

31 May 2018

The Chairperson
Board of Trustees
Te Kura Kaupapa Maori o Tapere Nui A Whatonga
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Attention: Mrs Paenga

Dear Mrs Paenga,

We have completed the audit of the Financial Statements of Te Kura Kaupapa Maori o Tapere Nui A Whatonga for the year ended 31 December 2017. Accordingly, we enclose the Financial Statements with Audit Report attached.

Please ensure that you submit a pdf file of your original Financial Statements to the Ministry of Education by 31 May 2018 via the Ministry's **School Data Portal**. For assistance, refer to MOE Circular 2017/04.

The primary purpose of our audit is to express an opinion on whether the statements presented in the annual report give a true and fair view. Consequently our audit does not include evaluation of all accounting controls and should not be relied upon to disclose all weaknesses that may exist. You should be aware that the responsibility for the proper maintenance of the accounting systems and internal controls rests with the Board.

In accordance with normal practice, we enclose comments on certain matters concerning the school's internal control and accounting practices which came to our attention during the course of the audit.

Publishing Annual Report Online

Section 87AB of the Education Act 1989 now requires all schools to publish its annual report on an internet site maintained by or on behalf of the Board to make it available to the public.

If your school does not have its own website, then you can e-mail the annual report to the Ministry at planning.reporting@education.govt.nz and request that they publish it for you.

Please note that a Facebook page is not acceptable as any member of the public must be able to access the document.

Statutory Deadlines

Observation:

The Board has once again complied with all of the statutory deadlines required by the Education Act 1989 to date.

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Last Years Management Letter

Observation:

We would like to congratulate the Board for implementing procedures to clear some of the issues raised in last year's Management Letter. Most of the issues raised were minor housekeeping/internal control matters that did not have a major impact on the Financial Statements. However it is pleasing to see that some of these housekeeping issues have been addressed.

Audit Misstatements

All material audit misstatements identified during our audit have been corrected.

Breach of Law - Unauthorised Investments

Observation:

The Board breached section 28 of Schedule 6 of the Education Act 1989 in that the school has loaned funds to staff and has not recovered all of the advances as at 31 December 2017.

Loans to staff of \$4,503.84 some of which date back a few years, are deemed to be acquisitions of securities or investments; hence the breach of section 28 of Schedule 6 of the Education Act.

As the Breach has been disclosed in the Financial Statements, under Note 24 on page 19, we have not been required to report the Breach of Law in the Audit Report.

Board of Trustees and Meetings

Observation:

The Board did not hold any meetings between 19 October 2017 and 1 February 2018 and there have been no meetings since.

Recommendation:

The Board must hold regular meetings in order to govern the school effectively. Meeting should be held no more than three months apart.

Annual Budget

Observation:

We noted that the 2017 budget was not formally approved by the Board until 20 June 2017.

Recommendation:

We recommend that the Budget be set and formally approved, if not before the start of each year, then very early in the year.

Setting and approving a budget is an important financial duty of the board. Actual expenditure needs to be compared to the budget, highlighting areas of overspending, and allowing the Board to intervene when necessary. June is too late, when nearly half the year's expenditure has already been spent.

School Name

Observation:

We noticed that some invoices are in the name of Rangatukia School, the schools old name.

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Recommendation:

Suppliers that issue invoices in the old name should be contacted and requested to update their records to the school current name.

Minutes - Accounts Passed for Payment

Observation:

Minutes do not always clearly record that Accounts have been approved/passed for payment.

Recommendation:

We recommend that the Board clearly documents "Accounts are Passed for Payment" in the minutes. The reason for doing this is so that the Board fulfil their responsibility of ensuring financial control is maintained, by knowing exactly how much and who has been paid.

Outstanding and Overdue Debts

Observation:

Our School Audit Questionnaire was answered "No" for the question whether the Board is advised of outstanding and overdue debts owing to the school and whether write-offs of such debts are approved by the Board.

