

Results of the 2022 school audits

December 2023

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Schools at a glance



2463 schools

There are 2463 boards of schools that require audits (including their subsidiaries and associated trusts).

Audit reports we issued



55% of 2022 audits completed by 31 May 2023 deadline.

82% of 2022 audits completed by 31 October 2023.

40 schools received modified audit opinions.

7 schools were considered to be in serious financial difficulty.

\$8.4 billion + Government funding

went to schools in the 2022 year.

Our recommendations

We recommend that the Ministry of Education:

1. prioritise completing its project on the future of school financial reporting;
2. follow up with Education Payroll Limited to ensure that additional functions are developed and communicated to schools as indicated in the current guidance on school payroll processes and controls, so that schools are able to check and approve all transactions;
3. ensure that schools comply with their property planning requirement to have up-to-date cyclical maintenance plans and review those plans to assess whether they are reasonable and consistent with schools' asset condition assessments and planned capital works;
4. communicate more effectively with schools, including putting controls in place to prevent draft guidance from being sent to schools before it is finalised and approved;
5. contact schools that have not previously prepared full budgets and support them to complete full budgets for the next school year; and
6. review the requirements of Residual Agents to ensure that the financial statements of closed schools can be audited in a timely manner.

Completing school audits

- 1.1 In this Part, we report on how many audits have been completed in the year since our last report. Most of the audits we discuss were for the 2022 year, but others were audits from previous years that we have now completed. Our school audits include the audits of other public organisations related to those schools.
- 1.2 It was another challenging year for school audits.¹ We completed 1360 (55%) of the 2022 audits by the statutory deadline of 31 May 2023. This was slightly less than the 57% of 2021 audits completed by the statutory deadline last year, and less than the 70% completed by the statutory deadline in 2020. Although Covid-19 had little direct effect on the 2022 audits, the indirect effects have continued.
- 1.3 All school audits are carried out by auditor service providers on the Auditor-General's behalf. A global shortage of auditors and the pandemic's effects on staffing levels affected our ability to complete the 2021 school audits on time. To resolve this, many audit service providers had prepared for additional auditors to join their firms from overseas once the borders opened in 2022, but it took longer than expected for people to arrive in New Zealand.
- 1.4 School auditors usually perform their audit planning and interim procedures in October or November each year. However, for some firms, new staff arrived at the end of 2022 and they were not able to perform audit planning and interim procedures until 2023. There was also a significant backlog of 2021 audits to complete before auditors could start on 2022 audits (581 of the audits for 2021 were completed in the six months between July 2022 and December 2022).
- 1.5 For these reasons and despite the efforts of schools (90% provided draft financial statements for audit by the statutory deadline of 31 March), auditors could not complete all the 2022 audits on time. Auditors have made steady progress in completing school audits since 31 May 2023. As at 31 October 2023, we had completed 82% of the 2022 schools audits.
- 1.6 Before Covid-19, about 100 (4%) of the previous year's audits would be unfinished by 31 October. Because of the delays experienced this year, 453 (18%) of the 2022 audits were not completed by 31 October 2023. Figure 1 shows the number of unfinished school audits as at 31 October 2023, compared to 31 October 2022 and 31 October 2021.

1 When we refer to schools we mean all state and state-integrated schools and kura.

Figure 1
Unfinished audits as at 31 October, 2021 to 2023

Financial year	As at 31 October 2023	As at 31 October 2022	As at 31 October 2021
2022	453	-	-
2021	83	392	-
2020	28	51	185
2019	8	23	40
2018	6	10	19
2017	2	5	8
2016	3	5	7
2015	2	3	4
2014	1	1	1
2013	1	1	1
Total	587	491	265

- 1.7 There were 134 previous-year audits unfinished as at 31 October 2023. Figure 1 shows the years to which these audits relate. Some schools have many years of audits that remain unfinished. Of the 23 school audits unfinished for 2019 and earlier, eight are audits of schools that have closed. A closed school must prepare financial statements to the date of closure and a liquidation statement that must be audited. This is a Ministry of Education requirement. However, information can be difficult to access once a school has closed. We discuss this further in Part 3.
- 1.8 We are supporting our audit service providers including liaising with the Ministry of Education so that its School Financial Advisors can provide any necessary support directly to schools, to ensure that the unfinished audits are completed as soon as possible.
- 1.9 We have re-allocated 85 audits to alternative audit service providers for the audits of the 2023 financial year to better match the resourcing available. We will provide direct support and training to our auditors where required, and work with the Ministry of Education to ensure that all auditors receive the resources they need to carry out their audits in a timely manner.
- 1.10 We will also continue to work with the Ministry of Education on opportunities to make the financial reporting process more efficient for both schools and auditors. This is an integral part of the future of school financial reporting work programme, which we discuss below.

Future of school financial reporting

- 1.11 School audits have become more complex over time, mainly due to increased financial reporting requirements. At the same time, the number of audit firms has reduced. As a result, appointing auditors for the more than 2400 schools has become more challenging.² The current resourcing pressures that intensified as a result of the Covid-19 pandemic have added to these difficulties, and resulted in the significant delays in completing audits for some schools in the past two years. Auditors, like other professions, are experiencing significant cost pressures, which in turn put pressure on audit fees and the willingness of audit firms to take on less profitable audits.
- 1.12 Given these challenges and the importance of schools' accountability for spending public money, we have committed to supporting the Ministry of Education with a project on the future of school financial reporting and auditing. We urge the Ministry to implement a project plan and commit resources to complete this project.
- 1.13 The project will consider the needs of the different users of the financial information of schools. The Ministry of Education is one of the main users of this information, and uses it for several purposes. It is also important that schools are accountable to the communities they serve. The project will also consider what form of assurance is needed over a school's financial information and how that assurance can be carried out in a cost-effective and timely manner.

Recommendation 1

We recommend that the Ministry of Education prioritise completing its project on the future of school financial reporting.

² Auditors are appointed for a three-year contract period. The latest period is for the 2021 to 2023 school audits.

2

What was reported?

