

31 May 2024

The Presiding Member
Board of Trustees
The Gardens School
101 Charles Prevost Drive
The Gardens
Auckland 2105

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 Richard Gray

Audit of your Financial Statements For the year ended 31 December 2023

We have substantially completed the audit of your financial statements for the year ended 31 December 2023.

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 is required to be uploaded to the MOE's schools' data portal by 31 May 2024. We also remind you that you are also required to publish the final audited version of your annual report on your website.

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, including your accounting service provider. 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.

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Our sincere thanks

We would like to take this opportunity to thank your principal and your finance and administration team 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 as your auditors. The 2023 year represents the final year of our three-year cyclical appointment as your auditors. We have appreciated our relationship with your school over that time. The formal tender and appointment processes for the next three years will be initiated by the Office of the Auditor General and carried out during 2024

Yours sincerely

A handwritten signature in blue ink that reads 'Colin Henderson'.

Colin Henderson
Audit Partner



The Gardens School

Audit Findings

For the year ended 31 December 2023

1. Introduction
2. Expected Content Of Our Formal Audit Report
3. Governance and risk management
4. The Financial Statements
5. Accounting Systems and controls

1. Introduction

We set out below our findings from the audit work we have performed during the audit of your financial statements for the 2023 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 for the audit of schools.

3. Governance and risk management

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:

- Completeness of locally raised funds; and
- Potential for management override of controls, including ensuring controls in place are adequate especially where there is a lack of segregation of duties.

While not specifically identified as a significant risk, we maintained alertness for, and awareness of issues and risks related to the Auditor-General's concerns over effectiveness and efficiency, waste, and a lack of probity or financial prudence. This focus aims to ensure the appropriate expenditure of public money. During our audit, we reassessed your cyclical maintenance provision, which we had initially assessed as a significant focus area during our planning. Given the use of a suitably qualified expert, this is no longer considered a significant focus area.

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, and apply, Tier 2 reporting standards. This involves considering whether Public Benefit Entity Standards - Reduced Disclosure Regime (PBE Standards RDR) have been appropriately complied with and that the mandatory Kiwi Park financial statements model has been followed.

We are pleased to advise that our testing of these assessed risks did not identify any significant issues or concerns.

Other governance and risk management matters

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

Appendix A details unadjusted journal differences that we identified during the audit.

Adjustments made

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

Deficit Budget

The Board has prepared and approved a deficit budget for the coming year.

We are concerned that continued deficit budgeting, if achieved, will reduce your school's equity. Although deficit budgeting may appear to be warranted when preparing the budget for a particular year, we urge caution in using this approach because it is unlikely to be sustainable. For the coming year, the budget shows a deficit of \$177,455 and there are also capital purchases expected of \$255,312. The budgeted cash movement in the upcoming year shows a decrease in cash of \$170,448. Based on this budget, the working capital of the school is expected to decrease further compared to 31 December 2023.

It is vital that you continue to look for ways to improve the actual results against the budgeted deficit during the upcoming school year and ensure that spending does not exceed the amounts approved by the Board.

We recommend that the Board try to avoid deficit budgeting wherever possible, so the school budgets reflect the ability for it to live within its means.

Budgeted Cash Flow Statement

Schools are required by the Education and Training Act 2020 to report budgeted figures for the cash flow statement that is 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 preparation of a cash flow budget 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.

Publishing your annual report online

You are now required by the Education and Training Act 2020 to publish your annual report on your school website. During our audit process we noted your 2022 annual report was not on your website. After making your management team aware of this, they have rectified this situation. While there are no timeframes stipulated in the legislation for when publishing on your website must occur, we believe this should be done as soon as possible after the audit is completed.

We remind you of your ongoing requirements to ensure 2023 and future annual reports are also filed on your website, along with being submitted electronically to the MOE through the school's data portal.

5. Accounting systems and controls

As part of the RSM audit approach we evaluate 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:

Payroll controls

As previously reported, transaction reports showing changes between pay periods are now no longer available from EdPay. The EdPay system relies on schools checking the accuracy of the payroll transactions processed by the school, as this information is not checked centrally. Accordingly, there is a risk of payroll transactions being incorrectly processed, either due to fraud or error.

