



Results of the 2017 school audits

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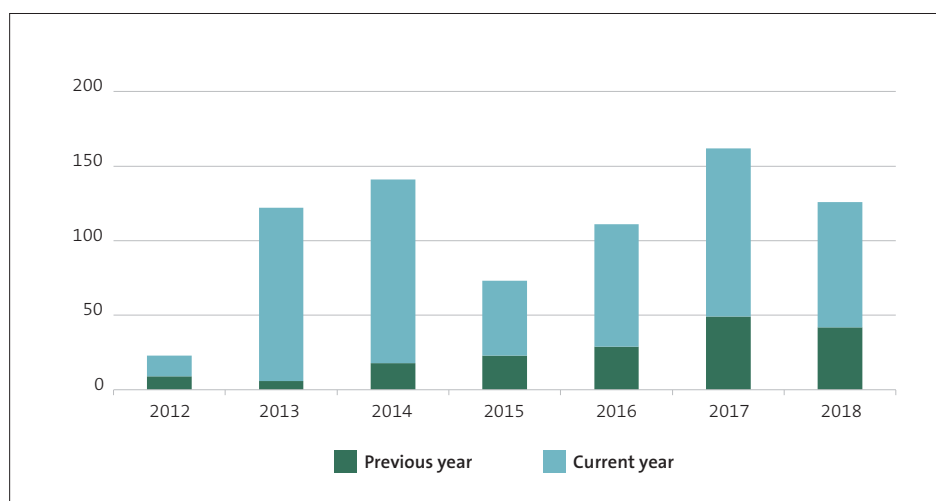
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Completion of the 2017 school audits

- 1.1 Of the 2442 audits that we expected to complete for 2017 (which includes schools and school subsidiaries), we completed 2110 (86%) by the statutory deadline of 31 May 2018. This was an improvement on last year, where 81% of 2016 audits were completed by the statutory deadline. Some of the school audits missed the deadline because of the performance of a few school auditors. If those audits are excluded from the total, 90% of the school audits were completed by the statutory deadline.
- 1.2 The introduction of the Novopay system in August 2012 has contributed to poor timeliness of school audits in the past few years. For the 2017 school audits, we changed our approach to how we audited school payroll so schools had the information they needed to prepare their draft financial statements for audit earlier. The Ministry of Education (the Ministry) provided better and more timely guidance, which also helped. As a result, we have seen a general improvement in the quality of the draft financial statements that schools have provided for audit.
- 1.3 Although earlier reporting on payroll and better quality financial statements have resulted in an improvement in timeliness, we are still well below our target of having 95% of school audits completed before the statutory deadline.
- 1.4 By November, we usually expect less than 1% of the previous year's school audits to be outstanding. At 12 November 2018, 3% (84 audits) of the 2017 school audits were outstanding. Of these outstanding audits, 18 were delayed because we have been working with the auditors to resolve some quality concerns. If we exclude those audits, there would be 68 audits from 2017 outstanding – an improvement on the past few years (113 of the 2016 audits were outstanding at the same time last year). We are working with the auditors and the affected schools to complete these audits as soon as possible.
- 1.5 During the past few years, we have seen the number of outstanding audits from previous years increase. Figure 1 shows that, this year, the number of outstanding audits from previous years has reduced, contributing to a decrease in the total number of outstanding audits at 12 November 2018. Generally, once the statutory deadline passes, auditors face pressures resourcing the remaining audits because they have other work planned. Because the 2017 audits went more smoothly for auditors, they have had time to complete some of these outstanding audits from previous years.
- 1.6 Of the previous-year audits still outstanding, the oldest is a 2013 audit of a closed school. There are also three audits outstanding for 2014.

Figure 1
Outstanding audits as at 12 November for the years 2012 to 2018

The number of outstanding audits from previous years has reduced, contributing to a decrease in the total number of outstanding audits at 12 November 2018.



Source: Office of the Auditor-General.

- 1.7 Appendix 1 lists the individual audits that are outstanding as at 12 November 2018. The list shows that 20 of the 2017 audits outstanding are Kura Kaupapa Māori (kura), with 10 of these kura having audits from previous years outstanding. This represents a high proportion of the 73 kura.

2 The types of audit reports we issued

- 2.1 We mostly issued standard audit reports on the financial statements of schools.
- 2.2 Non-standard audit reports can contain a modified audit opinion and/or draw attention to matters of importance to readers of the financial statements.
- 2.3 We issue a modified opinion on a school's financial statements when we cannot get enough evidence about a matter or we conclude that there is a misstatement in the financial information. If the matter is significant to readers' understanding of the financial information, we might issue an "adverse opinion" (disagreeing with the financial information) or a "disclaimer of opinion" (we do not have enough evidence to give an opinion). Adverse opinions and disclaimers of opinion are rare. They are also serious because there is a lack of accountability – we cannot confirm that the school's financial statements are a true reflection of its transactions and balances. We issued three disclaimers of opinion this year (see paragraphs 2.6 and 2.8 below).
- 2.4 We draw attention to matters of importance where the matter is of public interest, schools are in financial difficulty, or schools have not followed legislation about accountability. We might also draw attention to matters that would help the readers' understanding of the financial statements.

Modified opinions

- 2.5 Of the audits completed for 2017, 15 audit reports contained a modified audit opinion. We also issued a further 12 modified opinions for previous-year audits still outstanding.¹
- 2.6 We were unable to express an opinion on the 2016 and 2017 financial statements of Al-Madinah School. There were limited controls and scrutiny over payments for these years. In particular, there was inadequate documentation to support some payments, and some payments seemed excessive for their stated purpose. Because of this, we were unable to get enough audit evidence to form an opinion. We also could not identify all related party transactions and whether these were at arms-length. (A related party is a person with close links to members of the board.)
- 2.7 We completed the 2015 audit for Al-Madinah School earlier in 2018. We issued an opinion for 2015, but it was limited because we did not have enough information on related party transactions to determine whether the school had disclosed all of these in its financial statements. We also drew attention to potential conflicts of interest with the proprietor of the school, and to disclosures about the Ministry appointing a Limited Statutory Manager for the school because of governance challenges. We issued the same audit report for the 2014 year, which we reported on last year.

- 2.8 We issued a disclaimer of opinion on the 2015 financial statements of Te Kura Kaupapa Māori o Takapau. We could not get enough evidence about the receipts and payments of the kura and related balances. This was because a staff member set up bank accounts outside the control of the kura. The kura also did not keep minutes for all matters discussed and decisions made by the board.
- 2.9 We disagreed with the board of William Colenso College not preparing consolidated financial statements that included the transactions and balances for the William Colenso College Charitable Trust. Accounting standards require the school to prepare consolidated financial statements because it “controls” the Trust. Without group financial statements, the school is not presenting its true financial position to its community. Apart from this matter the school’s financial statements presented fairly the financial performance and position of the school. We have issued the same opinion on the school’s financial statements since 2012.
- 2.10 The rest of our modified opinions were because we could not get enough evidence about one or more aspect of the financial statements. We refer to these as “limitations of scope” and set out details of them below.

Locally raised funds

- 2.11 We could not get enough assurance about the amounts raised locally in 12 schools because the schools had limited controls over collecting and recording receipts. Six of these opinions were for previous-year audits (Figure 2).

