

Results of the 2021 school audits

March 2023

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2021 SNAPSHOT

Schools at a glance



2462 schools

There are 2462 boards of schools that require audits (including their subsidiaries and associated trusts).

Audit reports we issued



57% of 2021 audits completed by 31 May 2022 deadline.

91% of 2021 audits completed by 31 December 2022.

47 schools received modified audit opinions.

19 schools were considered to be in serious financial difficulty.

\$8 billion + Government funding

went to schools.

Our recommendations

We recommend that the Ministry of Education:

1. 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;
2. 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; and
3. 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.

Completing the school audits

- 1.1 In this Part, we discuss how many audits have been completed, including audits of public organisations related to schools.¹ We also discuss how many schools provided draft financial statements for the 2021 year for audit.
- 1.2 It was another challenging year for our school audits. We completed 1400 (57%) of the 2021 audits by the statutory deadline of 31 May 2022. This is a significant decrease from the 2020 audits, where we completed 70% of audits by the statutory deadline, and a slight decrease from the 2019 school audits, where we completed 59% of audits by the statutory deadline. Both of those years were also affected, to varying degrees, by the Covid-19 pandemic.
- 1.3 A global shortage of auditors and the Omicron outbreak in early 2022 (which resulted in higher levels of staff illness in both our audit teams and at the schools we audit) affected our ability to complete audits on time.
- 1.4 Changes to our audit approach also resulted in many school audits taking longer than planned. These changes included having to carry out additional audit testing due to changes to the school payroll system by Education Payroll Limited and additional payments made centrally by the Ministry for Ka Ora, Ka Ako (Healthy Lunches Programme). We also needed to refine our audit of cyclical maintenance provisions in response to changes to international auditing standards, which added to the audit work required.
- 1.5 As we have said since the onset of Covid-19, it is vital that we do not compromise the quality of audit work carried out. Despite enormous efforts from auditors and schools, our auditors could not complete all of their audits on time. This is not an ideal situation, but the circumstances (described above) have made this unavoidable. However, we have made steady progress completing outstanding school audits since May 2022. As at 31 December 2022, we had completed 2231 (91%) of the 2021 school audits.
- 1.6 Schools must provide their draft financial statements for audit by the statutory deadline of 31 March every year. In 2022, we received about 92% of draft financial statements for audit by the statutory deadline. This is slightly fewer than previous years because of higher levels of sickness at schools and their financial service providers.
- 1.7 Before the onset of Covid-19, it was typical for about 50 (2%) of the previous year's audits to remain outstanding by 31 December. Because of the delays in 2022, 231 (9%) of the 2021 audits were still outstanding by 31 December 2022.
- 1.8 We completed 180 school audits from previous years since we last reported on the audit results in November 2021. There were 85 previous-year audits of

¹ When we refer to schools this includes all state and state-integrated schools and kura, including their subsidiaries and associated trusts.

51 schools outstanding as at 31 December 2022. This involved multiple years for some schools. Figure 1 shows the number of outstanding school audits as at 31 December 2022.

Figure 1
Outstanding audits as at 31 December 2022

Financial year	As at 31 December 2022
2021	231
2020	44
2019	21
2018	9
2017	3
2016	4
2015	2
2014	1
2013	1
Total	316

- 1.9 Figure 1 shows that there are more than 20 school audits that are more than three years outstanding. The main reasons for this include:
- ongoing fraud investigations; and
 - incomplete/missing records.
- 1.10 We are working with our audit service providers and the Ministry of Education to get these outstanding audits completed as soon as possible.

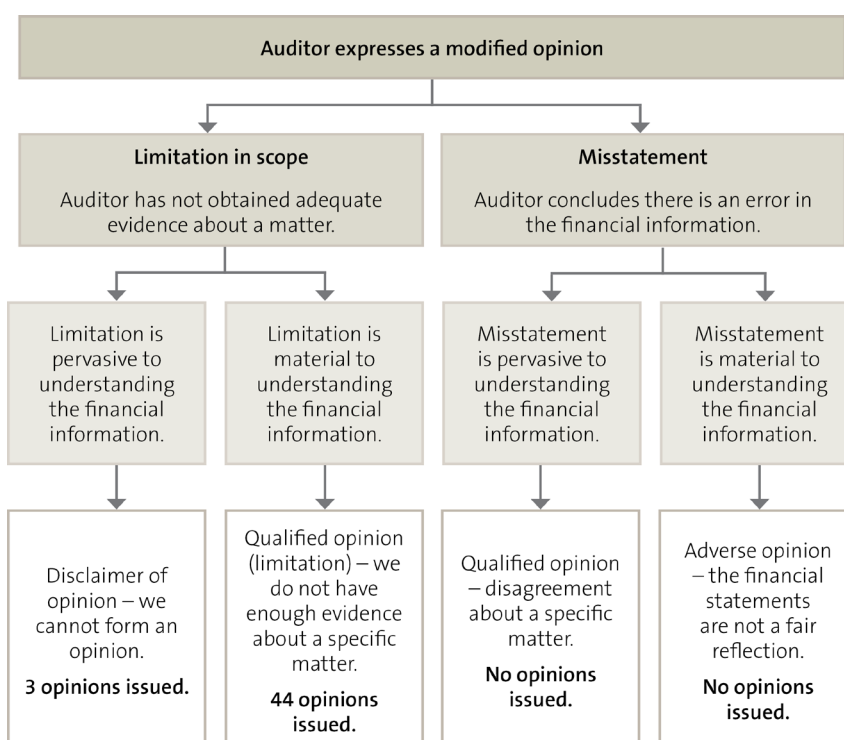
What did our audit reports say?

- 2.1 In this Part, we set out the results of the 2021 school audits and the results of any audits for previous years that we have completed since our report on the 2020 school audits.
- 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 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 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 last report on the results of the 2020 schools audits.

Figure 2
Types of modified opinions



2.6 Of the completed audits for 2021, 31 audit reports had a modified audit opinion. We also issued 16 modified opinions for previous-year audits that were outstanding since our last report. This is about the same number of modified audit opinions we issued last year. However, it is an increase on the number of modified audit opinions we typically issued before 2020. It still remains a small percentage (2%) of all audit opinions that we issue to schools.

2.7 Of the 31 audit reports with a modified opinion, 10 were also modified in the previous year or years. We explain the types of modified opinions that we issued below.²

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 two schools for three audits. These were all for previous-year audits.

2.9 In December 2021, we completed the audits of Te Kura Kaupapa Māori o Takapau for 2017 and 2018 and issued a disclaimer of opinion for both years.

2.10 We issued a disclaimer of opinion for these two years because the financial service provider for Te Kura Kaupapa Māori o Takapau introduced a new accounting system in August 2018 and all the accounting data and supporting documents stored on the previous accounting system were lost. The kura also did not keep a copy of the accounting data and supporting documents. This financial service provider has since ceased to operate. This meant that financial statements could not be readily prepared for 2017 and 2018.

2.11 We issued a disclaimer of opinion for the 2015 financial statements of Te Kura o Waikaremoana. This was because instances of fraud were identified over a number of years, including 2015, that related to kura funds used for payments of a personal nature and theft of money by creating fictitious invoices. The New Zealand Police carried out an investigation, which resulted in the perpetrators being prosecuted and found guilty by the court. However, the investigation was only into transactions for the 2016 and 2017 years. Therefore, the amount and impact of the fraud on the 2015 financial statements is not known.

2.12 We also drew attention to disclosures outlining that the kura breached the law by failing to meet the statutory reporting deadline, not convening board meetings at the required frequency, appointing ineligible trustees to the Board of Trustees, and not including a KiwiSport report or an analysis of variance in its annual report.

Limitation of scope

- 2.13 We issue a “limitation of scope” qualified 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 on. We explain the types of limitations of scope that we reported on this year.

