



Papatoetoe Intermediate School

Auditor's Report to the Board of Trustees

31 December 2023

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24 June 2024

The Board of Trustees
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Dear Trustees

RE: Annual Financial Statement Audit for the Year Ended 31 December 2023

We have recently completed our financial statement audit of Papatoetoe Intermediate School (the "School") for the year ended 31 December 2023, and we have pleasure in providing our report on the results of the audit process.

If you require further information on the matters raised in this report please do not hesitate to make contact.

We would like to take this opportunity to thank management and staff for the courtesy and assistance extended to us throughout the audit process.

Yours sincerely

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1. Results of the Audit Process

1.1 Scope and purpose of audit engagement

We have completed our audit of the School's annual financial statements for the year ended 31 December 2023 and issued our audit opinion. Based on our audit procedures we can confirm the annual financial statements presents fairly, in all material respects, the financial position of the School as at 31 December 2023 and its financial performance and cash flows for the year then ended.

Obtaining reasonable assurance that the financial statements are free of material misstatement, involved us making an assessment of the risk of material misstatement, whether due to fraud or error, and then applying audit procedures, using our professional judgment, to mitigate that risk. While we considered internal control relevant to the preparation of your annual financial statements, our audit procedures mainly comprised substantive tests (i.e. transactional and confirmation type testing).

Our audit procedures are designed primarily for the purpose of expressing an opinion on your annual financial statements. We do not examine every transaction, due to the scope of the audit engagement; there is an unavoidable risk that some misstatements or errors may remain undiscovered. Our report does not include all possible improvements to your internal controls, which a more extensive review might satisfy.

1.2 Responsibilities of the Board of Trustees

The Board of Trustees are responsible for the preparation and fair presentation of the financial statements which fairly reflect the financial position of the School as at 31 December 2023 and the financial performance for the year ended on that date.

To meet this objective, the Board of Trustees are ultimately responsible for the maintenance of proper accounting records and an adequate system of internal controls to minimise the risk of material financial statement misstatement.

1.3 Independence statement

Members of the Audit Team and Partners of Crowe have confirmed their independence from the School for the year ended 31 December 2023.

1.4 Materiality

Materiality is defined as the magnitude of omission or misstatement individually, or in aggregate that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person would have been changed or influenced by such omissions or misstatement. It is a matter of professional judgment and is influenced by quantitative and qualitative factors.

For the 31 December 2023 audit the materiality level was set at \$384,000. We consider that the cumulative and individual effect of all balances and movements above materiality to be significant.

1.5 Outcomes from audit of key financial statement risk areas

Key audit and accounting issues arising during the year relate to those areas of audit focus as listed below:

Audit Risk	Audit Response
<p>Fraud in revenue recognition</p> <ul style="list-style-type: none"> ▪ Locally raised funds are a specific audit risk identified by the Office of the Auditor General. This revenue stream is susceptible to fraud risks over completeness of revenue. ▪ There are specific accounting judgements in the application of the School's accounting policies for key revenue streams. 	<ul style="list-style-type: none"> ▪ We reviewed the reliability of the accounting controls and systems for each significant revenue stream. ▪ We compared an external confirmation of government grants paid to the School to the revenue recorded in the School's financial statements. ▪ We prepared an independent expectation of the School's revenue for the year and compared against actual revenue recorded. Explanations were sought for differences in excess of our tolerable variance. <p>No indication of material misstatement regarding the recognition of revenue as a result of our procedures.</p>
<p>Management override of controls</p> <ul style="list-style-type: none"> ▪ The risk of management overriding controls exists in all entities and is a mandatory significant risk to be addressed by the auditor. ▪ Material misstatement of financial statements due to fraud often involve the manipulation of the financial reporting process by recording inappropriate or unauthorised journal entries, bias in accounting estimates and the existence of significant transactions outside the normal course of business. 	<ul style="list-style-type: none"> ▪ Professional scepticism was maintained while undertaking audit procedures on subjective balances in the School's financial statements, including the provision for cyclical maintenance. ▪ Journals posted into the general ledger were selected on a sample basis and traced back to supporting documents to verify that they were appropriate. <p>No indication of bias with regard to accounting estimates was noted during our audit. From our sample of journal entries posted during the year, we noted no evidence of material misstatement.</p>
<p>Probity of expenditure</p> <p>The probity of expenditure is a specific requirement of the Office of the Auditor General and considers the appropriate use of public funds.</p>	<ul style="list-style-type: none"> ▪ We maintained alertness for, and an awareness of, issues and risks with effectiveness and efficiency, waste, and a lack of probity or financial prudence ▪ We tested on a sample basis areas of sensitive expenditure and assessed whether individual staff members had been provided with actual or perceived private benefits. ▪ Ensured expenses selected for testing met probity guidelines set by the Ministry of Education and the Office of the Auditor General. <p>No evidence of material probity concerns was identified as a result of our procedures.</p>

