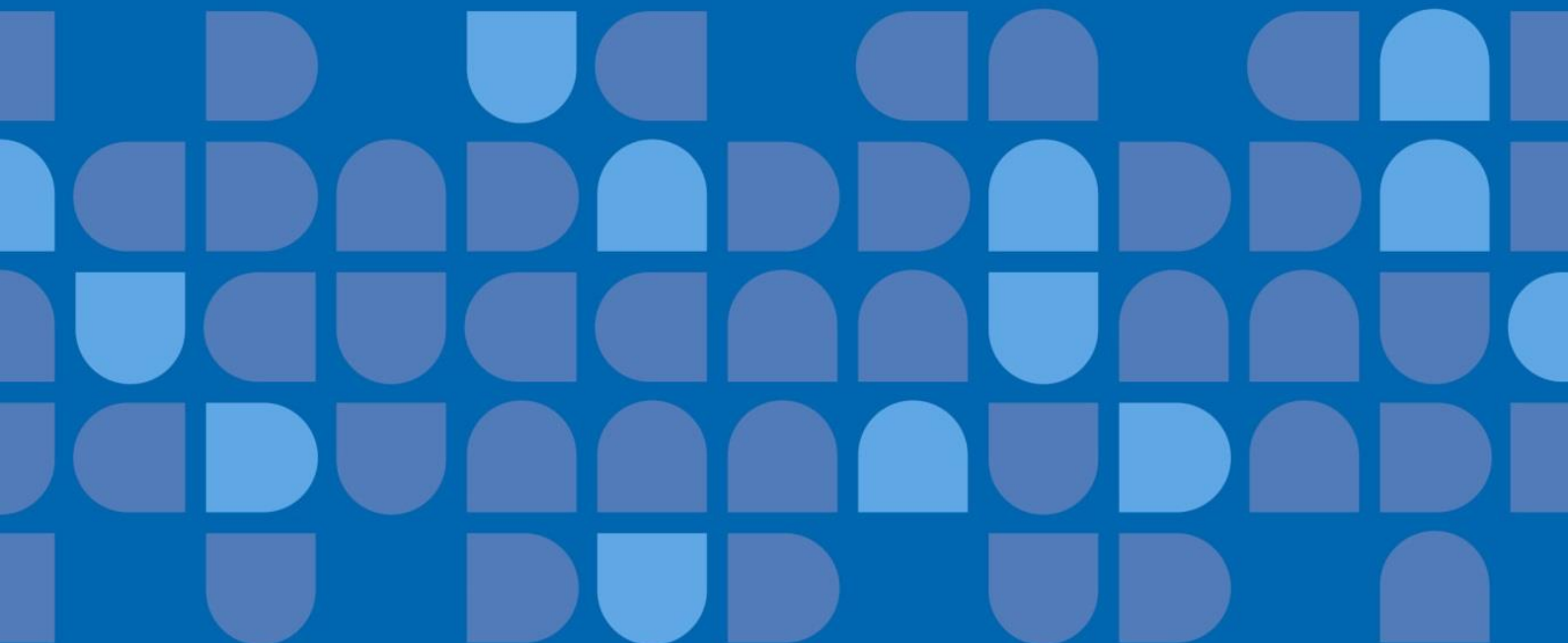


St. Joseph's School (Pukekohe)
Audit Management Letter
Year Ended 31 December 2021



18 July 2022

The Presiding Member
St. Joseph's School (Pukekohe)

For e-mail transmission via the School
E-mail: stjoesoffice@stjosephs.co.nz

Dear Presiding Member

Management Letter – Year Ended 31 December 2021

We have completed our audit of the financial statements of St. Joseph's School (Pukekohe) for the year ended 31 December 2021, in which we examined the annual financial statements and certain aspects of the Schools systems of internal control and accounting procedures.

There are certain mandatory matters that we are required to report to you as part of the audit.

We are pleased to report that the audit progressed smoothly, and that there are no significant matters to raise to your attention.

