



Briefing Note: Results of the 2020 School Audits

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| To: | Hon Chris Hipkins, Minister of Education | | |
| Date: | 2 December 2021 | Priority: | High |
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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 2020 School Audits in the first week of December 2021.

Note that we will provide your office with a copy of the OAG's report on the Results of the 2020 School Audits once it has been published.

Note that this briefing is based on the draft Results of the 2020 School Audits report, issued to Te Tāhuhu | The Ministry for comment on 3 November 2021.

Note our draft communications plan to respond to any queries regarding the Results of the 2020 School Audits report (Appendix 1).

Summary

- Schools and kura are required to prepare 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 2020 School Audits during the first week of December 2021.
- The report acknowledges the ongoing work undertaken to address previously raised school audit recommendations.

- This year:
 - 96% of schools and kura submitted their annual financial statements to their appointed auditor by 31 March. This is the best result in 10 years, in 2019 the percentage was 88%
 - 70% of schools and kura submitted their annual reports, including audited financial statements, to Te Tāhuhu | The Ministry by the 31 May deadline. This was an improvement on 2019 when only 59% submitted their annual reports by the reporting deadline.
 - 91% of schools and kura had completed their 2020 audit by 22 October 2021 (steady progress from the 31 May deadline).
- The acute shortage of auditors, exacerbated by the COVID-19 border restrictions, continues to have a significant impact on the completion of school audits and impacted the percentage of annual reports and audited financial statements submitted on time.
- While most schools and kura fulfilled their financial management obligations, the OAG continues to highlight some areas of concern including:
 - The use of Crown funds for sensitive expenditure (including overseas travel);
 - Schools and kura experiencing financial difficulty; and
 - Schools and kura breaching clauses of the Education Act 1989, the Education and Training Act 2020 or the Crown Entities Act 2004.
- Te Tāhuhu | the Ministry has been actively engaging with the schools and kura named in the draft report to check that the audit findings are factually accurate, and to offer support to address the issues raised.
- The OAG have made the following three recommendations to Te Tāhuhu | The Ministry:
 - Ensure that changes to school payroll processes do not adversely affect the internal control environment;
 - Ensure that schools and kura are complying with their property planning requirements by having up-to-date cyclical maintenance plans; and
 - Simplify the level of financial reporting required in the Kiwi Park model financial statements.

Proactive Release

Agree that the Ministry of Education release this briefing in full once it has been considered by you.

☒ **Agree** ☐ **Disagree**


Sean Teddy
Hautū | Deputy Secretary | Te Pae Aronui

2/12/21


Hon Chris Hipkins
Minister of Education

18/1/2022

Background

1. All school boards are required to prepare an annual report¹. 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 and kura runs from 1 January to 31 December.
2. The Auditor-General is the appointed auditor of every Crown entity. The OAG co-ordinates the audits on behalf of the Auditor-General and subcontract's the audit work to chartered accountancy firms.
3. Schools and kura are required to provide draft financial statements to their appointed auditor by 31 March of each year and annual reports, including the audited financial statements, must be provided to Te Tāhuhu | 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 and kura that have been found to have breached laws or regulations during the year, including those schools and kura that have failed to meet their reporting obligations.

Summary of Audit Findings

6. The findings for 2020 are in the following broad categories:

- a. **Completion of the 2020 school audits:**

For 2020, 70% of audits were completed by 31 May. This is an improvement from 2019 when only 59% of audits were completed by this date. This is still significantly lower than preceding years when at least 82% of audits were completed. The report notes that the acute shortage of auditors, exacerbated by ongoing boarder closures, continues to significantly impact the ability for schools, kura and auditors to undertake a "normal" audit process. Steady progress is being made to complete all outstanding audits. As of 22 October 2021, 91% of schools and kura had completed their 2020 audit.

For 2020, 96% of schools and kura submitted their annual financial statement for audit by the statutory deadline, 31 March 2021. This is the best result in 10 years.

Te Tāhuhu | The Ministry continues to meet the deadlines agreed with the OAG for supplying year end accounting and audit information to the sector, enabling the timely completion of annual financial reporting.

- 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 2020 the themes include cyclical maintenance, conflicts of interest, the use of Crown funds for sensitive expenditure (including overseas travel) and, in two instances, the absence of sufficient evidence to enable the auditor to form an opinion on the annual financial report.

