

9 December 2024

The Board Members  
Te Kauwhata Primary School  
4 Wira St  
Te Kauwhata 3710

Dear Board Members,

**Audit Management Letter For The Year Ended 31 December 2023**

**1. Introduction**

We have completed the audit of Te Kauwhata Primary 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 9 December 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.

During the 2023 year, Edpay has reports i.e. Activities report available to schools for checking the Masterfile changes, we are satisfied that the school has implemented the controls in place to address this issue.

### ***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 are satisfied that the School has documented the approvals in the minutes.

### **Independent checks on Payroll**

During the school visit, we noted that there is no evidence that Principal / Board Member independently checks and signs off each fortnightly Staff Usage and Expenditure Report (SUE report) and Activity history report. To strengthen the payroll controls, we recommend that the person who is responsible for the independent check of fortnightly SUE report should evidence

their review by initialing the SUE report as well as other reports that EdPay published (i.e. timesheet history, leave history, activity history) as explained above – School payroll controls.

### **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 expenditure.

#### *What we found*

No specific concerns or findings were noted. However, we remind you of the importance to remain vigilant in your oversight of expenditure of the school.

### **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.



### **Segregation of duties**

Effective controls require good segregation of duties, i.e. needing more than one person to complete a task.

We note that significant portions of the day-to-day accounting functions are solely under control of one person. We wish to point out that nothing in our review of your systems has led us in any way to question the integrity of this or any other employee.

We appreciate that it may be difficult to achieve appropriate segregation of duties because of the small number of administration staff at the school. Where this is the case, management needs to provide careful monitoring and oversight to mitigate against the risk of fraud or error.

The Ministry of Education has recently published an internal control checklist and a segregation of duties matrix on its [website](https://www.education.govt.nz/school/funding-and-financials/school-finances/#internal-control-resources) (<https://www.education.govt.nz/school/funding-and-financials/school-finances/#internal-control-resources>) which the school may find useful when assessing the adequacy of its internal controls. Further guidance on internal controls can be found in the Ministry's [Financial Information for Schools Handbook](#).

### **Breach of reporting deadlines**

We draw your attention to the fact that your annual financial statements were delivered to us on 26 September 2024. This is after the statutory deadline of 90 days after year-end, being 31 March 2024. The above breach has been adequately disclosed in your financial statements, so we have not needed to refer to it in our audit report.

### **Breach of Legislation – 31 May deadline**

The Board has failed to comply with Section 137 of the Education and Training Act 2020 by not providing audited financial statements to the Ministry of Education by 31 May 2024. The above breach has been adequately disclosed in your financial statements, so we have not referred to it in our audit report.

### **Leave Accumulation**

During the audit, we noted that school 52-week employee holding a large number of leave balance that accumulated from prior years. It is a key control of any internal control environment that all employees utilize their entitlement each year. This reduces the risk of both employee and the school. Reducing leave balance in a timely manner improves employee morale and reduces the school's dependency on individuals and exposure to large payments of leave balance when employees leave. We recommend that all employees should be instructed to take their annual leave entitlements by the end of the next financial year or as soon as it is practicable.

### **Bank Reconciliation**

We reviewed the monthly bank reconciliations and noted that there was no evidence of independent review. To strengthen internal controls, we recommend the monthly bank reconciliations be independently reviewed and signed off following a level of "one-up" principle. This means the bank reconciliation prepared by the office administrator should be approved by either a senior management member or a Board member.

### **Independent checking of Banking**

We noted that there is no effective independent check of the inwards cash records to ensure that all monies are receipted and banked. We suggest that each receipting/banking be independently reviewed and signed off to mitigate the risk of fraud and misstatements.

### **Fixed asset Register**

We noted that your school have had a system issue and the school fixed asset register is not being maintained in an up-to-date manner. An incomplete Fixed Asset Register can result in

inaccurate financial reporting, affecting the reliability of the financial statements.

We recommend that management resolve the system issue at their earliest convenience and regularly updating the Fixed Asset Register to reflect all acquisitions, disposals, and transfers in a timely manner. Additionally, it would be beneficial to perform periodic reconciliations between the Fixed Asset Register and the general ledger to ensure that the information is accurate and complete.

## 10.Adjusted and Unadjusted misstatements

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. However, we have made some recommendations in this letter.
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. However, we have made some recommendations in this letter.
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.
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. However, we have made some recommendations in this letter.
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.
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 except for breach of deadline 31 March and 31 May.
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**