



St Joseph's School (Otahuhu)
Report to the Board of Trustees
for the year ended 31 December 2018

30 May 2019

The Board of Trustees
St Joseph's School (Otahuhu)
29 High Street
Otahuhu
AUCKLAND

Dear Trustees

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 St Joseph's School (Otahuhu) ("the 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 on any matter in this report please do not hesitate to contact us.

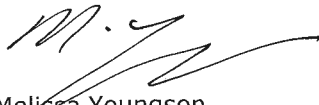
This correspondence is part of our ongoing discussions as auditor in accordance with our engagement letter dated 5 November 2018 and as required by New Zealand auditing standards. This report includes only those matters that have come to our attention as a result of performing our audit procedures and 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



Melissa Youngson
Partner
for Deloitte Limited
On behalf of the Office of the Auditor General

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1. Purpose of report

This report has been prepared for St Joseph's School (Otahuhu)'s Board of Trustees ("the Board") and is part of our ongoing discussions as auditor in accordance with our engagement letter dated 5 November 2018 and as required by 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 ultimate responsibility for the preparation of the financial statements rests with the Board.

2. Scope

We are responsible for conducting an audit of St Joseph's School (Otahuhu) ("the School") for the year ended 31 December 2018 in accordance with New Zealand auditing issued by the New Zealand Auditing and Assurance Standards Board and the Auditor-General 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. The audit of the financial statements does not relieve management or the Board of their responsibilities.

3. Areas of focus and audit findings

Our audit procedures were focused on those areas of St Joseph's School (Otahuhu)'s activities that are considered to represent risk areas identified, these 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 recently relating to a number of school frauds nationally.</p> <p>In our experience, these have arisen from:</p> <ul style="list-style-type: none"> • a lack of control over receipts to the school, particularly relating to activities funding; and • a lack of strong approval and bank payment controls for school suppliers, in particular where capital works are being undertaken. <p>The primary responsibility for the prevention and detection of fraud rests with the Board of Trustees.</p> <p>The Ministry have published a model policy on Theft and Fraud Prevention in its Financial Information for Schools Handbook (FISH).</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>We also discussed with the Principal and Chair of the Board about whether they had any knowledge of any suspected or identified fraud occurring during the year. No matters were identified.</p> <p>A school adopting a fraud policy might indicate the extent to which it has considered matters concerned with fraud. 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>Update of the Education Act 1989</p> <p>The Education (Update) Amendment Act 2017 (the Act) came into effect on 19 May 2017, bringing the most comprehensive update of New Zealand's education legislation in almost 30 years.</p> <p>The updates which we consider key in relation to the audit are to:</p> <ul style="list-style-type: none"> • clarify the roles and responsibilities of boards; • require all schools to publish their Annual Reports on their website, starting with the 2017 Annual Report and including the 2018 Annual Report; and • require all schools to include the following "other information" in their Annual Reports: <ul style="list-style-type: none"> - analysis of variance; - list of trustees; - statement of responsibility; and - statement of Kiwisport funding. 	<p>We received the financial statements by 31 March 2019.</p> <p>The school has published their 2017 Annual Report on their website. Please continue to publish your Annual Reports once it has been submitted to the Ministry of Education.</p> <p>Included in the annual report there is "other information". Although this information is not audited we have read through this to ensure it is consistent with the financial statements.</p> <p>We did see an improvement in the quality of financial statements. It is important that the Board of Trustees continue to review the full Annual Report before the audit commences to ensure the financial statements incorporate all changes prior to our audit.</p>

Focus area	Response
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Locally raised funds

Locally raised funds 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.

As part of our audit procedures, we have:

- Assessed the effectiveness of internal controls surrounding all material revenue streams;
- Based on materiality, performed testing on these balances as well as performing analytical procedures; and
- Where the school has used a third party website to collect fees and donations we have assessed the use of this and that the school has transferred the funds into their own bank account as soon as possible after it is received.

No issues were noted in this area.

Payroll

As in previous years, payroll related issues linked to Novopay continue to be a focus area for auditors.

We obtain reports from the Office of the Auditor General (through the audit assurance work performed by E&Y) which aid us in completing our audit of the payroll balances.

Key information obtained includes:

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

We understand that these reports are made available to the school along with instructions on how to understand them.

Consistent with our prior year audits 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.

An exception was identified relating to unusual shared bank accounts by a staff member. We obtained supporting evidence to confirm that the shared bank account was that of a central fund for Sisters of Saint Joseph of the Sacred Heart Education account which was appropriate.

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.

A copy of the signed School Annual Accrual Report (SAAR) certification was also received prior to completion of the audit. This certification indicated that that the payroll reports were reviewed and allowed you to report any errors that you did not agree with.

No issues were noted in this area.

Focus area	Response
<p>Cyclical Maintenance provision</p> <p>A requirement by the MOE is that all schools have a legal obligation to provide an estimate of the costs related to cyclical maintenance.</p> <p>The estimate of these costs needs to be 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.</p> <p>It is expected by the Ministry of Education that a professional party review this provision every three years. As this provision is a significant balance which requires a degree of judgement, we also expect that this provision is reviewed by the Board when any changes are made that differ the provision from the original Property Plan.</p>	<p>The costs included in your 10 year property plan and cyclical maintenance provision should be assessed on a three yearly cycle by a qualified party to ensure they reflect current prices.</p> <p>The review of cyclical maintenance performed in May 2019 was able to be applied as at December 2018 to ensure that the provision was materially appropriate. Please ensure that the provision is reviewed every three years as per requirement by the MOE. This ensures that costs remain relevant.</p> <p>No issues were noted with the cyclical maintenance provision this year.</p>
<p>Sensitive expenditure</p> <p>Being a public sector entity, we are required to perform specific work on behalf of the Auditor – General around areas referred to as sensitive expenditure.</p>	<p>In performing the audit we have:</p> <ul style="list-style-type: none"> • 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. • Reviewed Board and Principal remuneration against MOE approvals and limits. <p>We also note that there has been no overseas travel during the year.</p> <p>No issues noted except for those discussed in section four below.</p>

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, however we did note one control observation and have reported our recommendations for improvement to management, these are included below. These recommendations should be assessed by you for their full commercial implications before they are implemented.

Observation	Recommendation	Management's Response
Through testing of Principal expense claims, it was noted that these were being approved by the school's Deputy Principal (Cathy Franich) without being cleared by the Board of Trustees.	We recommend to follow best practice of the approval being "one-up" from the staff member whose expense claim it is. Therefore, the Principal's expenses should be approved by a member of the Board of Trustees.	Noted and will be implemented going forward.

5. Summary of unadjusted differences

We have not identified any uncorrected misstatements that management believe could, either individually or in aggregate, have a material effect on the financial statements for the year ended 31 December 2018.

6. Summary of omitted disclosures assessed by management as not being material

We have not identified any disclosure deficiencies that have not been adjusted in the financial statements for the year ended 31 December 2018.

7. Other communications

The following matters relevant to our audit of St Joseph's School (Otahuhu) 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 has been circulated separately.
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 Melissa Youngson 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.</p> <p>We have not become aware of any significant qualitative aspects of the entity'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	We have read the other information (the financial and non-financial information other than the financial statements) contained within the annual report to consider whether there are material inconsistencies with the financial statements. No issues identified.



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