- 2.1 In this Part, we set out the results of the 2022 audits³ and the results of any audits for previous years that we have completed since our report on the 2021 school audits.⁴
- 2.2 We issued a standard, unmodified, audit report for most schools. This means that, in our opinion, the financial statements for those schools 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 modified audit opinions or paragraphs drawing the readers' attention to important matters. We explain these 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 unadjusted 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 2 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 report on the results of the 2021 schools audits.
- 2.6 Of the completed audits for 2022, 29 audit reports had a modified audit opinion. We also issued 11 modified opinions for previous-year audits that were completed since our last report.⁵ Although fewer than the number of modified audit opinions we issued last year, it is higher than the number of modified audit opinions we typically issued before 2020. It remains a small percentage (1%) of all audit opinions that we issue to schools.
- 2.7 We explain below the types of modified opinions that we issued.⁶

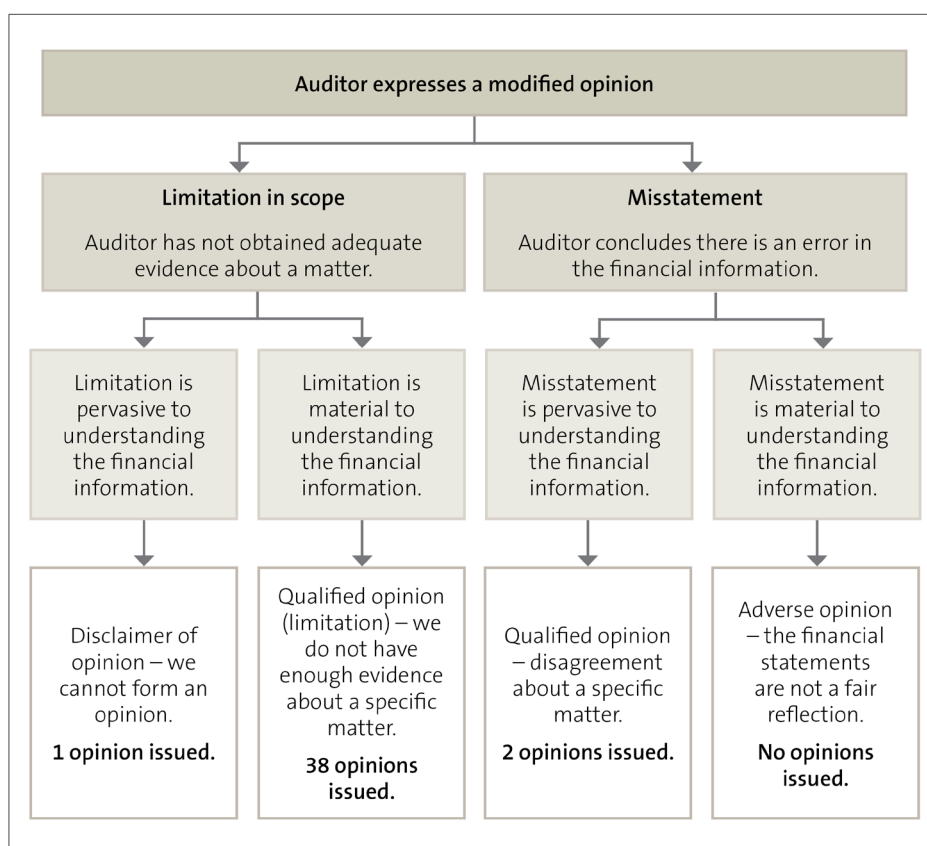
³ We include the audits of organisations that are related to a school.

⁴ Our *Results of 2021 school audits* report was published in March 2023.

⁵ One audit report included both a limitation and a disagreement.

⁶ These audit reports are for 2022, unless noted otherwise.

Figure 2
Types of modified opinions



Disclaimers of opinion

- 2.8 We issue a disclaimer of opinion when we cannot get enough audit evidence to express an opinion. This is serious because we cannot confirm that the school's financial statements are a fair reflection of its transactions and balances. We issued a disclaimer of opinion on the financial statements of one school.
- 2.9 In June 2023, we completed the audit of Te Kura Kaupapa Māori o Takapau for 2019. We issued a disclaimer of opinion for this audit because of incomplete financial information and supporting documents from the 2018 audit, which affected the 2019 account balances.
- 2.10 A disclaimer of opinion was also issued for 2018. For that audit, accounting data and supporting documents up to August 2018 stored by its accounting service provider were lost. This meant that financial statements could not be readily prepared for 2018.

- 2.11 As a result of the lack of data for 2018, we have not been able to obtain adequate evidence to provide a basis for an audit opinion on the opening balances of accounts receivable, GST, accounts payable, finance leases, and retained earnings for 2019.

Limitation of scope

- 2.12 We issue a limitation of scope opinion when we cannot get enough evidence about one or more aspects of a school's financial statements. The audit report explains what aspect of a school's financial statements we could not get enough audit evidence for. We explain the types of limitations of scope that we reported on this year.

Cyclical maintenance

- 2.13 Schools are required to maintain the buildings that the Ministry of Education or their proprietor (if they are a state-integrated school) provides them. Schools receive funding to maintain their property as part of their operations grant.
- 2.14 Certain types of maintenance, such as painting the exterior, are needed only periodically. Schools must recognise their obligation to carry out this maintenance as a provision for cyclical maintenance in their financial statements. This provides for the cost of future maintenance required.
- 2.15 The boards of schools are responsible for calculating their cyclical maintenance provision based on the best information available. Auditing standards require our auditors to understand the method, assumptions, and data the school board used to estimate the provision. For several years, some boards have not had appropriate evidence that their cyclical maintenance provision is based on reasonable assumptions about future maintenance requirements.
- 2.16 During 2023, 30 audit opinions with a limitation of scope for cyclical maintenance were issued (23 were for 2022 audits, six for 2021 audits, and one for a 2020 audit). The 30 audit opinions issued in 2022 compares to 26 issued in 2021 and 23 issued in 2020.
- 2.17 Figure 3 lists the schools that did not have enough evidence for auditors to form an opinion about cyclical maintenance in 2023 (for 2022, 2021, and 2020 audits).
- 2.18 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. In these cases, we expect the school to explain why it does not have a cyclical maintenance provision in its financial statements. We draw attention to these disclosures in our audit report because we consider them to be useful information for readers.

Figure 3
Schools with “limitation of scope” opinions about cyclical maintenance

2022 audits	Previous year audits
Aria School	Darfield School (2021)
Brooklyn School (Moteuka)	Hauturu School (2021)
Fairhall School	Hikuai School (2021)
Hikuai School	Matata School (2021)
John Paul College	Te Kura Wharekura o Ruatoki (2020)
Kaitoke School	Yendarra School (2021)
KingsGate School	William Colenso College (2021)
Ngatimoti School	
Okiwi School	
Otewa School	
Piopio Primary School	
Prebbleton School	
Rangiora Borough School	
Rangiora High School	
Sacred Heart School (Reefton)	
Saint Mary’s School (Blenheim)	
Saint Peter Chanel School (Motueka)	
Te Kura Toitu O Te Whaiti-Nui-A-Toi	
Te Ra School	
Te Waha o Rerekohu Combined Schools Board	
Timaru Christian School	
Timatanga Community School	
Upper Moutere School	

2.19 We discuss cyclical maintenance in more detail in paragraphs 3.19-3.27.

Locally raised funds

2.20 If a school receives funds from its community, it is important that it has appropriate controls to correctly record all the money it receives.

