

Report to Governance

For the Year ended 31 December 2023

Presiding Member
School Board Members
South Makirikiri School

27 May 2024

Tēnā koe

In accordance with our engagement letter, we confirm we have completed our audit of South Makirikiri School (“the School”) for the year ended 31 December 2023. This report sets out certain matters which came to our attention during the course of the audit as well as other required communications. These items may include matters of subjectivity and accounting issues.

We have prepared this report solely for the use of the Board Members and Management of the School. This report forms part of a continuing dialogue between us and therefore, it is not intended to include every matter that came to our attention. For this reason, we believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy without our prior written consent, we would not accept any responsibility for any reliance that they may place on it.

We congratulate the Board on its efforts to maintain effective internal controls in the School. We take this opportunity to thank the board members and staff for the co-operation afforded to us during the course of the audit.

If we can be of further assistance, please advise.

Ngā mihi nui,
Silks Audit Chartered Accountants

Cameron Town
Appointed Auditor / Audit Partner

Email: ctown@silks.co.nz

Encl: Board Report

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1. EXECUTIVE SUMMARY

This report details the processes, findings and recommendations from our audit of South Makirikiri School (the “School”) in accordance with the Auditor General’s Auditing Standards which incorporate International Standards on Auditing (NZ), and the terms of our engagement as set out in our audit engagement letter. In accordance with our normal practice we enclose our comments on certain areas of the internal control and accounting practices which came to our attention during our recent audit. We also offer recommendations for possible courses of action.

Overall, we are satisfied that the School has presented its results for the year ended 31 December 2023 to a good level of compliance with applicable financial reporting standards. Adjustments made during the audit are noted in Appendix 1.

We have received full and frank co-operation. There is nothing we wish to raise solely with the Board.

2. AUDIT SCOPE AND OBJECTIVES

Appointed auditor 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).

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 Summary Findings section of this report.

Confirmation of audit independence

In conducting our audit, we are required to comply with the independence requirements of the Code of Ethics issued by the Professional Standards Board of Chartered Accountants Australia and New Zealand and the External Reporting Board.

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.

For the comfort of the Board, we note that the following processes assist in maintaining our independence:

No other work is permitted to be undertaken by Silks Audit Chartered Accountants.

We have not provided any non-audit services to the School. We confirm the independence of the Silks Audit engagement team. We are not aware of any relationships between Silks Audit Chartered Accountants and the School that, in our professional judgement, may reasonably be thought to impair our independence.

3. AUDIT APPROACH

The Board Members is responsible for preparing financial statements in accordance with the Public Benefit Entity Standards Reduced Disclosure Regime issued in New Zealand (PBE Standards RDR). These financial statements must reflect the financial position of the School at 31 December 2023 and the results of its operations for the year ended on that date. This responsibility is specified in the Crown Entities Act 2004 and Education and Training Act 2020.

Our responsibilities include expressing an opinion on these statements, and accordingly our audit procedures are tailored to our assessment of risk of material misstatement in the financial statements.

We consider accounting controls at various levels and in overall terms. Obviously, we cannot in practice examine every operating activity or accounting procedure carried out by the School, nor can we substitute for the Board Member's responsibility to maintain adequate controls at all levels of operations.

Our understanding of the internal control environment determines the nature and extent of our substantive tests of detail. Given the level and nature of the activities of the School, our audit approach has been largely substantive in nature.

4. Areas of audit focus

Outlined below are the key risks we have considered for your School. We have identified the potential impact of these risks to your financial statements, and we have tailored our audit approach accordingly.

Risk	Audit Response	Audit findings
<p>Revenue Completeness of revenue, particularly from locally raised funds, is a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Updated our understanding of the processes relevant to the recognition of revenue. Designed our audit procedures to respond to the risk of a material misstatement in Revenue with a particular focus on ensuring that all revenue was properly captured in the reporting period. 	<p>Our testing around revenue has identified issues that management should be aware of.</p>
<p>Payroll The nature of the Edpay payroll system raises an inherent risk of a material misstatement through internal and/or external processing.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Assessed the results carried out by Ernst & Young over the central processing of Edpay. • Cleared any unusual transactions identified by this testing at the individual school level. 	<p>Our testing around payroll has identified issues that management should be aware of.</p>

- Performed analytical review procedures and employee existence testing at the individual school level.

Risk

Probity and Financial Prudence

There is a risk that Crown funds may not be used for school related expenditure.

Audit Response

We have:

- Considered the value, nature of transactions and the risk of fraud.
- Considered the Board Members process for approval and monitoring of expenditure.

Audit findings

Our testing around probity and financial prudence has not identified any issues that management should be aware of.

Risk

Segregation of Duties

The ability of a key person to override or manipulate receipt or recording of school funds through the exercise of control and opportunity.

It is important that no single person has control over, or access to, all aspects of recording and control of school funds.

Not only does this provide opportunity for abuse of the school funds, but also puts a great responsibility and burden of trust on the person who has this control.

Audit Response

The separation of key accounting responsibilities is a critical internal control in any system to prevent misappropriation of funds, error or unrecorded transactions.

