

29 June 2018

The Chairperson
Board of Trustees
Southern Cross Campus
PO Box 43-242
Mangere
Auckland

RSM Hayes Audit

PO Box 9588
Newmarket, Auckland 1149
Level 1, 1 Broadway
Newmarket, Auckland 1023

T +64 (9) 367 1656
www.rsmnz.co.nz

Dear Mr Parussini

Audit of your Financial Statements For the year ended 31 December 2017

We have substantially completed the audit of your financial statements for the year ended 31 December 2017.

Upon completion of your audit we will enclose a complete set of your school's financial statements together with our formal audit report issued on behalf of the Controller and Auditor-General, as required by legislation.

Please note that a PDF copy of the audit report and signed financial statements was due to be uploaded to the MOE's schools data portal by 31 May 2018. We stress the importance of loading this as soon as they are available given it is now past that date. We also bring to your attention that due to an amendment to the Education Act 1989, all schools are now required to publish their Annual Reports on their website. This requirement commences with your 2017 Annual Report which contains your audited annual financial statements including our audit opinion.

This letter and accompanying report of Audit Findings includes observations on the school's accounting procedures. As the trustees are responsible for the financial operations of the school we suggest this letter be considered at the next finance committee meeting and tabled at the next full board meeting.

Scope of the audit

Our audit is designed to provide an independent opinion on the board's financial statements which are a public document. As a secondary output of this work we also report on matters relevant to your financial and management systems that have come to our attention and are significant.

We have performed procedures to audit the information presented in your annual financial statements. We have also relied on representations made by your school's management team. We assess the results of procedures and representations made when forming our audit opinion.

To ensure your school receives the maximum benefit from our audit we have turned our focus to the future and set out in the attached report some matters for the attention of your board. Our motive is to offer objective and constructive advice so that the accounting function and related issues can be improved in the future. Please note that this letter is sent only to you, with a copy to the Office of the Controller & Auditor-General. We do not send a copy of this letter to the Ministry of Education or any other party.

The audit doesn't end with our audit report

If you wish, we would be pleased to discuss with you our recommendations in this letter or any other aspect of the school's audit. If it is of value to your board, one of our audit directors or managers would be happy to attend a board meeting to discuss any finance related issues you have.

In recognition of the value we place on our association with your school, we think it is appropriate to waive our normal fee for attending a meeting. Please contact our office if you wish to take up this offer.

Our sincere thanks

We would like to take this opportunity to thank your principal, Robin Staples and executive officer, Judith Langley for their assistance and co-operation during our audit. The assistance from the school team greatly influences the efficiency of the whole audit process.

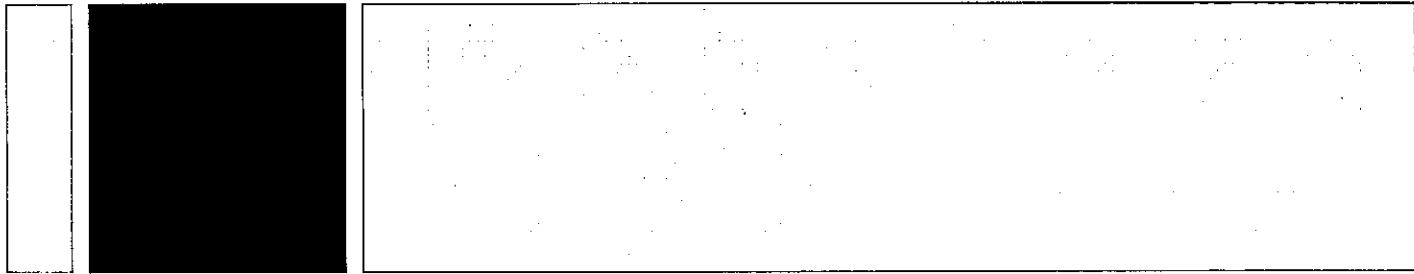
We would also like to thank the trustees for selecting RSM Hayes Audit as your auditors. We appreciate our relationship with your school and look forward to continuing to provide a valuable service to you.

Yours sincerely



Colin Henderson
Audit Partner





Southern Cross Campus

Audit Findings

For the year ended 31 December 2017

1. Introduction
2. Expected Content Of Our Formal Audit Report
3. Governance
4. The Financial Statements
5. The Day To Day Accounting System

1. Introduction

We set out below our findings from the audit work we have performed during the audit of your financial statements for the 2017 financial year. Matters raised in this report have been discussed with your management team during the audit fieldwork.

Our work focussed on the systems and controls set by your board and implemented by your management team, to the extent necessary in forming an audit opinion. Any matters arising from the audit are detailed in this letter.