2.21 For the Taumaranui High School Community Trust, the controls for recording revenue donations were not adequate for us to rely on. There was no practical way for the auditors to confirm that all donations were included in the financial statements.

- 2.22 For Brooklyn School (Motueka) and Linkwater School, controls over the receipt of fundraising revenue were limited. The auditor could not confirm that the receipts from fundraising revenue were properly recorded.

Other types of limitations of scope

Overseas trip

- 2.23 For the 2019 and 2020 audits of Tuakau College, we issued qualified opinions because the auditors were unable to confirm the accuracy and classification of the amounts recorded in the 31 December 2019 and 31 December 2020 financial statements for an overseas trip. The school collected \$371,853 in 2019 and 2020 through parent contributions and fundraising for a trip to the United Kingdom in 2020, which was cancelled due to Covid-19. The financial statements for both years included a note on the overseas trip setting out the funds collected for the trip and how the funds had been spent.
- 2.24 Our audit reports were qualified because the auditor was unable to reconcile the information provided in the note on the overseas trip to the amounts recorded in the financial statements relating to the trip. For example, the auditor was unable to identify where the \$167,960 deposit paid to the travel agent was recorded in the 2019 financial statements.
- 2.25 The auditor also found that there were inconsistencies between some amounts recorded in the 2019 financial statements and how they were then recorded in the 2020 financial statements. In his audit report the auditor also brought to the readers' attention that the note to the financial statements did not explain that the costs of the trip that could not be recovered, a total of \$105,988, was paid for with fundraising money. When amounts have been collected from the school community, it is important that a school is transparent about how the money has been spent.

Fair value measurement

- 2.26 Blockhouse Bay School identified a weathertightness failure in one of its buildings. This resulted in inspections of the building to assess the damage and the remedial work required to resolve the weathertightness failure. The extent of damage will not be known until the remediation work has been carried out, but it has been estimated to cost between \$100,000 to \$250,000.
- 2.27 For the 2021 and 2022 audits of Blockhouse Bay School, we issued qualified opinions because the auditors were unable to determine whether there should be a reduction in the value of that building at 31 December 2021 and 31 December 2022 because of the uncertainty about the cost of the remediation work. The

financial reporting standards that apply to schools require the school to consider and record any material (that is, big enough to matter) reduction in value (called impairment) of buildings in its financial statements.

Comparatives

- 2.28 Financial statements include information from the year before, called comparative information. The 2022 audits of Forrest Hill School, Parakai School, and Aranga School were qualified due to issues with their comparative information. For 2021, the auditors were unable to get enough assurance about the completeness of the provision for cyclical maintenance. There were no issues with the cyclical maintenance provision for 2022 and the qualification applied only to the 2021 comparative information.

Matters of importance that we draw readers' attention to

- 2.29 In certain circumstances, we include comments in our audit reports to either highlight a matter referred to in the financial statements of a school or note a significant matter a school did not disclose.
- 2.30 These comments are designed to highlight certain matters (such as when we consider schools are experiencing financial difficulties, other information that is of public interest, or a breach of legislation) to assist readers of the financial statements. They are not modifications of our audit opinion.
- 2.31 We set out details of the matters we drew attention to below.

Extreme weather events

- 2.32 During early 2023, the North Island of New Zealand was struck by several extreme weather events. They resulted in widespread flooding, road closures, slips, and prolonged power and water outages for many communities in the Northland, Auckland, Coromandel, Bay of Plenty, Gisborne, and Hawke's Bay/Tairāwhiti regions.
- 2.33 Although many school sites were able to reopen soon after the extreme weather events, some school sites remained closed for a prolonged period with online learning and/or temporary alternative locations.
- 2.34 We drew attention to disclosures about this by nine schools. The disclosures outlined that the school faced significant damage and disruption due to the extreme weather events, and that the impact of the damage was yet to be determined at the time of signing our opinion. The disclosures also noted that the board expected repair costs to be significant.

- 2.35 The nine schools were:
- Eskdale School;
 - Frimley School;
 - Karamu High School;
 - Nuhaka School;
 - Omahu School;
 - Saint Mary's School (Hastings);
 - Te Aratika Academy;
 - Te Mata School (Havelock North); and
 - Twyford School.
- 2.36 We also drew attention to a disclosure in the 2022 financial statements of Mount Roskill Grammar School Early Childhood Centre Charitable Trust. The disclosure outlined that the Board of Trustees appropriately prepared the financial statements on the basis that the Trust would no longer continue. The Trust closed the Early Childhood Centre on 15 February 2023 because it had been significantly damaged by the extreme weather events in Auckland.

Sensitive expenditure

- 2.37 Sensitive expenditure is any spending by an organisation that could be seen as giving a private benefit to staff that is additional to the business benefit to the organisation. The principles that underpin decision-making about sensitive expenditure include that the spending has a justifiable business purpose, and that all such decisions will be subject to proper authorisation and controls. For schools, this is spending that contributes to educational outcomes for students and is made transparently and with proper authority.
- 2.38 We drew attention to the Board of Palmerston North Boys' High School purchasing \$31,201 of gift cards for school staff and parents for their coaching volunteer work and other sports contributions. The school did not keep adequate records to justify the spending on gift cards, the spending was not consistent with the school's gift policy, and there was no evidence of Board approval for the purchase of the gift cards. There were also no details of the recipients for most of the gift cards given out. All school spending should be for a justifiable business purpose, be made in keeping with the board's policy, and be adequately documented.
- 2.39 We drew attention to the Board of Nga Purapura o te Aroha spending \$3600 on a gift for the principal for his 10 years of service to the kura. Any spending on gifts using public money should be moderate, conservative, and appropriate for the circumstances. Although the gift was approved by the Board, the kura does not have a gift policy and the amount spent was considered relatively high for a school.

- 2.40 We drew attention to the Board of Southern Cross Campus providing \$15,000 of gift vouchers to families during the 2022 Covid-19 lockdown on the basis of hardship experienced. All spending by schools should have a justifiable business purpose consistent with the school's objectives. Although the school had records of the families that received the vouchers, the auditor could not obtain adequate evidence to verify the criteria used for allocating the vouchers, so was unable to establish that the expenditure was directly linked to an educational purpose.
- 2.41 We drew attention to the Board of Shotover Primary School making a donation to the Shotover Primary School Foundation (the Foundation). As the Foundation is not a public organisation, it is not appropriate for the school to donate money to the Foundation. Because the school does not have any control over how the funds are spent, there is no guarantee that the school will receive a direct benefit from those funds. The school had requested that the donated amount be returned but no agreement had been reached at the time of the audit being signed.

