

31 May 2024

The Board Members
Goldfields School
Norwood Road
Paeroa 3600

Dear Board Members,

Audit Management Letter For The Year Ended 31 December 2023

1. Introduction

We have completed the audit of Goldfields 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 31 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

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 annual cyclical maintenance plan for the financial year. Please ensure that this is reviewed, approved and minuted each year.

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.

Leave Approval

During our payroll testing we noted there was no documentation on file for approval of annual leave for 52-week employees. We understand that there can be informal leave agreements between schools and in particular cleaning and caretaking staff due to the hours and work they complete. It is still important to ensure that all annual leave is clearly documented for all staff. Please ensure an annual leave form is completed when any staff member takes annual leave.

Bad Debts

The school wrote off debts of \$932 owing from the swim school for the hiring of the pool (which stopped operating due to COVID). We did not see anything mentioned in the Board of Trustees minutes in regard to the write-off of the debt. The approval of any debts written off should be documented in the minutes and approved by the BOT.

Edpay User access

It was noted during our testing that Santjie Stols, who used to work at Education Services still has access to the payroll system for the school. The school need to have her access removed as she no longer works for Education Services.

Annual leave over 30 days

It was noted during our testing that one employee has excessive leave owing (33.96 days). It is vital that employees are taking their leave annually for health and safety and financial reasons for the school.

Capital works

During the audit it was found that the Capital works projects had not been accounted for correctly in the accounts. We noted the school had capitalised some of the capital works expenditure to the fixed asset register or WIP, and the notes in the accounts did not reflect the BOT contribution to capital works projects. A debtor had also not been raised for income receivable from the MOE for the pool project. The school need to ensure that capitals works revenue and expenditure is checked and accounted for correctly. The school also need to ensure they are checking the project managers work to ensure all invoices are accounted for on the OUC and costings are correct.

Staff Advance

We noted during our testing that a wage advance was given to a staff member of \$1,800. This was paid off in instalments by the staff member. No approval was noted in the minutes for the staff advance. The school should not be advancing funds to staff members and if in the exceptional circumstances it does (in this case it was to help with teacher registration costs), approval should be sort from the Board of Trustees and this documented in the minutes, and there should be appropriate documentation kept.

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.
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

A handwritten signature in black ink, appearing to be 'Richard Owen', written over the company name.

Richard Owen

Goldfields School

Year ending 31 December 2023

Appendix 1

1. PSPA backpay funding needs to be accounted for as per the OAG

Code	Account	Group	Debit	Credit
	Government Grants - MOE	income	-	42,340.00
	Receivables from MOE	assets	42,340.00	-
	Accruals	liabilities/equity	-	42,340.00
	ORS Funding	expenses	42,340.00	-

2. ACC receivable for Term 4 for student hasn't been accounted for.

Code	Account	Group	Debit	Credit
	Other Government grant	Income	-	4,833.00
	GST Receivable	liabilities/equity	-	725.00
	Receivables	Assets	5,558.00	-

3. To account for healthy lunches prepared by other schools – late journal advised by the OAG.

Code	Account	Group	Debit	Credit
	Government Grants - MOE	income	-	84,891.00
	Healthy School Lunch Programme	expenses	84,891.00	-

4. To recode receipts from swimming fee debtors and reduce the bad debts write-off expense.

Code	Account	Group	Debit	Credit
	Fundraising & Community Grants	income	870.00	-
	GST Receivable	liabilities/equity	130.00	-
	Other	expenses	-	1,000.00

5. Staff banking 2023 adjustment.

Code	Account	Group	Debit	Credit
	Staff banking underuse	assets	52,023.00	-
	Teachers salaries grant	income	-	52,023.00

6. To recode admin wages per the SAAR report.

Code	Account	Group	Debit	Credit
	ORS Funding	expenses	-	40,228.00
	Employee benefits salaries – admin	expenses	40,228.00	-

7. Assistive technology invoice needs recoding to Other Govt Grants as donated from MOH.

Code	Account	Group	Debit	Credit
	Other Government grant	income	-	19,711.00
	Government Grants - MOE	income	19,711.00	-

8. Audit fee should be \$4,414 for 2023.

Code	Account	Group	Debit	Credit
	Audit fee	expenses	-	220.00
	Accruals	liabilities/equity	220.00	-

9. Invoice for security system should be offset in capital works but has been capitalised to the Fixed Asset Register

Code	Account	Group	Debit	Credit
	Furniture & equipment	assets	-	8,757.00
	Funds held for capital works	liabilities/equity	8,757.00	-

10. Costs for project 127018 should be offset against the revenue in capital works, not sitting in WIP.

Code	Account	Group	Debit	Credit
	Funds held for capital works	liabilities/equity	70,995.00	-
	Work in progress	assets	-	70,995.00

11. The pool project is now complete. Obtained the OUC certificate. Some of these costs were in the WIP code but the costs should go through capital works, then be capitalised as the BOT contribution. \$25k was also received after balance date from the MOE, but invoiced before balance date so needs to be accounted for. The note needs updating to reflect BOT contribution also. Work in progress needs clearing out (confirmed with property manager these are not project costs).

Code	Account	Group	Debit	Credit
	Funds held for capital works	liabilities/equity	146,030.00	-
	Work in progress	assets	-	146,030.00
	Funds held for capital works	liabilities/equity	-	120,869.00
	Buildings improvements	assets	120,869.00	-
	Receivables from MOE	assets	25,164.00	-
	Funds held for capital works	liabilities/equity	-	25,164.00
	Repairs and maintenance	expenses	807.00	-
	Work in progress	assets	-	807.00