

Results of the 2020 school audits

December 2021

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Our recommendations

We recommend that the Ministry of Education:

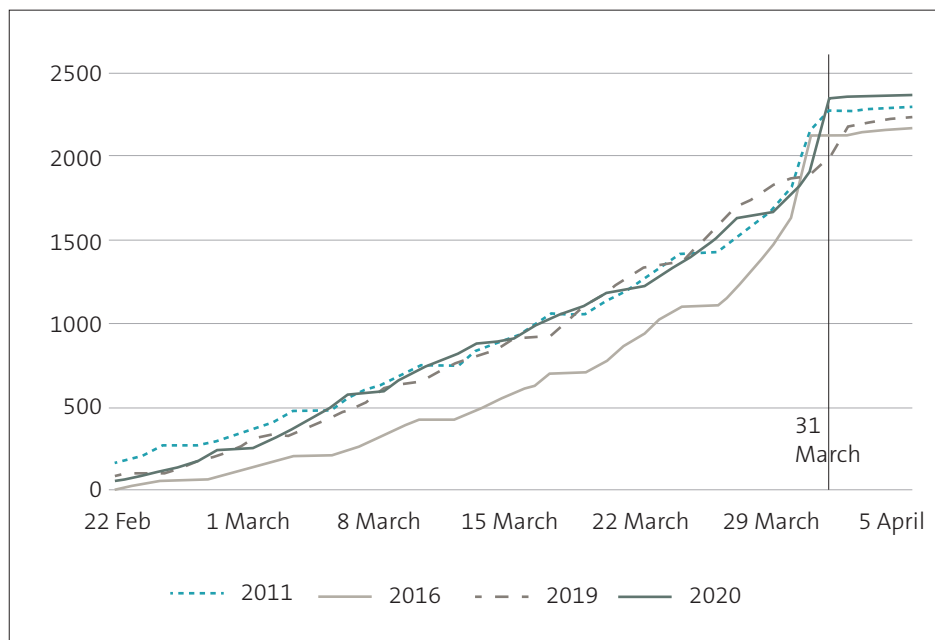
1. Make sure that changes to school payroll processes do not adversely affect the schools' control environment by working collaboratively with Education Payroll Limited. This includes making sure that controls within schools help prevent fraud and error, and ensure that all transactions are approved within delegations;
2. Make sure that schools are complying with their property planning requirements by having up-to-date cyclical maintenance plans. This includes reviewing those plans to assess whether they are reasonable and consistent with schools' condition assessments and planned capital works; and
3. Simplify the level of financial reporting required in the Kiwi Park model financial statements. This includes reconsidering information the Ministry of Education specifically requires, in addition to what is required by financial reporting standards, and whether it can obtain that information from other sources.

1

Completing the school audits

- 1.1 In this Part, we report on how many schools provided draft financial statements for audit and how many audits have been completed, including audits of public organisations related to schools.
- 1.2 Schools must provide their draft financial statements for audit by 31 March (the statutory deadline). In recent years, we have worked with the Ministry of Education (the Ministry) and the schools sector to encourage schools to provide their draft financial statements for audit as soon as possible and at the latest by the statutory deadline.
- 1.3 This year, we received about 96% of draft financial statements for audit by 31 March 2021. As Figure 1 shows, this is the best result we have had in the past 10 years. We appreciate the hard work that schools carried out in the first quarter of the calendar year to provide draft financial statements and the information we needed for the audit by 31 March.

Figure 1
Numbers of draft financial statements received for audit during the past few years



Note: We use 2011 as a comparison because this was pre-Novopay and we were able to complete 95% of our audits by the 31 May statutory deadline.

Source: Office of the Auditor-General.

- 1.4 This year was another challenging year for our school audits. We completed 1732 (70%)¹ of the 2020 school audits by 31 May 2021 (the statutory deadline). Although this improved on the 59% completion rate for the 2019 audits, Covid-19 has continued to affect our ability to complete audits on time.
- 1.5 The most significant impact of Covid-19 on our audits this year was the acute shortage of auditors, which has been exacerbated by the closed borders. In addition, more audits than usual carried over from the previous year because of the disruptions of the Covid-19 lockdowns in 2020. At the start of 2021, 169 of the 2019 audits were still outstanding. In recent years, an average of 60 previous years' audits have been outstanding at the end of the year.
- 1.6 We were disappointed that we could not complete more audits by 31 May 2021. The shortage of auditors was the reason that most of the schools audits that did not meet the statutory deadline were completed late. However, we have made good progress since May. As at 31 October 2021, we have completed 2273 (92%) of the 2020 school audits.
- 1.7 In a typical year, about 100 (4%) of the previous year's school audits remain outstanding at the end of October. Because of the delays experienced this year, 185 (8%) of the 2020 audits were still outstanding as at 31 October. This is an improvement on last year, where 292 (12%) of the 2019 audits were outstanding at the end of October. Figure 2 shows the number of outstanding audits by year.

Figure 2
Outstanding audits, at the end of October, by audit year

Audit year	As at 31 October 2021	As at 31 October 2020	As at 31 October 2019
2020	185	–	–
2019	40	292	–
2018	19	44	112
2017	8	12	23
2016	7	9	14
2015	4	5	7
2014	1	1	2
2013	1	1	1
Total	265	364	159

Source: Office of the Auditor-General.

1 This includes public organisations related to schools.

- 1.8 Although some audits were not completed for reasons unrelated to Covid-19 and some of those audits were in arrears before Covid-19, the shortage of auditors has made it more difficult to complete these audits. However, we are committed to bringing them up to date as soon as possible, and our auditors are putting plans in place to complete the outstanding school audits for 2020 and earlier.
- 1.9 We completed 282 school audits from previous years since we last reported on the results of the school audits in November 2020. There were 80 previous-year audits of 49 schools outstanding on 31 October this year, compared with 72 audits at the same time last year.
- 1.10 The details of the school audits that were outstanding on 31 October 2021 are on our website.
- 1.11 We have recently appointed auditors for the next three years' audits. As part of that exercise, we have re-sized some audit portfolios to better reflect auditors' capacity so that audits can be completed on time.
- 1.12 However, ongoing Covid-19 restrictions and border closures will continue to make completing school audits challenging and we cannot rule out further disruptions and delays. We encourage all involved to keep working together to complete school audits on time and support the accountability of schools.

What our audit reports said

- 2.1 In this Part, we set out the results of the 2020 school audits² and the results of any audits for previous years that we have completed since we reported on the 2019 school audits.
- 2.2 We issued a “standard” unmodified audit report for most schools. This means that, in our opinion, those schools’ financial statements fairly reflect their transactions for the year and their financial position at the end of the year.
- 2.3 Our “non-standard” audit reports include either modified audit opinions or paragraphs drawing the readers’ attention to important matters. We explain these further below.

Modified audit opinions

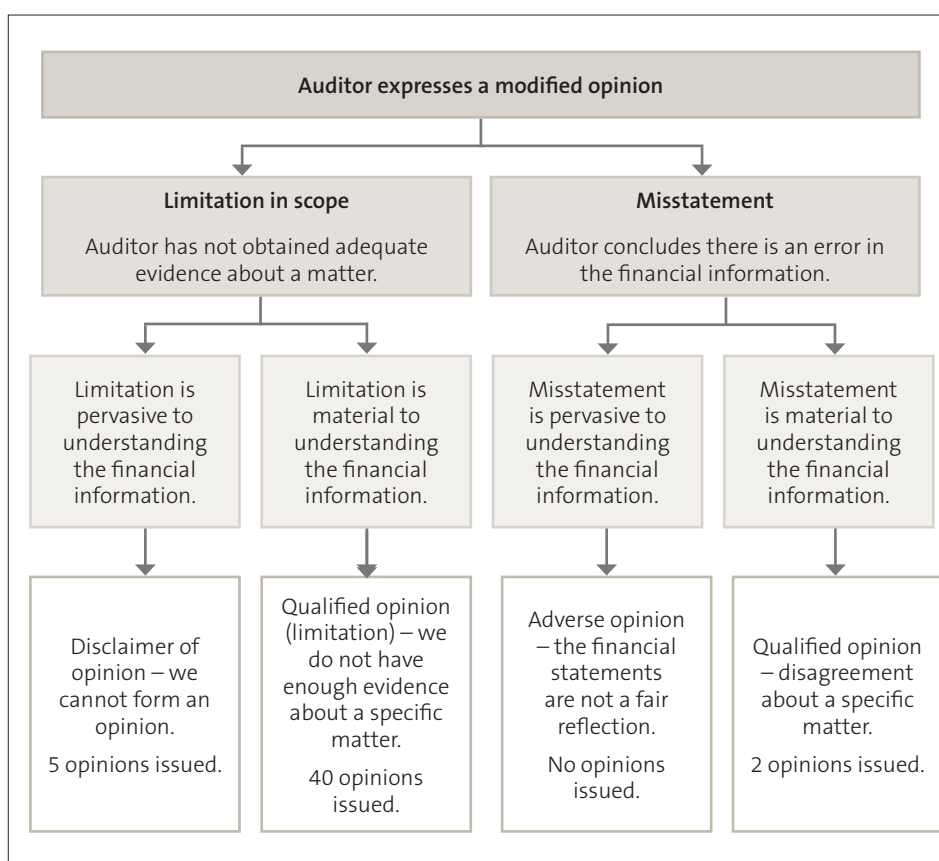
- 2.4 We issue modified audit opinions if we cannot get enough evidence about a matter or if we conclude that there is an error in the financial information, and if that uncertainty or error is significant enough to change a reader’s view of the financial statements.
- 2.5 Figure 3 explains the different types of modified audit opinions and why we issue them. It also summarises the modified audit opinions we have issued since our last report.
- 2.6 Of the completed audits for 2020, 24 audit reports contained a modified audit opinion. We also issued a further 23 modified opinions for previous-year audits that were outstanding since our last report.³ This is an increase on the number of modified audit opinions that we normally issue, but it remains a small percentage of all audit opinions we issue. We explain the types of modified opinions we issued below.⁴

2 This includes the audits of public organisations related to schools.

3 This includes four audit reports that refer to a qualification on the previous year’s figures included in the financial statements because of a qualified audit opinion in that year.

4 These audit reports are for 2020 unless noted otherwise.

Figure 3
Types of modified opinions



Source: Office of the Auditor-General.

Disclaimers of opinion

- 2.7 We issue a disclaimer of opinion when we cannot get enough audit evidence to express an opinion. This is serious because there is a lack of public accountability – we cannot confirm that the school’s financial statements are a true reflection of its transactions and balances. We issued a disclaimer of opinion on the financial statements of two schools.
- 2.8 We issued a disclaimer of opinion for Al-Madinah School because we were unable to provide an opinion on its 2018 financial statements. This was because the school had limited controls over cash receipts, payments to suppliers, and the identification and disclosure of related-party transactions between the board and the proprietor, and between staff, family members, and other parties.

