



## Briefing Note: Results of the 2019 School Audits

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
<b>Date:</b>	26 November 2020	<b>Priority:</b>	High
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1245347
<b>Drafter:</b>	Chad Britton, Team Leader, School Financial Advice, Resourcing	<b>DDI:</b>	9(2)(a)
<b>Key Contact:</b>	Natasha Barnett, Group Manager Resourcing	<b>DDI:</b>	
<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	No

### Purpose of Report

The purpose of this paper is for you to:

**Note** that the Office of the Auditor-General (OAG) is intending to publish its report on the Results of the 2019 School Audits on the 30 November 2020.

**Note** that we will provide your office with a copy of the OAG's report on the Results of the 2019 School Audits once it has been published.

**Note** that this Briefing is based on the draft Results of the 2019 School Audits report issued to the Ministry for comment on 11 November 2020.

**Note** our draft communications plan to address the Results of the 2019 School Audits report (Appendix 1).

**Approve** the proactive release of this briefing.

☒ **Agree** ☐ **Disagree**

## Summary

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- Schools are required to prepare annual financial statements for the year ended 31 December. These financial statements are required to be independently audited by auditors appointed by the OAG.
- We are expecting the OAG to publish its report on the Results of the 2019 School Audits on 30 November 2020. Overall the 2019 findings are a continued improvement on 2018 and prior years. The report acknowledges the ongoing work we have undertaken to address and close off a number of the 2018 school audit recommendations.
- Of note is that the majority of the audit findings relate to prior years' audits. In most cases we have improved our guidance which has reduced the number of new findings being reported.
- Only 59% of schools met their obligation to submit their audited reports by 31 May. The impact of COVID-19 and the nationwide alert level restrictions is the main cause of this year's poor result. Steady progress is being made on completing school audits and as at 31 October 2020, 2,138 or 87% of schools have now completed their 2019 audit. There are no other patterns of activity or findings that we are concerned about.
- The issues that the OAG have identified include schools publishing their annual report online, the use of Crown funds for sensitive expenditure (including overseas travel), schools experiencing financial difficulty and schools breaching clauses of the Education Act 1989 or Crown Entities Act 2004.



Katrina Casey  
**Deputy Secretary**  
**Sector Enablement and Support**

26/11/2020



Hon Chris Hipkins  
**Minister of Education**

22/12/2020



## Background

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1. All school Boards are required to prepare an annual report<sup>1</sup>. The annual report includes the annual financial statements, which are required to be prepared in accordance with generally accepted accounting practice and must be audited. The financial year for schools runs from 1 January to 31 December.
2. The Auditor-General is the appointed auditor of every Crown entity. The OAG undertakes the required auditing work on behalf of the Auditor-General and subcontract's the audit work to chartered accountancy firms.
3. Schools are required to provide draft annual reports to their appointed auditor by 31 March of each year and the audited annual reports must be provided to the Ministry by 31 May of each year.
4. Following completion of the audit work, the OAG compiles the audit findings from the appointed auditors. These findings are included in a report which is sent to the Secretary for Education. This report is also published on the OAG's website.
5. The report highlights matters which the OAG and its auditors consider to be in the public interest. The report also names schools that have been found to have breached laws or regulations during the year, including those schools that have failed to meet the reporting obligations.

## Summary of Audit Findings

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6. The findings for 2019 are in the following broad categories:

- a. **Completion of the 2019 school audits:**

For 2019, 59% of audits were completed by 31 May. This is a significant decline from 2018 when a completion rate of 82% was achieved. The report notes that the COVID-19 alert level restrictions significantly impacted the ability for schools, service providers and auditors to undertake a "normal" audit process. Steady progress is being made to complete the remaining 2019 school audits. As at 31 October 2020, 2,138 or 87% of schools had completed their 2019 audit.

The report notes that we have continued to meet all the agreed time frames for the 2019 audits. Unfortunately, the impact of this continued delivery did not improve the completion rate as anticipated due the COVID-19 restrictions.

- b. **Matters of public interest:**

The report comments on certain matters which were highlighted in the auditors' reports because they were deemed to be of public interest. For 2019, these include cyclical maintenance, conflicts of interest, the use of Crown funds for sensitive expenditure (including overseas travel) and the results of a fraud investigation.