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

¹ Education Act 1989, section 87. Section remains in effect until 1 January 2023

c. **Schools and kura in financial difficulty:**

When a school is experiencing financial difficulty, Te Tāhuhu | The Ministry is asked to provide a letter of going concern to the school. This letter confirms that Te Tāhuhu | The Ministry will continue to provide resourcing to the school for at least 12 months which allows the school to complete their financial statements on a “going concern” basis.

In 2020, 16 schools and kura required a letter of going concern (2019: 38). Historically, on average, 40 schools and kura require a letter of going concern. Additional one-off COVID-19 funding provided to schools and kura during the year had a positive impact on their financial positions as at 31 December 2020. Further funding has been provided during 2021 to address the on-going impacts of COVID-19.

In 2020, 42 schools and kura had negative working capital as at 31 December (2019: 85). Negative working capital indicates that a school may have insufficient funds to meet its immediate financial obligations.

Of the 42 schools and kura, four are in significant financial difficulty (2019: 12). Returning a school or kura to financial health can often take several years. For this reason, three of the four schools and kura listed were also in significant financial difficulty in the previous year. We have developed recovery actions plans for these schools and kura and are working with them to return them to financial health. Of these schools and kura, one is in the process of having an intervention put in place to support their recovery.

While the number of schools and kura in financial difficulty remains relatively stable each year, it is not always the same schools and kura. Of the 85 schools and kura identified as being in financial difficulty in 2019, 60 are no longer considered to be in financial difficulty.

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

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

Where a school or kura has breached a legislative requirement, this is disclosed in their financial statements and they 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 (2020:19, 2019:31);
- making payments to teachers outside of the Education Payroll system (2020:1, 2019:2);
- investing money in organisations without Ministry approval (2020:1, 2019:5);
- banking arrangements that are inconsistent with the requirements of the Crown Entities Act (2020:2, 2019:2); and
- having trustees that did not comply with rules about conflicts of interest (2020:7, 2019:6).

Overall, there was a reduction in the number of legislative breaches reported in 2020 compared to 2019 (2020: 33, 2019: 48).

7. **Disclaimers of Opinion**

a. **Al-Madinah School (2018)**

A disclaimer of opinion was issued for Al-Madinah School's 2018 financial statements due to limited controls over cash receipts, payments to suppliers, and the identification and disclosure of related-party transactions between the board, the proprietor, staff, family members and other parties. Similar findings were made in relation to the school's 2016 and 2017 financial statements.

Audits of the 2019 and 2020 financial statements were also completed during 2021. The audit report for 2019 noted that the auditor was unable to give an opinion about the comparative figures due to the disclaimer of opinion on the 2018 financial statements. The auditor was, however, able to issue an unmodified audit opinion for the 2020 financial statements.

b. **Te Kura o Pakipaki (2015 to 2018)**

A disclaimer of opinion was issued for Te Kura o Pakipaki's 2015, 2016, 2017 and 2018 financial statements, because the auditor could not get enough evidence about bank accounts, revenue and expenditure, and some assets and liabilities of the school. This was because there was a lack of controls over cash receipting and expenditure from a bank account under the school's control and a lack of supporting documents for some transactions.

The auditor also drew attention to the school's financial difficulties in 2015 and 2016, and to the breach of legislation by failing to keep appropriate accounting records and meet statutory time frames.

The audits for 2019 and 2020 were also completed during 2021, bringing Te Kura o Pakipaki's financial reporting up to date. The audit report for 2019 noted that the auditor was unable to give an opinion about the comparative figures and opening balances due to the disclaimer of opinion on the 2018 financial report. However, the auditor was able to issue an unmodified audit opinion for the 2020 financial report.

8. **Limitation of Scope**

A limitation of scope is when the auditor is unable to obtain enough supporting evidence to support an element of the financial statements.

a. **Locally raised funds**

In 2020, five opinions included a limitation of scope in relation to locally raised funds. Of these, only two related to 2020 financial statements.

Four schools, and one controlled entity of a school board, had insufficient controls in place to correctly record all locally raised funds. The lack of evidence was related to fundraising revenue and either donations or activities revenue.

b. **Cyclical Maintenance**

There were 23 qualified audit opinions in relation to cyclical maintenance, where the auditor was unable to obtain sufficient evidence to verify the recorded amount included in the financial statements. 20 of these related to 2020 financial statements and 3 related to 2019 financial statements.