- 2.9 We issued similar disclaimers of opinion for Al-Madinah School's 2016 and 2017 financial statements, which we have reported on previously. We also drew attention to the school failing to submit its 2018 audited financial statements to the Ministry by the statutory deadline of 31 May 2019.
- 2.10 We also issued the audit reports for Al-Madinah School's 2019 and 2020 financial statements during 2021. For 2019, we were unable to give an opinion about the comparative figures reported in the financial statements because of the prior year disclaimer of opinion. However, we were able to give assurance over the 2019 and 2020 financial information the school reported. The 2020 audit was also completed by 31 May 2021, bringing the school's audits up to date.
- 2.11 In December 2020, we completed the audits of Te Kura o Pakipaki for 2015 to 2018. We issued a disclaimer of opinion on all four years, consistent with the opinion on the 2014 financial statements we had previously issued.
- 2.12 We could not get enough evidence about bank accounts, revenue and expenditure, and some assets and liabilities of the kura. This was because there was a lack of controls over cash receipting and expenditure from a bank account under the kura's control and a lack of supporting documents for some transactions.
- 2.13 We also drew attention to the kura's financial difficulties in 2015 and 2016, and to it breaching legislation by failing to keep appropriate accounting records and meet statutory time frames.
- 2.14 The audits for Te Kura o Pakipaki are now up to date. Because of the disclaimer of opinion for 2018, the 2019 audit report (also issued in December 2020) referred to our not having enough audit evidence about the opening balances and comparative figures. However, we were able to give an opinion about the 2019 information.
- 2.15 The audit report for 2020 was issued without a disclaimer of opinion by the 31 May statutory deadline.

Disagreements

- 2.16 If a school has prepared its financial statements inconsistently with applicable accounting standards or we consider that the financial statements include a significant error, we issue a qualified opinion that sets out where we "disagree" with the school. We issued this type of opinion for two schools.
- 2.17 For the ninth year, we disagreed with William Colenso College for not preparing consolidated (or group) financial statements that included the transactions and financial position for the William Colenso College Charitable Trust.

- 2.18 We consider that group financial statements are required because the college “controls” the Trust for financial reporting purposes. The college disagrees with our assessment. As a result, the college is not being transparent about all its transactions and financial position to its community.
- 2.19 We also disagreed with Renew School not including a cyclical maintenance provision in its 2019 financial statements.⁵ This is a departure from the relevant financial reporting standard, which requires that a provision be recorded to estimate the cost of the school’s obligation to keep its buildings in a good state of repair. The school recognised a cyclical maintenance provision in its 2020 financial statements.

Limitations of scope

- 2.20 We issue “limitations of scope” qualified opinions when we cannot get enough evidence about one or more aspects of a school’s financial statements. The audit report explains which aspect of a school’s financial statements we could not corroborate. We explain the types of limitations of scope that we reported on this year.

Locally raised funds

- 2.21 If a school receives funds from its community, it is important that it has appropriate controls to correctly record all the money it receives. We could not get enough evidence about the amounts raised locally for the schools and kura listed in Figure 4 below.

Figure 4
Schools with “limitation of scope” opinions about locally raised funds

2020 audits	Previous year audits
Linkwater School	Makarika School (2018 and 2019)
The Taumarunui High School Community Trust	Opihi College (2019)
	St Peter’s College Hostel Limited (2018 and 2019)
	St Peter’s College Foundation (2018 and 2019)
	St Peter’s College Hostel Trust Group (2018 and 2019)
	Te Kura Kaupapa o Te Puaha o Waikato School (2019)

Source: Office of the Auditor-General.

⁵ The 2019 audit report for this school was issued on 26 October 2020 but was omitted from last year’s report on the results of the 2019 school audits, which reported on all school audits completed as at 31 October 2020.

- 2.22 We also reported on other matters in some of the audit reports:
- We were unable to verify some expenditure transactions for Makarika School because of a lack of supporting documents.
 - We could not verify the accuracy of the information included in the statement of service performance for St Peter's College Hostel Charitable Trust Group and St Peter's College Hostel Limited because there was insufficient supporting documentation.
 - The board used a disestablishment basis when preparing the financial statements of the St Peter's College Foundation because it is to be wound up.
- 2.23 We reported in earlier reports on a lack of controls over revenues for The Taumarunui High School Community Trust (2019 and 2018) and Opihi College (2018).

Cyclical maintenance

- 2.24 Schools are required to maintain the buildings provided by the Ministry or their proprietor (if they are an integrated school), and they receive funding for property maintenance as part of their operations grant. The school's property occupancy agreement sets out this obligation.
- 2.25 Certain types of maintenance, such as painting the exterior of the school, are needed only periodically. Schools must recognise their obligation to carry out this maintenance as a provision for cyclical maintenance in their financial statements.
- 2.26 School boards are responsible for calculating their cyclical maintenance provision based on the best information available. For several years, we have found that some schools do not have evidence that their cyclical maintenance provision is reasonable.
- 2.27 This year, there has been an increase in audit opinions issued where we did not have enough evidence about the amount recorded in the financial statements for cyclical maintenance. Twenty of these opinions related to the 2020 audits, and three related to 2019. This compares to only two opinions issued last year and 15 in the previous year.
- 2.28 Figure 5 lists the schools that did not have enough evidence about cyclical maintenance for the 2020 and 2019 audits.

Figure 5
Schools and kura with “limitation of scope” opinions about cyclical maintenance

2020 audits	2019 audits
Aranga School	Ngata Memorial College
Blaketown School	Te Waha o Rerekohu Combined Schools Board
Cobden School	Westbrook School
Emmanuel Christian School	
Granity School	
Greymouth Main School	
Howick Intermediate	
Kaitoke School	
Lynmore Primary School	
Nelson College	
Ngata Memorial College	
Okiwi School	
Saint Albans Catholic School (Christchurch)	
Saint Mary’s School (Blenheim)	
Springston School	
Te Kura Kaupapa Māori o Otepou	
Te Waha o Rerekohu Combined Schools Board	
Waiau School	
Waitara Bay School	
Westbrook School	

Source: Office of the Auditor-General.

- 2.29 There could be situations where a school is uncertain about whether it needs to maintain its buildings because it has significant building works planned. Because of this, the school might not be able to estimate its future obligations for cyclical maintenance. Where this is the case, we would expect the school to explain why it does not have a cyclical maintenance provision in its financial statements. As we consider this to be useful information to readers, we draw attention to these disclosures in our audit report (see paragraph 2.50). This is not a modification of the audit opinion.
- 2.30 We discuss cyclical maintenance in more detail in paragraphs 4.36-4.46.

Matters of importance that we draw readers' attention to

- 2.31 In certain circumstances, we include comments in our audit reports to either highlight a matter referred to in a school's financial statements or note a significant matter a school did not disclose. We do this because the information is relevant to readers' understanding of the financial statements.
- 2.32 These comments are not modifications of our audit opinion. We are satisfied that the financial statements fairly reflect the schools' transactions and financial position. Rather, we point out important information, such as a matter of public interest, a breach of legislation or disclosures in the financial statements that are important to a readers' understanding of the financial information. This includes when we consider schools are experiencing financial difficulties, which we discuss in Part 3.
- 2.33 We set out details of the matters we drew attention to below.

Covid-19 wage subsidy

- 2.34 During our audits, we identified two schools that had claimed the Covid-19 wage subsidy despite not being eligible to receive it. Schools (as state sector organisations) were generally not permitted to claim the wage subsidy unless they had an exception from their monitoring agency (which is the Ministry for schools). The Ministry did not provide exceptions, instead it provided schools with additional funding and support throughout 2020 in response to Covid-19.
- 2.35 The Ministry of Social Development set criteria that organisations had to meet to be eligible to claim the wage subsidy. The organisation's total revenue must have reduced by at least 30% compared with the same time the previous year.
- 2.36 Ponsonby Primary School received \$49,207 under the Covid-19 wage subsidy scheme because it was unable to hold its Taste of Ponsonby event during the Level 4 lockdown. Even though its fundraising revenue had reduced, the school's total revenue in May 2020 had not reduced by 30% compared to May 2019. Therefore, it was not eligible for the subsidy. The board repaid the wage subsidy after the end of the year.
- 2.37 Lindisfarne College received \$123,703 under the Covid-19 wage subsidy scheme. From the information the school provided in support of its claim, we identified that the school's total revenue did not decline by at least 30% in between the respective months in 2020 and 2019. Therefore, it was not eligible for the wage subsidy.

Potential conflicts between the school board and proprietor

- 2.38 For the ninth year, our audit report for Sacred Heart College (Auckland) for 2018 drew attention to the close relationship between the school, its proprietor, and the Sacred Heart Development Foundation (the foundation). The school, the foundation, and the proprietor all have board members in common, and the principal receives remuneration from the foundation. This gives rise to potential conflicts of interest.
- 2.39 Consistent with earlier audit reports, the 2018 audit report also notes that the school should not pay for hospitality to further relationships between the foundation and former students of the school. Although the foundation is related to the school, it is a private organisation that the school's board does not control. It is not clear whether the school would benefit from the spending. The audit report also drew attention to the school's failure to meet the statutory deadline.
- 2.40 These matters have now been resolved. The 2019 audit report for this school referred to the breach of the May 2020 deadline because it was not completed until April 2021. However, a standard audit report on the 2020 financial statements was issued because that audit was completed on time.

Sensitive expenditure

- 2.41 Sensitive expenditure is any spending by an organisation that could be seen to be giving private benefit to staff additional to the business benefit to the organisation. The principles that underpin decision-making about sensitive expenditure include that the expenditure should have a justifiable business purpose, and be made transparently and with proper authority.
- 2.42 The board of Papatoetoe North School gifted several hardware items costing \$4,310 to the principal of the school as a leaving gift and paid for a farewell event costing \$8,695. The board also gave farewell gifts of \$1,000 each to two staff members and spent \$2,200 on a function for a former teacher. Another important principle of spending on sensitive expenditure such as farewell gifts and retirement functions is that it should be moderate and conservative, and appropriate to the occasion.
- 2.43 We drew attention to the board of Manurewa West School not obtaining approval from the Ministry for various well-being payments, and revitalisation and refreshment grants, that it paid to the principal in 2017 and 2018. Schools need the Ministry's approval (or concurrence) for any benefits paid to principals outside the collective agreement.

- 2.44 We also drew attention to the school paying for the principal and his spouse to travel to Singapore to attend the World Education Leadership Conference. Subsequently, the principal repaid his spouse's travel costs and his daily incidental travel allowances to the school. The school's 2019 and 2020 audits were also completed in the year, bringing its audits up to date.
- 2.45 It is important that spending on sensitive expenditure is transparent and open to scrutiny. Because of this, we might draw readers attention to it. We encourage schools and other public organisations to make disclosure of this type of expenditure in their financial statements, and since 2018 schools are now required to include disclosure about significant overseas travel.
- 2.46 As an example of this, we drew attention to the information Te Kura Māori o Nga Tapuwae included in its 2017 financial statements about a trip to Toronto to attend the World Indigenous Peoples Conference on Education and present two papers. The issuing of this audit report was significantly delayed because of auditor delay.
- 2.47 The financial statements explained the reasons for the travel, the total amount spent, and how this was funded. We drew attention to this information because it was a significant spend for the kura and it is good practice for schools and kura to explain the reasons for significant spending, such as this, to their communities.
- 2.48 Because of the delays to the 2017 audit, the subsequent audits were also delayed. The 2018 and 2019 audits for this kura are now complete.
- 2.49 We issued a standard unmodified opinion on the 2016 financial statements of Te Kura Kaupapa Māori o Kokiri following several years of modified opinions because of a lack of supporting information for expenditure under the control of the board. However, our audit report did refer to the fact that we could not verify that the \$33,064 spent on fuel was incurred for the benefit of the kura.