Similar findings have generated interest from the media and the public in the past. We have been working with the schools named in the audit report to resolve the issues raised. The significant matters are highlighted within the content of this report.

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<sup>1</sup> Education Act 1989, section 87. Section remains in effect until 1 January 2023



**c. Schools in financial difficulty:**

For 2019 the report discussed financial difficulty in two different ways, being:

- Schools requiring a letter of going concern. In 2019, 38 schools required a letter of going concern (2018: 36). While a small increase in the number of schools requiring a letter, this remains in line with the annual average of around 40 schools needing such a letter.
- Schools operating with a negative working capital. This is a new measure for 2019. Negative working capital indicates that a school may not have sufficient funds to meet its obligations within the next 12 months. In 2019, 85 schools are noted as having negative working capital (2018: 88).

Of the 85 schools noted, 12 schools are considered to be in significant financial difficulty. All of these schools have recovery plans in place, and we are working closely with these schools.

Returning a school to financial health can often take several years and this is reflected in the fact that some of the schools listed were also reported as in financial difficulty in the previous year.

While the number of schools in financial difficulty remains about the same each year, it is not always the same schools. Of the 88 schools identified in 2018 as being in financial difficulty approximately 44 (50%) of them are no longer considered to be in financial difficulty.

We continue to work with these schools to improve their financial literacy, capability and decision making.

**d. Breaches or laws and regulations:**

Where a school has breached a legislative requirement, this is disclosed in their financial statements and the schools are listed in an appendix to the report. These breaches include:

- exceeding borrowing limits allowed under section 155 of the Education and Training Act 2020 (2019:31, 2018:43).
- making payments to teachers made outside of the Education Payroll (2019:2, 2018:1)
- providing loans to staff (2019:1, 2018:10)
- investing money in organisations without Ministry approval (2019:7, 2018:5)
- banking arrangements that are inconsistent with requirements under the Crown Entities Act (2019:2, 2018:2)
- having trustees that did not comply with rules about conflicts of interest (2019:6, 2018:4).

Overall, there was a reduction in the number of legislative breaches reported compared to 2018. The declining trend is consistent with prior year trends (2019:49, 2018:65).

## **Matters of Public Interest**

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### **7. Limitation of Scope**

**a. Combined Board of Middle School West Auckland and South Auckland Middle School, Auckland (2018)**

Middle School West Auckland and South Auckland Middle School previously operated

as charter (or partnership) schools. The contract for the charter schools was terminated in December 2018 and the schools were established as designated character schools. The schools opened as state schools in January 2019. The combined Board appointed to set up the newly established state schools were also members of the Villa Education Trust (VET) Board, the previous sponsor of the charter schools.

The auditor has outlined that they could not obtain sufficient evidence to confirm the validity of a \$450,000 management fee the Board paid to VET. The auditor also noted that they were unable to obtain sufficient evidence that the conflicts of interest, which resulted from having members in common on both Boards, were appropriately managed.

The auditor has expressed concern to the Auditor-General and the Ministry has been asked to investigate. We have engaged with the Board to seek more information and clarity around these matters. At the time of writing this report, the combined Board has agreed to meet with us on the 24<sup>th</sup> November 2020.

**b. Te Kura Kaupapa Māori o Te Kura Kokiri, Bay of Plenty (2014 & 2015)**

The auditor was unable to obtain enough evidence about payments made by the kura of about \$426,000 (2014) and \$435,000 (2015), because there was inadequate documentation for payments and no evidence of approval. A similar modified audit report has been issued since 2010.

Out of the above amounts for 2014 and 2015, the auditor identified approximately \$144,000 (2014) and \$74,00 (2015) of the total Board-controlled expenditure that was unable to be appropriately supported. As a result, a blanket modification was given to all the Board-controlled expenditure, despite some having adequate support.