Recommendation:

The School has debt owing from staff members, as noted above, and should be informed of this so that the debt can be monitored and action taken to recover the debt.

The Board is ultimately responsible for the running of the school. Consequently there should, at minimum, be an informal policy where any decision to write-off and reduce revenue under control of the Board should be formally approved and documented in the minutes.

Cheque Signatories

Observation:

R Nepia is no longer employed or a Board Member at the school, but is still a cheque signatory.

Recommendation:

We recommend that your Bank be contacted for a change in bank signatories' form. Former employees or Board members need to be removed as signatories and replaced by current employees or Board members as soon as possible.

Leave Accrued

Observation:

Leave accrued at 31 December 2017 resulted in a liability of \$5,574 against the school (2016 = \$4,652). However we noted that one 52 week employee was owed \$3,410 of Annual Leave or 61% of the total Leave Accrued.

Recommendation:

We recommend that the employee be encouraged to take additional leave to reduce the amount owing by the school.

Remember that it is good practice to keep leave as low as possible. Not only does this reduce the liability against the school but it also ensures that staff take appropriate breaks from work to recharge and regain enthusiasm.

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Segregation of Duties

Observation:

There is a lack of segregation of duties performed at the school. The Principal and School Administrator are husband and wife and between them perform nearly all the financial duties at the school.

Recommendation:

While we appreciate that the school is a small isolated rural school, we must point out that a lack of segregation of duties is an internal control weakness that provides opportunity for the misappropriation of School funds.

While we have no reason to suspect any fraudulent activity and are not questioning the integrity of either the Principal or the School Administrator, we do need to highlight that the Board Chairperson must be actively involved in authorising documentation relating to these two staff members.

One-Up Chain of Command & Conflicts of Interest

Observation:

The Board does not always follow the "one-up chain of command rule" for authorisation of expenditure relating to the Principal and staff closely related to the Principal.

The general principle of this rule is that individuals should not approve and authorise their own expenditure. Own Expenditure = When they are, or may be perceived to be, the direct beneficiary of the expenditure.

The rule is extended for Conflicts of Interest where the Principal should not authorise expenditure of a close relative.

Recommendation:

Following on from the Segregation of Duties comment, we strongly recommend that the Board Chairperson authorise all invoices for expenditure relating to the Principal or any of his close relatives. This includes changes to Novopay, payroll advances, credit card transactions, etc.

Financial Prudence

Observation:

Section 16 of the Public Audit Act 2001 has the requirement that public entities, which includes schools, **should not enter into** transactions or activities that are extravagant or wasteful, or that show lack of probity or financial prudence.

On review of invoices from Hikurangi Foodmarket, we identified a lot of money being spent on food; Lollies, soft drinks including energy drinks, ice-cream, etc. Most of this was narrated as hospitality.

Recommendation:

We appreciate that hospitality is a big part of the culture of the school and while these purchases cannot be called extravagant, we are concerned with the lack of financial prudence. Many schools now ban these types of items at the school.

We highly recommend a review of hospitality as we don't believe it is prudent for these types of items to be purchased by the Board or using school funds.

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Uniforms

Observation:

There was Inventory of \$926 included in the Financial Statements this year. While we were advised that this was for T-Shirts, we were not given a breakdown of how many T-Shirts were on hand, what sizes and what the unit costs were for each size.

Recommendation:

If the school is going to trade T-Shirts or any other uniforms stock, then stronger controls surrounding the purchase, sale and details of stock on hand at year end, need to be implemented.

While it may not be the intention to make a significant profit on trading, you should be, at minimum, look to breakeven. Therefore sales prices need to be set at minimum to recover cost of the shirts, shorts, etc, costs of freight and embroidery of logo where appropriate.

All sales need to be recorded in the financial statements, so a list of people with unpaid amounts needs to be recorded at year end. Additionally a full stock count needs to be completed, listing items by size and quantities on hand. Cost prices need to be used to value all stock items on hand. These both need to be given to your Financial Service Provider, who will use it for the Financial Statements and in turn will provide it to us for audit purposes.