Other instances

Uncertainty over services provided/lack of documentation to support payments

- 2.42 Since our last report, we have completed an earlier unfinished audit of the Combined Board of South Auckland Middle School and Middle School West Auckland. We drew attention to a disclosure in the 2020 financial statements of the Combined Board of South Auckland Middle School and Middle School West Auckland explaining that the Combined Board continued to pay management fees to Villa Education Trust during 2020, to the value of \$200,000.
- 2.43 When the management fees were agreed, the Combined Board and the board of trustees of the Villa Education Trust had the same members, except for the principals of the schools.
- 2.44 The 2018 audit opinion of the Combined Board was qualified because the auditor could not obtain sufficient evidence for the management fees paid to the Villa Education Trust. This matter was also the subject of an inquiry by our Office.
- 2.45 For the 2019 and 2020 financial years, the Combined Board had entered into an agreement with Villa Education Trust to pay management fees. The agreement did not provide a detailed breakdown of the services to be provided nor did it set out how the costs of those services were ascertained. This has led to ongoing uncertainties about the services provided by Villa Education Trust to the school board.

Uncertainty over maintenance requirements

- 2.46 For two schools, we drew attention to disclosures about their cyclical maintenance provisions: Gore High School and Kaikorai School. These schools could not reasonably estimate their cyclical maintenance provisions because of uncertainties about future maintenance. The uncertainties for Gore High School arose because the Ministry of Education is redeveloping part of the school. The uncertainties for Kaikorai School arose because they are part of the Ministry of Education's Schools Redevelopment Programme, and construction is in progress. As a result, the schools cannot make a reliable estimate of the maintenance required on their buildings.

Closed schools

- 2.47 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". This means that it can no longer be assumed that the school will continue to operate in the foreseeable future.
- 2.48 In four audit reports, we drew attention to disclosures outlining that the financial statements were prepared appropriately using the disestablishment basis. The school either stopped operating or was combined with another to form a new school.
- 2.49 We drew attention to disclosures in the Combined Board of Geraldine High School and Carew Peel Forest School Group's 2021 financial statements, outlining the possible effect on the board's financial statements as a result of the split of the Combined Board.

Going concern

- 2.50 We drew attention to a disclosure in Te Kura Tuarua o Kamo Trust's financial statements outlining uncertainties about the Trust's ability to continue as a going concern, including that the Trust's liabilities exceed its total assets by \$2,692.

Reporting on whether schools followed laws and regulations

- 2.51 As part of our audits, we consider whether schools have complied with particular laws and regulations. Although we mainly look at whether they complied with financial reporting requirements, we also consider whether they met specific obligations they have as public organisations.
- 2.52 The Education and Training Act 2020 and the Crown Entities Act 2004 are the main pieces of legislation that influence the accountability and financial management of schools.

- 2.53 Usually, schools disclose breaches of the Education and Training Act and the Crown Entities Act in their financial statements. However, in the interests of greater transparency we sometimes report on breaches in the audit report if we consider them to be material to the school's financial statements or a persistent breach.
- 2.54 Three schools (2021: 14) borrowed more money than regulation 12 of the Crown Entities (Financial powers) Regulations 2005 allows. Schools can borrow any amount from any source as long as the annual cost to the school to repay all outstanding borrowing (including both principal and interest payments) is equal to or less than one-tenth of the schools' operations grant. Borrowing includes loans, overdrafts, finance leases, and maintenance contracts (where schools enter into a contract to pay for the painting of the school over a fixed period).
- 2.55 Four schools (2021: 4) had board members who did not comply with rules in sections 9 and 10 of Schedule 23 of the Education and Training Act about conflicts of interest. For two of these instances, a board member entered into a contract in which they had a financial interest valued at more than \$25,000 (including GST) without the approval of the Secretary for Education. For the other two instances, the board included a permanent member of staff who was not the designated staff representative.
- 2.56 Eight schools (2021: 4) invested money in a way that was not allowed under section 154 of the Education and Training Act. Some of these instances include where boards have provided loans to staff and parents without obtaining approval from the Ministers of Education and Finance. Along with providing loans to individuals, boards also cannot acquire shares in companies.
- 2.57 Four schools (2021: 8) did not complete an analysis of variance report for the year ended 31 December 2022. The Education and Training Act requires boards to report on any variance between the school's performance and the relevant aims, objectives, directions, priorities, or targets set out in its school charter.
- 2.58 Three schools breached legislation for other reasons.

Schools in financial difficulty

- 2.59 Most schools are financially sound. However, each year we identify some schools that we consider could be in, or at risk of, financial difficulty.
- 2.60 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 operate for at least the next 12 months from the date of the audit report.

- 2.61 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 immediately 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.
- 2.62 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 performance of the school and any relevant matters in the period since the end of the financial year.
- 2.63 When considering the seriousness of the financial difficulty, we usually look at the size of its working capital deficit against its operations grant. Although many schools receive additional revenue, this is often through donations, fundraising, or other locally sourced revenue. Therefore, it varies from year to year. For most schools, the operations grant is their only consistent source of income.

Schools considered to be in serious financial difficulty

- 2.64 Not all schools with a working capital deficit at the balance date are considered to be in financial difficulty. When making this assessment, our auditors will consider other factors, including the financial performance since the end of the financial year.
- 2.65 When we have assessed that a school is in financial difficulty, we ask the Ministry of Education whether it will continue to support that school. If the Ministry confirms that it will continue to do so, the school can complete its financial statements as a going concern.
- 2.66 If we consider a school to be in serious financial difficulty, we draw attention to this in the audit report.
- 2.67 Figure 4 lists seven schools that received letters confirming the Ministry of Education’s support and shows whether they received such letters in the previous two years. In 2021, 19 schools received a letter confirming the Ministry’s support.

Figure 4
Schools that needed letters of support for 2022, 2021, and 2020 to confirm they were a going concern

School	2022	2021	2020
Fraser High School	✓	✓	
Matipo Road School	✓	✓	
Nelson College	✓	✓	✓
Ngakonui Valley School	✓		
Ross Intermediate	✓		
Verran Primary School	✓	✓	
Wyndham Primary School	✓		
Total	7	4	1

Source: Schools' financial statements and the Office of the Auditor-General's audit reports.

- 2.68 As well as the schools that needed a letter of support, our auditors raised concerns about potential financial difficulties with school boards in the management letters of another 13 schools. This was usually because of continued deficits that were eroding the working capital and/or continued deficit budgeting.