2. Expected content of our formal audit report

Subject to receipt of signed financial statements, letter of representation and final update of events subsequent to balance date, we expect to issue an unmodified audit report in our standard wording.

3. Governance

Areas of Significant Audit Focus

We believe it is best practice to communicate with you as the governing body regarding matters which form an important part of our audit process.

An independent audit of your financial statements is a key part of ensuring that your organisation has appropriate controls in place regarding financial management and financial reporting. However, ultimately it is you, the governing body that remains responsible for your financial systems, internal controls including the detection and prevention of fraud, and financial statements.

While our audit necessarily involves evaluating your overall system of financial controls and reporting, the following are areas and issues we assessed as potentially significant risk areas in relation to your school during our audit. Accordingly we believe that they are important issues that should be of interest to you in your governance capacity. In the case of your organisation in the current year these assessed areas of significant focus were as follows:

- Payroll controls in place at your school and accurate recording of payroll accruals;
- Recognition and recording of locally raised funds income and expenditure;
- Risk from limited segregation of duties;
- Revenue recognition and treatment of income in advance;
- Expenditure being valid and appropriate for your school's purposes (probity of expenditure);
- Cyclical maintenance expense and provisioning being appropriate;
- Appropriate treatment of capital works funding and expenditure;
- Recognition and disclosure of related party transactions; and
- Accurate recording of monies and staffing allocation for your RTLB cluster.

In addition, we sought to ensure that your financial statements were in compliance with generally accepted accounting practice in New Zealand as appropriate to public benefit entities that qualify for Tier 2 reporting. That is that Public Benefit Entity Standards - Reduced Disclosure Regime (PBE Standards RDR) have been appropriately adopted and that the mandatory Kiwi Park model has been followed.

We are pleased to advise that our testing of these assessed risks did not identify any significant issues or concerns. Any observations and recommendations related to these topics are detailed below.

Controlled Entities

The two separate entities, Southern Cross Campus Foundation Trust (the trust) and Southern Cross Campus Foundation Incorporated (the society) have been determined by the OAG to be controlled entities by your school board. Controlled entities are required to be consolidated into your annual financial statements.

As such, the results of these entities should be consolidated in your financial statements. However, we appreciate the entities were insignificant to your school and not considered material to your financial statements as a whole. Therefore, we accept the current note disclosure being made in your financial statements, but the size and significance of these entities will need to be considered by your school in future in relation to both budgeting and reporting results.

Please note that there is also a legislative requirement that schools cannot advance funds to the trust and if it did it would be in breach of the Education Act.

Budgeted Cash Flow Statement

Schools are required by S87(3)(i) of the Education Act 1989 to report budgeted figures for the cash flow statement that is now mandatory in your financial statements. Further, we consider that it is important to monitor the cash position of your school to ensure that funds are always available to meet day to day financial obligations.

We note that while your school has presented a cash flow statement budget in your year-end financial statements, this has been generated from your income statement and balance sheet budgets as part of the financial statements preparation process.

In future, we recommend that the cash flow budget prepared by your finance team be integrated into your annual budgeting cycle so that this is available to your board and management for monitoring purposes at the commencement of the year, as well as to enable this to easily be included in the annual financial statements.

Non-adherence to Travel Policy

We note that for two international trips (Samoa & Cook Islands) not all students paid all the funds prior to the trip. As a result, there were aged receivable balances from families in the financial statements. These were not material to the financial statements as a whole.

Under the school's international tours policy "Airmiles are to be paid in full 3 months prior to travel and all other costs 1 month prior to departure in order to participate". Policies establish guidelines for best practise and provide guidance to the school staff as to what is acceptable. In these cases, this policy was not followed.

We note that the travel policy has since been revised with clearer guidelines, and reiterate the importance of adherence to these policies so as the school does not carry financial risk for overseas trips.

Financial Results and Deficit Budgeting

It was noted in the October board minutes that the department budgets had been exceeded during the year and consequently had to be 'shut down' for the rest of the year. We acknowledge that this represents affirmative action taken by management and the board who are monitoring budgets on a regular basis. Nevertheless, the school has achieved a sizeable deficit in excess of \$500,000 for the 2017 year. We also acknowledge that a large reason for this deficit was a conscious decision by the Board to utilize reserves to increase teaching resources to support the children while the school underwent significant physical reconstruction.

Management and the board need to continue to monitor the actuals against budget, and in particular employee costs, very carefully and on a monthly basis, to ensure your spending is constrained to the budget and where some strategic decisions are made they are reflected in the budget.

We caution against regular budgeting for sizeable deficits which if achieved further erode the school's equity and cashflow.