Other matters

- 2.50 For five schools and kura, we drew attention to the fact that they reversed their cyclical maintenance provisions: Pongakawa School, Tauhara College, Te Kura o Matapihi, Tongariro School, and Arowhenua Māori School (for 2019). These schools could not reasonably estimate their cyclical maintenance provisions because of uncertainties over future maintenance. The uncertainties for some of these schools arise because of weathertightness issues or because they are part of the Ministry's refurbishment and redevelopment project.

- 2.51 When a school closes or is due to close, its financial statements are prepared on a disestablishment basis. This is because the school is no longer a “going concern” and its assets will be distributed after it has closed.
- 2.52 We issued an audit report for Te Kura o Hata Maria (Pawarenga) that refers to the financial statements being prepared on a disestablishment basis because the kura closed on 28 April 2020.
- 2.53 The audit report of the combined board of Geraldine High School and Carew Peel Forest School drew attention to the disestablishment of the combined board on 5 July 2021. The schools established separate boards from that date.

Reporting on whether schools followed laws and regulations

- 2.54 As part of our annual audits of schools, we consider whether schools have complied with particular laws and regulations. We primarily look at whether they complied with financial reporting requirements, but we also consider whether they met specific obligations required of them as public sector organisations.
- 2.55 The Education and Training Act 2020 and the Crown Entities Act 2004 are the main Acts that influence schools’ accountability and financial management.
- 2.56 Usually, schools disclose breaches of the Education and Training Act and the Crown Entities Act in their financial statements, but we sometimes report on breaches in a school’s audit report. From our audits this year, we identified that:
- 27 schools (2019: 34)⁶ borrowed more than regulation 12 of the Crown Entities (Financial powers) Regulations 2005 allows;
 - one school (2019: 2) did not use the Ministry’s payroll service to pay teachers, which section 578 of the Education and Training Act requires them to use for all teaching staff;
 - one school (2019: 6) invested money in a way not allowed under section 154 of the Education and Training Act;
 - five schools (2019: 7) had board members who did not comply with rules about conflicts of interest in sections 9 and 10 of Schedule 23 of the Education and Training Act;
 - two schools (2019: 2) did not comply with the banking arrangements set out in section 158 of the Crown Entities Act; and
 - four schools (2019: 2) breached legislation for other reasons.
- 2.57 Since 2016, we have found an increase in the number of breaches of the borrowing limit. This was mainly because many schools were entering into leases that are considered finance leases. Therefore, they are a form of borrowing. The

number of borrowing limit breaches are beginning to reduce, from a high of 49 in 2017 to 27 this year.

- 2.58 This year, we did not identify any schools that lent money to staff compared to four schools for 2019. Under section 154 of the Education and Training Act, schools are not allowed to lend money to staff.
- 2.59 We have provided details of all the non-standard audit reports issued to schools and breaches of legislation reported as at 31 October 2021 on our website. We also provide the data as an interactive map.

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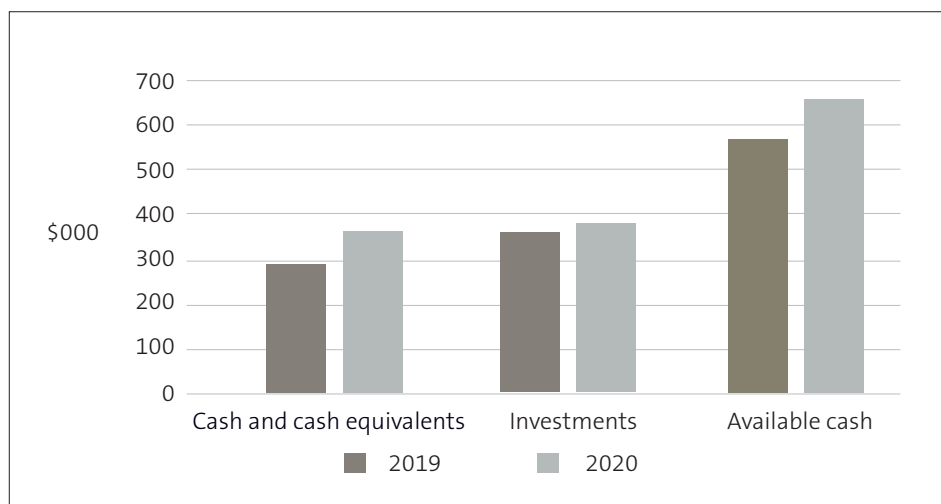
Schools in financial difficulty

- 3.1 In this Part, we report on the financial health of schools, schools that we consider to be in financial difficulty, and why schools get into financial difficulty.
- 3.2 The data we provide in this Part is based on financial information collected by the Ministry as at 30 August 2021, unless otherwise stated. At this time, the Ministry's database had financial information for 2090 schools (85%). For the comparisons of those schools against previous years, we have used the 2019 financial information from the Ministry's database unless otherwise stated.

The financial health of schools

- 3.3 Figure 6 summarises the average levels of cash and investments held by schools as at 31 December 2020 and 2019. Cash and cash equivalents are bank accounts and short-term time deposits that are held for 90 days or less. Investments held by schools are typically longer-term deposits. As at 31 December 2020, there had been an increase in average cash (\$360,246) and investments (\$379,809) held by schools compared to the previous year.

Figure 6
Average cash and investments held by schools as at 31 December 2020 and 2019



Note: "Available cash" is calculated as cash and investments held, less any cash held on behalf of third parties.
Source: The Ministry of Education's school financial information database.

- 3.4 When reviewing a school's financial position, it is also important to consider a school's available cash. Schools often hold funds on behalf of third parties, including for capital projects the school is managing for the Ministry, homestay payments for international students, or on behalf of other schools in "cluster"-

type arrangements, such as transport networks. “Available cash” is calculated as cash and investments less any cash held for third parties. In 2020, average available cash increased – to \$656,217 at 31 December 2020 compared to \$568,700⁷ at 31 December 2019.

- 3.5 Figure 7 shows that a school’s decile does not affect how much available cash it holds. The number of schools from each decile are fairly evenly spread for each range of available cash.

Figure 7
The numbers of schools that hold different levels of “available” cash as at 31 December 2020, by decile

Available cash (\$000)	>0	0-100	101-200	201-300	301-500	501-1,000	>1,000
Decile 1	-	8	35	27	43	59	41
Decile 2	-	14	40	28	43	47	25
Decile 3	-	12	42	32	47	49	36
Decile 4	1	19	28	41	42	52	26
Decile 5	-	15	44	40	45	46	24
Decile 6	1	24	39	38	38	36	30
Decile 7	-	23	43	37	32	41	41
Decile 8	1	24	32	26	41	41	31
Decile 9	-	3	39	34	43	55	35
Decile 10	1	17	25	36	44	58	30
Total	4	159	367	339	418	484	319

Note: Available cash is total cash and investments less any cash held for third parties, such as funds the school holds on behalf of the Ministry for capital works).

Source: The Ministry of Education’s school financial information database.

- 3.6 As well as cash held for others, cash and investments might be earmarked for a particular purpose, such as a future building project or school trip, or the school might have outstanding bills. Therefore, when we consider whether a school is in financial difficulty, we also consider its working capital position (its available funds less the amounts due in the next 12 months).
- 3.7 As at 31 December 2020, we identified 43 schools with a working capital deficit. This is a significant reduction on the 85 schools with a deficit in 2019. We discuss working capital deficits further when we discuss schools in financial difficulty.

The effect of Covid-19 on school finances

- 3.8 In 2020, schools were closed nationwide during the first Level 4 lockdown in March and April – and many remained closed once the country moved to Alert Level 3. However, the Ministry continued to fund schools and provided additional Covid-19-related funding. When completing our 2019 school audits, we concluded that Covid-19 would not adversely affect most schools financially.
- 3.9 However, we expected that schools that usually raise a lot of their revenue locally through donations, fundraising, and international students would have a more significant reduction in revenue. When the borders closed, some international students were not able to travel to New Zealand and many that had arrived went home early.
- 3.10 The changes in alert levels also made it difficult for schools to organise and hold many of the activities to raise funds that they usually do. Auckland schools also experienced further lockdowns later in the year.
- 3.11 These effects were mitigated in part by \$20 million of Covid-19 support funding to help schools retain their specialist international education workforce. As well as this, 2020 was the first year of the school donation scheme, meaning that decile 1 to 7 schools that opted into the scheme received additional funding in lieu of donations from parents.

Covid-19-related support and funding

- 3.12 In response to the Covid-19 pandemic and the associated lockdowns, the Ministry provided schools with additional support and funding during 2020. This included:
- devices and modems to students who did not have ready access to the internet at home;
 - additional funding for schools to pay casual school employees and those paid by timesheet, including day relievers, when they were unable to be in the classroom during lockdown, which included paying the wage subsidy for hostel employees;
 - additional operational funding to cover Covid-19-related expenses, such as masks and sanitiser, and the additional cleaning required at different alert levels;
 - transition funding for schools with international students to meet staff costs and to provide continuity of teaching and pastoral care for those students still in New Zealand; and

- urgent response funding to support learners affected by the Covid-19 lockdowns – which was available for four categories of need:
 - attendance;
 - well-being to support attendance;
 - cultural well-being to support attendance; and
 - re-engagement in learning.
- 3.13 Schools received a total of \$57.1 million of Covid-19 support payments in 2020. This included \$20 million of international education support funding noted above.⁸
- 3.14 Schools also recorded revenue of \$19 million for devices for students in their financial statements. The devices are assets of the relevant school that the student attended. About 37,000 devices (laptops, iPads, and Chromebooks) were distributed during the year.⁹
- 3.15 The urgent response funding was allocated to schools using the Equity Index to ensure an equitable funding approach. It was also allocated to early learning services. About \$26 million was distributed to schools and kura between August and December 2020.¹⁰
- 3.16 Because of the timing of the funding, many schools did not have the opportunity to spend the funds in 2020, which might explain the improvement in some schools' financial position.