Figure 2
Schools without assurance for locally raised funds

2017 audits	Previous-year audits
Ballance School	Maketu School – 2015
Feilding Intermediate School	Otorohanga College – 2015
Paeroa Central School	St Joseph’s School (Upper Hutt) – 2016
Taumarunui High School Community Trust	Te Wharekura o Mauao – 2014
Waikouaiti School	Te Wharekura o Te Rau Aroha – 2014
Waitara High School	Whakatane High School – 2016

- 2.12 Because of the lack of supporting records, we were also unable to confirm whether the payroll expenses recorded in the financial statements of Feilding Intermediate School and Te Wharekura o Te Rau Aroha for 2014 were correct.

Expenditure

- 2.13 We issued modified opinions for four schools because we could not get enough assurance on the payments they made.
- 2.14 Of these four schools, two (Flag Swamp School and Mountainview High School) had modified opinions for their 2017 financial statements.
- 2.15 The modified opinion for Tangaroa College was for the 2016 financial statements and related to an issue that has been ongoing since 2013. This matter has now been resolved and the school received an unmodified opinion in 2017.
- 2.16 Te Kura Kaupapa Māori o Te Kura Kokiri has several outstanding audits. The kura's 2013 audit opinion has recently been issued. As with previous years, we could not get enough evidence about payments made by the kura, including reimbursement for payments made on its behalf from a personal account. Our opinion also refers to unusual spending, as explained below.

Cyclical maintenance

- 2.17 We could not get reliable evidence to support the cyclical maintenance provision for two schools – Golden Bay High School and Te Kura Kaupapa Māori o Taumarunui. This provision is an estimate of how much the board will need to pay in the future to keep the Ministry's buildings in good repair. The provision is usually for a school's exterior painting.
- 2.18 Appendix 2 provides more details of all the modified opinions we have issued.

Matters of importance that we have drawn readers' attention to

- 2.19 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 the school does not refer to. We do this because the information is relevant to readers' understanding of the financial information. Such comments are not modifications of our opinion, which is that the financial information fairly reflects the performance and position of the school. Rather, they point out important information such as a matter of public interest or a breach of legislation.

Matters of public interest

- 2.20 We issued 11 audit reports that referred to matters of public interest. Some of these reports related to previous years.

Potential conflicts between school Board of Trustees and proprietor

- 2.21 **Sacred Heart College (Auckland) (2015)** – For the sixth year, our audit report drew attention to the close relationships between the school, the proprietor, and the Sacred Heart Development Foundation, and potential conflicts of interest between these entities. The school, the proprietor, and the Foundation all have trustees in common
- 2.22 The audit report also said that the school should not pay for hospitality to further relationships between the Sacred Heart Development Foundation and former students of the school. The Foundation receives the benefits from these activities, not the school. Although the Foundation is related to the school, it is a private entity and not controlled by the board. It is not appropriate for a school to pay for activities that raise funds for a private entity.

Overseas travel

- 2.23 **Te Kura Kaupapa Māori o Nga Uri a Maui (2017)** – The kura spent \$32,401 on accommodation, food, venue, and vehicle hire for six days for a four-day school planning meeting in the Gold Coast, Australia. The school expected the teachers to pay their own airfares. The school collected only \$10,013 from the teachers, leaving \$1,737 uncollected.
- 2.24 **Blockhouse Bay Intermediate School (2017)** – For the second year, we drew attention to expenditure on a student trip to South Korea. The school spent \$23,000 of school funds to send 21 students and three teachers to South Korea on a cultural exchange. The students covered \$56,000 of the costs of the trip. The Ministry's guidance at the time was that schools should fundraise specifically for overseas travel for students.
- 2.25 **Te Whata Tau o Putauaki (2017)** – The school spent \$47,639 of school funds to send five students, four teachers, and one caregiver to attend the World Indigenous Peoples Conference on Education in Canada. The total cost of the trip was \$100,858, with the students raising funds of \$53,219 to cover the other costs.
- 2.26 Our auditors also raised concerns in school management letters about other overseas travel. We did not consider these concerns to be significant enough to include in the audit report. These included:
- Boards not formally approving overseas travel or boards approving travel without consideration of a proper business case and budget.
 - Schools funding the travel costs of parents and caregivers, even though it was not clear that the school needed those adults to supervise students.

- Boards funding significant shortfalls on overseas trips that the board had approved on the basis that it would be fully funded by those attending.
- Spending on travel and promotion for international students that did not result in an increase in international students attending the school.
- Schools paying for staff's personal travel as part of a school trip, where the school has not kept suitable records to ensure that all personal travel costs have been refunded to the school.

2.27 The Ministry updated its guidance on overseas travel in early 2018. The guidance states that schools can pay for staff and students to travel overseas as long as there is an educational purpose for the travel. The Ministry has asked that schools complete a checklist to document their decisions on overseas travel and include disclosures in their financial statements. As well as considering educational outcomes, the board also needs to consider whether the proposed travel is the best use of the funds available.

2.28 As part of our 2018 audits, our auditors will check whether boards have completed the checklist before approving any overseas travel. Schools still need to ensure that any spending on overseas travel is appropriate and consistent with their policies. Schools should ensure that staff provide suitable receipts or other documentation to support their spending.

Expenditure not clearly supported for school purposes

- 2.29 **Te Kura Kaupapa Māori o Te Kura Kokiri (2013)** – We modified our opinion on the kura's financial statements because it had limited controls over payments. We issued similar opinions for 2010, 2011 and 2012. We also drew attention to:
- unusually high levels of fuel expenses, food and groceries, and koha payments;
 - repairs and maintenance paid on cars not owned by the kura;
 - payments for a trip to Hawaii;
 - tertiary fees paid for staff; and
 - other general expenses not supported by suitable documentation.
- 2.30 The audit reports for 2014, 2015, 2016, and 2017 are still outstanding for this kura. The kura and auditor have plans in place to complete the outstanding audits this year, so it can meet the statutory deadline for the 2018 audit.
- 2.31 **Hastings Intermediate School (2015 and 2016)** – We could not verify some of the school's expenditure for both years because there was a lack of supporting records. The amounts were about \$20,000 for 2015 and \$40,000 for 2016. We also drew attention to the school being in financial difficulties and that it had breached the borrowing limit for 2016. The school has resolved these matters and received a standard audit opinion for 2017.

Other matters

- 2.32 **Mana Tamariki (2016)** – The school decided not to seek recovery of an overpayment to an employee of about \$21,000, even though the school was in financial difficulty. The school had a working capital deficit of \$173,258 as at 31 December 2016 and needed a letter of support from the Ministry to ensure that it was a going concern. The Ministry has agreed to a long-term repayment plan for the \$202,052 the school owes for over-staffing. This has allowed the school to return to a working capital surplus in 2017.
- 2.33 **Tahatai Coast School (2017)** – The school made a trading loss of \$71,438 during 2017, which included writing off more than \$26,000 of uniform inventory. The school bought uniform in bulk for several years without considering low-selling items. The school's decision to change the school uniform from 2020 meant it was necessary to write off certain uniform items because it cannot sell them.
- 2.34 **Tauranga Boys College (2017)** – We drew attention to an unusual arrangement between the college and a related entity. The school borrowed \$10,000 in 2008 from the Tauranga Boys College Titan Sports Council Trust (the Titan Trust) at an interest rate of 20% each year. The Titan Trust is an independent private organisation and charged the school interest at a rate higher than a bank would charge. The school made no repayments of the loan before it repaid the loan in full on 22 May 2018.
- 2.35 **Waiiau School (2017)** – We drew attention to disclosures in the financial statements, which we considered important to readers' understanding of the school's financial statements. These outlined that funds raised to replace the school's swimming pool, damaged by the 2016 Kaikōura earthquake, will be transferred to Hurunui District Council. The Council will build a new pool on the school grounds that it will own. The major funders of the project have agreed to the change in arrangements and continue to support building the pool.