The auditor identified the following areas in particular where they were unable to obtain sufficient audit evidence:

<b>Identified unsupported expenses</b>	<b>2014</b>	<b>2015</b>
Fuel for vehicles not owned by the kura or utilised during term breaks	70,229	39,619
Repairs and maintenance on vehicles not owned by the kura	25,592	13,236
Marae rental	13,043	13,043
Te Houapapa Kohatu Motiti	8,916	-
Motiti expenses	10,913	-
Rehouo expenses	-	7,788
Consumable expenses	15,303	-
<b>Total unsupported expenses</b>	<b>\$143,996</b>	<b>\$73,686</b>
<b>% of total Board-controlled expenditure</b>	<b>33.1%</b>	<b>17.3%</b>

These findings relate to activities that occurred over five years ago. We have been working closely with the kura since early 2017 following the release of the 2012 audit report. From 2017 onwards the kura has significantly improved its record keeping practices. This does not however address the historical issues the kura faces in this respect. We anticipate that the 2018 and 2019 audit reports (once completed) will address these issues.

Due to the delays experienced in the sign off of 2014 and 2015 annual reports, the 2016 to 2019 audits for this kura remain outstanding. We continue to work with the kura, service provider and auditor to complete these audits as soon as possible.

**8. Overseas Travel:**

We have two schools that have been highlighted in the schools' audit opinions in 2019 (2018:2). Both trips related to the 2017 financial year, details of these are provided below.



a. **Taumarunui High School, Waikato (2017)**

The school spent \$60,475 on two trips during 2017. The principal travelled to Europe to market the school to overseas students, and to the United States to learn about Big Picture learning. Both trips were consistent with the school's strategy. However, the school was unable to provide sufficient evidence for \$10,904 of the expenditure incurred by the principal. The amounts spent were also significantly higher than was formally approved by the Board.

These findings relate to activities that occurred over two years ago. The school has reviewed its processes as a result of the audit. The school continues to maintain the position that it was able to provide appropriate support in relation to the expenditure.

Due to the delay in the completion of the 2017 audit the school has not yet had 2018 and 2019 audits completed. We continue to work with the school to address these matters. Current management accounts indicate that the school is in a good financial position.

b. **Te Kura Kaupapa Māori o Mangatuna, Hawke's Bay/ Tairāwhiti (2017)**

The kura spent \$36,200 on overseas travel. Of this, \$18,077 was spent on a professional development trip to Calgary for three staff members and \$18,133 on further travel through the United States, which included visiting Disneyland and other resorts.

The full cost of the trip was entirely funded through fundraising and contributions from the teachers; the amount raised was nearly double the amount spent, including the extra-curricular element. The Board approved earlier flights so that the teachers could maximise their experience given the long distance travelled and the extra-curricular element fell during the school holidays. The kura is in a sound financial position. The Board should not use school funds for travel that does not have a clear educational purpose.

9. **Specific Matters:**

a. **Lumsden School, Southland/Otago (2017)**

The Board transferred \$31,730 of maintenance funding provided to maintain the school buildings to a trust without the approval from the Ministry. The auditor also drew attention to a conflict of interest because the principal is also a trustee of the trust.

The trust was set up to manage the swimming pool, the trust leases the pool from the Ministry and then provides usage of this to the school and community. There is an agreement between the trust and Ministry which allows for payments to be made for the purposes of maintaining and operating the pool.

In 2017, it was found that several years of funding had not been transferred to the trust. Subsequently the trust has invoiced the school annually and the school has paid based on this invoice. The principal and Board chair are trustees on the pool committee trust and have declared this conflict of interest in the trusts and school Boards minutes. The school is in a strong financial position. It is noted that this issue was not raised in 2018 or 2019 audit reports.

b. **Whangamarino School, Bay of Plenty (2017)**

The auditor was unable to verify about \$22,000 of the school's expenditure because there was inadequate documentation. As a result, the auditor was unable to conclude on whether the expenditure had a clear educational purpose.

These findings relate to activities that occurred over two years ago. The School Finance Adviser has been working with the school regarding this issue, and the school has strengthened its internal record keeping processes since this point in time. It is also noted that due to the delay in the completion of this audit the school has not yet had



2018 or 2019 audits completed. Current management accounts indicate that the school is in a good financial position.

**c. Te Kura Kaupapa Māori o Te Tonga o Hokianga, Tai Tokerau (2016 and 2017)**

The kura was subject to a significant fraud over several years. The audit report referred to the disclosures in the financial statements about the losses from this fraud. The audits of the kura were delayed while the alleged fraud was investigated and eventually prosecuted.

The audit report also referred to the fact that this meant the kura had missed the statutory deadlines for reporting.

