

13 October 2023

The Board Members  
Fairfield Intermediate School  
PO Box 12026  
Chartwell Square  
Hamilton 3248

Dear Board Members,

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

**1. Introduction**

We have completed the audit of Fairfield Intermediate 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 13 October 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 in 2021 year.

During the 2022 year, Edpay progressively provides reports i.e. Activities report to schools for checking the Masterfile changes, we are satisfied that the school has implemented the controls in place to address this issue.

### **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 or the School Annual Accrual Report for the financial year. Please ensure that these are reviewed, approved and minuted each year.

### **Leave Accumulation**

We noted that the school's annual leave report shows a considerable number of days leave owing to a staff member ie greater than 50 days.

This report needs to be reviewed and if inaccurate corrected. If the actual days leave owing are excessive ie say greater than 30 days you need to address this issue.

### **Painting Contract**

We noted that your painting contract will end in 2024. You will soon need to consider your future options in this area, eg. one off painting or 7-year painting contract. We suggest you discuss this with your service provider.

### **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 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.

## **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.
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 2022. 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 relationships 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 / 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**



**Liyan Yao**

# Fairfield Intermediate School

## Year ending 31 December 2022

### Appendix 1

#### 1. To close off Resource shed and Rooms 1-4 upgrade

Code	Name	Group	Debit	Credit
	Government Grants - MOE	Income	18,381.00	-
	Funds Receivable for capital works	liabilities/ equity	-	18,381.00
			<b>18,381.00</b>	<b>18,381.00</b>

#### 2. To remove capital works debtor still not recieved

Code	Name	Group	Debit	Credit
	Funds held for capital works	liabilities/ equity	77,488.00	-
	GST Receivable	liabilities/ equity	11,623.00	-
	Receivables	assets	-	89,111.00
			<b>89,111.00</b>	<b>89,111.00</b>

#### 3. To reclassify the Bitelab/Montana Koha amounts

Code	Name	Group	Debit	Credit
	Fees for Extra Curricular Activities	income	41,268.00	-
	Donations & Bequests	income	-	41,268.00
			<b>41,268.00</b>	<b>41,268.00</b>

#### 4. To reclassify production fundraising

Code	Name	Group	Debit	Credit
	Fees for Extra Curricular Activities	income	26,567.00	-
	Fundraising & Community Grants	income	-	26,567.00
	Extra Curricular Activities costs	expenses	-	10,988.00
	Fundraising & Community Grant costs	expenses	10,988.00	-
			<b>37,555.00</b>	<b>37,555.00</b>

#### 5. To correct receivables, capital works receivables and TAPESA washup 2022

Code	Name	Group	Debit	Credit
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Government Grants - MOE	Income	-	23,727.00
Receivables	assets	23,727.00	-
		<b>23,727.00</b>	<b>23,727.00</b>

6. To show supplementary creditors as inclusive of GST

Code	Name	Group	Debit	Credit
	GST Receivable	liabilities/ equity	10,410.00	-
	Operating creditors	liabilities/ equity	-	10,410.00
			<b>10,410.00</b>	<b>10,410.00</b>