



Timaru: 26 Canon Street | PO Box 58 | Timaru 7940
Tel: (64) (3) 687 7122 | Fax: (64) (3) 684 8558
Email: reception@martinwakefield.co.nz
Web: www.martinwakefield.co.nz

Christchurch: 4/29 Acheron Drive | PO Box 9404
Christchurch 8149 | Tel: (64) (3) 343 4012 | Fax: (64) (3) 961 1727

27 June 2018

The Chairperson of the Board of Trustees
Mountainview High School
Pages Road
Timaru 7910

Dear Chairperson

RE: AUDIT OF 31 DECEMBER 2017 FINANCIAL STATEMENTS

Please find enclosed your Financial Statements for the year ended 31 December 2017, together with an unqualified audit report.

You will need to send an electronic copy the Audited Annual Report to the Ministry of Education via the education portai.

Auditors Responsibilities

The Auditor-General is required to audit the Financial Statements presented by the Board of Trustees; to express an independent opinion on the Financial Statements, and to report that opinion to you. This responsibility arises from the Education Act 1989, and Section 15 of the Public Audit Act 2001. We have been appointed by the Auditor-General to undertake the Audit.

We conducted our audit in accordance with generally accepted auditing standards, including the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

In forming the audit opinion we conduct detailed tests of selected transactions and review the key controls in place to ensure the effective operation of the accounting systems and internal controls. As a service to ensure you receive maximum benefit from the audit we note our evaluation of your systems and highlight areas of possible weakness or where we believe improvements can be made. Our motive is to offer objective and constructive advice so that the accounting function and related control issues can be improved in the future.

Required communications

We are required by assurance standards to report specific matters to you as follows:

- We had no disagreements with management during our audit nor any serious difficulties in dealing with management.
- We have not identified any instances of fraud involving senior management, or any other frauds that caused a material misstatement of the financial statements
- We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.

- We reaffirm we are independent of your Board of Trustees, and that we have no relationship with your school that impairs our independence.

There are a number of matters arising and observations from the audit which we now bring to your attention.

Areas of Significant Audit Focus

We believe it is best practice to communicate with you as the governing body regarding matters which form an important part of our audit process. However, ultimately it is you, the governing body that remains responsible for your financial systems, internal controls and financial statements.

While the audit necessarily involves testing of your overall system of financial controls and reporting, we assessed some potentially significant risk areas in relation to your school. Accordingly we believe that they are important issues that should be of interest to you in your governance capacity.

In the case of your school the following are the areas and issues in the current year that we assessed as significant risk areas:

- Control over expenditure – internal policies and procedures for the authorisation of purchases, capture and retention of source documents, and budget management of those purchases.

We are pleased to advise that the audit testing of these assessed risk areas did not identify any significant issues or concerns other than the observations detailed below.

Modifications to our formal audit report

The audit report will include the following paragraph in relation to expenditure:

The School did not keep sufficient appropriate documentation to support all of the expenditure that was under the direct control of the Board of Trustees. This means that we have been unable to determine whether all of this expenditure has been properly incurred, correctly classified, and included in the correct financial year. Total expenditure under the direct control of the Board of Trustees is approximately \$1,081,865.

Our qualification does not include payroll expenditure paid through the Ministry of Education central payroll system of approximately \$3,930,798, notional lease costs on buildings owned by the Ministry of Education of approximately \$1,098,626 and depreciation of approximately \$73,471. We were able to verify the payroll, notional lease and depreciation expenditure by using other audit procedures.

Breach of Statutory Reporting Deadline:

Note 28, includes the mandatory disclosure for a breach of statutory reporting deadline, by disclosing this within the audited financial statements, we are not required to comment in the audit report, as the financial statements fairly reflect and disclose the breach.

Audit adjustments

As schedule of audit amendments is attached to this letter, this schedule is complete except for any additional amendments that result from the lack of control over the school's expenditure in 2017. Aside from those potential adjustments management believes that there are no unadjusted differences in the financial statements as a whole, we agree with this position.

Serious Financial Difficulty

The financial statements reflect a deterioration in your school's financial position.

The school made a deficit of \$90,115 from last year and working capital has fallen by \$32,262 to (\$10,452).

Because your school has no long-term investments or other available funds, this means that your current assets are exceeded by your current liabilities.

Because of concerns about the validity of the going concern assumption for the financial statements, the Ministry of Education have provided the school with a letter of support, stating that they will support the school for the foreseeable future.

We continue to recommend that the Board monitor this situation closely and take action to curtail expenditure and/or generate additional revenue wherever possible.

In the event that this is unaddressed during the 2018 year, the audit report in future periods may need to be amended to either an emphasis of matter or modification dependent upon the severity of the situation.