Relief Principal and Internal Controls

Observation:

The Principal went on sabbatical for a good portion of 2017. We understand that there were several issues with the Relief Principal, who was regularly on sick leave and didn't perform all of the duties required by the Board. A mediation process was undertaken with no additional costs to the school.

We realise that you are a small rural isolated school and that some of the internal control weakness that follow in this letter are likely to be result of having a Relief Principal and that fact that the School Administrator performed many of the tasks to enable the school to keep functioning.

However as these weaknesses in Internal Control have been seen, we are obliged to raise them, so that they are rectified now that the Principal is back at the school full time.

Authorisation over Cheque Payments

Observation:

The school has implemented a Claimant Form that gets completed for payments made out of the school Imprest bank account. Sometimes the claimant form also had a copy of the relevant cheque butt attached to it.

Recommendation:

We commend the use of this form but note that sometimes this form was authorised by the Relief Principal, other times by the School Administrator. One was signed by the School Administrator for a payment of BOT Secretary Fees for herself. We remind you of the requirement of the One-up chain of command approval as raised on page 4 of this letter.

Credit Card Policy

Observation:

The school has and uses credit cards, but we are unsure if the school has a Credit Card policy.

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Recommendation:

If a credit card policy does not exist, we recommend that the board implement one. A models can be found on The Ministry of Education website in their Financial Information for Schools Handbook (FISH).

Credit Card – L Kururangi

Observation:

It appears that the school still has a credit card in the name of Mr L Kururangi, who ceased being employed by the school in June 2016.

Recommendation:

Despite advising us that the credit card has been cut up, it is still officially open with Westpac Bank. We recommend that you contact Westpac and ask for this credit card to be formally cancelled.

Credit Card Authorisations

Observation:

Credit Cards should be subject to the same authorisation controls as any other school payment.

Recommendation:

We recommend that individual transactions on the credit card statements should be supported by invoices or other documentation. All invoices or other documentation should be formally authorised as valid charges of the school and all credit card statements should be authorised using the one-up chain of command rule as described above.

Payroll – Independent Reviews of Novopay

Observation:

Novopay is a centralised payroll system used by the Ministry of Education. Audit assurance work carried out centrally on behalf of the Auditor-General has found that the Novopay system places substantial reliance on schools to check the accuracy of their payroll, due to the amount of data input by each school.

Consequently two of the payroll controls that the Auditor-General has asked us to review are:

1. Whether there is evidence that the fortnightly payroll reports checked.
2. Whether an independent review of the fortnightly payroll reports is carried out by someone independent of staff with access to the payroll system.

There was clear evidence that fortnightly payroll reports had been checked up to late June 2017, but no reports were checked again until early November 2017.

We were unable to sight any evidence of independent reviews of the fortnightly payroll reports. In audit terms, "If it's not documented, then it's not done".

Recommendation:

While we appreciate that payroll requires a specific skill set, we also recommend that the fortnightly transactions and expenditure reports are scrutinised thoroughly, at least twice a term, by someone independent of the routine payroll processing - if necessary by a board member. A summary of this review should always be signed as evidence that an independent review has been carried out.

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Novopay Access

Observation:

It appears that the School Administrator's password gives her viewing rights to Novopay only. However it appears that she uses the Principal's password when required to make changes to Novopay online.

Recommendation:

It is inappropriate to use any other person's passwords in any circumstance, as it provides opportunity for misappropriation of school funds. We strongly recommend that this practice cease. If the School Administrator needs greater access, then it should be given to her. If the Principal only requires viewing rights, then his access rights should be reduced.

We would like to thank Patrick and Hinemoa Tangaere for their assistance and co-operation throughout the audit and take this opportunity to wish the Board well for the year ahead. If there are any issues that you wish to discuss further with us, we would welcome the opportunity to meet with you.

Yours faithfully

Graham & Dobson Ltd



Barbara R Johnstone