

27 February 2014

844447

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

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**Recommendations**

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We recommend that you:

- a. **note** the findings of the review;
- b. **note** we will provide further advice about the release of the audit report.



Karl Le Quesne  
Group Manager  
Early Childhood Education

NOTED / APPROVED



Hon Hekia Parata  
Minister of Education

4.3.14

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

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### **Purpose of report**

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1. This report provides you with a summary of the independent financial review, prepared by Ernst Young (EY), of Te Kōhanga Reo National Trust Board (the Trust). A copy of the EY report is also attached.

### **Background**

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2. Following allegations of the misuse of public funding by the Trust's subsidiary Te Pataka Ohanga 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.
3. 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.
4. 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 Te Pataka Ohanga (TPO), a 100% subsidiary of the Trust.

### **Report findings**

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5. 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.
6. 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.

7. 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. While TPO receives funding from the Trust to purchase services on behalf of kōhanga reo (e.g. insurance), this occurs on the basis that the Trust receives Government funding after kōhanga reo have delivered services for the hours claimed.

b. ***Koha payments***

One koha payment of \$50,000 was made to a related party (a Trust Board member). This payment had the support of all Board members, but was not included in the related party transaction disclosures included in the Trust's 2012 Annual Report, as required by the accounting reporting standard: NZIAS 24 *Related Party Disclosures*.

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.

## Ministry comment

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8. 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).
9. 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.
10. The review was limited to the Trust. TPO, as a 100% subsidiary of the Trust, was not subject to this review. The Trust has commissioned an audit of TPO. In addition, the Charities Commission is seeking information from the Trust about TPO's financial matters.
11. We note that the Trust has responded quickly to the recommendations in the report.