ST MICHAEL'S CATHOLIC SCHOOL (ROTORUA)

AUDIT COMPLETION REPORT

FOR THE YEAR ENDED

31 December 2023

18 June 2024

Joseph Assen
Presiding Member
St Michael's Catholic School (Rotorua)
botstmichaels@gmail.com

cc: Rachael McLanachan
Principal

Dear Joseph

We have pleasure in presenting our Audit Completion Report for our audit of St Michael's Catholic School (Rotorua)'s financial statements for the year ended 31 December 2023.

We emphasise that our audit work involves the review of only those systems and controls in your School upon which we rely on for audit purposes. Our examination may not have identified, and should not be relied upon to identify, all control weaknesses that may exist.

We express our appreciation for the assistance and co-operation provided by the School and the School's service provider during the audit. There is nothing we wish to raise solely with the Board.

Yours faithfully,
BDO ROTORUA LIMITED

Stephen Graham
Partner
Audit & Assurance Services

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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

BDO Rotorua Limited ('BDO') is the Appointed Audit Firm of St Michael's Catholic School (Rotorua) (the "School").

BDO's responsibilities include a requirement to express an opinion on the School's financial statements arising from our audit conducted in accordance with the Auditor-General's Auditing Standards which incorporate International Standards on Auditing (NZ).

This report details the processes, findings and recommendations from our audit of the School in accordance with the Auditor General's Auditing Standards, and the terms of our engagement as set out in our audit engagement letter.

Our audit of the School's financial statements for the year ended 31 December 2023 is complete.

We have issued an unmodified audit opinion.

We welcome your feedback on the effectiveness of the audit process and we are available to discuss our performance.

AUDIT SCOPE AND OBJECTIVES

Our audit objectives are to:

- report on whether the financial statements presented fairly in all material respects; and
- report to Management about control environment issues that should be addressed by the School.

A strong control environment would feature adequate segregation of duties over important financial processes, and independent reviews as compensating controls should it not always be practicable for the duties to be separated.

We have documented, tested, and assessed the controls supporting the School's key transaction streams, and there are no significant weaknesses to report. Control weaknesses identified during the audit have been included in the Internal Control and Other Findings section of this report.

AREAS OF SIGNIFICANT RISK AND AUDIT EMPHASIS

Our audit approach considered the inherent risks for the School, and their potential impact on the financial statements, as well as the associated risk mitigations and controls in place. The significant matters arising from our audit work are:

- Locally raised funds – revenue recognition and completeness
- Cyclical maintenance provision
- Significant estimates
- Management override of controls
- Inappropriate or wasteful expenditure

We were able to obtain sufficient and appropriate audit evidence in respect to these items and we have no significant findings to bring to your attention. Refer to Section 2 for our comments in respect of each significant risk and area of audit emphasis.

SUMMARY OF UNCORRECTED MISSTATEMENTS

There were no errors left uncorrected at the conclusion of our audit.

INTERNAL CONTROLS

Our audit approach requires us to obtain an understanding of the School's internal controls in order to assess the risk of material misstatement in the financial statements whether due to fraud or error. However, is not designed to provide assurance over the overall effectiveness of controls operating within the School.

We have included in Section 3 of this report, a summary of our findings and recommendations arising because of our audit procedures.

2. KEY FINANCIAL STATEMENT AUDIT RISKS AND AREAS OF AUDIT EMPHASIS

Our audit procedures were focused on those areas of the School's activities that are considered to represent the key audit risks identified during the risk assessment process undertaken and communicated with you through our Audit Plan issued to you at the planning phase of the audit. Below we present a summary of the identified key areas of risk and audit emphasis and our conclusions in relation to each matter. We are satisfied that these areas have been satisfactorily addressed through our audit processes, unless stated otherwise.

Locally Raised Funds – Revenue recognition	
Area of Audit Emphasis	Conclusion/Response
There is a risk that locally raised funds may not be recognized in the proper period due to opportunity or motivation to distort reported locally raised funds figures.	We found no issues regarding the recognition of locally raised funds balances recorded in the financial statements.

Locally Raised Funds - Completeness	
Area of Audit Emphasis	Conclusion/Response
Due to the nature of locally raised funds, with a portion being cash revenues, there is a risk that cash received is not deposited due to lack of segregation of duties with respect to cash receipts, deposit of funds, posting and reconciliation, resulting in increased risk for cash misappropriation.	We found no issues regarding the completeness of locally raised funds balances recorded in the financial statements.

Cyclical Maintenance Provision	
Area of Audit Emphasis	**Conclusion/Response**
Provisions for maintenance costs are accounting estimates based on management's judgment of costs to complete certain cyclical maintenance projects. This could lead to a material error in the financial statements. For schools to be able to determine the required maintenance provision, a plan needs to be prepared and requires involvement by an expert	We found no issues regarding the provision for cyclical maintenance recorded in the financial statements. Based on comparable costs, and the actual cost to repaint the school in prior year, we noted that the provision balance recorded in the financial statements was not materially misstated.