Yours faithfully
William Buck Audit (NZ) Limited



Darren Wright
Director

Copy to: The Office of the Controller and Auditor-General
 The Principal

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William Buck Audit (NZ) Limited

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Engagement

We have undertaken an audit of the financial report of St. Joseph's School (Pukekohe) ("the School") for the year ended 31 December 2021. Our audit was conducted in accordance with Auditing Standards published by the Auditor-General (<http://oag.govt.nz/2014/auditing-standards>), which incorporate the International Standards on Auditing (New Zealand). This report has been prepared for the Board.

Appreciation for Assistance

We would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from all the staff at the School. We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

Responsibility for the Financial Report

The Board is responsible for preparing financial statements in accordance with the Public Benefit Entity International Public Sector Accounting Standards Reduced Disclosure Regime (PBE IPSAS RDR). The responsibility for producing the financial report and ensuring adequate internal controls and sound business practices is the responsibility of the management and is a part of management's overall responsibility for the ongoing activities of the School.

Policies and procedures developed by the School to safeguard its assets and to provide reasonable assurance that errors and irregularities or illegal acts are promptly identified, must be properly monitored to ensure that all staff are complying with the guidelines provided.

Overall Audit Approach

Our responsibilities include expressing an opinion on the financial statements. Our audit procedures are tailored to our assessment of risk of material misstatement in the financial statements. Our understanding of the internal control environment and financial risk areas determines the nature and extent of our audit testing. Given the level and nature of the activities of the School, our audit approach has been largely substantive in nature.

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

Audit Report

Based on our audit work we have issued an unmodified audit opinion.

Audit Differences

We did not note any significant items that required adjustment to the financial report.

During the audit, we noted items that we did not require to be adjusted in the financial report, these have been included in the Representation Letter.

Accounting Policies

The accounting policies used by the School are consistent with the previous year.

Key estimates and Judgements

Key estimates included in the financial statements include:

- Provision for cyclical maintenance provision (refer to paragraph below)
- Depreciation rates

There are no other material accounts subject to judgement by management and the Board, and no material accounting estimates were made in the determination of the account balances in the financial statements.

Cyclical Maintenance

One of the key areas of audit focus from the Office of the Audit General (OAG) is Cyclical Maintenance. This is a key Subjective Item in the financial statements which requires annual assessment by both School management and the Board. We are required to audit the reliability of the estimates and assumptions used to create the cyclical maintenance provision.

The Ministry have published the updated cyclical maintenance guidance/tools [on its website](#) and the information in the Financial Information for Schools Handbook has also been updated. The updated guidance includes resources to help schools complete their cyclical maintenance provision calculations, and provides guidance on what supporting documentation to retain as evidence for a school's annual audit.

Please refer to attached annexure for guidance on what to consider when reviewing the School cyclical maintenance provision. This was also communicated to Schools in our September 2021 Newsletter.

Good practice guides

The Office of the Auditor General ("OAG") has recently published several good practice guides on their website. [Principles behind good practice — Office of the Auditor-General New Zealand \(oag.parliament.nz\)](#). The OAG will continue to publish more guides in the future. These are useful resources that the School can access for further guidance on specific topics. The OAG has recently uploaded good practice guides on managing conflicts of interest, controlling sensitive expenditure, procurement, discouraging fraud and severance payments.

Fraud Risk

The Board should consider the risk of fraud at the School annually. The Board should ensure that management has implemented strong controls to prevent and detect fraud, including ensuring that you are taking appropriate steps to reduce the risk of cybercrime. [Discouraging fraud — Office of the Auditor-General New Zealand \(oag.parliament.nz\)](#)

Examples of recent fraud include cash, IT equipment, false invoicing, and cybercrime.

Boards should have a fraud policy in place. A fraud policy should contain the entity's position on reporting actual or suspected fraud to the relevant law enforcement authority. However, a fraud policy is only effective if the Board communicates this to its staff regularly and acts on it when it identifies a potential fraud. The Ministry has published a model policy on Theft and Fraud Prevention in its [Model Financial Policies](#).

