

Matauri Bay School

AUDIT COMPLETION REPORT

FOR THE YEAR ENDED

31 December 2019



2 July 2020

Dannie Samuels
Chairperson
Matauri Bay School
Whakaraka Road
RD 1
Kaeo

cc: Jared Nordstrom
Principal

Dear Mrs Samuels,

We have pleasure in presenting our Audit Completion Report for our audit of Matauri Bay School's financial statements for the year ended 31 December 2019.

We would like to emphasise that our audit work involves the review of only those systems and controls in your organisation 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 take this opportunity to express our appreciation for the assistance and co-operation provided by the School's staff during the audit, especially Leeann Turner. We have received full and frank cooperation. There is nothing we wish to raise solely with the Board.

Yours faithfully,
BDO NORTHLAND



Angela Edwards
Appointed Auditor / Audit Partner

Email: Angela.Edwards@bdo.co.nz
Cc: Jared Nordstrom, Principal, Matauri Bay School
Encl: Board Report

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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

BDO NORTHLAND ('BDO') is the Appointed Audit Firm of Matauri Bay (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 2019 is complete. Subject to the resolution of matters arising in this report, review of the final draft financial statements, receipt of a signed letter of representation, approval by the Board of the financial statements and the finalisation of our audit completion procedures.

We intend to issue an unqualified audit opinion.

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

AUDIT SCOPE AND OBJECTIVES

Our audit objectives are to:

- report on whether the financial statements give a true and fair view, 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 in your business, their potential impact on the financial statements and the associated risk mitigations and controls in place. The significant matters arising from our audit work are:

- Locally raised funds
- Payroll not approved or checked
- Cyclical maintenance provision
- Management Override

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

SUMMARY OF UNCORRECTED MISSTATEMENTS

Uncorrected misstatements are documented at Appendix 1 and will be included in the letter of representation that you agree with Management's assertion that they are immaterial to the readers understanding of your financial statements.

INTERNAL CONTROLS

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

We have included in Appendix 1 of this report, a summary of our findings and recommendations arising as a result of our audit procedures.

GOVERNANCE AND ACCOUNTABILITY

Good governance and accountability need and support each other and, if done well, enhance the public's trust in our public sector. Good governance encourages and can result in good accountability. In turn, accountability is a vital element of good governance.

The Auditor-General has published a report, Reflections from our audits: Governance and accountability. This report reflects on common issues, and highlights examples of good and emerging practise, which public entities can use to help improve their governance and accountability arrangements. It also identifies eight elements of good governance and looks at some trends that present new challenges and opportunities for enhancing accountability.

We encourage you to use the findings and examples in this report to consider the School's governance and accountability arrangements. This report is available on the OAG website at www.oag.govt.nz/2016/reflections

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 the audit arrangements letter 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.

Locally Raised Funds	
Area of Audit Emphasis	Conclusion/Response
Due to the nature of locally raised funds (often being cash), there is a risk of material misstatement around the completeness of locally raised funds income.	From our audit work performed we found no issues regarding locally raised funds income or expense balances in the financial statements.

Payroll not approved or checked	
Area of Audit Emphasis	Conclusion/Response
Payroll is processed by Novopay. The accuracy of payroll processing is dependent on appropriate approval of payroll changes and checking of the fortnightly SUE report.	From our audit work performed we found no issues regarding payroll balances included in the financial statements.

Cyclical Maintenance Provision

Area of Audit Emphasis	Conclusion/Response
<p>Cyclical Maintenance is an area of judgment and could lead to material misstatement in the financial statements. For Schools to be able to calculate the appropriate cyclical maintenance provision a 10 Year Property Plan (10YPP) needs to be prepared and/or reviewed by an expert.</p>	<p>From our audit work performed, there were no issues regarding the provision for Cyclical Maintenance in the Financial Statements.</p>

Management Override

Area of Audit Emphasis	Conclusion/Response
<p>There is a rebuttable presumption under the International Auditing Standards that there is a risk of management override.</p>	<p>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 is primarily through the processing of manual journals. We have used a risk based approach to testing manual journals, and focused on any areas where a risk of judgement, estimation or cut-off risk exists with management override in mind. No issues with management override we noted.</p>

3. INTERNAL CONTROL AND OTHER AUDIT FINDINGS

This section of the report sets out the key internal control findings we have identified during the course of the audit and highlights control deficiencies requiring management attention. Our work has been limited to those controls relevant to the audit of your statutory financial statements. The purpose of our audit work on controls is not to provide assurance in its own right on the internal controls 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.