Schools in financial difficulties

- 2.36 If a school is showing signs of being in financial difficulty, we seek confirmation from the Ministry that 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. If the financial difficulty is serious, we draw attention to it in the school's audit report.

2.37 There were 44 schools that needed letters of support from the Ministry (or in two instances, from their proprietor) to confirm that they were a going concern. For 2016, the number of schools was 59. The schools that needed letters of support for 2017 are shown in Figure 3 below.

Figure 3
Schools that needed letters of support for 2017

Albany Junior High School	Pouto School
Avondale Intermediate School	Pukehina School
Bainesse School	Pukepoto School
Ballance School	Puni School
Bay of Islands College	Rawene School
Cambridge East School	Saint Brigid's School (Dunedin)
Cannons Creek School	Saint Joseph's School (Grey Lynn)
Castlecliff School	Saint Joseph's School (Temuka)
George Street Normal School	Saint Mary's School (Dunedin)
Golden Bay High School	Saint Patrick's College (Silverstream)
Heretaunga College	Solway School
Howick College	Southland Girls' High School
Kadimah School	Tai Tapu School
Kaihu Valley School	Te Kura Kaupapa Māori o Nga Maungarongo
Mangere Bridge School	Te Kura o Otangarei
Melville Intermediate School	Te Kura o Ratana
Motumaoho School	Thames South School
Nga Tawa Diocesan School	View Road School
Northland College	Waikowhai Intermediate School
Omanaia School	Waipahihi School
Owhata School	Waitaki Boys' High School
Parklands School	Waitara Central School

Note: The darker shading indicates those schools that were also in financial difficulties in the previous year.

2.38 We also referred to the financial difficulties of the Hagley Community College Preschool Trust for 2017, and in audit reports of the following schools for prior year audits that were outstanding: Hastings Intermediate School (2015 and 2016), Mana Tamariki (2016), Northland College (2016), and Taikura Rudolf Steiner School (2016).

Breaches of laws and regulations

- 2.39 As part of the annual audits of schools, we consider whether schools have complied with particular laws and regulations about financial reporting. The main Acts that influence the accountability and financial management of schools are the Education Act 1989 and the Crown Entities Act 2004.
- 2.40 Usually schools disclose breaches of the Education Act and the Crown Entities Act in their financial statements. In other instances, we may report on breaches in a school's audit report. During the 2017 audits, we identified that:
- 49 schools (2016: 41) borrowed more than they were allowed (clause 29 of Schedule 6);²
 - six schools (2016: 21) did not use the Ministry's payroll service to pay teachers, which they must use for all teaching staff (section 89(2));
 - four schools (2016: 15) lent money to staff, which they are not allowed to do (clause 28 of Schedule 6);
 - four schools (2016: 3) invested money in organisations without the Ministry's approval (clause 28 of Schedule 6);
 - two schools (2016: 12) had conflicts of interest (section 103 and clause 40(8)-(10) of Schedule 6);
 - two schools (2016: 2) did not comply with the banking arrangements (section 158); and
 - two schools (2016: 4) breached legislation for other reasons.
- 2.41 Appendix 3 sets out the schools that breached the Education Act and the Crown Entities Act.
- 2.42 There has been a decrease in the total number of breaches of legislation reported. It is encouraging to see a decrease in the number of conflicts of interest reported.
- 2.43 We continue to see an increase in the number of schools borrowing more than the borrowing limit. As the nature of education changes and there is more demand for digital devices, schools are entering into more equipment leases. As many equipment leases, including most copier contracts, are "finance leases" and therefore classed as borrowing, more schools are coming close to, or breaching, the allowable borrowing limit.

2 References are to the Education Act 1989 unless stated.

3 Matters we identified from our audits

3.1 In this Part, we set out matters from the 2017 school audits that we consider important enough to bring to the Secretary for Education’s attention.

School audit timeliness and improving the “audit pipeline”

3.2 We worked with the Ministry to improve the timeliness of the 2017 school audits. If the audits are not timely, the information presented is less relevant and proper accountability is difficult to achieve. Auditors received 2263 (93%) draft financial statements for audit by the statutory deadline of 31 March, an improvement on the previous year (87%).

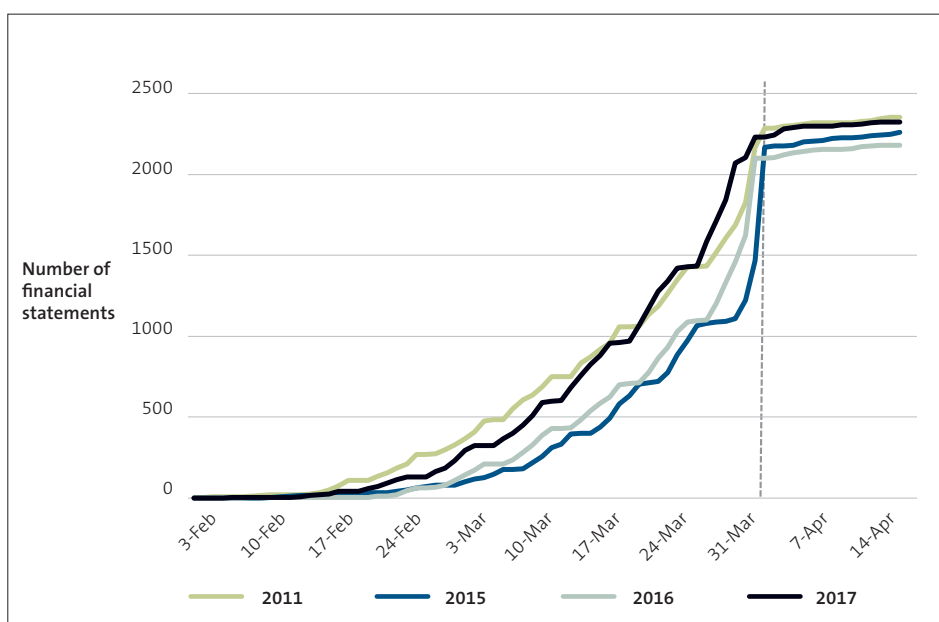
3.3 Auditors plan and have resources available between February and May each year. Because of the number of schools, meeting the May deadline depends on auditors receiving draft financial statements throughout February and March. Instead, auditors received 1422 (58%) draft financial statements in the last two weeks of March, with 970 draft financial statements received in the last week.

3.4 Although most schools met the deadline for submitting their financial statements for audit, receiving most of the school draft financial statements for audit late in March reduces the time available to complete the audits. This puts pressure on schools, financial service providers, and auditors to complete final financial statements and sign the audit reports before the statutory deadline.