The school discovered significant fraud and underwent a full forensic investigation. Subsequent to this, the matter was handed to the police, who identified and charged a staff member. The prosecution has been completed with the staff member being sentenced.

It is noted that due to the delay in the completion of this audit, the kura has not yet had their 2018 or 2019 audits completed. Current management accounts indicate that the kura is recovering from this fraud.

**d. William Colenso College, Hawke's Bay/ Tairāwhiti(2019)**

For the eighth year, the auditor disagreed with the College not preparing consolidated (or group) financial statements that included the transactions and balances for the William Colenso College Charitable Trust. Group financial statements are required because in the OAG's view the college "controls" the Trust for financial reporting purposes. Therefore, the college is not fairly presenting its true financial position to its community.

We have continued to work with the college to resolve the disagreement in accounting treatment of the annual accounts.

The trustees on the William Colenso College Charitable Trust, have refused to give permission for the financial records of the trust to be consolidated in the college financial statements. Dialogue with the trustees to support a resolution is ongoing.

**e. Vanguard Military School, Auckland (2018)**

This school was newly established as a designated character school after the closure of the previous charter school. The auditor was unable to obtain enough evidence about the value of inventory the school included in its financial statements. Because the auditors were appointed in 2019 after the state schools were established, the auditors could not attend the year-end inventory count and verify the inventory held at 31 December 2018.

The school purchased inventory from the proprietor at book value. This value was also confirmed by an independent third-party valuer. This transaction made both fiscal and practical sense. We were aware of the transaction and the transparency that was used in its completion. While the auditor was unable to attend the final stock count for audit purposes, we are satisfied with the steps taken by the Board surrounding this.

## **Other Observations of Importance**

10. As expected, this year's report identifies that COVID-19 had a profound impact on the audit process and notes the potential for longer term impact on the school operational environment in coming years.



11. The impact on the ability of schools and kura to meet their legislative deadlines has been noted earlier in this briefing.
12. The report discusses the potential ongoing impact of COVID-19 on schools and kura who rely heavily on locally raised funds to support additional teaching and learning opportunities.
13. The report notes the following three key areas of concern:
  - a. The inability to undertake normal fundraising activities, many planned events have been cancelled or indefinitely postponed as a result of the COVID-19 pandemic.
  - b. Reliance on international student surpluses, this matter has been well noted in the media and many schools have become dependent on the revenue generated from this activity; and
  - c. The refund of cancelled trips (particularly overseas trips) and whether or not there has been any recoveries of amounts already paid.
14. In all respects, the message is that if schools and kura are unable to adjust to a new normal without this additional revenue then there is a high risk that we will see an increase in the number of schools and kura finding themselves in financial difficulty through 2020 and beyond.
15. This is a similar message that we have been providing schools since the national lockdown period began and the importance of strong financial management to enable a school or kura to get through uncertain and challenging times. Our School Financial Advisers have been actively working to identify and support schools at risk.

### Ministry of Education Actions to Date

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16. Overall, the 2019 audit findings are a further improvement on 2018. The report acknowledges the amount of work we have undertaken to address various issues such as providing the payroll information to schools earlier; updating current guidance and addressing several key recommendations from the OAG.
17. The report notes that we have continued to make good gains in some areas, as well as addressing and closing off some of the 2017 and 2018 school audit recommendations.
18. Following the 2018 OAG report, we undertook a program of work to directly address some of the issues raised. The key actions taken are noted below:
  - a. Re-established the project team, comprised of representatives from the Ministry, Education Payroll Limited, OAG and Ernst Young. Together we successfully delivered key payroll reports and associated guidance to schools, in line with agreed deadlines, therefore removing a historical barrier to the successful completion of the annual financial statements. This continues to be a beneficial working group for all and is aiding in addressing the issues raised by the OAG.
  - b. Our School Finance Advisors have continued to make direct contact with schools that have been identified as requiring additional support, including those that have previously missed the reporting deadlines.
  - c. We established a dedicated programme of work to address the OAG's specific recommendations. We continue to implement the outcomes of this programme, and have included a review, reflect and assess step to our work program to ensure we maintain the good work completed to date and look for new opportunities.
19. The 2019 report lists schools and kura that have not yet completed their financial reporting for 2019 and prior years. We have been collaborating in partnership with Te Rūnanga Nui o ngā Kura Kaupapa Māori o Aotearoa in developing a strategy to address financial compliance requirements for kura.



