

25 May 2023

The Board Members  
Benneydale School  
PO Box 4  
Mine Road  
Benneydale

Dear Board Members,

**Audit Management Letter For The Year Ended 31 December 2022**

**1. Introduction**

We have completed the audit of Benneydale School's (the School) financial statements for the year ended 31 December 2022.

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 25 May 2023.

**4. Audit Opinion**

We have issued our unmodified audit opinion on the financial statements for the year ended 31 December 2022.

**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 2022 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 5% 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.

To ensure the accuracy of payroll payments, our expectation has been that schools had the following key controls:

- effective access controls to EdPay, limiting access to “authorised users”;
- changes to Masterfile data – such as bank account changes, new starters, or payments to non-salaried staff (such as relievers) - have appropriate supporting documentation and are appropriately authorised;
- checking of the fortnightly draft payroll (SUE) report and Novopay Online transactions report for accuracy; and
- review of the final fortnightly payroll (SUE) report by someone independent of staff who has access to EdPay.

### ***Updated guidance on payroll controls is now available***

Updated guidance on the controls within EdPay that should be operating at schools has recently been published on the EdPay website. The main change is that the Novopay Online transaction report has been replaced by several reports. 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.

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.

The guidance and resources on payroll controls for schools are available on the [training page](#) of the EdPay website. They consist of:

- A checklist of best practice payroll controls - [School internal processes and controls – payroll](#).
- A video - [How to use EdPay transaction histories \(for checking and approving transactions\)](#).
- A printable 'how to' guide showing the transaction checking process - [Checking transactions using the activity history and timesheet and leave histories](#).

### ***No current report in EdPay to check and approve Masterfile changes***

The online activity history for Masterfile changes, such as bank account and other changes to personal details within EdPay is still in development. The updated payroll guidance (referred to above) does suggest some interim procedures, consisting of taking screen shots of changes and having those approved. However, as this will not provide a list of all changes made, the Board needs to consider how it gets comfort that all changes are made with appropriate authorisation. Without a list of all Masterfile changes that can be approved by a second person (as segregation of duties is required for an effective control), this remains an area susceptible to fraud.

We recommend that the Board ask management for assurance that appropriate controls are in place at the school over payroll transactions, consistent with the updated guidance.

### **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 alert 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*

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.

**Sales and Income System**

We noted that in your cash inwards system only notes have been deposited as coins are not accepted at the closest ATM. There is no clear trail which portion of the monies received was notes and what was coins which were held back from being deposited.

We recommend to have a clear breakdown between notes and coins to ensure all monies can be clearly tied to banking's completed.

**Authorisation of Leave Forms**

We noted from the review of your payroll system that there is no completed leave forms or other evidence to support the leave entered into the payroll system. We recommend that the staff who took sick leave or annual leave to complete and sign a leave form.

**Lack of evidence for authorisation of Internet and Debit Card Payments**

While the Board approves invoices for all payment, from our school visit findings it was noted that there is no evidence of this being done for Internet and direct payments as a result, invoices can be paid, whether mistakenly or fraudulently, without being properly approved, or the same invoice could inadvertently be paid twice.

We recommend that either the school Principal or finance committee chairperson, or other person who is responsible for the purchase being made should evidence their review by initialling suppliers' invoices accordingly. When an invoice has been passed for payment, it should be recorded on the invoice that it has been paid, by stamping 'PAID' on the invoice and noting the date it was paid.

### **Internet Banking - perform spot checks**

We note that there is no random check performed on creditors or staff bank account details. To strengthen the payment internal control, we recommend that appropriate payment control procedures are put in place.

Key controls for internet banking include:

- Senior management sets up the supplier accounts and all payments are 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, the invoice should be cancelled. That is, 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.

### **Cyclical Maintenance plan**

The Cyclical Maintenance provision (for painting) in the financial statements is an estimate based on the school's property plan. It is therefore important that the property plan is regularly updated. The school's 10 year property plan is required to be professionally reviewed every 3 years at which time the separate painting plan should also be updated, as this is used as the basis for calculating the painting provision figure.

Please ensure that the separate painting plan forms part of the 3 year review cycle and is updated and approved at that time. This needs to be reviewed and approved annually by the BOT to ensure the plan aligns with what is happening at the school.

## **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. 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.

Payroll	<p>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).</p> <p>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.</p>
Cyclical Maintenance Provision	<p>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.</p> <p>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.</p>
Management override	<p>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.</p> <p>We have not identified any instances of management override. However, we have made some recommendations in this letter.</p>
Qualitative Aspects of Accounting Practices	<p>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.</p>
Significant difficulties	<p>During the audit, we encountered no significant difficulties.</p>
Disagreements with Management	<p>We have had no disagreements with management during our audit nor have we had any serious difficulties in dealing with management.</p>
Written management representations	<p>We received the standard signed representation letter for the year ended 31 December 2022. No other specific representations were requested.</p>
Other information	<p>No material inconsistencies or misstatements were identified relating to the other information in the financial statements.</p>
Other Significant matters	<p>No other significant matters were raised from the audit.</p>
Auditor Independence	<p>We reaffirm we are independent of your organisation, and that we have no relationships with your organisation that impairs our independence.</p>
Going Concern	<p>No material uncertainties related to going concern were noted.</p>
Non-compliance with Law or regulation	<p>We have not identified any instances of noncompliance with Law or regulation.</p>
Significant deficiencies in internal control	<p>No significant deficiencies in internal control were noted, however we have made some recommendations in this letter.</p>
Fraud	<p>We have not identified any instances of fraud involving senior management or any other frauds that have caused material misstatement in the financial statements.</p>
Significant Risks	<p>We have not noted any significant risks or exposures that are required to be separately disclosed in the financial statements.</p>

**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**

# Benneydale School

## Year ending 31 December 2022

### Appendix 1

#### Adjusted Errors:

To Correct Classification of Other Revenue incorrectly classified as Fundraising Grants.

Code	Name	Group	Debit	Credit
	Fundraising & Community Grants	income	858.00	-
	Other Revenue	income	-	858.00
			<b>858.00</b>	<b>858.00</b>

To Account for Banking Staffing Underuse as per OAG Final Banking Staffing Position.

Code	Name	Group	Debit	Credit
	Staff banking underuse	assets	486.00	-
	Teachers salaries grant	income	-	486.00
			<b>486.00</b>	<b>486.00</b>

To correct the classification of Payroll Funding Code Errors.

Code	Name	Group	Debit	Credit
	Employee benefits salaries - LR	expenses	1,196.00	-
	Receivables	assets	-	1,196.00
			<b>1,196.00</b>	<b>1,196.00</b>

To adjust Cyclical Maintenance Provision term as per updated painting quote.

Code	Name	Group	Debit	Credit
	Cyclical maintenance provision	expenses	20,286.00	-
	Cyclical maintenance provision - term	liabilities/ equity	-	20,286.00
			<b>20,286.00</b>	<b>20,286.00</b>

To align Healthy School Lunches figure as per updated list from MOE.

Code	Name	Group	Debit	Credit
	Healthy School Lunch Programme	expenses	6,659.80	-
	Government Grants - MOE	income	-	6,659.80
			<b>6,659.80</b>	<b>6,659.80</b>