

Okains Bay School

EXTERNAL AUDIT PLAN

FOR THE YEAR ENDED

31 DECEMBER 2020



BDO



16 April 2021

Amour Ryan
Chair
Okains Bay School
cc. Principal

Dear Amour,

Audit Plan: Year Ended 31 December 2020

Please find enclosed our audit plan for your audit for the year ended 31 December 2020. The purpose of the report is to outline the audit arrangements and the responsibilities of Okains Bay School and BDO Christchurch.

We have highlighted the areas we have identified as risks and our planned audit approach. We ask the Board to review this and if there are any further areas you consider as risks of misstatement in the year-end financial statements we invite you to make contact with Warren Johnstone at warren.johnstone@bdo.co.nz - 03 353 5521 to discuss so we may incorporate them into our audit plan.

We would be grateful for your acknowledgement of this letter, together with any comments you wish to make.

Yours faithfully,
BDO Christchurch

A handwritten signature in black ink, appearing to read 'W. Johnstone', is written over a light blue horizontal line.

Warren Johnstone
Partner
Audit & Assurance Services

DDI: 03 353 5521
Email: warren.johnstone@bdo.co.nz

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1. EXECUTIVE SUMMARY

This report details the processes, findings and recommendations from our interim audit visit and the intended processes for our upcoming financial statements audit of Okains Bay School (the “School”) in accordance with the Auditor-General’s Auditing Standards which incorporate International Standards on Auditing (NZ), and the terms as set out in our engagement. It also serves to advise you of the intended areas of audit focus and invites the Board of Trustees to consider whether there are any further areas of risk they consider we should focus on as your auditors.

This report serves to advise you of any potential internal control improvements identified during the planning process and invites the Board to consider whether there are any controls in place we may not know about that would mitigate these weaknesses. Along with this, we give our recommendations on how to further improve the system of internal control for the School.

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

2. AUDIT SCOPE AND OBJECTIVES

BDO Christchurch (‘BDO’) is the Appointed Audit Firm of 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).

Our audit objectives are to:

- report on whether the financial statements give a true and fair view, 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 will document, test, and assess the controls supporting the School’s key transaction streams, and report any significant weaknesses.

3. AUDIT LOGISTICS

TIMETABLE

We are working to a default deadline of 31 May 2021 to have the audit completed and the School's financial statements signed with attached audit opinion. If you have an earlier deadline than this, for example a key Board of Trustees meeting that you would like to sign the financial statements at, please let us know this by March 2021 and we will endeavour to meet this if possible. Our audit scheduling priority will be given to those schools that return their quality financial statements and working papers to us prior to the statutory deadline of 31 March 2021. It is important that you coordinate with your Accounting Service Provider to ensure they have sufficient time to prepare these ready for audit.

We request you coordinate with the Board of Trustees to arrange for an appropriate financial statement sign off date, which might fall on a different date from Board of Trustees meetings.

PERSONNEL

The key members of our client service team are:

Audit Partner Warren Johnstone

Additional BDO staff will be appointed to the school audit to assist with the completion of the audit procedures.

SUBMISSION OF DRAFT FINANCIAL STATEMENTS AND WORKPAPERS FOR AUDIT

Section 7 of the Crown Entities Act 2004 specifies that schools governed by the Act are Crown entities as set out in the Public Finance Act 1989. Section 87 of the Education Act 1989 requires the school, as a Crown entity, to prepare annual financial statements in accordance with generally accepted accounting practice.

We require draft financial statements and completed working papers to be submitted to our office on the date advised in the audit timetable. Financial statements that are incomplete or lack appropriate accurate supporting working papers will be returned to the preparer for completion and the school audit will be delayed until the assigned school auditor becomes available. We therefore recommend that a quality check is carried out on the financial statements and working papers by the appropriate school personnel.

Financial statements and working papers that are returned to the preparer for completion prior to the commencement of the audit work may mean that your financial statements audit will be delayed until the school auditor becomes available. This might jeopardise the chance of audit sign off by the statutory deadline of 31 May 2021.

AUDIT FEES

Our audit fee is set out in our signed contract with the School.

