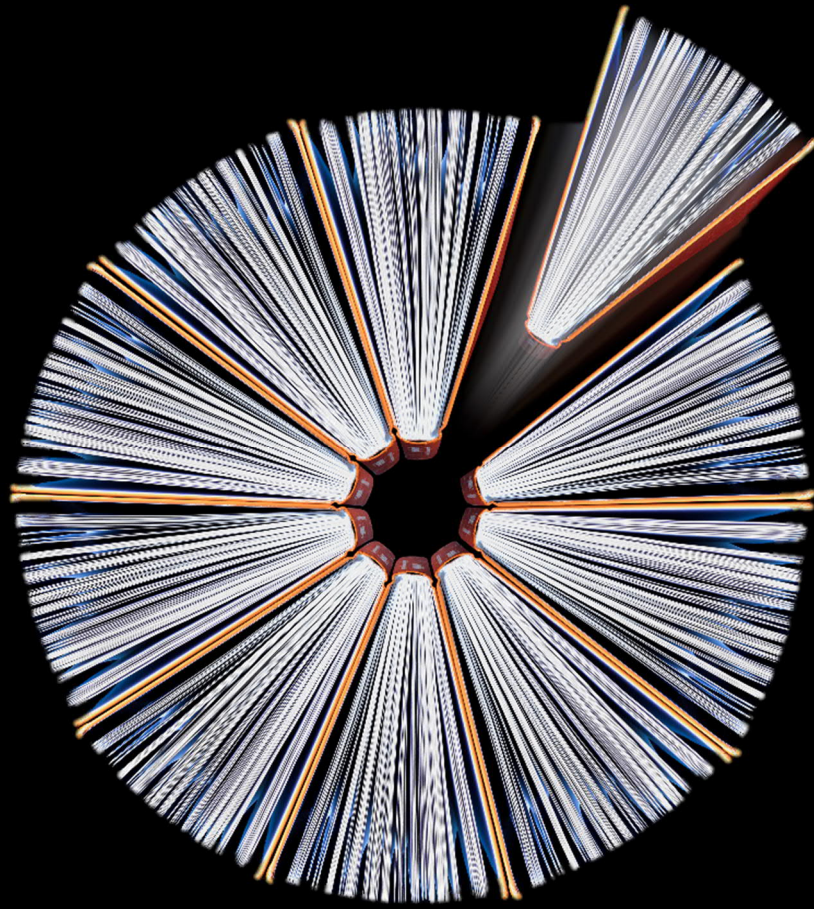


**Deloitte.**



Halfway Bush School  
Report to the Board of Trustees for  
the year ended 31 December 2018

29 May 2019

The Board of Trustees  
Halfway Bush School  
54 Ashmore Street  
DUNEDIN 9010

Dear Chairperson

Report to the Board of Trustees for the year ended 31 December 2018

In accordance with our normal practice, we include in the attached report all matters arising from our audit of the financial statements of Halfway Bush School for the year ended 31 December 2018 which we consider appropriate for the attention of the Board of Trustees ("the Board"). These matters have been discussed with management of the School and their comments have been included, where appropriate.

Should you require clarification of any matter in this report please do not hesitate to contact us.

This correspondence is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business dated 5 November 2018 and as required by the Auditor-General's auditing standards and the New Zealand auditing standards. This report includes only those matters that have come to our attention as a result of performing our audit procedures and which we believe are appropriate to communicate to the Board. The audit of the financial statements does not relieve management or the Board of their responsibilities. The ultimate responsibility for the preparation of the financial statements rests with the Board.

We have prepared this report solely for the use of the Board and it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy without our prior written consent, we would not accept responsibility for any reliance that they might place on it.

We would like to take this opportunity to extend our appreciation to management and staff for their assistance and cooperation during the course of our audit.

If you would like to discuss any matters raised in this report please do not hesitate to contact us.

Yours faithfully



Heidi Rautjoki  
Deloitte Limited  
On behalf of the Auditor-General  
Dunedin, New Zealand

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## 1. Purpose of report

This report has been prepared for Halfway Bush School's Board of Trustees and is part of our ongoing discussions as auditor in accordance with our engagement letter and master terms of business dated 5 November 2018 and as required by the Auditor-General's auditing standards and the New Zealand auditing standards. This report includes only those matters that have come to our attention as a result of performing our audit procedures and which we believe are appropriate to communicate to the Trustees. The ultimate responsibility for the preparation of the financial statements rests with the Board of Trustees.

## 2. Scope

We are responsible for conducting an audit of Halfway Bush School for the year ended 31 December 2018 in accordance with New Zealand auditing standards issued by the New Zealand Auditing and Assurance Standards Board and the Auditor-General's auditing standards. Our audit is performed pursuant to the requirements of the Public Audit Act 2001, with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Board of Trustees. The audit financial statements does not relieve management or the Board of Trustees of their responsibilities.