There were material weaknesses in internal controls identified relating to the prevention and detection of fraud and error to bring to your attention for the year ended 31 December 2019.

Budgeting for a deficit

Finding

The Board has prepared and approved a budgeted deficit of \$8,329 for 2019.

We are concerned that continued budgeting for deficits, 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 as it is unlikely to be sustainable.

Conclusion

We recommend that the Board avoid deficit budgeting wherever possible and develop strategies to avoid this.

Principal's Authorisation of Invoices

Finding

The present practice is that invoices are authorised by Jared Nordstrom and verified by way of signature. However it was noted during interim visit some smaller payments are authorised retrospectively however the auditor could not verify this through way of a one up signature.

The absence of authorisation of detailed expenditure at the appropriate level could result in inappropriate expenditure incurred going undetected.

Conclusion

As the Head of Management, the Principal should, at minimum, show evidence of payments for schedule for approval.

This is management best practice to reduce the risk of error whether caused inadvertently or otherwise.

Minutes to include budgeted position

Finding

Auditor noted upon review of the minutes, that the budget approval process at the start of the year, did not include a quantified budgeted position.

Conclusion

The year-end financial statements are to include the budgeted figures from the original approved budget.

To ensure these figures are correctly included at year end, please include a quantified budgeted position along with the approval in the final authorised minutes.

Independent review of Locally raised funds - re-raised

Finding

For inward monies received over the counter by the School and reconciled to the cash summary there is currently no independent review systematically carried out. Such a system of internal control would ensure all inwards cash receipted is correctly recorded in the cash summary and banked intact.

Currently, inwards monies receipted could be misappropriated and go undetected.

Conclusion

A system of internal control should be implemented whereby review by a “one-up” independent officer of the person banking the monies should take place to ensure that inward monies are reconciled and banked intact. Any discrepancies should be investigated, and explanations obtained. Approval should be evidenced by way of displaying the signature of the reviewer and date.

Retention of supporting documents to verify all expenditure - re-raised

Finding	Conclusion
<p>From our sample testing of payments, we noted that not all suppliers' invoices were provided for to support or verify payments.</p>	<p>We reiterate the importance of keeping all invoices to support the appropriateness of payments made and the claiming of GST inputs and this includes keeping them in a state whereby evidence can be provided for audit purposes in a legible state.</p>
<p>In most circumstances, GST cannot be claimed without a tax invoice. It is also a legal requirement that invoices be kept for seven years. Obtaining and retaining invoices is also essential to ensure adequate control over the funds of the school.</p>	<p>As the School utilises Xero accounting software, we recommend wherever possible, to attach proof of purchase to each transaction as soon as practicable. This would retain the proof of purpose in a legible state and allow expenditure to be verified for audit purposes.</p>

Significant percentage of operations grant funding teachers' salaries - re-raised

Finding	Conclusion
<p>From discussions with the Ministry of Education, we note that the average school uses around 50-55% of its operations grant to fund teacher salaries.</p> <p>Your school used 68% of its operations grant (an increase of 4% from the prior year end) to fund teacher salaries in the 2019 year, which is significantly higher than the national average.</p>	<p>Using a high proportion of the operations grant to fund teacher salaries creates a potential risk that there may not be enough operations grant left over to fund other school expenses. It is the school's choice how to allocate operations grant funding, and there are a number of reasons why a school could choose to fund additional teachers' salaries through the operations grant. We raise this not as a recommendation for change, but as a point for discussion for the Board of Trustees, to ensure you are aware of it.</p>