This includes guidance and advice in Te Reo and a Rohe based framework and approach to financial literacy, management and governance of kura. This work will support our regional teams and is being progressed both by the regions and national office. We have continued to build strong relationships with kura in the regions. This has enabled kura to both reduce the historical over representation and meet the legislative requirements while remaining true to their kaupapa.

## Key Risks

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20. Failure to sufficiently address the findings of the report could result in:

- a. continued breaches of reporting requirements, with implications for public accountability;
- b. waste and probity issues, including the misuse of public funds;
- c. schools continuing to experience financial difficulty, with insufficient resources for the delivery of teaching and learning; and
- d. increasing instances of legislative breaches.

## Mitigation of Risks

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21. The following actions have been undertaken to mitigate the above-mentioned risks:

- a. We have been actively following up with schools that are noted in the OAG's report and are working closely with them to resolve the challenges noted.
- b. We continue to refine our analytical tools that have enable us to refocus our attention on the cause of the financial challenges' schools face, rather than the symptoms.
- c. We have established a program of work to review and update our guidance around the management of school finances. This included a regular schedule of updates to the sector.
- d. We have further developed our suite of training sessions for principals and Boards, along with examples of best practice Board financial reporting. The aim of these sessions is to raise the level of awareness around financial management and breaches of legislation. We have provided instructional videos on our website and have completed our first webinar to expand on the guidance offerings we have in place. The initial uptake of these formats is promising, and we will look to expand this further.
- e. We continue to notice schools, kura and the wider sector contacting us early on, allowing for the mitigation of a school entering financial difficulty, and offering of proactive guidance.

22. The benefits of addressing the issues raised by the OAG:

- a. We are becoming more responsive and accessible for schools and kura.
- b. We are building and improving the leadership and financial literacy of the national schooling system.
- c. We are continuously reviewing and challenging our current practices, to ensure that we are meeting and improving the educational outcomes for all students.

## Next Steps

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23. We have already commenced the work required to address the recommendations outlined in the OAG's Results of the 2019 School Audit report and we will continue to work with schools highlighted in the report to address the issues raised.
24. Once the Results of the 2019 School Audits report has been published we will respond to the OAG's recommendations and we will provide your office with a final copy of the Results of the 2019 School Audit report.
25. We have drafted a communications plan to address the Results of the 2019 School Audits report (Appendix 1). This includes key messages and individual media responses to the specific points raised by the OAG.

## Proactive Release

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26. It is intended that this briefing is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.



Proactively Released

# Draft Communications Plan

## Report on the Results of the 2019 School Audits

30 November 2020

### Situation

The Office of the Auditor-General's (OAG) 2019 report on school audits is due to be published on the 30 November 2020.

The OAG audits schools on behalf of the Ministry of Education (the Ministry). It reviews schools' timeliness and capability for disclosing how they spent their public funding. The OAG reports on schools who have struggled and/or who have breached regulations/legislation. It also comments on the Ministry's role of providing guidance and support.

Overall, the 2019 audit findings are a further improvement on 2018, but the OAG have raised a small number of issues that could become the subject of media attention.

This communications plan identifies those issues and provides talking points to address them.

### Key messages

- The report acknowledges the ongoing work we have undertaken to close out several of the 2018 school audit recommendations. The 2019 school audit report findings are a continued improvement on 2018 and prior years.
- The impact of COVID-19 resulted in a significant number of schools not being able to submit their annual account to their auditors by the 31 March, and resulted in a number of those audits not being completed by 31 May.
- Auditors received 2,159 (88%) draft financial statements for audit by the 31 March statutory deadline, this increased to 2,265 (92%) within two weeks of the deadline.
- As at 31 May, 1,451 (59%) of 2,451 school audits had been completed (2018: 82%). This increased to 2,138 (87%) as at 31 October 2020.
- The OAG have only raised concerns about a handful of schools. The majority of these issues relate to prior year audits.
- The OAG have identified that kura have a higher portion of outstanding prior year audits. Good progress has been made on resolving these outstanding audits during 2019. Of the outstanding kura audits prior to 2019, 22 out of 61 audits are outstanding and four kura have multiple year audits outstanding (2018: 10).
- Of the 2,138 audit reports issued to 31 October 2020, nine audit reports contained a modified audit opinion (2018: 20). A further seven modified opinions were issued for prior-year audits.
- For 2019, 38 schools required a letter of going concern from the Ministry (2018: 36). Of the 36 schools needing letters of support for 2018, 16 of these are no longer considered to be in financial difficulty.
- The number of the schools operating with a working capital deficit has dropped from 88 in 2018 to 85 in 2019. Of the 88 that were noted as being in financial difficulty, approximately 50% are no longer considered to be in financial difficulty.