Required Communications

We are required by auditing standards to report specific matters to you as follows:

- We have had no disagreements with management during our audit nor any serious difficulties in dealing with management;
- We have not identified any breaches of legislation during our audit;
- We have not identified any instances of fraud involving management, or any other frauds that caused a material misstatement of the financial statements; and
- We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.

Audit Independence

We reaffirm we are independent of your school, and that we have no relationship with your school that could impair our independence.

4. The Financial Statements

Unadjusted differences

There were no unadjusted journal differences that we identified during the audit.

Adjustments made

Appendix A identifies all journal adjustments posted at our request in the final financial statements.

Reporting Timetable and the Audit Process

At the time of our audit visit, we were not able to reconcile the trial balance with the financial statements, given its format when provided to us. Some weeks later a more usable version was supplied. We understand that this was partly due to a software conversion issue at your school, which has now been remedied in 2018.

Also, the number of changes required to be made to the financial statements, particularly around classifications, fixed assets, various note disclosures and the Statement of Cash Flows, has been relatively high. The combination of these matters makes the financial reporting and audit work we do more difficult to manage within our budget and timelines, as we work with multiple versions of the financial statements.

Also, the final financial statements have been signed off after the legislative deadline of 31 May 2018. This required us to consider including a note disclosing this breach in the financial statements, which is required when the reason is primarily attributable to the school. We have decided in this case not to include the breach note in recognition of the fact that there was good co-operation from your team in terms of responding to our queries, the fact that the matters above are being addressed by the school, as well as some delays at the end of the process from ourselves.

Nevertheless, we think it would have been more efficient and effective if maybe we had visited the school a little later and after your senior finance team had the opportunity and time to do a more in-depth quality control review over the document as a whole before being provided to us.

Given the extremely busy time period over which the financial statements and associated work papers have to be prepared, it may be worth considering engaging an accounts service provider to prepare or assist with the year-end financial statements. We are happy to discuss this further and possibly suggest providers you could consider.

5. The Day To Day Accounting System

It is important that we report any observations and areas for improvement in respect of the financial control environment at your school. As part of the RSM audit approach we review the accounting systems established by the board to the extent that they could have a significant impact on the annual financial statements. The following observations are brought to your attention.

Changes to Standing Data

Currently there is no check on changes to standing data in your system, such as creditor bank account details entered into your on-line banking. Lack of detailed review over changes to standing data such as this can provide an opportunity for error or for employees to misappropriate funds.

We wish to stress that this is just an improvement observation to your system, and we did not identify anything that would bring into question the integrity of any of your employees involved in these processes.

In our experience, most systems have the ability to print exception or change reports which detail changes made by users to standing data. We suggest an exception report be printed to show any changes made to creditor details – in particular relating to bank account details. This should be checked by an independent person and evidenced as such on the exception report to ensure the integrity of the standing data.

Fixed Asset Balances

We noted that some of the fixed assets register balances do not agree to the final balances in the general ledger. For example, the net book value of building improvements and leased assets in the general ledger do not agree to what is in the financial statements or the fixed asset register.

We understand that there were a number of adjustments in the current year to the leased assets, and this may have contributed to the variances. We also note that the overall net book value of all fixed assets agrees. For accurate tracking and reporting going forward, it is important to reconcile the category variances between the general ledger and the fixed asset register.

We recommend that a review is performed to ensure the general ledger asset balances agree to the fixed asset register.

Separate account codes for Capital Works Projects

There are five capital work projects that are still 'in-process' and currently all income and costs associated with each project is being grouped into one general ledger code.

In order to ensure that grants received are spent on stipulated projects, these projects should be accounted for separately within the general ledger. This will allow a clear view that funds received for that project have been spent appropriately and will allow the school to track income and expenditure relative to budget.

Appendix A

Journal adjustments made in the final financial statements at our request

Date	Name	Account No	Income Statement		Balance Sheet	
			DR	(CR)	DR	(CR)
31/12/2017	Central Funded Teachers Salari	1040		(202,469)		
31/12/2017	Ministry Funded Teachers & MUs	3602	202,469			
	Correction to PF09- incorrect entry for teachers salary grant recieved					
31/12/2017	MoE Salary Accruals	6002				(256,995)
31/12/2017	MoE Salary & related accruals	8220			256,995	
	To accrue PF22 payroll accrual					
31/12/2017	P & E - Class Acquisition Cost	8642			16,019	
31/12/2017	P & E - Office Accum Depn	8663				(2,002)
31/12/2017	Text Books Acquisition Cost	8692				(16,019)
31/12/2017	Text Books Accum Depreciation	8693			2,002	
	F&E addition incorrectly recorded as a text book addition.					