Planning to avoid financial difficulty

Equity Index

- 2.69 From January 2023, the Ministry of Education has used the Equity Index to determine a school's level of equity funding (which is part of a school's operational funding), instead of the decile system.
- 2.70 This has resulted in significant changes in funding for some schools. Budget 2022 provided a \$75 million increase in equity funding (about 6% of total school operational funding), and also provided for transitional funding so no school would be disadvantaged in the short term.
- 2.71 For 2023, no schools will lose funding as a result of the changes and, for 2024, no school will experience a reduction in their operational funding greater than 5%. Transition funding will be provided in the following years but will gradually reduce over time until the new funding entitlement is reached. Although there is transition funding in place, schools need to be planning for this reduction in funding and adjusting their budgets.

3

Matters we identified during our audits

3.1 In this Part, we set out matters that we identified during the 2022 school audits:

- schools payroll;
- cyclical maintenance;
- sensitive expenditure;
- annual reporting changes;
- budgeting;
- publishing annual reports; and
- closed schools.

Schools payroll

3.2 Salary costs are the largest operational cost for schools, and so payroll information is a significant part of the financial statements. The Ministry of Education funded about \$6.4 billion (2021: \$6.2 billion) of salary and employee-related costs for the 2022 school year. Education Payroll Limited (EPL) administers the school payroll on behalf of the Ministry. The education payroll pays about 97,000 teachers and support staff every fortnight.

3.3 Schools require a number of different payroll reports to complete their financial statements. The appointed auditor of the Ministry of Education carries out some testing of the payroll centrally before these reports are distributed to schools and their auditors. This is supplemented by testing locally at schools by the individual school auditors.

Centralised work on payroll

3.4 Our appointed auditor for the Ministry of Education carries out extensive work on the payroll system centrally. This includes carrying out analytics of the payroll data to identify anomalies or unusual transactions and testing all the payroll reports that are sent to schools for use in their annual financial statements. This includes reports listing payroll errors; overpayments and funding code errors (where payroll payments have been incorrectly funded by either the board or the Ministry through its teachers' salary funding). These reports are necessary for boards to correctly reflect their payroll costs in their financial statements.

3.5 We write to the Ministry of Education every year setting out our findings from this work, with a view to improving the accuracy and reliability of the payroll data.

3.6 We continue to note improvements in the underlying processes operated by EPL, which is evidenced by the reduction in the number of exceptions identified in our data analytics work.⁷ Our auditors follow up any anomalies that the analytics work identifies and that cannot be resolved centrally by the Ministry of Education

⁷ Exceptions are instances that do not follow the normal pattern and might indicate errors or inappropriate payroll practices.

because the necessary information is held by the school. Some anomalies are also sent to EPL to be resolved.

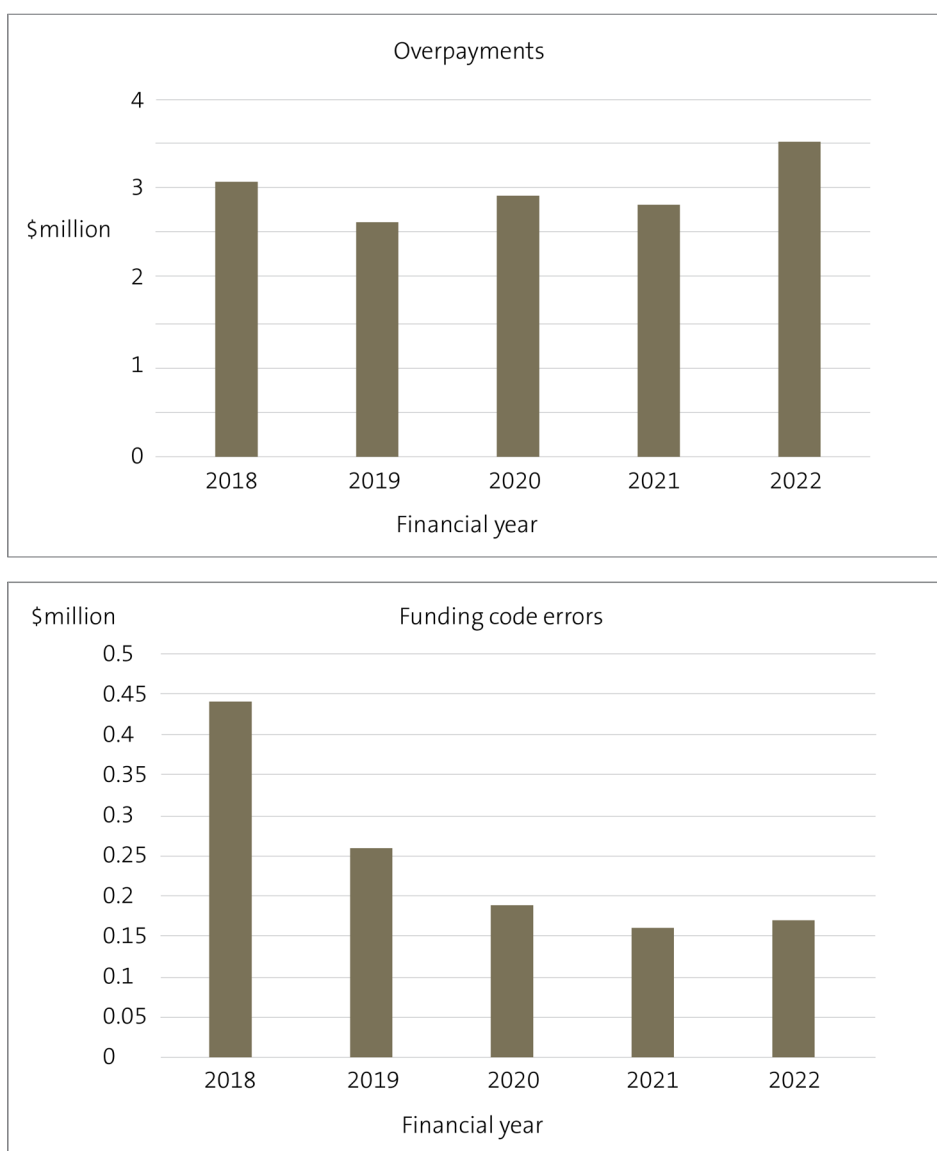
- 3.7 Improved internal controls built into EdPay have resulted in fewer errors identified each year, and a reduction in the dollar value of these errors. However, the removal of the Stop Pay functionality in April 2022, because the bank no longer provides this service, has contributed to an increase in overpayments compared to the previous four year (see Figure 5).⁸

