



31 December 2019

Auditor's Report to the Board of Trustees

Pacific Advance Secondary School

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2 July 2020

The Board of Trustees
Pacific Advance Secondary School
Strictly Private and Confidential
42 Atkinson Ave,
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Attention: Michael Jones / Hamish Crooks

Dear Michael / Hamish

Annual Financial Statement Audit for the Year Ended 31 December 2019

We have recently completed our financial statement audit of Pacific Advance Secondary School (the "School") for the year ended 31 December 2019, 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

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1. Results of the Audit Process

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 2019 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 2019 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 Responsibilities of the Board of Trustees

The Board of 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 2019 and the financial performance for the year ended on that date.

To meet this objective, the Board of 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 have confirmed their independence from the School for the year ended 31 December 2019.

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 2019 audit the materiality level was set at \$41,275. We consider that the cumulative and individual effect of all balances and movements above materiality to be significant.

1.5 Outcomes from audit of key performance report risk areas

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

Audit Risk	Audit Response
<p>Fraud in revenue recognition</p> <ul style="list-style-type: none"> Locally raised funds are a specific audit risk identified by the Office of the Auditor General. This revenue stream is susceptible to fraud risks over completeness of revenue. There are specific accounting judgements in the application of the School's accounting policies for key revenue streams. 	<ul style="list-style-type: none"> We reviewed the reliability of the accounting controls and systems for each significant revenue stream. We compared an external confirmation of government grants paid to the School to the revenue recorded in the School's financial statements. We prepared an independent expectation of the School's revenue for the year and compared against actual revenue recorded. Explanations were sought for differences in excess of our tolerable variance.
<p>Management override of controls</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Professional scepticism was maintained while undertaking audit procedures on subjective balances in the School's financial statements. Journals posted into the general ledger were selected on a sample basis and traced back to supporting documents to verify that they were appropriate.
<p>Probity of expenditure</p> <p>The probity of expenditure is a specific requirement of the Office of the Auditor General and considers the appropriate use of public funds.</p>	<ul style="list-style-type: none"> We maintained alertness for, and an awareness of, issues and risks with effectiveness and efficiency, waste, and a lack of probity or financial prudence We tested on a sample basis area of sensitive expenditure and assessed whether individual staff members had been provided with actual or perceived private benefits. Ensured all selected expenses met probity guidelines set by the Ministry of Education and the Office of the Auditor General.

1.6 Observations and recommendations arising from the audit

We highlight the following matters for the attention of the Board of Trustees 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 Board of Trustees.

1.6.1 Significant Adjustments to Draft Financial Statements (re-raised from 2018)

The audit concluded with several adjustments that were needed to be made to the draft financial statements prepared by your accountant. These include multiple reclassification of expense items that were incorrectly classified, reclassification of locally raised funds revenue which were classified in the incorrect fund stream, adjustments for opening costs and accumulated depreciation for Property, Plant & Equipment to match closing balances of the 2018 financial year, undisclosed related party transactions and overseas travel notes not appropriately disclosed as per the Kiwi Park model 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.

1.6.2 Review of Banking Staffing and Transaction Report (re-raised from 2018)

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 banking staffing and transaction reports should be reviewed and scrutinized thoroughly by person(s) independent of the routine payroll processing, ideally at a management level.

1.6.3 Expense Cut-Off (Re-raised from 2018)

During our testing, we noted that there was expenditure relating to the 2018 financial year that was recorded during the 2019 financial year. An audit adjustment was proposed. Refer to section 3.2.

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.

1.6.4 Fixed assets additions not appropriately authorised

We noted instances whereby invoices for capital expenditure were not approved. This could potentially result in unauthorized or inappropriate expenditure being incurred and paid which could go undetected.

Recommendation

We recommend that evidence be retained to demonstrate that all fixed asset additions have been approved by the principal or a person with appropriate responsibility.

1.6.5 Segregation of Duties

We noted from our audit procedures that there were instances whereby the person who receipts cash also performs the cash count. Limited segregation of duties can increase the risk of fraud or error within a process.

Recommendation

We recommend that the School review the extent to which the duties for receipting monies and cash counts are adequately segregated.

1.6.6 Donated Assets Recorded Incorrectly in the Fixed Assets Register

We noted that the donated assets from the Pacific Peoples Advancement Trust (PPAT) in the 2018 financial year was recorded at cost rather than at Net Book Value of the assets in the fixed assets register when they were transferred to the School. This resulted in incorrect depreciation for building improvements in the 2019 financial year. An adjustment was raised in relation to this. Refer to section 3.1.

Recommendation

We recommend that the school adjusts the cost of Donated Assets from PPAT to the Net Book Value of the assets at the date of transfer in the fixed asset register.

1.6.7 Approval of Principal Reimbursements

We noted an instance where an expense reimbursement claim by the Principal was not approved by the Board. This could potentially result in unauthorized or inappropriate expenditure being incurred and paid which could go undetected.

Recommendation

We recommend the 'one-up' level approval structure is implemented. For example, the Board Chair/Treasurer/Finance Committee reviews and signs off the Principals expenditure. The reviewer should sign off expenditure as valid business expenses at month end to ensure that any transactions that require additional discussion or documentation are identified in a timely manner.

1.6.8 Financial Statements are not on the School's website

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 at the time we carried out our

audit, your 2018 Annual Report had not been published on your website. The failure to publish your Annual Report on your website is a breach of section 87AB of the Education Act 1989.

Recommendation

Please ensure that once your 2019 Annual Report is submitted to the Ministry it is published on your website along with the 2018 Annual Report.

