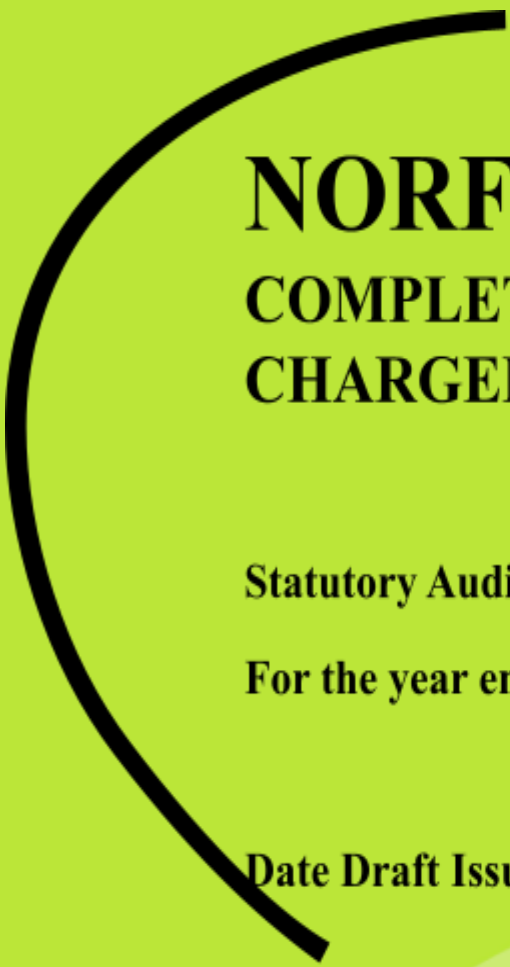




NORFOLK SCHOOL

COMPLETION REPORT TO THOSE CHARGED WITH GOVERNANCE

Statutory Audit

For the year ending 31 December 2023

Date Draft Issued – 31 May 2024

Report Purpose

We are pleased to present our completion report relating to our external audit of the financial statements ('the financial statements') of Norfolk School ('the School'), for the year ending 31 December 2023 ('reporting date').

The purpose of this report is to update the Board ('Those Charged with Governance') on the outcome of, and, any significant matters that have arisen during the course of our audit.

Under the requirements of International Standard on Auditing (New Zealand) 260 '*Communication of audit matters to Those Charged with Governance*' ('ISA (NZ) 260'), we are required to communicate audit matters arising during our audit to those charged with governance of an entity.

Auditor Independence

We confirm that the engagement team, others in our firm as appropriate and the Baker Tilly Staples Rodway network of firms are independent of the School. We confirm that we comply with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board. We have no relationships with the School that in our professional judgement, may be reasonably be thought to bear on independence.

Overview of Planning Procedures

We undertook a risk-based audit of the School for the year ended 31 December 2023.

As part of our planning, the following matters and areas were identified as areas of significant or heightened audit risk.

Significant risks are risks of material misstatement that, in our judgement, require special audit consideration.

Heightened audit risk areas relate to areas that we have identified as being significant aspects of accounting practices and financial reporting, management's judgments and accounting estimates and financial statement disclosures. Heightened audit risk areas have a risk of material misstatement at the financial statement and assertion level but are not considered a significant risk.

Significant risks:

- Management override of controls; and
- Disclosure of related party transactions and balances.

Areas of heightened audit risk:

- Revenue – Local Funds;
- Cyclical maintenance provision; and
- Sensitive expenditure.

Significant Financial Reporting Matters

RISK AREA & EXPLANATION	CONCLUSION
SIGNIFICANT RISKS	
<i>Management override of controls</i>	
In accordance with ISA (NZ) 240 <i>'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'</i>, management override of controls is a presumed significant risk. We carried out appropriate audit procedures over journal entries, accounting estimates and significant transactions that are outside the School's normal course of business or are otherwise unusual.	No significant issues were noted during the audit which may represent an indicator of management override of controls. We performed a review of all manual journal entries in the financial system during the period and no large or unusual transactions were noted which could not be explained by management.
<i>Disclosure of related party transactions and balances</i>	
Ensure that all related party transactions and balances are appropriately disclosed in the financial statements in accordance with PBE IPSAS 20 <i>Related Party Disclosures</i>. A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For these reasons, knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.	No significant issues were noted during the audit which would suggest a significant deficiency in how related party transactions are identified and disclosed. We have assessed and reviewed relationships and transactions between management/members and related parties. No relationships or transactions were identified which we consider should be disclosed in accordance with PBE IPSAS 20 <i>Related Party Disclosures</i>.