The audit of payroll at individual schools

- 3.8 As well as audit work carried out at EPL and the Ministry of Education, school auditors must also carry out audit work at each school. This is because many payroll transactions are initiated by the schools, who are responsible for inputting pay information into EdPay. It is therefore important that there is a strong control environment at individual schools.
- 3.9 As noted above, the school payroll process has improved considerably in recent years. However, a change made to the reporting from the payroll system at a school level in 2021, as part of the implementation of EdPay, increased the amount of audit work required locally at schools for the 2021 and 2022 audits. This was because a report that many schools used to review the payroll transactions processed each pay period was no longer available.
- 3.10 Where possible, our auditors rely on an organisation's controls because this reduces the amount of other testing required. The change to the payroll system in late 2021 meant that auditors could not rely on payroll controls for most schools in 2021 and 2022. Reporting was not in place at schools to provide evidence that all transactions had been appropriately reviewed for the accounting period being audited.
- 3.11 New regular reporting was implemented in EdPay in March 2022, enabling schools to review certain transactions processed. The guidance provided to schools explained that other reports were in development. We have been told that these reports have not been developed.
- 3.12 Separation of duties (more than one person being involved in a task, to prevent fraud or error) is a key control in financial systems. The expectation is that all changes to an employee's pay or personal information should be reviewed and approved by a second independent person. Currently, the EdPay system does not allow schools to produce reports for some types of payroll changes processed in the period, which means that this second-person review and approval cannot take place. We are considering the implications this has for our approach to auditing the school payroll information for the 2023 audits.

⁸ A Stop Pay is where a payment could be stopped by the bank before it was paid to the employee if an error was discovered.

Figure 5
Value of payroll errors, from 2018 to 2022



Source: Education Payroll Services, results and communications to the sector to support the audits of schools' 31 December 2022 financial statements.

3.13 Our audit approach (whether we rely on controls or not) usually includes an element of analytical review, where auditors consider whether the payroll expenditure is consistent with expectations, based on a number of variables (such as salary increases and changes in number of employees). Due to the high number

of changes affecting the pay of school employees in 2023 that involve many different collective agreements, setting a reasonable expectation for the payroll expenditure this year is likely to prove challenging.

- 3.14 Any additional payroll work required because of these factors can affect the auditors' ability to complete all audits on time and is likely to have fee implications.

Recommendation 2

We recommend that the Ministry of Education follow up with Education Payroll Limited to ensure that additional functions are developed and communicated to schools as indicated in the current guidance on school payroll processes and controls, so that schools are able to check and approve all transactions.

Non-compliance with the Holidays Act 2003

- 3.15 Non-compliance with the Holidays Act 2003 has been an issue for several years and affects the health sector, too. The Ministry of Education has identified that this non-compliance includes school employees, both teachers and support staff.
- 3.16 Because school boards are employers of school staff, they are responsible for any potential liability for this non-compliance with the Holidays Act. As for previous years, all 2022 financial statements of schools were required to disclose a contingent liability. This identifies that the school has a potential liability but the amount cannot be reliably estimated at that point in time.
- 3.17 In June 2023, the first Holidays Act Remediation payment was made to more than 82,000 current school employees. The affected employees received direct communication from the Ministry of Education. The total amount paid was about \$38.5 million, with an average payment of \$466 and a median payment of \$208. These payments were made to employees by the Ministry of Education because it has decided to meet the liability on behalf of school boards, so there has been no cost to individual schools. A further payment of \$2.3 million was made to about 4500 employees in November 2022.
- 3.18 As the employers, boards retain the obligation for the Holidays Act remediations even though the Ministry of Education has indicated that it will make the settlements. Because of this legal obligation as an employer, boards will continue to recognise a potential holiday pay liability as a contingent liability in their 2023 financial statements. The contingent liability note in the Kiwi Park model financial statements has been updated to include details of the settlements that have taken place.

Cyclical maintenance

- 3.19 The Ministry of Education (or a proprietor for state-integrated schools) provides schools property. Schools must keep their property in a good state of repair. Schools receive funding for this as part of their operations grant.
- 3.20 A cyclical maintenance provision is included in the financial statements of schools to account for their obligation to maintain the property. Schools need to plan and provide for future significant maintenance, such as painting their buildings.
- 3.21 Auditing the cyclical maintenance provision has always been challenging. We have reported on this aspect of the financial statements many times in the past. Many schools do not fully understand the cyclical maintenance provision and do not always have the necessary information to calculate it accurately.
- 3.22 The 10-year property plans of schools, which are now prepared by property consultants approved by the Ministry of Education⁹, should include maintenance plans that set out how schools should maintain their buildings for the next 10 years. Schools typically use the property plans to calculate their cyclical maintenance provisions.
- 3.23 We are still finding that many schools do not have appropriate supporting evidence for their cyclical maintenance provisions. For the 2022 school audits, our auditors told us that about 14% (2021: 21%) of schools did not have reliable plans. We have shared this information with the Ministry of Education and will be following this up directly with the Ministry of Education's property team.
- 3.24 A lack of evidence for cyclical maintenance provisions is the reason for most of our qualified audit opinions this year. A qualified opinion is issued only when the cyclical maintenance provision recorded by the school could be materially wrong. When appropriate evidence is not available, this usually requires significantly more time and effort for both the school and the auditor, and can delay the audit.
- 3.25 If a school has a maintenance plan prepared by a Ministry-appointed property consultant, auditors can expect the plan to have been prepared in keeping with the Ministry's requirements and approved by the Ministry. This reduces the amount of audit work required. However, our auditors find that maintenance plans are not always prepared.
- 3.26 In our 2021 report on the school audit results, we repeated an earlier recommendation that the Ministry ensure that schools comply with their property planning requirements by having up-to-date cyclical maintenance plans.
- 3.27 If a school does not have a maintenance plan, it needs to source other information to calculate a reasonable cyclical maintenance provision. This can be time-

⁹ This requirement came in on 1 July 2019. Schools update their 10-year property plan every five years so each year about 20% will update their plan.

consuming for schools and auditors. This year, auditors found that some schools without a maintenance plan struggled to get information, such as painting quotes, to support their cyclical maintenance provision because of the scarcity of suppliers. We have repeated our recommendation from previous years.

Recommendation 3

We recommend that the Ministry of Education ensure that schools comply with their property planning requirement to have up-to-date cyclical maintenance plans and review those plans to assess whether they are reasonable and consistent with schools' asset condition assessments and planned capital works.

Sensitive expenditure

- 3.28 For the 2022 school audits, our auditors brought fewer matters about sensitive expenditure to our attention than in 2021. However, we referred to sensitive expenditure in some audit reports (see paragraphs 2.37-2.41). If the amount of expenditure involved is less significant, or the matter relates to policies and procedures underlying sensitive expenditure decisions, auditors will raise the matter in the management letter rather than the audit report.

