


## Briefing Note: Results of the 2021 school audits

<b>To:</b>	Hon Jan Tinetti, Minister of Education		
<b>Date:</b>	20 March 2023	<b>Priority:</b>	Medium
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1305401
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## Recommendations

It is recommended that you:

- Note** that the Office of the Auditor-General (OAG) is intending to publish its report on the results of the 2021 school audits between the 23 and 27 March 2023. **Noted**
- Note** that the Ministry will provide your office with a copy of the OAG's report on the results of the 2021 school audits once it has been published. **Noted**
- Note** that this briefing is based on the draft results of the 2021 school audits report, issued to the Ministry for comment on 20 February 2023 (Annex 1). **Noted**
- Note** our draft communications plan to respond to any queries regarding the results of the 2021 school audits report (Annex 2). **Noted**
- Agree** that the Ministry of Education (the Ministry) release this briefing in full once it has been considered by you. **Agree** **Disagree**

  
 Sean Teddy  
 Hautū | Deputy Secretary  
 Te Pae Aronui  
 20/03/2023

  
 Hon Jan Tinetti  
 Minister of Education  
 26/03/2023

## Purpose of Report

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The purpose of this paper is to inform you on the upcoming Results of the 2021 School Audits report from the Office of the Auditor-General to be published between 23 and 27 March 2023.

## Summary

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1. Schools and kura are required to prepare financial statements annually in a format specified by the Ministry. These financial statements are required to be independently audited, by auditors appointed by the OAG, and submitted to the Ministry.
2. The OAG reports annually on the results of school audits. The OAG has indicated that they intend to publish the report on the Results of the 2021 school audits between the 23 and 27 March 2023.
3. 92% of schools and kura submitted draft 2021 financial statements to their auditor by the statutory reporting deadline of 31 March 2022, (2020: 96%). Despite high levels of compliance, only 57% of audits were completed by 31 May 2022 (2020: 70%). The low completion rates are attributed to an ongoing shortage of auditors, high levels of sickness resulting from the outbreak of Omicron in early 2022, and the need for additional audit testing in several areas. By 31 December 2022, 91% of audits were completed.
4. While most schools and kura continue to fulfil their financial management obligations, 31 modified audit opinions were issued for 2021. A further 16 modified opinions were issued for prior audits completed since the publication of the OAG's 2020 report. A modified opinion means that the auditor was unable to get sufficient evidence to support an element of the financial statements. This year most of the modified opinions related to schools and kura who did not have enough evidence to support their cyclical maintenance calculations.
5. Consequently, cyclical maintenance has been included as one of three areas that the OAG believe warrants additional focus from the Ministry. The other two recommendations that the OAG has made to the Ministry involve supporting schools to prepare budgets and continuing to simplify the level of financial reporting in the Kiwi Park model financial statements. Work to address these recommendations is in progress.
6. The report highlights certain matters of public interest. For 2021, this included four instances of excessive expenditure on gifts and functions and two schools who claimed the COVID-19 wage subsidy when they weren't entitled to. This briefing includes further details of these matters.
7. The report also notes where certain laws and regulations were breached during the year. Again, this represents a very small proportion of schools, and we will continue to enhance our guidance and tools to support schools in these areas.

## Background

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8. Section 134 of the Education and Training Act 2020 requires all schools and kura to prepare an annual report. The annual report is a key accountability document that school boards are required to prepare to inform and report to stakeholders.
9. The annual report includes the school's annual financial statements. These financial statements are required to be independently audited, by auditors appointed by the OAG, and submitted to the Ministry.

10. Following the completion of each year's school sector audits, the OAG publish a report of audit findings on their website. This report is usually published each December for the results of the previous financial years audits (schools' financial year end is 31 December).
11. Due to delays in audit completion, the OAG decided to delay their report on the results of the 2021 school audits to incorporate the results of as many completed school audits as possible. The report is expected to be published between the 23 and 27 March 2023.
12. OAG's report covers three main topics:
  - a. the degree of compliance with financial reporting requirements;
  - b. audit findings specific to individual schools; and
  - c. recommendations to the Ministry.
13. Historically, the publication of the OAG's report has generated interest from the media and the public.

### Financial reporting compliance

14. Schools and kura are required to submit draft financial statements to their appointed auditor by 31 March each year. The school's annual report, including audited financial statements, is required to be submitted to the Ministry by 31 May.
15. For the 2021 financial year, 92% (2020: 96%) of all schools and kura met the 31 March submission deadline, continuing the positive trend of schools and kura being prepared for audit.
16. Despite a high proportion of schools meeting the 31 March submission deadline, only 57% of audits were completed by 31 May (2020: 70%). By 31 December 2022, 91% of audits had been completed.
17. The low completion rates are attributed to an ongoing shortage of auditors, higher levels of sickness resulting from the outbreak of Omicron in early 2022 and the need for additional audit testing in the following areas:
  - a. **School payroll:** following system changes in 2021, a report that was previously used by some schools to check payroll transactions was disestablished. As auditors had relied upon the review of this report as a key control activity, an alternative testing approach was required.
  - b. **Cyclical maintenance:** changes to auditing standards required auditors to perform additional work over the cyclical maintenance and the qualifications of the person preparing the estimate. Accounting for cyclical maintenance continues to be a challenge for many schools. We are working with the OAG to identify opportunities to make this provisioning simpler for schools.
  - c. **Ka Ora, Ka Ako (Healthy Schools Programme):** for some schools, school lunch suppliers are paid directly by the Ministry. These costs, however, still need to be included in a school's financial statements. As the value of payments made centrally has increased and are a more material component of school's financial statements, additional work was required.

18. Good progress continues to be made on audits outstanding from previous years.

### Audit findings

19. The report included the following observations regarding sensitive expenditure:

- a. **Shotover Primary School** donated \$200,000 to the Shotover Primary School Foundation which is not a public entity. It is not appropriate for the school to donate to a private entity, as there is no guarantee that the school will receive a benefit from those funds. Following our advice, the school requested that the donated amount be returned, however the foundation has not agreed to do so.
- b. **Halcombe Primary School** spent \$5,070 on gifts for a departing principal. While the gifts were approved by the board, the auditor considered the value of the gifts to be high for a school. The principal was employed by the school for 32 years. The board consider that the gift was appropriate given the excellent service and leadership given over this time. The gift was funded in part by contributions from the community.
- c. **Waiuku College** spent \$1,527 on gifts for a departing principal and a further \$6,909 on leaving ceremonies. The value of the gift exceeded the school's gift policy, and the auditor considered the expenditure to be high for a school. These costs were funded from money originally raised for a Kapa Haka trip following the trips cancellation due to COVID-19. This funding was reprioritised with the agreement of the local Iwi who had undertaken the fundraising for the Kapa Haka trip. The Board contributed \$1,500 toward the total cost, the remaining \$6,900 was contributed by the Iwi toward these costs.
- d. **Te Kura o Kokohuia** spent \$15,700 on Pak'n'Save vouchers which were given to students and staff during the 2021 COVID-19 lockdowns. In doing so, the kura extended its established kaupapa of supporting tauira and whānau to engage in education, acknowledging that hungry tamariki are unable to learn, and focusing on the vision of "when the whānau are well, the tamaiti is well".

The Auditor noted that "there was no evidence of board approval prior to the purchase of the vouchers and no record of who received the vouchers". The Ministry has offered assistance to the kura around documentation processes.

The auditor also noted that "this expenditure is not directly linked to an educational purpose". The position of kura is that there is direct educational link, particularly to reducing barriers to education which was critical during this period to ensure that Students continued to engage with education. The Ministry supports initiatives that schools and Kura undertake to reduce barriers to education, particularly where there is a short term response needed as a result of a nationwide event.

20. Auditors identified two schools who had claimed the COVID-19 wage subsidies when they were not entitled to.

- a. **Marian Catholic School** (Hamilton) claimed the COVID-19 wage subsidy in 2020 and 2021 because it did not receive revenue from parents for after school care during the alert levels 3 and 4 lockdowns. A total of \$38,082 was claimed and has subsequently been repaid.

- b. During 2020, **Te Ra Waldorf School** claimed COVID-19 wage subsidies of \$58,978 on behalf of Kapiti Waldorf Trust. In the opinion of the auditor, neither the school nor the Trust were eligible for the subsidy. The school sought clarification from both the Ministry of Social Development and the Inland Revenue Department prior to claiming the subsidy. This is clearly documented in the school's financial statements.
21. When an auditor issues a modified opinion, it means that they were unable to get sufficient evidence to support an element of the financial statements. For 2021, 31 modified opinions were issued. A further 16 modified opinions were issued for prior audits completed since the publication of the OAG's 2020 report. The modified opinions related to the following matters:
- a. **Te Kura Kaupapa Māori o Takapau** received disclaimer opinions for 2017 and 2018 due to missing accounting records following an update to the kura's previous service provider's accounting system. A limitation of scope opinion was issued for 2016, as much of the audit work had already been completed for that year when the data was lost.
  - b. **Te Kura o Waikaremoana** received a disclaimer opinion for their 2015 financial statements. A fraud investigation was conducted at the school, resulting in prosecution. As the investigation was limited to the 2016 and 2017 years, the impact on 2015 was unknown.
  - c. **Te Kura Kaupapa Māori o Ngai Kahungunu Ki Heretaunga** received a limitation of scope in their audit opinion because the auditor could not verify some spending that was under direct control of the Board. This limitation arose because the Board did not maintain adequate supporting documentation for payments or evidence of approval. We are working with the kura to address this matter.
  - d. **Napier Boys' High School** and **Napier Girls' High School** received limitation of scope opinions. The school's charitable trusts each own shares in an endowment trust that own investment properties. These investment properties are required to be valued and were not, therefore the auditors were unable to determine the fair value of investments to be recorded in the school's financial statements.
  - e. 25 schools received modified opinions as they did not have enough evidence to support their cyclical maintenance provision calculations. This is similar to findings in 2020, when 23 schools received modified opinions related to their cyclical maintenance provisions. While not a modified opinion, the report also notes that Pongakawa School, Kaikorai School and Papatoetoe High School were unable to reasonably estimate their cyclical maintenance provision due to uncertainty about whether they would maintain their current buildings due to significant planned building works.
  - f. Eight schools received modified opinions on the basis that auditors could not get enough evidence about amounts recorded as locally raised funds.
22. The report comments on the financial health of schools. The OAG's findings included:
- a. increased liquidity levels and fewer schools with working capital deficits (2021:34, 2020:53);

- b. in 2021, 20 schools who were in serious financial difficulty required a letter of support from the Ministry to confirm they were able to prepare their financial statements on a 'going concern' basis. The Ministry's school finance advisors work closely with these schools to bring about the changes necessary to return to financial health;
  - c. of the 17 schools identified as being in serious financial difficulty in 2020, 10 (59%) are no longer considered to be in financial difficulty; and
  - d. the ongoing effects of the COVID-19 Alert Level restrictions on schools and kura did not result in significantly more schools being considered in financial difficulty as may have been expected.
23. When 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:
- a. exceeding borrowing limits allowed under section 155 of the Education and Training Act 2020 (2021:14, 2020:28);
  - b. making payments to teachers outside of the Education Payroll system (2021:2, 2020:1);
  - c. investing money in organisations without Ministry approval (2021:4, 2020:1);
  - d. failing to complete an analysis of variance for the year ended 31 December 2021 (8 schools);
  - e. entering into agreements to occupy land without the approval of the Minister of Education (2 schools);
  - f. banking arrangements that are inconsistent with the requirements of the Crown Entities Act (2021:1, 2020:2); and
  - g. having trustees that did not comply with rules about conflicts of interest (2021:4, 2020:5).

### **Recommendations to the Ministry**

24. Each year the OAG highlights areas where it believes the Ministry can take action to improve the quality for schools' financial reporting. This year the OAG has recommended that the Ministry:
- a. 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' condition assessments and planned capital works;
  - b. 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

- c. continue to 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.
25. Work to address these recommendations is underway. While further actions are required to fully resolve the identified issues, the following actions have been taken during the 2022 year:
- a. During 2022, we refreshed our published guidance on cyclical maintenance provisions and published worked examples to help schools prepare the calculation and provide appropriate audit evidence. We will continue with work with the OAG and the Ministry's property team during 2023 to identify opportunities to make this provisioning simpler for schools.
  - b. A Webinar focussed on banking staffing, budgeting, forecasting and cashflow management was produced during 2022, and is available on our website for schools to reference. We will supplement this with additional targeted support during in each of our regions during 2023.
  - c. During 2022, we engaged PricewaterhouseCoopers to perform a technical review of our model financial statements for schools. Some minor simplifications were made following this review. We will continue to identify and action simplification opportunities where they do not have a detrimental impact on the users of the information.

## Key Risks and Benefits

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26. 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 and kura continuing to experience financial difficulty, with insufficient resources for the delivery of teaching and learning; and
- d. increasing instances of legislative breaches.

27. A dedicated team of finance advisors are employed by the Ministry to manage these risks, with support from the Ministry's regional offices and national office based functions. The school finance advisors' approach to managing these risks includes:

- a. publication of guidance on emerging areas of difficulty;
- b. meeting with schools and kura, both one-on-one and in group settings, to discuss areas of school financial management;
- c. targeted support for budgeting, annual reporting and decision-making regarding school-led initiatives as required; and

- d. facilitation of approvals pertaining to certain pieces of legislation (e.g., conflicts of interest and breaches of borrowing thresholds).

## Next Steps

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- 28. We will provide your office with a finalised copy of the OAG's report on the Results of the 2021 school audits once it has been published on the OAG's website. We expect this to be published between the 23 and 27 of March 2023.
- 29. We will respond to any queries received from the media or the community in line with the Communications Plan provided (Annex 2).
- 30. Activities to address the three recommendations have been included in our work programme and we will continue to prioritise this work during 2023.

## Other Relevant Information

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- 31. The Ministry has a regionally based team of school finance advisors who have responsibility for monitoring the financial health of schools and supporting schools with legislative compliance activities relevant to finances. The school finance advisors are working with the schools who are included in the report to support the resolution of the reported issues where possible, or to provide appropriate guidance.
- 32. In November 2022 the Ministry and the OAG signed a Terms of Reference, committing each party to working on initiatives pertaining to the future of school financial reporting. The objective of this work is to consider what needs to be done to ensure schools and kura can continue to deliver good public accountability in a cost-effective way that is meaningful to a school's community and other users of financial reports.
- 33. The Terms of Reference describes two workstreams; the first focussed on identifying improvements that can be made within the existing legislative framework, and the second focussed on the needs of the users of the financial information and how this might impact on the required format and frequency of the financial reporting and the associated assurance activities. A detailed work programme is now being prepared.

