

**Education Report: Release of the Financial Review of Te Kōhanga  
Reo National Trust Board**

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**Recommendations**

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We recommend that you:

- a. **agree to a follow-up of this review to ensure that the Trust has addressed the issues identified in the Ernst and Young report (to commence within six months);**

 YES / NO

- b. **sign the enclosed letter to the Trust.**



Karl Le Quesne  
Group Manager  
Early Childhood Education

NOTED / APPROVED



Hon Hekia Parata  
Minister of Education

18/3/14

## **Education Report: Release of the Financial Review of Te Kōhanga Reo National Trust Board**

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### **Purpose of report**

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1. This report sets out the timeline for the release of the independent financial review, prepared by Ernst and Young (EY), of Te Kōhanga Reo National Trust Board (the Trust).
2. The following documents are **attached**:
  - a. the final review report by EY;
  - b. a draft letter from you to the Trust notifying them of the report release.

### **Background**

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3. Following **allegations** of the misuse of public funding by the Trust's subsidiary Te Pātaka Ōhanga (TPO) in October 2013, you commissioned an independent review to **assess** the appropriateness and effectiveness of the financial internal controls operating within the Trust for the receipt of public funds.
4. This review was completed by EY against the Terms of Reference agreed upon by the Ministry of Education and the Trust's Board on 16 October 2013.
5. The objectives for the review, set out in the Terms of Reference, were to:
  - a. Describe and assess the financial control environment.
  - b. Identify instances where there are gaps in the financial controls.
  - c. Determine the extent to which the key financial controls are operating as intended.
  - d. Make recommendations on any improvements to be made.
  - e. Report back on the implementation of any remedial actions the Board takes.
  - f. Establish what, if any, public funding provided to the Trust may have been provided to TPO, a 100% subsidiary of the Trust.

### **Report findings**

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6. The report covers the Trust's major financial processes:
  - a. Administration of funds on behalf of kōhanga reo.
  - b. Expenses and related payments.
  - c. Payroll.
  - d. Revenue.
  - e. Milestone reporting.
7. EY found that, apart from the management of credit card expenditure, koha payments, and supplier and payroll master data, the internal financial controls operating within the Trust were effective. The controls in place were comparable to EY's expectations of organisations of a similar size and complexity to the Trust which receive public funding.

8. EY's main observations and recommendations were:

**a. *Provision of public funds to TPO***

During the course of the review, EY did not identify any instances of the Trust providing public funding to TPO. The Ministry funds kōhanga reo after they have delivered services and will continue to do so.

**b. *Koha payments***

One koha payment of \$50,000 was made to a related party (a Trust Board member). The Trust was required to disclose this payment in their 2012 Annual Report. This disclosure was not made. The Ministry recommends that the Trust complies with its financial reporting obligations.

In some instances, small koha payments were made through the district's petty cash reserves. These were approved by the District Manager, but not pre-approved by the Chief Executive, as per Trust policy.

**c. *Credit card policy and controls***

The Trust's policy was set up to provide adequate control over credit card use, but the controls were found not to be operating as intended. In particular:

- i. Trust policy requires the Board to conduct a review of credit card returns, and there was no evidence that this control was being performed.
- ii. Many of the credit card returns reviewed did not include relevant supporting documentation and were not prepared in a timely manner.
- iii. The Trust's policy permits cash withdrawals on credit cards in cases where cash is required for koha payments. However, there was no evidence that the Chief Executive had pre-approved these koha payments as required by Trust policy.

The Trust has responded by removing all credit cards.

**d. *Segregation of duties involving payroll and supplier master data***

EY recommended that the reporting processes for payroll and supplier master data be enhanced, and that all changes to employee and supplier master data be identified. The report should be configured in a way that those responsible for initiating or entering requested changes to master data cannot modify the report.

The Trust has responded to the recommendations by segregating duties for processing changes to accounts payable and payroll master data.

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**Comment**

9. The purpose of the review was to assess the financial internal controls operating within the Trust. Financial controls form one part of the overall control environment. No conclusions can be drawn from the report as to the effectiveness and adequacy of other control mechanisms (e.g. in relation to overall entity governance and management).

10. While the review was broadly positive about the Trust's financial controls, it also identified a number of instances where key control processes were not followed (for example, when a large koha payment was not included in the Trust's related party disclosures). This raises some concern, as disclosures of this nature play an important role in ensuring accountability, transparency and public confidence in an organisation in receipt of public funds.
11. The review was limited to the Trust. TPO, as an independent but 100% owned subsidiary of the Trust, was not subject to this review. TPO is not funded by the Ministry.
12. It is reassuring that EY have concluded that the overall financial controls they expect are in place. Some concerns were identified, and the Trust has rectified most of these. Follow up is necessary on some issues, including those that sit outside the EY review as per your letter to the Trust on 21 October 2013, before discussions on progressing post-Treaty claims can resume.

## Risks

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13. The Trust needs to provide information about koha payments, both in regards to the \$50,000 noted in the review and what financial controls are in place to prevent misuse of koha in the future. EY did not identify the recipient of the \$50,000 payment in the report. We recommend that the Trust complies with its financial reporting obligations, including those under *NZIAS 24 Related Party Disclosures*.
14. We consider that it would be important for the Trust to identify publicly that this koha payment has been made, what it was for, and who it was made to.

## Next steps

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15. The Ministry recommends a follow-up to the EY review of the Trust to ensure that they have addressed the issues identified in the report. The follow-up review would commence within six months.

## Timeline

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16. The following table sets out a timeline on next steps.

Date	Event
Tuesday 18 March	<ul style="list-style-type: none"> <li>Ministers Parata and Sharples to meet with Trust.               <ul style="list-style-type: none"> <li>Venue: Minister's Parata's office</li> </ul> </li> <li>After meeting, Ministry to confirm communications approach with Ernst and Young.</li> </ul>
Thursday 20 March	<ul style="list-style-type: none"> <li>Joint press release from Ministers Parata and Sharples on the findings of the report and next steps.</li> </ul>
Post-release	<ul style="list-style-type: none"> <li>Minister to commission a follow-up review on the controls the Trust has in place. This will cover the financial management of all public funding received by the Trust.</li> </ul>