Well-being payments to schools with first-time principals

- 3.29 In 2022, the Ministry of Education provided a well-being support payment of \$12,000 to school boards with new principals (in the role less than three years). About \$6.3 million was paid to 524 eligible schools. This one-off payment was made to support the well-being of the principals and staff following the disruptions and difficulties in recent years due to Covid-19. Guidance was provided to the schools on how these funds should be used.
- 3.30 The final guidance issued to schools on the use of this funding required the funds to be used in a way that improves the principal's "professional" well-being and/or supports the well-being of staff and/or the wider community. The guidance was clear that the school should be mindful of its financial obligations for school expenditure; it provided links to our guidance on sensitive expenditure and the Ministry of Education's policies on sensitive expenditure and Principal concurrence (getting approval from the Ministry for an additional payment or benefit).¹⁰
- 3.31 However, some schools received a copy of draft guidance that did not specify the funding had to be used on well-being support clearly linked to their role as a principal. As well as listing examples under the headings of easing immediate

¹⁰ "Concurrence" is agreement by the Secretary for Education to a board making an "additional payment or benefit" (a payment additional to the base salary and allowances outlined in the principal's collective agreement or Ministry-promulgated Individual Employment Agreement (IEA)). See Circular 2020/10: Principal Concurrence – Education in New Zealand.

workload pressures, personal development, and staff development and team culture, it included a heading that said “Treat yourself” which could be interpreted to mean the funds could be used on personal expenses. The draft guidance also did not draw attention to the school’s financial obligations when spending public money or provide links to our or the Ministry’s guidance.

- 3.32 As a result, some schools spent the funding in ways that could be considered to confer a private benefit, which is generally not appropriate for public funds. Examples identified this year included spending on personal trips for a principal and their family members and the purchase of personal home gym equipment. If the expenditure could be seen to provide a personal benefit, the board would have to consider whether Ministry approval was required and whether the payment could be subject to fringe benefit tax.
- 3.33 The differences between the draft and final guidance caused confusion. There was no evidence of clear instructions requesting that schools follow the final guidance and ignore the draft. It is the responsibility of the Ministry to provide the correct guidance to schools for properly handling the well-being payments.
- 3.34 Good communication is important. Although this might have been an isolated matter, we often find that schools are not aware of, or do not fully understand what is required of them (see paragraph 3.57).

Recommendation 4

We recommend that the Ministry of Education communicate more effectively with schools, including putting controls in place to prevent draft guidance from being sent to schools before it is finalised and approved.

Other sensitive expenditure matters

- 3.35 The matters that auditors raised in management letters in 2022 were similar to previous years. They included:
- schools that did not have sensitive expenditure policies, including for gifts, or the policies were not updated regularly or deemed to be excessive (this applied to three schools);
 - gifts to staff that either did not have board approval or were inconsistent with the school’s gift policy (this applied to eight schools);
 - hospitality and entertainment expenses that seemed excessive (this applied to 25 schools); and
 - travel-related expenditure (this applied to two schools).

- 3.36 Many of the matters raised with schools about hospitality and entertainment expenses were about the use of school funds for the purchase of alcohol. As we set out in our good practice guide on sensitive expenditure, there is increasingly an expectation that public organisations do not use public money to purchase alcohol. Where public organisations are still meeting the cost of alcohol, they need to have a clear justification and policies that set out the specific circumstances and limits that apply.
- 3.37 Most of the concerns about school policies and procedures for sensitive expenditure payments were about 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 was not approved by someone more senior (12 schools);
 - no approval of credit card expenditure or it was not approved by someone more senior than the person incurring the expenditure (24 schools);
 - inadequate or no documentation to support expenditure (six schools); and
 - no approval of fuel card statements, travel vouchers, or gift vouchers (two schools).
- 3.38 As we have previously reported, credit cards are susceptible to error and fraud or being used for inappropriate expenditure, such as personal expenditure. Money is spent before any approval is given, which is outside the normal control procedures for spending public money. This also applies to fuel cards or store cards.
- 3.39 Our auditors identified four schools where funds had been used for personal use. For three of these instances, the school was reimbursed.
- 3.40 Schools should use a "one-up" principle when approving expenses, including credit card spending. This means that the presiding member (the chairperson) of a board would need to approve a principal's expenses. It is also important that credit card users provide supporting receipts for the approver and an explanation for the spending.
- 3.41 We include guidance about using credit cards in our good practice guide *Controlling sensitive expenditure*.¹¹ This provides guidance on making decisions on sensitive expenditure, guidance on policies and procedures, and examples of sensitive expenditure.
- 3.42 We also have other information on sensitive expenditure in the good practice section of our website.

11 Controller and Auditor-General (2020), *Controlling sensitive expenditure: Guide for public organisations*, at oag.parliament.nz.

Integrity in the public sector

- 3.43 Our work continues to focus on ethics and integrity in the public sector. For schools, the integrity concern is with managing conflicts of interest.
- 3.44 Many schools are in small communities, where the risk of conflicts of interest is high. There is a particular risk of conflicts of interest occurring when appointing new employees and contractors and purchasing goods and services. This is because a school board might have few options in a small community.
- 3.45 Having a conflict of interest does not mean a person has done anything wrong. However, it is important that schools properly manage conflicts and do it transparently.
- 3.46 In schools, the principal is also charged with governance as part of the board. All boards have a staff representative and sometimes a student representative. Integrated boards also include representatives of their proprietor.
- 3.47 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 a member has an interest in. However, the member can attend the meeting to give evidence, make submissions, or answer questions.¹²
- 3.48 A good way of ensuring that there is awareness of all potential conflicts is to maintain an interests register and a formal process for declaring any interests at the start of board meetings.
- 3.49 We have good practice guidance on our website, including *Managing conflicts of interest: A guide for the public sector* and an interactive quiz that covers a range of scenarios where a conflict of interest might occur.
- 3.50 We have also published guidance on integrity, *Putting integrity at the core of how public organisations operate*. This includes an integrity framework that aims to help organisations achieve a culture of integrity in the workplace.
- 3.51 Other resources on our website that may be of interest to school boards include guides on:
- good governance;
 - discouraging fraud;
 - procurement; and
 - severance payments.

Annual reporting changes

School planning and reporting

- 3.52 A new planning and reporting framework for schools came into effect on 1 January 2023. The Education (School Planning and Reporting) Regulations 2023 came into force on 1 August 2023. The Regulations provided more details about the framework and made the changes legally binding.
- 3.53 School charters have been replaced by three-year strategic plans and annual implementation plans. A school's 2022 charter is to be treated as its first strategic plan, and the annual plan section must be updated in 2023. After that, the board must prepare the new-style strategic plan to be effective from 1 January 2024, submit it to the Secretary of Education, and publish it before 1 March 2024. The board must prepare and publish the first annual implementation plan before 31 March 2024.
- 3.54 Schools still need to report on their progress towards achieving the targets in their annual implementation plan. This is now called a "statement of variance" rather than an "analysis of variance" and forms part of the school's annual report. There is no requirement for this to be audited.

