

29 May 2024

The Board Members
Tokoroa Intermediate School
Elizabeth Drive
Private Bag
Tokoroa 3420

Dear Board Members,

Audit Management Letter For The Year Ended 31 December 2023

1. Introduction

We have completed the audit of Tokoroa Intermediate School's (the School) financial statements for the year ended 31 December 2023.

The purpose of this letter is to bring to the attention of those charged with governance the significant matters that arose during the course of our audit and matters of interest as required by *ISA (NZ) 260 Communication with Those Charged with Governance* and other ISA (NZ) standards.

You will appreciate that while our audit is carried out in accordance with the Auditor-General's auditing standards, it cannot, and should not, be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency.

The responsibility for public accountability and the implementation and monitoring of internal and management controls rests with management and the Board Members.

This letter has been prepared for the Board Members and is intended only for use by you. We accept no responsibility to any other party in relation to whole or part of its contents.

2. Responsibilities and Scope in Relation to the Audit

The Board Members are responsible for preparing the financial statements in accordance with Public Benefit Entity International Public Sector Accounting Standards Reduced Disclosure Regime (PBE IPSAS RDR) and for implementing appropriate internal controls with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

We are responsible for conducting the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) (ISA (NZ)) issued by the New Zealand Auditing and Assurance Standards Board, and forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

3. Timing of the Audit

The audit was completed and dated 29 May 2024.

4. Audit Opinion

We have issued our unmodified audit opinion on the financial statements for the year ended 31 December 2023.

5. Going Concern Assumption

The financial statements were prepared on the basis that the school is a going concern. As required by the Office of the Auditor-General, we reviewed this assumption in terms of the criteria set out in the Auditing Standard ISA (NZ) 570. Based on the supporting evidence we concluded that the use of the going concern assumption was appropriate given the School's funding sources and its operating budget for the following financial period.

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6. Management Judgements and Estimates

Under International Standards on Auditing (NZ) we have a responsibility to communicate with management and the governing body the process used by the School in forming 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 2023 appear reasonable.

The most significant areas of judgement, assumptions and estimates by management relate to:

- Provision for cyclical maintenance and cyclical maintenance expense
- Depreciation rates to ensure that fixed assets are written off over their estimated useful lives

We are not aware of any other sensitive accounting estimates, assumptions or valuation judgements made by the School.

7. Materiality

In the context of an audit, materiality means, 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 level of work to be performed, which items and balances require work and for the evaluation of the financial report. Materiality is initially calculated at the planning stage and has an influence on the level of work we do. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.

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 6% or less of our planned materiality.

8. 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 have tested a sample of expenses for the year, and we did not identify any such items to report. However, we remind you of the importance to remain vigilant in your oversight of school expenditure.

9. Findings Arising from the Audit

School payroll controls

We consider the main risk to the accuracy of payroll payments is transactions being incorrectly processed, because of either fraud or error. The EdPay system relies on schools checking the accuracy of the payroll transactions processed by the school, as this information is not checked centrally.

Guidance on the controls within EdPay that should be operating at schools is available on the EdPay website ([School internal processes and controls – payroll](#)). To review and approve pay changes the following transaction histories should be saved, checked, and signed, ideally after transactions have been processed and prior to payment:

- timesheet history
- leave history
- activity history.

The final fortnightly payroll (SUE) report should also be reviewed to ensure the amounts paid are as expected. We would expect this review to include consideration of whether all those paid in the period were employed by the school, whether the amounts paid are as expected, and where amounts have changed since the previous period, whether those changes are expected and have been authorised.

To ensure controls are effective schools also need to ensure that:

- there is segregation of duties between the processing and approval of payroll transactions;
- access to EdPay is controlled;
- payroll transactions are approved in line with delegations; and
- approvals are appropriately documented.

This means that, while an initial review of the transaction history reports and the fortnightly draft payroll (SUE) report might be carried out by the payroll administrator, to check the accuracy of data entry, the final fortnightly payroll (SUE) report and **activity history reports** should be reviewed by someone independent of the staff who have access to EdPay.

Refresh of EdPay's guidance on controls

The current guidance to schools on controls (referred to above) notes that the online activity history for Masterfile changes, such as bank account and other changes to personal details within EdPay, is still in development. The guidance does suggest some interim procedures, consisting of taking screen shots of changes and having those approved. However, as this does not provide a list of all changes made, we do not consider this to be an effective control.