Significant Financial Reporting Matters (continued)

RISK AREA & EXPLANATION	CONCLUSION
AREAS OF HEIGHTENED AUDIT RISK <i>Revenue – Local Funds</i> The Office of the Auditor General has requested that in particular we focus on local funds revenue. We discussed the revenue recognition processes with management to ensure that our understanding of these processes is correct and to allow us to assess the design and operating effectiveness of internal controls. We performed analytical review procedures to assess the reasonability of local funds revenue recognised in the current year, based on prior year income, and known movements in income during the year. We also performed detailed testing over local funds revenue by selecting a sample of revenue receipts and agreeing these to supporting documentation to ensure that they had been accurately recognised during the year. We tested a selection of transactions for a period occurring after year end to ensure that all transactions were recognised in the correct accounting period.	We updated our understanding of the School's revenue recognition processes as well as the accounting policies in place during our planning and audit fieldwork. We are satisfied with the School's revenue recognition processes and accounting policies. No variances were noted between the transactions sampled and the supporting documentation these transactions were agreed to; all transactions examined had been accurately recognised. All transactions after year end which we examined had been recognised in the correct accounting period.
<i>Cyclical maintenance provision</i> We consider a risk exists that the cyclical maintenance provision may be incorrectly stated at year end due to the complex accounting requirements. We obtained the most recent 10 Year Property Plan directly from the School, which sets out a forecast schedule of obligations regarding regular maintenance of school buildings owned by the Ministry of Education. We reconciled the amount of the provision required as at 31 December 2023 based on the expected timing and costs for scheduled maintenance projects per the 10YPP to the amount included in the annual financial statements.	Based on our reconciliation of the provision at 31 December 2023, the amount included in the annual financial statements appears reasonable.

Significant Financial Reporting Matters (continued)

RISK AREA & EXPLANATION	CONCLUSION
<i>Sensitive expenditure</i> In accordance with the Public Audit Act 2001, as auditors, we are required to carry out testing and remain alert to public sector concerns, including issues and risks around effectiveness and efficiency, waste, a lack of probity or financial prudence and compliance with legislation. Throughout the audit we remained alert to issues around sensitive expenditure and conducted detailed testing; particularly in relation to expenditure transactions incurred by the Principal. This included obtaining an understanding of the attitude of management/the Board towards sensitive expenditure, the relevant systems and process in place and how the Board maintains oversight of such expenditure.	No significant issues were identified during the audit which would indicate any heightened risks in relation to the use of public funds. We encourage the Board and Management to remain vigilant and proactive in relation to managing sensitive expenditure. The Office of the Auditor-General have recently issued a good practice guide on managing sensitive expenditure which is a useful tool in refreshing awareness of your responsibilities. https://oag.parliament.nz/2022/sensitive-expenditure/docs/sensitive-expenditure.pdf

Audit Differences

Materiality

ISA (NZ) 320 *Materiality in Planning and Performing an Audit* defines misstatements and omissions as being material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The determination of materiality is based on our professional judgment and is affected by our perception of the financial information needs of users of the financial statements.

The concept of materiality is applied throughout the audit process, including planning of the audit. Specifically, it is applied in evaluating the effect of identified misstatements and of uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Summary of Adjusted Audit Differences

The following adjustments were identified during the audit and have been reflected in the financial statements:

DESCRIPTION	VALUE	EFFECT ON SURPLUS \$
Surplus per draft 1 financial statements		15,073
Late Client Journal Raised to fix TRL Lease incorrectly allocated	302	302
Journal to record banking staffing overuse at year end	(1,863)	(1,863)
Surplus per signed audited financial statements		13,513

Summary of Unadjusted Audit Differences

No unadjusted journals identified during the audit.

Internal Control Findings

Our audit included the consideration of the School's internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

With respect to the School's following key cycles we updated our understanding of the internal controls and evaluated their design effectiveness.

- Revenue cycle
- Expenditure cycle
- Payroll cycle
- Manual journal process
- Financial statement preparation process

We did not identify any significant control weaknesses during the course of our audit that we believe should be brought the attention of Those Charged with Governance.

Our observations and recommendations in relation to areas where accounting controls can be further strengthened and other matters which came to our attention are outlined below.