1.6.9 Capital Expenditure

We noted that capital expenditure of \$4,910 relating to the supply and installation of wall display unit was expensed instead of being capitalised. As per the School accounting policies, property, plant and equipment acquired with individual values under \$1,000 are not capitalised, they are recognised as an expense in the Statement of Comprehensive Revenue and Expense. As this was above \$1,000, an audit adjustment was proposed. Refer to section 3.2.

Recommendation

We recommend that the School review its procedures for assessing the correct accounting treatment for capitalising amounts as property, plant and equipment in accordance with MOE guidelines.

1.6.10 Insufficient support for cash income

There is insufficient supporting documentation as the School is unable to provide a detailed listing of the cash receipts supporting the total cash banked (\$609.57) in relation to the Polyfest fundraising.

There were no receipts to support individual transactions. As such this increases the risk of misappropriation of cash as cash received and not banked could go undetected.

Recommendation

The records should be maintained for each fundraising event, in sufficient detail to identify gross receipts or takings. We recommend that the school develop a written policy that set forth appropriate internal financial controls for income from fundraising events.

1.6.11 Classification of cash balances

During our audit we noted that the School had classified \$639,245 as cash and cash equivalents within its financial statements at 31 December 2019.

Upon further examination we noted that \$500,000 of these funds had an original maturity of 90 days or more and as such an adjustment was made to the School's financial statements to reclassify this balance from cash and cash equivalents to investments. Refer to section 3.1 for details.

Recommendation

We recommend that the School review its procedures for ensuring that cash balances and investments are correctly reflected in the draft financial statements presented by the School.

Our uncorrected and corrected audit differences are included in Section 3 of this report for the consideration of the Board of Trustees.

1.7 Update on prior year observations and recommendations

In our audit for the year ended 31 December 2018 we identified a number of matters for the attention of the Board of Trustees together with recommendations for management to consider. We consider the following matters to have been sufficiently addressed.

Prior Year Recommendation	Current Year Observation
<p>Fixed Asset Capitalisation</p> <p>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.</p>	<p>Donated assets recorded in fixed asset register. However, these were recorded at cost rather than at the Net Book Value. Refer to 1.6.6 above for our observation and recommendation.</p>
<p>Furniture, Fittings and Equipment Grant</p> <p>We recommend that the service provider and management should determine the correct accounting treatment in accordance with Financial Information for Schools handbook.</p>	<p>There was no furniture, fittings and equipment grant in the 2019 financial year. As such no issues noted in the current year.</p>

1.8 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 the Board of Trustees of the School directly.

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

2. 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 comments
Significant accounting policies adopted or changed	The School has early adopted PBE IFRS 9 Financial Instruments, but this did not result in any monetary changes to the financial statements. Appropriate disclosure changes have been made in accordance with the MoE model financial statements.
Management judgements and estimates	Other than what has been disclosed in Section 1.5 no material accounting judgements identified. Further disclosure in the financial statements has been included regarding the anticipated impact of COVID-19 on the School.
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.

3. Summary of adjusted and unadjusted audit differences

3.1 Adjusted audit differences

As a result of our audit procedures, the following adjusting journals were posted for the year ended 31 December 2019:

#	Description	\$				
		Balance Sheet		Income Statement		Profit Impact
		DR	CR	DR	CR	
1	Adjusting for closing cost and closing accumulated depreciation incorrectly recorded	423,113	(423,113)	-	-	-
2	Reclassifying non-operation grants from operations grants to Other MoE grants	-	-	10,190	(10,190)	-
3	Reclassifying accrual to creditors as amount for work performed in the 2019FY was invoiced before year end.	4,320	(4,320)	-	-	-
4	Reclassifying Other Revenue not disclosed in Locally Raised Funds to Other Revenue as a part of Locally Raised Funds	-	-	29,195	(29,195)	-
5	Reclassifying operating lease payments for vehicles from transport costs to operating lease costs and reclassifying camp expenses from curricular to activity expenses	-	-	28,725	(28,725)	-
6	Reclassifying sponsorships and koha for overseas travel from other revenue to overseas travel revenue	-	-	4,500	(4,500)	-
7	Correcting depreciation on building improvements	26,304	-	-	(26,304)	26,304
8	Reclassification of Physical Educations expenditure	-	-	10,480	(10,480)	-
9	Accounting for banking staffing underuse for the 2019 financial year	66,472	-	-	(66,472)	66,472
9	Use of land & buildings charge	-	-	582,643	(582,643)	-
11	Reclassification of term deposits	500,000	(500,000)	-	-	-
TOTAL		1,020,209	(927,433)	665,733	(758,509)	92,776

We have communicated all amendments to financial statement disclosures that were identified during the audit and except for those detailed in section 3.2 below all have been updated in the financial statements.

3.2 Unadjusted audit differences

As a result of our audit procedures, the following adjusting journals remained unadjusted for the year ended 31 December 2019:

#	Description	\$				
		Balance Sheet		Income Statement		Profit Impact
		DR	CR	DR	CR	
1	Adjusting for bulk grant amounts included in teachers' salaries payable	17,313	-	-	(17,313)	(17,313)
2	Capitalising capital purchase that was expensed as repairs & maintenance	4,910	-	-	(4,910)	(4,880)
3	To correctly account for cleaning expense in the 2018 financial year (Unadjusted error from the 2018FY audit)	1,838	(1,838)	-	-	-
TOTAL		24,061	(1,838)	-	(22,223)	(22,193)

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