Significant estimates	
Area of Audit Emphasis	**Conclusion/Response**
Risk of high estimation uncertainty related to significant estimates. Management bias may result in override of controls.	In regards to schools the main financial area subject to significant estimates relates to Cyclical maintenance provision. As noted above, audit work completed to ensure there are no indications that would result in the provision included in the financial statements being materially misstated.

Management Override	
Area of Audit Emphasis	**Conclusion/Response**
There is a non-rebuttable presumption under the Auditing Standards that management override presents a significant risk of material misstatement to the financial statements.	We have assessed the segregation of duties and risk of management override as part of our planning process and concluded that the risk of fraud from management override of controls primarily relates to the processing of manual journals. We have used a risk-based approach to testing manual journals and focused on any areas with a risk of cut-off error or those requiring judgement or estimation. No issues with management override were identified.

Inappropriate or Wasteful Expenses	
Area of Audit Emphasis	**Conclusion/Response**
Risk that expenditure incurred by the school does not meet the efficiency, probity, and financial prudence requirements of AG-3, and is inappropriate or wasteful.	We have reviewed a sample of costs incurred by the school, including capital expenditure and costs incurred on credit cards, and noted no instances of significant wasteful expenditure incurred by the school.

3. INTERNAL CONTROL AND OTHER AUDIT FINDINGS

This section of the report sets out the key findings we identified during the audit and highlights control deficiencies requiring attention from management. Our work has been limited to those controls relevant to the audit of your financial statements. The purpose of our audit work on controls is not to provide assurance and therefore we may not necessarily disclose all matters that might be significant deficiencies or deficiencies that heighten the risk of a fraud being perpetrated.

The following key findings were identified during this year's audit:

Write off Lost or Damaged Library Books	
Finding	**Conclusion**
As noted in prior year, the school has a large quantity of library books held on the fixed asset register. Although there is no material impact on the financial statements as a whole it is best practice to ensure that movements in library books are also reflected in the fixed asset movements in the school's financial statements, and on the schools fixed asset register. Guidance from the Office of the Auditor General recommends this as best practice as it also provides the opportunity to assess if there is any impairment that needs to be considered.	We recommend that the School records lost or damaged books as disposals, and subsequently removes these books from the fixed asset register.

Credit Card statements	
Finding	**Conclusion**
Although we noted, from our review of the credit card statements, that there were instances of schedules attached to monthly credit card statements which were reviewed and signed off by the presiding member, this was not available for all months. Credit cards can be reasonably easily subject to error and fraud and have led to allegations of inappropriate expenditure for some schools. It is important that you have all appropriate supporting documents and are checking statements thoroughly on a timely basis to prevent errors or unauthorised payments.	We recommend that you continue to apply a “one-up” principle of approving credit card expenditure and ensure all approved schedules are included in the monthly payment files.

Principal’s reimbursements	
Finding	**Conclusion**
The OAG has observed that many schools have poor controls over expenses incurred by the Principal, with many invoices not being approved by an independent person. Poor controls increase the risk of misuse of school funds, including for personal use. Based on audit work completed we noted that principal reimbursements are supported by invoices, however are reviewed by the office staff.	We would expect to see ‘one-up’ approval, meaning review and approval by someone more senior. This means the Presiding member must authorise reimbursement of expenses paid to the Principal.

4. REQUIRED COMMUNICATIONS WITH GOVERNANCE

Matter	How the matter was addressed
Auditors responsibility under generally accepted auditing standards	We are responsible for completing an audit in accordance with generally accepted auditing standards in New Zealand. The detailed terms of which are set out in our audit engagement letter.
Confirmation of Audit Independence	In conducting our audit, we are required to comply with the independence requirements of AG PES-1 *Code of Ethics for Assurance Practitioners* issued by the External Reporting Board. Our own internal policies and procedures are put in place to identify any threats to our independence, and to appropriately deal with and, if relevant, mitigate those risks. For the comfort of the Board, we note that the following processes assist in maintaining our independence: • No other work is permitted to be undertaken by any BDO office without the express approval of the audit engagement partner or the OAG. • All services performed by any national BDO office will be reported to the governing body. There were no other services provided by BDO during the year.
Management Judgements and Estimates	Under International Standards on Auditing (NZ), we have a responsibility to ensure that you have been informed about the process used by the School in formulating particularly sensitive accounting estimates, assumptions, or valuation judgements. Overall, we note that the judgements and estimates made by management in the preparation of the financial statements for the year ended 31 December 2022 appear reasonable. Key matters impacting on our audit have been raised in sections 2 and 3 of this report if applicable.

