

# Report to Governance

For the Year ended 31 December 2022

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Presiding Member  
School Board Members  
Tamatea High School

31 May 2023

Tēnā koe

In accordance with our engagement letter, we confirm we have completed our audit of Tamatea High School (“the School”) for the year ended 31 December 2022. This report sets out certain matters which came to our attention during the course of the audit as well as other required communications. These items may include matters of subjectivity and accounting issues.

We have prepared this report solely for the use of the Board Members and Management of the School. This report forms part of a continuing dialogue between us and therefore, it is not intended to include every matter that came to our attention. For this reason, we believe that it would be inappropriate for this report to be made available to third parties. If such a third party were to obtain a copy without our prior written consent, we would not accept any responsibility for any reliance that they may place on it.

We congratulate the Board on its efforts to maintain effective internal controls in the School. We take this opportunity to thank the board members and staff for the co-operation afforded to us during the course of the audit.

If we can be of further assistance, please advise.

Ngā mihi nui,  
**Silks Audit Chartered Accountants**

*David Fraser*

**Appointed Auditor / Audit Partner**

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Encl: Board Report

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## 1. EXECUTIVE SUMMARY

This report details the processes, findings and recommendations from our audit of Tamatea High School (the “School”) in accordance with the Auditor General’s Auditing Standards which incorporate International Standards on Auditing (NZ), and the terms of our engagement as set out in our audit engagement letter. In accordance with our normal practice we enclose our comments on certain areas of the internal control and accounting practices which came to our attention during our recent audit. We also offer recommendations for possible courses of action.

Overall, we are satisfied that the School has presented its results for the year ended 31 December 2022 to a good level of compliance with applicable financial reporting standards. Adjustments made during the audit are noted in Appendix 1.

We have received full and frank co-operation. There is nothing we wish to raise solely with the Board.

## 2. AUDIT SCOPE AND OBJECTIVES

Appointed auditor 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).

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.

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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 Summary Findings section of this report.

### Confirmation of audit independence

In conducting our audit, we are required to comply with the independence requirements of the Code of Ethics issued by the Professional Standards Board of Chartered Accountants Australia and New Zealand and the External Reporting Board.

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.

For the comfort of the Board, we note that the following processes assist in maintaining our independence:

No other work is permitted to be undertaken by Silks Audit Chartered Accountants.

We have not provided any non-audit services to the School. We confirm the independence of the Silks Audit engagement team. We are not aware of any relationships between Silks Audit Chartered Accountants and the School that, in our professional judgement, may reasonably be thought to impair our independence.

### 3. AUDIT APPROACH

The Board Members is responsible for preparing financial statements in accordance with the Public Benefit Entity Standards Reduced Disclosure Regime issued in New Zealand (PBE Standards RDR). These financial statements must reflect the financial position of the School at 31 December 2022 and the results of its operations for the year ended on that date. This responsibility is specified in the Crown Entities Act 2004 and Education Act 1989.

Our responsibilities include expressing an opinion on these statements, and accordingly our audit procedures are tailored to our assessment of risk of material misstatement in the financial statements.

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

Our understanding of the internal control environment determines the nature and extent of our substantive tests of detail. Given the level and nature of the activities of the School, our audit approach has been largely substantive in nature.

#### 4. Areas of audit focus

Outlined below are the key risks we have considered for your School. We have identified the potential impact of these risks to your financial statements, and we have tailored our audit approach accordingly.

Risk	Audit Response	Audit findings
<p><b>Revenue</b> Completeness of revenue, particularly from locally raised funds, is a significant risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Updated our understanding of the processes relevant to the recognition of revenue. Designed our audit procedures to respond to the risk of a material misstatement in Revenue with a particular focus on ensuring that all revenue was properly captured in the reporting period.</li> </ul>	<p>Our testing around revenue has not identified any issues that management should be aware of.</p>
<p><b>Payroll</b> The nature of the EdPay payroll system raises an inherent risk of a material misstatement through internal and/or external processing.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Assessed the results carried out by Ernst &amp; Young over the central processing of EdPay.</li> <li>• Cleared any unusual transactions identified by this testing at the individual school level.</li> </ul>	<p>Our testing around payroll has not identified any issues that management should be aware of.</p>

- Performed analytical review procedures and employee existence testing at the individual school level.