Locally raised funds

- 2.14 If a school receives funds from its community, it is important that it has appropriate controls to correctly record all the money it receives. In Figure 3, we list the schools that we could not get enough evidence on the amount of funding raised locally.

Figure 3
Schools that were issued a “limitation of scope” opinion about locally raised funds in their audit report

We were unable to get enough evidence that the revenue from locally raised funds recorded in the financial statements of the following schools, and organisations related to schools, was fairly stated.

2021 audits	Previous year audits
Gore High School Foundation	Gore High School Foundation (2019 and 2020)
Linkwater School	Pukekohe Intermediate School (2018 and 2019)
Pukekohe North School	Te Kura Kaupapa Māori o Takapau (2016)
Pukenui School (Te Kuiti)	Waatea School (2019 and 2020)
The Taumarunui High School Community Trust	
Woodend School	

- 2.15 For three of the audits in Figure 3, the controls for recording revenue donations were limited. Therefore, there was no practical way for the auditors to confirm that all donations were included in the financial statements.
- 2.16 For eight of the audits in Figure 3, controls over the receipt of fundraising revenue were limited. Therefore, there were no satisfactory audit procedures that the auditor could adopt to independently confirm that the receipts from fundraising revenue were properly recorded.

2.17 For two of the audits in Figure 3, the controls over the receipt of revenue from international students was limited. Therefore, there was no practical way for the auditors to confirm that all international student revenue was properly recorded.

Cyclical maintenance

2.18 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.

2.19 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.

2.20 The boards of schools are responsible for calculating their cyclical maintenance provision based on the best information available. For several years, we have found that some boards do not have appropriate evidence that their cyclical maintenance provision is based on reasonable assumptions about future maintenance requirements.

2.21 During 2021, 26 audit opinions with a limitation of scope for cyclical maintenance were issued (23 were for the 2021 audits and three were for the 2020 audits). The 26 audit opinions issued in 2021 compares to 23 issued in the 2020 year and two in the 2019 year.

2.22 Recent changes to auditing standards have required our auditors to get more information from school boards about the information underlying the cyclical maintenance provision. This is to help auditors understand the method, assumptions, and data used by the school board to estimate the provision. Our auditors found that this information was not always readily available, and this has contributed to additional qualifications.

2.23 Figure 4 lists the schools that did not have enough evidence for auditors to form an opinion about cyclical maintenance for the 2021 and 2020 audits.

2.24 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. When this is the case, we would 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 (see paragraph 2.42).

2.25 We discuss cyclical maintenance in more detail in paragraphs 4.17-4.25.

Figure 4
Schools with “limitation of scope” opinions about cyclical maintenance

2021 audits	2020 audits
Aranga School	Cheviot Area School
Aria School	Reefton Area School
Centennial Park School	Te Rā Waldorf School
Cheviot Area School	
Christchurch South Karamata Intermediate School	
Forrest Hill School	
John Paul College	
Kaitoke School (Claris)	
Mount Richmond School	
Okiwi School	
Otewa School	
Parakai School	
Piopio Primary School	
Putere School	
Rangiora Borough School	
Riwaka School	
Sacred Heart School (Reefton)	
Saint Mary's School (Blenheim)	
Te Kura Kaupapa Māori o Taumarere	
Te Kura Toitu o Te Whaiti-nui-a-Toi	
Te Rā Waldorf School	
Te Waha o Rerekohu Combined Schools Board	
Waitomo Caves School	

Other types of limitations of scope

Expenses

2.26 Te Kura Kaupapa Māori o Ngati Kahungunu Ki Heretaunga was issued a qualified opinion for the 2018 year because the auditor could not verify some spending that was under the direct control of the Board. This limitation arose because the Board did not maintain adequate supporting documentation for payments or evidence of approval.

Fair value measurement

- 2.27 Napier Boys' High School and Napier Girls' High School each "control" charitable trusts (for financial reporting purposes). These trusts are consolidated into their financial statements, which means the transactions, assets, and liabilities of the trusts are included in the schools' financial statements.
- 2.28 These trusts each hold a one-third interest in Napier High Schools Land Endowment Trusts. The Land Endowment Trust owns investment properties that are required to be valued for financial reporting purposes.
- 2.29 For the 2021 audits, Napier Boys' High School and Napier Girls' High School were issued qualified opinions because the auditors were unable to determine the fair value of the Land Endowment Trust's investment properties. This is a requirement of the financial reporting standards applicable to schools.

Matters of importance that we draw readers' attention to

- 2.30 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. We do this because the information is relevant to readers' understanding of the financial statements.
- 2.31 These comments are designed to highlight certain matters to assist readers of the financial statements. They are not modifications of our audit opinion. We point out information that is important to a readers' understanding of the financial information (such as information that is a matter of public interest, a breach of legislation, or disclosures in the financial statements). This includes when we consider schools are experiencing financial difficulties (see Part 3).
- 2.32 We set out details of the matters we drew attention to below.

The Covid-19 Wage Subsidy Scheme

- 2.33 During our audits, we identified two schools that had claimed money through the Covid-19 Wage Subsidy Scheme even though they were not eligible for it. State and state-integrated schools were generally not permitted to claim money through the Covid-19 Wage Subsidy Scheme unless they had an exception from their monitoring agency (which for schools is the Ministry of Education). The Ministry provided schools with additional funding and support during 2020 and 2021 in response to Covid-19.
- 2.34 Marian Catholic School (Hamilton) received \$10,052 through the Covid-19 Wage Subsidy Scheme because it did not receive revenue from parents for after-school care during the Alert Levels 3 and 4 lockdowns. However, the school did not meet the Ministry of Social Development's eligibility criteria for the scheme.

- 2.35 The school also claimed \$28,030 through the Covid-19 Wage Subsidy Scheme in 2020. The school has subsequently repaid 100% of the money, which was \$38,082 in total.
- 2.36 The auditor drew attention to a disclosure in Te Rā School's 2020 financial statements. The disclosure outlines that the school applied for, and received, \$58,978 through the Covid-19 Wage Subsidy Scheme on behalf of Kapiti Waldorf Trust. However, the Ministry of Social Development states on its website that state sector organisations (including schools) are generally not eligible for the Covid-19 Wage Subsidy Scheme. The Kapiti Waldorf Trust, not being the registered employer, was also not eligible. No exception was sought from the Ministry of Education. Therefore, there is uncertainty over the validity of the funding received by the school.

Sensitive expenditure

- 2.37 Sensitive expenditure is any spending by an organisation that could be seen as giving 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 expenditure has a justifiable business purpose, and that all expenditure decisions will be subject to proper authorisation and controls. For schools, this is expenditure that contributes to educational outcomes for students and is made transparently and with proper authority.
- 2.38 We drew attention to the Board of Shotover Primary School donating \$200,000 to the Shotover Primary School Foundation, which is not a public organisation. The Foundation is related to the school, but the Board does not control the Foundation. It is not appropriate for the school to donate to a private organisation because there is no guarantee that the school will receive a benefit from those funds. The school requested the donated amount to be returned. However, at the date of the audit report, there was no agreement reached with the Foundation about repaying the donation.
- 2.39 We drew attention to a disclosure in the Board of Halcombe Primary School's financial statements. The disclosure outlined that the school spent \$5,070 on leaving gifts for the former principal. Using public money for gifts should be moderate, conservative, and appropriate. Although the Board approved the gifts, the school does not have a gift policy and the total amount spent was considered relatively high for a school.
- 2.40 We drew attention to the Board of Waiuku College's disclosure in its financial statements outlining that the school spent \$1,527 for a farewell gift and \$6,909 on leaving ceremonies to farewell a former principal. The farewell gift exceeded the school's gift policy, and the amount spent for the leaving ceremonies was

relatively high for a school. Spending public money on farewells and retirements should be moderate, conservative, and appropriate. The Board also used funds that were originally raised for a kapa haka trip. The school should ensure that funds are used for the intended, or similar purpose, for which they are raised. If that purpose is no longer possible, the Board should consult with those who raised the funds.