We assessed the extent of the segregation of duties in the financial reporting process and our substantive audit approach was designed to respond to the control findings

Audit findings

All schools will have segregation of duties risk but with careful monitoring and oversight by management and the Board this risk can be mitigated.

Risk

Management Override of Controls

The ability of management to override controls over the financial reporting process creates a fraud risk.

Audit Response

- Our risk assessment process concluded that the risk of fraud from management override of controls was through processing manual journals.
- Our procedures included a risk-based approach to testing manual journals that included assessment of unusual journals.
- We assessed the extent of the segregation of duties in the financial reporting process and our substantive audit approach was designed to respond to the control findings.

Audit findings

Our testing around manual journals has not identified any issues that management should be aware of.

Materiality and adjusted / unadjusted differences

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. During our audit we have identified adjustments. All adjusted differences have been detailed in Appendix 1 of this report.

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 10% or less of our materiality.

Going concern

Management and governance are required to make a formal assessment on going concern. Under Auditing Standards, we are required to review this assessment for appropriateness.

During the course of our audit we have identified no material misstatements. All unadjusted differences (none of which we consider material, either individually or in aggregate) have been detailed in Appendix 1 of this report.

Paragraph 15 of ISA (NZ) 570 states:

15. The auditor shall enquire of those charged with governance as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern.

The assumption of going concern was concluded as appropriate given the School's funding sources and its operating budget for following financial period.

Fraud

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.

Compliance with laws and regulations

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.

Required communication

We are required by Generally Accepted Auditing Standards (GAAS) to report specific matters to you as follows:

Standard	Our Response
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Auditors responsibility under General Accepted Auditing Standards	We are responsible for the completion of an audit in accordance with the International Standard on Auditing (New Zealand). The detailed terms are included in our letter of engagement signed off by the Board at our previous renewal of contract.
Significant accounting policies	We had read the accounting policies and are satisfied that these comply with the relevant accounting standards and Kiwi Park Model disclosure.
Management judgements and accounting estimates	No management judgement or accounting estimate issues identified.
Significant matters	No significant matters identified.
Disagreements with management	No disagreements were had with school management.
Difficulties encountered during the audit	No difficulties were encountered during the audit.
Independence	There were no independence issues identified between the Silks Audit employees and/or spouses of those employees and the Board.
Independence – other services	We can confirm no other services were provided to the entity during the course of the audit
Laws and Regulations	The School have confirmed that the Board have complied with all necessary laws and regulations. We did not identify any significant breaches.
Fraud or Illegal Acts	From our enquiries with management and our audit testing we have not become aware of any significant fraudulent or illegal acts during the period.
Accumulation of unadjusted errors	We can confirm that all audit adjustments identified have been adjusted for in the financial statements. We can confirm that there is no accumulation of unadjusted errors which would impact on the financial statements
Deficiencies in internal control	As reported in the internal control section above.

5. OVERALL RESULT

There are no significant or material weaknesses arising from our audit.

Our audit work is complete. We have issued an unmodified audit report on the financial statements of the School for the year ended 31 December 2023. The audit report contains no matters or items that the Board needs to consider further.

General Comment

Section 136 of the Education and Training Act 2020 requires School Board to publish or make available to the public their Annual Report on the internet which is normally on the School's website. The annual report contains the Audited Financial Statements including our audit opinion, along with the Analysis of Variance, KiwiSport Report, and a List of the Board Members.

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 and after you have submitted your Annual Report to the Ministry of Education.

Payroll General Comment

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.

6. Internal control findings

Assessment of internal control

Our audit approach requires us to obtain an understanding of an school's internal controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error.

We remind you that our audit is not designed to express an opinion on the effectiveness of the controls operating within the entity, although we have reported to management any recommendations on controls that we identified during the course of our audit work. The matters being communicated are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported. Our recommendations for improvement should be assessed by you for their full commercial implications before they are implemented.

Action Taken on Prior Year Management Letter Suggestions

We always appreciate the efforts made by Boards in implementing the recommendations in our previous year's management letter. We acknowledge and say thanks for the proactive manner in which the matters from the previous year's management letter have been addressed by your school.

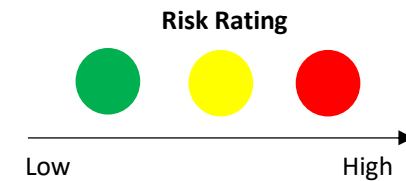
We are pleased to note the following matters raised in last year's audit management letter have been addressed.

- Board of Trustee Minutes not signed
- Deposit of Funds – Deposit not intact

We note the following matters raised do not appear to have been addressed. Because we feel that they are important to the effective internal controls within your accounting system we repeat them for your due consideration. If you have good reason for not wishing to adopt these matters would you, please advise us in writing of the reasons for your decisions. This written response should be tabled at a BOT meeting and minuted.

- Payroll – adjustments
- Payroll – non-teaching staff hours not recorded
- Invoices

To enable management to set priorities on their action plans we have assessed our findings on the following basis, based on our assessment of the importance of each finding.