## Annexes

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- Annex 1: Results of the 2021 school audits (20 February 2023 draft)
- Annex 2: Communications plan - results of the 2021 school audits



Proactively Released

Proactively Released

# Results of the 2021 school audits

Proactively Released

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## SNAPSHOT

# Schools at a glance



**2462** schools and kura

There are 2462 schools and kura that require audits.

## Audit reports we issued



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

**91%** of 2021 audits were completed by 31 December 2022.

**47** schools received modified audit opinions.

**14** schools were considered to be in serious financial difficulty.

**\$8 billion +** Government funding  
went to schools and kura.

## 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' condition assessments and planned capital works; and
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.
3. continue to 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.

## Part 1: Completing the school audits

- 1.1 This part reports on how many schools provided draft financial statements for audit and how many audits have been completed, including audits of public organisations related to schools.
- 1.2 This year was another challenging year for our school audits. We completed 1400 (57%)<sup>1</sup> of the 2021 school audits by 31 May 2022 (the statutory deadline). This is a significant decrease from the 70% completion rate for the 2020 audits and a slight decrease from the 59% completion rate for the 2019 audits, both of which were also impacted by the Covid-19 pandemic.
- 1.3 The main reasons for the delays are the global shortage of auditors, which, until recently, has been exacerbated by border closures because of Covid-19, and greater than normal levels of sickness both with audit teams and at schools, because of the Omicron outbreak during the early part of 2022. Schools must provide their draft financial statements for audit by 31 March (the statutory deadline). This year, we received about 92% of draft financial statements for audit by 31 March 2022. This is slightly fewer than in previous years due to the higher levels of sickness.
- 1.4 Our 2020 school audits had also been impacted by the shortage of auditors. As part of the allocation of school audits to appointed auditors for the 2021 to 2023 financial years, we worked to better match auditor capacity, and sought additional audit capacity from current and new audit firms. Despite this, we still expected to have some delays due to the continuing shortage of auditors (albeit we expected timeliness to be better than for the 2020 audits). However, the outbreak of Omicron in early 2022, during the main school audit period, affected our ability to get the audits completed on time, and the rate of completion was lower than we expected.
- 1.5 Contributing to the delay in completing the 2021 school audits were 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). Each of these added to the audit testing required for many audits. Also, we needed to refine our audit of cyclical maintenance provisions in response to changes to international auditing standards, which added to the audit work required.
- 1.6 We were disappointed that we could not complete more audits by 31 May 2022. However, we have made steady progress completing further school audits since May. As at 31 December 2022, we had completed 2231 (91%) of the 2021 schools audits.
- 1.7 In a pre-Covid-19 year, it was typical for about 50 (2%) of the previous year's school audits to remain outstanding on 31 December. Because of the delays experienced in 2022, 231 (9%) of the 2021 audits were still outstanding on 31 December..
- 1.8 We completed 180 school audits from previous years since we last reported on the results of the school audits in November 2021. There were 85 previous-year audits of 51 schools outstanding as at 31 December 2022. Figure 2 shows the number of outstanding school audits as at 31 December 2022.

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<sup>1</sup> This includes public organisations related to schools.

*Figure 2: Outstanding audits as at 31 December 2022*

<b>Audit year</b>	<b>As at 31 December 2022</b>
2021	231
2020	44
2019	21
2018	9
2017	3
2016	4
2015	2
2014	1
2013	1
<b>Total</b>	<b>322</b>

- 1.9 We can see in Figure 2 that there are over 20 outstanding audits that are over 3 years overdue. The reasons for these long outstanding audits vary but the main reasons include: ongoing fraud investigations, incomplete/missing records, previous year audits have not yet been completed.
- 1.10 We are working with audit service providers and the Ministry to get these outstanding audits closed off as soon as possible.
- 1.11 We provide details of those school audits that were not complete by 31 December 2022 on our website.



## Part 2: What did our audit reports say?

- 2.1 In this Part, we set out the results of the 2021 school audits<sup>2</sup> and the results of any audits for previous years that we have completed since we reported on the 2020 school audits.
- 2.2 We issued a “standard” unmodified audit report for most schools. This means that, in our opinion, those schools’ financial statements fairly reflect their transactions for the year and their financial position at the end of the year.
- 2.3 Our “non-standard” audit reports include either modified audit opinions or paragraphs drawing the readers’ attention to important matters. We explain these further below.

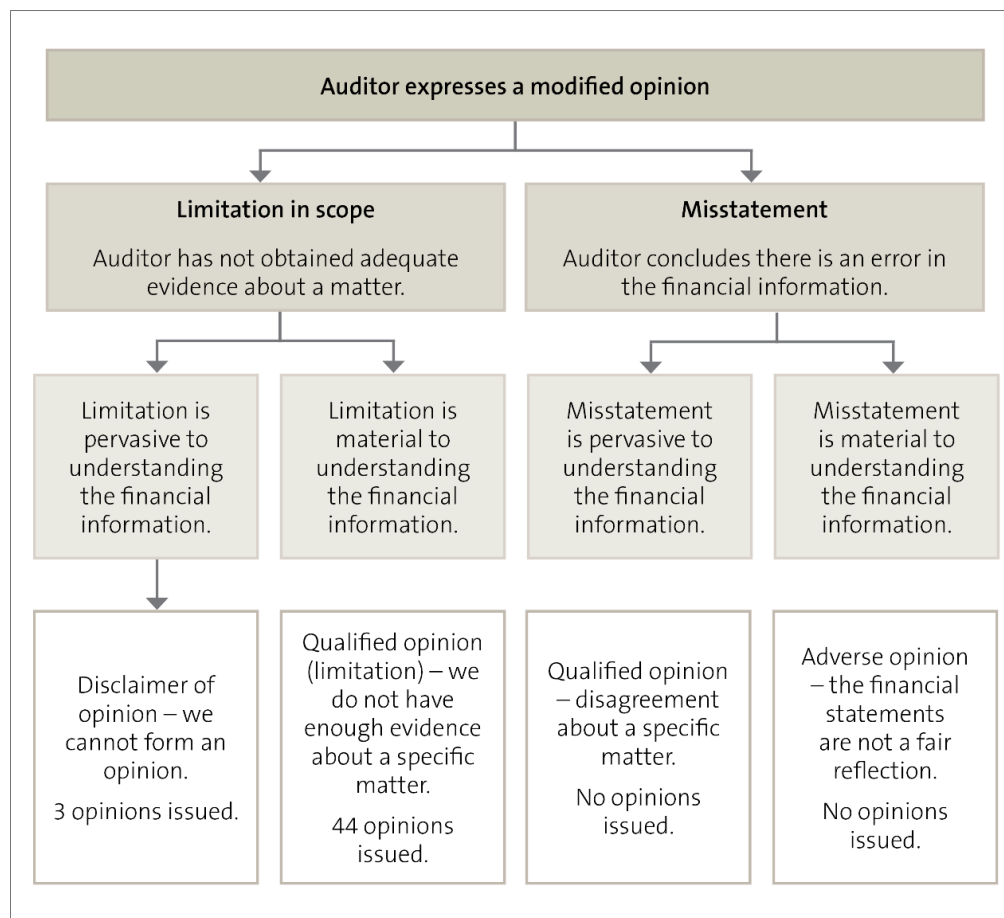
### Modified audit opinions

- 2.4 We issue modified audit opinions if we cannot get enough evidence about a matter or if we conclude that there is an 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 3 explains the different types of modified audit opinions and why we issue them. It also summarises the modified audit opinions we have issued since our last report.

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<sup>2</sup> This includes the audits of public organisations related to schools.

**Figure 3: Types of modified opinions**



Source: Office of the Auditor-General

2.6 Of the completed audits for 2021, 31 audit reports contained a modified audit opinion. We also issued a further 16 modified opinions for previous-year audits that were outstanding since our last report.<sup>3</sup> This is approximately consistent with the number of modified audit opinions that we issued last year, but an increase on the number we typically issued prior to 2020. However, it still remains a small percentage (1%) of all audit opinions we issue (over 2400). Of the 31 audit reports containing a modified opinion, 10 were also modified in the previous year or more. We explain the types of modified opinions we issued below.<sup>4</sup>

### Disclaimers of opinion

2.7 We issue a disclaimer of opinion when we cannot get enough audit evidence to express an opinion. This is serious because there is a lack of public accountability – we cannot confirm that the school's financial statements are a true reflection of its transactions and balances. We issued a disclaimer of opinion on the financial statements of three schools. These were all for previous-year audits.

2.8 In December 2021, we completed the audits of Te Kura Kaupapa Māori o Takapau for 2016 to 2018. We issued a disclaimer of opinion for 2017 and 2018.

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

<sup>4</sup> These audit reports are for 2020 unless noted otherwise.

- 2.9 This was because the previous accounting service provider introduced a new accounting system in August 2018 and all the accounting data and supporting documents stored on the previous accounting system were lost. At this point the 2016 and 2017 audits were still outstanding. The school also did not retain a copy of the accounting data and supporting documents and the previous accounting service provider has since ceased to operate. This meant that financial statements could not be readily prepared for 2017 and 2018.
- 2.10 We also issued a “limitation of scope” qualified opinion for 2016 which is discussed in more detail in the *Limitations of scope* section below.
- 2.11 We issued a disclaimer of opinion for Te Kura o Waikaremoana’s 2015 financial statements. This was because there were instances of fraud identified related to school funds being used for payments of a personal nature, and theft of money by creating fictitious invoices. A New Zealand Police investigation was conducted, and the perpetrators were found guilty. This investigation was limited to 2016 and 2017 and therefore the amount and the impact of the fraud on the 2015 financial statements was not known.
- 2.12 We also drew attention to disclosures outlining that the school 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.

### Limitations of scope

- 2.13 We issue “limitations of scope” qualified opinions when we cannot get enough evidence about one or more aspects of a school’s financial statements. The audit report explains which aspect of a school’s financial statements we could not obtain sufficient 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. We could not get enough evidence about the amounts raised locally for the schools and kura listed in Figure 4 below.
- 2.15 For three of the audits listed in Figure 4, the controls for recording donation revenue were limited so was no practical way for the auditors to confirm that all donations were included in the financial statements.
- 2.16 For seven of the audits listed in Figure 4, the controls over the receipt of fundraising revenue were limited and there were no satisfactory audit procedures that the auditor could adopt to independently confirm that the receipts from fundraising revenue were properly recorded.

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

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

2021 audits	Previous year audits
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Gore High School Foundation	Gore High School Foundation (2019 and 2020)
Linkwater School	Pukekohe Intermediate School (2018, 2019 and 2020)
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	

Source: Office of the Auditor-General

- 2.17 We reported again on a lack of controls over revenues for The Taumarunui High School Community Trust (the Trust). We have reported this for the Trust for the last few years.

### **Cyclical maintenance**

- 2.18 Schools are required to maintain the buildings provided by the Ministry or their proprietor (if they are an integrated school). They receive funding for property maintenance as part of their operations grant.
- 2.19 Certain types of maintenance, such as painting the exterior of the school, are needed only periodically. Schools must recognise their obligation to carry out this maintenance as a provision for cyclical maintenance in their financial statements. This provides for the cost of future maintenance required.
- 2.20 School boards are responsible for calculating their cyclical maintenance provision based on the best information available. For several years, we have found that some schools do not have evidence that their cyclical maintenance provision is based on reasonable assumptions about future maintenance requirements.
- 2.21 This year, there has been a slight increase in audit opinions with a limitation of scope for cyclical maintenance. 26 opinions were issued this year (23 of related to the 2021 audits, and three related to 2020 audits). This compares to 23 opinions issued last year and only two in the previous year.
- 2.22 Recent changes to auditing standards meant that school auditors needed a great understanding of the information underlying the cyclical maintenance provision than they did before. This would have contributed to the additional qualifications.
- 2.23 Figure 5 lists the schools that did not have enough evidence for auditors to form an opinion about cyclical maintenance for the 2021 and 2020 audits.

**Figure 5: Schools and kura 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 Ra Waldorf School
Cheviot Area School	
Christchurch South Karamata Intermediate School	
Forrest Hill School	
John Paul College	
Kaitoke (Claris)	
Mount Richmond School	
Okiwi School	
Otewa School	
Parakai School	

Piopia Primary School	
Putere School	
Rangiora Borough School	
Riwaka School	
Sacred Heart School (Reefton)	
Saint Mary's School (Blenheim)	
Te Kura Kaupapa Maori o Taumarere	
Te Kura Toitu O Te Whaiti-Nui-A-Toi	
Te Ra Waldorf School	
Te Waha o Rerekohu Combined Schools Board	
Waitomo Caves School	

Source: Office of the Auditor-General

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. Where this is the case, we would expect the school to explain why it does not have a cyclical maintenance provision in its financial statements. As we consider this to be useful information to readers, we draw attention to these disclosures in our audit report. This is not a modification of the audit opinion.

2.25 We discuss cyclical maintenance in more detail in paragraphs 4.19-4.27.

### **Other types of limitations of scope**

#### *Expenses*

2.26 Te Kura Kaupapa Māori o Ngai Kahungunu Ki Heretaunga was issued a qualified opinion for 2018 because the auditor could not verify some spending that was under 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, Napier Boys High Schools Charitable Trust, and Napier Girls High School Charitable Trust (the Trusts), respectively. These trusts are consolidated into their respective school's financial statements.

2.28 The Trusts each hold a one third interest in Napier High schools Land Endowment Trusts (the Endowment Trust). The Endowment Trust owns investment properties that are required to be valued.

2.29 Napier Boys' High School and Napier Girls' High School were issued qualified opinions for 2021 because the audit was limited as the auditors were unable to determine the fair value of the Endowment Trust's investment properties.

### **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 a school's financial statements or note a significant matter a school did not disclose.

We do this because the information is relevant to readers' understanding of the financial statements.

2.31 These comments are not modifications of our audit opinion. We are satisfied that the financial statements fairly reflect the schools' transactions and financial position. Rather, we point out important information, such as a matter of public interest, a breach of legislation or disclosures in the financial statements that are important to a readers' understanding of the financial information. This includes when we consider schools are experiencing financial difficulties, which we discuss in Part 3.

2.32 We set out details of the matters we drew attention to below.

#### Covid-19 wage subsidy

2.33 During our audits, we identified two schools that had claimed the Covid-19 wage subsidy despite not being eligible to receive it. State and state-integrated schools were generally not permitted to claim the wage subsidy unless they had an exception from their monitoring agency (which for schools is the Ministry). The Ministry provided schools with additional funding and support throughout 2020 in response to Covid-19.