- Out of nearly 2,500 schools, there are only two schools where the OAG raised concerns regarding their overseas travel expenditure from prior years.
- The OAG noted a significant improvement in schools publishing their annual reports online. 82% of schools made their annual accounts available online compared to 68% last year.

## Specific issues raised by the OAG

### Expenditure

#### Middle School West Auckland and South Auckland Middle School (2018)

Middle School West Auckland and South Auckland Middle School previously operated as charter (or partnership) schools. The contract for the charter schools was terminated in December 2018 and the schools were established as designated character schools. The schools opened as state schools in January 2019. The combined Board appointed to set up the newly established state schools were also members of the Villa Education Trust (VET) Board, the previous sponsor of the charter schools.

In August 2020, the OAG completed the audit of the combined Board's financial statements for the period August 2018 to 31 December 2018. The OAG could not obtain sufficient evidence to confirm the validity of a payment of \$450,000 for a management fee they paid to VET. They also found no evidence that the conflicts of interest, which resulted from having members in common on both Boards, were appropriately managed. This is a matter of some concern to the Auditor-General and the Ministry was asked to investigate. The OAG will decide on subsequent action once the Ministry has reported back.

#### Media Response:

- The OAG's finding relates to the 2018 financial year.
- We were advised by the Auditor-General of the issue on 27<sup>th</sup> October 2020.
- The \$467,391 relates to the entire amount paid from the Board to Villa Education Trust (VET) for the period 28 August to 31 December 2020.
- We have met with the Board to seek more information and clarity around this matter.



### **Te Kura Kaupapa Māori o Te Kura Kokiri (2014 and 2015)**

In OAG's audit report on the 2014 and 2015 financial statements of Te Kura Kaupapa Māori o Te Kura Kokiri, they explained that they could not get enough evidence about payments made by the kura of about \$426,000 and \$435,000 respectively, because there was inadequate documentation for payments and no evidence of approval. The audit report also referred to some unusual spending. The OAG have issued similar opinions every year since 2010.

As well as the modifying opinions because of limited controls over payments, the OAG also outlined that the school spent unusually large amounts on fuel, repairs, and maintenance for cars not owned by the school; marae rentals; and other general expenses. The audit reports for 2016 to 2019 are still outstanding.

#### **Media Response:**

- The OAG's finding relates to both the 2014 and 2015 financial year.
- The \$426,000 (2014) and \$435,000 (2015) is the total expenditure approved by the Board not the amount which they were unable to find supporting evidence. The total in question is \$144,000 (2014) and \$74,000 (2015).
- The breakdown of the total costs which were unsupported included fuel for vehicles not owned by the kura, or owned by the kura but utilised in term breaks (2014 \$70,229, 2015 \$39,619), repairs and maintenance on vehicles not owned by the kura (2014 \$25,592, 2015: \$13,236), marae rental (2014/2015: \$13,043), consumables (2014: \$15,303), Te Houapapa Kohatu Motiti (2014: \$8,916), Motiti (2014: \$10,913), and Rehouo (2015: \$7,788).
- We have been working closely with the kura since early 2017.
- From 2017 onwards the kura has significantly improved its record keeping practices, this however does not address the historical issues the kura faces in this respect.

## Overseas Travel

The following two schools have been mentioned in relation to overseas travel expenditure:

### Taumarunui High School (2017)

The school spent \$60,475 on two trips during 2017. The principal travelled to Europe to market the school to overseas students, and to the United States to learn about Big Picture learning. Both of these trips were consistent with the school's strategy. However, the school was unable to provide sufficient evidence for \$10,904 of the expenditure incurred by the principal. The amounts spent were also significantly higher than was formally approved by the Board.

