



Auditor's Report to the Board of Trustees

Pacific Advance Secondary School

Year Ended 31 December 2018

20 February 2020

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The Chairperson
The Board of Trustees
42 Atkinson Ave,
Otahuhu
Auckland, 1062

Attention: Michael Jones

Dear Michael

Annual Financial Statement Audit for the Year Ended 31 December 2018

We have recently completed our financial statement audit of Pacific Advance Secondary School (the "School") for the year ended 31 December 2018, 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 Horwath New Zealand Audit Partnership



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1. Executive summary

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 2018 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 2018 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 Trustees' responsibilities

The Trustees are responsible for the preparation and fair presentation of the financial statements which fairly reflect the financial position of the School as at 31 December 2018 and the financial performance and cashflows for the year ended on that date.

To meet this objective, the Trustees are 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 Horwath have confirmed their independence from the School for the year ended 31 December 2018.

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 2018 audit the materiality level was set based of 1% of total assets. This benchmark was used to assess materiality as users of the financial statements would be most interested in this amount due to the school starting to operate in the subsequent financial year.

1.5 Commentary from issues noted

All issues raised in this report have been discussed with management. We acknowledge that by the date of formal issue of this report, management may have already implemented some of our recommendations. Management's response, in relation to the matters raised, is included in the respective sections of the report.

This report, by its nature, is critical in that it only contains comments on deficiencies observed and does not include comments on the many strong features of internal control also observed during our examination.

1.6 Audit findings

Key audit and accounting issues arising during the year relate to those areas of audit focus as listed below:

- Management override of controls

Our uncorrected and corrected audit differences are included in Section 5 of this report for the consideration of the Trustees.

We have summarised our observations and recommendations arising from our audit, which are detailed in Section 3.

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 Trustees of the School directly.

The contents of this report should not be disclosed to third parties without our prior written consent.

2. Outcomes from audit of key financial statement risk areas

Our audit procedures include testing of all material balances. In addition our risk based approach requires us to identify areas we consider to being subject to significant risk of material misstatement. These areas are given additional focus during the audit, a summary of key outcomes is provided below:

1. Management override of controls

Audit risk

- The risk of management overriding controls exists in all entities and is a mandatory significant risk to be addressed by the auditor.
- 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.

Audit response

- Professional scepticism was maintained while undertaking audit procedures on subjective balances in the School's financial statements, including the value of donated assets.
- Journals posted into the general ledger were selected on a sample basis and traced back to supporting documents to verify that they were appropriate.

No indication of bias with regard to accounting estimates was noted during our audit. From our sample of journal entries posted during the year, we noted no evidence of material misstatement.

3. Observations and recommendations arising from the audit

We highlight the following matters for the Trustees' attention 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 Trustees.

We have classified the findings based on their impact on the School based on the following scale:

Classification	Description of Classification
HIGH	<i>Significant weakness that requires immediate attention; has the potential to have a serious adverse effect on the School.</i>
MODERATE	<i>Weakness that should be addressed; could negatively affect the School or reduce efficiency of the School's operations.</i>
LOW	<i>Weakness that results in a control falling short of best practice.</i>

3.1 Significant Adjustments to Draft Financial Statements

RATING: **MODERATE**

Observation:

The audit concluded with a number of adjustments that were needed to be made to the draft financial statements prepared by your accountant. These included areas such as teachers' salary accruals, recording of initial ministry grants, treatment of GST on furniture, fittings and equipment grants and gifting of assets to the School from the Pacific Peoples Advancement Trust. As part of our audit, we generally expect to identify minimal changes required to the draft financial statements.

Our audit fees are based on having draft financial statements presented to us that are consistent with the Ministry of Education's Kiwi Park model financial statements and of reasonable quality. We needed extra audit time to identify, work through, and agree the correct treatment of the above issue which led to increased audit costs.

Recommendation:

To avoid this in the future, we recommend that appropriate review procedures are carried out before the draft financial statements are presented for audit. This is to ensure timeliness and accuracy of the financial statements.

3.2 Reporting Deadline

RATING:

MODERATE

Observation:

The Board of Trustees did not submit its financial statements to the Ministry of Education by 31 May 2019 (as required by section 87 of the Education Act 1989) because an auditor was not appointed to carry out the audit of the newly established school until 13 August 2019. The school was established as a state school following the closure of the previous partnership school. Because the audit arrangements were not established in respect of the new state school, the Ministry of Education agreed a revised date for the school to report to them, of 30 September 2019, however the school has not been able to meet this deadline.

Recommendation:

We recommend that in future the School should ensure to have the financial statements and audit requirements prepared as per the agreed timeline so that the Ministry of Education deadline can be met.