3.5 Before Novopay was introduced in 2012, requiring additional payroll reporting, auditors would get draft financial statements throughout February and March, which allowed them to spread their workloads better (see Figure 2). For the 2017 audits, we changed our approach to the payroll audit work. All payroll reports were sent out to schools at the same time and earlier than in previous years. As a result, some auditors received draft financial statements earlier, which helped improve the timeliness of reporting.

Figure 4
Date on which schools provided draft financial statements for audit

The line graph shows that in 2017 draft financial statements were received earlier than in 2015 and 2016, but still later than 2011, which was the last year we met our target of 95% of school audits completed by 31 May.



Source: Office of the Auditor-General.

- 3.6 We will take this approach for the audit work on the 2018 payroll information. We are also talking with the Ministry and the sector to find ways to make school audits go as smoothly as possible. The Ministry’s appointment of a project manager to oversee school financial reporting for 2018 will help to ensure that schools and auditors have all the information they need to complete the audits in a timely manner.
- 3.7 We intend to use different communication channels (such as the New Zealand Trustees Association newsletter) where we are able to, to ensure that schools know their roles and responsibilities for financial reporting. We will also use these channels to reinforce what is expected of schools, so that we can complete their audits efficiently.

Quality of school financial statements

- 3.8 Overall, our auditors continue to see an improvement in the quality of the financial statements that they receive for audit. Updated and more timely guidance from the Ministry has helped this, as well as schools becoming more familiar with the Ministry's Kiwi Park model. The guidance for 2018 includes a checklist for schools that must report at Tier 1,³ to help them with the extra disclosures. In general, schools that prepare their own financial statements, or schools that use providers who prepare financial statements for only a few schools, are responsible for the poor-quality financial statements.
- 3.9 The Ministry's sector working group, attended by representatives from our Office and the school sector, has been valuable in improving the guidance available to schools. It is also good to see the Ministry repeating its Kiwi Park regional workshops this year to help schools and service providers use the model effectively. However, because most schools are now more familiar with the model, it might be more helpful in the future to provide financial reporting workshops. These workshops could focus on those matters of financial reporting that schools might struggle with.
- 3.10 In our report last year, we recommended that the Ministry provide further guidance and training to schools on preparing a statement of cash flows. We are still seeing an over-reliance on the worksheets in the Kiwi Park model without a clear understanding of what the cash flow statement should be showing. As a result, we have repeated our recommendation.

Recommendation 1

We recommend that the Ministry of Education provide further guidance and consider providing training to schools on preparing a statement of cash flows.

School payroll reporting

- 3.11 One reason for the delay in schools providing financial statements for audit over the last few years has been the school payroll reporting. Because of the payroll error reports (overpayments, stop pays, and funding code errors) and leave liability reports for non-teaching staff, schools could not provide their financial statements to auditors early. This resulted in most schools providing financial statements for audit at the end of March (see Figure 4).
- 3.12 Because the occurrence of payroll errors in Novopay has reduced, many of the payroll errors reported to schools were not material. After some analysis of the 2016 payroll information, we agreed with the Ministry that schools would be sent the payroll error reports as at October 2017. If significant errors were found in the

remaining months, these would be directly communicated to the affected schools. Using earlier information meant that the Ministry's appointed auditor could carry out the necessary audit work on these reports earlier. As a result, schools received all the payroll information they needed on 5 February 2018.

- 3.13 As part of its audit work on payroll, the Ministry's appointed auditor carries out data analytics on the payroll information. The Ministry first considers any exceptions from our expectations that we have identified. If the Ministry does not have the information available to resolve the exceptions, it sends them to schools and auditors to resolve. Auditors must resolve the exceptions before completing the school's audit.
- 3.14 For 2017, there were some delays in the Ministry's testing of the payroll exceptions. Our appointed auditor experienced initial delays with the data, and the Ministry then had challenges resourcing the work. Because of changes in personnel at the Ministry, there was also a lack of understanding about how much testing was needed. We had to take a staged approach to giving clearance to auditors to complete their audits, which caused significant disruption for some auditors. Auditors also did not receive enough information to resolve some of the exceptions.
- 3.15 The Ministry encouraged schools to complete their draft financial statements as soon as they received their payroll information. The early release of the payroll reporting helped to improve the flow of financial statements to auditors, although, as explained above, auditors still did not receive most of these until the end of March. However, the issues we had with the payroll exceptions created extra work for the school auditors and affected the ability of the auditors to complete all audits by 31 May.
- 3.16 For the 2018 audits, it is important that all parties work together to meet the agreed time frames. Having a project manager with oversight of the complete school financial reporting process should help to achieve this for the 2018 audits.

Recommendation 2

We recommend that the Ministry of Education, for the 2018 audit of the school payroll:

- make resources available to meet the agreed timetable, including enough time for the Ministry's internal quality assurance processes;
 - keep a record of actions agreed at payroll stakeholder meetings; and
 - continue to encourage schools to prepare draft financial statements when they receive the payroll information, and provide those draft financial statements to the auditor as soon as possible.
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School annual reports

- 3.17 In our report last year, we referred to the new requirement for schools to make their annual reports available on their websites and the difficulties that auditors had getting full copies of the Annual Report. The Education Act 1989 and the Ministry specifies a school must include in its Annual Report an analysis of variance, a list of trustees, financial statements (including the statement of responsibility), and a statement of Kiwisport funding.
- 3.18 Our auditors found that many schools were not aware of the requirement to publish their Annual Reports, even though the Ministry has provided guidance on this several times. Our auditors reminded schools of this requirement in their management letters to school boards.
- 3.19 Our auditors do not always receive a complete Annual Report for audit, which means they have to spend time asking for the different documents that make this up. We are aware that the Ministry does provide information on this in its Annual Reporting Circular, including a checklist, but there might need to be further communication about this matter.
- 3.20 It is not clear how many schools have met the requirement to put their Annual Report on their website. If it comes to our attention during the following year's audit that the school has not published its Annual Report, we will report it to the board. However, this does not promote timely accountability.

Recommendation 3

We recommend the Ministry of Education reinforce its guidance to schools on preparing and publishing their annual report, and consider how it can confirm that schools are reporting to their communities by publishing their Annual Reports online, in a timely manner.

Cyclical maintenance

- 3.21 Our auditors are still finding cyclical maintenance a challenging area to audit. Many schools do not understand the provision and do not have the necessary information to calculate the provision accurately.
- 3.22 The Ministry has improved its guidance in the Kiwi Park model financial statements on cyclical maintenance, which now includes a template to help with the calculation. The Ministry's school sector working group has also discussed the matter with the Ministry's property team. However, if a school does not have reasonable information to base the provision on, it will not be able to come up

with a reasonable estimate. Many boards are not considering the long-term maintenance needs of the school as part of their 10-year property plans.

- 3.23 The 10-year property planning process requires a board to prepare a plan of its cyclical maintenance for the next 10 years, as well as considering capital works. The maintenance plan should inform the school's cyclical maintenance provision. We had hoped that changes to the property planning process introduced a few years ago would produce better quality maintenance plans and therefore more accurate provisions. However, this has not been the case. Our auditors have found that either the 10-year property plan does not include a maintenance plan, or the maintenance plan does not reflect what the school actually intends to do.
- 3.24 The Ministry approves all 10-year property plans. However, the Ministry does not check that the 10-year property plans include a maintenance plan, even though it is a requirement that a maintenance plan is included. As the focus of both the Ministry and board tends to be on capital works funded by the school's Five-Year-Agreement funding, there is often no review of the maintenance plan for reasonableness, where one is included.
- 3.25 School boards need to ensure that they base their maintenance provisions on up-to-date information. If a school does have a reliable maintenance plan in its 10-year property plan, it needs to regularly review it to ensure that it is still a fair reflection of the school's maintenance needs. We find that often this is not done, or, if it is done, there is no record of the discussion. If a 10-year property plan is more than three years old, we would expect the board's review of the plan to have input from a properly qualified property professional to ensure that the planned maintenance is still valid. Otherwise a school must provide other evidence to support its provision, such as a quote for painting.

