



Opawa School

# Auditor's Report to the Board

31 December 2021

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5 July 2022

Opawa School  
30 Ford Road  
**Christchurch 8023**

Attention: Fiona Platt

Dear Board Members

**Annual Financial Statement Audit for the Year Ended 31 December 2021**

We have recently completed our financial statement audit of Opawa School (the "School") for the year ended 31 December 2021, 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**

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# 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 2021 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 2021 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

The Board is responsible for the preparation and fair presentation of the financial statements which fairly reflect the financial position of the School as at 31 December 2021 and the financial performance for the year ended on that date.

To meet this objective, the Board is 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 2021.

## 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.

For the 31 December 2021 audit the materiality level was set at \$84,631. We consider that the cumulative and individual effect of all balances and movements above materiality to be significant.

## 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 reviewed the reliability of the accounting controls and systems for each significant revenue stream.</li> <li>▪ We verified a sample of revenue transactions from underlying documents to the general ledger and bank statements.</li> <li>▪ We analytically reviewed locally raised funds revenue categories against budget and prior year.</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> <p>The cyclical maintenance provision does not contain all obligations of the school and does not reflect management's best estimate.</p>	<ul style="list-style-type: none"> <li>▪ We reviewed the calculation of the School's provision for cyclical maintenance and its 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 together with recommendations for management to consider, to further strengthen the internal control environment of the School. These include any observations and recommendations arising from prior year audits that have not yet been satisfactorily resolved, or still require further attention of the Board.

### 1.6.1 Controls over Creditor Masterfile

#### Observation

We have observed separation of duties between the staff member who creates and updates creditor details and the staff member who checks all creditor details are correct. This is however a manual process, can be time consuming and can be further enhanced using available technology.

#### Impact

There is a risk that payments may be made to incorrect bank accounts.

#### Recommendation

We recommend utilizing the History and Notes function in Xero to create a monthly creditor masterfile changes list, and have this list reviewed by the finance officer and principal. This can significantly reduce the time that would have taken to conduct this review manually.

The changes list can be accessed in Xero by following these steps

- going to the Accounting tab and selecting Advanced
- select the History and notes feature
- select Date Ranges
- under the Item drop down box, select Contact

This will produce a report of all changes to creditor files that can be printed and reviewed in one glance.

#### Management Comments

*I have looked at this list and it is going to be extremely helpful. We have been updated our suppliers GST numbers and their GST status from the 12<sup>th</sup> of April 2022.*

### 1.6.2 Budgeting (first raised 2017)

#### Prior year observations

We noted that no budget figures were included for use of land & buildings and teachers salaries grant and expenditure. We also noted that the school did not budget for trading activities income and expenditure.

The Board and management will not be able to accurately track actual revenue and expenses in the year against budget if the budget is not accurately prepared.

#### Prior year recommendation

We recommend that management account for all expected income and expenditure when preparing the annual budgets.

**Prior year management comments**

*We will arrange for our accountant to add in the teachers salaries and the land and buildings into 2021 budget.*

**Current year observations**

Changes have yet to be actioned in the 2022 budget that we received for the current year audit. We acknowledge 2021 was a challenging year from a workflow and resourcing perspective, and look forward to reviewing the School's 2023 budget in our next audit.

**Management comments**

*We have spoken to our accountant and these figures will be placed in the 2023 budget.*

**1.6.3 Goods and Services Tax (GST) (first raised 2018)****Prior year observations**

We noted that sometimes GST was incorrectly claimed on zero-rated and exempt transactions, and at other times underclaimed on qualifying transactions.

**Prior year recommendation**

We recommended that net GST portions or those transactions identified be adjusted.

We also recommended that the correct GST settings be selected at the time a supplier invoice is entered into Xero, to minimize subsequent need to adjust GST returns.

**Prior year management comments**

*We will be more mindful with GST going forward.*

**Current year observations**

During our review of the #1040 Other MoE/Govt Grants, we observed the bulk funding payment of \$21,322.39 for PP142022 had been Debited to this account instead of the appropriate Salaries accounts. This incorrect coding resulted in GST being claimed. The GST that should, in theory, be returned to IRD is at least \$2,781.18.

There are three options available as follows:

- Do Nothing – If no action is taken you run the risk of the Inland Revenue assessing late payment penalties plus compounding monthly interest. Shortfall penalties may also be payable for not taking reasonable care. This may be reduced if a voluntary disclosure has been made and previous good behaviour is also assessed e.g. filing tax returns on time, paying tax on time etc.
- Amendment in the next Return – If the adjustment is included in the next return the penalties, as discussed above, will only be crystallised if discovered by Inland Revenue. Any shortfall penalty could potentially be reduced due to timing difference.
- File Reassessments – If a reassessment is filed the penalties are crystallised immediately. Any shortfall penalty could be reduced for voluntary disclosure.

In our opinion, option 1 is not viable since the contingent tax liability will only continue to grow. With option 2 the immediate cash flow is minimised, but there is still the risk that the Inland Revenue will impose interest and late payment penalties based on the original due dates. Any shortfall penalty could be reduced at Inland Revenue's discretion.

If you want complete certainty then a voluntary disclosure would achieve this. The downside is that the interest and late payments penalties would definitely be crystallised.

**Management comments**

*I have spoken to our accountant and he made the adjustment in the annual accounts. This amount will be added into the next GST return as a late return.*

#### 1.6.4 Budgeting for a deficit

The Board prepared and approved a deficit budget for 2022 year.

We were concerned that continued deficit budgeting, if achieved, will reduce school equity. Although deficit budgeting may appear to be warranted when preparing the budget for a particular year, we urged caution in using this approach because it is unlikely to be sustainable.

##### **Recommendation**

We recommended that the Board try to avoid deficit budgeting wherever possible, so the school budget reflects its ability for it to live within its means.

##### **Management Comment**

*Noted, our Principal and Board are aware of this. As you will be able to see we have a large amount of reserves. This year the board have decided to fund an extra teacher, which is needed in all areas of the school.*

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

## 1.7 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 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	There have been no significant accounting policies adopted or changed during the year.
Management judgements and estimates	Other than what has been disclosed in Section 1.5 no material accounting judgements identified.  Further disclosure in the financial statements has been included regarding the anticipated impact of COVID-19 on the School.
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

As a result of our audit procedures, the following adjusting journals were posted for the year ended 31 December 2021:

#	Description	\$				
		Balance Sheet		Income Statement		Profit Impact
		DR	CR	DR	CR	
1	To recognise MOE receipts for capital works	-	10,259	10,259	-	(10,259)
2	To correctly recognise Sport Canterbury Grant	-	-	12,000	12,000	-
3	To recognise Expenses related to capital works.	10,259	-	-	10,259	10,259
4	To correctly classify 5/10/2021 payroll bulk grant	-	2,781	21,322	18,541	(2,781)
5	To recognise Transpower Grant as revenue received in advance.	-	30,000	30,000	-	(30,000)
6	To recognise New Zealand Lottery and RATA foundation grants as revenue received in advance.	162,044	162,044	-	-	-
7	To Expense work performed replacing the membrane on the school pool.	197	31,485	31,485	197	(31,288)
8	To recognize iPad Lease.	8,217	8,183	685	719	34
<b>TOTAL</b>		<b>180,717</b>	<b>244,752</b>	<b>105,751</b>	<b>41,716</b>	<b>(64,035)</b>

We have communicated all amendments to financial statement disclosures that were identified during the audit and all have been updated in the financial statements.

#### 3.2 Unadjusted audit differences

In performing our audit for the year ended 31 December 2021, 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.