Summary

Finding	Risk Rating
Receipting process – no independent review of the receipting process	●
Payroll – adjustments	●
Receipting process – No segregation of Duties	●
Payroll – non-teaching staff hours not recorded	●

No independent review of the fortnightly processed payroll report



Loss on uniforms purchases



Ongoing Deficit Budgeting where Surpluses Achieved



Invoices



Observations and recommendations

Matter	Observation	Recommendation	Management/ Governance Response
Receipting process – no independent review of the receipting process	We noted on review of our receipt testing that there is no evidence of an independent review of the receipting process (Receipting of Funds, Banking of Funds, Recording of Funds in the Accounting System)	We recommend that there should be regular independent review of the receipting process, especially when there is a lack of segregation of duties (an individual has the ability to perform two of the three procedures of the receipting process). This independent review should be evidenced either on the receipt book, bank statements or in the Board of Trustees meeting minutes.	

Payroll – adjustments	We noted on review of the school’s audit questionnaire that payroll adjustments are directly entered.	We recommend that all payroll adjustments are recorded before entering them directly into the Ed Pay system so that they can be reviewed and checked by an independent person against what was approved and what was entered into the system.
Receipting process – No segregation of Duties	<p>We noted during our audit that there is no segregation of duties of the receipting process. The same individuals receipt incoming monies, calculate total banked, carry out the banking’s and organise the recording of the transaction in the accounting system.</p> <p>It is important that no single person has control over, or access to, all aspects of recording and control of school funds. Not only does this provide opportunity for abuse of the school funds, but also puts a great responsibility and burden of trust on the person who has this control.</p> <p>The separation of key accounting responsibilities is a critical internal control in any system to prevent misappropriation of funds, error, or unrecorded transactions.</p> <p>We note that significant portions of the day-to-day accounting functions are solely under control of the administrator/ receptionist/ principal. 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 person or any other employee.</p>	We appreciate that it may be difficult to segregate the administrator’s duties but with careful monitoring and oversight by management and the Board this risk can be mitigated. Where possible, one option is to have members of the team periodically rotate duties. As a minimum, it is important to have someone else on your team able to perform these tasks and doing so occasionally, such as when the key person takes leave
Payroll – non-teaching staff hours not recorded	We noted on review of the school’s payroll process that non – teaching staff hours are not recorded but entered directly into the EdPay system by the payroll administrator/ by the principal.	We recommend that non-teaching staff hours are recorded to provide evidence of the number of hours worked, and date and time of when

No independent review of the fortnightly processed payroll report	We noted on review of our payroll testing that there was not always evidence of the Principal reviewing the processed fortnightly payroll reports.	they were worked. The following could be used to record these hours: Individual timesheets, summary worksheet of hours for all non – teaching staff, timesheets used when working in addition to standard hours, and sign in or diary system. It is important that the staff member signs that the hours worked are correct and that the principal also approves the hours before entering them into the Ed Pay system.
Loss on uniforms purchases	The school made a loss selling uniforms as per testing performed by us.	We recommend the Principal reviews and signed every payroll report and the Presiding Member or board member except for the staff rep review a processed fortnightly payroll report at least monthly. The Board of Trustees member should take comfort that if the principal has reviewed and signed the fortnightly processed payroll report that the wages paid are correct. The Board of Trustees member should only have to review the principal's fortnightly wage payment and any related party staff members of the principal or the board. To assist in the review function, the school should develop a schedule of wages which lists each staff member and their expected fortnightly wage.
Uniforms sold must be sold at cost price to avoid losses. If uniforms expense increased, the price for		

		<p>these uniforms sold must increase as well to avoid any losses.</p>
<p>Ongoing Deficit Budgeting where Surpluses Achieved</p>	<p>As in previous years, your school had budgeted for deficit results but has been able to return a surplus. We would like to congratulate the school on being able to achieve continued surpluses.</p> <p>We note that the Board has again prepared and approved a deficit budget for the coming financial year.</p>	<p>In our view, budgeting for deficits where in fact surpluses are expected or likely does not lend itself to accurate monitoring and optimal management of the income and expenditure during the year.</p> <p>We recommend that the Board review its budget-setting approach so that its estimates for income and expenditure take into account past performance and the best realistic estimates for the coming year.</p>
<p>Invoices</p>	<p>During the audit process, we noted that one invoice requested was not able to be provided by the school.</p>	<p>We recommend that the school ensures all invoices are retained as supporting documentation for purchases made.</p>

APPENDIX 1 – ADJUSTED AND UNADJUSTED DIFFERENCES

Adjusted differences

Accounts details	Statement of Financial Performance		Statement of Financial Position	
	Dr	Cr	Dr	Cr
0492 Donations Other	13,500			
9321 Income in Advance				13,500
<i>Narration - Reclassifying as the following rants is being utilised only in 2024 and not 2023. Bonny Glen Trust for 4.5k (Trees for Buffer Zone), Bonny Glen Trust 5k (Robotics) & Marlton Christian Welfare for 4K (Saling equipment and repairs).</i>	13,500			13,500

Unadjusted differences

There are no unadjusted differences as at 31 December 2023.