4. REQUIRED COMMUNICATIONS WITH GOVERNANCE

Matter	How the matter was addressed
Auditors responsibility under generally accepted auditing standards	<p>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.</p>
Confirmation of Audit Independence	<p>In conducting our audit, we are required to comply with the independence requirements of PES-1 Code of Ethics for Assurance Practitioners issued by the External Reporting Board.</p> <p>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.</p> <p>For the comfort of the Board, we note that the following processes assist in maintaining our independence:</p> <ul style="list-style-type: none"> • No other work is permitted to be undertaken by any BDO office without the express approval of the audit engagement partner. • All services performed by any national BDO office will be reported to the governing body. <p>Audit fees billed for the 2019 audit were \$4,200.</p> <p>There were no other services provided by our firm for the financial year.</p>
Management Judgements and Estimates	<p>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 by management in preparing the results for the year ended 31 December 2019 appear reasonable. Key matters impacting on our audit have been raised in sections 2 and 3 of this report if applicable.</p>

Matter	How the matter was addressed
Matters requiring Board of Trustee input	<p>We have placed reliance on the Board’s review and approval of the following matters:</p> <ul style="list-style-type: none"> • Minutes of the Board meetings; • Implementation of such controls as is needed to ensure that financial statements are presented fairly; • Review and approval of management accounts; • Review and approval of annual budget; • Review and approval of 10 Year Property Plan • Notification of fraud; and • Review and approval of the financial statements.
Accounting policies	<p>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.</p>
Materiality and adjusted/ unadjusted differences	<p>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 for evaluating the financial report. Materiality is initially calculated at the planning stage and has an influence on the amount of work we do, as well as where we direct our audit efforts. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.</p> <p>All unadjusted differences (none of which we consider material, either individually or in aggregate) have been detailed in Appendix 1 of this report.</p> <p>During the course of our audit, we identified 3 misstatements which have been corrected in the financial statements these have been detailed in Appendix 1 of this report.</p> <p>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.</p>

Matter	How the matter was addressed
Going concern	<p>We have undertaken a review of management and those charged with governance' assessment of the ability of the School to continue as a going concern for 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.</p> <p>We identified no issues or concerns that lead us to conclude the going concern assumption cannot be relied upon.</p>
Fraud	<p>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.</p>
Compliance with laws and regulations	<p>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.</p>
Significant findings from the audit	<p>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.</p>
Disagreements with management	<p>There have been no disagreements with management over matters of significance to the audit.</p>
Difficulties encountered during the audit	<p>There have been no significant difficulties encountered during the audit.</p>
Consultations with other accountants and consultants	<p>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.</p>

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	<p>The Education Act 1989 requires you to publish your Annual Report on-line. Your Annual Report contains your audited annual financial statements including our audit opinion, analysis of variance, list of trustees and Kiwisport statement.</p> <p>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. We note that you did publish your 2018 Annual Report on your website. The failure to publish your Annual Report on your website is a breach of section 87AB of the Education Act 1989.</p>

APPENDIX 1 - ADJUSTED AND UNADJUSTED DIFFERENCES

AUDIT ADJUSTMENTS

There were 3 audit adjustments to be made to the financial statements at the conclusion of the audit.

The following misstatements have been identified during the course of our audit, and *have* been adjusted:

Description	Assets	Liabilities	Reserves	Profit
	Dr(Cr)	Dr(Cr)	Dr(Cr)	Dr(Cr)
	\$	\$	\$	\$
Cyclical maintenance Provision				\$2,553
Cyclical maintenance current		(59,583)		
Cyclical maintenance - noncurrent		\$57,030		
<i>To adjust provision based on timing of painting</i>				
Banking staffing underuse	\$22,712			
Teachers' Salaries grant (TS)				(\$22,712)
<i>To bring in staffing banking underuse per wash up.</i>				

Other MOE grants (\$8,986)

MOE roof upgrade		\$8,986		
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To reclassify capital works income as other MOE income.