3.3 Expense cut off

RATING:

MODERATE

Observation:

During our audit testing we noted that an invoice paid to Crest Cleaning for \$2,111.13 (GST inclusive) was accounted for in the 2019 financial year as an expense but the date of the invoice was December 2018 for services provided in December 2018.

Recommendation:

We recommend that invoices are posted to the general ledger on the date of the transaction which is usually reflected by the invoice date. We suggest controls to be strengthened to review invoices received after year end and an accrual booked on these accordingly.

3.4 Fixed Assets Capitalisation

RATING: **MODERATE**

Observation:

We noted that the Pacific Peoples Advancement Trust which is a related party to the school had gifted all its fixed assets to Pacific Advance Secondary School prior to year end. This was not capitalised by the school at year end. As such an adjustment of \$360,427 was made (refer to section 5.1).

Recommendation:

We recommend the school to update the fixed asset register to account for the fixed assets gifted to the school as per the agreement between Pacific Peoples Advancement Trust and Pacific Advance Secondary School.

In addition, management should ensure that the fixed asset register is reviewed and reconciled as part of the preparation of year end financial statements.

3.5 Furniture, Fittings and Equipment Grant

RATING: **MODERATE**

Observation:

We noted that the furniture, fittings and equipment (FFE) grant was initially recorded as revenue instead of crediting the funds received to the school's equity account in the Balance Sheet. In addition, the school accounted for FFE grant as GST inclusive amount and filed a GST return calculating GST on this balance. According to the Financial Information for Schools handbook there is no GST included in FFE grant and it is not income for the school. Refer to section 5.1 for the adjustments made. In addition, the school will need to file an amendment within its GST return to correct the prior incorrect filing.

Recommendation:

We recommend that the service provider and management should determine the correct accounting treatment in accordance with Financial Information for Schools handbook.

3.6 Approval of Novopay form – Closely Related

RATING: **MODERATE**

Observation:

We observed that the Novopay form for Brian Enari was signed by a related family member, Falefatu Enari.

There is a potential for the approval control to be overridden due to close relationship.

Recommendation:

We recommend that a person not related to the employee should countersign documents relating to the employee to ensure independent approval.

3.7 Review of Banking Staffing and Transaction Report

RATING: **MODERATE**

Observation:

We observed that banking staffing and transaction reports are not reviewed by the school to ensure the accuracy of the report on an ongoing basis.

Banking staffing is the tool schools use to manage their annual staffing entitlement.

Recommendation:

We recommend that the fortnightly transactions and expenditure reports should be reviewed and scrutinized thoroughly by person(s) independent of the routine payroll processing, ideally at a management level.

4. 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 Horwath comments
Significant accounting policies adopted or changed	No changes or new accounting policies were adopted during the year.
Management judgements and estimates	Other than what has been disclosed in Section 2 no material accounting judgements were identified.
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.

5. Summary of adjusted and unadjusted audit differences

5.1 Adjusted audit differences

As a result of our audit procedures, the following adjusting journals were posted for the year ended 31 December 2018:

#	Description	\$						
		Asset		Liability/Equity		Profit Effect		Net Profit
		DR	CR	DR	CR	Revenue	Expense	Increase/ (decrease)
1	To correctly account for establishment grants as revenue and furniture & equipment grant as a credit to the school's equity account. These were initially recorded as income in advance.	-	-	860,160	490,650	369,510	-	369,510
2	Adjusting for GST included in Furniture & Equipment Grant.	-	-	63,997	63,997	-	-	-
3	Capitalizing phones installed during the 2018 financial year (donated by the Pacific Peoples Advancement Trust).	6,429	-	-	-	6,429	-	6,429
4	Recording fixed assets donated to the school by Pacific Peoples Advancement Trust	353,998	-	-	-	353,998	-	353,998
5	Adjusting for payroll expense not recorded for the 2018 financial year.	54,828	-	-	83,209	112,842	141,223	(28,381)
TOTAL		415,255	-	924,157	637,856	842,779	141,223	-
Total Profit Effect								701,556

We have communicated all amendments to financial statement disclosures that were identified during the audit and except for those detailed in section 5.2 below all have been updated in the financial statements.

5.2 Unadjusted audit differences

As a result of our audit procedures, the following adjusting journals remained unadjusted for the year ended 31 December 2018:

#	Description	\$						
		Asset		Liability/Equity		Profit Effect		Net Profit
		DR	CR	DR	CR	Revenue	Expense	Increase/ (decrease)
1	To correctly account for cleaning expense in the 2018 financial year.	-	1,838	-	-	-	1,838	(1,838)
TOTAL		-	1,838	-	-	-	1,838	-
Total Profit Effect								(1,838)

Management has made an assessment that the individual and aggregate effect of the unadjusted audit differences was not material. We agree with this assessment.



Contact Us

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