



**Pukekawa School**  
Report to the Board of Trustees  
for the year ended 31 December 2021

17 June 2022

The Board of Trustees  
803 Highway 22  
Pukekawa  
RD1 Tuakau  
**NORTH WAIKATO 2696**

Dear Trustees

## **Report to the Board of Trustees for the year ended 31 December 2021**

In accordance with our normal practice, we include in the attached report all matters arising from our audit of the financial statements of Pukekawa School ("the School") for the year ended 31 December 2021 which we consider appropriate for the attention of the Board of Trustees ("the Board"). These matters have been discussed with management of the School and their comments have been included, where appropriate.

This report is intended for the Board only and should not be distributed further.

We would like to take this opportunity to extend our appreciation to management and staff for their assistance and cooperation during the course of our audit.

If you would like to discuss any matters raised in this report please do not hesitate to contact us.

Yours faithfully



Matt Laing  
**Partner**  
for Deloitte Limited  
On behalf of the Office of the Auditor General

## Contents

1.	Purpose of report and responsibility statement	2
2.	Our audit report	2
3.	Areas of focus and audit findings	3
4.	Assessment of internal controls	6
5.	Summary of unadjusted differences	7
6.	Summary of omitted disclosures assessed	7
7.	Other communications	7

## 1. Purpose of report and responsibility statement

This report has been prepared for Pukekawa School's Board of Trustees and is part of our ongoing discussions as auditor in accordance with our engagement letter dated 31 August 2021 and as required by New Zealand auditing standards.

This report is intended for the Board of Trustees and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.

This report includes only those matters that have come to our attention as a result of performing our audit procedures and which we believe are appropriate to communicate to the Board. The ultimate responsibility for the preparation of the financial statements rests with the Board of Trustees.

We are responsible for conducting an audit of Pukekawa School ("the School") for the year ended 31 December 2021 in accordance with New Zealand auditing standards issued by the New Zealand Auditing and Assurance Standards Board. Our audit is performed pursuant to the requirements of the Public Audit Act 2001, with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Board of Trustees. The audit of the financial statements does not relieve management or the Board of Trustees of their responsibilities.

Our audit is not designed to provide assurance as to the overall effectiveness of the School's controls but we will provide you with any recommendations on controls that we might have identified during the course of our audit work.

## 2. Our audit report

We have not identified any unadjusted differences or omitted financial statement disclosures that could either individually or in aggregate have a significant effect on the financial statements.

Based on the current status of our audit work, we envisage issuing an unmodified audit report.

## 3. Areas of focus and audit findings

Our audit procedures were focused on those areas of the School's activities that are considered to represent the significant risk areas identified during the risk assessment process undertaken during the planning stage of our engagement.

The following table summarises the significant risks and other areas that we have focussed on during our audit.

Area of focus	Our response
<p><b>Responsibility of Fraud</b></p> <p>ISA (NZ) 240 <i>The auditor's responsibility to consider fraud in an audit of financial statements</i> requires us to presume there are risks of fraud in revenue recognition and in management's override of controls therefore this is a focus area for the audit.</p> <p>Based on the nature of the school's revenue streams, the receipt and recording of Local Raised Funds and Donations (excluding from the Government), will likely be more susceptible to fraud. For these revenue streams there are limited audit procedures we can adopt to ensure all money that should be received is properly accounted for.</p> <p>Management's override of controls is identified as a fraud risk because it represents those controls in which manipulation of the financial results could occur.</p> <p>The primary responsibility for the prevention and detection of fraud rests with the Board of Trustees (the 'Board').</p> <p>The Ministry have published a model policy on Theft and Fraud Prevention in its Financial Information for Schools Handbook (FISH). However, having a fraud policy is not enough if it is not used as a basis for training or to regularly remind staff that fraud is unacceptable.</p>	<p>We gained an understanding of how the Board exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks. This involved:</p> <ul style="list-style-type: none"> <li>• Inquiries with management and others within the school, as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the school;</li> <li>• Inquiries with members of the Board regarding their knowledge of any fraud, suspected fraud or allegations of fraud;</li> <li>• Understanding whether there were appropriate segregation of duties and internal controls in place to mitigate the risk of misappropriation of assets and in particular cash; and</li> <li>• Reviewing processes around journal entries, estimates and judgements and significant unusual business transactions.</li> </ul> <p>We did not identify any matters to report to the Board.</p> <p>We would also like to remind the Board that cyber-fraud is becoming more prevalent. The Ministry have provided guidance on their website on cyber-safety which we encourage the Board be familiar with.</p>
<p><b>COVID-19</b></p> <p>During the 2021 year there have been ongoing impacts to schools resulting from the COVID-19 pandemic. A number of schools were forced to close for a considerable period of time which required a change in way education was provided and affected other aspects of the school operations.</p>	<p>As part of the audit, we have understood the impact of COVID-19 pandemic on the school and performed appropriate audit procedures where required.</p> <p>In particular, we considered the impact of COVID-19 on the school's ability to continue as a going concern, and its ability to generate income from locally raised funds and international students where relevant.</p>