Net Effect of Adjustments made:	\$22,712	\$6,433		(\$29,145)
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UNADJUSTED DIFFERENCES

The following misstatements have been identified during the course of our audit, and *have not* been adjusted as they were considered by management not to be material:

Description	Assets	Liabilities	Reserves	Profit
	Dr(Cr)	Dr(Cr)	Dr(Cr)	Dr(Cr)
	\$	\$	\$	\$
Scholarship funds		(\$8,064)		
Scholarship Income/expenses				
<i>To account for Scholarship revenue and adjust the closing balance of funds held in trust.</i>				\$8,064
Staffing banking		\$4,597		
Government Grants - Teachers' salaries grant				(\$4,597)
<i>To bring in differences in historical overuse wash up.</i>				
Net Effect of Adjustments not made:	-	(\$3,467)		\$3,467

APPENDIX 2 - UPDATE ON FINDINGS FROM PRIOR YEAR

Annual report not available on the school website - resolved

Finding	Update
<p>Under section 87AB of the Education Act 1989, 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.</p>	<p>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.</p>

Budget to include Cash Flows - resolved

Finding	Update
<p>We note that the 2018 budget approved by the Board of Trustees had some revenue and expenditure items missing, and not all statements were included within the budget.</p> <p>The Education Act 1989 requires that all budget figures are to be approved by the Board of Trustees, and are required to be shown in in the financial statements. As the IPSAS Reporting standards also require the creation of a Cash Flows budget, this is also required to be presented to the Board of Trustees for approval, and inclusion into the financial reports. By not producing a budget that including these items is a departure from the reporting requirements of the School.</p>	<p>We recommend that the budget include all expected revenue and expenditure items, (therefore inclusive of salaries) so that it fairly reflects the schools expected performance when presented within the financial statements. The Budget should also use this information to forecast the expected Statement of Financial Position and Statement of Cash Flows.</p> <p>Note the board's annual report must only show the original operating budget figures. Decisions about forecast changes during the year will provide information for the Analysis of Variance about why actual income or expenditure was different from the original budget.</p> <p>The cash flow budget should be reviewed quarterly and the cash flow forecast for the rest of the year updated. Boards of trustees are encouraged to maintain a rolling forecast of their year-end positions, based on the actual year to date and budget or forecast figures for the remainder of the year. This will ensure that the board knows that it has sufficient funds to the end of the year.</p>

Independent review of Locally raised funds - re-raised

Finding

For inward monies received over the counter by the School and reconciled to the cash summary there is currently no independent review systematically carried out. Such a system of internal control would ensure all inwards cash receipted is correctly recorded in the cash summary and banked intact. Currently, inwards monies receipted could be misappropriated and go undetected.

Update

A system of internal control should be implemented whereby review by a “one-up” independent officer of the person banking the monies should take place to ensure that inward monies are reconciled and banked intact. Any discrepancies should be investigated, and explanations obtained. Approval should be evidenced by way of displaying the signature of the reviewer and date.

Credit card authorisation - resolved

Finding

From our review of a sample of credit card transactions, we noted that there is no independent review of the principal’s, Principal’s Secretary credit card expenses. There is no monthly process other than the original signatures on the Direct Debit form when the cards were implemented.

Update

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.

Serious Financial Difficulty - resolved

Finding

The financial statements reflect a deterioration in your school's financial position.

The Schools working capital has fallen to \$(-65,439)

Because your school has no term investments or other available funds, this means that your current assets are exceeded by your current liabilities.

Update

The seriousness of your school's financial situation has required us to seek confirmation from the Ministry of Education about the validity of your continued use of the going concern assumption in preparing your financial statements.

We are pleased to confirm that the Ministry provided this confirmation. We were able to issue an unmodified opinion because of the Ministry's confirmation and because you have an adequately detailed note to your financial statements about the continued use of the going concern assumption. We have drawn attention to that note in our audit report.

The working capital deficit has arisen due to the school deferring 100% of the cyclical maintenance to 2019. The Board has an obligation to the Ministry to ensure the upkeep of Ministry buildings therefore painting should be completed regularly on a cyclical basis. Based on the current financial position of the school it is unlikely that the school will be in a position to paint the entire school in one year. We recommend the Board review the 10YPP and budget to paint the school over the next few years assisting affordability while still meeting property obligations.

We recommend that the Board carefully review the situation at the next balance date and make another assessment about the appropriateness of continuing to apply the going concern assumption.