## 3. Areas of focus and audit findings

Our audit procedures were focused on those areas of Halfway Bush School's activities that are considered to represent the significant risk areas identified during the risk assessment process undertaken during the planning stage of our engagement. Provided below is a summary of these areas of focus and our audit findings in respect of each matter following the completion of our audit. We are satisfied that these areas have been addressed appropriately and are properly reflected in the financial statements.

Focus Area	Response
<p>Responsibility of Fraud</p> <p>You may have seen media coverage over the past year relating to a number of school frauds nationally.</p> <p>In our experience, these had arisen from:</p> <ul style="list-style-type: none"> <li>• a lack of control over receipts to the school, particularly relating to activities funding; and</li> <li>• a lack of strong approval and bank payment controls for school suppliers, in particular where capital works were being undertaken.</li> </ul> <p>The primary responsibility for the prevention and detection of fraud rests with the Board of Trustees.</p>	<p>We have inquired as to how the Board exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks.</p> <p>If you would like further guidance around fraud prevention, the Ministry have published a model policy on Theft and Fraud Prevention in its Financial Information for Schools Handbook (FISH). However, having a fraud policy is not enough if it is not used as a basis for training or to regularly remind staff that fraud is unacceptable.</p> <p>We would also like to remind the Board that cyber-fraud is becoming more relevant. The Ministry have provided guidance on their website on cyber-safety which we encourage the Board be familiar with.</p>
<p>Locally raised funds</p> <p>Locally raised funds has continued to be a focus area because there is a risk that not all cash received is recorded. Although schools may have a process to record cash receipts, the risk of misappropriation is high if there are limited segregation of duties in place.</p>	<p>As part of our audit procedures, we have:</p> <ul style="list-style-type: none"> <li>• Assessed the design and implementation of internal controls surrounding all material revenue streams; and</li> <li>• Performed testing on these balances including analytical procedures.</li> </ul> <p>No issues were noted in this area.</p>
<p>Payroll</p> <p>As in previous years, payroll related issues linked to Novopay continued to be a focus area for auditors.</p> <p>We obtained reports from the Office of the Auditor General (through the audit assurance work performed by E&amp;Y) which aided us in completing our audit of the payroll balances.</p> <p>Key information obtained included:</p>	<p>We understand that these reports are made available to the school along with instructions on how to understand them.</p> <p>We have followed up on any exceptions identified as well as any differences to amounts recorded by the school. We would also continue to encourage you to follow up on any perceived errors as soon as practical.</p>

- user access to Novopay;
- payroll accruals
- leave liability reports; and
- exception reports where E&Y identified exceptions in the payroll system.

We have completed testing around the high level controls around payroll as well as ensuring that the payroll balances were not materially misstated in the financial statements.

At the end of 2018 your school had a banking staffing deficit of \$15,758.

This was an audit adjustment corrected in your financial statements.

The impact of this adjustment is your schools deficit for 2018 was increased to \$15,758 and also impacted negatively on your school's working capital.

We note from a cash flow perspective such a deficit will be deducted from your 2019 operating grant and it is important that the Board monitor this situation closely during 2019 and take action to curtail expenditure and/or generate additional revenue wherever possible.

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#### Cyclical Maintenance Provision

A requirement by the MOE is that all schools have a legal obligation to provide an estimate of the costs related to cyclical maintenance.

The estimate of these costs have been recorded in the financial statements as a cyclical maintenance provision; this is what the expected future costs will be to paint the interior and exterior of the school and in some cases the resealing of car parks. This would span over a number of years.

We note that the school does not have a current 10 year property plan (the latest plan is dated 2015, outside the required three year period required by the MOE).

We note that the costs included in the 10 year property plan, should also be assessed on a regular basis to ensure they reflect current prices. We would deem a review every three years as reasonable.

Deloitte recommends that a 10 year property plan, and included cyclical maintenance provision, be finalised as soon as possible.

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#### Sensitive Expenditure

Being a public sector entity, we are required to perform specific work on behalf of the Office of the Auditor-General around areas referred to as sensitive expenditure.

In performing the audit we have:

- Ensured that policies are current and have been appropriately authorised.
  - Reviewed various expenditure by the Principal and the Board against supporting tax invoices, other documentation and relevant policies and approval guidelines.
  - Reviewed other sensitive areas such as travel, entertainment and credit cards against supporting tax invoices, other documentation and relevant policies and approval guidelines.
  - Discussed with the Principal and Chair of the Board about fraud processes and policies and enquired whether they had any knowledge of
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any suspected or identified fraud occurring during the year.

- Reviewed Board and Principal remuneration against MOE approvals and limits.

We noted from our testing that the current financial policy is out of date (2015). We recommend that this is reviewed and updated as necessary by the Board on an annual basis.