2.34 Marian Catholic School (Hamilton) received \$10,052 under the Covid-19 wage subsidy scheme because it did not receive revenue from parents for after school care during alert levels 3 and 4 lockdowns. However, the school did not meet the Ministry of Social Development (MSD)'s eligibility criteria for the subsidy scheme. The eligibility criteria for the wage subsidy are set out on the Ministry of Social Development (MSD)'s website.

2.35 The school also claimed \$28,030 of wage subsidy during 2020. The school subsequently repaid 100% of the subsidy, \$38,082 in total.

2.36 The auditor drew attention to a disclosure in the 2020 financial statements of Te Ra Waldorf School, which outlines that the school submitted and received a Covid-19 wage subsidy of \$58,978 on behalf of Kapiti Waldorf Trust. Neither the school nor the Trust were eligible for the subsidy. No exception was sought from the Ministry. There is therefore uncertainty over the validity of the wage subsidy received by the school.

#### Sensitive expenditure

2.37 Sensitive expenditure is any spending by an organisation that could be seen to be giving private benefit to staff additional to the business benefit to the organisation. The principles that underpin decision-making about sensitive expenditure include that the expenditure should have a justifiable business purpose and be made transparently and with proper authority.

2.38 We drew attention to the board of Shotover Primary School donating \$200,000 to the Shotover Primary School Foundation which is not a public entity. It is not appropriate for the school to donate to a private entity, as 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 the repayment of the donation.

- 2.39 We drew attention to the board of Halcombe Primary School's disclosure in its financial statements outlining that the school spent \$4,500 on vouchers and \$570 on other items, as leaving gifts to farewell the former principal. Spending on gifts using public money should be both moderate and conservative and appropriate for the circumstances. While the gifts were approved by the Board, the school does not have a gift policy, and the total amount of the gifts, \$5,070, was considered to be 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 leaving ceremonies expenditure was relatively high for a school. Spending on farewells and retirements using public money should be both moderate and conservative and appropriate for the circumstances. The Board also used funds originally raised for a Kapa Haka trip for this expenditure. The school should ensure funds are used for the intended or a similar purpose, for which they are raised, and if that purpose is no longer possible the Board should, consult with those from which the funds have been raised.
- 2.41 We highlighted that Te Kura o Kokohuia spent \$15,700 on Pak'n'Save vouchers which were given to students and staff during the 2021 Covid-19 lockdowns. There was no evidence of Board approval prior to the purchase of the vouchers and no record of who received the vouchers. This expenditure is not directly linked to an educational purpose. All school spending should have a justifiable business purpose consistent with the school's objectives.

#### **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 over future maintenance. The uncertainties for some of these schools arose because of weathertightness issues or because they are part of the Ministry'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", meaning it can no longer be assumed that the school will continue to operate into the foreseeable future, and its assets will be distributed after it has closed.
- 2.44 The audit reports for three schools (Hawera High School (2021), Hawera Intermediate School (2021), and Te Wharekura o Manuwera (2020)) draw attention to disclosures outlining that the financial statements were prepared appropriately using the disestablishment basis.
- 2.45 Hawera High School and Hawera Intermediate School's financial statements were prepared on a disestablishment basis because they closed on 27 January 2023 and a new combined school (Te Paepae o Aotea) was recently opened.
- 2.46 Te Wharekura o Manuwere's financial statements were prepared on a disestablishment basis because the school was combined into a new legal entity as at 2 October 2020.

- 2.47 We drew attention to disclosures in the Glenham School financial statements outlining that the school requested voluntary closure from the Ministry of Education. Glenham School closed on 30 January 2023. We also drew attention to disclosures for Pukemiro School, for the 2020 audit year, outlining the possible effects of the school closure on 25<sup>th</sup> July 2021.

## **Reporting on whether schools followed laws and regulations**

- 2.48 As part of our annual audits of schools, we consider whether schools have complied with particular laws and regulations. We primarily look at whether they complied with financial reporting requirements, but we also consider whether they met specific obligations required of them as public sector organisations.
- 2.49 The Education and Training Act 2020 and the Crown Entities Act 2004 are the main Acts that influence schools' accountability and financial management.
- 2.50 Usually, schools disclose breaches of the Education and Training Act and the Crown Entities Act in their financial statements, but we sometimes report on breaches in a school's audit report. From our audits this year, we identified that:
- 14 schools (2020: 28) borrowed more than regulation 12 of the Crown Entities (Financial powers) Regulations 2005 allows;
  - one schools (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's payroll services to pay teachers, which section 578 of the Education and Training Act requires them to use for all teaching staff;
  - four schools (2020: 5) had board members who did not comply with rules about conflicts of interest in sections 9 nad 10 of Schedule 23 of the Education and Training Act.
  - four schools (2020: 1) invested money in a way that was not allowed under section 154 of the Education and Training Act;
  - two school did not comply with section 160 of the Education and Training Act 2020 because the Board 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

- 2.51 The number of borrowing limit breaches have reduced significantly, from 28 in 2020 to 14 this year.

- 2.52 We have provided details of all the non-standard audit reports issued to schools and breaches of legislation reported as at 31 December 2022 on our website. We also provide the data as an interactive map.

## **Audits not able to be carried out**

- 2.53 We were unable to carry out the audit for 2016 and 2017 for Hato Petera school due to a lack of information. The school closed on 31 August 2018 and at that time the 2016 audit was still outstanding.



- 2.54 After the closure of the school, the school's physical financial records, such as invoices and payroll reports, could not be located. As a result financial statements could not be prepared. The Ministry decided that it would not be a good use of time or funds to proceed with the preparation and audit of the outstanding financial statements, given there would not be an acceptable level of assurance or public accountability provided.

Proactively Released

## Part 3: Schools in financial difficulty

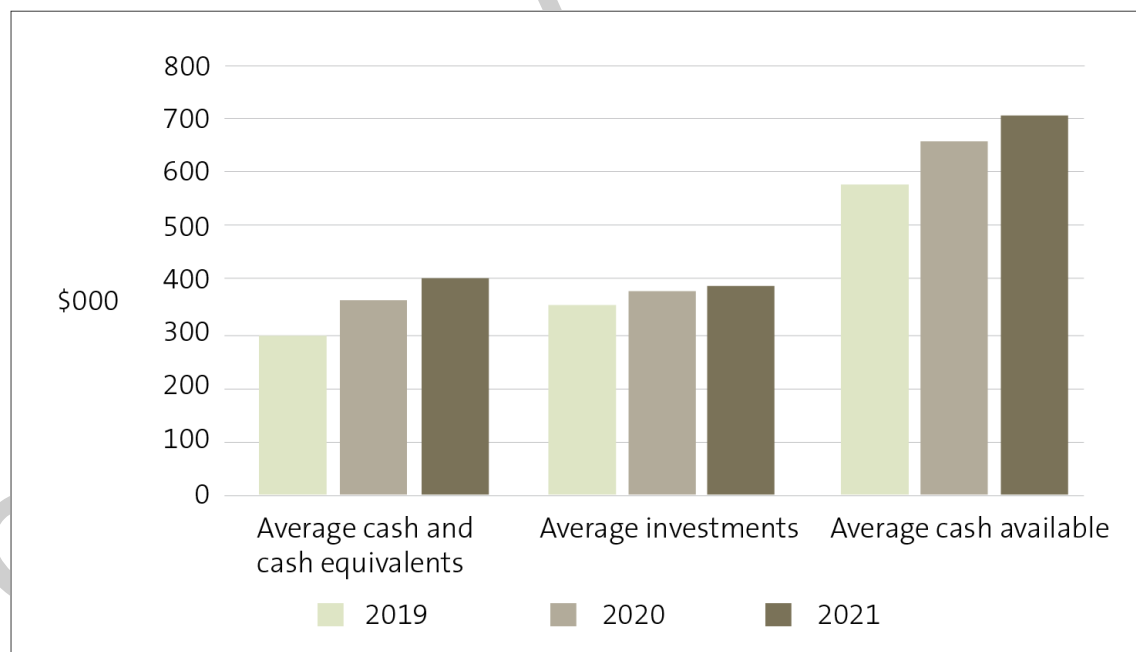
- 3.1 In this Part, we report on the financial health of schools, schools that we consider to be in financial difficulty, and why schools get into financial difficulty.
- 3.2 The data we provide in this Part is based on financial information collected by the Ministry as at 31 December 2022, unless otherwise stated. At this time, the Ministry's database had financial information for 1981 schools (80%). For the comparisons of those schools against previous years, we have used the 2020 and 2019 financial information from the Ministry's database unless otherwise stated.

### The financial health of schools

- 3.3 Figure 6 summarises the average levels of cash and investments held by schools as at 31 December 2021 and 2020. 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 (\$401,536) and investments (\$387,273) held by schools compared to the previous years.

Figure 6: Average cash and investments held by schools as at 31 December 2019 – 31 December 2021.

The average levels of cash and investments held by schools increased compared with 31 December 2020 and 2019. There was also an increase in the average "available cash" for schools, which is calculated as cash and investments held, less any cash held on behalf of third parties.



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

- 3.4 When reviewing a school's financial position, it is also important to consider a school's available cash. Schools often hold funds on behalf of third parties, including for capital projects the school is managing for the Ministry, homestay payments for international students, or on behalf of other schools in "cluster"-type arrangements, such as transport networks. The total cash a school holds less the amounts held for third parties is considered "available cash" for the school board. In 2021,

average available cash increased – to \$702,335 at 31 December 2021 compared to \$652,257<sup>5</sup> at 31 December 2020.

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

Figure 7: The numbers of schools that hold different levels of "available" cash as at 31 December 2021, by decile.

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).

Available cash (\$'000)	>0	0-100	101-200	201-300	301-500	501-1,000	>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
<b>Total</b>	<b>9</b>	<b>158</b>	<b>319</b>	<b>283</b>	<b>370</b>	<b>477</b>	<b>365</b>

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

- 3.6 As well as cash held for others, cash and investments might be earmarked for a particular purpose, such as a future building project or school trip, or the school might have outstanding bills. Therefore, when we consider whether a school is in financial difficulty, we also consider its working capital position (its available funds less the amounts due in the next 12 months).
- 3.7 As at 31 December 2021, we identified 34 schools with a working capital deficit. This is a reduction on the 53 schools with a deficit in 2020. We discuss working capital deficits further when we discuss schools in financial difficulty.

## The effect of Covid-19 on school finances

- 3.8 In 2021, schools continued to be impacted by Covid-19 as some schools were closed for face-to-face learning for extended periods of time and there were significant levels of school staff sickness.

<sup>5</sup> Office of the Auditor-General (2019), *Results of the 2019 school audits*.

- 3.9 The Ministry continued to provide some Covid-19-related funding to schools and kura, however it was lower than in 2020.

### Covid-19-related support and funding

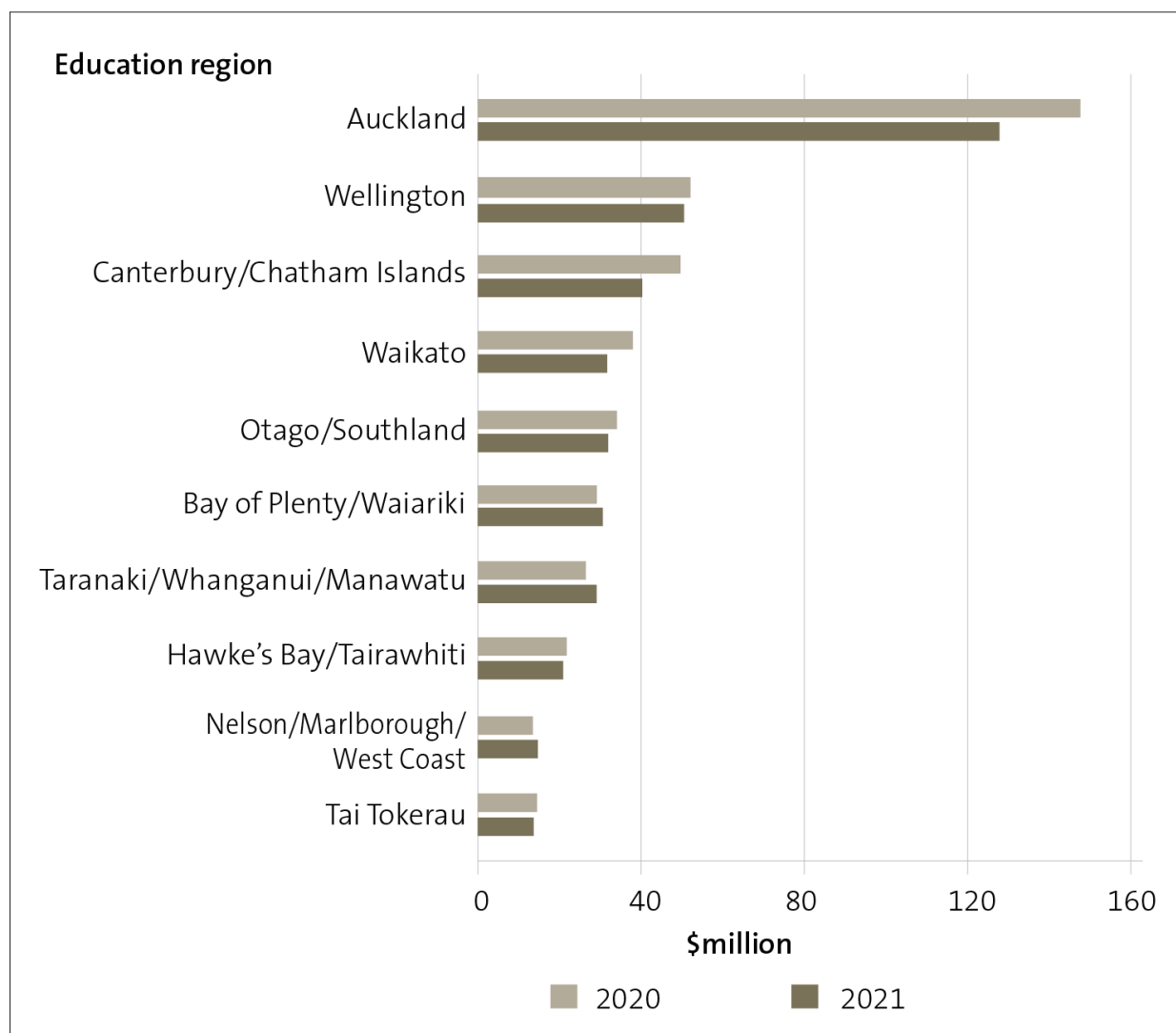
- 3.10 Following on from 2020, the Ministry completed distributing the Urgent Response Fund in 2021. This was a \$50 million fund to support learners affected by the Covid-19 lockdown, distributed over 2020 and 2021 to schools, kura and early learning services. It was available for four categories of need:
- attendance;
  - well-being to support attendance;
  - cultural well-being to support attendance; and
  - re-engagement in learning.