- 2.41 We highlighted that Te Kura o Kokohuia spent \$15,700 on Pak'n'Save vouchers, which it gave to students and staff during the 2021 Covid-19 lockdowns. At the time of our audit, we were not provided with any evidence of the Board's approval before purchasing the vouchers or any records of who received the vouchers. All spending by schools should have a justifiable business purpose consistent with their objectives. Because of the lack of documentation about the decision to purchase the vouchers and who received them, we were unable to see how the expenditure was directly linked to an educational purpose.

Other instances

- 2.42 For three schools, we drew attention to disclosures relating to their cyclical maintenance provisions: Pongakawa School, Kaikorai School, and Papatoetoe High School. These schools could not reasonably estimate their cyclical maintenance provisions because of uncertainties about future maintenance that were out of their control. The uncertainties for some of these schools arose because of weathertightness issues or because they are part of the Ministry of Education's refurbishment and redevelopment project.
- 2.43 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.
- 2.44 The 2021 audit reports for Hawera High School and Hawera Intermediate School and the 2020 audit report for Te Wharekura o Manurewa drew attention to disclosures outlining that the financial statements were prepared appropriately using the disestablishment basis.
- 2.45 The financial statements for Hawera High School and Hawera Intermediate School were prepared on a disestablishment basis because they stopped operating on 27 January 2023 and a new combined school (Te Paepae o Aotea) opened.
- 2.46 The 2020 financial statements for Te Wharekura o Manurewa were prepared on a disestablishment basis because the kura was combined into a new legal entity on 2 October 2020.

- 2.47 We drew attention to disclosures in Glenham School's financial statements outlining that it requested voluntary closure from the Ministry of Education. Glenham School closed on 30 January 2023. We also drew attention to disclosures for Pukemiro School, in the 2020 audits, outlining the possible effects of the school closure on 25 July 2021.

Reporting on whether schools followed laws and regulations

- 2.48 As part of our audits, we consider whether schools have complied with particular laws and regulations. Although we primarily look at whether they complied with financial reporting requirements, we also consider whether they meet specific obligations required of them as public organisations.
- 2.49 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.
- 2.50 Usually, schools disclose breaches of the Education and Training Act and the Crown Entities Act in their financial statements. However, we sometimes report on breaches in the audit report. From our 2021 school audits, we identified that:
- 14 schools (2020: 27) borrowed more money than regulation 12 of the Crown Entities (Financial powers) Regulations 2005 allows;
 - one school (2020: 2) did not comply with the banking arrangements set out in section 158 of the Crown Entities Act;
 - two schools (2020: 1) did not use the Ministry of Education's payroll services to pay teachers, which section 578 of the Education and Training Act requires all schools to use for teaching staff;
 - four schools (2020: 5) 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;
 - four schools (2020: 1) invested money in a way that was not allowed under section 154 of the Education and Training Act;
 - two schools did not comply with section 160 of the Education and Training Act because the boards entered into a lease arrangement and acquired a licence to occupy land without obtaining the approval from the Minister of Education; and
 - eight schools (2020: 4) did not complete an analysis of variance report for the year ended 31 December 2021.

Audits not able to be carried out

- 2.51 We were unable to complete the 2016 and 2017 audits for Hato Petera College due to a lack of information. The school closed on 31 August 2018, and at that time the 2016 audit was still outstanding.
- 2.52 After the school closed, its physical financial records, such as invoices and payroll reports, could not be located. As a result, financial statements could not be prepared. The Ministry of Education decided that it would not be a good use of time or funds to proceed with preparing and auditing the outstanding financial statements because there would not be an acceptable level of assurance or public accountability provided.³

Schools in financial difficulty

3.1 In this Part, we describe:

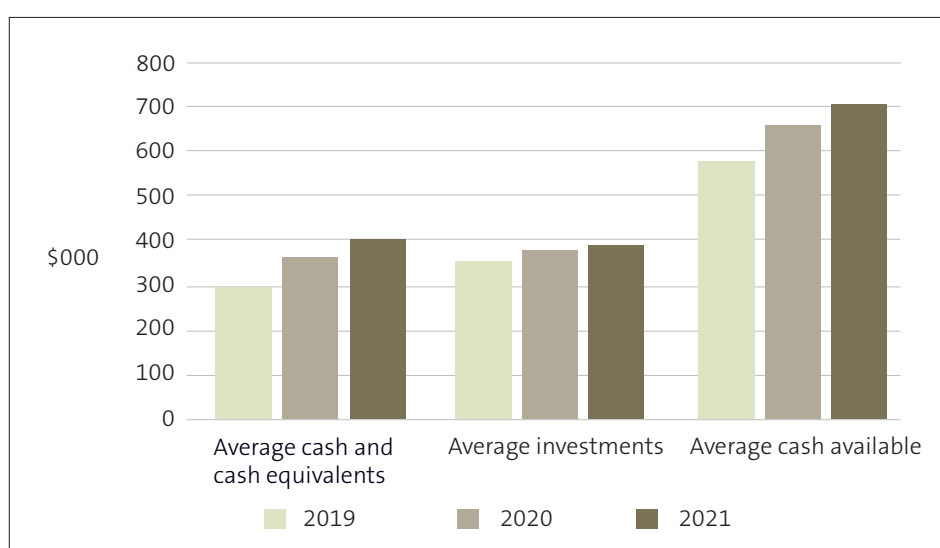
- the financial health of schools;
- the effect of the Covid-19 pandemic on school finances; and
- schools we consider to be in financial difficulty.

3.2 In this Part, the data we provide is based on 2021 financial information that the Ministry of Education collected as at 31 December 2022, unless otherwise stated. The Ministry's database had financial information for 1981 schools (80% of all schools). We have also used the 2020 and 2019 financial information from the Ministry's database, unless otherwise stated.

The financial health of schools

3.3 Figure 5 summarises the average levels of cash and investments held by schools as at 31 December 2019, 2020, and 2021. Cash and cash equivalents are bank accounts and short-term deposits that are held for 90 days or less. Investments held by schools are typically longer-term deposits. As at 31 December 2021, there had been an increase in average cash and cash equivalents (\$401,536) and average investments (\$387,273) held by schools compared to the previous years.

Figure 5
Average cash and investments held by schools, from 2019 to 2021



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

- 3.4 When reviewing the financial position of a school, it is important to consider their available cash. Schools often hold funds on behalf of third parties, including for capital projects they are managing for the Ministry of Education, homestay payments for international students, or on behalf of other schools in “cluster”-type arrangements, such as transport networks. The total cash a school holds, excluding the amount held for third parties, is considered “available cash” for the school board. In 2021, average available cash increased to \$702,335 (as at 31 December 2021) from \$652,257 (as at 31 December 2020).
- 3.5 Figure 6 shows that a school’s decile does not affect how much available cash it has. The number of schools from each decile are fairly evenly spread for each range of available cash.

Figure 6
Number of schools by decile that hold different levels of available cash, as at 31 December 2021

For each range of available cash, the number of schools in each decile is fairly evenly spread. 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.

Decile	Available cash (\$000)						
	<0	<100	<200	<300	<500	<1,000	>1,000
Decile 1	0	14	18	19	43	50	54
Decile 2	0	13	34	28	31	56	37
Decile 3	1	14	28	31	41	46	42
Decile 4	1	16	33	27	45	58	29
Decile 5	2	18	43	31	40	53	26
Decile 6	0	19	36	23	31	29	39
Decile 7	3	20	36	33	39	36	40
Decile 8	0	25	31	28	29	41	35
Decile 9	0	10	33	32	34	52	29
Decile 10	2	9	27	31	37	56	34
Total	9	158	319	283	370	477	365

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

- 3.6 As well as holding cash for others, schools might also allocate cash and investments for a particular purpose, such as a future-building project, school trip, or to pay outstanding bills. Therefore, when we consider whether a school is in financial difficulty, we also consider its working capital position (its available funds excluding the amounts due to be paid to others in the next 12 months).