Our fees are based on the following assumptions:

- you will provide us with four weeks' notice in advance of the specific date of your School's financial statements being available for audit, by completing and returning the Audit Timetable approved by the Principal and the Accounting Service Provider;
- you will provide us (at our office unless otherwise agreed) in a timely manner the complete information required by us to conduct the audit;
- you will advise us before the commencement of the financial statements audit of any changes in accounting treatment and classification that may have a significant impact on the financial statements. You will disclose to us the reason for, and impact on the financial statements;
- you will provide us complete information consisting of PBE IPSAS compliant financial statements together with systematically organised accounting working papers and reconciliations and certain other documents required by our Audit Requirements Checklist;
- your School's annual report and financial statements (including Analysis of Variance, Kiwisport, members of the Board), accounting workpapers and reconciliations and other documents required by our Audit Requirements Checklist will be subject to appropriate levels of quality review before being submitted to us for audit;
- your School's financial statements will include all relevant disclosures as per the MoE's 2020 Kiwi Park School model financial statements;
- your staff will provide us with an appropriate level of assistance in a timely manner;
- there are no significant changes to the structure and/or scale of operations of the School (other than as already advised to us); and
- there are no significant changes to mandatory accounting and/or auditing standards that require additional work.
- If the scope and/or amount of work changes, we will advise and discuss any issues with you, with a view to recovering additional fair and reasonable costs from the school.

COMMON DELAYS IN THE AUDIT PROCESS

School audits take considerable time to complete; we are committed to working in partnership with your school to achieve a turnaround time of four weeks. There are several common delays encountered during past school audits which inevitably translate to greater time and costs, these include:

- financial statements that are not finalised before being passed to us for audit;
- lack of or poor-quality working papers;
- school holidays and lack of considered response to our queries;
- non-responsiveness to our Audit Requirements Checklist; and
- Statement of Variance not being submitted with the financial statements.

KEY ISSUES FOR BOARDS TO CONSIDER IN RELATION TO THE ANNUAL FINANCIAL STATEMENTS

- Set a date for the School's AGM and agree on a timetable for the completion of the financial statements.
- Set a date for the Board of Trustees to meet to review and approve the financial statements prior to these being submitted for audit.
- At this meeting delegate the power to approve the financial statements to the Principal and Chairperson once audit adjustments have been made. This should be included in the minutes.
- Review and approve the year-end Salary Usage and Expenditure ('SUE') Report from Novopay. To carry out an effective review, check it for existence of employees, compare it to the prior year SUE Report, and seek explanations from management for any significant variances in staff salaries.

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

We have set out below areas we have identified as risks, and our planned audit approach. These are what we consider specific audit risks and are in addition to our standard audit testing of material financial statement areas. We ask the Board of Trustees to review this and if there are any further areas you consider as risks of misstatement in the year-end financial statements we invite you to make contact with your OAG appointed Audit Partner, to discuss so we may incorporate them into our audit plan.

LOCALLY RAISED FUNDS

Area of Audit Emphasis	Planned Response
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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.	Our audit procedures will include discussions with the Chairperson and Principal, to assess the control environment around local funds. We will complete Analytic procedures including a margin analysis and will request supporting documentation for significant amounts.
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PAYROLL NOT APPROVED OR CHECKED

Area of Audit Emphasis	Planned Response
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Payroll is processed by Novopay. The accuracy of payroll processing is dependent on appropriate approval of payroll changes and checking of the fortnightly SUE report.	Our audit procedures include detailed analytics, a reconciliation, employee existence testing, and review of the fortnightly SUE reports for evidence of approval/checking.
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MANAGEMENT OVERRIDE

Area of Audit Emphasis

There is a rebuttable presumption under the International Auditing Standards that there is a risk of management override.

Planned 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 is primarily through the processing of manual journals. We will use a risk-based approach to testing manual journals, and will focus on any areas where a risk of judgement, estimation or cut-off risk exists with management override in mind.

5. REQUIRED COMMUNICATIONS WITH GOVERNANCE

Matter	How the matter was addressed
Auditors responsibility under generally accepted auditing standards	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.
Confirmation of auditor independence	<p>In conducting our audit, we are required to comply with the independence requirements of the Code of Ethics issued by the Professional Standards Board of the Chartered Accountants Australia and New Zealand and 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 of Trustees, 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.• All services performed by any national BDO office will be reported to the board. <p>We have not provided any non-audit services to the School. We have no other relationship with or interests in the School and we confirm the independence of BDO and all members of the audit engagement team.</p>
Management judgements and estimates	<p>Under Auditing Standards, 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.</p> <p>The most significant areas of judgement, assumptions and estimates applied by management relate to:</p> <ul style="list-style-type: none">• Provision for Cyclical Maintenance and Cyclical Maintenance Expense <p>The school is in the Christchurch Rebuild Scheme and does not have a cyclical maintenance plan. We are not aware of any other sensitive accounting estimates, assumptions or valuation judgements made by the School.</p>