We understand from the Ministry that the activity history report now provides details of all Masterfile changes (except changes to employees' addresses). However, this change has not been communicated to schools. EPL and the Ministry are currently refreshing the guidance to schools on payroll controls, and we have been told that this will be available soon.

Recommendation

We recommend that the Board ask management for assurance that appropriate controls are in place at the school over payroll transactions, and that these controls are considered against the updated payroll guidance once it is published by EdPay.

Board Minutes

Board meeting minutes demonstrate to stakeholders that the school/kura and its' board act appropriately and in accordance with legal and contractual requirements. They also document that principles of good governance and informed decision-making are being followed. The minutes should record the following matters:

- Review and approval of the annual audited financial statements;
- Review and approval of the annual cyclical maintenance plan (painting);
- Review and approval of the School Annual Accrual Report (end of year payroll report);
- Review and approval of the budget (including an income statement, balance sheet, and cash flow), budget should include teachers' salary and notional lease;
- Review and approval of monthly financial statements;
- Approval of payments.

We noted the School has not approved the 2023 annual budget and annual cyclical maintenance plan for the financial year. Please ensure that these are reviewed, approved and minuted each year.

Prior Year Adjustments

We identified a prior year adjustment in related to the Kahui Ako cluster funding from the Ministry of Education of \$49,999. This adjustment indicates that the 2022 Government grants revenue was overstated, and the liabilities of funds held on behalf of the Kahui Ako cluster were understated. Consequently, an error adjustment has been made to correct the accounting treatment of the cluster funds. This prior year adjustment has been reflected in the restated 2022 comparative figures, resulting in an increased of the 2022 deficit to \$93,624 in the statement of Comprehensive

Revenue and Expense, and an increased liability for Funds held on behalf of Kahui Ako cluster by \$49,999 in the Statement of Financial Position.

School house rental

We noted that there is no current rental agreement with the current tenant of the schoolhouse. It is the Board's responsibility to ensure that they are complying with the relevant legislation as a landlord. It is a legal requirement to have a written tenancy agreement for the applicable tenant.

We take this opportunity to remind the Board that it is recommended to undertake a rental review of schoolhouses at least every two years. This allows the school to ensure that maintenance costs are covered by the rental income received. The current rental rate is set at a discounted rate. However, this discount only applies to a teacher or principal.

Market rate for schoolhouses:

As per accounting standard PBE IPSAS 20, a School should be charging market rate for rental of their schoolhouses. We were unable to determine a market rate for the schoolhouse. We recommend the school obtain a rent appraisal to be charging appropriate rates for the schoolhouse, but we understand this is difficult to obtain. At a minimum we suggest you regularly review your rental rate and adjust for inflation.

Internet Banking: New Payee Details not verified by second person

Like many other schools, we note that you are using internet banking for a number of purchases and expenses. We recognise the efficiencies of this system with its key benefits of allowing an easier and prompt method of payment. However, we recommend that your Board ensure that appropriate payment control procedures are followed.

Key controls for internet banking include:

- Senior management sets up the supplier and payee accounts, having details verified by a second person. All payments are then approved by two signatories.
- Passwords must be kept secure and never shared – they represent the key to your funds.
- Senior management occasionally perform spot checks to verify the bank account numbers of suppliers to ensure that payments have been made to the correct parties.
- Payments are only made on original invoices that have been processed through the creditors system.
- Once a payment is made, all paid invoices should be marked as paid and preferably have noted the payment method and date.
- Audit trails of processing should be retained.
- Following control systems such as these will help safeguard against fraud or the same invoice being paid twice.

Sensitive expenditure

The Auditor-General's auditing standards require us to test a sample of sensitive expenditure, and also be alerted to matters that may indicate waste or show a lack of probity or financial prudence. Sensitive expenditure is any spending by an organisation that could be seen to be giving private benefit to staff additional to the business benefit to the organisation.

The OAG has also identified the following focus areas for auditors to be aware of when carrying out this testing.

Use of Credit Cards

The OAG has observed that many schools have poor controls over credit cards, with many monthly statements not being approved by an independent person. Poor controls increase the risk of misuse of credit cards, including for personal use. This also includes the use of debit cards, fuel cards and overseas currency cards (which are essentially cash).

