

TAURANGA PRIMARY SCHOOL

AUDIT COMPLETION REPORT
FOR THE YEAR ENDED

31 December 22



14 June 2023

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 2022.

We emphasise that our audit work involves the review of only those systems and controls in your School 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 express our appreciation for the assistance and co-operation provided by the School and the School's service provider during the audit. There is nothing we wish to raise solely with the Board.

Yours faithfully,
BDO Tauranga



Fraser Lellman
Partner
Audit & Assurance Services

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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 2022 is now complete and we have issued an unqualified audit opinion.

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

AUDIT SCOPE AND OBJECTIVES

Our audit objectives are to:

- report on whether the financial statements presented fairly in all material respects; 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 for the School, and their potential impact on the financial statements, as well as the associated risk mitigations and controls in place. The significant matters arising from our audit work are:

- Locally raised funds
- Payroll controls
- Cyclical maintenance provision
- Management override of controls

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

SUMMARY OF UNCORRECTED MISSTATEMENTS

Uncorrected misstatements are documented at Appendix 1 and will be included in the letter of representation to confirm that you agree with Management's assertion that they are immaterial to the readers understanding of your financial statements.

INTERNAL CONTROLS

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

We have included in section 4 of this report, a summary of our findings and recommendations arising because of our audit procedures.

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 our Audit Plan issued to you 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, unless stated otherwise.

Locally Raised Funds

Area of Audit Emphasis	Conclusion/Response
Due to the nature of locally raised funds (often being cash, or having limited segregation of duties), there is a risk of material misstatement around the completeness of locally raised funds.	We found no issues regarding the completeness of locally raised funds balances recorded in the financial statements.

Payroll not approved or checked

Area of Audit Emphasis	Conclusion/Response
Payroll is processed centrally for all schools. The accuracy of payroll processing is therefore dependent on appropriate approval of payroll changes and checking of the fortnightly SUE report at the School.	We found no issues regarding controls that could affect the payroll balances recorded in the financial statements.

Cyclical Maintenance Provision

Area of Audit Emphasis	Conclusion/Response
Cyclical Maintenance is an area of significant judgment and estimation which could lead to material misstatement in the financial statements if not considered properly by management. For Schools to be able to calculate the appropriate cyclical maintenance provision, a 10 Year Property Plan (10YPP) and cyclical maintenance calculation need to be prepared and/or reviewed by an expert.	From our audit work performed, we note that the school has obtained a cyclical maintenance plan for the school this year. This is a detailed maintenance plan prepared by an appropriately qualified property expert. We concur that the cyclical maintenance provision included in the financial statements is not materially misstated.

Management Override

Area of Audit Emphasis	Conclusion/Response
<p>There is a non-rebuttable presumption under the Auditing Standards that management override presents a significant risk of material misstatement to the financial statements.</p>	<p>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 primarily relates to the processing of manual journals.</p> <p>We have used a risk-based approach to testing manual journals and focused on any areas with a risk of cut-off error or those requiring judgement or estimation. No issues with management override were identified.</p>

3. UPDATES TO OUR AUDIT APPROACH

ISA (NZ) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*, has been significantly revised with a greater focus on more robust Risk Identification, Assessment and Response procedures. The standard will be effective for periods beginning on or 15 December 2021 (so for 31 December 2022 year ends onwards).

We have evaluated the impact of the new requirements on our audit planning and execution, which results a significant shift in effort to the planning stages of the audit where we will focus more time on the risk assessment process, including risks created by the use of IT.

We are moving from a focus on testing the outputs of your financial systems (transactions and balances), to an enhanced focus on understanding processes and controls.

Key enhancements include:

- Assessment of Inherent and Control Risk - Inherent risks (risk of material misstatement without consideration of control) and Control risks (risk of control not preventing or detecting material misstatement)
- Spectrum of Inherent Risk - Conclude based on the assessment of likelihood and magnitude of misstatement, considering how inherent risk factors impact the degree to which inherent risk varies
- System of internal Control - Clarifying requirements on indirect and direct controls in the system of internal control and the need for evaluation of design and implementation of controls
- Use of Technology - Deeper dive in the use of Technology (IT environment and IT general controls) and related risks. Encouragement of increased use of IT Specialists.
- Standback - More explicit Standback requirement for evaluation of completeness and appropriateness of risk assessment process

How has this impacted your audit?

- More inquiry, observation, and inspection procedures, especially for risks related to the use of Technology and controls around those systems
- No change to communicating significant risks
- More senior time on audits

- Audit procedures focused on addressing risks identified
- More consistent and effective audits with improved responses to identified risks improving audit quality for all stakeholders

What we needed from you

- More detailed information on your IT systems involved in the financial reporting process
- More in-depth conversations as to what process and controls are in place, and how those are monitored within your business
- Our audit approach and testing has changed, so we needed some different information from what we previously asked for

Other upcoming changes in the Audit landscape

- Quality Management at our firm level (for 2023 onwards)
- In the 2022 year we have been designing and implementing our System of Quality Management (SOQM) in line with the new Quality Standard ISQM1 - *International Standard of Quality Management 1*, which replaces the previous Quality Control standard ISQC 1.
- ISQM 1 requires the firm to design, implement and operate a SOQM to manage the quality of engagements performed by the firm. The firm's SOQM creates an environment that enables and supports engagement teams in performing quality engagements.
- As we progress through the monitoring stage of our system in 2023, we will provide further communications in relation to this.

