



TAURANGA PRIMARY SCHOOL

AUDIT COMPLETION REPORT

FOR THE YEAR ENDED

31 December 2021



27 May 2022

Aaron Moores
Chairperson
Tauranga Primary School
31 Fifth Avenue
Tauranga South
Tauranga 3110

cc: Fiona Hawes
Principal

Dear Board Members

We have pleasure in presenting our Audit Completion Report for our audit of Tauranga Primary School's financial statements for the year ended 31 December 2021.

We would like to emphasise that our audit work involves the review of only those systems and controls in your organisation upon which we rely on for audit purposes. Our examination may not have identified, and should not be relied upon to identify, all control weaknesses that may exist.

We take this opportunity to express our appreciation for the assistance and co-operation provided by the School's staff during the audit. We have received full and frank cooperation. There is nothing we wish to raise solely with the Board.

Yours faithfully,
BDO Tauranga



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1. EXECUTIVE SUMMARY

STATUS OF THE AUDIT AND THE AUDIT OPINION

BDO Tauranga ('BDO') is the Appointed Audit Firm of Tauranga Primary School (the "School"). BDO's 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).

This report details the processes, findings and recommendations from our audit of the School in accordance with the Auditor General's Auditing Standards, and the terms of our engagement as set out in our audit engagement letter.

Our audit of the School's financial statements for the year ended 31 December 2021 is now complete and we have issued an unqualified audit opinion.

We welcome your feedback on the effectiveness of the audit process and are available to discuss our performance.

AUDIT SCOPE AND OBJECTIVES

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 Internal Control and Other Findings section of this report.

AREAS OF SIGNIFICANT RISK AND AUDIT EMPHASIS

Our audit approach considered the inherent risks in your business, their potential impact on the financial statements and the associated risk mitigations and controls in place. The significant matters arising from our audit work are:

- Locally raised funds
- Payroll not approved or checked
- Cyclical maintenance provision
- Management Override

We were able to obtain sufficient and appropriate audit evidence in respect to these items and have no significant findings to bring to your attention. Refer to Section 2 for our comments in respect to each significant risk and area of audit emphasis.

SUMMARY OF UNCORRECTED MISSTATEMENTS

There were no errors left uncorrected at the conclusion of our audit.

INTERNAL CONTROLS

Our audit approach requires us to obtain an understanding of an entity's internal controls in order to identify and assess the risk of material misstatement of the financial statements whether due to fraud or error but is not designed to provide assurance over the overall effectiveness of controls operating within the School.

We have included in Section 3 of this report, a summary of our findings and recommendations arising as a result of our audit procedures.

GOVERNANCE AND ACCOUNTABILITY

Good governance and accountability need and support each other and, if done well, enhance the public's trust in our public sector. Good governance encourages and can result in good accountability. In turn, accountability is a vital element of good governance.

The Auditor-General has published a report, Reflections from our audits: Governance and accountability. This report reflects on common issues, and highlights examples of good and emerging practise, which public entities can use to help improve their governance and accountability arrangements. It also identifies eight elements of good governance and looks at some trends that present new challenges and opportunities for enhancing accountability.

We encourage you to use the findings and examples in this report to consider the School's governance and accountability arrangements. This report is available on the OAG website at www.oag.govt.nz/2016/reflections

2. KEY FINANCIAL STATEMENT AUDIT RISKS AND AREAS OF AUDIT EMPHASIS

Our audit procedures were focused on those areas of the School’s activities that are considered to represent the key audit risks identified during the risk assessment process undertaken and communicated with you through the audit arrangements letter at the planning phase of the audit. Below we present a summary of the identified key areas of risk and audit emphasis and our conclusions in relation to each matter. We are satisfied that these areas have been satisfactorily addressed through our audit processes.

Locally Raised Funds

| Area of Audit Emphasis | Conclusion/Response |
|--|---|
| Due to the nature of locally raised funds (often being cash), there is a risk of material misstatement around the completeness of locally raised funds income. | From our audit work performed we found no issues regarding locally raised funds income or expense balances in the financial statements. |

Payroll not approved or checked

| Area of Audit Emphasis | Conclusion/Response |
|---|---|
| Payroll is processed by Novopay. The accuracy of payroll processing is dependent on appropriate approval of payroll changes and checking of the fortnightly SUE report. | From our audit work performed we found no issues regarding payroll balances included in the financial statements. |

Cyclical Maintenance Provision

| Area of Audit Emphasis | Conclusion/Response |
|--|---|
| Cyclical Maintenance is an area of judgment and could lead to material misstatement in the financial statements. For Schools to be able to calculate the appropriate cyclical maintenance provision a 10 Year Property Plan (10YPP) needs to be prepared and/or reviewed by an expert. | From our audit work performed, there were no issues regarding the provision for Cyclical Maintenance in the Financial Statements. |

Management Override

Area of Audit Emphasis

Conclusion/Response

There is a presumption under the International Auditing Standards that there is a risk of management override.