Audit Risk	Audit Response
<p>Cyclical Maintenance</p> <p>The cyclical maintenance provision does not contain all obligations of the school and does not reflect management's best estimate</p>	<ul style="list-style-type: none"> ▪ Reviewed the school's cyclical maintenance calculation and ensured that the provision was made in accordance with the school's 10 Year Property Plan (10YPP) ▪ Obtain an understanding of the process taken to prepare the 10YPP and ensured that a person with suitable experience has prepared the plan. <p>No evidence of material misstatement of the school's cyclical maintenance provision was found as a result of our procedures.</p>

1.6 Observations and recommendations arising from the audit

We highlight the following matters for the attention of the Board of Trustees together with recommendations for management to consider, to further strengthen the internal control environment of the School. These include any observations and recommendations arising from prior year audits that have not yet been satisfactorily resolved, or still require further attention of the Board of Trustees.

1.6.1 Inadequate controls over the review of the SUE Reports

Observation

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.

Guidance on the controls within EdPay that should be operating at schools is available on the EdPay website ([School internal processes and controls – payroll](#)). 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

The final fortnightly payroll (SUE) report should also be reviewed to ensure the amounts paid are as expected. We would expect this review to include consideration of whether all those paid in the period were employed by the school, whether the amounts paid are as expected, and where amounts have changed since the previous period, whether those changes are expected and have been authorised.

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.

This means that, while an initial review of the transaction history reports and the fortnightly draft payroll (SUE) report might be carried out by the payroll administrator, to check the accuracy of data entry, the final fortnightly payroll (SUE) report and activity history reports should be reviewed by someone independent of the staff who have access to EdPay.

The current guidance to schools on controls (referred to above) notes that the online activity history for Masterfile changes, such as bank account and other changes to personal details within EdPay, is still in development. The guidance does suggest some interim procedures, consisting of taking screen shots of changes and having those approved. However, as this does not provide a list of all changes made, we do not consider this to be an effective control.

We understand from the Ministry that the activity history report now provides details of all Masterfile changes (except changes to employees' addresses). However, this change has not been communicated to schools. EPL and the Ministry are currently refreshing the guidance to schools on payroll controls, and we have been told that this will be available soon.

Impact

The controls over payroll cannot be relied on without the evidence of these discussions. Furthermore, employees could be paid at incorrect payrates or employees that have resigned could be incorrectly paid.

Recommendation

We recommend that the Board ask management for assurance that appropriate controls are in place at the school over payroll transactions, and that these controls are considered against the updated payroll guidance once it is published by EdPay.

School's Management Response

The Finance Manager manages all payroll requirements in EdPay. The Principal's PA provide checks that via the management of all Leave, Release and Reliever loading This ensure that no additional or unauthorised teachers/ staff members can be loaded without the other person noting.

The Principal checks Edpay, in the portal, checking for - unknown staff members who she asks for proof of employment (usually these are new staff or new relievers), significant changes in pay, significant back pay or additional payments and coding, especially for staff who change rolls or are newly loaded.

Once each person does their checking in the Edpay portal and are satisfied it is correct the Financial Manager prints the payroll summary off and she again checks it and hands the checked paper copy to the Principal. The Principal also re-checks the paper copy and signs and dates that it has been seen.

When the principal is away this is checked by the Acting Principal, Donna Young DP, who has received training in doing this. It is very unusual that an error occurs that is not quickly picked up.

1.6.2 Expenditure on principal professional development or wellbeing that can be seen to confer a personal benefit.

Observation

For 2023 and 2024, principals can access funding of up to \$6,000 per annum for professional coaching and support for their leadership role. The purpose of the funding is to ensure secondary principals' leadership development and wellbeing.

The \$6,000 is paid through the school's operational funding but tagged to be spent for the purposes of professional coaching and support for principals.

The Ministry of Education (the Ministry) has provided guidance on its website - Primary principals – Education in New Zealand. This requires each school to use its funding in accordance with its policies relating to professional development and sensitive expenditure.

As noted in Circular 2020/10: Principal Concurrence any additional payment or benefit paid to a principal including 'sensitive payments', that can be described as payments that provide, have the potential to provide, or have the perceived potential to provide, a private benefit to an individual staff member, need to be approved by the Ministry of Education before the payment/benefit is made.

We note that if the Ministry declines an application for concurrence for a payment, that payment may be unlawful.

Any additional benefits provided to the principal might also attract Fringe Benefit Tax.

Recommendation

We recommend that the Board considers what is appropriate spending for the \$6,000 and contacts the Ministry of Education to request concurrence for this payment and obtains advice on whether Fringe Benefit Tax could be payable (if required).