**Risk**

**Probity and Financial Prudence**

There is a risk that Crown funds may not be used for school related expenditure.

**Audit Response**

We have:

- Considered the value, nature of transactions and the risk of fraud.
- Considered the Board Members process for approval and monitoring of expenditure.

**Audit findings**

Our testing around probity and financial prudence has not identified any issues that management should be aware of.

**Risk**

**Segregation of Duties**

The ability of a key person to override or manipulate receipt or recording of school funds through the exercise of control and opportunity.

It is important that no single person has control over, or access to, all aspects of recording and control of school funds.

Not only does this provide opportunity for abuse of the school funds, but also puts a great responsibility and burden of trust on the person who has this control.

**Audit Response**

The separation of key accounting responsibilities is a critical internal control in any system to prevent misappropriation of funds, error or unrecorded transactions.

We assessed the extent of the segregation of duties in the financial reporting process and our substantive audit approach was designed to respond to the control findings

**Audit findings**

All schools will have segregation of duties risk but with careful monitoring and oversight by management and the Board this risk can be mitigated.

**Risk**

**Management Override of Controls**

The ability of management to override controls over the financial reporting process creates a fraud risk.

**Audit Response**

- Our risk assessment process concluded that the risk of fraud from management override of controls was through processing manual journals.
- Our procedures included a risk-based approach to testing manual journals that included assessment of unusual journals.
- We assessed the extent of the segregation of duties in the financial reporting process and our substantive audit approach was designed to respond to the control findings.

**Audit findings**

Our testing around manual journals has not identified any issues that management should be aware of.

**Materiality and adjusted / unadjusted differences**

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. During our audit we have identified adjustments. All adjusted differences have been detailed in Appendix 1 of this report.

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 10% or less of our materiality.



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## Going concern

Management and governance are required to make a formal assessment on going concern. Under Auditing Standards, we are required to review this assessment for appropriateness.

During the course of our audit we have identified no material misstatements. All unadjusted differences (none of which we consider material, either individually or in aggregate) have been detailed in Appendix 1 of this report.

Paragraph 15 of ISA (NZ) 570 states:

*15. The auditor shall enquire of those charged with governance as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern.*

The assumption of going concern was concluded as appropriate given the School's funding sources and its operating budget for following financial period.

## 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.

## Required communication

We are required by Generally Accepted Auditing Standards (GAAS) to report specific matters to you as follows:

Standard	Our Response
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Auditors responsibility under General Accepted Auditing Standards	We are responsible for the completion of an audit in accordance with the International Standard on Auditing (New Zealand). The detailed terms are included in our letter of engagement signed off by the Board at our previous renewal of contract.
Significant accounting policies	We had read the accounting policies and are satisfied that these comply with the relevant accounting standards and Kiwi Park Model disclosure.
Management judgements and accounting estimates	No management judgement or accounting estimate issues identified.
Significant matters	No significant matters identified.
Disagreements with management	No disagreements were had with school management.
Difficulties encountered during the audit	No difficulties were encountered during the audit.
Independence	There were no independence issues identified between the Silks Audit employees and/or spouses of those employees and the Board.
Independence – other services	We can confirm no other services were provided to the entity during the course of the audit
Laws and Regulations	The School have confirmed that the Board have complied with all necessary laws and regulations. We did not identify any significant breaches.
Fraud or Illegal Acts	From our enquiries with management and our audit testing we have not become aware of any significant fraudulent or illegal acts during the period.
Accumulation of unadjusted errors	We can confirm that all audit adjustments identified have been adjusted for in the financial statements. We can confirm that there is no accumulation of unadjusted errors which would impact on the financial statements
Deficiencies in internal control	As reported in the internal control section above.