We have assessed the segregation of duties and risk of management override as part of our planning process and concluded that the risk of fraud from management override of controls is primarily through the processing of manual journals.

We have used a risk-based approach to testing manual journals and focused on any areas where a risk of judgement, estimation or cut-off risk exists with management override in mind. No issues with management override we noted.

3. INTERNAL CONTROL AND OTHER AUDIT FINDINGS

This section of the report sets out the key internal control findings we have identified during the course of the audit and highlights control deficiencies requiring management attention. Our work has been limited to those controls relevant to the audit of your statutory financial statements. The purpose of our audit work on controls is not to provide assurance in its own right on the internal controls and therefore we may not necessarily disclose all matters that might be significant deficiencies or deficiencies that heighten the risk of a fraud being perpetrated.

The findings and recommendations have been discussed and agreed with the School's Management.

Payroll Control

Finding

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.

During the year, the Novopay Online transaction report was discontinued (in October 2021), and from about mid-2021 had not been a complete record of all transactions.

We do not consider that the review of the SUE report on its own is a strong enough control for schools to rely on to detect fraud or error, because it does not include details of changes to pay, or Masterfile

Recommendation

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.

changes. The lack of a complete Masterfile change report could also potentially provide an opportunity for a fraud to go undetected.

Our audit did not place reliance on payroll controls

Because the Novopay Online transaction report has not been available throughout the year we have been unable to rely on payroll controls as part of our audit work. This has meant we have had to carry out additional audit work on payroll. These additional procedures have provided the necessary assurance over the payroll amounts in your financial statements.

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.

Management comments

Cyclical Maintenance Provision

Finding

We note that the school has deferred some of its cyclical maintenance plan provision till future years. The cyclical maintenance plan needs to reflect what actually has been done by the school and if the school decides to defer any of its plans, this must be approved by the board. If the Cyclical Maintenance Plan is not reviewed by the board the provision amount stated could be materiality incorrect.

Recommendation

To ensure the cyclical maintenance provision continues to be based on up-to-date information, the plan needs to be revised by the board to ensure they are aware of what painting work has been carried out during the year. For any maintenance work that has been deferred we recommend that this is discussed at board level and that board decisions are minuted.

Management comment:

Deficit Budget

Finding

The Board has prepared and approved a deficit budget for the coming year.

We are concerned that continued deficit budgeting, if achieved, will reduce your school's equity. Although deficit budgeting may appear to be warranted when preparing the budget for a particular year, we urge caution in using this approach because it is unlikely to be sustainable.

It is vital that you continue to look for ways to improve the actual results against the budgeted deficit during the upcoming school year and ensure that spending does not exceed the amounts approved by the Board.

Recommendation

We recommend that the Board try to avoid deficit budgeting wherever possible, so the school budgets reflect the ability for it to live within its means.

Management comment:

4. REQUIRED COMMUNICATIONS WITH GOVERNANCE

| Matter | How the matter was addressed |
|---|--|
| Auditors' responsibility under generally accepted auditing standards | <p>We are responsible for completing an audit in accordance with generally accepted auditing standards in New Zealand. The detailed terms of which are set out in our audit engagement letter.</p> |
| Confirmation of Audit Independence | <p>In conducting our audit, we are required to comply with the independence requirements of PES-1 Code of Ethics for Assurance Practitioners issued by the External Reporting Board and the additional OAG independence requirements of AG PES 1.</p> <p>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.</p> <p>For the comfort of the Board, we note that the following processes assist in maintaining our independence:</p> <ul style="list-style-type: none"> • No other work is permitted to be undertaken by any BDO office without the express approval of the audit engagement partner. • All services performed by any national BDO office will be reported to the governing body. <p>There were no other services provided by our firm for the financial year.</p> |
| Management Judgements and Estimates | <p>Under International Standards on Auditing (NZ), we have a responsibility to ensure that you have been informed about the process used by the School in formulating 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 2021 appear reasonable. Key matters impacting on our audit have been raised in sections 2 and 3 of this report if applicable.</p> |