4. INTERNAL CONTROL AND OTHER AUDIT FINDINGS

This section of the report sets out the key findings we identified during the audit and highlights control deficiencies requiring attention from management. Our work has been limited to those controls relevant to the audit of your financial statements. The purpose of our audit work on controls is not to provide assurance 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 following key findings were identified during this year's audit:

Cyclical Maintenance Provision	
Finding	Recommendation
<p>We note that the school has deferred some of its cyclical maintenance plan provision till future years.</p> <p>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.</p> <p>If the Cyclical Maintenance Plan is not reviewed by the board the provision amount stated could be materiality incorrect.</p>	<p>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.</p> <p>For any maintenance work that has been deferred we recommend that this is discussed at board level and that board decisions are minuted.</p>

Management comment:

The current maintenance plan was reviewed by the Board and discussions included reasons for any changes. From 2023, detailed information will be minuted from these discussions including the reason for any maintenance work that has been deferred

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:

The Board holds significant reserves obtained from many years of prudent financial management and planning. The Board has made a conscious decision to utilise some of these reserves through approving deficit budgets and allocating additional funds to areas focussed on learning and achievement goals, and providing a modern and safe learning environment. The Board will continue to do this in a manner that is sustainable and purposeful while the held reserves allow.

Disposal of library books

Finding

The cost of lost or damaged library books should be written off by the school year each.

Many schools simply add the cost of the year's purchase of books to the total cost figure and depreciate this at diminishing value over eight years. This accounting treatment is incorrect.

While the net book value is unlikely to be materially incorrect for many schools, the gross cost and accumulated depreciation figures will continue to increase over time and might be materially incorrect.

During the course of the audit, we note that the school has not written off any library books in the 2022 year.

Recommendation

We recommend that the school reviews current procedures in place to ensure that this practice is in place and any lost or damaged library books are written off each year.

Management comment:

The system the school uses to stocktake library books includes information on books written off (archived). In 2022, 28 library books were archived and this information was included in papers supplied to audit

5. 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 AG PES-1 <i>Code of Ethics for Assurance Practitioners</i> issued by the External Reporting Board.</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 or the OAG. • All services performed by any national BDO office will be reported to the governing body. <p>There were no other services provided by BDO during the 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 made by management in the preparation of the financial statements for the year ended 31 December 2022 appear reasonable. Key matters impacting on our audit have been raised in sections 2 and 3 of this report if applicable.</p>
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; • Management accounts; • Annual budget; • 10 Year Property Plan/maintenance plan; • Notification of fraud; and • Financial statements.

Matter	How the matter was addressed
Accounting policies	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.
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 when evaluating the financial statements. Materiality is initially calculated at the planning stage of our audit and has an influence on the amount of work we do, as well as where we direct our efforts. Materiality is not only based on a numeric quantification but is assessed qualitatively for some balances and disclosures.</p> <p>All adjusted and unadjusted differences identified during our audit (if any) have been detailed in Appendix 1 of this report.</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 the Board and management’s assessment of the ability of the School to continue as a going concern for at least 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 led us to conclude the going concern assumption could not be relied upon.</p>
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.

Matter	How the matter was addressed
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.
Publishing Annual Report on the School's Website	<p>The Education and Training Act 2020 requires you to publish your Annual Report online. 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.</p> <p>We note that you have published your prior year Annual Report on the School's website.</p>

APPENDIX 1 - ADJUSTED AND UNADJUSTED DIFFERENCES

ADJUSTED DIFFERENCES

The following misstatements have been identified during our audit, and *have* been adjusted:

Name	Debit	Credit
Property Plant and Equipment	23,959.67	
Equity		23,959.67
Account for Te Mana Tuhono - network hardware supplied by MOE		

In addition to the above adjustment, we have made the following non-monetary adjustment:

- Additional disclosure around the contingent asset for the additional funding washup.
- Changes made to the statement of cashflow.
- Adjustment made to the remuneration note disclosure.

UNADJUSTED DIFFERENCES

The following misstatements have been identified during our audit, and *have not* been adjusted as they were considered by management not to be material:

Name	Debit	Credit
Provision for cyclical maintenance- Current	5,313.00	
Provision for cyclical maintenance- Non current		413.00
P- Cyclical maintenance expense		4,900.00
Account for differences in Cyclical maintenance provision calculation		

APPENDIX 2 - UPDATE ON FINDINGS FROM PRIOR YEAR

Payroll Control	
Finding	Update
<p>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:</p> <ul style="list-style-type: none">• 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. <p>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.</p> <p>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 changes. The lack of a complete Masterfile change report could also potentially provide an opportunity for a fraud to go undetected.</p> <p><i>Our audit did not place reliance on payroll controls</i> 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</p>	<p>No issues noted for the 2022 year.</p>

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.