Recommendation 4

We recommend that the Ministry of Education ensure that schools are complying with their property planning requirements by having an up-to-date cyclical maintenance plan. The Ministry's review of a school's 10-year property plan should include a review of the cyclical maintenance plan, to ensure that it is reasonable and consistent with the school's condition assessment and any planned capital works.

Kura kaupapa Māori

- 3.26 Last year we noted our concerns about financial management and the appropriateness of spending in some kura, a matter we first drew attention to in our *Education sector: Results of the 2010/11 audits* report. In that report, we identified that the policies and practices in about 20% of kura did not reflect best practice. We continue to see examples of this (see Part 2). Twenty kura (27% of kura) have 2017 audits outstanding, and 10 of these have audits outstanding for other years, some for multiple years. We are working with the kura and the Ministry to get these outstanding audits completed as quickly as possible.
- 3.27 In our earlier reports we recommended the Ministry monitor how effectively kura and other small schools follow its guidance and, if necessary, provide more targeted guidance. The Ministry has not done so, although it has provided a pilot program in Northland where two accountants were contracted to provide training and support to kura. As we have seen little improvement in the performance of a number of kura, we repeat our recommendation.

Recommendation 5

We recommend that the Ministry of Education support kura by:

- monitoring how effectively kura follow its guidance and, if necessary, provide more targeted guidance; and
 - continuing to work with those kura that have audits outstanding, to help facilitate the completion of those audits.
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Resource Teacher: Learning & Behaviour clusters and “other activities”

- 3.28 Resource Teacher: Learning & Behaviour (RTL) clusters received about \$90 million of Ministry funding in 2017. Currently the lead school of a RTL cluster includes a note in its financial statements setting out the RTL funding it has received and how it has spent it. We have asked the Ministry to consider the reporting requirements for these clusters and whether the current disclosures in the lead school financial statements are adequate. For example, we know that some of these clusters own assets that are currently not recognised as assets on any school’s balance sheet.
- 3.29 Although we audit the disclosures in the note because it forms part of the school’s financial statements, we do not audit the RTL cluster. The RTL clusters do provide accountability reports to the Ministry. The depth of our audit work will vary between schools because we carry out our testing in the context of giving an opinion on the school’s financial statements. The Ministry needs to consider whether the current accountability arrangements are adequate.

- 3.30 Schools are also responsible for other activities, including activity centres, Communities of Learning, and other cluster arrangements. There is no guidance for schools on how to account for these separate activities. The reporting requirements usually depend on whether the school board is in a governance position or acting as an agent. Without clear guidance, there is a risk that schools are accounting for these other activities inconsistently.
- 3.31 In our report last year, we recommended that the Ministry:
- provide guidance to schools on accounting for “other activities” that they receive funding for; and
 - consider whether schools should disclose the funding they receive for Communities of Learning separately in their financial statements.
- 3.32 The Ministry told us that it is still considering this.

Sensitive payments

- 3.33 We refer to some sensitive payments in Part 2 where we considered them significant enough to report in the school’s audit report. If an auditor does not consider a matter significant enough, or it relates mainly to school policies and procedures, the auditor will raise the matter in the school’s management letter. Auditors raised the following concerns about sensitive payments in several school management letters:
- schools that did not have sensitive expenditure policies for expenses such as travel and gifts;
 - gifts to staff, either without board approval or inconsistent with the school’s gift policy; and
 - hospitality and entertainment expenses that seemed excessive.
- 3.34 In our reporting of the 2016 audits, we referred to extravagant gifts and spending on farewells for retiring Principals in the audit reports of three schools. For the 2017 audits, we did not identify any gifts that were significant enough to report on. Our auditors did identify several instances of spending on gifts and hospitality that could be considered excessive. While the board might have approved the payments, the minutes did not record why the board felt the amount given was appropriate. Some of these schools did not have a policy on gifts.
- 3.35 Following the recommendation in our report last year that the Ministry improve its guidance on giving gifts, the Ministry provided a reminder to schools about gifting in its School Bulletin (30 July 2018).

- 3.36 A common issue that we come across in schools is spending on credit cards that either is not approved or is approved but not by an appropriate person. Credit cards can be reasonably easily subject to error and fraud or used for inappropriate expenditure. We recommend schools use a “one-up” principle when approving expenses, including credit card spending, meaning the board would need to approve the Principal’s expenses. It is important that supporting receipts are provided, reviewed, and retained for all purchases. This also applies to fuel cards or store cards used by schools.
- 3.37 One of our auditors raised concerns about a school providing a free bus to its students. The costs of the bus were only partly funded by a grant, which meant the school was funding the rest from its operations grant. The auditor was concerned that this was not sustainable. We have seen examples of this in the past, particularly in small schools wishing to increase their roll. It can result in a school getting into financial difficulties, because running a bus can often have unforeseen costs. We also question whether this is a correct use for the school’s operations funding.

Recommendation 6

We recommend that the Ministry of Education consider providing guidance to schools on the suitability of funding transport services for students who live outside the immediate area of the school.

Leases

Leasing school equipment

- 3.38 As noted in Part 2, for the 2017 financial year we have seen an increase in schools breaching the borrowing limit (paragraph 2.40). Most of the leasing arrangements that schools enter into are financing lease arrangements, which is a type of borrowing. The nature of these leases continues to change and although most are presented by the leasing companies as operating leases, on consideration against the relevant accounting standard we have assessed them as finance leases.
- 3.39 With changing teaching practices there is an increased demand for IT equipment, and decisions about leasing or buying this equipment have become more common. Leasing arrangements often provide added benefits, such as support packages, that schools find useful. Some schools also consider that they are missing out on accessing a good deal because they would breach their borrowing limit, even though they have enough funds to cover the liability.

- 3.40 Many of the copier contracts that schools are entering into are moving towards total volumes of copies rather than a defined term, but under the contract the school must pay for the total number of copies in the agreement if it wants to end the contract early. Because schools are paying “per copy”, it is not always clear that schools understand what they have committed to. As the amounts involved can be significant, this raises concerns about the value for money of some of the contracts.
- 3.41 Schools are also not always following proper delegations because their boards might have not approved what can be significant contract. We do not often see schools accessing the All-of-Government contracts, which might give them a better deal.

Recommendation 7

We recommend that the Ministry of Education provide guidance to schools to help them:

- consider whether to lease or buy equipment; and
 - ensure that they get value for money if they decide to lease, including how to access All-of-Government contracts.
-

Schools leasing IT equipment to students

- 3.42 As we reported last year, we continue to see instances of schools entering into various arrangements to provide access to laptops for their students. This includes leasing laptops and allowing students to pay for them over time, or entering into arrangements with third parties such as computer companies or trusts. We have asked the Ministry on several occasions to provide further guidance on the matter, but it has not done so.
- 3.43 The Ministry considers schools “leasing” equipment to students to be a breach of legislation. When we identify this situation, we raise the matter in the school’s management letter and ask them to discuss it with the Ministry. We have decided that, for the 2018 audits, we will collect information on schools that have these arrangements, so we know the extent of the issue. We will share this information with the Ministry.