Locally raised funds

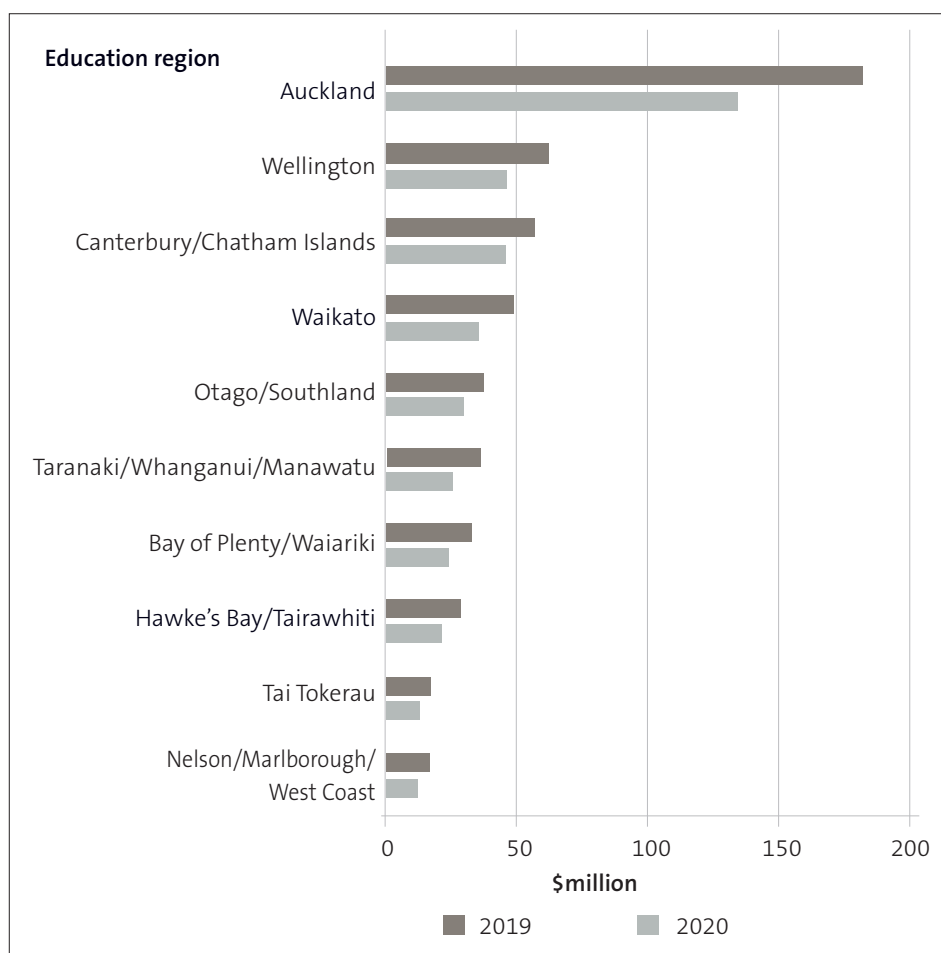
- 3.17 Many schools rely on raising funds locally to provide additional funding. We expected to see an overall reduction in locally raised funds for 2020. This was because Covid-19 lockdowns and related uncertainties made it difficult for schools to carry out their normal fundraising activities. The closed borders also affected international student revenue.
- 3.18 Total locally raised funds for 2020 was \$390 million, compared to \$520 million in 2019. Schools also received about \$117 million of revenue from international students in 2020. This is a decrease of 26% on 2019 (\$157 million).
- 3.19 Figure 8 shows that, in 2020, total locally raised funds (excluding international student revenue) reduced for all regions. These funds can be from donations, grants, parent contributions for curriculum recoveries or activities, trading revenue, fundraising, and other revenue, such as rent for school houses and revenue from use of the school hall. In most instances, these types of revenue are discretionary.

8 Ministry of Education report: *2020 Ngā Kura o Aotearoa*.

9 Ministry of Education report: *2020 Ngā Kura o Aotearoa*.

10 Ministry of Education report: *2020 Ngā Kura o Aotearoa*.

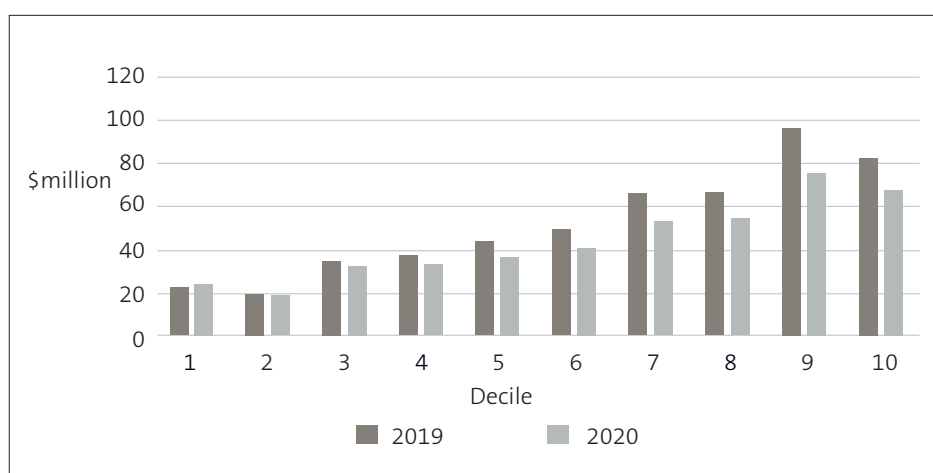
Figure 8
Total locally raised funds (excluding international student revenue) for all schools by education region



Source: The Ministry of Education's school financial information database.

- 3.20 The donations scheme was introduced in 2020. This gives the schools additional funding of \$150 for each student if the school agrees not to ask parents for donations, except for overnight trips such as school camps. For 2020, 92% of eligible decile 1 to 7 schools opted into the scheme and received a total of \$64.8 million.¹¹
- 3.21 Figure 9 shows that, in total, the additional funding from the donations scheme mitigated against a loss of locally raised funds for schools in decile 1. All other deciles showed an overall reduction with a smaller reduction for lower decile schools, and the gap widening for decile 6 and 7 schools. Decile 8 to 10 schools are not eligible for the funding.

Figure 9
Total locally raised funds plus donations scheme funding for all schools, by decile

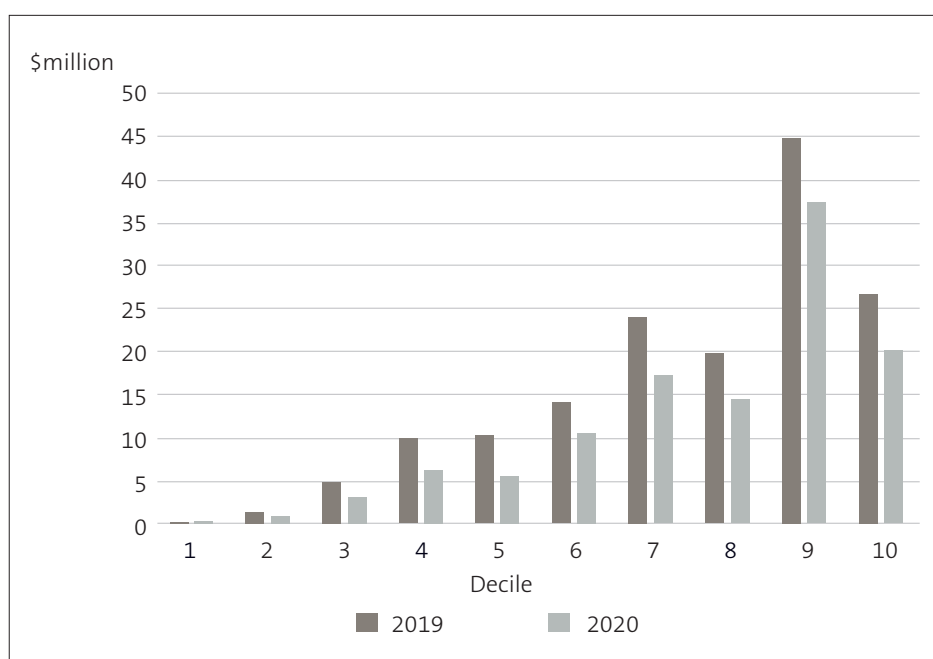


Source: The Ministry of Education's school financial information database and Ministry published listing of schools that have opted into the donations scheme.

International student revenue

- 3.22 We expected the revenue from international students to reduce when New Zealand closed its borders because of Covid-19. However, many schools retained their international students, and the total revenue schools received from international students reduced by only \$40 million (26%).
- 3.23 Figure 10 shows the reduction in total international student revenue by decile.
- 3.24 Schools usually record significant surpluses on international student revenue, because the related expenses are usually small in relation to the fees charged. In 2020, 494 schools reported a total surplus on international students of \$56 million. This is an average surplus of \$114,000 for each school. This compares with a surplus of \$82 million for those schools in 2019. That was an average of \$167,000 for each school.
- 3.25 The impact of Covid-19 on individual schools varied. Of the 476 schools that had international student revenue in both 2019 and 2020, 371 (78%) recorded a reduced surplus from international student revenue. The largest reduction was more than \$1 million.
- 3.26 On the other side, 105 schools that had retained their international students made a higher surplus than the previous year. The highest increase was \$707,000. This school had more international students in 2020 than 2019, and reduced expenses compared to the previous year.

Figure 10
Total international student revenue by decile



Source: The Ministry of Education's school financial information database.

- 3.27 Some of the reduction in international student revenue was mitigated by Covid-19 support funding for international education of \$20 million for those schools with international students. We compared 2020 and 2019, including the Covid-19 international funding paid to schools. Of the 484 schools that received the funding, a quarter increased their total revenue from international students in 2020 compared to 2019.
- 3.28 The impact of the closed borders on schools in 2020 was not as significant as we expected as many schools retained their international students. For some schools, it was not significant at all. It remains to be seen how the continued border closures will impact schools. The transition funding was only paid in 2020 to help schools to transition to less funding from international students. We will understand this better after we have completed our 2021 audits.

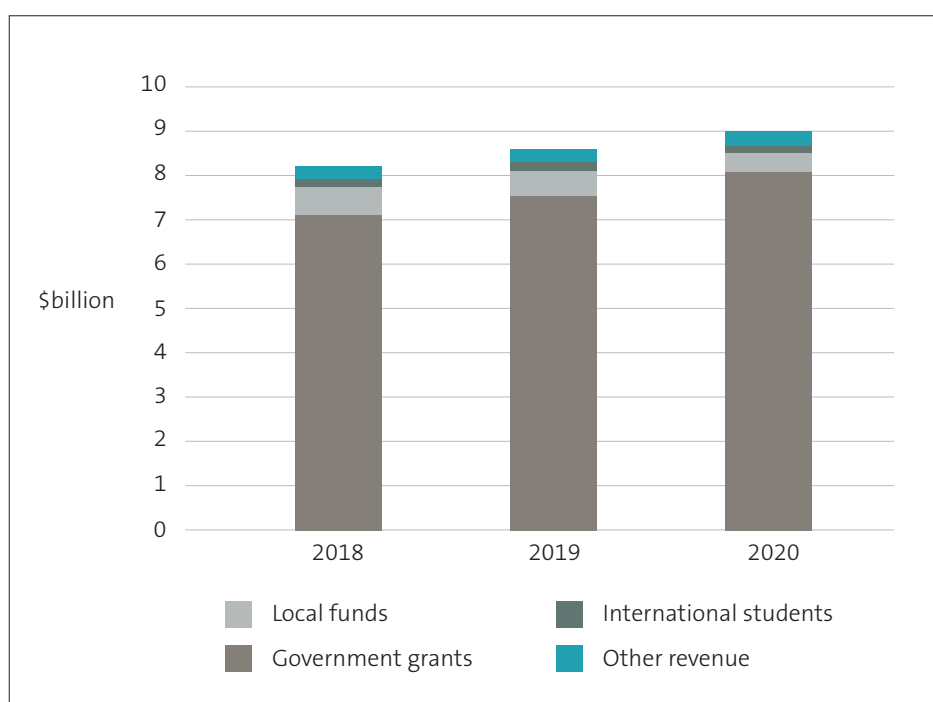
Overall financial results for 2020

- 3.29 In September 2021, the Ministry reported on the financial performance of schools in its Ngā Kura Aotearoa: New Zealand Schools (2020) report. The Ministry took the reported financial information for 2020 from the financial statements available when it wrote the report (1964 or 82% of schools). It used actual

previous-year figures for the remaining schools. As a result, the Ministry's figures will differ slightly from the figures we have used for our analysis in this report.

- 3.30 Total school revenue for 2020 showed an increase of 5% on the previous year. Locally raised funds reduced in 2020 compared to previous years (see paragraphs 3.17-3.21), but this was mitigated by an increase in government funding of 7%.
- 3.31 Figure 11 shows that non-government revenue was relatively consistent in 2018 and 2019. Although there was an increase in government funding between the two years, it was not as significant as for 2020.