We continue to see the theft of small amounts of cash by staff at schools and small, desirable items of IT equipment (such as iPads) because there are weak physical controls, a lack of segregation of duties, or existing controls have been overridden.

We recommend that Schools:

- encourage electronic payment for fees or large invoices, rather than cash payment;
- minimise the time they hold cash and store cash in a secure location that few employees have access to; and
- have strong internal controls over desirable and mobile equipment; and take action when told of theft.

We have been told of some instances of fraudulent payments. These are mainly through using false invoices – for example, employees with delegated authority entering false or overstated invoices for payment. This usually occurs where there is a weakness in internal controls (including a lack of segregation of duties), which an employee can circumvent.

This includes making changes to 'Masterfile data'. That data is all the background data of suppliers, including names and bank account details in the accounting system. Also, it means controls and access rights over internet banking.

The best way for a School to mitigate against false invoices is to ensure that adequate internal controls are in place.

We recommend that Schools:

- require a second person to review and authorise all Masterfile changes;
- verify requests for Masterfile changes from two sources (for example, not just through an email, but also directly with the organisation on the phone);
- have senior management regularly review Masterfile change reports;
- obtain and review supporting documentation before making payments, and mark them as cancelled after; and
- investigate all suspicious invoices.

Segregation of Duties

Segregation of duties in the finance function is a key component of internal control and reduces the inherent risk of fraud. At many Schools, portions of the day-to-day accounting functions are solely under control of one person. We appreciate that it is difficult to segregate these duties due to the limited administration resources available.

Due to the level of resources available, it is of increasing importance that there is careful monitoring and oversight of financial matters by management and the Board. The following are typical such controls that can be exercised:

- Development of a robust Budget with detailed underlying assumptions
- Regular reporting and explanation of actual income and expenditure to budget
- Detailed monthly financial reporting to the Board
- Regular overview of Sensitive Expenditure
- One-level up for approval
- Detailed Delegation of Authority levels in places
- Review and approval of monthly credit card statements
- Review and approval of Bank Reconciliations
- Review of receipting of cash into the Bank
- Review of reconciliation of Petty Cash account
- Approval of Journal Entries

The Ministry have also recently published an internal control checklist and a segregation of duties matrix which schools may find useful when assessing the adequacy of their internal controls - [Managing school finances – internal control resources](#). Further guidance on internal controls can be found in section 7.2.5 of the [Financial Information for Schools Handbook](#).

Journal Entry Controls

Journals, by nature, are higher risk because they can be posted to the general ledger to manipulate the accounting records, potentially to conceal errors, fraudulent behaviour or budget overspends. Whilst we wish to point out that nothing in our review has led us to in any way question the integrity of your staff, it is important that Board Members are aware of the potential for journals to be misused.

Many Schools contract out the accounting function to third party service providers, but ultimately it is the Board Members that are responsible for the School's accounting function.

We appreciate that for Schools with a small number of in-house accounting staff it can be difficult to split duties between staff who are able to create journals and staff who are able to review and post journals. We also acknowledge that if the School uses a third-party service provider, it is not practical to review and approve each journal entry at the time the transaction is posted.

We recommend that, in conjunction with reviewing the monthly financial statements, the Board obtains and reviews a listing of manual journals posted for the period.

Good audit evidence of this review could then be to simply note in the minutes the review and approval of the financial statements including the review and approval of the journals processed.

Related Parties – Conflict of Interest

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.

Probity and Sensitive Expenditure

Whilst carrying out our audit, on behalf of the Office of the Controller and Auditor General ("OAG"), we have been asked to consider whether any approved payments could be considered extravagant or wasteful, or show a lack of probity or financial prudence. One of the internal control objectives, and key audit risk, relates to Sensitive Expenditure. 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 expenditure of the School.