## Area of focus

## Our response

### Locally raised funds

Locally raised funds continue to be a focus area because there is a risk that not all cash received is recorded. Although schools may have a process to record cash receipts, the risk of misappropriation is high if there are limited segregation of duties.

As part of our audit procedures, we have:

- Assessed the design and implementation of internal controls surrounding all material revenue streams; and
- Performed testing on these balances as well as performing analytical procedures, on balances identified as material.

No issues were identified in this area.

### Payroll

Payroll expense for schools is the most material expense and continues to be a focus area due to this and historical complications with the processing of payroll. Part of the payroll process is managed centrally by EdPay (previously Novopay) and in the current year there has been issues raised with the change in systems.

The EdPay system relies on schools checking the accuracy of the payroll transactions processed by the school, as this information is not checked centrally. During the year the "Novopay Online Transaction Report" was discontinued (in October 2021) and was replaced with several other reports. The school needs to implement a process to review and approve these reports and keep the evidence of this process being completed.

Updated guidance on the controls within EdPay that should be operating at schools has been published on the EdPay website.

As part of the audit process, we obtain reports from the Office of the Auditor General (through the audit assurance work performed by E&Y) which aid us in completing our audit of the payroll balances.

The reports provided by the Auditor General are made available to the school along with instructions on how to understand them.

Consistent with our prior year audits we have inquired with the school regarding any exceptions identified as well as any differences to amounts recorded.

We have performed testing on key payroll controls and substantive analytical procedures to ensure that the payroll balances were not materially misstated in the financial statements.

As part of the payroll process management currently review the SUE report (fortnightly payroll report). 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.

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.

A copy of the signed School Annual Accrual Report (SAAR) certification was received prior to completion of the audit. This certification indicated that that the payroll reports were reviewed by the Principal and Chair and allowed you to report any errors that you did not agree with.

No further issues identified in this area.

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## Area of focus

## Our response

### Sensitive expenditure

Being a public sector entity, we are required to perform specific work on behalf of the Auditor –General around areas referred to as sensitive expenditure.

In performing the audit we looked at various areas including:

- Ensuring that policies are current and were appropriately authorised;
- Reviewing various expenditure by the Principal and the Board against supporting tax invoices, other documentation and relevant policies and approval guidelines;
- Reviewing other sensitive areas such as travel, entertainment and credit cards against supporting tax invoices, other documentation and relevant policies and approval guidelines;
- Discussing with the Principal and Chair of the Board about fraud processes and policies and knowledge of any suspected or identified fraud during the year (if applicable); and
- Reviewing Board and Principal remuneration against guidance and confirmations.

No issues identified.

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### Cyclical maintenance

The provision for cyclical maintenance is a significant accounting estimate in school financial statements. However it is not a complex estimate because there is a standard method for calculating the provision and the provision is required to be updated frequently.

Prior to July 2019 schools were provided with funding and appointed their own property planner from a Ministry approved panel to prepare their 10YPP. Since 1 July 2019 the Ministry appoints the property consultants (Ministry Engaged Consultants or MECs) directly. Each MEC is allocated a bundle of schools each year.

The 10YPP should set out the capital projects and maintenance requirements of the school for the next ten years. The completed 10YPP needs to be approved by both the school board and the regional Ministry property team. The cyclical maintenance provision should also be approved by the MEC appointed by the Ministry.