#### Media Response:

- The OAG's finding relates to the 2017 financial year.
- School Boards are responsible for their own financial decision making. The Ministry of Education provides guidance and advice.
- In 2018 we updated our overseas travel guidance which reflects the Boards' role in making decisions about the use of crown funds. The guidance recommends Boards consider the following before approving the use of crown funding for overseas travel for the purpose of the delivery of the curriculum:
  - how the travel supports the delivery of the curriculum and student achievement;
  - the financial consequences e.g. value for money, local or virtual alternatives, other competing priorities; and
  - there should be no personal gain or perception of personal gain.
- For overseas travel other than that for the purpose of delivery of the curriculum, we recommend that Boards maintain travel policies and that decisions are made with reference to those policies. Best practice is that such decisions are approved using the one-up principle and that the justification and approval are clearly documented.
- The school has reviewed its processes as a result of the audit.
- The school continues to maintain the position that it was able to provide appropriate support in relation to the expenditure.
- Due to the delay in the completion of the 2017 audit both 2018 and 2019 remain outstanding. We continue to work with the school to address these matters.
- Current management accounts indicate that the school is in a good financial position.



### **Te Kura Kaupapa Māori o Mangatuna (2017)**

The kura spent \$36,200 on overseas travel. \$18,077 was spent on a professional development trip to Calgary for three staff members and \$18,133 on further travel through the United States, which included visiting Disneyland and other resorts. The Board should not use school funds for travel that does not have a clear educational purpose.

#### **Media Responses:**

- The OAG's finding relates to the 2017 financial year.
- School Boards are responsible for their own financial decision making. We provide guidance and advice.
- In 2018 we updated our overseas travel guidance which reflects the Boards' role in making decisions about the use of crown funds. The guidance recommends Boards consider the following before approving the use of crown funding for overseas travel for the purpose of the delivery of the curriculum:
  - how the travel supports the delivery of the curriculum and student achievement;
  - the financial consequences e.g. value for money, local or virtual alternatives, other competing priorities; and
  - there should be no personal gain or perception of personal gain.
- The full cost of the trip was funded through fundraising and contributions from the teachers; the amount raised was approximately double the amount spent, including the extra-curricular element.
- The Board approved the earlier flights so that the teachers could maximise their experience given the long distance travelled and the extra-curricular element fell during the school holidays.
- The kura is in a sound financial position.

## Other Specific Matters

### Vanguard Military School (2018)

This school was newly established as a designated character school after the closure of the previous charter school. The OAG could not get enough evidence about the value of inventory the school included in its financial statements. Because the auditors were appointed in 2019 after the state schools were established, the auditors could not attend the year- end inventory count and verify the inventory held at 31 December 2018.

#### Media Response

- The school purchased inventory from the proprietor at book value, this value was also confirmed by an independent third-party valuer.
- This transaction made both fiscal and practical sense.
- We were aware of the transaction and the transparency that was used in its completion.
- While the auditor was unable to attend the final stock count for audit purposes, we are satisfied with the steps taken by the Board surrounding this.

### Lumsden School (2017)

The Board transferred \$31,730 of maintenance funding provided to maintain the school buildings to a trust without the approval from the Ministry of Education. The OAG drew attention to a conflict of interest because the principal is also a trustee of the trust.

#### Media Response:

- The OAG's finding relates to the 2017 financial year.
- The trust was set up to manage the swimming pool on Ministry land and is leased back to the trust by the Ministry. The trust has both Northern Southland College and Lumsden School as beneficiaries.
- Both Lumsden School and Northern Southland College receive funding from the Ministry for swimming pool maintenance and these are transferred to the trust annually.
- During 2017 it was identified that the funding had not been transferred to the trust for a number of years so this was transferred in one transaction. This is the \$31,730 mentioned in the report.
- Subsequently, the trust has invoiced the school and the school has paid based on this invoice.
- The principal and Board are trustees on the pool committee trust and will declare this conflict of interest in both the trust and school Board minutes at the next meeting.
- This school is in a strong financial position.