We comment only on those items which came to our attention during the normal course of our audit work and therefore our observations are not as comprehensive as they would be, should a special review of the School's systems, procedures and controls be undertaken. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorised use or disposition, and that transactions are executed in accordance with management's authorisation and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

It should be stressed that the comments made do not imply any lack of integrity or honesty on the part of the officers and employees of the School, from whom we have received every courtesy and co-operation during the course of our audit.

PRIORITY RATINGS FOR RECOMMENDATIONS		
HIGH	MEDIUM	LOW
Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Internal Control Findings (continued)

#	OBSERVATION & RISK	ISSUE AND RECOMMENDATION & MANAGEMENT RESPONSES
1	Capital budgeting Capital works expenditure and has not been included in the 2024 budget prepared by the School. Specifically, cash outflows for capital works scheduled to be carried out during 2024 have not been considered when forecasting the net cash movement for the year. It is important that all expected cash flows are considered when setting the annual operating budget, since excluding expenditure expected to be incurred reduces the usefulness of the budget to monitor financial performance throughout the year.	We recommend that the Board discusses the budget preparation process with Education Services and assess whether revisions to the 2024 budget are required. We recommend that consideration is given to budgeting for capital expenditure and cyclical maintenance in addition to operating expenditure in future years. [Management response]
2	Payroll Controls During the review we noticed that the activity history, leave history and timesheet history reports were not reviewed and approved off by an independent reviewer Having an independent person review payroll helps ensure accuracy, fairness, and compliance with legal and regulatory requirements. It provides oversight in order to detect errors, prevent fraud, and maintain trust among employees regarding the integrity of the payroll process	We recommend that an appropriate member of the Board and Principal sign off on all Payroll Reports, which include the Activity History, Timesheet History, Leave History and SUE Report. This will ensure overarching control and segregation of duties within Payroll. [Management response]

Internal Control Findings (continued)

#	OBSERVATION & RISK	ISSUE AND RECOMMENDATION & MANAGEMENT RESPONSES
3	Cyclical Maintenance Although we are satisfied that the School has recorded an appropriate provision for cyclical maintenance in the financial statements, we note the works planned as per the Cyclical Maintenance schedule for the Administration Block did not take place during the year as scheduled and has been deferred to 2024 We are satisfied that the school has recorded an appropriate provision for cyclical maintenance in the financial statements, however we note that this provision continues to increase. The Property Occupancy Document (POD) gazetted in accordance with section 70 of the Education Act 1989 requires the Board to prepare and annually review a property plan that includes all the maintenance requirements of the School over a continuous ten-year period. The expectation is that maintenance of the buildings and other facilities will be carried out in accordance with this plan. Continuing to defer the maintenance may have a negative impact on the quality of facilities of the School and also increase the risk of health and safety issues arising. Additionally, a risk of project deferral is that multiple cyclical maintenance projects fall due within the same year, which can through out budgeted figures, putting the school into a deficit position,	We recommend that the Board consider the options for resourcing any remedial work and ensure that future maintenance is carried out in accordance with the cyclical maintenance schedule in the 10 Year Property Plan. We acknowledge that a new 10 Year Property Plan is being prepared for 2024 and that based on the assessments performed as part of preparing this plan, the scheduled cyclical maintenance projects may change from the existing plan. We recommend that the Board attempt to ensure maintenance work is completed based on the timing outlined in the new plan, to ensure that cyclical maintenance work does not fall into arrears. [Management response]

Review of prior year findings

OBSERVATION & RISK	RESOLUTION
Capital Works Capital expenditure has not been included in the 2023 budget prepared by the School. Specifically, cash outflows for cyclical maintenance scheduled to be carried out during 2023 have not been considered when forecasting the net cash movement for the year. It is important that all expected cash flows are considered when setting the annual operating budget, since excluding expenditure expected to be incurred reduces the usefulness of the budget to monitor financial performance throughout the year.	Unresolved Issue raised again in the current year

Representations

We requested Those Charged with Governance to provide us with representations on specific matters relating to the preparation of financial statements that are free from material misstatement, whether due to fraud or error in accordance with the applicable financial reporting framework, as set out in the terms of the audit engagement.

Prior to the completion of the audit, we provided a template of these representations to Those Charged with Governance. We requested that Those Charged with Governance confirm any unadjusted differences reported are not material to the financial statements.

Other Matters

ISA (NZ) 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management; and
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the School's financial statements for the year ended 31 December 2023.

Your Baker Tilly Staples Rodway team



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