As the school's cyclical maintenance provision is calculated based on information provided by a Ministry expert (MEC) we have:

- Agreed the inputs to the provision calculation to the maintenance plan in the approved 10YPP, and checked the provision calculation for mathematical accuracy;
  - Carried out a reasonableness check based on whether the provision is consistent with our understanding of the school; and
  - Considered whether there have been any changes at the school since the 10YPP was prepared that would impact on the maintenance plan.
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## 4. Assessment of internal controls

Our audit approach requires us to obtain an understanding of an entity'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 School, 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. Any of our recommendations for improvement should be assessed by you for their full commercial implications before they are implemented.

As is the case for many schools, the number of people involved in the administration and accounting functions is very limited. This brings with it an increased inherent risk that errors and omissions may occur and go undetected.

Based on the nature of the school's revenue streams, the receipt and recording of Locally Raised Funds and Donations (excluding the Donations Scheme from the Government), will likely be more susceptible to fraud. For these revenue streams there are limited audit procedures we can adopt to ensure all money that should be received is properly accounted for.

It is important that the Board is aware of these risks as it is your responsibility to ensure the School's internal controls operate effectively and that the resultant financial statements are accurate.

We have not identified any significant deficiencies in internal controls which would impact upon our ability to provide our opinion. However, we did note a of control observation and this is detailed below.

### Observations and recommendations in the current period

Observation	Recommendation	Management's Response
Deloitte noted when obtaining an understanding of financial processes that the School does not perform a formal reconciliation between the quarterly Operations Grant statement and the Operations Grant funds received in the bank from the Ministry of Education.	Deloitte recommends that a quarterly reconciliation is prepared and independently reviewed to ensure that the quarterly instalments received in the bank for the Operations Grant reconcile to the quarterly notice. This procedure would ensure that any variances are identified and followed up with the Ministry of Education.	Pukekawa School is now aware to monitor and check the incoming funds from the Ministry of Education. This means the Operations Grant and any money coming into the school will be checked off by the Principal and signed to show that it has been done. Pukekawa School will implement this check from now on.
During our Expense Process understanding, Deloitte noted that there was no evidence of the review process for changes to the Supplier Master File. The Supplier Master File is within Xero and there is no formal review process when changes are made to this including added and removing suppliers, changing supplier bank details, and changing supplier names.	When a change needs to be made to the Supplier Master File, this should be approved by an independent staff member that is independent of the staff member processing the change. Deloitte also recommends there is a regular review of the Supplier Master File to ensure that all bank details are correct within Xero. This recommendation can be implemented through using the History and Changes Report function within Xero to get an overview off all changes to the supplier Masterfile which can then undergo an independent review from an individual that does not make the change.	Pukekawa School acknowledges that this supply master file checks were not checked regularly within 2021 financial year. Supplier master file checks will be commenced on a regular basis going forward.



## 5. Summary of unadjusted differences

We have not identified any uncorrected misstatements that management believe could, either individually or in aggregate, have a material effect on the financial statements for the year ended 31 December 2021.

## 6. Summary of omitted disclosures assessed

We have not identified any disclosure deficiencies that have not been adjusted in the financial statements for the year ended 31 December 2021.

## 7. Other communications

The following matters relevant to our audit of the School for the year ended 31 December 2021 are communicated in accordance with the requirements of New Zealand auditing standards.

Matter to be communicated	Response
Written representations	A copy of the representation letter to be signed on behalf of the Board has been circulated separately.
Fraud	<p>The primary responsibility for the prevention and detection of fraud rests with the Board, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.</p> <p>As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.</p> <p>ISA (NZ) 240 The auditor's responsibility to consider fraud in an audit of financial statements requires us to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks.</p> <p>No matters relating to fraud, concerning either employees or management came to our attention.</p> <p>If you do suspect or become aware of any fraud, please contact Matt Laing to discuss further.</p>
Accounting policies and financial reporting	<p>There were no changes in accounting policies during the year ended 31 December 2021.</p> <p>We have not become aware of any significant qualitative aspects of the entity's accounting practices, including judgements about accounting policies, accounting estimates and financial statement disclosures that need to be communicated to the Board, other than those already communicated in this report.</p>
Related parties	No significant related party matters other than those reflected in the financial statements came to our attention that, in our professional judgement, need to be communicated to the Board.
Other information	We have read the other information (the financial and non-financial information other than the financial statements) contained within the annual report to consider whether there are material inconsistencies with the financial statements. No issues identified.



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