School's Management Response

The principal has not spent the additional wellbeing fund in the previous financial year.

A concerted effort is being made to ensure the fund is spent in accordance with MOE guidelines.

The Board recognises the increased workload arising from the rapid roll growth and having to employ teachers, manage the related funds around that type of employment (e.g. immigration and agency fees) and organising mentoring and the required paperwork. Including the learning around the immigration requirements.

They applied for concurrence for the principal of an additional \$3,500 (there is already a concurrence payment paid due to the Leadership of the RTLB Cluster, a cost built into the RTLB Funding). The MOE have approved that additional concurrence as well as approving the ongoing concurrence.

It was agreed, with the principal, to take that from the unspent wellbeing funding. The principal uses this money to pay for regular professional supervision, a cost that she and the Board agree should not be made available to public information. She reports on that in her Board report. She also uses the Wellbeing fund to pay for professional support and mentoring from principal mentors. This is also reported in Board reports.

1.6.3 Classification of term deposit balances

Observation

In the current year we noted that the School had classified approximately \$260,000 of term deposits as cash equivalents within its financial statements at 31 December 2023. Upon further examination we noted that these funds had maturity of more than 90 days and as such an adjustment was made to the School's financial statements to reclassify this balance as current investment. Please note this point only relates to classification of balances in the financial statements.

Impact

The School had not classified balances correctly between cash and cash equivalents and current investments in the financial statements.

Recommendation

We recommend that the School review its procedures for classifying cash balances and investments in the draft financial statements presented by the School.

School's Management Response

Findings and recommendation have been reviewed and acknowledged by School.

Our uncorrected and corrected audit differences are included in section 3 of this report for the consideration of the Board.

1.7 Update on prior year observations and recommendations

In our audit for the year ended 31 December 2022 we identified the following matter for the attention of the Trustees together with recommendations for management to consider. We consider the following matter to have been sufficiently addressed.

Prior Year Recommendation	Current Year Observation
<p>Conflict of interest register</p> <p>Recommendation</p> <p>We recommend that the board meeting agendas include the declaration of conflicts of interest. We recommend that there should be a formal conflict of interest register and policy in place. This will ensure that parties associated with board members and key management personnel can be identified for conflict of interest procedures as well related party transactions for disclosure purposes. The register should be reviewed and updated on a regular basis.</p>	<p>Conflicts of interest are checked at the start of every Board meeting. The Board Secretary maintains a conflict-of-interest register. We consider the matter resolved.</p>

1.8 Confidentiality

This report is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibility to report to the Board of Trustees of the School directly.

The contents of this report should not be disclosed to third parties without our prior written consent.

2. Other matters to be communicated

In compliance with International Auditing Standards, we have an obligation to communicate certain aspects of our audit to you. The critical areas have been detailed in the previous sections, and the other matters that require communication are summarised as:

Matter to be communicated	Crowe comments
Significant accounting policies adopted or changed	There have been no significant accounting policies adopted or changed during the year.
Management judgements and estimates	Other than what has been disclosed in section 1.5 no material accounting judgements identified.
Disagreement with management over the application of accounting principles, scope of the audit and disclosures	There have been no disagreements with management during the audit.
Any instances of fraud or non-compliance with legislative, regulatory or contractual requirements	No instances of fraud or non-compliance were detected during the audit.
Material uncertainty related to going concern	Adoption of the going concern assumption by Board of Trustees in preparation of the 31 December 2023 financial statements was considered appropriate. No matters of material uncertainty related to going concern were noted.

3. Summary of adjusted and unadjusted audit differences

3.1 Adjusted audit differences

As a result of our audit procedures, the following adjusting journals were posted for the year ended 31 December 2023:

#	Description	\$				
		Balance Sheet		Income Statement		Profit Impact
		DR	CR	DR	CR	
1	Term Deposit Reclassification	260,000	260,000	-	-	-
TOTAL		260,000	260,000	-	-	-

We have communicated all amendments to financial statement disclosures that were identified during the audit and (except for those detailed in section 3.2 below) all have been updated in the financial statements.

3.2 Unadjusted audit differences

In performing our audit for the year ended 31 December 2023, we have not identified any uncorrected adjustments or errors that could, in our judgement, either individually or in aggregate have a significant effect on the financial statements.

#	Description	\$				
		Balance Sheet		Income Statement		Profit Impact
		DR	CR	DR	CR	
1	Cyclical Maintenance Inflation	-	51,205	51,205	-	51,205
TOTAL		-	51,205	51,205	-	51,205

Management has made an assessment that the individual and aggregate effect of the unadjusted audit differences was not material. We agree with this assessment.