- 3.11 The urgent response funding was allocated to schools using the Equity Index to ensure an equitable funding approach.

### Locally raised funds

- 3.12 Many schools rely on raising funds locally to provide additional funding. We expected to see an overall reduction in locally raised funds for 2021. This was because of continued Covid-19 lockdowns (particularly in the Auckland region) and related uncertainties made it difficult for schools to carry out their normal fundraising activities. The closed borders also affected international student revenue in 2021.
- 3.13 Total locally raised funds for 2021 was \$392 million, compared to \$430 million in 2020. Schools also received about \$59 million of revenue from international students in 2021. This is a decrease of 54% on 2020 (\$127 million). This is discussed further in paragraphs 3.22 – 3.28.
- 3.14 Figure 8 shows that, in 2021, total locally raised funds (excluding international student revenue) reduced for most regions (with Bay of Plenty/Wairariki and Taranaki/Whanganui/Manawatu being the exceptions). 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.

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



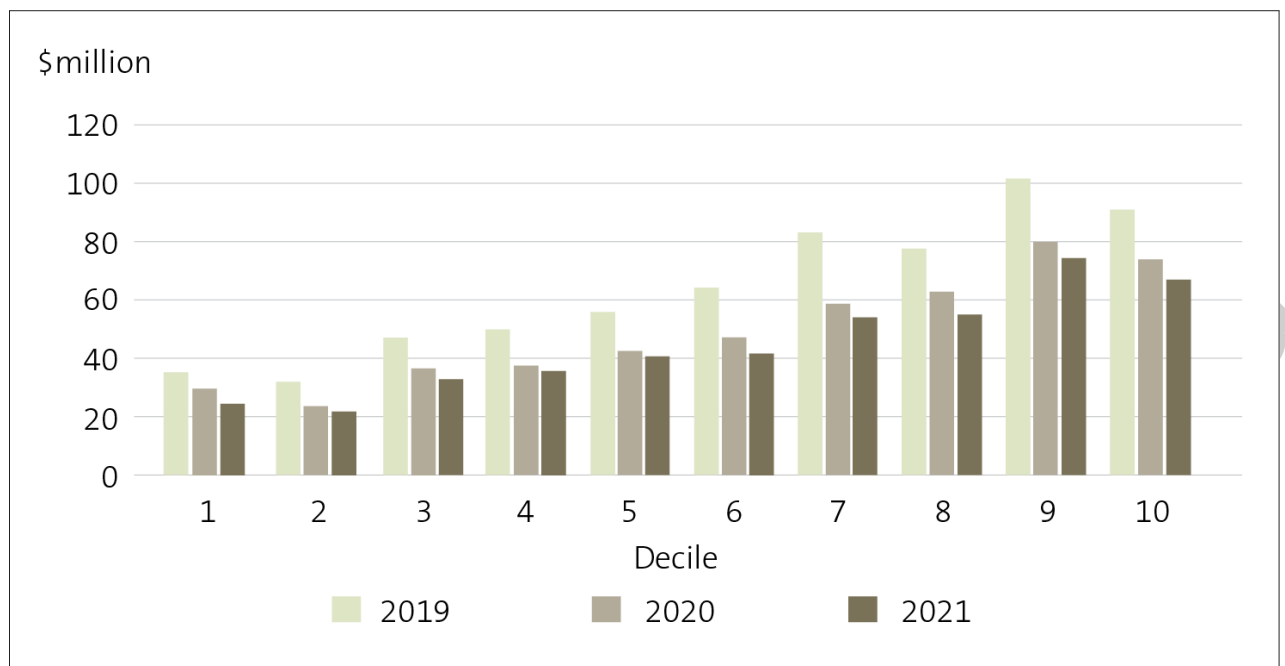
Source: The Ministry of Education's school financial information database

3.15 The donations scheme was introduced in 2020 for decile 1 to 7 schools. This gives the schools that opted in additional funding of \$150 for each student if the school agrees not to ask parents for donations, except for overnight trips such as school camps. For 2021, 95% of eligible decile 1 to 7 school opted into the scheme and received a total of \$56.3m compared to 2020 where 94% of eligible decile 1 to 7 schools opted in and received a total of \$65.4 million.<sup>6</sup> Decile 8 to 10 schools are not eligible for the funding from the donation scheme.

3.16 Figure 9 shows that all deciles had a reduction in locally raised funds (plus donations scheme funding) in 2021 from 2020, with the total reduction being by 9%. We can also see from Figure 9 that the change to the new donation scheme in 2020 had no significant impact on the locally raised fund amount, as the trend for decile 1 to 7 schools is consistent with the decile 8 to 10 schools.

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

<sup>6</sup> Ngā Ara o te Mātauranga: the pathways of education, 2021 and the Ministry of Education's school financial information database and



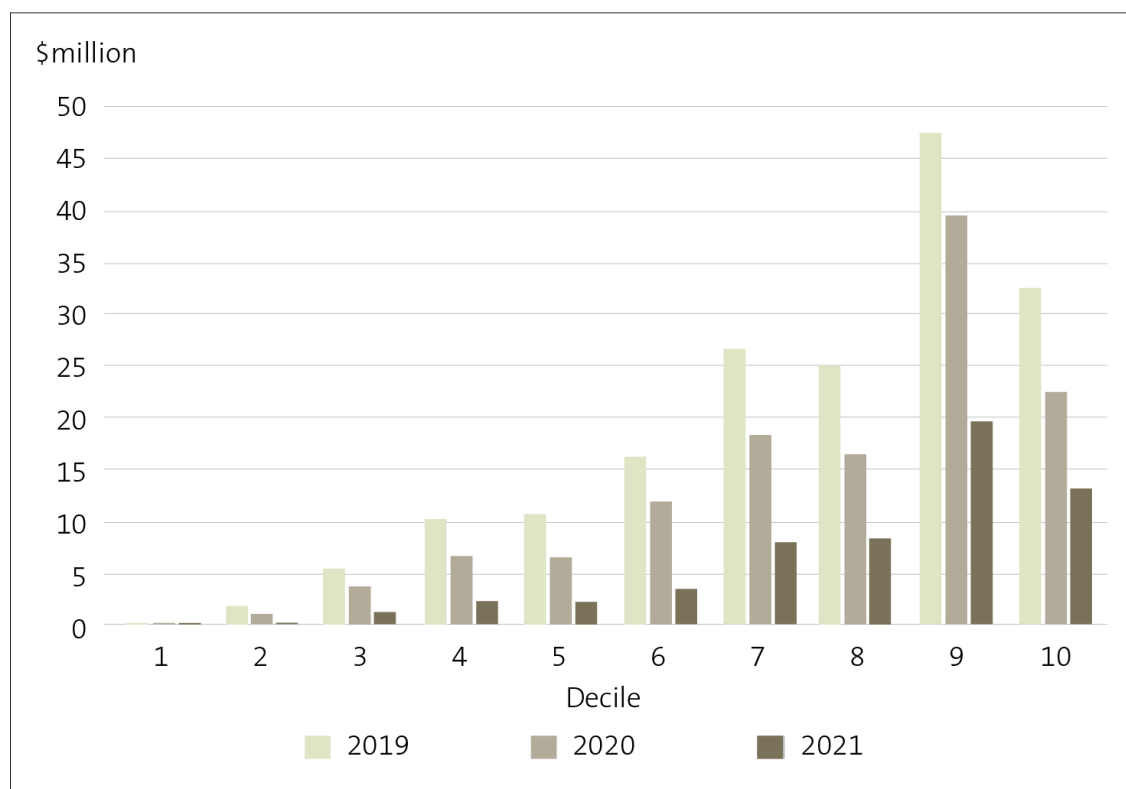
Source: The Ministry of Education's school financial information database and Ministry published listing of schools that have opted into the donations scheme

### International student revenue

3.17 Many schools retained their international students in 2020 even though the borders closed in March 2020, and the total revenue schools received from international students reduced by \$40 million (26%) in 2020, compared to the prior year. We can see from Figure 10 that 2021 was impacted more significantly than 2020 as a result of the continuing closure of New Zealand's borders due to Covid-19. The total revenue schools received from international students reduced by \$68 million (54%) in 2021.

3.18 Figure 10 shows the reduction in total international student revenue by decile.

**Figure 10: Total international student revenue by decile.**



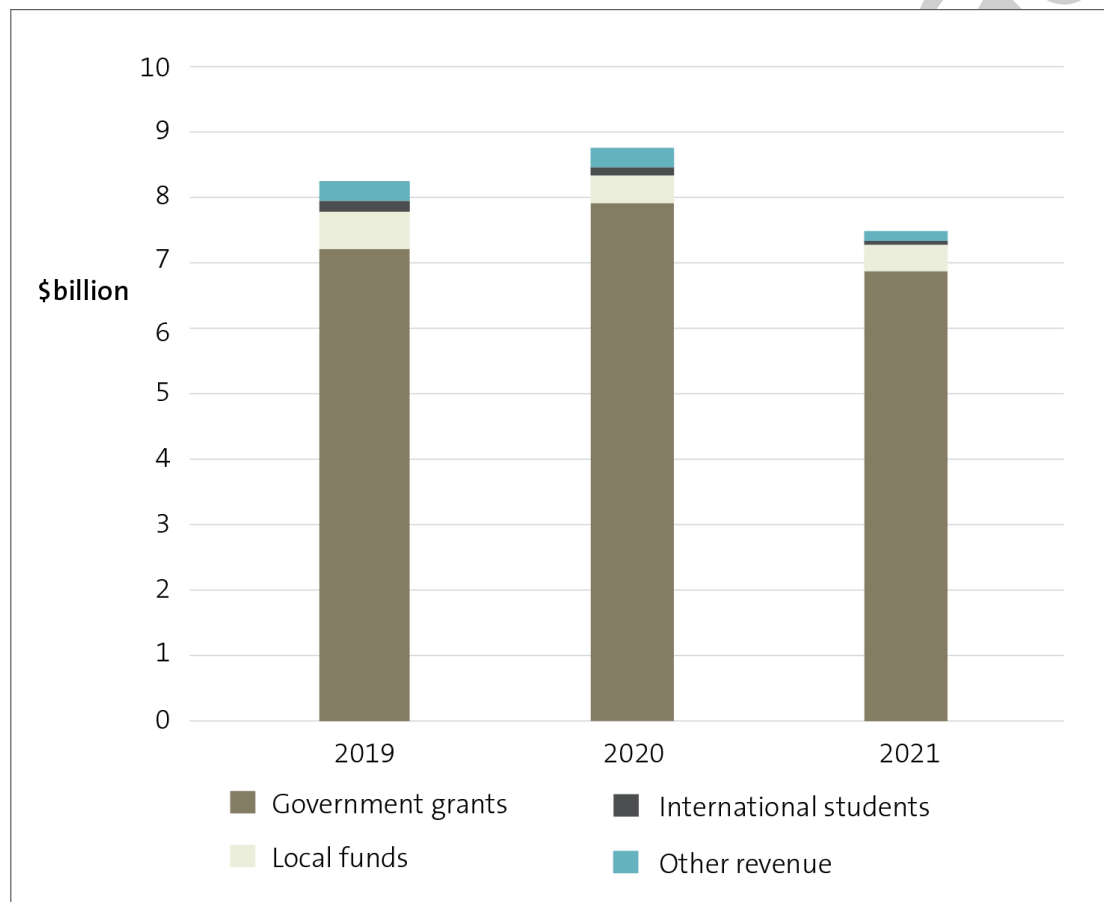
Source: The Ministry of Education's school financial information database

- 3.19 Schools usually record significant surpluses on international student revenue, because the related expenses are usually small in relation to the fees charged. In 2021, 307 schools reported a total surplus on international students of \$29 million. This is an average surplus of \$96,000 for each school. This compares with a surplus of \$63 million for those schools in 2020. That was an average of \$124,000 for each school.
- 3.20 The impact of Covid-19 on individual schools varied. Of the 342 schools that had international student revenue in both 2020 and 2021, 285 (83%) recorded a reduced surplus or increased deficit from international student revenue. The largest reduction was more than \$2 million.
- 3.21 On the other side, 57 schools that had retained their international students made a higher surplus than the previous year. The highest increase was \$295,000.
- 3.22 The impact of the closed borders on schools in 2020 was not as significant as we expected as many schools retained their international students, and the reduction was also mitigated by Covid-19 transition funding for international education of \$18 million. The impact was more significant for schools in 2021 as there was only \$2 million of funding, which was leftover from 2020 where a total of \$20 million as allocated.
- 3.23 As the borders only opened in early 2022, after the schools term had commenced, it remains to be seen how this would have impacted schools for the 2022 year.

## Overall financial results for 2021

- 3.24 Figure 11 shows the total revenue received by all schools we have data for.
- 3.25 Figure 11 shows that government grants increased by 10% in 2020 and decreased by 13% in 2021. This is mainly due to the introduction of the donation scheme in 2020 and Covid-19-related funding given in 2020. The Covid-19 funding was significantly less in 2021.
- 3.26 Although the total amount of government grants has decreased in 2021, government grants as a percentage of total revenue has slightly increased in 2021. This is due to a reduction in international revenue and other revenue. Other revenue includes investments and hostel revenue.
- 3.27 We can see that locally raised funds decreased by 25% in 2020 and decreased by 9% in 2021.