Expenses incurred by the Chairperson and the Principal

The OAG has also observed that many schools have poor controls over expenses incurred by the Principal and Chairperson, with many invoices not being approved by an independent person. Poor controls increase the risk of misuse of school funds, including for personal use.

We would expect to see 'one-up' approval, meaning review and approval by someone more senior. This means the Board Chairperson must authorise payments on the Principal's credit card and Principal's expenses, and staff credit cards should be approved by the Principal.

What we did

We have tested a sample of expenses for the year, including reimbursements of expenses and credit card.

What we found

From our review of a sample of credit card transactions, we found that invoices and supporting documents were not always attached to the credit card statements to support the payments. Appropriate supporting documentation is important and to provide evidence that the expenditure was valid for your school. We also noted that a credit card was used for personal transactions on multiple occasions. It is crucial that those who have credit cards are aware of the school credit card policy and that this is enforced by the Board.

Credit cards can be particularly susceptible to error and fraud, and there have been instances of allegations of inappropriate expenditure in some schools. Therefore, it is vital to have all appropriate supporting documents, and for the Board to thoroughly check statements and invoices in a timely manner to prevent errors or unauthorised payments.

We suggest that all relevant supporting documents be attached to your credit card statements. This will ensure that all documentation relevant to the credit card payment is kept together and adequately controlled. It will also provide the necessary support to the Board member authorising the expenditure.

Conflicts of interest – Good practice resources available

The risk of conflicts of interest in small communities, which many schools operate in, is inherently high, because the Board, Principal, and other employees are often living in the same communities their school services. There is a particular risk of conflict in the decision-making processes used to appoint new employees and contractors, as well as the purchase of goods and services. However, having a conflict of interest does not necessarily mean you have done anything wrong, what is important is how the conflict is managed.

The Office of the Auditor-General have a good practice guide on [managing conflicts of interest](#) as well as other resources, available on its website. We encourage you to make use of these resources.

Conflict of interest register

We note that the school does not keep a conflict-of-interest register. We acknowledged that disclosure of conflict of interests are required during your Board Meeting, and it is documented in the Minutes. It is important to maintain a conflict-of-interest register, there is a risk of related party transactions or conflict of interest that might not be declared in the meeting and the related party transactions are not handled properly in accordance with the policy. We recommend that there should be a conflict of interest register in place, this will ensure that the related parties can be identified, and procedures are documented. The conflict-of-interest register should also be reviewed and updated on a regular basis, at least annually.

Cyclical maintenance plan

We noted the school's 10-year property plan is out of date, and the Board has not reviewed and approved the annual cyclical maintenance plan for the financial year. We have been provided a painting quote and we are satisfied the school has provided cyclical maintenance provision based on the painting quote.

The Ministry of education has updated the cyclical maintenance provision template, including a consideration of the inflation, we recommend that you should develop your cyclical maintenance plan using the Ministry of Education latest template based on the painting quote, then review the cyclical maintenance plan and provision annually and document the annual approval of the cyclical maintenance plan and cyclical maintenance provision in the minutes as required by Ministry of Education.

10. Adjusted and Unadjusted misstatements

Please find attached Appendix 1 lists adjusted misstatements found during the course of our work.

There were no unadjusted misstatements.

11. Key Financial Statement Audit Risks and Issues to be Communicated

<i>Key Matters</i>	<i>Responses</i>
Revenue Recognition	We documented the revenue systems, carried out appropriate controls testing and substantive audit procedures to address the risk of fraud in revenue recognition. We did not identify any material errors in relation to revenue recognition, whether due to fraud.
Locally Raised Funds	We documented the system on Locally Raised Funds, assessed the control environment and completed analytical audit procedures to address the risk of material misstatements around the completeness of locally raised funds due to its nature-often being cash. We have not identified any material misstatements, due to fraud.
Payroll	Payroll is processed by EdPay. The reliability of payroll processing is dependent on appropriate approval of payroll changes, checking of the fortnightly SUE report and review of School Annual Accrual Report (SAAR). We have discussed with management and documented controls on payroll, carried out control testing, analytical procedures and substantive audit procedures to address the risk identified on payroll. We have not identified any material misstatements in payroll, whether due to fraud or error. However, we have made some recommendations in this letter.
Cyclical Maintenance Provision	Cyclical Maintenance is an area of judgement and could lead to material misstatement in the financial statements. For schools to be able to calculate the appropriate provision a painting plan needs to be prepared and/or reviewed by a suitably qualified person. We have obtained and reviewed the School's Plan and assessed that the provision at balance date is reasonably correct. However, we have raised some recommendation in this letter.
Management override	We have discussed with management controls on expenditure authorisation, tested manual journals, reviewed accounting estimates and significant transactions that are outside the normal course of business to address the presumed significant risk on management override. We have not identified any instances of management override.
Qualitative Aspects of Accounting Practices	The accounting policies used by the entity are consistent with the previous year. We reviewed the accounting policies, accounting estimates and financial disclosures, we believe that these are appropriate.
Significant difficulties	During the audit, we encountered no significant difficulties.
Disagreements with Management	We have had no disagreements with management during our audit nor have we had any serious difficulties in dealing with management.
Written management representations	We received the standard signed representation letter for the year ended 31 December 2023. No other specific representations were requested.
Other information	No material inconsistencies or misstatements were identified relating to the other information in the financial statements.