Payroll - review of banking Staffing balances - resolved

Finding

The Staff Usage Entitlements (SUE) report is a critical document that lists all of the personnel paid in each pay run. In addition, it also highlights fortnightly under and overuse for staffing banking. As such, it is important that this is reviewed periodically

Update

It was noted in discussions in meeting minutes dated 12th March 2019, that the BOT was never informed by the previous principal regarding the 2017 overuse of \$33,000.

We want to remind the board as the governing body of the school, it is your responsibility to be actively seeking information regarding banking staffing balances to mitigate the risk of any future reductions of the operations budget, due to banking staffing over use.

by governance to ensure a banking staffing is monitored throughout the year.

Any overuse at the end of the year will result in a reduction to your following period operations budget entitlement and for a smaller school, all funds form part of the essential running of operations.

It is also a requirement of the BOT each year, as part of the year end audit process, to sign off and authorise the SAAR certification which includes the BOT chair listing any overpayments and underpayments over \$500. This representation provides the BOT chair the opportunity to make the appropriate enquiries regarding payroll at year end.

Retention of supporting documents to verify all expenditure - re-raised

Finding

From our sample testing of payments, we noted that some suppliers' invoices provided for audit were faded and not legible, making it impossible to support or verify payments.

In most circumstances, GST cannot be claimed without a tax invoice. It is also a legal requirement that invoices be kept for seven years. Obtaining and retaining invoices is also essential to ensure adequate control over the funds of the school.

Update

We reiterate the importance of keeping all invoices to support the appropriateness of payments made and the claiming of GST inputs and this includes keeping them in a state whereby evidence can be provided for audit purposes in a legible state.

As the School utilises Xero accounting software, we recommend wherever possible, to attach proof of purchase to each transaction as soon as practicable. This would retain the proof of purpose in a legible state and allow expenditure to be verified for audit purposes.

Funds held in Trust - Scholarship - resolved

Findings

For inward monies received over the counter by the School and reconciled to the cash summary there is currently no independent review systematically carried out. Such a system of internal control would ensure all

Update

A system of internal control should be implemented whereby review by a "one-up" independent officer of the person banking the monies should take place to ensure that inward monies are reconciled and banked intact. Any discrepancies should be investigated, and

inwards cash receipted is correctly recorded in the cash summary and banked intact.

Currently, inwards monies receipted could be misappropriated and go undetected.

explanations obtained. Approval should be evidenced by way of displaying the signature of the reviewer and date.

Significant percentage of operations grant funding teachers' salaries - re-raised

Finding

From discussions with the Ministry of Education, we note that the average school uses around 50-55% of its operations grant to fund teacher salaries.
Your school used 64% of its operations grant to fund teacher salaries in the 2018 year, which is significantly higher than the national average.

Update

Using a high proportion of the operations grant to fund teacher salaries creates a potential risk that there may not be enough operations grant left over to fund other school expenses. It is the school's choice how to allocate operations grant funding, and there are a number of reasons why a school could choose to fund additional teachers' salaries through the operations grant. We raise this not as a recommendation for change, but as a point for discussion for the Board of Trustees, to ensure you are aware of it.

GST treatment on Scholarship funds -resolved

Finding

GST was not accounted for on the Scholarship income of \$27,000 from Bob Hayward.

Because this is funds to be used for a specific purpose, and in addition GST has been included on the invoice, GST should be returned on any income received. If funds

Update

We recommend that you adjust your next GST return to get this amount paid and, care should be taken to ensure that any future funds are correctly accounted for inclusive of GST.

are received over an extended period, GST can become material resulting in a significant liability for the school.

Bank signatories - resolved

Findings

Update

It was noted in a motion from meeting minutes held 17th December 2018, ABS bank to delete Wayne and Robert from school account and to add Dannie (Board member) and Jared Nordstrom (newly appointment Principal).

Having correct signatories in place ensure that controls are maintained around the transfer of funds and only expenditure that has been verified and authorised as appropriate for purpose, is expensed from the school account.

Please ensure the signatories have been updated at the bank.