Matter	How the matter was addressed
Matters requiring Board of Trustee input	We have placed reliance on the Board's review and approval of the following matters: • Minutes of the Board meetings; • Implementation of such controls as is needed to ensure that financial statements are presented fairly; • Management accounts; • Annual budget; • 10 Year Property Plan/maintenance plan; • Notification of fraud; and • Financial statements.
Accounting policies	Auditing standards require us to discuss with you the qualitative aspects of the School's accounting practices and financial reporting. We reviewed the financial statements of the School against the Kiwi Park Model and noted no material departures from the requirements.
Materiality and adjusted/ unadjusted differences	Materiality means, in the context of an audit or review, if financial information is omitted, misstated, or not disclosed, it has the potential to affect the decisions of users of the financial statements. Materiality is used by auditors in making judgements on the amount of work to be performed, which balances require work and when evaluating the financial statements. Materiality is initially calculated at the planning stage of our audit and has an influence on the amount of work we do, as well as where we direct our efforts. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures. There were no adjusted or unadjusted differences identified during our audit. It should be noted that the auditing standards do not require us to communicate misstatements that are considered "clearly trivial" and as such, if we identify such misstatements, we will not communicate these to you. We consider "clearly trivial" to be 5% or less of our planned materiality.

Matter	How the matter was addressed
Going concern	We have undertaken a review of the Board and management's assessment of the ability of the School to continue as a going concern for at least 12 months from the date of signing the audit report, and therefore whether the going concern basis for the preparation of the financial statements is appropriate. We identified no issues or concerns that led us to conclude the going concern assumption could not be relied upon.
Fraud	During the audit, no matters relating to fraud, concerning either employees or management, have come to our attention. It should be noted that our audit is not designed to detect fraud; however, should instances of fraud come to our attention, we will report them to you.
Compliance with laws and regulations	We have made enquiries in relation to compliance with laws and regulations during the course of our audit. We have not become aware of any instances of non-compliance with laws and regulations which has materially impacted the financial position or performance of the School.
Significant findings from the audit	Other than those documented in the executive summary and sections 2 and 3 of this report, there were no significant matters arising from the audit.
Disagreements with management	There have been no disagreements with management over matters of significance to the audit.
Difficulties encountered during the audit	There have been no significant difficulties encountered during the audit.
Consultations with other accountants and consultants	We have considered the need for other accounting specialists during our work and determined due to the nature of the engagement and experience and knowledge of the engagement team, that no specialists were necessary for the current period.

Matter	How the matter was addressed
Management representation letter	We have not requested specific representation from management in addition to those areas normally covered by our standard representation letter.
Probity, waste and performance	We are required to consider whether any approved payments could be considered extravagant or wasteful, or show a lack of probity or financial prudence. We did not identify any issues of concern with respect to probity, waste and performance.
Publishing Annual Report on the School's Website	The Education and Training Act 2020 requires you to publish your Annual Report online. 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. At the time we carried out our audit we noted that your 2022 Annual Report had been uploaded to the school's website.

APPENDIX 1 - UPDATE ON FINDINGS FROM PRIOR YEAR

Write off lost or damaged library books

Finding	Update
We noted that the school has a large quantity of library books held on the fixed asset register. Although there is no material impact on the financial statements as a whole it is best practice to ensure that movements in library books are also reflected in the fixed asset movements in the school's financial statements, and on the schools fixed asset register. Guidance from the Office of the Auditor General recommends this as best practice as it also provides the opportunity to assess if there is any impairment that needs to be considered. We recommend that the School records lost or damaged books as disposals, and subsequently removes these books from the fixed asset register.	This point has not been addressed – refer findings documented above

Publish of Financial Statements

Finding	Update
Under section 136 of the Education and Training Act 2020, all schools are required to publish their annual report online. We were not able to locate your previous year annual report on the school website.	This point has been addressed.

Transparency and accountability are important for all public entities. Schools are funded by the community, so it is the school's job to report back to the community in a timely way. We are required to report to the Office of the Auditor General if the annual report is not published on the school's website in a reasonable timeframe.	

Credit Card Statements	
Finding	**Update**
From our review of the credit card statements, we noted that the independent review of the principal's credit card expenses is not completed by the Board of Trustees. Credit cards can be reasonably easily subject to error and fraud and have led to allegations of inappropriate expenditure for some schools. It is important that you have all appropriate supporting documents and are checking statements thoroughly on a timely basis to prevent errors or unauthorised payments. We recommend that you apply a "one-up" principle of approving credit card expenditure. We suggest that the principal's monthly credit card expenses be approved by the Presiding member and ensure all statements are signed as evidence of this review.	This point been partially addressed – refer findings above