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## Office of the Auditor-General (“OAG”) audit brief matters

As you are aware our audit is completed under contract from the OAG and annually we are asked to specifically consider certain potential matters of interest.

Areas of focus this year remain similar to previous years including:

- classification of associated entities such as fundraising trusts;
- overseas travel
- sensitive expenditure;
- financial difficulty risk factors; and
- legislative compliance.

Our audit procedures considered these matters as relevant and in accordance with OAG expectations.

The MoE has issued specific guidance on the approval of overseas travel which may be of assistance to Board processes in this area. Where significant the Board is required to disclose overseas travel separately.

No issues were noted in this area.

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## Publishing Annual Reports on-line

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.

We note that you did not publish your 2017 Annual Report on your website. 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.

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.

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## Going Concern

We note the financial statements report a working capital deficit of \$27,870.

In response to this, we have written to the Ministry of Education to seek confirmation of continued funding to ensure the school can continue to operate as a going concern.

The Ministry confirmed via letter dated 20 May 2019, that they would continue to support the school and indicated the going concern accounting treatment is appropriate.

We recommend the school continues to work closely with the Ministry of Education in order to improve the financial position of the school.

The Board will need to carefully manage costs throughout the year. Regular reporting and monitoring of expenditure will help the Board to maintain visibility over costs and reduce the operating deficit.

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## 4. Assessment of internal controls

Our audit approach requires us to obtain an understanding of an entity's internal controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error but is not designed to provide assurance as to the overall effectiveness of controls operating within the School.

We would like to remind the Board of Trustees that it is their responsibility to ensure that there are appropriate policies, procedures and segregation of duties in place with regard to internal controls in particular around cash transactions. The risk of fraud and error occurring is particularly heightened around cash as this is an area where fraud can go easily undetected.

As is the case for many schools, the number of people involved in the administration and accounting functions is very limited. This brings with it an increased inherent risk that errors and omissions may occur and go undetected.

The inherent risks relating to income are greatest in relation to the receipt and recording of Local Raised Funds, Donations etc., and there are limited audit procedures we can adopt to ensure all money that should be received is properly accounted for.

Payment risks in relation to school costs and casual payroll are greatest through the small number of staff available to approve and process payments and typically some admin staff are involved in both of these functions.

It is important that you are aware of these risks as it is your responsibility to ensure the school's internal controls operate effectively and that the resultant financial statements are accurate. You should ensure that sufficient oversight is exercised by the Board or a delegated nominee on a regular basis in order to reduce the likelihood of error or omission to a level that the Board is comfortable with.

In performing our audit for the year ended 31 December 2018 we have not identified any significant deficiencies in internal controls which would impact upon our ability to provide our opinion on the financial statements for the year ended 31 December 2018.

Observation	Recommendation
<p><b>Expenditure Approval</b></p> <p>The Office Administrator authorises the Principal's expenditure for payment. Both the Principal and Office Administrator also have the ability to release payments within the online banking system.</p> <p>The lack of segregation of duties implicates a risk that inappropriate payments could be made.</p>	<p>Given the low number of staff at the school, we recommend that a list of all approved expenditure is taken to the monthly Board meetings for Board members to regularly review.</p>

## 5. Other communications

The following matters relevant to our audit of Halfway Bush School for the year ended 31 December 2018 are communicated in accordance with the requirements of New Zealand auditing standards.

Matter to be communicated	Response
Written representations	A copy of the representation letter to be signed on behalf of the Board of Trustees has been circulated separately.
Non-compliance with applicable laws and regulations	We did not become aware of any instances of non-compliance with applicable laws and regulations that may have an impact on the determination of material amounts and disclosures in the financial statements.
Fraud	<p>The primary responsibility for the prevention and detection of fraud rests with the Board of Trustees, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.</p> <p>As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</p> <p>ISA (NZ) 240 The auditor's responsibility to consider fraud in an audit of financial statements requires us to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks.</p> <p>No matters relating to fraud, concerning either employees or management came to our attention.</p> <p>If you do suspect or become aware of any fraud, please contact Heidi Rautjoki to discuss further. We are then required to notify the Office of the Auditor General.</p>
Accounting policies and financial reporting	<p>There were no changes in accounting policies during the year ended 31 December 2018, other than the early adoption of PBE IFRS 9 Financial Instruments.</p> <p>We have not become aware of any significant qualitative aspects of the school's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures that need to be communicated to the Board, other than those already communicated in this report.</p>
Related parties	No significant related party matters other than those reflected in the financial statements came to our attention that, in our professional judgement, need to be communicated to the Board.
Other information	As at the date of preparing this report we have not yet read the other information (the financial and non-financial information other than the financial statements) contained within the annual report. If when doing so we identify any material inconsistencies, we will bring them to your attention.



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