**Figure 11: Total school revenue for 2021, 2020, and 2019**



	2019 (\$billion)	2019 (%)	2020 (\$billion)	2020 (%)	2021 (\$billion)	2021 (%)
Other revenue	0.29	3.5%	0.30	3.5%	0.16	2.1%
International students	0.18	2.1%	0.13	1.4%	0.06	0.8%
Local funds	0.57	7.0%	0.43	4.9%	0.39	5.2%
Government grants	7.20	87.4%	7.90	90.2%	6.87	91.8%

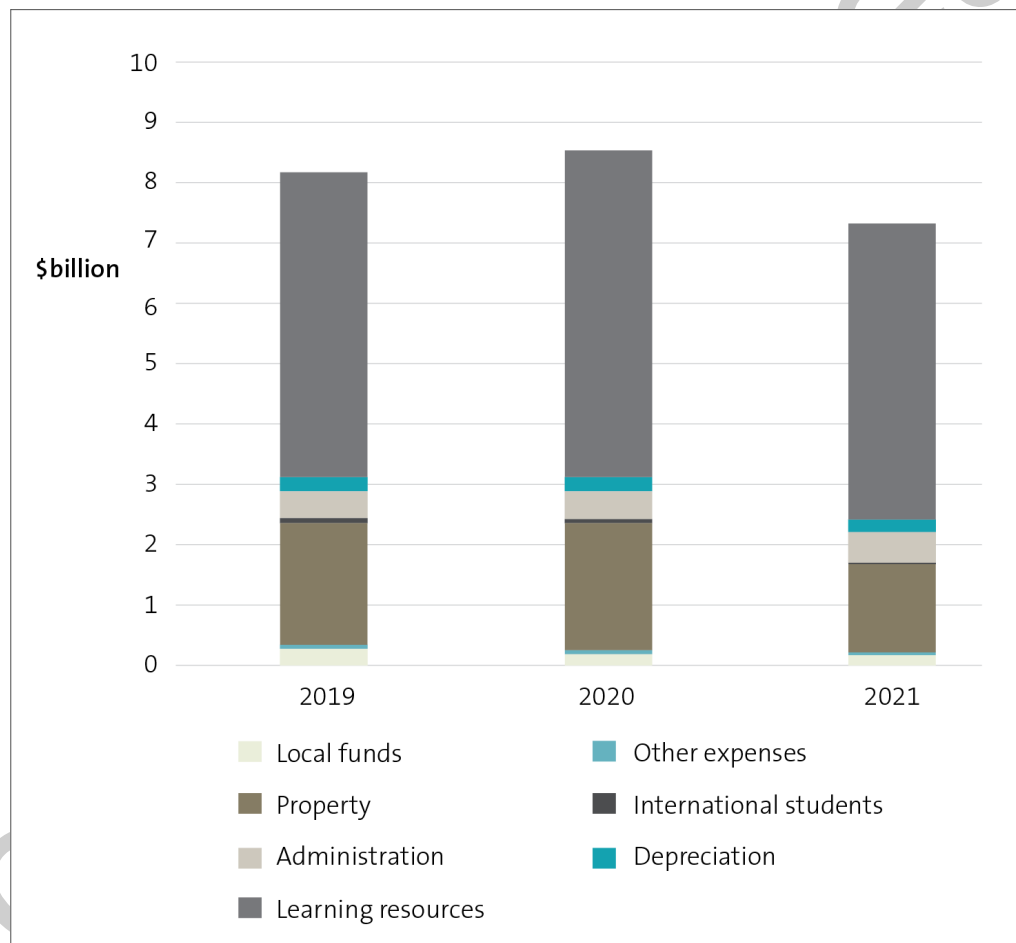


<b>Total</b>	8.24	100%	8.76	100%	7.48	100%
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Source: Ministry of Education report -Ngā Ara o te Mātauranga: the pathways of education 2021

- 3.28 Total school expenditure has remained quite consistent in 2021, only increasing by 0.2%. Figure 12 shows that the only increases in spending in 2021 is in Administration and Learning Resources. Administration includes the salaries of non-teaching support staff and other administrators, school board expenditure, operating leases, insurance, legal fees, communications, audit-related expenses, and expenditure related to government initiatives. Learning Resources includes teachers' salaries, teacher aide wages, information and communication technology, staff development, and other curriculum-related expenses.

**Figure 12: Total school expenditure for 2021, 2020, and 2019**



	<b>2019 (\$billion)</b>	<b>2019 (%)</b>	<b>2020 (\$billion)</b>	<b>2020 (%)</b>	<b>2021 (\$billion)</b>	<b>2021 (%)</b>
Learning resources	5.04	61.7%	5.41	63.3%	4.91	66.9%
Depreciation	0.23	2.8%	0.23	2.7%	0.20	2.8%
Administration	0.46	5.6%	0.47	5.5%	0.51	7.0%

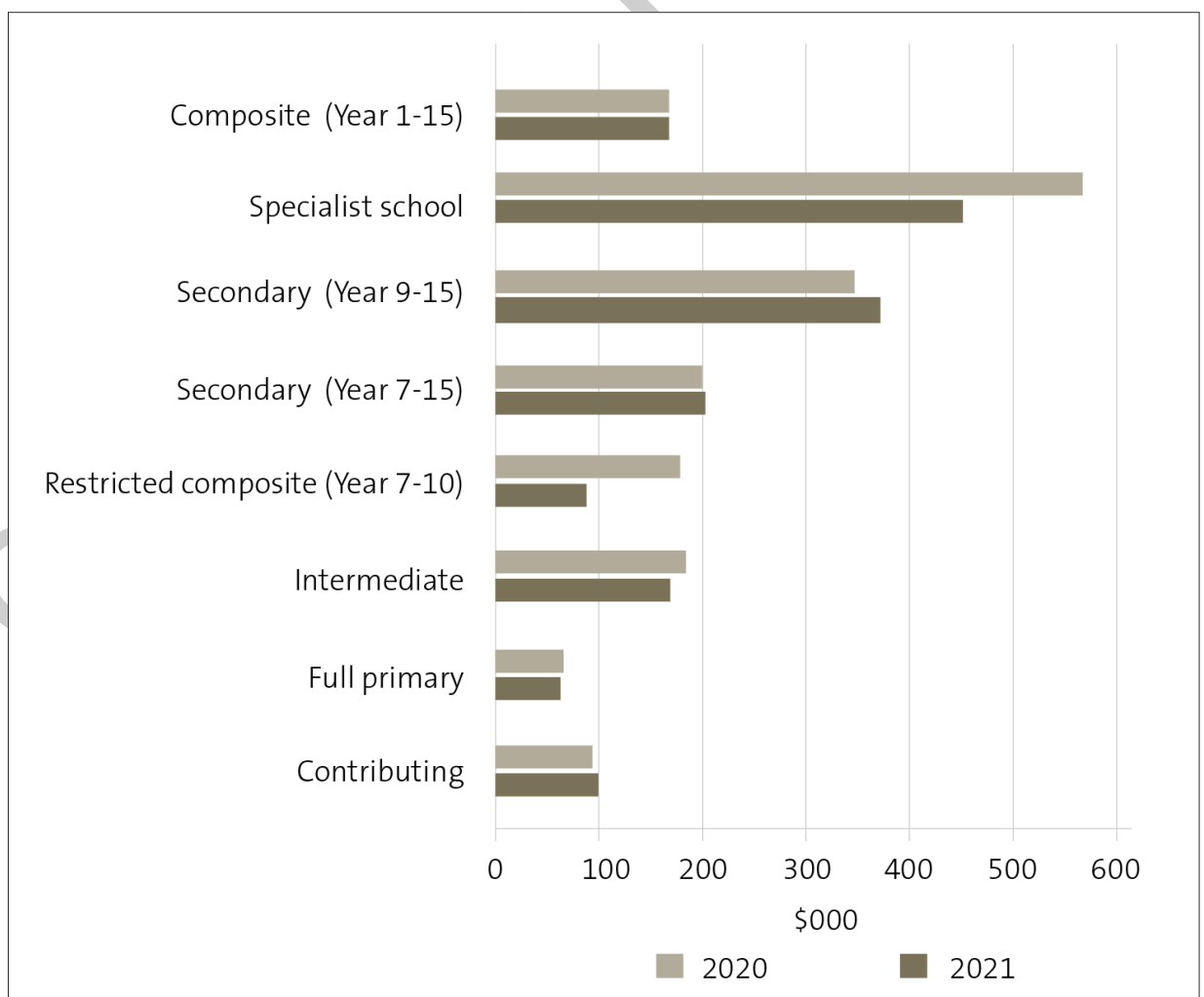
International Students	0.08	1.0%	0.07	0.8%	0.03	0.4%
Property	2.01	24.6%	2.11	24.6%	1.46	19.9%
Other Expenses	0.07	0.8%	0.07	0.8%	0.05	0.7%
Local funds	0.28	3.5%	0.19	2.3%	0.17	2.3%
Total	8.17	100%	8.54	100%	7.33	100%

Source: Ministry of Education report -Ngā Ara o te Mātauranga: the pathways of education 2021

3.29 Overall, schools reported a surplus of about \$181 million for 2021. This compares with an overall surplus of about \$220 million in 2020 and about \$70 million years prior to 2020. For the schools that we have data for, we have compared the number of schools that recorded a surplus and deficit with the previous year. We found that 67% recorded a surplus in 2021, compared to 80% for 2020.

3.30 Figure 13 shows that the average surplus for all types of schools in 2021 compared to 2020. Fewer schools recorded a surplus in 2021 than 2020.

**Figure 13: Average surplus recorded in 2021 by school type compared to 2020**



Source: The Ministry of Education' school financial information database

## What we mean by financial difficulty

- 3.31 Most schools are financially sound. However, each year we identify some schools that we consider could be in financial difficulty.
- 3.32 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.
- 3.33 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.
- 3.34 A school that goes into overdraft or has low levels of available cash is another sign of potential financial difficulty. Because we are considering the 12 months after the audit report is signed, we will also consider the school’s performance and any relevant matters in the period since the year-end.
- 3.35 In considering the seriousness of the financial difficulty, we usually look at the size of a school’s working capital deficit against its operations grant. Although many schools receive additional revenue, this is often through donations, fundraising, or other locally sourced revenue, so it is discretionary. For most schools, the operations grant is their only guaranteed source of income.
- 3.36 Of the 34 schools with a working capital deficit this year:
- 22 (2020: 32) schools had a working capital deficit of between 0% and 10% of the operations grant;
  - 7 (2020: 13) schools had a working capital deficit of between 10% and 20% of the operations grant; and
  - 5 (2020: 8) schools had a working capital deficit of more than 20% of the operations grant.
- 3.37 Figure 14 shows that decile rating does not affect whether schools have a working capital deficit. It also shows that the number of schools with a deficit significantly reduced since 2019.

**Figure 14: Schools with working capital deficit, by 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
<b>Total</b>	<b>34</b>	<b>53</b>	<b>100</b>

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

- 3.38 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 schools, two are decile 8, and one is decile 10.

### Schools considered to be in serious financial difficulty

- 3.39 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 school's financial performance since the year-end.
- 3.40 When we have assessed that a school is in financial difficulty, we ask the Ministry whether it will continue to support the school. If the Ministry confirms that it will continue to support the school, the school can complete its financial statements as a "going concern".
- 3.41 This means that the school is expected to be able to continue to operate and meet its financial obligations in the near future. If we consider a school's financial difficulty to be serious, we draw attention to this in the school's audit report.
- 3.42 Figure 15 shows the 20 schools that obtained letters confirming the Ministry's support and as a result could complete their 2021 financial statements on a "going concern" basis. This is a slight increase from 2020 but still a reduction from 2019 (2020: 17 schools, 2019: 38 schools).
- 3.43 We referred to serious financial difficulties in eight of these 20 schools' audit reports.

**Figure 15: Schools that needed letters of support for their 2021 audits to confirm they were a "going concern"**

School	2021	2020	2019 and earlier years
Bathgate Park School	√	√	√
Big Rock Primary School	√	√	√
Burnside Primary School	√	√	√
Cambridge East School	√	√	√
Fraser High School	√		
Garston School	√		
Goldfields School	√		
Halfway Bush School	√		
Kaikorai Valley College	√		

School	2021	2020	2019 and earlier years
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)	√	√	√
Solway College	√		
Verran Primary School	√		
	20	9	9

Source: Information taken from school financial statements and the Office of the Auditor-General's audit reports and confirmed with the Ministry of Education.

3.44 We also identified that the following schools needed letters of support from the Ministry for previous-year audits that were completed since we last reported:

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

3.45 As well as the above schools where a letter of support was necessary, our auditors did raise concerns with us about potential financial difficulties in 40 further 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

3.46 As of January 2023, the Equity Index will be used to determine a school's level of equity funding instead of the Decile system.

3.47 This has resulted in significant changes in funding for some schools. The Ministry is providing transition funding for those schools which will lose funding. For 2023, no school or kura will receive less operational funding than they did in 2022 and from 2024 any reduction in funding will be capped 5% per annum of a school/kura's operational grant. While there in transition funding in place, schools need to ensure that they are adjusting their budget to take into account the reduced funding levels.

### Staffing levels

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

overuse of its entitlement of Ministry-funded teachers after the year end. Either can result in a reduction in the operational funding the school has to spend on other things.

- 3.49 All schools pay non-teaching staff from their operations grant. Schools can also choose to use their operations grant and other funding for additional teachers. If a school uses a large percentage of its operations grant to pay staff, it will need other sources of funding to meet its other operational costs.
- 3.50 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.
- 3.51 As Figure 16 shows, when we calculated the board funded staff costs as a percentage of each school's operations grant for 2021, we found that the results were reasonably consistent with what we found in 2020 and 2019. Over 65% of schools have board-funded staff costs that are over 60% of their operations grants. This is a significant portion of their operations grant.

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

Year	0-19%	20-39%	40-59%	60-79%	80-99%	100% +	Total number of schools
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*.

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

## Part 4: Matters we identified during our audits

- 4.1 In this Part, we set out matters that we identified during the 2021 school audits and make some recommendations for the Ministry.

### School payroll

- 4.2 Because salary costs are the largest operational cost of schools, the school payroll information is a significant part of a school's financial statements. The Ministry funded about \$6.2 billion (2020: \$6 billion) of salary and related employee costs of schools for the 2021 school payroll year. Education Payroll Limited (EPL) administers the school payroll on behalf of the Ministry using the EdPay system.
- 4.3 The school payroll audit process – which includes distributing payroll reports to schools and their auditors, and the appointed auditor of the Ministry carrying out testing of the payroll centrally – has improved overall in recent years. However, a late change to the payroll system in 2021 did affect the 2021 school audits.
- 4.4 The processing of payroll transactions has moved progressively from Novopay Online to EdPay in recent years and in October 2021 EdPay fully replaced Novopay Online, which was decommissioned. This meant that a report that many schools relied on to check the accuracy of payroll-related changes, the Novopay Online transaction report, would no longer be available.
- 4.5 Where possible, our auditors seek to rely on controls because this reduces the amount of other testing required. Because of the change to the payroll system, and particularly the absence of the Novopay Online transaction report, auditors were not able to rely on payroll controls for most schools. As a result, our auditors had to carry out additional and unplanned payroll testing for many of our school audits.
- 4.6 The additional payroll testing contributed to a noticeable delay in audits being completed.
- 4.7 Initially schools were not given any guidance about what they could do instead, to check whether payroll changes had been correctly processed. EPL have since released updated guidance on school level internal controls, including how reporting from EdPay supported these controls.
- 4.8 Various EdPay transaction history reports are now available to schools so that the accuracy of payroll changes can be checked. However, because the transaction history reports were not all in place until the end of March 2022, we expect 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 be able to rely on them. Therefore, additional payroll testing will again be required for many school audits for the 2022 year.
- 4.9 In our previous report *Results of the 2020 school audits* we recommended that the Ministry make sure that changes to school payroll processes do not adversely affect the schools' control environment by working collaboratively with EPL. This includes making sure that controls within

schools help prevent fraud and error, and ensure that all transactions are approved within delegations.