Figure 11
Total school revenue for 2020, 2019, and 2018

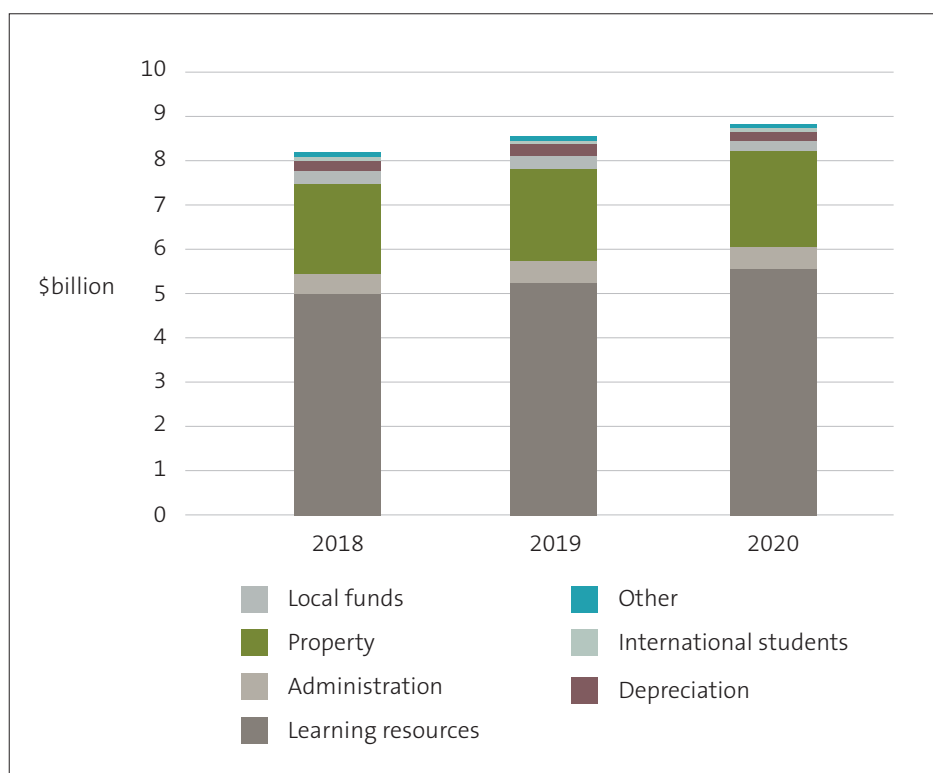


	2018 (\$billion)	2018 (%)	2019 (\$billion)	2019 (%)	2020 (\$billion)	2020 (%)
Other revenue	0.32	3.9	0.30	3.5	0.32	3.6
International students	0.18	2.1	0.18	2.1	0.14	1.6
Local funds	0.57	6.9	0.59	6.9	0.46	5.1
Government grants	7.14	87.1	7.50	87.5	8.07	89.7
Total	8.21	100.0	8.57	100.0	8.99	100.0

Source: Ministry of Education report: 2020 Ngā Kura o Aotearoa.

- 3.32 As well as the additional Covid-19 support funding and the donations scheme funding, schools received \$78.9 million in top-up funding to enable them to meet the agreed pay equity claim for teacher aides and support staff, and \$5.5 million was paid to lunch providers on behalf of schools.¹² Both these payments were made to address a related increase in school costs.
- 3.33 Total school expenditure has increased by a lesser amount. It increased by only 3.4% compared to 2019. Figure 12 shows that the biggest increase in spending in recent years is in Learning Resources. This includes teachers' salaries, teacher aide wages, information and communication technology, staff development, and other curriculum-related expenses.
- 3.34 This category will include the effects of pay settlements on staff costs for both teachers and teachers' aides. In 2020, the most significant of these was the pay equity settlement for teacher aides.

Figure 12
Total school expenditure for 2020, 2019, and 2018

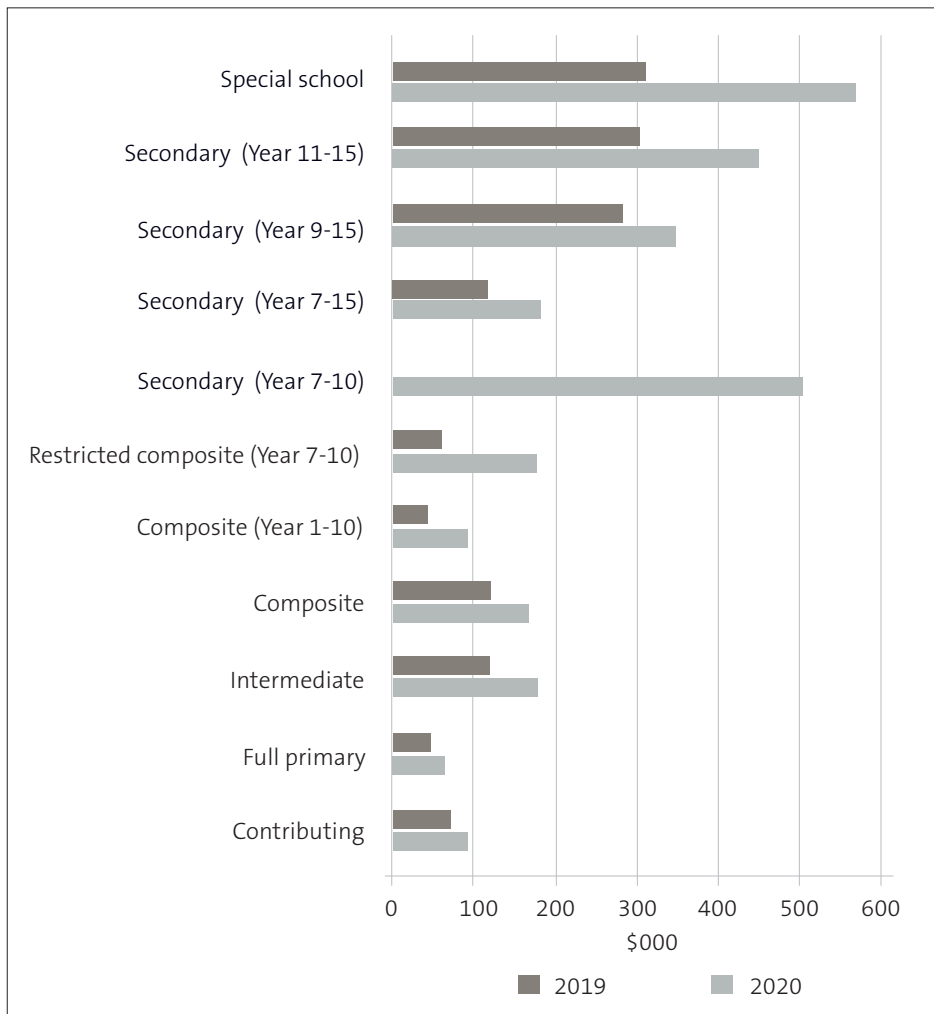


	2018 (\$billion)	2018 (%)	2019 (\$billion)	2019 (%)	2020 (\$billion)	2020 (%)
Other expenditure	0.08	1.0	0.07	0.9	0.07	0.8
International students	0.08	1.0	0.09	1.0	0.07	0.8
Depreciation	0.23	2.9	0.24	2.8	0.24	2.7
Local funds	0.28	3.4	0.29	3.4	0.22	2.5
Property	2.03	25.0	2.09	24.6	2.16	24.6
Administration	0.46	5.6	0.48	5.7	0.48	5.5
Learning resources	4.98	61.1	5.24	61.6	5.55	63.1
Total	8.14	100.0	8.50	100.0	8.79	100.0

Source: Ministry of Education report: *2020 Ngā Kura o Aotearoa*.

- 3.35 Overall, schools reported a surplus of about \$198 million for 2020. This compares with an overall surplus of about \$70 million in earlier years. For the 2090 schools that we have data for, we have compared the number of schools that recorded a surplus and deficit with the previous year. We found that 80% recorded a surplus in 2020, compared to only 59% for 2019.
- 3.36 Figure 13 shows that the average surplus for all types of schools was also higher in 2020.
- 3.37 This information supports our earlier findings about the overall improvement in the financial position of schools despite Covid-19. However, this has been achieved through additional Covid-19 government support.

Figure 13
Average surplus recorded in 2020 by school type compared to 2019



Source: The Ministry of Education's school financial information database.

What we mean by financial difficulty

- 3.38 Most schools are financially sound. However, each year we identify some schools that we consider could be in financial difficulty.
- 3.39 When we issue our audit report, we are required to consider whether the school can continue as a “going concern”. This means that the school has enough resources to continue to pay its bills for at least the next 12 months from the date of the audit report.
- 3.40 When carrying out our “going concern” assessment, we look for indicators of financial difficulty. One such indicator is when a school has a “working capital deficit”. This means that, at that point in time, the school needs to pay out more funds in the next 12 months than it has available. Although a school will receive further funding in that period, it might find it difficult to pay bills as they fall due, depending on the timing of that funding.
- 3.41 A school that goes into overdraft or has low levels of available cash is another sign of potential financial difficulty. Because we are considering the 12 months after the audit report is signed, we will also consider the school’s performance and any relevant matters in the period since the year-end.
- 3.42 In considering the seriousness of the financial difficulty, we usually look at the size of a school’s working capital deficit against its operations grant. Although many schools receive additional revenue, this is often through donations, fundraising, or other locally sourced revenue, so it is discretionary. For most schools, the operations grant is their only guaranteed source of income.
- 3.43 Of the 43 schools with a working capital deficit this year:
- 29 (2019: 53) schools had a working capital deficit of between 0% and 10% of the operations grant;
 - 10 (2019: 20) schools had a working capital deficit of between 10% and 20% of the operations grant; and
 - 4 (2019: 12) schools had a working capital deficit of more than 20% of the operations grant.
- 3.44 Figure 14 shows that decile rating does not affect whether schools have a working capital deficit. It also shows that the number of schools with a deficit has significantly reduced and that the two previous years are relatively similar.

Figure 14
Schools with working capital deficits, by decile

Decile	2020	2019	2018
Decile 1	2	9	9
Decile 2	3	10	14
Decile 3	7	9	10
Decile 4	4	4	5
Decile 5	2	6	11
Decile 6	8	11	9
Decile 7	6	9	4
Decile 8	4	12	9
Decile 9	3	5	8
Decile 10	4	10	9
Total	43	85	88

Source: The Ministry of Education's school financial information database for 2020. Previous year figures are those reported in the Office of the Auditor-General's *Results of the 2019 school audits*.

- 3.45 Of the four schools with a working capital deficit greater than 20% of its operations grant (which we consider to be serious financial difficulty), two are decile 10 schools, one is decile 3, and one is decile 4.

Schools considered to be in serious financial difficulty

- 3.46 Not all schools with a working capital deficit at the balance date are in financial difficulty. When making this assessment, our auditors will consider other factors, including the school's financial performance since the year-end.
- 3.47 When we have assessed that a school is in financial difficulty, we ask the Ministry whether it will continue to support the school. If the Ministry confirms that it will continue to support the school, the school can complete its financial statements as a "going concern".
- 3.48 This means that the school is expected to be able to continue to operate and meet its financial obligations in the near future. If we consider a school's financial difficulty to be serious, we draw attention to this in the school's audit report.
- 3.49 Figure 15 shows the 17 schools that obtained letters confirming the Ministry's support and as a result could complete their 2020 financial statements on a "going concern" basis. This is a significant reduction from previous years, when about 35-40 schools needed letters of support (2019: 38 schools).
- 3.50 We referred to serious financial difficulties in 11 of these 17 schools' audit reports.

