Owen McLeod & Co.
Chartered Accountants & Auditors

17 May 2019

The Board of Trustees
Te Aroha College
PO Box 218
Te Aroha 3342

Dear Sir/Madam

Audit Management Letter For The Year Ended 31 December 2018

1. Introduction

We have completed the audit of Te Aroha College for the year ended 31 December 2018.

This letter provides a summary of:
- the audit scope
- the audit opinion
- the issues arising from the audit

You will appreciate that while our audit is carried out in accordance with the Auditor-General's auditing standards, it cannot, and should not, be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency.

The responsibility for public accountability and the implementation and monitoring of internal and management controls rests with management and the Board of Trustees.

2. Audit Scope

The audit aimed to:
- provide an audit opinion on whether the financial statements fairly reflect your school's reported financial results and financial position.
- assess and report on aspects of the school's financial management and controls.

3. Audit Opinion

We have issued our audit opinion on the financial statements for the year ended 31 December 2018 without any modification.

4. Going Concern Assumption

The financial statements were prepared on the basis that the school is a going concern. As required by the Office of the Auditor-General, we reviewed this assumption in terms of the criteria set out in the Auditing Standard ISA (NZ) 570. Based on the supporting evidence we concluded that the use of the going concern assumption was appropriate.

5. Issues Arising from Audit

Payroll Issues – Novopay System
The assurance work carried out centrally on behalf of the Auditor-General has found that the Novopay system places substantial reliance on schools to check the accuracy of their payroll. It is therefore important that the fortnightly transactions and expenditure reports are scrutinised thoroughly by people independent of the routine payroll processing in a timely manner. We found that appropriate controls were operating in your school except as noted below.

Assurance work relating to Novopay that is carried out centrally on behalf of the Auditor-General, hasn't identified any major anomalies for investigation. We have received confirmation from the

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Board that the people on the end of year payroll report were employed during the year, and the total shown against each person is substantially correct.

Payroll Changes
We noted the Novopay Smart Forms facility allows the payroll super users to process all payroll changes online; the changes include annual attestation, new appointments, change of hours/units etc. In most school, the School administrator sends the forms online to Novopay without the Principal's documented approval. To strengthen controls in this area, we recommend that the forms be printed off and signed off as evidence of approval. Please check your procedures to ensure this is in place.

Cyclical Maintenance plan
The Cyclical Maintenance provision (for painting) in the financial statements is an estimate based on the school's property plan. It is therefore important that the property plan is regularly updated. The school's 10 year property plan is required to be professionally reviewed every 3 years at which time the separate painting plan should also be updated, as this is used as the basis for calculating the painting provision figure.

Please ensure that the separate painting plan forms part of the 3 year review cycle and is updated and approved at that time. This needs to be reviewed and approved annually by the BOT to ensure the plan aligns with what is happening at the school.

Bank Reconciliation
We reviewed the bank reconciliation for the year and there was no evidence of independent review. To strengthen internal control, we recommend that bank reconciliation should be independently review and signed off.

Authorisation of Journals
During the audit, we noted for the journals processed that there was no evidence of approval. To strengthen internal control, journals should be reviewed and approved by an independent person. We suggest that it would be good practice to apply a "one up" principle of authorisation for journals. This means a journal prepared by the office administrator should be approved by either a senior management member or a Board member.

Bank Over Draft
We noted that you used your bank overdraft during the year. We recommend that you closely monitor your bank accounts to ensure that there is sufficient funds available to cover the payments due for the period.

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.

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. We note that your 2017 Annual Report was only published after we reminded you as part of the 2018 audit. This does not allow for proper accountability to your community.

Please ensure that once your 2018 Annual Report is submitted to the Ministry it is also published on your website. If you do not have a website, you can contact the Ministry of Education at planning.reporting@education.govt.nz, who can publish it on your behalf on the Education Counts website.

Required Communications
As required by the Auditing Standards we affirm that:

- We have had no disagreements with management during our audit nor have we had any serious difficulties in dealing with management.
- We have not identified any instances of fraud involving senior management or any other frauds that have caused material misstatement in the financial statements.
- We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.
- We are also required to advise you of any uncorrected misstatements. There are none to report.

We reaffirm we are independent of your organisation, and that we have no relationship with your organisation that impairs our independence.

6. Conclusion

We remind the school to submit a single PDF file of your annual report, including audited financial statements and required signatures to the Ministry of Education via the Ministry's School Data Portal (external link). These audited accounts must be minuted at your next Board of Trustees meeting.

Please advise us in due course of the actions you propose to take in relation to the matters raised in this letter.

We wish to acknowledge the friendly assistance provided by the school staff during the audit. If there is any further information you require, please do not hesitate to contact me.

Yours faithfully
OWEN McLEOD & CO

Richard Owen