- 4.10 In response to this recommendation, Education Payroll Limited (EPL) 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 and EPL.
- 4.11 Schools and kura have been able to re-establish the controls around the “payroll transaction report” that was lost during the transition from Novopay to EdPay.

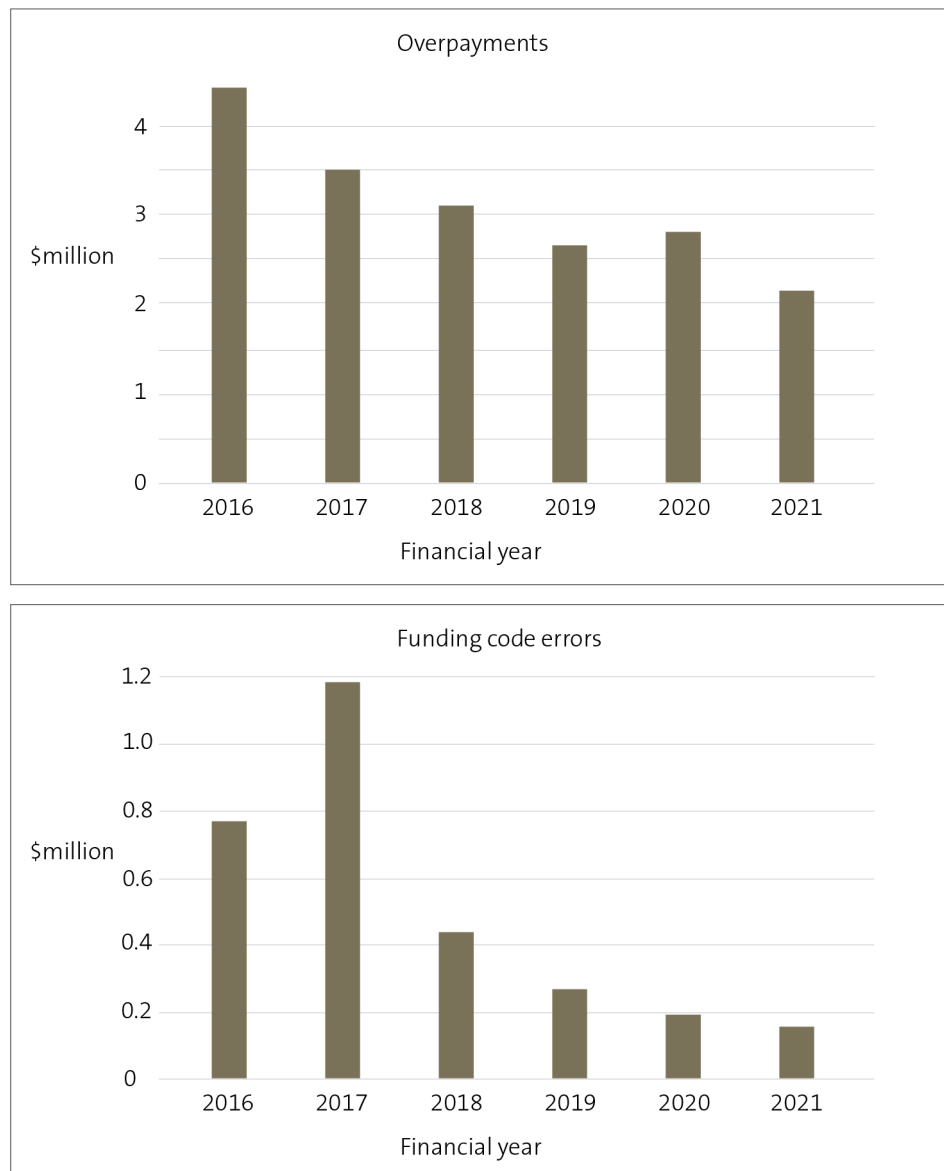
#### Findings from our 2021 school audits

- 4.12 Our auditor of the Ministry carries out extensive work on the EdPay 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.
- 4.13 We write to the Ministry every year setting out our findings from this work. We continue to see improvements in data quality, with fewer errors each year and a reduction in the value of those errors (see Figure 17).



**Figure 17: Value of payroll errors, 2016 to 2021**

The graphs show the reduction in payroll errors by value and number recorded from 2016 to 2021. Funding code errors are those where payroll payments have been incorrectly funded by either the board or the Ministry (through its teachers' salary funding). These result in an amount either owed to, or owed by, the school.



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

- 4.14 As part of their audit work at schools, our auditors follow up any anomalies that the data analytics work identified and that the Ministry cannot resolve. Some anomalies are also sent to EPL to be resolved.
- 4.15 For the 2021 audits, we identified 2304 exceptions (2020: 1905) for 974 schools (2020: 803) that school auditors needed to follow up.
- 4.16 In response to a recommendation we made in 2019, over the last few years the Ministry have been asking for feedback from schools and auditors on how the exceptions has been resolved. They did the same for 2021.

- 4.17 Although the Ministry received feedback on all the exceptions sent to Education Payroll Limited (EPL) and had followed-up on the exceptions provided to the Ministry, it received feedback from auditors on only 37% of exceptions sent. This Auditor response rate was only achieved after extending the timeline twice (in total 8 weeks), once at our request and once initiated by the Ministry.
- 4.18 Of the feedback from auditors, most (81%) confirmed that the transaction identified as an exception was considered valid or reasonable. This therefore resulted in no possibility of in-depth analysis on the remaining exceptions to identify themes for any additional support and guidance for boards or school administrators.
- 4.19 The 2021 audit was the third year that the feedback exercise was completed. The response rate has been low over all 3 successive years. This combined with the continued lack of substantial meaningful information to identify possible areas of improvement, resulted in the decision being made to not undertake this feedback process from the 2022 audit.

### **Non-compliance with the Holidays Act 2003**

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

### **Cyclical maintenance**

- 4.23 Schools must maintain in a good state of repair the property that the Ministry (or proprietor, for state-integrated schools) provide for their use. Schools receive funding for this as part of their operational grant.
- 4.24 A cyclical maintenance provision is included in schools' financial statements to account for their obligation to maintain the property. Schools need to plan and provide for future significant maintenance, such as painting the school buildings.
- 4.25 Auditing the cyclical maintenance provision has always been challenging, and 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 be able to calculate it accurately.

- 4.26 Schools' 10-year property plans, which are now prepared by property consultants engaged directly by the Ministry, should include maintenance plans that set out how schools should maintain their buildings for the next 10 years. Schools typically use the plans to calculate their cyclical maintenance provisions.
- 4.27 Where possible, auditors have relied on cyclical maintenance plans that are prepared as part of schools' 10-year property plans, because these are prepared by a Ministry-approved property consultant. However, recent changes to an international auditing standard means that school auditors need to obtain a greater understanding of the information on which the cyclical maintenance provision is based, than they did before. This includes understanding the method, assumptions, and data on which the provision is based.
- 4.28 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. About 21% of schools did not have reliable plans. We have shared the results of the information we gathered with the Ministry.
- 4.29 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 Ministry requirements and approved by the Ministry. This reduces the amount of audit work required. Our auditors find in practice, that maintenance plans are not always prepared.
- 4.30 This is a long-standing issue. In our report on the results of the 2020 school audits 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.
- 4.31 If a school does not have a maintenance plan it needs to source other information to be able to calculate its cyclical maintenance provision. This is time-consuming for the school. This year our auditors found that some schools without a plan struggled to obtain information, such as painting quotes, to support their cyclical maintenance provision because of the scarcity of suppliers.

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#### **Recommendation 1**

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

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### **Budgeting**

- 4.32 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.<sup>7</sup> Schools need to include the budget figures from their budget approved at the beginning of the school year.

- 4.33 As part of their audits, our auditors check that the figures included in schools' financial statements are from the approved budget. However, our auditors have been continuing to find that many schools do not prepare a budget balance sheet or a budget cash-flow statement.
- 4.34 As well as being a legislative requirement, having a full budget, including a balance sheet and statement of cash flows, is important for good financial management. Although monitoring the revenue and expenditure of the school is important, so is managing cash flows and ensuring that schools have enough cash to meet their financial obligations when they fall due. If schools do not manage this properly, they can get into financial difficulty.
- 4.35 We asked school 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. While we raise this matter in the management letters (which are sent to school boards) this shows that there has been no improvement since the previous year.
- 4.36 We have shared this information with the Ministry so it can discuss this with the individual schools when they prepare their budgets for the next school year.

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#### **Recommendation 2**

We recommend that the Ministry 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.

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### **Sensitive expenditure**

- 4.37 This year, our auditors brought fewer matters about sensitive payments to our attention but we referred to sensitive expenditure in some schools' audit reports, as explained in 2.35-2.39. If the amounts involved are less significant or the matters relate to a school's policies and procedures underlying its sensitive expenditure decisions, auditors will raise the matter in the schools' management letter rather than the audit report.
- 4.38 Matters auditors raised in schools' management letters this year were similar to previous years. They included:
- schools that did not have sensitive expenditure policies, including for gifts, or the policies were not updated regularly (six schools);
  - gifts to staff that were either without board approval or inconsistent with the school's gift policy (eight schools);

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<sup>7</sup> Section 87(3)(i) of the Education Act remains in force because the section of the Education and Training Act 2020 for school planning and reporting does not come into effect until 1 January 2023.

- hospitality and entertainment expenses that seemed excessive (10 schools); and
- travel-related expenditure (three schools).

4.39 Most of the concerns raised about school policies and procedures for sensitive payments related to poor controls over the approval of principals' expenses or credit card expenditure. The main matters raised were:

- principals approving their own expenses or the spending not being approved by someone more senior (35 schools);
- no approval of credit card expenditure or it not being approved by someone more senior than the person incurring the expenditure (19 schools);
- inadequate or no documentation to support expenditure (nine schools); and
- No approval of fuel card statements, travel vouchers or gift vouchers (eight schools).

4.40 As we have reported in the past, credit cards are susceptible to error and fraud or to being used for inappropriate expenditure, such as personal expenditure. This also applies to fuel cards or store cards.

4.41 Our auditors identified three schools where schools funds had been used for personal use, however for two of these instances the school was reimbursed. Also, with credit cards, money is spent before any approval, which is outside the normal control procedures over expenditure for most schools.

4.42 We remind schools that they should use a "one-up" principle when approving expenses, including credit card spending. This means that the presiding member (chairperson) of the board would need to approve the principal's expenses. It is also important that credit card users provide supporting receipts for the approver and an explanation for the spending.

4.43 We include information about using credit cards in our good practice guide on [Controlling sensitive expenditure](#), which is available on our website. This provides guidance on principles for making decisions on sensitive expenditure, guidance on policies and procedures, and examples of types of sensitive expenditure.

4.44 We have also added some short videos about those principles and a list of other resources, including reports, articles, blog posts, and published letters, to our resources on [sensitive expenditure](#).

## **Publishing annual reports**

4.45 Schools are required to publish their annual reports online.<sup>8</sup> A school's annual report consists of an analysis of variance,<sup>9</sup> a list of board members, financial statements (including the statement of responsibility and audit report), and a statement of KiwiSport funding.

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<sup>8</sup> [Section 136](#) of the Education and Training Act 2020.

<sup>9</sup> 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.

- 4.46 It is important that schools publish their annual report as soon as possible after their audit is completed. This ensures that schools comply with legislation and are accountable to their community.
- 4.47 As part of our audit, we check whether schools have published the previous year's annual report. If a school does not have a website, the Ministry will publish the school's annual report on its Education Counts website.
- 4.48 The number of schools publishing their annual reports online has remained reasonably consistent since last year. At the time of this year's audits, we found that 88%<sup>10</sup> of schools had published their 2020 annual report on their website (2020: 90% of schools had published their 2019 annual report).
- 4.49 Although this consistency is encouraging given the delays in completing audits due to Covid-19, our auditors identified 267 schools that had not published their annual reports online. We encourage parents and other members of a school's community to contact the school board if the school's annual report has not been published online.

### **Ka Ora, Ka Ako | School lunches**

- 4.50 In 2019, the Government announced a pilot programme to deliver a free daily school lunch to primary and intermediate aged learners/ākonga in schools and kura in communities with greater socio-economic barriers.
- 4.51 In 2020, the COVID-19 Response and Recovery Fund was used to expand the Ka Ora, Ka Ako healthy school lunches programme. In 2020, \$5.5 million was paid to lunch providers on behalf of schools/kura. Funding for the programme has been extended until December 2023. In 2021, \$142 million was paid to lunch providers on behalf of schools/kura.
- 4.52 The school lunch payments made directly to suppliers by the Ministry caused auditors some problems. We have discussed this with the Ministry and the Ministry has assured us that it has made improvements to its processes for next year. The central assurance audit of the School Lunches Program for the 2022 year will also be carried out at an earlier date.

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<sup>10</sup> 90% of the 2205 schools that had completed their audits as at 31 December 2022.

## Part 5: Other matters of focus

### Future of school financial reporting

- 5.1 School audits have become more complex over time because of increased financial reporting requirements and increasing professional requirements on auditors. At the same time, the number of audit firms has reduced as some smaller firms have decided to no longer carry out audits.
- 5.2 This has made appointing auditors for the more than 2400 school audits more challenging at each subsequent contract round.<sup>11</sup> The resourcing pressures the profession is currently experiencing have added to these difficulties.
- 5.3 Because of this, we started discussions with the Ministry about the future of school financial reporting, and about opportunities for making improvements in the school audit process (we noted this in our previous report *Results of the 2020 school audits*). We have recently put in place a terms of reference, alongside the Ministry, that commit the Ministry to developing a work programme on the future of school financial reporting.
- 5.4 The work programme will consider the needs of the different users of school financial information. It will also consider the nature of assurance required over school financial reports, and how that assurance can be carried out in a cost-effective and timely manner.
- 5.5 School financial statements are very detailed compared to those for many other public organisations. The Ministry is one of the main users of this information, and we understand that the Ministry uses this financial information for numerous purposes.
- 5.6 A small cross-sector working group carried out some work to simplify the 2021 Kiwi Park model financial statements, and further simplifications were made for 2022. However, we encourage the Ministry to continue to consider whether the current level of disclosure is necessary, particularly for information that the Ministry already holds. We will support your staff to progress these initiatives and identify other opportunities for improvement while the future of school financial reporting work programme is carried out.
- 5.7 In terms of improving information flows, one of our audit service providers carried out a pilot project for a group of schools with a large provider of school financial services. This focused on better information flows between the Ministry, the financial service provider, schools, and auditors. Many efficiencies were gained during this pilot including:
- Improved upfront planning
  - Reduction in the duplication of questions
  - Forming stronger relationships with the school financial services provider, which facilitated a more collaborative engagement

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<sup>11</sup> Auditors are appointed for a three-year contract period. The latest period is for the 2021 to 2023 school audits.

