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# Auditor's Report and Management Letters

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## **Group Exercise Auditors Report**

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*What does the Audit  
Report tell you?*

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## **Group Exercise Management Letter**

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- 1) *What concerns do you have reading these comments?*
  - 2) *What questions would you ask the auditors as follow up to the letter?*
  - 3) *What inquires would you make of management?*
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## Auditor's Report

To the Board of Trustees  
123 Regional Division A

We have audited the statement of financial position of 123 Regional Division A as at August 31, 2010 and the statements of revenue and expenses, cash flows, changes in net assets and capital allocations for the year then ended. These financial statements which are presented in the format prescribed by Alberta Education are the responsibility of the school jurisdiction's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the school jurisdiction as at August 31, 2010 and the results of its operations, changes in cash flows, net assets and capital allocations for the year then ended in accordance with Canadian generally accepted accounting principles and the presentation requirements of Alberta Education.

*Green Shade Accountants LLP*

Chartered Accountants  
Anytown Alberta  
October 29, 2010

# Management Letter

October 29, 2010

Mr. X, Board Chair  
123 Regional Division A  
Anytown Alberta

Dear Mr. X;

## **Re: Management Letter for 123 Regional Division A**

During the course of our audit of the financial statements of 123 Regional Division A for the year ended August 31, 2010, we identified matters which may be of interest to management. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly an audit would not usually identify such matters.

The comments and concerns expressed herein did not have a material effect on the School District's financial statements and, as such, our opinion thereon was without reservation. However, in order for the School District to ensure the safeguarding of its assets and the accuracy of its records, we believe our comments and concerns should be taken into consideration by management. Our comments are not intended to reflect upon the honest or competence of the School District's employees.

The matters we have identified are discussed below.

### **Payroll**

- A) A majority of accounting processes in the payroll department are handled by one person. As well as limiting the segregation of duties in this major area, it also leave the board vulnerable if that individual is unable to work due to injury, vacation, etc. Additional staff in the payroll area would help to alleviate time pressures on current employees and increase the overall strength of the control environment by segregating duties across more individuals.
  
- B) The District has clear separation of function within Payroll in that the Human Resources department are responsible for providing all information to Payroll for new employees, and also advising Payroll when employees have been terminated.  
We noted during our audit however, that it is possible for the Payroll department to set up a new employee, or reactivate a terminated employee, without consultation with Human Resources or Management. There are solid controls over the review of payroll reports and

payments made through the bank, however these controls would not detect an unapproved reactivation of a terminated staff member or a change in payee bank account information.

### **Accounts Payable**

- A) During the course of our audit we noted that AP staff have the authority to both set up vendor information, including bank account information as well as create batch payments using EFT as the payment method. Although these payments are subject to the same scrutiny as regular cheque runs, at the time of our audit EFT payments were not checked for valid bank account details by an independent staff member.
- B) Currently the District uses cheque writing software that enables the accounts payable batch, once finalized, to be sent for cheque printing. This includes printing the automatic signatures of both the Superintendent and Secretary Treasurer. During our systems testing we noted that although good controls surround the ability to log-on to the cheque printing software in order for accounts payable staff to action the cheque run, there is limited control to ensure that once a cheque run is completed, access to the cheque printer is terminated. This creates the risk that further unapproved cheque run could be sent to the cheque printer without the knowledge of senior management.

### **Accounts Receivable**

- A) At year end estimates were used by management to calculate the amount of funding receivable for Alberta Education as it pertains to Credit Unit Funding (CEU's). Although the amount is not material to the financial statements, the reasonability of the estimate was not subjected to satisfactory audit verification. It is recommended that management develop a clear and concise methodology for estimating CEU funding from the government.
- B) While documenting the accounts receivable system, it was noted that invoices can be changed in the accounting system. No warning is generated by the accounting software to prevent a previous invoice from being amended. As the AR Clerk is sometimes responsible for opening the mail, this adds a potential weakness in the AR system, in that funds could be misappropriated and the originating invoice altered.

### **School Generated Funds (SGF)**

- A) Generally through our review of school sites and school generated funds, we found there is a lack of authorization of invoices for payment. While the schools have a policy that requires at least two signatures on all cheques, usually one of these signatures is the person responsible for preparing the payment. There is generally little indication on any invoice/requisition that

approval has been given by a person of appropriate seniority, other than the cheque preparer. This creates the risk of amounts being expended from SGF that are not valid.

- B) Bank reconciliations are done on a regular basis, however, most bank reconciliations are not reviewed for reasonableness or unusual balancing items by anyone other than the preparer of the bank reconciliation, which in most cases is the same person responsible for making payments from school bank accounts. This increases the risk of unauthorized payments from SGF.
- C) A significant portion of the funds received at school level are paid by cash. As cash is very susceptible to theft, we recommend as a minimum, that documentation supporting the funds being brought to the school office be signed as a complete record of funds received by the person bringing in the money. Ideally class lists used to plan class trips etc, should be initialed by the student when making payment. This would add validity to the overall amount being presented as the office for receipt. All amounts would be verified by office staff when received, and a receipt generated. Any discrepancies should be followed up.
- D) During our audit we noted that the school uses a “signature” stamp to sign cheques for school purchases. There is an increased risk of unauthorized payments through the use of a “signature” stamp due to the limited amount of staff and lack of segregation of duties at the school level.

This communication is prepared solely for the information of the Board of Trustees and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from 123 Regional Division A’s management and accounting staff.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

Yours truly,

*Green Shade Accountants LLP*

Chartered Accountants