## 5. OVERALL RESULT

There are no significant or material weaknesses arising from our audit.

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Our audit work is complete. We have issued an unmodified audit report on the financial statements of the School for the year ended 31 December 2022. The audit report contains no matters or items that the Board needs to consider further.

## General Comment

Section 87AB of the Education Act 1989 requires School Board to publish or make available to the public their Annual Report on the internet which is normally on the School's website. The annual report contains the Audited Financial Statements including our audit opinion, along with the Analysis of Variance, KiwiSport Report, and a List of the Board Members.

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 and after you have submitted your Annual Report to the Ministry of Education.

## Payroll General Comment

### 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 EdPay Online transactions report for accuracy; and
- review of the final fortnightly payroll (SUE) report by someone independent of staff who has access to EdPay.

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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**

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

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- 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.

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## 6. Internal control findings

### Assessment of internal control

Our audit approach requires us to obtain an understanding of an school's internal controls, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error.

We remind you that our audit is not designed to express an opinion on the effectiveness of the controls operating within the entity, although we have reported to management any recommendations on controls that we identified during the course of our audit work. The matters being communicated are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported. Our recommendations for improvement should be assessed by you for their full commercial implications before they are implemented.

### Action Taken on Prior Year Management Letter Suggestions

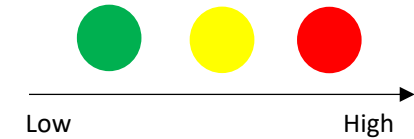
We always appreciate the efforts made by Boards in implementing the recommendations in our previous year's management letter. We acknowledge and say thanks for the proactive manner in which the matters from the previous year's management letter have been addressed by your school.

We are pleased to note the following matters raised in last year's audit management letter have been addressed.



- Receipting Process - Review

**Risk Rating**

To enable management to set priorities on their action plans we have assessed our findings on the following basis, based on our assessment of the importance of each finding.



## Summary

Finding	Risk Rating
Payroll – no independent review of the employee details held in the EdPay system	
Petrol Card – instances of no independent review of the petrol card transactions	

## Observations and recommendations

Matter	Observation	Recommendation	Management/ Governance Response
Payroll – no independent review of the employee details held in the EdPay system	We noted on review of the school’s audit questionnaire that the person who independently reviews the employee details in the Ed pay system to ensure the correct bank account is held for that employee is not independent of the payroll process and system.	We recommend that the person who reviews the employee details held in Ed pay including the bank account details does not have access to the Ed pay system (except for the principal who only reviews the transaction report, draft and processed fortnightly payroll reports). This may require a Board of Trustee periodically reviewing the system once they have been logged into the system. It is important for those that have passwords not to share those passwords and if they have logged an individual in, they must remain with the individual performing the review.	
Petrol Card – instances of no independent review of the petrol card transactions	We noted during our testing of petrol card transactions that there were instances where independent review by a higher delegation could not be found. This occurred for the April and June statements.	We recommend that all petrol card purchases are reviewed by a higher delegation. Use of the petrol card by a staff member should be reviewed by the Principal and the Principals use of the petrol card should be reviewed preferably by the Board of Trustees Chairperson or Member except for the staff representative. When this review is carried out the invoices	



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relating to expenditure should be reviewed to ensure all expenditure is for the purpose of the school and does not contain any expenditure of a personal nature. The petrol card statement should be signed as evidence of the independent review. Any issues noted should be followed up immediately. This could include a lack of supporting documentation, miscellaneous items, unusual use outside of normal expectations or multiple purchases in a day.

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## APPENDIX 1 – ADJUSTED AND UNADJUSTED DIFFERENCES

### Adjusted differences

There are no audit adjustments as at 31 December 2022.

### Unadjusted differences

There are no unadjusted differences as at 31 December 2022.