- 5.8 We hope that the efficiencies and findings gained through this pilot will benefit other schools and service providers in the future.
- 5.9 A new planning and reporting framework came into effect on 1 January 2023. The Ministry is currently developing regulations and support for schools to be available by mid-2023 with a proposed start date for the first plans under the new framework to be 1 January 2024.
- 5.10 Te Mahau (previously referred to as the Education Service Agency) has now also been created within the Ministry following the review of Tomorrows' Schools. The aim of this redesign is to work more regionally and provide more locally responsive, accessible, and integrated services to schools and the education sector. The Ministry sees Te Mahau's role as being to grow sector capability in curriculum, leadership, culture and relationships within communities.
- 5.11 These two significant developments provide opportunities for us to consider the accountability arrangements for schools and how they can be supported in financial matters.

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### **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. 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.

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## **Reporting on compliance with employment policies**

- 5.12 Section 597 of the Education and Training Act 2020 requires Boards (as an employer in the education service) to have an employment policy that complies with the principle of being a good employer. The Board must also make the policy available to employees, ensure its compliance with the policy, and report on the extent of that compliance in its annual report.
- 5.13 We are aware that most Boards have not been reporting on their employment policies in their annual reports and that it has been raised with some schools by the Education Review Office. The Ministry have recently produced some [guidance on this](#).
- 5.14 Our auditors will be raising this matter with boards in their management letters where we find that the school has not complied with this requirement.

## **Integrity in the public sector**

- 5.15 We continue to focus on ethics and integrity in the public sector. We have already referred to the additional resources on [sensitive expenditure](#) we have put on our website (see paragraph 4.40). Another area that is important to schools is conflicts of interest.
- 5.16 The risk of conflicts of interest in small communities, which many schools operate in, is inherently high. There is a particular risk of conflict in the decision-making processes used to appoint new employees and contractors, and to purchase goods and services. This is because the board may have limited options in a small community.



- 5.17 Having a conflict of interest does not necessarily mean a person has done anything wrong. However, it is important that schools properly manage conflicts and that they do this transparently.
- 5.18 Although we didn't identify any this year, we have previously identified schools that had board members who did not comply with the rules in the Education and Training Act 2020 about conflicts of interest. The main provisions of the Act that school boards need to be aware of are that:
- an individual is not capable of being a trustee if they are concerned or interested in contracts with their board where the total payments in a financial year are more than \$25,000 (including GST), unless the Secretary for Education approves the contract(s); and
  - a permanently appointed member of board staff cannot be elected (or appointed or co-opted) to the board of trustees unless they are the elected staff representative.<sup>12</sup>
- 5.19 School boards are unique in that the principal (who is essentially management) is also one of those charged with governance. All boards also have a staff representative and sometimes a student representative, and integrated school boards also include representatives of their proprietor.
- 5.20 Boards need to properly manage decisions that they make on matters that members have an interest in. A board member should be excluded from any meeting while it discusses or decides a matter that the trustee has an interest in. However, the board member may attend the meeting to give evidence, make submissions, or answer questions.<sup>13</sup>
- 5.21 A good way of ensuring that there is awareness of all potential conflicts is to maintain an interests register and to have a formal process for declaring any interests at the start of board meetings.
- 5.22 Resources on our website include a good practice guide, [Managing conflicts of interest: A guide for the public sector](#), and other resources, such as an [interactive quiz](#) that covers a range of scenarios where interests may conflict.
- 5.23 We have also recently published new guidance on integrity, [Putting integrity at the core of how public organisations operate](#). This includes an integrity framework which aims to reduce the gap between the culture and organisation wants to have and its actual practice.
- 5.24 Other resources in the good practice section of our website that may be of interest to school boards are guides on:
- [good governance](#);
  - [discouraging fraud](#);
  - [procurement](#); and
  - [severance payments](#).

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<sup>12</sup> Sections 9 and 10 of the Education and Training Act 2020 – previously, section 103 of the Education Act.

<sup>13</sup> [Section 15\(1\) to 15\(4\)](#) of the Education (School Boards) Regulations 2020.

## Appendix: Update on progress with our previous recommendations

In this Appendix, 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.

Recommendation	Ministry's current progress against recommendations	Our comment
<b>2020 recommendations:</b>		
<b>School payroll processes</b>  We recommend that the Ministry ensure 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.	Education Payroll Limited (EPL) 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 and EPL.  Schools and kura have been able to re-establish the controls around the "payroll transaction report" that was lost during the transition from Novopay to EdPay.  The Ministry will continue to meet with EPL to understand the impact of any planned developments to EdPay to ensure any issues are addressed prior to implementation.	
<b>Cyclical maintenance plans</b>  We recommend that the Ministry 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.	During 2022, the Ministry released new guidance on its website to assist schools and kura in the development and review of their cyclical maintenance provision calculations, including having appropriate supporting evidence.  During the 2021 audit process, the Ministry has also been actively working with schools and kura where audit challenges have arisen relating to cyclical maintenance.  In our <i>Results of the 2020 school audits</i> report, the Ministry noted three key areas that were being worked on: <ul style="list-style-type: none"> <li>• <i>working with BRANZ on the development of a Maintenance Guide for Schools.</i> This work is in progress.</li> <li>• <i>a longer-term strategy piece to address assets failing due to inadequate maintenance, and the burden of maintenance responsibilities.</i> This work is in progress.</li> <li>• <i>Online modules to provide school boards, principals, and staff guidance on their obligations to manage school property.</i> These modules have been available since June 2022 and have been well received.</li> </ul>	We have repeated this recommendation.
<b>Kiwi Park model financial statements</b>	During 2022, the Ministry engaged PwC to carry out a full technical review of the Kiwi Park model financial statements. This	We have repeated this recommendation.

<p>We recommend that the Ministry simplify the level of financial reporting required in the Kiwi Park model financial statements. This includes reconsidering information the Ministry specifically requires, in addition to that required by financial reporting standards, and whether it can obtain that information from other sources.</p>	<p>identified opportunities to make minor changes with significant effects on the reporting and auditing annual process. Two changes included:</p> <ul style="list-style-type: none"> <li>- Reporting of all grants from the Ministry in one disclosure line rather than two; and</li> <li>- a shift to functional reporting on the Statement of Comprehensive Revenue and Expenditure.</li> </ul> <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>The Ministry and our Office have recently finalised 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 the support of the OAG 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><b>2019 recommendations that are still relevant:</b></p>		
<p><b>Accounting for “other activities”</b> We recommend that the Ministry provide guidance to schools on accounting for “other activities” (including <i>Resource Teacher: Learning &amp; Behaviour (RTLB)</i> clusters) that they receive funding for.</p>	<p>During 2022, the Ministry engaged PwC to carry out a technical review of the current accounting treatment of RTLB 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 RTLB 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>	

# Communications Plan

## Results of the 2021 School Audits

3 March 2023

### Situation

The Office of the Auditor-General's (OAG) 2021 report on school audits is anticipated to be published between the 23 and 27 March 2023.

The annual financial statements of schools and kura are required to be independently audited, by auditors appointed by the OAG, and submitted to Te Tāhuhu o te Mātauranga | The Ministry of Education (the Ministry). The OAG reports annually on the results of school audits.

Amongst other things, the OAG reports on schools that have breached regulations and/or legislation. The OAG also comments on areas where it believes that the Ministry should provide additional guidance or support.

The OAG have raised a small number of issues that could become the subject of media attention. This communications plan details those issues and provides talking points to respond to any queries that may arise.

### Key messages

- 92% of schools and kura had submitted their 2021 draft accounts for audit by 31 March 2021. This slightly less than 2020 but remains above 90% which has been the case for the last six years.
- 57% of school audits had been completed by the statutory deadline of 31 May 2022 (2020: 70%, 2019: 59%). This increased to 91% as of 31 December 2022.
- The ongoing impacts of COVID-19 and variants, combined with an acute shortage of auditing staff, resulted in the audits of a significant number of schools not being complete by 31 May.
- The OAG have raised concerns about a handful of schools. Many of these issues relate to prior year audits (2020 and before).
- Of the 2,231 audit reports issued to 31 December 2022, 31 audit reports contained a modified audit opinion (2020: 25). A further 16 modified opinions were issued for prior-year audits.
- For 2021, 20 schools required a letter of going concern from the Ministry (2020: 17, 2019: 38).
- The number of schools and kura operating with a working capital deficit has dropped from 53 in 2020 to 34 in 2021. Of the 53 that were noted as being in financial difficulty last year, approximately 59% are no longer considered to be in financial difficulty.
- Four schools were highlighted for Sensitive expenditure related items during 2021
- The OAG noted that the number of publishing their annual reports online continued to be high. 88% of schools and kura had made their 2020 annual accounts available online (2020: 90%). This decline can be attributed partly to the delay in completing of 2021 audits.

## Specific issues raised by the OAG

### Disclaimers of Opinion

#### Te Kura Kaupapa Māori o Takapau (2016, 2017, 2018)

A disclaimer of opinion was because the previous accounting service provider introduced a new accounting system in August 2018 and all the accounting data and supporting documents stored on the previous accounting system were lost. At this point the 2016 and 2017 audits were still outstanding. The school also did not retain a copy of the accounting data and supporting documents and the previous accounting service provider has since ceased to operate. This meant that financial statements could not be readily prepared for 2017 and 2018.

A “limitation of scope” qualified opinion was issued for 2016 which is discussed in more detail in the Limitations of scope section below

#### Media Response:

- The OAG’s finding relates to the 2016, 2017 and 2018 financial years.
- Financial controls have been strengthened following the appointment of new management at the kura and a new accounting service provider.
- The 2019 audit report is likely to be qualified due to the disclaimer report issued in 2018. The OAG’s opinion review committee are currently considering the wording of the opinion.
- The 2020 financial statements are pending 2019 signoff. No significant issues expected.
- The Ministry and Te Rūnanga Nui o Ngā Kura Kaupapa Māori o Aotearoa (TRN) are supporting the kura.
- The Ministry and TRN continue to work closely with the school around financial matters.

#### Te Kura o Waikaremoana (2015)

A disclaimer of opinion was issued because there were instances of fraud identified related to school funds being used for payments of a personal nature, and theft of money by creating fictitious invoices. A New Zealand Police investigation was conducted, and the perpetrators were found guilty. This investigation was limited to 2016 and 2017 and therefore the amount and the impact of the fraud on the 2015 financial statements was not known.

The audit report also drew attention to disclosures outlining that the school 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.

#### Media Response:

- The OAG’s finding relates to the 2015 financial year.
- The Ministry Intervened 1 December 2017, with a limited Statutory Manager to address concerns at the kura. This intervention was ended in September 2022.
- The intervention helped the kura to establish a strong and robust systems of record keeping and documentation of the board decisions.
- The Ministry continues to work with the kura as required around financial matters and completion of their outstanding financial statements.

## Travel, Gifts and Hospitality

The audit opinions for three schools highlighted travel, gifts, or hospitality matters (2019: 2). Details of these are provided below.

### Shotover Primary School, Otago (2021)

The auditor drew attention to the school donating \$200,000 to the Shotover Primary School Foundation which is not a public entity. It is not appropriate for the school to donate to a private entity, as 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 the repayment of the donation

#### Media Response:

- The Ministry became aware of this issue in October 2021 and raised concerns with the principal.
- Shotover Primary School Foundation is an independent foundation and not a controlled entity for financial reporting purposes. The school has no ability to directly benefit or direct the decisions of the foundation.
- In December 2021 the Ministry advised the school in writing that this was an inappropriate transaction and that the board need to seek return of the funds from the Foundation.
- The board wrote to the Foundation in April 2022 requesting the funds be returned to the school.
- To date the Foundation has not returned the funds to the Shotover Primary School board.
- The school has declining working capital. While immediate action is not required, the board will need to address these trends in the medium to long term. The Ministry has communicated this to the board.
- The Ministry continues to work with the school to address this situation.

### **Halcombe Primary School, Feilding (2021)**

The auditor noted that the school spent \$4,500 on vouchers and \$570 on other items, as leaving gifts to farewell the former principal. Spending on gifts using public money should be both moderate and conservative and appropriate for the circumstances. While the gifts were approved by the board, the school does not have a gift policy, and the total amount of the gifts, \$5,070, was considered to be relatively high for a school.

#### **Media Response:**

- The principal had been employed by the school for 32 years as both a teacher and principal.
- In addition to money the board committed, the community also provided donations to be put toward the leaving gift.
- The board documented their decision and considerations as part of the in-committee minutes.
- The board are firm in their belief that this was an appropriate, and well-deserved koha, for excellent service and leadership over a long period of years. The community were aware and delighted with the koha.
- While a gifts policy was not in place at the time, the school board have since established a sensitive expenditure policy including the giving of gifts.
- The Ministry recommends that caution should be taken when providing a gift and that the following considerations are made:
  - The gift is of an appropriate value.
  - Gifts are not given on a regular basis.
  - There will not be any perception issues.
- There is no personal link between staff/board members and the receiver of the gift. Where a preserved or actual personal link exists, good practice is to have an independent person approve the decision made.

### **Waiuku College, Auckland (2021)**

The auditor noted 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 leaving ceremonies expenditure was relatively high for a school. Spending on farewells and retirements using public money should be both moderate and conservative and appropriate for the circumstances. The board also used funds originally raised for a Kapa Haka trip for this expenditure. The school should ensure funds are used for the intended or a similar purpose, for which they are raised, and if that purpose is no longer possible the board should, consult with those from which the funds have been raised.

#### **Media Response:**

- The principal had been employed by the school for 13 years.
- The local Iwi contributed to the gift and functions for the departing principal. This amounted to approximately \$6,900
- The contribution received from Iwi was used in addition to the amount set in the board policy. While the additional funding was used for its intended purpose the total cost exceed the policies of the school.
- The Iwi undertook the fundraising for the Kapa Haka trip. Following the cancelation of the Kapa Haka trip due to COVID-19 lockdowns, it was agreed between the Iwi and school that the funds could be used for this purpose.

- The Ministry recommends that caution should be taken when providing a gift and that the following considerations are made:
  - The gift is of an appropriate value.
  - Gifts are not given on a regular basis.
  - There will not be any perception issues.
- There is no personal link between staff/board members and the receiver of the gift. Where a preserved or actual personal link exists, good practice is to have an independent person approve the decision made.