Figure 15
Schools that needed letters of support for their 2020 audits to confirm they were a “going concern”

School	2020	2019	2018 and earlier years
Albany Junior High School	√	√	√
Bathgate Park School	√	√	√
Burnside Primary School	√	√	√
Cambridge East School	√	√	√
Kadimah School	√	√	√
Kavanagh College	√	√	–
Kokopu School	√	–	–
Mana College	√	√	–
Mercury Bay Area School	√	√	–
Nelson College	√	√	√
Ngakonui Valley School	√	–	–
Ravensbourne School	√	–	–
Saint Joseph’s School (Grey Lynn)	√	√	–
Saint Joseph’s School (Hawera)	√	–	–
Tauhara Primary School	√	√	–
Taumuranui High School	√	√	–
Waitara Central School	√	√	–
Total	17	13	6

Source: Information taken from school financial statements and the Office of the Auditor-General’s audit reports.

- 3.51 We also identified that the following schools needed letters of support from the Ministry for previous-year audits that were completed since we last reported:
- Saint Joseph’s School (Grey Lynn) (2019);
 - Taumuranui High School (2019);
 - Te Kura o Pakipaki (2015 and 2016);
 - Westminster Christian School (2019); and
 - Te Kura Kaupapa Māori o Te Puaha o Waikato (2019).
- 3.52 The number of schools in financial difficulty usually remains about the same each year at about 40 schools. However, many of the schools we identified as being in financial difficulty last year have now improved their financial position. They have done this either by reducing their working capital deficit enough that they no longer need a letter of support or by bringing their working capital position into surplus.

- 3.53 Of the 38 schools we identified in our report last year, only 10 needed a letter of support again this year. Six of these have needed a letter of support for the past three years or more. We consider that 26 of the 38 schools are no longer in financial difficulty. The audits of the remaining two schools have not yet been completed.
- 3.54 We expected to identify significantly more schools in financial difficulty because of the effects of Covid-19. This was not the case. However, as well as the above schools where a letter of support was necessary, our auditors did raise concerns about potential financial difficulties in 44 further schools. This was usually because of continued deficits that are eroding the working capital and/or continued deficit budgeting.

Why do schools get into financial difficulty?

- 3.55 Last year, we reported on the reasons why schools get into financial difficulty. This is usually because there is an unexpected drop in funding or because schools are not adequately budgeting and/or monitoring their finances. For most schools, it can be difficult to suddenly reduce spending if they do not receive the funds that they are expecting. This is particularly the case when the funding is used for staffing or other spending that the school is already committed to.
- 3.56 The most common reasons for schools getting into financial difficulty are:
- schools relying on locally raised funds to fund operational costs, including from international student revenue; and
 - schools not adequately monitoring their staffing levels.
- 3.57 Not adequately monitoring staffing levels can result in schools overusing their Ministry staff entitlement. They then have to refund the overspend back to the Ministry or fund the extra staff directly. Either can result in a reduction in the operational funding the school has to spend on other things.
- 3.58 We have discussed levels of locally raised funds in paragraphs 3.17-3.21. We concluded that, although levels have dropped, the donations scheme and Covid-19 support funding have mitigated this for many schools. We discuss staffing levels below.

Staffing levels

- 3.59 Each school is given an entitlement of teachers that the Ministry will fund. The entitlement is based on the size of the school roll. A school must fund any teachers that are additional to its entitlement, either by paying the additional teachers directly from its own funds or refunding to the Ministry any overuse of its entitlement of Ministry-funded teachers after the year end.

- 3.60 All schools pay non-teaching staff from their operations grant. Schools can also choose to use their operations grant and other funding for additional teachers. If a school uses a large percentage of its operations grant to pay staff, it will need other sources of funding to meet its other operational costs.
- 3.61 When schools are unable to generate the revenue they anticipated from other sources, they might have to spend cash reserves. If no other source is available, they might find themselves in financial difficulty.
- 3.62 As Figure 16 shows, when we calculated the board funded staff costs as a percentage of each school's operations grant for 2020, we found that the results were consistent with what we found in 2019. Because schools would have already set their staffing levels for 2020 before the pandemic happened, this was expected.

Figure 16
Staff costs that are board-funded as a percentage of the school's operations grants

Year	0-19%	20-39%	40-59%	60-79%	80-99%	100% +	Total number of schools
2020	17	126	648	855	319	125	2090
2019	18	141	621	783	312	145	2020*

* Number of schools entered into the Ministry's database of schools' financial statements, as at October 2020.

Note: The table shows the number of schools in each of six different categories for the percentage of their operations grant used to fund staffing costs.

Source: The Ministry of Education's financial information database for 2020. Previous year figures are those reported in the Office of the Auditor-General's Results of the 2019 school audits.

- 3.63 About half of the 125 schools that use the equivalent of more than 100% of their operations grant to pay staff have international students.
- 3.64 Of the twenty-three schools funding salaries equivalent to more than 150% of their operations grant, more than half are special education schools, which receive additional funding for staff. Of the remaining 10 schools, eight are state-integrated schools that often get additional support for staffing from their proprietor.
- 3.65 In 2020, the Ministry provided additional support to schools, including making emergency payments directly to relieving staff. However, if schools continue to see a reduction in revenue from local sources, they should adjust staffing levels accordingly to help prevent them getting into financial difficulty.

Conclusion

- 3.66 Overall, we can see that the international student transition funding, the donations scheme funding for decile 1 to 7 schools, and other Covid-19 support funding mitigated some of the expected reduction in revenue from locally raised funds (including from international revenue) because of Covid-19.
- 3.67 Although spending increased in 2020, mainly in terms of staffing, additional payments from the Ministry supported some of this spending. This explains why the overall financial position of schools has improved. However, it was also clear from our analysis that the impact on individual schools is varied.
- 3.68 Although our auditors identified only 17 schools that we consider to be in financial difficulty and another 44 schools that had the potential to get into financial difficulty, our analysis showed that many schools continue to spend large amounts of their funding on staff. Without the same level of Covid-19 support funding as in 2020, there is a risk that more schools get into financial difficulty in 2021.

Matters we identified during our audits

- 4.1 In this Part, we set out matters that we identified during the 2020 school audits and make some recommendations for the Ministry.

School payroll

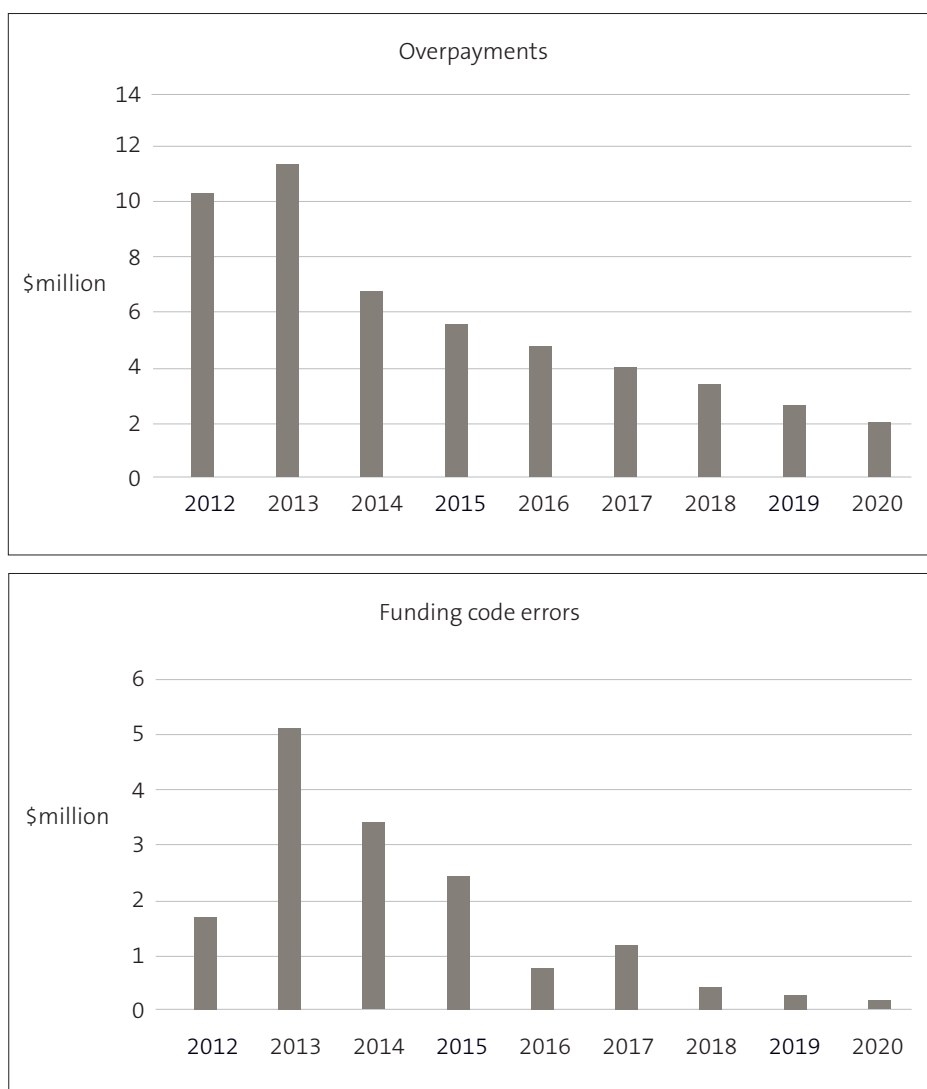
- 4.2 Because salary costs are the largest operational cost of schools, the school payroll information is a significant part of a school's financial statements. The Ministry funded about \$6 billion (2019: \$5.4 billion) of salary and related costs to employees of schools for the 2020 school payroll year. Education Payroll Limited (EPL) administers the school payroll on behalf of the Ministry.
- 4.3 After Novopay was introduced in 2012, the additional payroll reports schools needed to complete their financial statements initially contributed to delays in the school audits. The school payroll audit process – which includes distributing payroll reports to schools and their auditors, and the appointed auditor of the Ministry carrying out testing of the payroll centrally – has improved in recent years. However, there was a delay to one of the key payroll reports for the 2020 school audits, and additional information had to be sent out to schools to correct some information in the report.
- 4.4 As Figure 1 shows, this delay in the distribution of the report to the sector did not result in a subsequent delay in auditors receiving the information they needed for audit. A record 96% of draft financial statements were provided for audit by 31 March. However, any delay and/or need for schools to make additional adjustments creates more work for schools and their auditors, who are both already under acute time pressures.

Findings from our 2020 school audits

- 4.5 Our auditor of the Ministry carries out extensive work on the Novopay system centrally. This includes carrying out data analytics of the payroll data to identify anomalies or unusual transactions and testing the payroll error reports that are sent to schools.

4.6 We write to the Ministry every year setting out our findings from this work. We continue to see improvements in data quality, with fewer errors each year and a reduction in the value of those errors (see Figure 17).

Figure 17
Value of payroll errors, 2012 to 2020



Note: Funding code errors are those where payroll payments have been incorrectly funded by either the board or the Ministry (through its teachers' salary funding). These result in an amount either owed to, or owed by, the school.