The principles that underpin decision-making about sensitive expenditure are that expenditure decisions should:

- **have a justifiable business purpose** that is consistent with the public organisation's objectives. A justifiable business purpose means a reason that would make clear sense, supported by evidence of the need for the spending and evidence that a range of options have been considered;
- **preserve impartiality**. Impartiality means decisions based on objective criteria, rather than based on any sort of bias, preference, or improper reason;
- **be made with integrity**. Integrity is about exercising power in a way that is true to the values, purposes, and duties for which that power is entrusted to, or held by, someone. It is about consistently behaving in keeping with agreed or accepted moral and ethical principles;
- **be moderate and conservative** when viewed from the standpoint of the public and given the circumstances of the spending. It includes considering whether the justifiable business purpose could be achieved at a lower cost;
- **be made transparently**. Transparency in this context means being open about the spending, and willing to explain any spending decisions or have them reviewed; and
- **be made with proper authority**. This means that the person approving the spending has the appropriate financial delegation to do so, for the type and amount of spending and follows correct procedures.

We recommend the Board consider these principles when making decisions about sensitive expenditure. We highlight to the Board Members the importance of ensuring appropriate controls over Sensitive Expenditure, and to remain up to date with Ministry of Education ("MOE") guidelines. More information can be found in the Office of the Auditor-General's good practice guide on [Controlling sensitive expenditure: Guide for public organisations](#), which includes practical guidance on specific types of sensitive expenditure.

The two main focus areas in the current year have been discussed in more detail below:

a. Use of Credit Cards

1. The MOE has noted that generally 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.
2. This also includes the use of fuel cards and overseas currency cards (which are essentially cash).
3. We would expect to see 'one-up' approval, meaning the Presiding Member must authorise payments on the Principal's credit card and staff credit cards should be approved by the Principal.

b. Expenses incurred by the Presiding Member and the Principal.

The MOE has noted that generally Schools have poor controls over expenses incurred by the Principal and Presiding Member, 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 the Presiding Member must authorise the Principal's expenses and the Board must authorise the Presiding Member's expenses.

Donation Scheme

In the 2020-year, School's decile 1 to 7 could opt into the donation scheme. The government pays the School \$150 per student per year if the School Board agrees to opt into the scheme and to not ask for a donation, except for overnight camps. Schools that opt out or that are above decile 8, can continue to ask for donations.

Refer to [What families/whānau need to know about School/kura donations \(education.govt.nz\)](https://www.education.govt.nz/what-families-whānau-need-to-know-about-school-kura-donations/) for MOE Guidance on the regulations related to the Donation Scheme.

Key fees the School cannot request a donation for, if it opted into the Donation Scheme are:

1. Curriculum related trips
2. Curriculum related ICT costs
3. Curriculum related Textbooks/ Photocopies/ Printing

Also note that Schools are not expected to make profits from School uniforms – Schools should recover only their costs.

Detailed Observations & Suggested Areas for Improvement

As part of the audit, we have not identified any further significant matters which we believe we should bring to your attention.

Annual Report

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 Board Members and Kiwisport statement. 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.

Please ensure that once your 2021 Annual Report is submitted to the Ministry it is also published on your website. If you do not have a website, contact the Ministry of Education for guidance.

Going Concern

No material uncertainties related to events and conditions were identified that may cast significant doubt on the School's ability to continue as a going concern or require further consideration or disclosure within the financial report.

Disagreements with Management

There have been no disagreements with Management about matters that, individually or in aggregate, could be significant to the School's financial report or the auditor's report.

Independence

We confirm that we are independent of the School. We are not aware of any relationships between William Buck and the School that, in our professional judgement, may reasonably be thought to impair our independence.

Disclaimer

This report is prepared on the basis of the following limitations. This communication is prepared solely for the information of the Board and is not intended for any other purposes. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

The matters raised in this report are only those that came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Accordingly, management and the Board should not rely on our report to identify all weaknesses that may exist in the systems and procedures reviewed, or potential instances of fraud that may exist. Our comments should be read in the context of the scope of our work. Findings within this report may have been prepared on the basis of management representations.

Suggestions for improvement should be assessed by the School for their full impact before they are implemented. This report has been prepared solely for your use as management of the School and should not be quoted in whole or in part without our prior written consent.