Matter	How the matter was addressed
Matters requiring board input	<p>So that you are aware, as part of our audit we will be placing 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;• Review and approval of management accounts;• Review and approval of 2020 and 2021 budget;• Notification of fraud; and• Review and approval of the financial statements. <p>In addition, towards the end of the audit we will be seeking a letter of representation from the Board of Trustees and the Principal. This will seek confirmation that appropriate accounting policies have been effectively applied, all statutory requirements have been met, all relevant legislation complied with and all material transactions have been included in the financial statements.</p> <p>As required by Auditing Standards we will present to both management and governance any errors identified during our audit testing that remain un-corrected in the financial statements that are greater than 'clearly trivial'. The clearly trivial threshold will be determined in accordance with our methodology. You will be required to approve any errors left uncorrected at the conclusion of the audit (should there be any).</p> <p>We will also report to management any weaknesses we may identify in internal control systems and procedures related to monitoring the prevention and detection of fraud and error. However, we remind the Board it remains the responsibility of those charged with governance for establishing and maintaining a system of internal control designed to reduce the opportunity for fraud through misstatement or misappropriation to occur in your School.</p>

Matter	How the matter was addressed
Governance and Accountability	<p>Good governance and accountability need and support each other and, if done well, enhance the public's trust in our public sector. Good governance encourages and can result in good accountability. In turn, accountability is a vital element of good governance.</p> <p>The Auditor-General has published a report, <i>Reflections from our audits: Governance and accountability</i>. This report reflects on common issues, and highlights examples of good and emerging practise, which public entities can use to help improve their governance and accountability arrangements. It also identifies eight elements of good governance and looks at some trends that present new challenges and opportunities for enhancing accountability.</p> <p>We encourage you to use the findings and examples in this report to consider your school's governance and accountability arrangements. This report is available on the OAG website at www.oag.govt.nz/2016/reflections.</p>
Accounting policies	<p>Auditing Standards require us to discuss with you the qualitative aspects of the School's accounting practices and financial reporting. The use of the Kiwi Park Model for 2020 is again compulsory.</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 for evaluating the financial report. 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.</p> <p>During our audit if we identify material misstatements, we will report them to you in our final report. If there are any unadjusted differences (none of which we consider material, either individually or in aggregate) we will also report these to you.</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>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.</p> <p>Paragraph 15 of ISA (NZ) 570 states:</p> <p>15. <i>The auditor shall enquire of those charged with governance as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern.</i></p> <p>We will make this inquiry of the Board of Trustees as part of the audit process.</p>
Fraud	During the audit, if any matters relating to fraud, concerning either employees or management, come to our attention we will report them to you. 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.
Compliance with laws and regulations	We will make enquiries in relation to compliance with laws and regulations during 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 during our interim visit. We will continue to consider legal and regulatory compliance throughout the audit engagement.
Significant findings from the audit	Other than those documented in the executive summary and section 6 of this report, there were no significant matters arising from the audit.
Disagreements with management	There have been no disagreements with management over matters of significance to the audit.
Difficulties encountered during the audit	There have been no significant difficulties encountered during the audit.
Consultations with other accountants and consultants	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.
Management representation letter	We have not requested specific representation from management in addition to those areas normally covered by our standard representation letter.

6. INTERNAL CONTROL, EMERGING ISSUES AND OTHER AUDIT FINDINGS

This section of the report sets out the key internal control findings we have identified during the audit and highlights control deficiencies requiring management attention. Our work has been limited to those controls relevant to the audit of your statutory financial statements. The purpose of our audit work on controls is not to provide assurance in its own right on the internal controls 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.

There were potential improvements in internal controls identified to bring to your attention.

Credit Card Authorisation		
Finding	Conclusion/Response	Rating
Credit Card Authorisation	<p>Credit card statements and the supporting invoices are to be reconciled together and signed off as approved by the Board Chair prior to payment being made.</p> <p>It was noted at the audit interim visit that the credit card statements for the months of September and May, including some of the supporting invoices had no formal approval.</p> <p>It is recommended that the Board Chair sign off on the monthly credit card statements to ensure all credit card transactions are formally approved.</p>	Moderate

7. UPDATE ON FINDINGS FROM PREVIOUS YEAR

Credit Card Authorisation	
Finding	Update
Credit Card Authorisation	An authorisation process has been designed and communicated to the BOT to authorise the monthly credit card statements. Further testing this year has identified this has not been effectively implemented, therefore has been raised again this year. Refer to internal control findings above.

High percentage of operations grant funding additional BOT funded wages	
Finding	Update
High percentage of operations grant funding additional BOT funded wages.	BOT have discussed this is the best way to get the maximum benefit to the students.

8. FINDINGS RATING

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.