Good employer disclosure

- 3.55 Section 597 of the Education and Training Act 2020 requires school boards (as employers in the education service) to have an employment policy that complies with the principle of being a good employer. The board must report on its compliance with this policy in the school's annual report.
- 3.56 Before 2022, most boards were not reporting on their employment policies in their annual reports. The Education Review Office raised this matter with some schools last year. The Ministry of Education produced guidance on this requirement for the 2022 reporting year. We asked our auditors to check for this during their 2022 audits.
- 3.57 During the audits, many auditors found that schools were still not aware of these requirements (see Recommendation 4).

Budgeting

- 3.58 For the past few years, we have been reporting that many schools do not prepare budgets in sufficient detail to meet legislative requirements. Section 11(i) of the Education (School Planning and Reporting) Regulations 2023 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. Schools need to include the budget figures from their budget approved at the beginning of the school year.

- 3.59 Our auditors check that the numbers in the financial statements of schools are from the approved budget. However, our auditors continue to find that many schools do not prepare a budget balance sheet or a budget cash flow statement. Our auditors identified 343 schools (2021: 485) that were not preparing full budgets. This is an improvement since the 2021 audits, but there are still 14% of schools not meeting the legislative requirement.
- 3.60 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 schools is important, so is managing cash flows and ensuring that schools have enough cash to meet their financial obligations when they are due. If schools do not manage this properly, they can get into financial difficulty.

Recommendation 5

We recommend that the Ministry of Education contact schools that have not previously prepared full budgets and support them to complete full budgets for the next school year.

Publishing annual reports

- 3.61 Schools are required to publish their annual reports online.¹³ The annual report consists of a statement of variance, statement of compliance with employment policy, financial statements (including the statement of responsibility and audit report), and a statement of KiwiSport funding.¹⁴
- 3.62 The number of schools that publish their annual reports online has remained reasonably consistent since 2021. At the time of the 2022 audits, 88% of schools had published their 2021 annual report online (2021: 88% of schools had published their 2020 annual report online).
- 3.63 Although this consistency is encouraging given the delays in completing audits, there are still many schools that had not published their annual reports online. Parents and other members of a community should be able to access the school's annual report online.

¹³ See section 136 of the Education and Training Act.

¹⁴ From 2023, boards will also be required to include and evaluation of the schools' students' progress and achievement and a statement explaining how they have given effect to Te Tiriti o Waitangi.

- 3.64 It is important that schools publish their annual report soon after their audit is completed. This ensures that they comply with legislation and are accountable to their community. If a school does not have a website, the Ministry of Education can publish the annual report on its Education Counts website.

Closed schools

- 3.65 The Ministry of Education has determined that closed schools need to prepare both a final set of financial statements at the date of closure and a liquidation statement, setting out how any remaining assets have been distributed. The Ministry requires both of these statements to be audited. However, it is unclear how this information is used when it is completed.
- 3.66 On closure, a Residual Agent is appointed to settle the liabilities of the school and disperse the assets as agreed with the Ministry of Education. We have raised concerns in the past about the delays in auditors receiving these statements for audit. We also find that there is a lack of information once the school has closed.
- 3.67 Despite an update of the guidance to Residual Agents a few years ago, we have not seen an improvement in the audits of closed schools. We currently have eight closed schools in arrears, the oldest one dating back to 2013. As the value of accountability reduces over time, there is a risk that when the audit is completed the information audited is no longer useful.

Recommendation 6

We recommend that the Ministry of Education review the requirements of Residual Agents to ensure that the financial statements of closed schools can be audited in a timely manner.

Appendix

Update on progress with our previous recommendations

We provide an update on the Ministry of Education’s progress with the recommendations in our report *Results of the 2021 school audits*.

2021 recommendations

Cyclical maintenance plans

Recommendation	We recommend that the Ministry of Education ensure 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’ asset condition assessments and planned capital works.
The Ministry of Education’s current progress against recommendations	<p>From 1 July 2023, property consultants at the Ministry of Education have been instructed to use the updated cyclical maintenance calculator as part of the 10YPP preparations process.</p> <p>The Ministry has been following up with schools and property consultants where no cyclical maintenance plan has been included in their 10YPP documentation and completing updates as required to address this issue.</p> <p>The Ministry acknowledges that this part of the financial statements has a significant level of judgement and estimation involved and the Ministry continues to improve support available to schools and kura.</p>
Our comment	We have repeated this recommendation.

School budgets

Recommendation	We recommend that the Ministry of Education engage with the schools we have identified as not preparing full budgets and provide them with the necessary support to ensure that their budgets for the next school year are complete.
The Ministry of Education’s current progress against recommendations	<p>The Ministry has been engaging with schools both on request and targeting school and kura where required during the 2023 budget season, supporting schools in the preparation of their 2024 budgets.</p> <p>The School Financial Advice team has also developed a set of budgeting support tools that can be used to support discussions with schools about the importance and need to prepare “full” budgets.</p>
Our comment	We have repeated this recommendation.

Kiwi Park model financial statements

Recommendation	We recommend that the Ministry of Education continue to simplify the level of financial reporting required in the Kiwi Park model financial statements – in particular, reconsidering what information the Ministry of Education specifically requires in addition to what is required by financial reporting standards.
The Ministry of Education's current progress against recommendations	<p>The Ministry has continued to refine the Kiwipark model for the 2023 year, making further improvements to make the accounts simpler and easier to prepare.</p> <p>The Ministry requires additional disclosures only where there is a need for them as the result of public interest. We welcome the approach to continue to remove any disclosure that is not expressly required by the accounting standards.</p> <p>The Ministry will continue to work through what other options are available currently, as well as in the medium to long term, to ensure that the financial reporting requirements are not unnecessarily detailed, while providing enough information to ensure public accountability.</p>
Our comment	We have not repeated this recommendation, however we will continue to monitor progress.

2020 recommendations that are still relevant

School payroll processes

Recommendation	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.
The Ministry of Education's current progress against recommendations	<p>There have been no significant changes to the payroll process during the current year.</p> <p>The Ministry has been meeting with Education Payroll Limited to discuss potential audit related issues and internal control challenges when known.</p> <p>The Ministry is unable to force an internal control upon a school or kura during its day-to-day operations as this is the school's responsibility. The Ministry has ensured that appropriate guidance and information is available to assist schools in implementing a strong internal control environment.</p>
Our comment	<p>As explained in paragraphs 3.11 and 3.12, it is our understanding that not all necessary reports are in place to allow schools to review all payroll transactions. This is a weakness in the control environment.</p> <p>We have recommended that the Ministry of Education follow up with Education Payroll Limited to ensure that additional functions are developed and communicated to schools as indicated in the current guidance on school payroll processes and controls, so that schools are able to checked and approve all transactions.</p>