A further five 2020 audit opinions referred to cyclical maintenance as the auditors considered this to be a matter of importance. These schools and kura could not reasonably estimate their cyclical maintenance provision because they were part of Te Tāhuhu | The Ministry's refurbishment and redevelopment project or because of uncertainties around weathertightness issues.

For the three schools and kura reported on in the prior year OAG report, sufficient evidence has been provided to verify the provision recorded in the 2020 financial statements.

Te Tāhuhu | The Ministry has developed new cyclical maintenance guidance which schools and kura will be able to utilise in the preparation of their financial statements for 2021.

9. **Travel, Gifts and Hospitality:**

In 2020, auditors drew attention to travel, gifts, or hospitality transactions for three schools and kura (2019:2).

a. **Papatoetoe North School, Auckland (2020)**

The Board gifted several hardware items (\$4,310) to the departing principal in addition to paying for a farewell event (\$8,695).

The Board also gave farewell gifts of \$1,000 each to two staff members and spent \$2,200 on a function for a former teacher.

Spending on farewell gifts and retirement functions should be moderate, conservative, and appropriate to the occasion. In the view of the auditor, this level of spending was excessive.

b. **Manurewa West School, Auckland (2017, 2018)**

During 2017 and 2018 the principal of Manurewa West School received payments relating to well-being, revitalisation, and refreshment grants. Any additional benefits paid to principals outside of the collective agreement requires approval (or concurrence) from Te Tāhuhu | The Ministry. In this instance, this was not provided.

In 2018 the school paid for the principal and his spouse to travel to Singapore to attend the World Education Leadership Conference. The principal subsequently repaid his spouse's travel costs and his daily incidental travel allowance.

c. **Te Kura Māori o Nga Tapuwae, Auckland (2017)**

In 2017, several staff represented the kura at the World Indigenous Peoples Conference on Education held in Toronto, Canada. The kura had been invited to make two presentations at the conference.

The financial statements detailed the reasons for the travel, total amount spent, and how the trip was funded. This disclosure represents good practice for schools and kura as it explains reasons for significant spending to their communities.

The delay in preparing this additional disclosure, coupled with auditor delays, meant that the completion of the 2017 audit was delayed until August 2021. It is pleasing to note the 2018 and 2019 audits for this kura are now complete and the 2020 audit is also close to completion.

10. **Specific Matters:**

a. **William Colenso College, Hawke's Bay/Tairāwhiti (2020)**

For the ninth 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 as the OAG believes the college "controls" the trust for financial reporting purposes. Therefore, the college is not fairly presenting its true financial position to its community.

Historically, the trustees have refused to give permission for the financial records of the trust to be consolidated in financial statements of the college. Dialogue with the trustees to support a resolution is ongoing.

b. Renew School (2019)

The school did not include a cyclical maintenance provision in its 2019 financial statements. This is a departure from the relevant financial reporting standard, which requires that a provision be recorded to estimate the future costs of the school's obligation to keep its buildings in a good state of repair.

The school recognised a cyclical maintenance provision in its 2020 financial statements. This matter is now considered closed.

c. Ponsonby Primary School (2020)

The school received \$49,207 under the COVID-19 wage subsidy scheme because it was unable to hold its annual fundraising event, Taste of Ponsonby during the Level 4 Alert Level restrictions. Although its fundraising revenue had reduced, the school's total revenue in May 2020 had not reduced by 30% compared to 2019. Therefore, it was not eligible for the subsidy.

We engaged with the school and auditor at the time of the audit and as a result the school board elected to repay the wage subsidy received. This was repaid after the end of the year.

d. Lindisfarne College (2020)

The college received \$123,703 under the COVID-19 wage subsidy scheme. From the information the school provided in support of its claim, it was identified that the college's revenue did not decline by at least 30% in between the respective months in 2020 and 2019. Therefore, it was not eligible for the wage subsidy.

The college employs additional staff, at the request of the school's proprietor, to fulfil its special charter designation. The school receives donations from the proprietor to assist with the cost of employing these additional staff.

The school board remain resolute that they did meet the criteria set out by the Ministry of Social Development (MSD). We are continuing to work with the school on this matter. To date the college has not repaid, or been requested to repay, the wage subsidy.