- 3.7 As at 31 December 2021, we identified 34 schools with a working capital deficit. This is less than the 53 schools we identified with a working capital deficit in 2020. We discuss working capital deficits in paragraph 3.25.

The effect of the Covid-19 pandemic on school finances

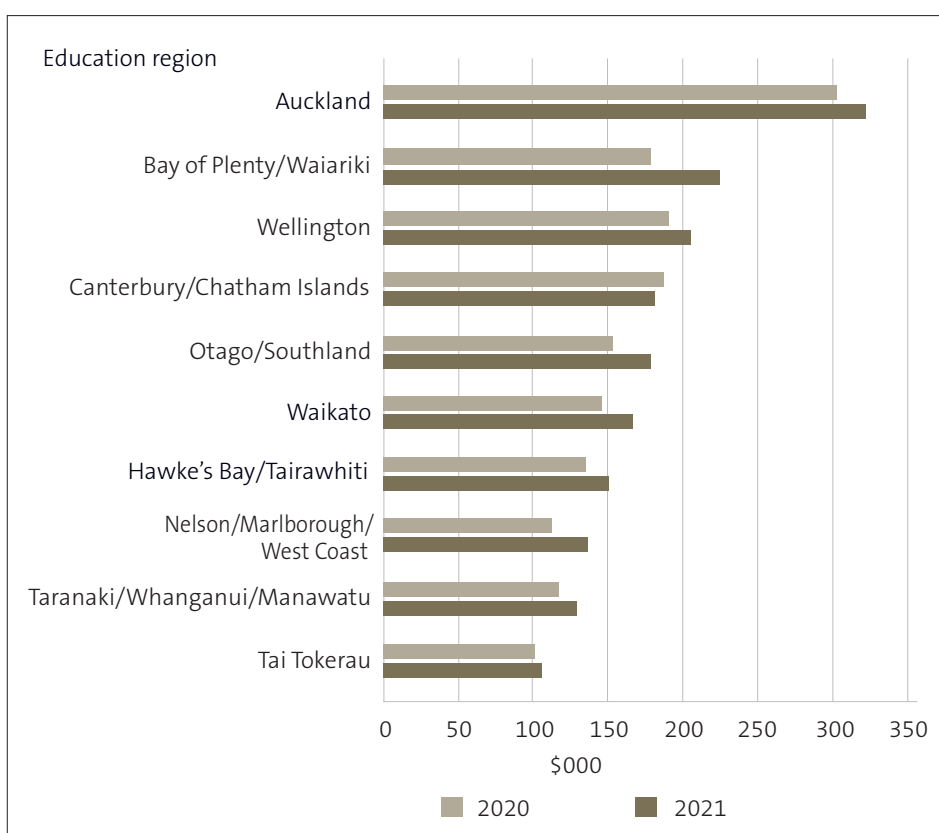
- 3.8 In 2021, schools continued to be affected by the Covid-19 pandemic because they had to sometimes close for face-to-face learning during the year. Significant numbers of staff were also absent because of illness.

Locally raised funds

- 3.9 Many schools rely on raising funds locally for funding some of their operations. 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.
- 3.10 There was an overall reduction in locally raised funding in 2020 because Covid-19 lockdowns and related uncertainties made it difficult for schools to carry out normal fundraising activities.
- 3.11 Figure 7 shows that, in 2021, the average amount of locally raised funds for each school increased slightly for all regions except for Canterbury/Chatham Islands. This was because lockdowns were lifted and schools could resume fundraising (with some restrictions).
- 3.12 The donations scheme was introduced in 2020 for decile 1 to 7 schools. This scheme gives schools \$150 for each student if the school agrees not to ask parents for donations (except for overnight trips such as school camps). In 2021, 95% of eligible decile 1 to 7 schools opted into the scheme (compared with 94% in 2020).⁴

⁴ Ministry of Education (2021), *Ngā Ara o te Mātauranga: The pathways of education – incorporating Ngā Kura o Aotearoa: New Zealand Schools*, at educationcounts.govt.nz and the Ministry of Education's school financial information database.

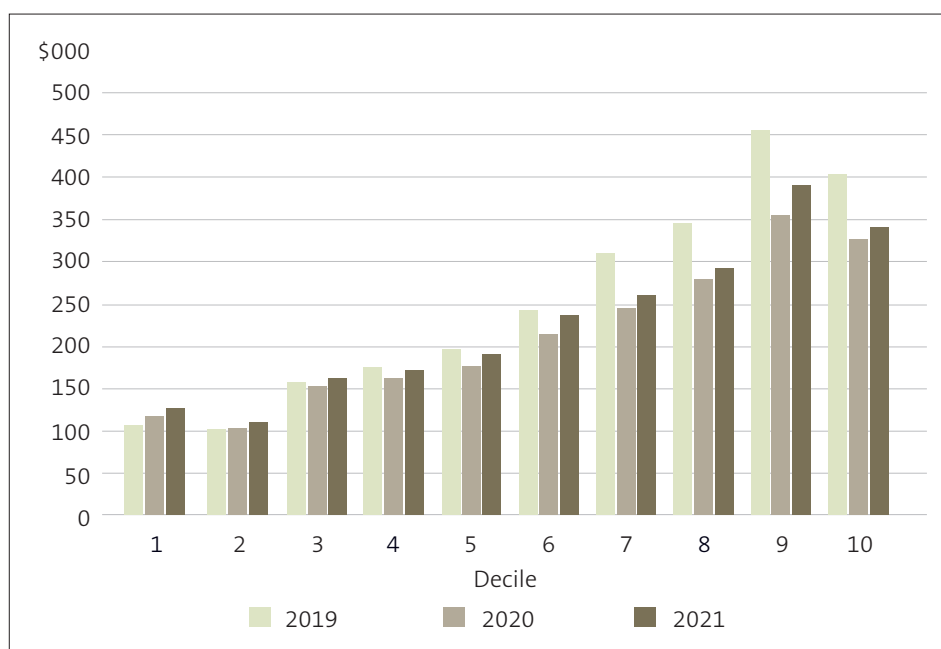
Figure 7
Average locally raised funds (excluding international student revenue) for each school by region



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

3.13 Figure 8 shows that, in 2021, all deciles had an increase in locally raised funds (including in donations scheme funding) compared to 2020. Figure 8 also shows that the trend across 2019, 2020, and 2021 for decile 1 to 7 schools is reasonably consistent with the decile 8 to 10 schools.

Figure 8
Average locally raised funds plus donations scheme funding for each school, 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.

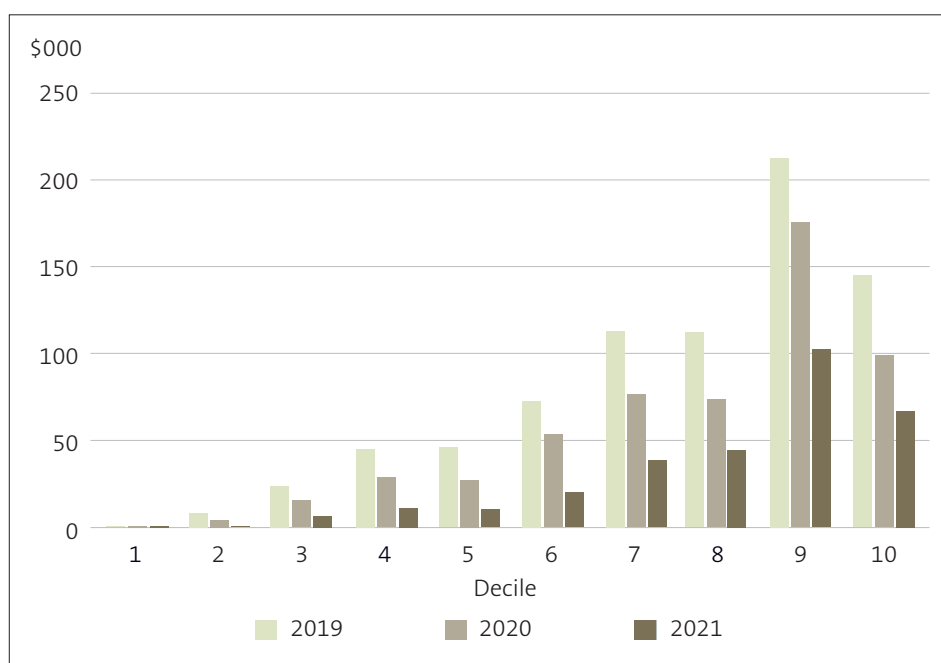
International student revenue

3.14 Many schools retained their international students in 2020 even though the borders closed in March of that year. In 2020, the total revenue that schools received from international students reduced by \$40 million (26%) from 2019. Figure 9 shows that, in 2021, revenue from international students reduced even

further. This was a result of the border being closed for a full year in response to the Covid-19 pandemic.