Accounting systems and controls

Internal control recommendations

During the Audit Partners site visit on Friday the 4th of May 2018, a number of concerns were raised by the Principal regarding ways in which internal controls can be improved going forwards. The recommendations are as follows:-

Suppliers paid 20th of the following month

It was noted that on a number of occasions suppliers were paid twice and that the standard internal control of entering the invoice number into the Musac creditor's module was insufficient to prevent this. Therefore, we advise that invoices from these suppliers should to be compared with the monthly supplier statement for three reasons

1. To determine that the EO has collected all invoices from that supplier for the one month period and that these have been approved by budget holders
2. To correctly identify and code any credit notes from those suppliers in relation to goods returned and charges refunded to the BOT
3. That the payment made by the BOT for the prior month is correctly reflected in the suppliers records as received in full.

We suggest a weekly collection of authorised invoices, so that invoices for payment due 7 days can be collected, collated and paid on time.

In the first week of every month all approved and disputed supplier invoices need to be provided to the EO's office for, entry into the creditor's module, comparison to suppliers' statements, and cut-off with goods delivered.

This should provide the EO with a minimum of 10 working days to prepare the schedule of creditors for approval by the Principal and BOT representative, set up the internet banking schedule for that payment on the 20th of the month and reconcile both schedules.

The final authorised internet banking schedule needs to be printed out and filed on-top of the matching creditors schedule and supporting invoices.

Credit card

Please return to the BOT's standard procedure of having all credit card statements and supporting vouchers submitted to the Chairperson or their delegated Trustee/ Treasurer for checking and approval. Credit card statements should not be allowed to collate for six months without inspection. It allows incorrect supplier charges to go undetected.

In the event of an error when the BOT credit card is presented in place of a personal credit card, please invoice the card holder immediately and recover the funds for the BOT. Occasionally this happens by mistake. If a credit card is being continually used to obtain free personal credit by a staff member the credit card must immediately be cancelled.

All credit card purchases need to be supported by 'vouchers' a print-out screen-shot for international purchases will suffice where the supplier doesn't invoice or receipt sales.

Novopay system

Draft SUE submissions to the Novopay system need to be checked fortnightly by senior personnel, not just the EO. This will avoid the self-review threat that the EO faces from both entering the data and confirming that it is correct. We would suggest in the case of Mountainview High School that one Deputy Principal sign to evidence approval of data inputted for each pay period.

A second Deputy Principal can be appointed as the third party payroll reviewer to check and counter sign with the Principal each fortnightly SUE report and highlight any corrections for the next fortnightly pay period.

The third Deputy Principal being able to act is a stand in for the principal in any pay period where the principal is out of town.

Budgeting

The budget preparation procedures, and adherence to budget are inadequate.

The 2017 annual budget excluded estimates for Novopay teachers' salaries. The budget amounts included in the 2017 financial statements conclude with the same profit of \$31,914, however the account classifications used in the final budget do not fully reconcile with those of the Kiwi Park model, which has led to some re-classification.

Actual performance for the year end was a significant deficit in the order of \$100,000 plus of the budgeted profit. This shows inadequate control over expenditure during the year, as actual revenue exceeded the budget expectation.

Please identify budget holders who have departed from their budget limits without due authorisation or accepted explanation of the BOT. We suggest that there is a school policy to replace budget holders who overspend without BOT approval.

International Student expense

We note that the school spent extensively on travel and promotion without an increase in the international pupil roll. In total the school appears to have made approx. \$200 from hosting international pupils. While the additional students to provide domestic students with greater proximity to people from other cultures the hosting of international pupils is expected to be a revenue creating activity.

GST

There is a significant variance in the GST paid by the school to the IRD and that which has been calculated on the financial statements at year end. Your accounts have identified variances totaling \$20,344.21 at year end. This appears to be in relation to expenses not claimed in GST.

Please arrange for the accounting service provider to examine the underlying documents and make the necessary GST adjustment with the IRD to claim back funds owed to the BOT. Please have the chart of accountants examined for errors and omissions to GST calculation from individual general ledger account codes.

General recommendations going forward

Please update the financial policies for the management of the school. We strongly urge that any EO appointee read and understand the MOE FISH handbook and be provided with comprehensive Novopay training.

All the points made in this report have been discussed with Mark Jones (Principal) and we have taken account of his comments in drafting the report. These points arose during the course of our audit which is designed primarily to enable us to form an opinion on the financial statements taken as a whole. Our report cannot, therefore, be expected to include all possible comments and recommendations which a more extensive special examination might indicate.

Yours faithfully
MARTIN WAKEFIELD

A handwritten signature in blue ink that reads "Derily MacLean".

Derily MacLean
Appointed Auditor