Annexure A: 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.

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 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

We have performed walkthrough over the payroll process and found that controls were in place surrounding the process.

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 procedures 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.

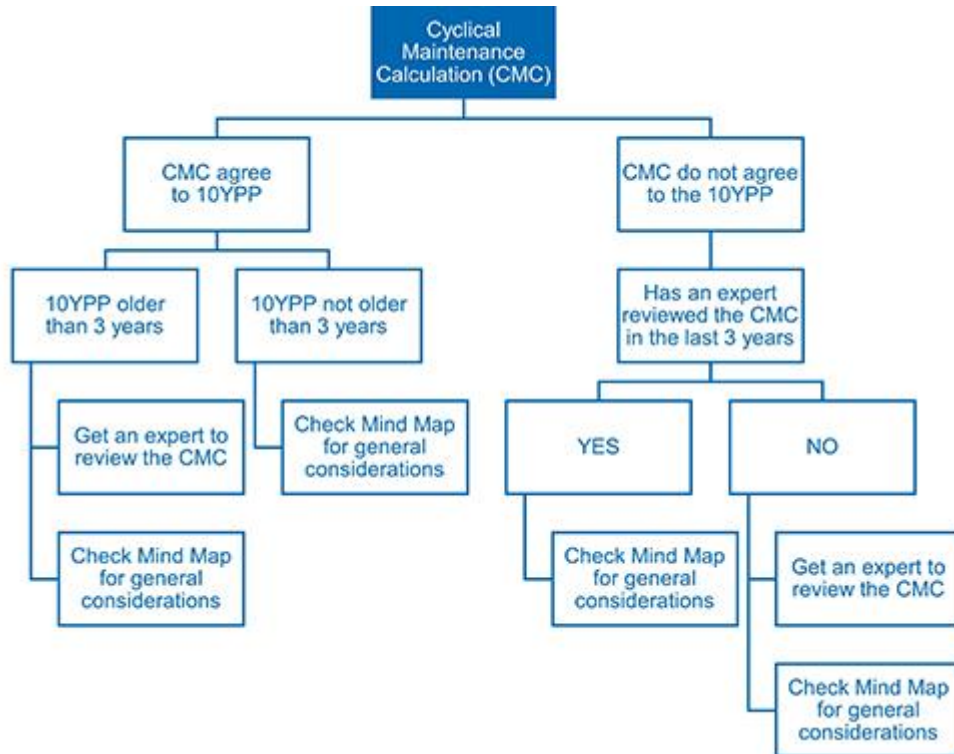
Recommendation

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.