- 3.15 Figure 9 shows the reduction in average international student revenue for each school by decile.

Figure 9
Average international student revenue for each school by decile



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

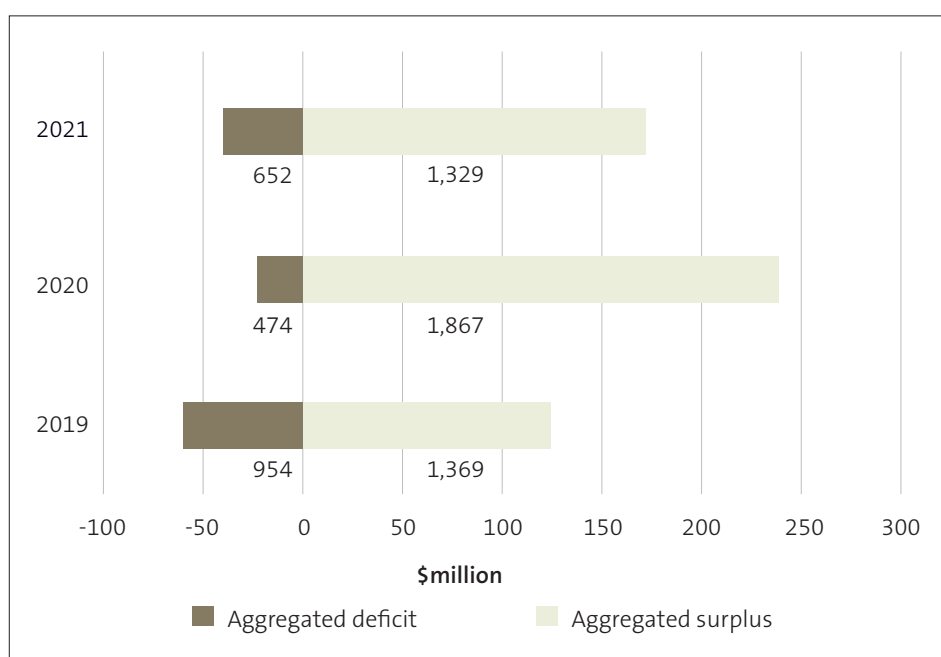
- 3.16 Schools usually record significant surpluses on international student revenue because the related expenses are small compared with the fees charged. In 2021, 307 schools reported a total surplus on international student revenue of \$29 million (an average surplus of \$94,000 for each school). In 2020, schools reported a surplus on international student revenue of \$63 million (an average surplus of \$124,000 for each school).
- 3.17 The effects of the Covid-19 pandemic differed for each school. Of the 342 schools that had international student revenue in 2020 and 2021, 285 (83%) reported a reduced surplus or increased deficit from international student revenue. The largest reduction in international student revenue was more than \$2 million.
- 3.18 The impact of border closures on schools in 2020 was not as significant as we expected because many of them retained their international students. The loss of international student revenue in 2020 was also mitigated by \$20 million of Covid-19 transition funding for international education. In 2020, \$18 million of that funding was allocated, leaving \$2 million to be allocated in 2021.

- 3.19 The impact was more significant for schools in 2021 because borders were closed for the full year and there was significantly less Covid-19-related funding provided.
- 3.20 Because the borders only opened in early 2022, after the school term had started, we are yet to see how schools have been affected in 2022.

Overall financial results for 2021

- 3.21 Before 2020, schools reported a combined surplus of about \$70 million each year. However, in 2020 schools reported a combined surplus of \$220 million and in 2021 they reported a combined surplus of about \$181 million. This increase is due to additional government grants being provided in 2020 and most of them continued into 2021. These grants were for the donation scheme (started in 2020), Covid-19, pay equity, and school lunches. For the schools that we have audited data for (1981), we have compared the number of schools that recorded a surplus and deficit with the previous year. We found that 67% of schools recorded a surplus in 2021, compared with 80% for 2020.
- 3.22 Figure 10 shows the aggregated surpluses and deficits for schools we have data for in 2021 and compares them to the 2019 and 2020 aggregated surpluses and deficits for schools.

Figure 10
Aggregated surpluses and deficits for schools in 2019, 2020, and 2021



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

Schools we consider to be in financial difficulty

- 3.23 Most schools are financially sound. However, each year we identify some schools that we consider could be in financial difficulty.
- 3.24 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.
- 3.25 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.
- 3.26 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 year-end.
- 3.27 When considering the seriousness of the financial difficulty a school is in, 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 is variable year-to-year. For most schools, the operations grant is their only consistent source of income.
- 3.28 Of the 34 schools with a working capital deficit this year:
- 22 (2020: 32) had a working capital deficit of between 0% and 10% of the operations grant;
 - 7 (2020: 13) had a working capital deficit of between 10% and 20% of the operations grant; and
 - 5 (2020: 8) had a working capital deficit of more than 20% of the operations grant.
- 3.29 Figure 11 shows that the decile rating for a school does not affect whether it has a working capital deficit. It also shows that the number of schools with a deficit significantly reduced since 2019 across all deciles.

Figure 11
Schools with working capital deficit, by decile

Decile	2021	2020	2019
Decile 1	2	3	10
Decile 2	2	4	14
Decile 3	3	7	10
Decile 4	4	3	6
Decile 5	4	3	6
Decile 6	3	9	13
Decile 7	7	7	10
Decile 8	5	7	13
Decile 9	3	4	7
Decile 10	1	6	11
Total	34	53	100

Source: The Ministry of Education's school financial information database for 2021.

- 3.30 Of the five schools with a working capital deficit greater than 20% of its operations grant (which we consider to be serious financial difficulty), two are decile 7, two are decile 8, and one is decile 10.

Schools considered to be in serious financial difficulty

- 3.31 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 year-end.
- 3.32 When we have assessed that a school is in financial difficulty, we ask the Ministry of Education whether it will continue to support it. If the Ministry confirms that it will continue to support the school, the school can complete its financial statements as a "going concern".
- 3.33 If we consider a school to be in serious financial difficulty, we draw attention to this in the audit report.
- 3.34 Figure 12 lists 19 schools that received letters confirming the Ministry of Education's support and, as a result, could complete their 2021 financial statements on a "going concern" basis. This is a slight increase from 2020, which had 17 schools with a letter confirming the Ministry's support. However, it is still a reduction from previous years when the number of letters of support issued was about 40.