### **William Colenso College (2019)**

For the eighth year, the OAG disagreed with William Colenso College for not preparing consolidated (or group) financial statements that included the transactions and balances for the William Colenso College Charitable Trust. Group financial statements are required because in OAG's view the College "controls" the Trust for financial reporting purposes. The college disagrees with the OAG's assessment. As a result, the College is not fairly presenting its true financial position to its community.

#### **Media Response:**

- We continue to work with the College to resolve the disagreement in accounting treatment of the annual accounts.
- We are continuing to work with the auditor and college.

### **Whangamarino School (2017)**

The OAG could not verify about \$22,000 of the school's expenditure because there was inadequate documentation. As a result, the OAG could not conclude on whether the expenditure related to the school.

#### **Media Response:**

- The OAG's findings relates to the 2017 financial year.
- The School Finance Adviser has been working with the school regarding this issue.
- The school has strengthened its internal record keeping processes since 2017.
- Due to the delay in completion of the 2017 audit, 2018 and 2019 audited annual reports remain outstanding.
- Current management reporting indicates this school is in a good financial position.

### **Te Kura Kaupapa Māori o Te Tonga o Hokianga (2016 and 2017)**

The kura was subject to a significant fraud over several years. The audit report referred to the disclosures in the financial statements about the losses from this fraud. The kura's audits were delayed while the alleged fraud was investigated and eventually prosecuted. The audit report also referred to the fact that this meant the kura had missed the statutory deadlines for reporting.

#### **Media Response:**

- The OAGs findings relate to audits from 2016 and 2017 financial years.
- The school discovered significant fraud and underwent a full forensic investigation.
- The prosecution has now been completed with the staff member being sentenced to 10 months' home detention.
- It is noted that the delay in the completion of the 2016 and 2017 audits has resulted in both 2018 and 2019 audit not yet being completed.
- Current management reporting indicates that the kura is recovering from the impact of this fraud.



## Other Matters of Importance

What is the Ministry doing to fulfil the OAG's recommendations?

### School Payroll

It is recommended that the Ministry ensures that changes to the Novopay system include the addition of appropriate controls, to ensure that all transactions are approved within the school's delegations; and **[Repeated]**

It is recommended that the Ministry follows up unusual transactions or anomalies identified as part of the payroll audit so they do not reoccur, including giving Boards additional support and guidance on payroll matters if necessary. **[Repeated]**

#### Media Response:

- Ultimately Boards are responsible for ensuring that an effective internal control environment is developed and maintained.
- Since the 2018 school audits, Education Payroll Limited (EPL) has deployed a new payroll service EdPay to all schools.
- EdPay is designed to reduce data entry errors through extensive input validations and entitlement engines.
- Its design principle is that schools' payroll should be easy to get right and hard to get wrong.
- EdPay has been designed to increase schools' visibility of their payroll and increase self-correcting behaviour. It is expected to dramatically reduce the possibility for school-based error as a result.
- EdPay is being rolled out in stages after being tested by a small group of schools.
- We have built a feedback loop into the process.
- Further lessons learnt from the 2019 audits will help refine the information provided to school auditors with any unusual payroll transactions for the 2020 audits. This is expected to result in better quality information being returned to us and to inform additional targeted guidance.



## Internal Controls

We recommend that the Ministry of Education improve its guidance to schools on what good controls look like. **[Repeated]**

### Media Response:

- Ultimately Boards are responsible for internal control processes. The internal control environment is reviewed as part of the annual audit undertaken by independent auditors and recommendations are provided to the Board.
- We will continue to offer advice and guidance to schools around the internal control challenges they face.
- We work alongside schools who have reported instances of suspected fraud to ensure schools report these to the relevant local authorities as soon as possible.
- We are currently reviewing our existing guidance on internal controls and developing tools to assist Boards to assess their systems of internal controls.

## Accounting for other activities

We recommend that the Ministry of Education provide guidance to schools on accounting for “other activities” (including Resource Teacher: Learning & Behaviour clusters) that they receive funding for. **[New]**

### Media Response:

- We are considering the financial reporting requirements for the 40 Resource Teacher: Learning & Behaviour (RTLB) clusters, for discussion with the OAG in 2021.
- As an interim measure, additional disclosure has been incorporated into the Kiwi Park model financial statements to ensure that the activities of the RTLB clusters are disclosed in the host schools' financial statements.