Other Observations of Importance

11. The report makes three key recommendations to Te Tāhuhu | The Ministry:
 - a. Ensure that changes to the school payroll processes do not adversely affect the internal control environment;
 - b. Ensure that schools and kura are complying with their property planning requirements by having up-to-date cyclical maintenance plans; and
 - c. Simplify the level of financial reporting required in the Kiwi Park model financial statements.
12. We have already been engaging with the OAG and the sector on these matters and we will address these findings during 2022.
13. The report notes that additional one-off funding provided during 2020 assisted schools and kura to continue to operate without financial difficulty, and in some cases improved their financial positions. This may be temporarily masking the full impact of COVID-19 on the financial positions of schools and kura.
14. The reduced ability for schools and kura to hold fundraising events has contributed to a \$110 million decrease in locally raised funds.

15. The \$37 million decrease in international student revenue was not as significant as anticipated, due to some schools and kura retaining international students who were already in New Zealand. This was partially offset by one-off international transition funding provided to schools and kura in 2020.
16. Te Tāhuhu | The Ministry continues to emphasise the importance of strong financial management to enable schools and kura to manage uncertain and challenging times. Our School Financial Advisers continue to actively identify and support schools and kura at risk.

Actions to Date

17. The following programme of work is in progress to address the report's findings and the recommendations that the OAG have made to Te Tāhuhu | The Ministry:
 - a. We have continued to develop guidance materials and supporting tools for schools and kura to assist them in their financial decision making and reporting. During 2021 this has included refinements to a borrowing calculator to help schools and kura avoid breaches to the 10% borrowing threshold, and a quick reference guide for accounting for new programmes.
 - b. We have reviewed our guidance on preparing cyclical maintenance provisions and enhanced this guidance to assist schools and kura with meeting their obligations. This updated guidance is intended to be released early 2022.
 - c. Our School Finance Advisers continue to make direct contact with schools and kura that have been identified as requiring additional support, including those that have previously missed the reporting deadlines.
 - d. We have continued to strengthen our partnerships with Te Rūnanga Nui o ngā Kura Kaupapa Māori o Aotearoa. We are working closely with Ngā Kura a Iwi o Aotearoa to develop 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 in audit findings and outstanding financial accounts, and to meet the legislative requirements.
 - e. A review of the Kiwi Park model financial statements has commenced and will be completed during 2022, with the aim of simplifying the level of financial reporting required, where appropriate.
 - f. We continue to work closely with representatives from Education Payroll Limited, OAG and Ernst Young to ensure that key payroll reports and associated guidance are delivered to schools and kura to enable to preparation of annual financial statements. This working group will also focus on ensuring that internal controls over payroll remain appropriate given changes to payroll systems processes. This work is expected to continue into 2022.

Key Risks

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

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

Mitigation of Risks

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

- We are working with the schools and kura noted in the report to resolve the issues raised.
- We continue to refine our analytical tools that have enabled us to focus on the cause of the financial challenges' schools and kura face, rather than the symptoms.
- Our School Finance Advisors are working closely with regional staff to ensure schools are well supported with their financial management.
- We have recently reviewed our published guidance materials to support schools with their financial management and decision making. These guidance materials will be reviewed regularly, and regular updates provided to the sector.
- We are utilising a range of different communication channels to provide guidance and support. In addition to our published guidance, school bulletin articles, visits to individual schools and kura and presentations to regional groups of schools and kura, we are providing webinars on financial management topics, which are available on our website. The number of schools and kura accessing these webinars is promising, and we will look to expand this offering further during 2022.
- We have further developed our relationships with peak bodies within the sector. This enables us to provide proactive advice and guidance and to provide support to schools and kura prior to them experiencing significant financial difficulty.
- As a result of our increased engagement with representative bodies and an improved level of service, we have noticed both schools and kura, and the wider sector, engaging with Te Tāhuhu | The Ministry earlier. This allows early intervention and prevention of legislative breaches or financial difficulty by the provision of timely guidance and support.

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

- We are building and improving the leadership and financial literacy of the national schooling system.
- We are continuously reviewing and challenging our current practices, to ensure that we are meeting and improving the educational outcomes for all students.
- We are enabling the financial success of each school and kura in its own unique setting that achieves positive outcomes for students.

Next Steps

21. We have already begun to address the recommendations outlined in the OAG's Results of the 2020 School Audit report and we will continue to work with schools and kura highlighted in the report.
22. Once the Results of the 2020 School Audits report has been published, we will provide your office with a final copy of the report, together with a copy of our response to the Auditor-General.
23. We have prepared a communications plan which we will use to respond to any queries that we receive (Appendix 1). This includes key messages and individual media responses to the specific points raised by the OAG.

Proactively Released