Other Significant matters	No other significant matters were raised from the audit.
<i>Key Matters</i>	<i>Responses</i>
Auditor Independence	We reaffirm we are independent of your organisation, and that we have no relationship with your organisation that impairs our independence.
Going Concern	No material uncertainties related to going concern were noted.
Non-compliance with Law or regulation	We have not identified any instances of noncompliance with Law or regulation.
Significant deficiencies in internal control	No significant deficiencies in internal control were noted, however we have made some recommendations in this letter.
Fraud	We have not identified any instances of fraud involving senior management or any other frauds that have caused material misstatement in the financial statements.
Significant Risks	We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.

12. Conclusion

We remind the school to submit a single PDF file of your annual report, including audited financial statements and required signatures to the Ministry of Education via the Ministry's [School Data Portal \(external link\)](#). These audited accounts must be minuted at your next Board Members' meeting.

Please advise us in due course of the actions you propose to take in relation to the matters raised in this letter.

We wish to acknowledge the friendly assistance provided by your staff during the audit. If there is any further information you require, please do not hesitate to contact us.

Yours faithfully
Owen McLeod & Co Ltd


Marilyn Castillo

Tokoroa Intermediate School

Year ending 31 December 2023

Appendix 1

To bring in 2023 PSPA Backpay amount as per MOE confirmation

Code	Name	Group	Debit	Credit
	Receivables from MOE	assets	14,769.00	-
	Government Grants - MOE	income	-	14,769.00
	Employee benefits salaries - LR	expenses	14,769.00	-
	Operating creditors	liabilities/ equity	-	14,769.00
			29,538.00	29,538.00

To reverse depreciation for the year of old Ricoh Lease in August 2023 from asset schedule

Code	Name	Group	Debit	Credit
	Leased assets	assets	-	6,105.00
	Leased assets - depreciation	expenses	6,105.00	-
			6,105.00	6,105.00

To bring in new Ricoh lease and dispose of old ricoh lease

Code	Name	Group	Debit	Credit
	Leased assets	assets	58,156.00	-
	Finance lease - current portion	liabilities/ equity	-	9,533.00
	Finance lease - term portion	liabilities/ equity	-	45,043.00
	Finance	expenses	2,064.00	-
	Leased assets - depreciation	expenses	4,461.00	-
	Leased assets	assets	-	4,461.00
	Finance lease - current portion	liabilities/ equity	7,425.00	-
	Leased assets	assets	-	11,351.00
	Consumables	expenses	-	1,753.00
	Loss on disposal of property, plant & equipment	expenses	35.00	-
			72,141.00	72,141.00

To reverse depreciation for lease asset disposed

Code	Name	Group	Debit	Credit
	Leased assets	assets	10,462.00	-
	Leased assets - depreciation	expenses	-	10,462.00
			10,462.00	10,462.00

To COL Kahui Ako income within P&L

Code	Name	Group	Debit	Credit
	Government Grants - MOE	income	-	28,604.00
	Curricular	expenses	28,604.00	-
			28,604.00	28,604.00

To bring in school lunch portion to be attributed to Tokoroa intermediate, as a receiving school from Tokoroa High School, as per confirmation from OAG/MOE, G 2-8

Code	Name	Group	Debit	Credit
	Healthy School Lunch Programme	expenses	275,030.00	-
	Government Grants - MOE	income	-	275,030.00
			275,030.00	275,030.00