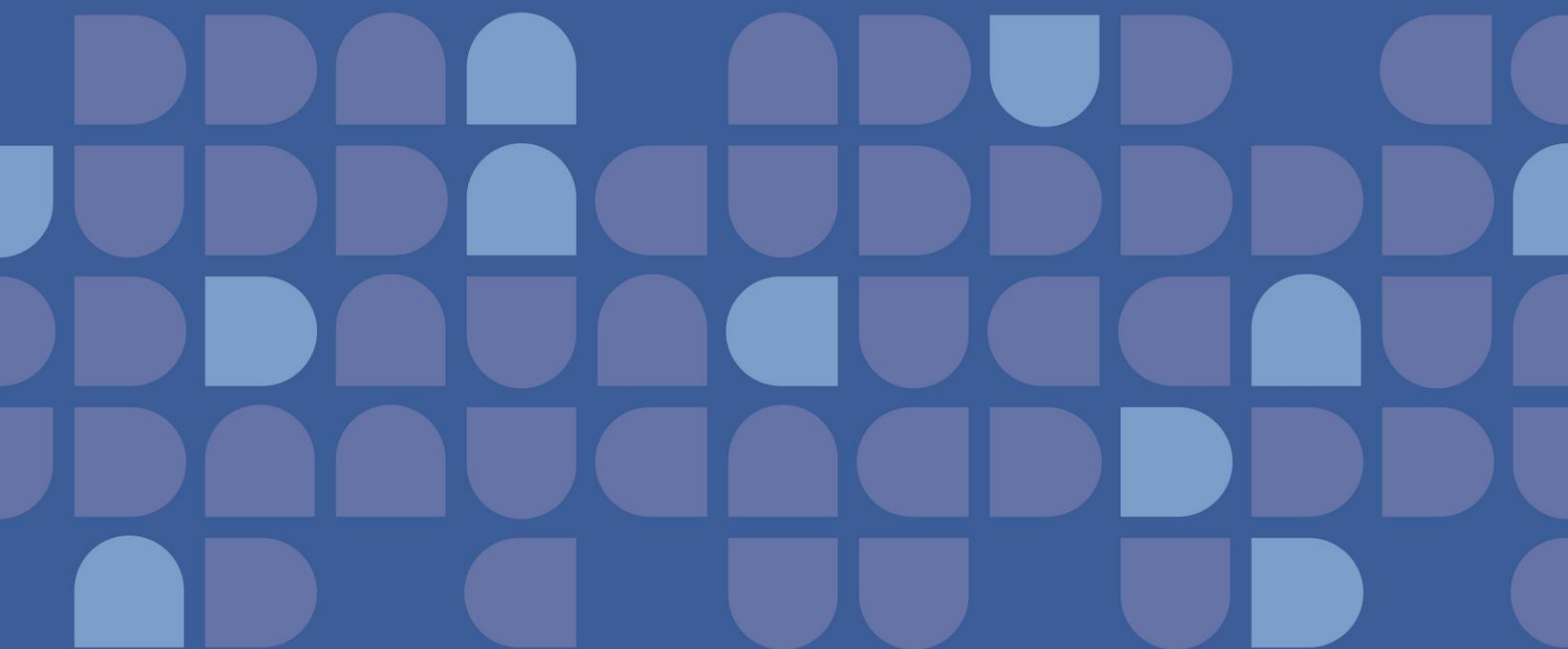
Segregation of duties in the finance function is a key component of internal control and reduces the inherent risk of fraud. At primary schools, it is often that portions of the day-to-day accounting functions are solely under control of one person. We appreciate that it is difficult to segregate these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

### **RECEIPTING 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 in which case other controls are required.



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Lives.*

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