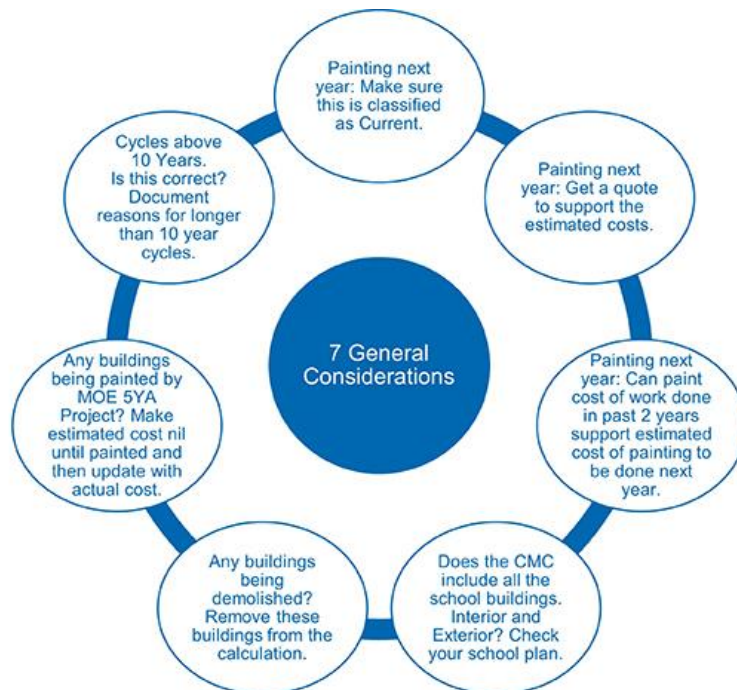
Annexure B: Cyclical Maintenance

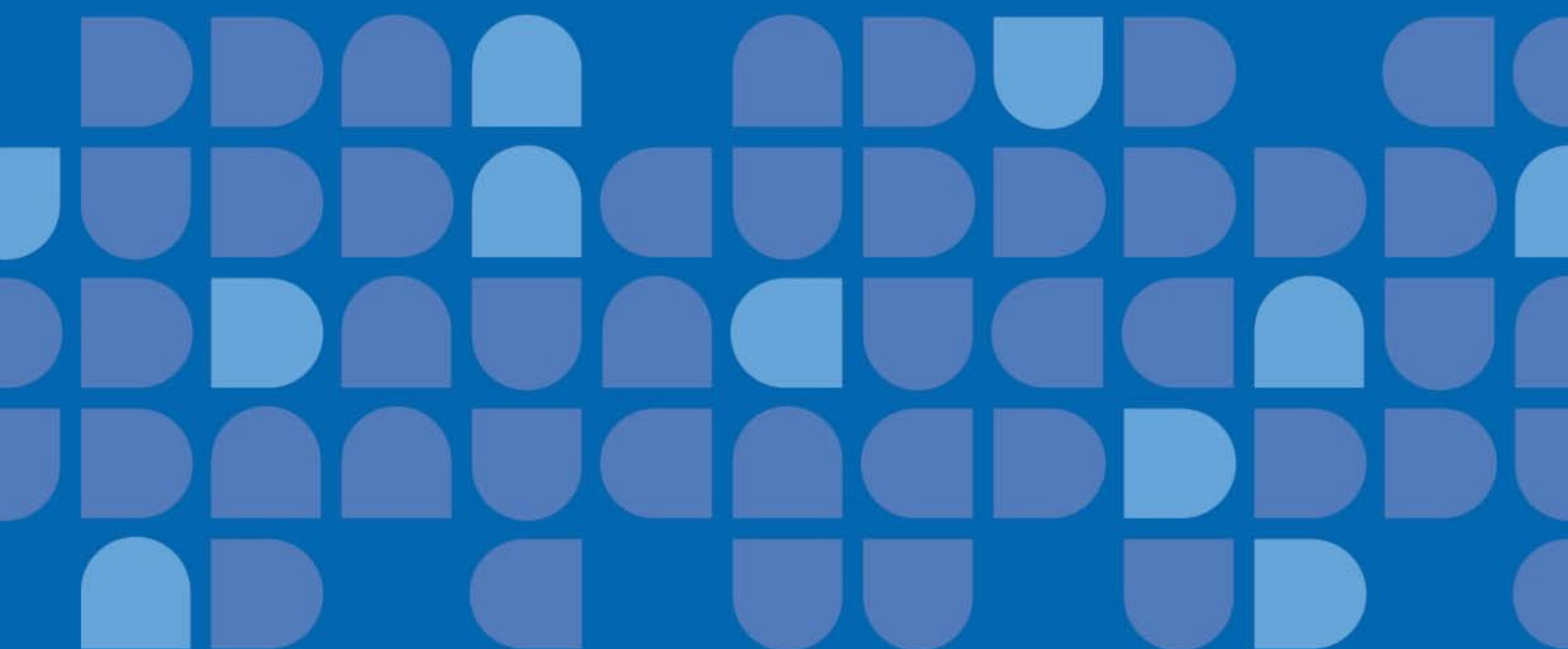
Please see below a Decision Tree Diagram and Mind Map that will assist management and the Board to assess the reasonableness of the Cyclical Maintenance Provision.

Cyclical Maintenance Decision Diagram



Cyclical Maintenance Mind Map





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