Recommendation 8

We recommend that the Ministry of Education consider the adequacy of the guidance available to schools on managing laptop schemes for their students, including through a third party.

Principals' remuneration – concurrence

- 3.44 In our report on the results of the 2015 school audits we raised concerns about the Ministry's guidance on "principals' remuneration – concurrence". This guidance gives prior approval by the Ministry for certain sensitive payments to principals within clear guidelines, including that any private benefit to the principal should be "incidental". Some schools are not aware of the requirement for concurrence or that, if they are, the board's interpretation of "incidental private benefit" does not always agree with our interpretation.
- 3.45 We have recommended the Ministry provide guidance to schools on what incidental private benefit is, and expectations of how schools can show that they have complied with the Ministry's circular. The Ministry has not done so. If payments to Principals are made outside the Principal's collective agreement, they are unlawful. Schools also need to consider whether payments meet the principles guiding sensitive payments, and the proper use of public money. Payments should be moderate and conservative and have a justifiable business purpose.

Recommendation 9

We recommend that the Ministry of Education give schools practical guidance on how to assess the extent of private benefit for a sensitive payment to a Principal, and how it evidences this assessment, so the school complies with the Ministry's circular.

Update on previous recommendations and issues raised with the Ministry

- 3.46 In Appendix 4, we provide an update on the recommendations we raised in our letter to the Secretary for Education about the results of the 2016 audits.

Appendix 1

School audits not completed as at 12 November 2018

School name	Audit outstanding
Avondale School (Christchurch)	2016 (This school closed on 27 January 2017)
Berhampore School	2017
Central Auckland Specialist School	2016 and 2017
Combined Board of Kelston and van Asch Deaf Education Centres	2017
Coromandel Area School	2017
Cromwell College Charitable Trust	2017
Fairfield Intermediate School	2017
Frasertown School	2017
Harrisville School	2017
Hastings Boys' High School	2017
Hato Paora College	2017
Hato Petera College	2016 and 2017
Horotiu School	2017
Izard Rodney College Trust	2017
Karangahake School	2017
Kawerau Putauaki School	2017
Kerepehi School	2017
Kimi Ora School	2017
Koru School	2016 and 2017
Lepperton School	2017
Lumsden School	2017
Maketu School	2017
Manurewa West School	2017
Marco School	2017
Marlborough Boys' College	2017
Massey High School	2015, 2016, and 2017
Matiere School	2017
Matipo Road School	2017
Mercury Bay Area School	2017
Miller Avenue School	2017
Moanataiari School	2017
Morrinsville College	2017
Morrinsville College Educational Trust	2015, 2016, and 2017

Appendix 1**School audits not completed as at 12 November 2018**

School name	Audit outstanding
Morven School	2016 (This school closed on 15 April 2016)
Mulberry Grove School	2017
Ngapuke School	2017
Ngaruawahia School	2017
Otara Boards Forum Incorporated	2015 and 2016 (This trust is being wound up)
Pukemiro School	2017
Putaruru Education Services Trust	2015 (This trust is being wound up)
Raetihi Primary School	2017
Rangiora High School Education Trust	2015, 2016, and 2017
Roto-o-Rangi School	2017
Sacred Heart College (Auckland)	2016 and 2017
Sunnydene Special School	2016 (Now Central Auckland Specialist School)
Saint Francis School (Thames)	2017
Saint Joseph's School (Picton)	2017
Sunset Primary School	2017
Tareha School	2014 (This school closed on 4 May 2014)
Tatuanui School	2017
Tauhara College	2017
Taumarunui High School	2017
Te Kura Kaupapa Māori o Ngati Kahungunu Ki Heretaunga	2017
Te Kura Kaupapa Māori o Kaikohe	2017
Te Kura Kaupapa Māori o Mangatuna	2016 and 2017
Te Kura Kaupapa Māori o Ngati Kahungunu o Te Wairoa	2017
Te Kura Kaupapa Māori o Takapau	2016 and 2017
Te Kura Kaupapa Māori o Tamarongo	2015, 2016, and 2017
Te Kura Kaupapa Māori o Taumarere	2017
Te Kura Kaupapa Māori o Te Ara Hou	2017
Te Kura Kaupapa Māori o Te Atihaunui-A-Paparangi	2017
Te Kura Kaupapa Māori o Te Kotuku	2015, 2016, and 2017
Te Kura Kaupapa Māori o Te Koutu	2017
Te Kura Kaupapa Māori o Te Kura Kokiri	2014, 2015, 2016, and 2017
Te Kura Kaupapa Māori o Te Orini ki Ngati Awa	2016 and 2017
Te Kura Kaupapa Māori o Te Rawhiti Roa	2016 and 2017

School name	Audit outstanding
Te Kura Kaupapa Māori o Te Tonga o Hokianga	2016 and 2017
Te Kura Kaupapa Māori o Waiuku	2015, 2016, and 2017
Te Kura Kaupapa Māori o Whatatutu	2017
Te Kura Kaupapa o Te Puaha o Waikato	2017
Te Kura Māori o Nga Tapuwae	2017
Te Kura Māori o Porirua	2017
Te Kura o Pakipaki	2014, 2015, 2016, and 2017
Te Kura o Te Whanau-a-Apanui	2017
Te Kura o Waikaremoana	2015, 2016, and 2017
Te Kura Toitu o Te Whaiti-nui-a-toi	2017
Te Rangi Aniwaniwa	2017
Te Rerenga School	2017
Te Wharekura o Mauao	2016 and 2017
Te Wharekura o Te Rau Aroha	2015, 2016, and 2017
Timaru Boys' High School	2017
Waihi Central School	2017
Waihi College	2017
Waimate Main School	2017
Wainoni School	2016 (This school closed on 27 January 2017)
Waipaoa Station School	2013 (This school closed on 5 May 2013)
Wellington Activity Centre	2016 and 2017
Wellington High School	2017
Whakatane High School	2017
Whangamarino School	2017
Whangamata Area School	2017
Whenuakite School	2017

Some of the 2017 audits that are outstanding are because of non-performance of the school auditor.