Source: Education Payroll Services: Results and communications to the sector to support the audits of schools' 31 December 2020 financial statements.

- 4.7 As part of their audit work at schools, our auditors follow up any anomalies that the data analytics work identified and that the Ministry cannot resolve. Some anomalies are also sent to EPL to be resolved.
- 4.8 The extent of the exceptions sent to schools has decreased over the years, but some matters reoccur. For the 2020 audits, we identified 1905 exceptions (2019: 2086) for 803 schools (2019: 922) that school auditors needed to follow up.
- 4.9 In response to a recommendation we made in 2019, the Ministry asked for feedback from schools and auditors on how the exceptions had been resolved for the 2020 audits. The Ministry also asked for feedback from EPL for those exceptions relevant to them.
- 4.10 Although the Ministry received feedback on all the exceptions sent to EPL and had followed-up on the exceptions provided to the Ministry, it received feedback from schools and auditors on only 16% of exceptions sent. This is most likely because the auditor shortage meant that 2020 was a challenging year for auditors, and they were focused on completing late audits when the Ministry was collecting this information.
- 4.11 Of the feedback from schools and auditors, most (77%) confirmed that the transaction identified as an exception was a valid payment and provided appropriate evidence of approval. Because of the low response rate and because most of the exceptions were considered valid payments, the Ministry was unable to identify any themes or opportunities for additional support or guidance.
- 4.12 Nevertheless, the feedback led to two recommendations for improvement. One relates to how the data analytics work is run, which should reduce the number of exceptions in future, and the other is an opportunity for EPL to provide additional guidance on a specific matter.
- 4.13 This exercise will be repeated for the 2021 audits, and we will support the Ministry by following up with our auditors to provide the requested feedback when they complete their audits.

School payroll changes

- 4.14 EPL has been progressively rolling out EdPay, an online interface for processing transactions. It was first made available for all schools to use in late 2019. Schools used a mix of EdPay and Novopay Online during 2020, while the ability to carry out tasks using EdPay has been gradually rolled out. Full replacement of Novopay Online is expected by the end of 2021.

- 4.15 EPL has also been working on its processes and controls, with a focus on its general management control environment and reducing the risk of payroll errors. The Ministry and EPL are also working on developing and implementing a formalised controls framework for EPL.
- 4.16 A school's board is ultimately responsible for monitoring and controlling school expenditure, including payroll expenditure. It is also responsible for establishing and maintaining a system of internal controls to prevent fraud and error at the school.
- 4.17 Because robust controls to prevent or detect errors are not built into the payroll system, the onus is on the school to review the outputs (fortnightly payroll reports) to check that payroll transactions have been processed correctly and are both valid and accurate.
- 4.18 In our earlier reports, we recommended that the Ministry ensure that appropriate controls are included in EdPay. We were told that, although EdPay has some built-in validation checks that will reduce the number of errors or inappropriate transactions, no additional controls are being built into the system at this time. This means that the key controls at schools would remain the same.
- 4.19 Therefore, schools' review of fortnightly payroll reports would continue to be the main control that they rely on to detect fraud and/or errors. However, we have recently been made aware that one of the main reports that schools rely on as a control is not available in the EdPay portal.
- 4.20 Schools will still be able to review the fortnightly Staff Usage and Expenditure report (SUE report). However, these reports are difficult to understand, which makes them difficult to review.
- 4.21 Some smaller schools also struggle to find someone independent of the payroll process (which means someone without access to the payroll system) with enough knowledge to review these reports. The reviewer needs to be independent, or there is a risk that the same person both processes and reviews transactions.
- 4.22 In our view, the guidance EPL has provided to schools does not adequately explain the control activities schools should carry out in addition to reviewing the SUE report, so the board can make sure it has appropriate controls over all its payroll transactions. We have asked the Ministry to follow up on this matter with EPL.
- 4.23 We also consider that more thought needs to be given to how changes to payroll processes affect the control environment at schools. We have made a specific recommendation about this that is similar to recommendations we have made in recent years.

- 4.24 Because the changes to the school payroll reporting occurred part way through 2021, it might affect the amount of work our auditors need to do on payroll at individual schools. As part of their planning procedures, auditors will be getting an understanding of the school payroll system, including whether controls have been operating throughout the year. We will then consider how these changes impact on the audit work we need to do at schools during the 2021 audit.

Recommendation 1

We recommend that the Ministry of Education make sure that changes to school payroll processes do not adversely affect the schools' control environment by working collaboratively with Education Payroll Limited. This includes making sure that controls within schools help prevent fraud and error, and ensure that all transactions are approved within delegations.

Non-compliance with the Holidays Act 2003

- 4.25 Non-compliance with the Holidays Act 2003 has arisen because clauses in the Holidays Act or employment agreements might have been incorrectly interpreted when calculating holiday entitlements. As previously reported, the Ministry has identified that there are instances of non-compliance for employees on the school payroll.
- 4.26 Work continues to identify and resolve non-compliance with the Holidays Act, but the Ministry has not yet been able to identify the amounts attributable to each employee and the consequent impact on individual schools.
- 4.27 Because school boards are the employer of all teachers, they need to recognise a potential liability for this non-compliance with the Holidays Act. However, until further detailed analysis has been completed, the potential effect on any specific individual or school and any associated liability cannot be reasonably estimated. As for previous years, all school financial statements disclosed a contingent liability for non-compliance with the Holidays Act 2003.

Sensitive expenditure

- 4.28 This year, our auditors brought fewer matters about sensitive payments to our attention but we referred to sensitive expenditure in some schools' audit reports, as explained in paragraphs 2.41-2.49. Several of these were for audits related to previous years. If the amounts involved are less significant or the matters relate to a school's policies and procedures underlying its sensitive expenditure decisions, auditors will raise the matter in the schools' management letter rather than the audit report.

- 4.29 Matters auditors raised in schools' management letters this year were similar to previous years. They included:
- schools that did not have sensitive expenditure policies, including for gifts (seven schools);
 - gifts to staff that were either without board approval or inconsistent with the school's gift policy (14 schools);
 - hospitality and entertainment expenses that seemed excessive (10 schools); and
 - travel-related expenditure (three schools).
- 4.30 Most of the concerns raised about school policies and procedures for sensitive payments related to poor controls over the approval of principals' expenses or credit card expenditure. The main matters raised were:
- principals approving their own expenses or the spending not being approved by someone more senior (40 schools);
 - no approval of credit card expenditure or it not being approved by someone more senior than the person incurring the expenditure (20 schools); and
 - inadequate or no documentation to support expenditure (10 schools).
- 4.31 As we have reported in the past, credit cards are susceptible to error and fraud or to being used for inappropriate expenditure, such as personal expenditure. This also applies to fuel cards or store cards.
- 4.32 Our auditors identified two schools where credit cards had been used for personal use and one school that did not have proper control over spending on fuel cards. Also, with credit cards, money is spent before any approval, which is outside the normal control procedures over expenditure for most schools.
- 4.33 We remind schools that they should use a "one-up" principle when approving expenses, including credit card spending. This means that the presiding member (chairperson) of the board would need to approve the principal's expenses. It is also important that credit card users provide supporting receipts for the approver and an explanation for the spending.
- 4.34 We include information about using credit cards in our good practice guide on Controlling sensitive expenditure, which is available on our website. This provides guidance on principles for making decisions on sensitive expenditure, guidance on policies and procedures, and examples of types of sensitive expenditure.
- 4.35 We have also added some short videos about those principles and a list of other resources, including reports, articles, blog posts, and published letters, to our resources on sensitive expenditure.

Cyclical maintenance

- 4.36 Schools must keep the buildings that the Ministry (or, for state integrated schools, their proprietor) provides for their use in a good state of repair. They receive funding for this as part of their operational funding.
- 4.37 Schools need to plan and provide for future significant maintenance, such as painting the school buildings. The school financial statements include a provision to recognise the obligation for significant maintenance.
- 4.38 This has always been a challenging area to audit, and we have reported on this aspect of the financial statements several times in the past. Many schools do not fully understand the cyclical maintenance provision and do not always have the necessary information to be able to calculate this accurately.
- 4.39 This is shown by our issuing 23 audit opinions this year where we have not been able to obtain enough information about the provision. Although this is a relatively small number compared to the total number of schools, we refer to this matter in a school's audit opinion only if the adjustment required to correct the provision could be so significant it would affect a reader's understanding of the financial statements.
- 4.40 The lack of available reasonable evidence at many schools creates a lot of additional work for auditors and contributes to audits taking longer than they should.
- 4.41 A school's property occupancy agreement requires the schools to prepare a 10-year property plan. This plan should include a maintenance plan that sets out how it intends to maintain its buildings for the next 10 years and the estimated cost of this.
- 4.42 This plan is driven by the Ministry-approved property planners condition assessment of the school buildings. If this maintenance plan is done correctly, the school can use it to calculate the cyclical maintenance provision. However, the school will need to review the plan annually to make sure that the costs and planned maintenance are still valid to be used in the calculation of the provision.
- 4.43 In practice, we find that schools' 10-year property plans do not always include a maintenance plan, even though the Ministry has approved them, or the plans are out of date. After we made recommendations in our previous reports, the Ministry told us that it had updated its school property visits to include a discussion on school maintenance plans.
- 4.44 Our auditors have not seen an improvement in the quality of the property information at schools since this was implemented, as shown by the increase in modified audit opinions issued.
- 4.45 We have repeated our earlier recommendation that the Ministry needs to make sure that schools comply with property planning requirements by having up-to-

date cyclical maintenance plans. As the custodian of school buildings, the Ministry needs to ensure that schools are adequately maintaining the buildings they use.

- 4.46 We will collect additional information from our auditors from the 2021 audits on the number of schools that do not have adequate maintenance plans. We will share this information with the Ministry to help resolve this long-standing issue.

Recommendation 2

We recommend that the Ministry of Education make sure that schools are complying with their property planning requirements by having up-to-date cyclical maintenance plans. This includes reviewing those plans to assess whether they are reasonable and consistent with schools' condition assessment and planned capital works.

Budgeting

- 4.47 Section 87(3)(i) of the Education Act 1989 requires each school to disclose budgeted figures for the statement of its revenue and expenses, the statement of its assets and liabilities (balance sheet), and the statement of its cash flows.¹³ Schools need to include the budget figures from their budget approved at the beginning of the school year.
- 4.48 As part of their audits, our auditors check that the figures included in schools' financial statements are from the approved budget. However, our auditors have been finding that many schools do not prepare a budget balance sheet or a budget cash-flow statement.
- 4.49 As well as being a legislative requirement, having a full budget, including a balance sheet and statement of cash flows, is important for good financial management. Although monitoring the revenue and expenditure of the school is important, so is managing cash flows and ensuring that schools have enough cash to meet their financial obligations when they fall due. If schools do not manage this properly, they can get into financial difficulty.
- 4.50 As we indicated in our report last year, we asked school auditors to tell us about schools that are not preparing a full budget. Our auditors identified 467 schools that were not preparing full budgets. We have shared this information with the Ministry so it can discuss this with the individual schools when they prepare their budgets for the next school year.

¹³ Section 87(3)(i) of the Education Act remains in force because the section of the Education and Training Act 2020 for school planning and reporting does not come into effect until 1 January 2023.