### **Te Kura o Kokohuia, Wanganui 2021**

The auditor noted that the school spent \$15,700 on Pak'n'Save vouchers which were given to students and staff during the 2021 Covid-19 lockdowns. There was no evidence of board approval prior to the purchase of the vouchers and no record of who received the vouchers. This expenditure is not directly linked to an educational purpose. All school spending should have a justifiable business purpose consistent with the school's objectives.

#### **Media Response:**

- The Kura provided vouchers to the whānau as part of their overarching school strategy.
- The ongoing COVID-19 lockdowns and isolation periods had resulted in weak engagement with the hybrid learning model the kura was operating.
- The kura had developed several programs to ensure students were able and ready to learn such as ensuring students were not hungry. This was seen as an extension of those existing programs.
- The kura view the wellbeing of the family as equally important to the wellbeing of the student and if the whānau is well the student will be well and able to learn. There by reducing barriers to education.
- As a result, the Kura note significant improvements in student re engagement in learning and educational progression.
- The Ministry has reached out to the kura for support in ensuring appropriate systems of documentation are included moving forward.
- In the situation and the challenges that were being faced the Ministry is supportive of initiatives that seek to support reducing barriers to education.
- The Ministry also note that any expenditure incurred by a board needs to exhibit a clear and documented link to educational outcomes for students, in this instance it appears to have been a clear link between the spend and the expenditure.

### **Other Specific Matters**

#### **Hato Petera school (2016, 2017)**

The Auditor was unable to carry out the audit for 2016 and 2017 for Hato Petera school due to a lack of information. The school closed on 31 August 2018 and at that time the 2016 audit was still outstanding.

After the closure of the school, the school's physical financial records, such as invoices and payroll reports, could not be located. As a result financial statements could not be prepared. The Ministry decided that it would not be a good use of time or funds to proceed with the preparation and audit of the outstanding financial statements, given there would not be an acceptable level of assurance or public accountability provided.



**Media Response:**

- The OAG's findings relate to the 2016 and 2017 audits of a closed school.
- The preparation of financial statements is the obligation of the school board. Following closure, the school no longer had a board.
- The schools' financial records were lost following the closure of the school in August 2018.
- Due to the loss of records, the residual agent was unable to prepare financial statements suitable for audit.
- Any audit would have resulted in a disclaimer opinion which provides the same amount of assurance as not auditing the financial statements.
- The Ministry carefully considered the costs, benefits and public accountability in consultation with the Office of the Auditor-General and decided that there was no benefit in preparing and auditing financial statements for this closed school.

**Marian Catholic School (Hamilton) (2020, 2021)**

The school received \$10,052 under the Covid-19 wage subsidy scheme because it did not receive revenue from parents for after school care during alert levels 3 and 4 lockdowns. However, the school did not meet the Ministry of Social Development (MSD)'s eligibility criteria for the subsidy scheme. The eligibility criteria for the wage subsidy are set out on the Ministry of Social Development (MSD)'s website.

The school also claimed \$28,030 of wage subsidy during 2020. The school subsequently repaid 100% of the subsidy, \$38,082 in total.

**Media Response:**

- At the time of the application the school believed it qualified for the COVID-19 wage subsidy.
- While teachers, relievers and support staff were continued to be paid and funded by the Ministry over the lockdown period, there was no funding provided to continue to pay staff providing out of school care.
- Crown entities were ineligible to apply for the COVID-19 wage subsidy. Schools continued to receive operational funding throughout this period.
- The school repaid 100% of the subsidy received.
- The school remains in a positive financial position.

**Te Ra Waldorf School (2020)**

The school submitted and received a Covid-19 wage subsidy of \$58,978 on behalf of Kapiti Waldorf Trust. Neither the school nor the Trust were eligible for the subsidy. No exception was sought from the Ministry. There is therefore uncertainty over the validity of the wage subsidy received by the school.

**Media response:**

- The school claimed the subsidy on behalf of their proprietor after seeking advice from MSD and IRD.
- Because the proprietor is not a registered employer, MSD confirmed that the payments for the proprietor would be paid into the bank account of the school, and then transferred to the proprietor.
- The wage subsidy was claimed in good faith. At no time did the school or the proprietor feel that their actions were incorrect or against Government guidelines.
- The proprietor's income dropped significantly due to COVID-19.
- The proprietor covered the cost of employing all specialist teachers, as well as administration staff.

## Cyclical Maintenance (2020)

Cyclical maintenance continues to be an area of focus. This is one area in the financial statements where significant judgement needs to be exercised. The Ministry has developed cyclical maintenance guidance because of recommendations raised by the OAG. This was released in March 2022. However, work continues in different avenues to address this perennial issue.

The schools with non-standard audit reports relating to cyclical maintenance have been noted below.

School Name	Financial Year	Comment on addressing challenges
Aranga School	2021	<ul style="list-style-type: none"><li>The school notes difficulties in obtaining quotes or information for a reliable estimate due to their location.</li><li>The provision is being reviewed for the 2022 year to reflect the updated quote and any changes to 5YA.</li></ul>
Āria School	2021	<ul style="list-style-type: none"><li>The Ministry has offered assistance through the School Finance Adviser.</li><li>The school is updating their cyclical maintenance plan to address this issue.</li></ul>
Centennial Park School	2021	<ul style="list-style-type: none"><li>The Ministry has offered assistance through the School Finance Adviser.</li><li>The school is updating their cyclical maintenance plan to address this issue.</li></ul>
Cheviot Area School	2020, 2021	<ul style="list-style-type: none"><li>The school currently has a Limited Statutory Manager appointed, while not directly related to cyclical maintenance, this has delayed the school's ability to address this situation.</li></ul>
Christchurch South Karamata Intermediate School	2021	<ul style="list-style-type: none"><li>The Ministry has offered assistance through the School Finance Adviser.</li><li>The Ministry has offered assistance through the School Finance Adviser.</li></ul>
Forrest Hill School	2021	<ul style="list-style-type: none"><li>The school is disappointed that this featured in the audit letter.</li><li>They are in year 6 of a 7 year contract with Programme Maintenance which ends in 2023.</li><li>The school is in good repair and is following their cyclical maintenance plan.</li><li>They have a fully costed and detailed Cyclical maintenance plan to support their 2022 provisioning.</li></ul>
John Paul College	2021	<ul style="list-style-type: none"><li>The Ministry has offered assistance through the School Finance Adviser.</li><li>The school does not have a cyclical maintenance plan.</li><li>The proprietor has traditionally managed the repainting of the school and is reluctant for the board to manage this process.</li></ul>
Kaikorai School	2021	<ul style="list-style-type: none"><li>The Ministry has offered assistance through the School Finance Adviser.</li><li>The school has had a complete rebuild so has been unable to estimate the provision.</li><li>The rebuild will be completed in 2023 and provision will be reviewed for the 2023 financial year.</li></ul>
Kaitoke School (Claris)	2021	<ul style="list-style-type: none"><li>The Ministry has offered assistance through the School Finance Adviser.</li><li>This school is located on Great Barrier Island which presents challenges with availability of materials and labour.</li><li>The school is updating their cyclical maintenance plan to address this issue.</li><li>Te Mahau is looking into other options that maybe available to assist this school due to the unique nature of their location.</li></ul>
Mt Richmond School	2021	<ul style="list-style-type: none"><li>The Ministry has offered assistance through the School Finance Adviser.</li><li>The school is updating their cyclical maintenance plan to address this issue.</li></ul>
Okiwi School	2021	<ul style="list-style-type: none"><li>The Ministry has offered assistance through the School Finance Adviser.</li><li>This school is located on Great Barrier Island which presents challenges with availability of materials and labour.</li><li>The school is updating their cyclical maintenance plan to address this issue.</li><li>Te Mahau is looking into other options that maybe available to assist this school due to the unique nature of their location.</li><li>The Ministry has offered assistance through the School Finance Adviser.</li></ul>
Ōtewā School	2021	<ul style="list-style-type: none"><li>The school is updating their cyclical maintenance plan to address this issue.</li><li>The Ministry has offered assistance through the School Finance Adviser.</li></ul>

Papatoetoe High School	2021	<ul style="list-style-type: none"> <li>The school is updating their cyclical maintenance plan to address this issue.</li> <li>The Ministry has offered assistance through the School Finance Adviser.</li> </ul>
Parakai School	2021	<ul style="list-style-type: none"> <li>2021 was the beginning of a major 5YA programme with buildings about to be demolished, new buildings to be built.</li> <li>The Ministry has now approved demolition and new builds. These should be completed during 2023.</li> <li>Following confirmation of the extend of 5YA program the school will be revisiting their cyclical maintenance plan during 2023 to ensure it is accurate.</li> <li>The Ministry has offered assistance through the School Finance Adviser.</li> </ul>
Piopio Primary School	2021	<ul style="list-style-type: none"> <li>The school is updating their cyclical maintenance plan to address this issue.</li> <li>The Ministry has offered assistance through the School Finance Adviser.</li> </ul>
Pongakawa School	2021	<ul style="list-style-type: none"> <li>The school has significant weather tightness issues; 85% of the school needs to be remediated.</li> <li>The school has not prepared an update cyclical maintenance plan as a result.</li> <li>The Ministry will provide the school confirmation that no provision is required to be recognised until the weather tightness issues are established and final works are confirmed, thus allowing the school to establish a plan.</li> </ul>
Putere School	2021	<ul style="list-style-type: none"> <li>Te Mahau has requested that the school is not contacted at this time as the community are recovering from Cyclone Gabrielle.</li> <li>Support will be offered to the school later in 2023.</li> </ul>
Rangiora Borough School	2021	<ul style="list-style-type: none"> <li>The school is working to address the issue and has been seeking support from their property service provider.</li> <li>The Ministry has offered assistance through the School Finance Adviser.</li> </ul>
Reefton Area School	2020	<ul style="list-style-type: none"> <li>Following a change of service provider, the issue has been resolved.</li> <li>No further issues are expected moving forward.</li> </ul>
Riwaka School	2021	<ul style="list-style-type: none"> <li>The new principal has been working with school staff to reduce expenses and to address cyclical maintenance.</li> <li>The school is seeking further clarification from their auditor.</li> <li>The Ministry has offered assistance through the School Finance Adviser.</li> </ul>
Sacred Heart School (Reefton)	2021	<ul style="list-style-type: none"> <li>The school was not aware of the issue and its importance.</li> <li>The Ministry has offered assistance through the School Finance Adviser.</li> </ul>
St Mary's School (Blenheim)	2021	<ul style="list-style-type: none"> <li>The Ministry has offered assistance through the School Finance Adviser.</li> </ul>
Te Kura Toitu O Te Whaiti-Nui-A-Toi	2021	<ul style="list-style-type: none"> <li>Delays in completion of painting at the junior site of the kura due to rationalisation of buildings delayed the ability for the provision to be updated for 2021.</li> <li>Painting is scheduled to be undertaken in 2023.</li> <li>Once the final costs are known then the plan will be able to be updated with recent costings.</li> </ul>
Te Rā School	2020, 2021	<ul style="list-style-type: none"> <li>The Ministry has offered assistance through the School Finance Adviser.</li> <li>The school were unaware of the need to recognise this expense.</li> <li>Following discussion with the School Finance Adviser the school is updating their cyclical maintenance plan to address this issue.</li> </ul>
Te Waha o Rerekohu Area School	2021	<ul style="list-style-type: none"> <li>Te Mahau has requested that the school is not contacted at this time as the community recovering from Cyclone Gabrielle.</li> <li>Support will be offered to the school later in 2023.</li> </ul>
TKKM o Taumarere	2021	<ul style="list-style-type: none"> <li>The kura acknowledged that cyclical maintenance schedule is out of date.</li> <li>Te Mahau has recently completed a 5YP including an updated cyclical maintenance plan.</li> <li>The kura has been provided this to their kura service provider to prepare an updated provision for 2022.</li> </ul>
Waitomo Caves School	2021	<ul style="list-style-type: none"> <li>The school is updating their cyclical maintenance plan to address this issue.</li> <li>The Ministry has offered assistance through the School Finance Adviser.</li> </ul>

## Other Matters of Importance

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

### Cyclical Maintenance

"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' condition assessments and planned capital works"

The OAG made a similar recommendation in their report "Results of the 2020 school audits", issued in late 2021.

#### Media Response:

- The Ministry released new guidance for cyclical maintenance in March 2022. This comprised updated guidance in the Financial Information for Schools Handbook (FISH), revised cyclical maintenance calculators and worked examples.
- It is the responsibility of school boards to review their cyclical maintenance plans and provisions annually.
- School boards must ensure that the plan is up to date, reflects the current schedule of painting works and a reliable estimate of cost for provision in their financial statements.
- The Ministry is continuing to work with BRANZ on the development of a maintenance guide for schools that will set expectations and provide guidance to schools on planned, preventative, and reactive maintenance. This is expected to set benchmark expectations on the use of the property maintenance grant.
- The Ministry is also working on a longer-term strategy to address failing assets due to inadequate maintenance, and the burden placed on schools a result of maintenance responsibilities.
- Online modules have been available to school boards, principals, and staff since June 2022. These modules provide guidance on the obligations to manage school property. Feedback so far is that these have been well received.
- The Ministry is piloting a long-term property plan, the School Property Plan. The School Property Plan will replace the 10 Year Property Plan and has more of a focus on long-term maintenance.
- We continue to explore ways to assist schools and boards with this area of school finance.

### Budgeting

"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."

This recommendation is not dissimilar to the Budgeting recommendation made in the Auditor-Generals 2018 report.

#### Media Response:

- A Webinar focussed on banking staffing, budgeting, forecasting and cashflow management was produced during 2022 and is available on our website for schools to reference.
- The Ministry will supplement this with additional targeted support during in each of our regions during 2023.

- The School Financial Advice team has developed a set of budgeting support tools that that can be used to support discussions with schools about the need and importance to prepare “full” budgets

### **Kiwi Park Model Financial Statements**

“continue to 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.”

This recommendation is not dissimilar to the financial reporting recommendations in the 2020 report.

#### **Media Response:**

- The Ministry and the office of the Auditor-General have recently finalised 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 the support of the OAG as appropriate. It will include identifying improvements and efficiencies to school financial reporting to ensure that it is both timely and cost-effective.
- The Ministry is currently working through resourcing of the project and establishing some estimated time frames for delivery of available options.
- The Ministry will be working through what options are available currently, and in the medium to long term, to ensure that the financial reporting requirements are not unnecessarily detailed, while providing enough information to ensure public accountability.