Appendix 2

Modified audit opinions

2017 school audits

School	Reason for the modified opinion
Al-Madinah School	<p>We were unable to form an opinion because of limited controls and scrutiny of payments. We noted multiple irregularities including: inadequate documentation for some payments, payments that appeared excessive for the purpose, and uncertainties over the extent of transactions with related parties and whether these had been carried out at arms-length. We also drew readers' attention to the financial statements not being submitted to the Ministry by 31 May 2018.</p> <p>We issued the same opinion for the 2016 year – see the table below</p>
Ballance School	<p>We could not get enough assurance about locally raised funds because the Trustees had limited controls over that revenue. The school had a similar qualification for its 2016 financial statements.</p>
Feilding Intermediate School	<p>We could not get enough assurance about locally raised funds because the Trustees had limited controls over those revenues, and payroll expenses because of a lack of appropriate records.</p>
Flag Swamp School	<p>We could not get enough assurance about the school's expenditure by credit card. We also drew attention to the financial statements not being submitted to the Ministry by 31 May 2018.</p>
Golden Bay School	<p>We could not get enough evidence to support the provision for cyclical maintenance because the school did not have appropriate evidence to support the provision.</p>
Mountainview High School	<p>We could not get enough assurance about expenditure under the direct control of the board (apart from payroll, notional lease costs, and depreciation) because the Trustees had limited controls over expenditure.</p>
Opawa School	<p>Our audit of the comparative information disclosed in the financial statements was limited because we did not have enough evidence to support the provision for cyclical maintenance as at 31 December 2016. For the year ended 31 December 2017, the school prepared a 10-year property plan and we were able to ascertain that the provision for the current year was not materially misstated.</p>
Paeroa Central School	<p>We could not get enough assurance about locally raised funds revenue because the Trustees had limited controls over that revenue.</p>
St Mary's School (Gore)	<p>Our audit of the comparative information disclosed in the financial statements was limited because we did not have enough evidence to support the provision for cyclical maintenance as at 31 December 2016. For the year ended 31 December 2017, the provision for the current year was not materially misstated.</p>

School	Reason for the modified opinion
Tangaroa College	We could not get enough assurance about procurement, purchases, and payments in the 2016 financial year because the Trustees had limited controls over this expenditure. The audit report referred to this limitation on the comparative information.
Taumarunui High School Community Trust	We could not get enough assurance about revenues because the Trustees had limited controls over those revenues. The Trust had a similar opinion for 2015 and 2016.
Te Kura Kaupapa Māori o Taumarunui	We could not get enough evidence to support the provision for cyclical maintenance because the school did not have an up-to-date 10-year property plan.
Waikouaiti School	We could not get enough assurance about revenues because the Trustees had limited controls over those revenues.
Waitara High School	We could not get enough assurance about revenue from trading because the Trustees had limited controls over that revenue. The school had a similar opinion for the 2016 year.
William Colenso College	We disagreed with the board not preparing group financial statements to consolidate the financial statements of its subsidiary, the William Colenso College Charitable Trust. We have issued the same opinion on the school's financial statements since the 2012 financial year.

Previous-year audits

School	Reason for the modified opinion
Al-Madinah School – 31 December 2016	We were unable to form an opinion because of limited controls and scrutiny of payments. We noted multiple irregularities including: inadequate documentation for some payments, payments that appeared excessive for the purpose, and uncertainties over the extent of transactions with related parties and whether these had been carried out at arms-length. We also drew readers' attention to the financial statements not being submitted to the Ministry by 31 May 2017.
Al-Madinah School – 31 December 2015	We could not determine whether all related party transactions had been disclosed because the controls over identification and disclosure are limited. We also drew readers' attention to potential conflicts with the proprietor and funds raised on behalf of the school being given to the proprietor, the appointment of a Limited Statutory Manager and the financial statements not being submitted to the Ministry by 31 May 2016.
Maketu School – 31 December 2015	We could not get enough assurance about locally raised funds revenue because the Trustees had limited controls over that revenue.
Otorohanga College – 31 December 2015 and 2016	We could not get enough assurance about locally raised funds because the Trustees had limited controls over that revenue for the 2015 year. The audit report on the 31 December 2016 financial statements referred to this limitation on the comparative information.

Appendix 2
Modified audit opinions

School	Reason for the modified opinion
Saint Joseph's School Upper Hutt – 31 December 2016	We could not get enough assurance about revenue from the school's After School Care Club. During 2016, the school asked parents to donate their fees to the friends of St Joseph's School, a separate entity set up by parents to fundraise the school. The revenue recorded by the school for After School care was understated, which contributed to the school's operating deficit. The school also breached the law by not depositing the fees paid by the parents for After School Care directly into the school's bank account.
Tangaroa College – 31 December 2016	We could not get enough assurance about procurement, purchases, and payments because the trustees had limited controls over this expenditure. We could gain enough assurance over payroll, notional lease and depreciation expenses from other procedures. The school had similar opinions for the 2013, 2014, and 2015 years.
Te Kura Kaupapa Māori o Takapau – 31 December 2015	We were unable to form an opinion because we were unable to obtain enough evidence about bank accounts, revenue and expenditure accounts receivable or expenditure and accounts payable. This is because a staff member set up bank accounts outside the control of the Board of Trustees, which resulted in the suspected misuse of school funds during the year. We also drew attention to the failure to keep appropriate minutes and the financial statements not being submitted to the Ministry by 31 May 2016.
Te Kura Kaupapa Māori o Te Kura Kokiri – 31 December 2013	We could not get enough assurance about expenditure under the direct control of the board (apart from payroll, notional lease costs, and depreciation) because the Trustees had limited controls over expenditure. We also drew attention to several unusual payments and the financial statements not being submitted to the Ministry by 31 May 2014. We have issued similar opinions for the 2010, 2011, and 2012 years.
Te Wharekura o Mauao – 31 December 2014	We could not get enough assurance about revenue because the Trustees had limited controls over those revenues. We also drew attention to the financial statements not being submitted to the Ministry by 31 May 2015. The school had a similar opinion for the 2013 year.
Te Wharekura o Te Rau Aroha – 31 December 2014	We could not get enough assurance about trading and activities revenue because the Trustees had limited controls over those revenues and payroll expenses because of a lack of appropriate records. We also drew attention to the financial statements not being submitted to the Ministry by 31 May 2015.
Whakatane High School – 31 December 2016	We could not get enough assurance about revenue from canteen sales because the Trustees had limited controls over that revenue.

Appendix 3

Breaches of laws and regulations

We ask our auditors to consider whether schools are complying with particular requirements of the Education Act 1989 and Crown Entities Act 2004, which relate to financial reporting. This appendix sets out those schools where auditors identified breaches of these legislative requirements in the school's 2017 financial statements.

References are to the Education Act 1989 unless stated.

The darker shading indicates schools that also breached laws in the same area in the previous year.

Borrowing – Clause 29 of Schedule 6

Baradene College	Moerewa School
Baverstock Oaks School	Monte Cecilia School (Mount Roskill)
Bayview School	New Lynn School
Belmont School (Auckland)	Ngata Memorial College
Berkley Normal Middle School	Northland College
Bombay School	Ohau School
Browns Bay School	Orere School
Bunnythorpe School	Parklands School
Castlecliff School	Ponsonby Primary School
Dipton School	Puni School
Dominion Road School	Russell School (Bay Of Islands)
Elm Park School	Saint Joseph's School (Grey Lynn)
Epsom Normal School	Saint Joseph's School (Takapuna)
Fairfield School (Dunedin)	Saint Mary's College (Ponsonby)
Ferndale School	South Auckland Seventh Day Adventist School
Golden Bay High School	South End School
Hadlow Preparatory School	Sunnyvale School
Havelock School	Sutton Park School
Kakaramea School	Taipa Area School
Kelston Intermediate School	Taupo Intermediate School
Laingholm School	Te Kao School
Linton Camp School	Tokomairiro High School
Mangatawhiri School	Waitara Central School
Martinborough School	Wakaaranga School
	Wanganui Collegiate School

We also made reference to breaches of the borrowing limit in the audit reports for Northland College and Hastings Intermediate School for the year ending 31 December 2016.

