

31 December 2022

Auditor's Report to the Board of Trustees

Orewa Beach School

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13 February 2024

The Chairperson
Orewa Beach School
Strictly Private and Confidential
280 Centreway Road
Orewa
Auckland 0931

Attention: Andrea Fitness

Dear Board Members

Annual Financial Statement Audit for the Year Ended 31 December 2022

We have completed our financial statement audit of Orewa Beach School (the "School") for the year ended 31 December 2022, and we now provide 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

Crowe New Zealand Audit Partnership



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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 2022 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 2022 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

The Board is responsible for the preparation and fair presentation of the financial statements which fairly reflect the financial position of the School as at 31 December 2022 and the financial performance for the year ended on that date.

To meet this objective, the Board is 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 2022.

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 2022 audit the materiality level was set at \$116,000. 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
Fraud in revenue recognition <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.
Management override of controls <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, including the provision for cyclical maintenance. Journals posted into the general ledger were selected on a sample basis and traced back to supporting documents to verify that they were appropriate.
Probity of expenditure <ul style="list-style-type: none"> The probity of expenditure is a specific requirement of the Office of the Auditor General and considers the appropriate use of public funds. 	<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 areas 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.

Audit Risk	Audit Response
<p>Cyclical Maintenance</p> <ul style="list-style-type: none"> The cyclical maintenance provision does not contain all obligations of the school and does not reflect management's best estimate. 	<ul style="list-style-type: none"> Reviewed the school's cyclical maintenance calculation to ensure that the provision was made in accordance with the school's 10 Year Property Plan (10YPP) and/or other appropriate supporting information. Obtain an understanding of the process taken to prepare the 10YPP and ensured that a person with suitable experience has prepared the plan. <p>We identified that the Ministry of Education has advised the school that many of the school's buildings are intended to be demolished and replaced. On this basis due to uncertainty surrounding provisioning requirements our view is that the cyclical maintenance provision should have been reversed in full. Please refer to section 3.2 point 1 for details of the unadjusted error arising.</p>

1.6 Observations and recommendations arising from the audit

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

1.6.1 No fixed asset stock take or impairment review

Observation

From our discussions with the Principal, we noted that the school has not recently performed a detailed stock take of the school's fixed assets. We furthermore noted that no annual review for impairment had been carried out on the fixed asset register.

Impact

Review of impairment as well as performing fixed asset stock takes assists in identifying fixed assets subject to damage, obsolescence, curriculum changes and also in identifying fixed assets no longer in use.

Recommendation

The fixed asset register should be reviewed for impairment at least annually. We furthermore recommend that the school should carry out a stock take of the fixed asset register at least once every three years to ensure that the register is up to date and reflective of the School's current fixed assets. This will help the school identify any assets that have been stolen, broken or need replacement. This can either be done as a full fixed asset stocktake or a rotation basis can be implemented, i.e. a different section of the school assets each year, covering the full School in 2-3 years.

1.6.2 Cyclical maintenance

Observation

We identified that the Ministry of Education has advised the school that many of the school's buildings are intended to be demolished and replaced. On this basis due to uncertainty surrounding provisioning requirements our view is that the cyclical maintenance provision should have been reversed in full. Please refer to section 3.2 point 1 for details of the unadjusted error arising.

Impact

Although the non-adjustment of the cyclical maintenance provision was deemed not material and therefore remained an unadjusted error, the School's provision for cyclical maintenance does not accurately reflect the uncertainty which has arisen due the circumstances advised by the Ministry of Education and is not in accordance with appropriate accounting standards.

Recommendation

We recommend that consideration been given to the appropriate treatment of cyclical maintenance provisioning in the 2023 financial statements, in accordance with appropriate accounting standards.

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

1.7 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 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	There have been no significant accounting policies adopted or changed during the year.
Management judgements and estimates	Other than what has been disclosed in Section 0 no material accounting judgements identified.
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, there were no adjusting journals were posted for the year ended 31 December 2022.

3.2 Unadjusted audit differences

As a result of our audit procedures, the following adjusting journals remained unadjusted for the year ended 31 December 2022:

#	Description	\$				
		Balance Sheet		Income Statement		Profit Impact
		DR	CR	DR	CR	
1	Liability – Cyclical Maintenance – Current	29,617	-	-	-	
	Liability – Cyclical Maintenance - Term	48,885	-	-	-	
	Property- Cyclical Maintenance Provision	-	-	-	78,502	
	To reverse cyclical maintenance	-	-	-	-	78,502
2	Property – Repairs and Maintenance	-	-	14,144	-	
	Liability – Funds held for capital works	-	14,144	-	-	
	Adjust receivable capital works after completion of project	-	-	-	-	-14,144
TOTAL		-	-	14,144	78,502	64,358

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