3.35 We referred to serious financial difficulties in eight of these 19 schools' audit reports.

Figure 12
Schools that needed letters of support for their 2021 audits to confirm they were a “going concern”

School	2021	2020	2019*
Bathgate Park School	√	√	√
Big Rock Primary School	√	√	√
Burnside Primary School	√	√	√
Cambridge East School	√	√	√
Fraser High School	√		
Garston School	√		
Goldfields School (Cromwell)	√		
Halfway Bush School	√		
Kaikorai Valley College	√		
Kavanagh College†	√	√	√
Koraunui School	√		
Liston College	√	√	√
Matipo Road School	√		
Mercury Bay Area School	√	√	√
Nelson College	√	√	√
Northcote College	√		
Paparangi School	√		
Saint Joseph's School (Grey Lynn)	√	√	√
Verran Primary School	√		
Total	19	9	9

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

* In addition to 2019, some of the schools required letters of support in earlier years.

† Kavanagh College was renamed Trinity Catholic College from 1 January 2023.

3.36 We also identified the following schools that needed letters of support from the Ministry of Education from audits that were completed in 2021. These audits have been completed since we last reported:

- Laingholm School (2019 and 2020);
- Liston College (2019 and 2020);
- Massey High School (2019); and
- Te Kura Kaupapa Māori o Waiuku (2016 and 2017).

- 3.37 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 an additional 40 schools. This was usually because of continued deficits that are eroding the working capital and/or continued deficit budgeting.

Planning to avoid financial difficulty

Equity Index

- 3.38 As at January 2023, the Equity Index will be used to determine the level of equity funding for a school instead of the decile system.
- 3.39 This has resulted in significant changes in funding for some schools. The Ministry of Education is providing transition funding for those schools that will lose funding. For 2023, no school will receive less operational funding than it did in 2022. From 2024, any reduction in funding will be capped at 5% each year of the operations grant of a school. Although there is transition funding in place, schools need to ensure that they are adjusting their budget to take into account the reduced funding levels.

Staffing levels

- 3.40 Each school is entitled to a certain number of full-time equivalent teachers that the Ministry of Education funds directly. The number of teachers is based on the size of the school roll. A school must pay for any teachers that are additional to the number of teachers it is entitled to. It can do this by paying the additional teachers directly from its own funds. The school can also pay back the Ministry any overuse of its entitlement of Ministry-funded teachers after the year end. Either can result in a reduction in the operational funding the school has to spend on other things.
- 3.41 All schools pay non-teaching staff from their operations grant. Schools can 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 to find other sources to fund its other operational costs.
- 3.42 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.
- 3.43 When we calculated the board-funded staff costs as a percentage of the operations grant of each school for 2021, we found that the results were reasonably consistent with what we found in 2020 (see Figure 13). About 65% of

schools have board-funded staff costs that are more than 60% of their operations grants. This is a significant portion of their operations grant.

Figure 13
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
2021	14	118	565	797	370	118	1981
2020	17	126	648	855	319	125	2090

Source: The Ministry of Education's financial information database for 2021. Previous year figures are those reported in the Office of the Auditor-General's Results of the 2020 school audits.

- 3.44 If schools continue to see a reduction in revenue from local sources, they should consider their overall budget, including their staffing levels, to help prevent them getting into financial difficulty.

Matters we identified during our audits

4

4.1 In this Part, we set out matters that we identified during the 2021 school audits.

School payroll

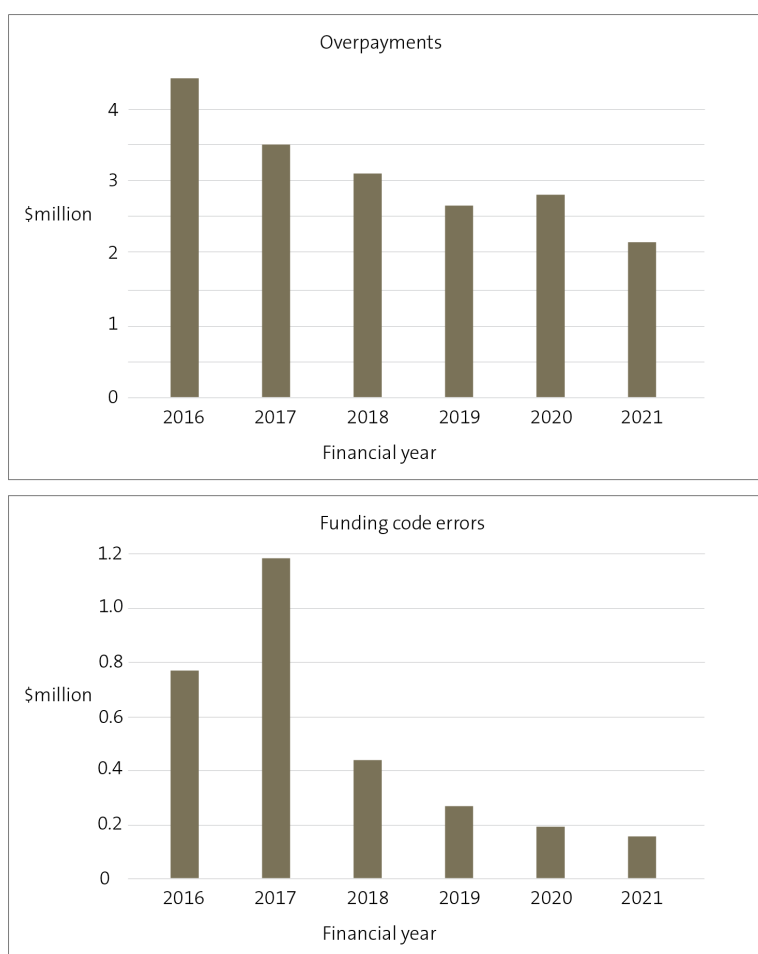
- 4.2 Because salary costs are the largest operational cost of schools, the payroll information is a significant part of the financial statements. The Ministry of Education funded about \$6.2 billion (2020: \$6 billion) of salary and employee-related costs for the 2021 school payroll year. Education Payroll Limited administers the school payroll on behalf of the Ministry.
- 4.3 The school payroll audit process includes distributing payroll reports to schools and their auditors, and the appointed auditor of the Ministry of Education (who tests the payroll centrally). This process has improved in recent years. However, a late change to the payroll system in 2021 did affect the 2021 school audits.
- 4.4 In October 2021, EdPay fully replaced Novopay Online as the system for processing payroll transactions. Novopay Online was subsequently decommissioned. This meant that the Novopay Online transaction report, a report that many schools relied on to check the accuracy of payroll-related changes, would no longer be available.
- 4.5 Where possible, our auditors rely on an organisation's controls because this reduces the amount of other testing required. Because of the change to the payroll system, and no access to the Novopay Online transaction report, auditors could not rely on payroll controls for most schools. As a result, our auditors had to carry out additional and unplanned payroll testing for many of the audits. This additional payroll testing contributed to a noticeable delay in audits being completed.
- 4.6 Initially, schools were not given any guidance on how to check whether payroll changes had been correctly processed without the Novopay Online transaction report. Education Payroll Limited has since released updated guidance on school-level internal controls (in March 2022), including how reporting through EdPay supported these controls. The Ministry and Education Payroll Limited developed the guidance together.

- 4.7 Various EdPay transaction history reports are now available for schools to check the accuracy of payroll changes. However, because the transaction history reports were not all in place until the end of March 2022, auditors will be unable to rely on payroll controls for the 2022 school audits. Controls need to be operating for the full year for an auditor to rely on them. Therefore, additional payroll testing will be required for many audits for 2022.
- 4.8 In our report *Results of the 2020 school audits* we recommended that the Ministry of Education work collaboratively with Education Payroll Limited to ensure that changes to school payroll processes do not adversely affect the control environment of schools. This includes ensuring that schools have controls that prevent fraud and error and that all transactions are approved within delegations. This is included in the guidance released in March 2022.

Findings from our 2021 audits

- 4.9 Our appointed auditor for the Ministry of Education carries out extensive work on the payroll 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.
- 4.10 We write to the Ministry of Education every year setting out our findings from this work. We continue to see improvements in data quality – there are fewer errors in the data each year and a reduction in the value of those errors (see Figure 14).