Payments outside the Education Service Payroll – section 89(2)

Herekino School	Opuia School
Kaikohe East School	Pukepoto School
Northland College	Te Kura o Hato Hohepa Te Kamura

Loans to staff – Clause 28 of Schedule 6

Te Kura Kaupapa Māori o Tamaki Nui A Rua	Te Kura-a-iwi o Whakatapuranga Rua Mano
Te Kura Kaupapa Māori o Tapere Nui A Whatonga	Te Waha o Rerekohu Combined Schools Board

Investments – Clause 28 of Schedule 6

Christchurch Boys' High School	Northland College
Christchurch Girls' High School	Paengaroa School

We also made reference to investments held by Timaru Boys' High School without approval in the audit reports for the school for the years ending 31 December 2015 and 2016.

Conflict of interest – section 103 and clause 40(8)(9)(10) of Schedule 6 [clause 8(8) of Schedule 6]

Foxton Beach School	Rangitikei College
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Banking arrangements (section 158 of the Crown Entities Act 2004)

Te Kura Kaupapa Māori o Nga Uri a Maui	Wanganui City College
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We also made reference to breaches of banking arrangements in the audit report of Saint Joseph's School (Upper Hutt) for the year ending 31 December 2016.

Other breaches of legislation

School	Type of breach
Saint Mary's School (Palmerston North)	Breach of clause 36 of Schedule 6 and section 460 of the Education Act 1989. The board has leased a portion of the Integrated Land to outside parties. However, the board does not hold approval for such an action.
Linton Camp School	The School is in breach of section 103 (3) of the Education Act 1989, which states that "any permanently appointed member of the board staff may, if otherwise eligible for election, be elected as a staff representative; but no permanently appointed member of the board staff may be otherwise elected to the board or be appointed or co-opted on to the board". During the year, the school had one additional staff member on the Board of Trustees.

Appendix 4

Update on previous recommendations and issues raised

Our letter to the Secretary for Education on the results of the 2016 school audits included several recommendations. In this appendix, we provide an update on our recommendations. We comment further on some of the recommendations in the report.

Recommendation	Update
We recommend that the Ministry provide further guidance and training to schools on preparing a statement of cash flows.	The Ministry told us that it would update its guidance and provide further training to schools. We would appreciate an update on how this is progressing.
For the 2017 school audits, we recommend that the Ministry: <ul style="list-style-type: none"> • make resources available to meet the set time frames for school payroll reporting, including enough time for the Ministry’s internal quality assurance processes; • ensure that it has the capability and capacity to prepare the school payroll reports for distribution to the schools and auditors within those time frames; and • continue to encourage schools to prepare draft financial statements when they receive the SAAR, and provide those draft financial statements to the auditor. 	The lessons learnt from the 2016 school payroll work were incorporated into the 2017 process. As noted in the body of the report, the audit approach to the school payroll work was altered for the 2017 audits, which allowed the payroll reports to be provided to schools earlier (by 5 February 2018). However, some delays were experienced in the testing of the data analytics exceptions. We are working closely with the Ministry to improve this area for the 2018 audits. Further recommendations have been made in the report.
We recommend that the Ministry: <ul style="list-style-type: none"> • provide guidance to schools on accounting for “other activities” that they receive funding for; and • consider whether the funding schools receive for Communities of Learning should be disclosed separately in school financial statements. 	The Ministry is still considering the financial reporting requirements for the 40 Resource Teacher: Learning & Behaviour clusters. We have repeated our recommendations in this report.
We recommend that the Ministry provide guidance to schools on preparing their Annual Report, including: <ul style="list-style-type: none"> • what the Annual Report should contain and how it should be presented; • that schools should provide the version of the Annual Report they intend to publish to their auditor before the audit is completed; and • how they can publish the Annual Report on their website. 	The Ministry has provided a range of guidance on its website about publishing school Annual Reports, and also in the Schools Bulletin. The Ministry has also run a series of workshops to assist schools and service providers with using the KiwiPark model. As noted in the report, some schools were not aware of the new requirements. We have recommended that the Ministry consider how it ensures that schools are meeting the requirement to report publicly to their communities.

Appendix 4

Update on previous recommendations and issues raised

Recommendation	Update
<p>We recommend that the Ministry:</p> <ul style="list-style-type: none"> • improve its guidance to schools on giving gifts; and • provide schools with more guidance on employment matters, including how to settle employment disputes. 	<p>The Ministry told us it would update its guidance in this area. The Ministry provided a reminder to schools about gifting in its School Bulletin (30 July 2018).</p> <p>The Ministry told us that The New Zealand School Trustees Association (NZSTA) has made a number of resources available to schools to assist with managing employment matters. NZSTA's Advisory and Support Centre gives advice on gift giving.</p>
<p>We recommend that the Ministry:</p> <ul style="list-style-type: none"> • improve its guidance on what good controls look like; • continue to encourage schools to have fraud policies; and • encourage schools to report suspected fraud. 	<p>The Ministry told us that it would update guidance on internal controls in its Financial Information for Schools Handbook (FISH) in 2018, and ask NZSTA to ensure that boards have sound employment processes in place, including reference checks for staff.</p> <p>We would appreciate an update on how this is progressing.</p>
<p>We recommend that the Ministry:</p> <ul style="list-style-type: none"> • provide guidance to schools to help them decide about leasing rather than buying equipment and how to ensure that they get value for money if they decide to lease, including how to access All-of-Government contracts; and • consider the adequacy of the guidance available to schools on schools managing laptop schemes for their students, including through a third party. 	<p>The Ministry told us that it is promoting All-of-Government contracts to schools.</p> <p>We have continued to see issues in this area and, as noted in the report, will be asking our auditors to collect some information during the 2018 audits. We have repeated our recommendations.</p>
<p>We recommend that the Ministry consider providing guidance about conflicts of interests, in consultation with the Association of State Integrated Schools.</p>	<p>The Ministry has been working with schools that have been identified as having issues in this area. Guidance on conflicts of interest was included in the Ministry's School Bulletin (30 July 2018).</p> <p>We have not identified similar issues during our 2017 audits.</p>
<p>We recommend that the Ministry provide further practical guidance on calculating cyclical maintenance provisions and put the template for calculating the provision back on the Ministry's website.</p>	<p>The Ministry has updated its guidance in the Kiwi Park model financial statements and provided schools with a template. However, we continue to see issues with the quality of school property plans. We have referred to this in the report and have made some further recommendations.</p>

Recommendation	Update
<p>We recommend that the Ministry:</p> <ul style="list-style-type: none"> • update its guidance on the financial reporting requirements for board contributions to Ministry capital works projects; and • consider including the financial reporting requirements as part of the project agreement between the board and the Ministry. 	<p>Guidance on the financial reporting requirements for board contributions to Ministry capital works projects was updated in FISH in October 2017. FISH was again updated in 2018 to give guidance on how to account for the transfer of assets from schools to the Ministry, and schools making significant cash contributions to Ministry assets (where the school does not retain an ownership interest in the asset).</p>
<p>We recommend that the Ministry provide updated guidance on financial reporting for closed and merging schools for Residual Managers.</p>	<p>The Ministry has provided us with a draft of its updated school closure desk file for Residual Managers. We have been told that guidance on voluntary closures has been published and guidance on mergers will be available in December 2018.</p>

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