Publishing annual reports

- 4.51 Schools are required to publish their annual reports online.¹⁴ A school's annual report consists of an analysis of variance,¹⁵ a list of board members, financial statements (including the statement of responsibility and audit report), and a statement of KiwiSport funding.
- 4.52 It is important that schools publish their annual report as soon as possible after their audit is completed. This ensures that schools comply with legislation and are accountable to their community.
- 4.53 As part of our audit, we check whether schools have published the previous year's annual report. If a school does not have a website, the Ministry will publish the school's annual report on its Education Counts website.
- 4.54 We have seen a continued improvement in the number of schools publishing their annual reports. At the time of this year's audits, we found that 90%¹⁶ of schools had published their 2019 annual report on their website (2019: 82% of schools had published their 2018 annual report).
- 4.55 Although this improvement is encouraging, our auditors identified 231 schools that had not published their annual reports online. We encourage parents and other members of a school's community to contact the school board if the school's annual report has not been published online.

Future of school audits

- 4.56 School audits have become more complex over time because of increased financial reporting requirements and increasing professional requirements on auditors. At the same time, the number of audit firms has reduced as some smaller firms have decided to no longer carry out audits.
- 4.57 This has made appointing auditors for the more than 2400 school audits more challenging at each subsequent contract round.¹⁷ The resourcing pressures the profession is currently experiencing because of the closed borders have added to these difficulties.
- 4.58 Because of this, we have started discussions with the Ministry about the future of school audits. As well as ensuring that there is appropriate public accountability, including considering how audits can continue to be carried out in a timely manner, we are considering whether the current accountability arrangements for

14 Section 136 of the Education and Training Act 2020.

15 An analysis of variance is a statement where a school board provides an evaluation of the progress it has made in achieving the aims and targets set out in its Charter.

16 90% of the 2273 schools that had completed their audits as at 31 October 2021.

17 Auditors are appointed for a three-year contract period. The latest period is for the 2021 to 2023 school audits.

schools are fit for purpose. We are also interested in how well supported schools are to ensure that they are financially sustainable.

- 4.59 School financial statements are very detailed compared to those for many other public organisations. The Ministry is one of the main users of this information, and we understand that the Ministry uses this financial information for numerous purposes.
- 4.60 A small cross-sector working group carried out some work to simplify the 2021 Kiwi Park model financial statements. However, we encourage the Ministry to continue to consider whether the current level of disclosure is necessary, particularly for information that the Ministry already holds. We will discuss further opportunities to simplify the model statements when the 2022 model financial statements are developed.
- 4.61 In terms of improving information flows, one of our audit service providers will carry out a pilot project for a group of schools with a large provider of school financial services. This will focus on better information flows between the Ministry, the financial service provider, schools, and auditors. We hope that the initiatives developed in this pilot will benefit other schools and service providers in the future.
- 4.62 We are also discussing longer-term solutions. This includes what school financial reporting should look like and/or what assurance over that reporting is needed. We are in the early stages of these discussions.
- 4.63 A new planning and reporting framework will come into effect on 1 January 2023. The Ministry is currently establishing regulations outlining the process, content, form, and timelines for this framework.
- 4.64 The Ministry is also in the early stages of organisational redesign to establish Te Mahau (previously referred to as the Education Service Agency) following the review of Tomorrow's Schools. The aim of this redesign is to work more regionally and provide more locally responsive, accessible, and integrated services to schools and the education sector.
- 4.65 These two significant developments provide opportunities for the Ministry to consider the accountability arrangements for schools and how they can be supported in financial matters.

Recommendation 3

We recommend that the Ministry of Education simplify the level of financial reporting required in the Kiwi Park model financial statements. This includes reconsidering information the Ministry of Education specifically requires, in addition to what is required by financial reporting standards, and whether it can obtain that information from other sources.

Integrity in the public sector

- 4.66 We continue to focus on ethics and integrity in the public sector. We have already referred to the additional resources on sensitive expenditure we have put on our website (see paragraph 4.35). Another area that is important to schools is conflicts of interest.
- 4.67 The risk of conflicts of interest in small communities, which many schools operate in, is inherently high. There is a particular risk of conflict in the decision-making processes used to appoint new employees and contractors, and to purchase goods and services. This is because the board may have limited options in a small community.
- 4.68 Having a conflict of interest does not necessarily mean a person has done anything wrong. However, it is important that schools properly manage conflicts and that they do this transparently.
- 4.69 As we noted in paragraph 2.56, we identified five schools that had board members who did not comply with the rules in the Education and Training Act 2020 about conflicts of interest. The main provisions of the Act that school boards need to be aware of are that:
- an individual is not capable of being a trustee if they are concerned or interested in contracts with their board where the total payments in a financial year are more than \$25,000 (including GST), unless the Secretary for Education approves the contract(s); and
 - a permanently appointed member of board staff cannot be elected (or appointed or co-opted) to the board of trustees unless they are the elected staff representative.¹⁸
- 4.70 School boards are unique in that the principal (who is essentially management) is also one of those charged with governance. All boards also have a staff representative and sometimes a student representative, and integrated school boards also include representatives of their proprietor.

¹⁸ Sections 9 and 10 of Schedule 23 of the Education and Training Act 2020 – previously, section 103 of the Education Act.

- 4.71 Boards need to properly manage decisions that they make on matters that members have an interest in. A board member should be excluded from any meeting while it discusses or decides a matter that the trustee has an interest in. However, the board member may attend the meeting to give evidence, make submissions, or answer questions.¹⁹
- 4.72 A good way of ensuring that there is awareness of all potential conflicts is to maintain an interests register and to have a formal process for declaring any interests at the start of board meetings.
- 4.73 Resources on our website include a good practice guide, *Managing conflicts of interest: A guide for the public sector*, and other resources, such as an interactive quiz that covers a range of scenarios where interests may conflict.
- 4.74 Other resources in the good practice section of our website that may be of interest to school boards are guides on:
- good governance;
 - discouraging fraud;
 - procurement; and
 - severance payments.

Appendix

Update on progress with our previous recommendations

In this Appendix, we provide an update on the Ministry of Education (the Ministry's) progress with our recommendations in our report Results of the 2019 school audits. We also refer to some recommendations from earlier reports that we followed up during our 2020 audits.

School payroll reporting

Recommendation	The Ministry's progress	Our comment
<p>We recommended that the Ministry:</p> <ul style="list-style-type: none"> ensure that changes to the Novopay system include adding appropriate controls for schools, where possible, to help prevent fraud and error and ensure that all transactions are approved within the school's delegations; and follow up unusual transactions or anomalies identified as part of the payroll audit so they do not reoccur, including giving boards additional support and guidance on payroll matters if necessary. 	<p>The Ministry is working with Education Payroll Limited (EPL) to develop guidance for schools to help them establish good internal controls. The guidance will also set out the reporting that is available from EdPay to facilitate schools carrying out the expected internal control procedures over the payroll process. This guidance will be released to schools before the end of the school year on the EPL website and through links on the Ministry's website and in the payroll instructions.</p> <p>The Ministry asked for feedback from schools and auditors on how the exceptions from the payroll exceptions report had been resolved for 2020. Feedback from schools and auditors on only 16% of exceptions was received. Of that feedback, 77% of exceptions were confirmed as valid payments. To be able to identify opportunities for additional support or guidance, we need a higher response rate. Feedback will again be requested for the 2021 audits.</p> <p>The Ministry is also working with EPL to reduce the number of invalid exceptions identified.</p>	<p>We have repeated this recommendation.</p> <p>We will support the Ministry to ensure that auditors provide feedback on the exceptions followed up as part of our audits.</p>

Internal controls (also a recommendation in previous years)

Recommendation	The Ministry's progress	Our comment
<p>We recommended that the Ministry improve its guidance on what good controls look like.</p>	<p>The Ministry has updated guidance on fraud and internal controls for its Financial Information for Schools Handbook (FISH), including added guidance on fraud risk factors, common types of fraud and examples, and board and management responsibilities to prevent fraud and theft.</p> <p>The Ministry is also preparing two additional tools that can be used by school boards:</p> <ul style="list-style-type: none"> • a checklist of expected responsibilities and controls; and • a template to help schools review their segregation of duties in key processes and by identifying people involved in each process assessing whether they have enough segregation. <p>The new guidance and tools should be available on the Ministry's website by the end of the school 2021 year.</p>	<p>This has been noted.</p>

Accounting for “other activities”

Recommendation	The Ministry's progress	Our comment
<p>We recommended that the Ministry provide guidance to schools on accounting for “other activities” (including <i>Resource Teacher: Learning & Behaviour</i> clusters) that they receive funding for.</p>	<p>The Ministry has updated the guidance in the 2021 Kiwi Park model on the financial reporting requirements for the 40 <i>Resource Teacher: Learning & Behaviour</i> (RTLB) clusters. Additional guidance is provided to set out the lead school's responsibilities and reporting requirements.</p> <p>The disclosure note in the 2021 Kiwi Park model for RTLB is unchanged from 2020.</p> <p>Future reporting requirements for RTLBs are still being considered.</p> <p>Further accounting guidance for the treatment of other activities will be considered for the 2022 version of Kiwi Park. Many of these other activities are already captured in existing guidance for funds held in trust, funds held on behalf of third parties, and shared funds.</p>	<p>We will continue to monitor progress.</p>

2018 recommendation: Budgeting

Recommendation	The Ministry's progress	Our comment
We recommended that the Ministry prepare additional guidance to schools on how to budget effectively, including how to prepare a budgeted balance sheet and cash flow budget.	<p>The Ministry is currently developing budgeting tools to assist school boards and management to prepare their budgets, including income and expenditure, balance sheet, and cash flow budgets.</p> <p>The tools will factor in considerations for longer-term financial planning by schools to allow for decisions at a strategic level by having a five-year plan. The new budget tools will be available for schools to use for preparing their 2023 budgets.</p> <p>The Ministry's school finance advisers continue to work with schools that required support to prepare their budgets.</p> <p>Because of Covid-19 restrictions, opportunities for face to face workshops have been limited but budgeting guidance has been presented at first-time principal events and business managers events.</p>	<p>Information collected by auditors on schools not preparing full budgets for 2021 has been passed onto the Ministry.</p> <p>We will follow this up as part of our 2022 audits.</p>

2017 recommendation: Cyclical maintenance

Recommendation	The Ministry's progress	Our comment
We recommend that the Ministry ensure that schools are complying with its property planning requirements by having an up-to-date cyclical maintenance plan. The Ministry's review of a school's 10-year property plan should include a review of the cyclical maintenance plan, to ensure that it is reasonable and consistent with the school's condition assessment and any planned capital works.	<p>The Ministry has prepared a new suite of guidance for cyclical maintenance, which includes updated guidance in FISH, calculators and worked examples. This includes guidance and calculators for those schools that have a painting contract.</p> <p>The new cyclical maintenance guidance will be available for schools to use for the 2021 reporting cycle. We intend to produce a webinar to support this guidance.</p> <p>In addition, the Ministry is:</p> <ul style="list-style-type: none"> working with BRANZ on the development of a Maintenance Guide for Schools. This guide will set expectations and provide guidance on planned, preventative, and reactive maintenance; working towards a longer-term strategy piece to address assets failing due to inadequate maintenance, and the burden of maintenance responsibilities on schools; and preparing online modules to provide school boards, principals, and staff guidance on their obligations to manage school property. These will be available by June 2022. 	<p>We have repeated this recommendation.</p>