Figure 14
Value of payroll errors, from 2016 to 2021



Source: Education Payroll Services: Results and communications to the sector to support the audits of schools' 31 December 2021 financial statements.

- 4.11 Our auditors follow up any anomalies that the data analytics work identifies and that the Ministry of Education cannot resolve. Some anomalies are also sent to Education Payroll Limited to be resolved.
- 4.12 For the 2021 audits, we identified 1823 exceptions (2020: 1905) for 974 schools (2020: 803) that our auditors needed to follow up on.
- 4.13 Exceptions are instances that do not follow the normal pattern. Most of the exceptions that auditors followed up were considered valid or reasonable. If exceptions were not valid or reasonable, adjustments were made.

Non-compliance with the Holidays Act 2003

- 4.14 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 we have previously reported, the Ministry of Education has identified instances of non-compliance for employees on the school payroll.
- 4.15 The Ministry continues to do work to identify and resolve non-compliance with the Holidays Act, but it has not yet identified the amounts attributable to each employee and how it will affect individual schools.
- 4.16 Because boards are employers of 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 financial statements of schools disclosed a contingent liability for non-compliance with the Holidays Act.

Cyclical maintenance

- 4.17 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.
- 4.18 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.
- 4.19 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.
- 4.20 The 10-year property plans of schools, which are now prepared by property consultants approved by the Ministry of Education, 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.

- 4.21 Where possible, auditors have previously relied on cyclical maintenance plans that are prepared as part of the 10-year property plans. This is because a Ministry-approved property consultant prepares them. However, recent changes to an international auditing standard means that our auditors need to get more detailed information about how a board has estimated its cyclical maintenance provision. This includes understanding the method, assumptions, and data on which the provision is based.
- 4.22 This year, we gathered information from our auditors about whether schools had reliable cyclical maintenance plans to support the provisions recorded in their 2021 financial statements. Our auditors told us that about 21% of schools did not have reliable plans.⁵ We have shared the results of the information we gathered with the Ministry of Education.
- 4.23 If a school has a maintenance plan prepared by a Ministry-appointed property consultant, auditors can place some reliance on the fact that the plan has been prepared in accordance 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.
- 4.24 This is a long-standing issue. In our 2020 report on the school audit results, we repeated our earlier recommendation that the Ministry ensure that schools comply with their property planning requirements by having up-to-date cyclical maintenance plans.
- 4.25 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-consuming for schools and auditors. This year our 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 1

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.

⁵ Many of the schools that did not have reliable plans were able to provide other forms evidence to support their cyclical maintenance provision.

Budgeting

- 4.26 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.⁶ Schools need to include the budget figures from their budget approved at the beginning of the school year.
- 4.27 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.
- 4.28 Having a full budget, including a balance sheet and statement of cash flows, is a legislative requirement and 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.
- 4.29 We asked our auditors to tell us about schools that are not preparing a full budget again this year. Our auditors identified 485 schools (2020: 467) that were not preparing full budgets. Although we have raised this matter in management letters sent to boards, this shows that there has been no improvement since 2020.
- 4.30 We have shared this information with the Ministry of Education so it can discuss this with individual schools as they prepare their budgets for the next school year.

Recommendation 2

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.

Sensitive expenditure

- 4.31 For the 2021 school audits, our auditors brought fewer matters about sensitive expenditure to our attention. 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.
- 4.32 The matters that auditors raised in management letters in 2021 were similar to previous years. They included:

⁶ Section 87(3)(i) of the Education Act 1989 remained in force for the 2021 audits because the section of the Education and Training Act for school planning and reporting did not come into effect until 1 January 2023.

- schools that did not have sensitive expenditure policies, including for gifts, or the policies were not updated regularly (this applied to six 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 10 schools); and
 - travel-related expenditure (this applied to three schools).
- 4.33 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 (this applied to 35 schools);
 - no approval of credit card expenditure or it was not approved by someone more senior than the person incurring the expenditure (this applied to 19 schools);
 - inadequate or no documentation to support expenditure (this applied to nine schools); and
 - no approval of fuel card statements, travel vouchers, or gift vouchers (this applied to eight schools).
- 4.34 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 over expenditure for most schools. This also applies to fuel cards or store cards.
- 4.35 Our auditors identified three schools where funds had been used for personal use. For two of these instances, the school was reimbursed.
- 4.36 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.
- 4.37 We include guidance about using credit cards in our good practice guide *Controlling sensitive expenditure*.⁷ This provides guidance on making decisions on sensitive expenditure, guidance on policies and procedures, and examples of sensitive expenditure.
- 4.38 We also have other information on sensitive expenditure in the good practice section of our website.

⁷ Office of the Auditor-General (2020), *Controlling sensitive expenditure: Guide for public organisations*, at oag.parliament.nz.

Publishing annual reports

- 4.39 Schools are required to publish their annual reports online.⁸ This annual report consists of an analysis of variance,⁹ a list of board members, financial statements (including the statement of responsibility and audit report), and a statement of KiwiSport funding.
- 4.40 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.
- 4.41 Our auditors check whether schools have published the previous year's annual report. If a school does not have a website, the Ministry of Education can publish the annual report on its Education Counts website.
- 4.42 The number of schools that publish their annual reports online has remained reasonably consistent since 2020. At the time of the 2021 audits, we found that 88% of schools had published their 2020 annual report online (2020: 90% of schools had published their 2019 annual report online).
- 4.43 Although this consistency is encouraging given the delays in completing audits due to the Covid-19 pandemic, our auditors identified 267 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.

Ka Ora, Ka Ako healthy school lunches programme

- 4.44 In 2019, the Government announced a pilot programme, the Ka Ora, Ka Ako healthy school lunches programme, to deliver a free daily lunch to primary and intermediate-aged learners/ākonga in schools in communities with socio-economic barriers.
- 4.45 In 2020, the Covid-19 Response and Recovery Fund expanded the programme to allow eligible schools to either make their own lunches or have an external supplier provide them. If an external supplier is used, the Ministry of Education directly manages the relationship. In 2020, \$5.5 million was paid to external providers on behalf of schools. Funding for the programme has been extended until December 2023. In 2021, \$142 million was paid to external providers on behalf of schools.
- 4.46 Although the Ministry of Education directly pays suppliers, it is still the expenditure of the school and must be included in its financial statements. The Ministry provided schools and auditors with details of the amounts to be

⁸ Section 136 of the Education and Training Act.

⁹ 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.

included in the financial statements of each school. To provide assurance over this information, we carried out audit procedures centrally. However, our auditors still needed to carry out some audit procedures locally to ensure that the payments reflected in the financial statements of each school were correct.

- 4.47 Our central assurance procedures found some errors in the information the Ministry of Education provided. Our auditors also found that some schools did not have records of how many lunches they had received. This caused delays to some audits. We have discussed this with the Ministry and the Ministry has assured us it has made improvements to its processes for the next year. The central assurance audit of the programme for 2022 will also be carried out at an earlier date.

5

Other matters

- 5.1 In this Part, we discuss:
- the future of school financial reporting;
 - reporting on compliance with employment policies; and
 - integrity in the public sector.

Future of school financial reporting

- 5.2 School audits have become more complex because of increased financial reporting requirements and increasing professional requirements on auditors. The number of audit firms has also reduced because some smaller firms have decided to no longer provide auditing services.
- 5.3 This has made appointing auditors for the more than 2400 schools challenging.¹⁰ The resourcing pressures the auditing profession is currently experiencing have added to these difficulties.
- 5.4 Because of this, we started discussions with the Ministry of Education about the future of financial reporting for schools and opportunities for making improvements to the audit process. We have recently worked with the Ministry to prepare a “terms of reference” where the Ministry commits to developing a work programme on the future of financial reporting.
- 5.5 The work programme will consider the needs of the different users of the financial information of schools. It will also consider the nature of assurance required over financial reports and how that assurance can be carried out in a cost-effective and timely manner.
- 5.6 Schools’ financial statements are more detailed than many other public organisations’ financial statements. The Ministry of Education is one of the main users of this information, and we understand that the Ministry uses this financial information for several purposes.
- 5.7 A small cross-sector working group carried out some work to simplify the 2021 Kiwi Park model financial statements.¹¹ Further simplifications were made for 2022. However, we encourage the Ministry of Education to consider whether the current level of disclosure is necessary, particularly for information that it already holds. We will support the Ministry to progress these initiatives and identify other opportunities for improvement as the future of financial reporting for schools work programme is carried out.
- 5.8 In terms of improving information flows, one of our audit service providers carried out a pilot project for a group of schools that used a large financial

¹⁰ Auditors are appointed for a three-year contract period. The latest period is for the 2021 to 2023 school audits.