| Matter | How the matter was addressed |
|--|---|
| Matters requiring Board of Trustee input | <p>We have placed reliance on the Board’s review and approval of the following matters:</p> <ul style="list-style-type: none"> • Minutes of the Board meetings; • Implementation of such controls as is needed to ensure that financial statements are presented fairly; • Review and approval of management accounts; • Review and approval of annual budget; • Review and approval of 10 Year Property Plan • Notification of fraud; and • Review and approval of the financial statements. |
| Accounting policies | <p>Auditing standards require us to discuss with you the qualitative aspects of the School’s accounting practices and financial reporting. We reviewed the financial statements of the School against the Kiwi Park Model and noted no material departures from the requirements.</p> |
| Materiality and adjusted/unadjusted differences | <p>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.</p> <p>During the course of our audit, we identified misstatements which have been corrected in the financial statements these have been detailed in Appendix 1 of this report.</p> <p>There were no errors left uncorrected at the conclusion of the audit.</p> <p>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 5% or less of our planned materiality.</p> |
| Going concern | <p>We have undertaken a review of management and those charged with governance’ assessment of the ability of the School to continue as a going concern for 12 months from the date of signing the audit report and therefore whether the going concern basis for the preparation of the financial statements is appropriate.</p> <p>We identified no issues or concerns that lead us to conclude the going concern assumption cannot be relied upon.</p> |

| Matter | How the matter was addressed |
|--|---|
| 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. |
| Significant findings from the audit | Other than those documented in the executive summary and sections 2 and 3 of this report, there were no significant matters arising from the audit. |
| Disagreements with management | There have been no disagreements with management over matters of significance to the audit. |
| Difficulties encountered during the audit | There have been no significant difficulties encountered during the audit. |
| Consultations with other accountants and consultants | We have considered the need for other accounting specialists during our work and determined, due to the nature of the engagement and experience and knowledge of the engagement team, that no specialists were necessary for the current period. |
| Management representation letter | We have not requested specific representation from management in addition to those areas normally covered by our standard representation letter. |
| 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 did not identify any issues of concern with respect to probity, waste and performance. |

| Matter | How the matter was addressed |
|---|--|
| Publishing Annual Report on the School's Website | <p>The Education and Training Act 2020 requires you to publish your Annual Report on-line. Your Annual Report contains your audited annual financial statements including our audit opinion, analysis of variance, list of trustees and Kiwisport statement.</p> <p>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, as the value of good accountability lessens over time. We note that you did publish your 2020 Annual Report on your website.</p> |

APPENDIX 1 - ADJUSTED AND UNADJUSTED DIFFERENCES

AUDIT ADJUSTMENTS

The following misstatements have been identified during the course of our audit, and have been adjusted:

| Name | Debit | Credit |
|---|----------|----------|
| Provision for cyclical maintenance- Current | 615.00 | |
| Provision for cyclical maintenance- Non current | | 7,535.00 |
| P- Cyclical maintenance expense | 6,920.00 | |
| To adjust for the cyclical maintenance provision per BDO calculations | | |

In addition to the above adjustment, we made the following:

- We have reclassified the term deposit #76 from non-current investments to current investments.

UNADJUSTED DIFFERENCES

We confirm there are no uncorrected misstatements for the 2021 year.

APPENDIX 2 - UPDATE ON FINDINGS FROM PRIOR YEAR

Segregations in Duties

Finding

Segregation of duties associated with the recording and reporting of financial transactions is a fundamental control designed to mitigate the risk of misappropriation of funds, human data input error, or unrecorded transactions. The importance of this control is further heightened in environments where income streams are cash based. In the context of a school, finance departments are generally limited to a few individuals and the handling of cash is commonplace. Segregating duties as far as possible is therefore extremely important to ensure the heavy burden of trust is not borne by one individual.

During the course of our audit work we have observed instances where duties have been seen to be appropriately segregated and we wish to note that nothing has come to our attention which would lead us in any way to question the integrity of any of your employees, however we have not reviewed all of the school's systems in detail.

Update

Issue to remain to remind management and board the importance of segregations in duties.

Significant percentage of operations grant funding teachers' salaries

Finding

We note that the total salaries cost for the year was \$2,681,649.

We also note that the teachers salary grant for the year was \$2,137,400.

Therefore, salaries of \$544,249 have been funded from the school's operations grants.

The school received operations grants in the year of \$620,016.

Therefore 88% of operations grants was used to fund additional teaching and non-teaching staff. In 2019 89% of operations grant was used to fund additional staff.

From discussions with the Ministry of Education, we note that the average school uses around 50-55% of its operations grant to fund teacher salaries and non-teaching staff.

Your school is therefore using a higher percentage of operations grants to fund salaries than the national average.

Update

No issues noted for the 2021 year.