We do not consider that the review of the SUE report on its own is a strong enough control for schools to rely on to detect fraud or error, because it does not include details of changes to amounts paid, or masterfile changes such as bank account data. The lack of a complete masterfile change report could also potentially provide an opportunity for inappropriate or fraudulent changes to go undetected.

Accordingly, we were again unable to place reliance on your payroll controls operating effectively during the 2023 year. This has meant we have had to carry out additional audit procedures on payroll this year. These additional procedures have provided the necessary assurance over the payroll amounts in your financial statements.

We appreciate the absence of a transaction report showing masterfile changes limits your ability to implement appropriate controls around payroll. Your Board should however consider how it gets comfort that all changes are made with appropriate authorisation. Possible measures could include the preparation of a report of changes between each SUE report by using the Payroll Toolkit, or having an independent employee manually prepare such a report.

Without a list of all masterfile changes that could be reviewed and approved by a second independent person, this remains an area susceptible to fraud and error. We will again review the adequacy of processes and controls put in place during the 2024 audit.

Capital Projects

In previous year we noted completed capital projects having either surplus or overspending balances sitting in the accounts with no further funding from the MOE or expenditures on the project expected. We understand that all projects are completed. As a result, the school has written up and off all balances in the capital projects through board contributions. These write offs of overspend is appropriate, but for projects where there is

underspent funds, those are normally expected to be refunded to the MOE or reassigned to another project budget. Therefore, in order to write these balances up you should get MOE approval or reconcile and support adjustments between codes if there has been historical miscoding.

We recommend that you resolve these balances appropriately and adjust the financial statements if necessary. We have raised an adjustment to reverse the credit balances which is outlined in the Appendix A.

6. Prior Year Recommendations

Prior Year Recommendation	Current Year Progress
<p>Credit Card Controls</p> <p>We recommended that the Board consider the following when implementing credit cards:</p> <ul style="list-style-type: none"> - All credit card transactions must have invoices and supporting documents. Appropriate supporting documentation is important for tax reasons (e.g. claiming GST) and to provide evidence that this was valid expenditure for your school. - Ensure only authorised personnel have access to make purchases with the credit card. - Credit cards should have maximum credit limits and ensure that the PIN facility is used. - A “one-up” principle of review and authorisation of credit card expenditure should be applied. This means, for example, that the credit card transactions of a principal should be approved by a member of the Board and the approval should be dated to evidence timely reviews. 	<p>Noted no issues of credit card review by the board and no issues of invoices or receipts not being attached to credit card statements.</p>

Appendix A

Unadjusted differences arising from our audit

The following differences have been identified during our audit and remain unadjusted at the conclusion of our work. Whilst we request that these do be amended, given their value, we nevertheless are still able to provide an unmodified opinion should they remain unadjusted in the final approved financial statements.

Account Name	Account No	Income Statement		Balance Sheet	
		DR	(CR)	DR	(CR)
R & M Buildings, Grounds	57660		58,215		
MOE SIP Funding Project Income - Decking & Bleache	83204				(55,208)
MOE SIP Funding Project Expense - Decking & Bleach	83205			53,654	
MOE SIP Funding Project Income - Garden To Table C	83206				(30,342)
MOE SIP Funding Project Expense - Garden To Table	83207			29,653	
MOE SIP Funding Project Income - Imagination & Jun	83208				(66,810)
MOE SIP Funding Project Expenses - Imagination & J	83209			53,186	
MOE SIP Funding Project Income - Min Teaching Space	83210				(28,131)
MOE SIP Funding Project Expense - Min Teaching Spac	83211			27,301	
MOE Funding Project Income - Polycarbonate Shade Str	83214				(125,979)
MOE Funding Project Expense - Polycarbonate Shade St	83215			84,959	
MOE Funding Project Income - Bike Pump Track	83216				(42,708)
MOE Funding Project Expense - Bike Pump Track	83217			42,210	
To adjust for the capital projects with a surplus that have been completely written off					

Appendix B

Journal adjustments made in the final financial statements at our request

Account Name	Account No	Income Statement		Balance Sheet	
		DR	(CR)	DR	(CR)
MOE Teacher Salaries Grant	10390		(52,091)		
Staff Banking Overuse	82210			52,091	
To adjust bank staffing overuse					