¹¹ These are model financial statements that the Ministry of Education produces every year to show schools how to prepare their financial statements so they comply with accounting standards.

service provider of school financial services. The pilot project focused on better information flows between the Ministry of Education, the financial service provider, schools, and auditors. Many efficiencies were gained during this pilot project including:

- improvements in upfront audit planning;
- a reduction in the duplication of audit questions; and
- forming stronger relationships with the financial service provider, which facilitated a more collaborative engagement.

- 5.9 We hope that the efficiencies and findings gained through this pilot project will benefit other schools and financial service providers.
- 5.10 A new planning and reporting framework came into effect on 1 January 2023. The Ministry of Education is currently developing regulations and support for schools to be available by mid-2023. The proposed start date for the first plans under the new framework is 1 January 2024.
- 5.11 Te Mahau (previously called the Education Service Agency) was established within the Ministry of Education after the review of Tomorrows' Schools. The aim of Te Mahau is to work more regionally and provide more locally responsive, accessible, and integrated services to schools and the education sector. The Ministry sees the role of Te Mahau as improving sector capability in curriculum, leadership, culture, and relationships in communities.
- 5.12 These two significant developments provide opportunities for the Ministry of Education 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 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.

Reporting on compliance with employment policies

- 5.13 Section 597 of the Education and Training Act requires school boards (as employers in the education service) to have an employment policy that complies with the principle of being a good employer. Boards must also make their policy available to employees, ensure that they comply with the policy, and report on the extent of that compliance in their annual report.

- 5.14 We are aware that most boards have not been reporting on their employment policies in their annual reports. The Education Review Office has raised this matter with some schools. The Ministry of Education has recently produced some guidance on this.¹²
- 5.15 When a school has not complied with this requirement, our auditors will raise this matter with the board in the management letter. This letter is sent when the audit is completed.

Integrity in the public sector

- 5.16 Our work continues to focus on ethics and integrity in the public sector. A matter that is important to schools is conflicts of interest.
- 5.17 The risk of conflicts of interest in small communities, which many schools operate in, is high. There is a particular risk of conflicts of interest occurring during decision-making processes for appointing new employees and contractors and purchasing goods and services. This is because a school board might have limited options in a small community.
- 5.18 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.
- 5.19 Although we did not identify conflicts of interest in our 2021 audits, we have previously identified schools that had board members who did not comply with the conflicts of interest rules in the Education and Training Act. The main provisions of the Act that school boards need to be aware of are that:
- an individual is not capable of being a board member 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 goods and services tax), 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.¹³
- 5.20 School boards are unique in that the principal is also charged with governance. All boards have a staff representative and sometimes a student representative. Integrated boards also include representatives of their proprietor.
- 5.21 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

12 See the Ministry of Education's annual reporting guidelines at [education.govt.nz](https://www.education.govt.nz).

13 Sections 9 and 10 of the Education and Training Act – previously, section 103 of the Education Act.

in. However, the member can attend the meeting to give evidence, make submissions, or answer questions.¹⁴

- 5.22 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.
- 5.23 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.
- 5.24 We have also recently published new guidance on integrity, *Putting integrity at the core of how public organisations operate*. This includes an integrity framework that aims to help organisations achieve the culture of integrity in the workplace.
- 5.25 Other resources in the good practice section of our website that may be of interest to school boards include guides on:
- good governance;
 - discouraging fraud;
 - procurement; and
 - severance payments.

¹⁴ Section 15(1) to 15(4) of the Education (School Boards) Regulations 2020.

Appendix

Update on progress with our previous recommendations

We provide an update on the Ministry's progress with the recommendations in our report *Results of the 2020 school audits*. We also refer to some recommendations from earlier reports that we followed up during our 2021 audits.

2020 recommendations

Recommendation	The Ministry of Education's current progress against recommendations	Our comment
<p>School payroll processes</p> <p>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.</p>	<p>Education Payroll Limited released updated guidance to the sector on school-level internal controls in March 2022, including how reporting from EdPay supported these controls. This guidance was jointly developed by the Ministry of Education and Education Payroll Limited.</p> <p>Schools have been able to re-establish the controls around the "payroll transaction report" that was lost during the transition from Novopay to EdPay.</p> <p>The Ministry will continue to meet with Education Payroll Limited to understand the impact of any planned developments to EdPay to ensure that any issues are addressed before implementation.</p>	<p>We have not repeated this recommendation, however we will continue to monitor progress.</p>
<p>Cyclical maintenance plans</p> <p>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 assessments and planned capital works.</p>	<p>During 2022, the Ministry of Education released new guidance on its website to assist schools in the development and review of their cyclical maintenance provision calculations, including having appropriate supporting evidence.</p> <p>During the 2021 audits, the Ministry was actively working with schools where audit challenges about cyclical maintenance have arisen.</p> <p>In our <i>Results of the 2020 school audits</i> report, the Ministry noted three key areas that were being worked on:</p> <ul style="list-style-type: none"> • Working with BRANZ on the development of a Maintenance Guide for Schools. This work is in progress. • A longer-term strategy piece to address assets failing due to inadequate maintenance, and the burden of maintenance responsibilities. This work is in progress. • Online modules to provide school boards, principals, and staff guidance on their obligations to manage school property. These modules have been available since June 2022 and have been well received. 	<p>We have repeated this recommendation.</p>

<p>Kiwi Park model financial statements</p> <p>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.</p>	<p>During 2022, the Ministry of Education engaged PwC to carry out a full technical review of the Kiwi Park model financial statements. This review identified opportunities to make minor changes that had significant effects on the reporting and auditing annual process. Two changes included:</p> <ul style="list-style-type: none"> • reporting of all grants from the Ministry in one disclosure line rather than two; and • a shift to functional reporting on the Statement of Comprehensive Revenue and Expenditure. <p>These changes allow for simplified financial reporting and auditing.</p> <p>Improvements will continue to be made annually as opportunities are identified.</p> <p>We worked with the Ministry to produce a terms of reference document that sets out a programme of work on the future of school financial reporting. This work will be led by the Ministry with our support, as appropriate. It will include identifying improvements and efficiencies to school financial reporting to ensure that it is both timely and cost-effective.</p>	<p>We have repeated this recommendation.</p>
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2019 recommendations that are still relevant

Recommendation	The Ministry of Education's current progress against recommendations	Our comment
<p>Accounting for "other activities"</p> <p>We recommend that the Ministry of Education provide guidance to schools on accounting for "other activities" (including Resource Teacher: Learning and Behaviour clusters) that they receive funding for.</p>	<p>During 2022, the Ministry of Education engaged PwC to carry out a technical review of the current accounting treatment of Resource Teacher: Learning and Behaviour funding for lead schools. This review was shared with us and resulted in updated guidance in the 2022 Kiwi Park model financial statements.</p> <p>The Ministry will continue to work with the lead Resource Teacher: Learning and Behaviour schools to assist with the correct accounting treatment for this source of funding.</p> <p>The Ministry will continue to improve its guidance to the sector on accounting for "other activities" as required.</p>	<p>We have not repeated this recommendation, however we will continue to monitor progress.</p>