Controller and Auditor-General
Tumuaki o te Mana Arotake

B.29[11e]

Parliamentary paper

Education sector: Results of the 2010/11 audits

Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
Website: www.oag.govt.nz

Education sector: Results of the 2010/11 audits

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Auditor-General's overview

Education is important to every New Zealander. Most of us have a view about how education should or shouldn't be delivered. We all have a stake in the quality of education, be it personally or through our children, our relatives, or our businesses and organisations.

As such, we are all interested in the performance of our education providers – how well they do affects the well-being of our society in the immediate future and in the longer term.

Last year, our reporting on education was included with our reporting on central government. This year, I have decided to publish three reports about the results of our audits of central government entities. This report focuses on the education sector.

The education sector, like other central government sectors, is subject to changes in auditing standards and other auditing requirements. For information about, and our views on, those changes and requirements, readers might find it useful to refer to our other reports about the 2010/11 audit results for central government.

In all three reports, I note the ongoing importance for public entities of continuing to improve their performance reporting. This is essential to improve the outcomes that we need in education and is relevant to all education providers and public entities.

Given the size of the education sector and the importance of education for all New Zealanders, I will continue to take a close interest in this sector.

Lyn Provost
Controller and Auditor-General

13 December 2011

Part 1
Introduction

1.1 In terms of spending as a percentage of gross domestic product (GDP), New Zealand's spending on education (6.2% in 2010) is among the top of the countries in the Organisation for Economic Co-operation and Development (OECD). However, in absolute terms, New Zealand's spending on education on each student is below the mean for countries in the OECD.[1]

1.2 In 2010, at 1.7%, New Zealand's public expenditure on tertiary education as a percentage of GDP was above the OECD average of 1.2%.[2]

1.3 The Government has identified education and skills as central to building a strong platform for growth. For 2011/12, Vote Education and Vote Tertiary Education (a new Vote in the 2011 Budget) total $12.160 billion, which represents the third largest (and steadily increasing) category of government spending.[3]

1.4 Each year, we audit all schools, tertiary institutions, and the range of other public entities that make up our education system. This report provides an overview of the results of our audits of, and work with, public entities in the education sector in 2010/11.

1.5 Part 2 reports on the results of our audits for 2010 of tertiary education institutions. We note recent changes to tertiary education institutions' operating environment and the Government's current tertiary education priorities. We then comment on tertiary education institutions' financial performance in 2010 and provide some comparative statistical data. Finally, we comment on the audit results for 2010, including our audit opinions, the timeliness of the audits, and other focus areas. We also discuss what we will focus on during the 2011 audits of tertiary education institutions.

1.6 Part 3 provides our observations on the non-financial performance reporting of tertiary education institutions, based on a preliminary assessment of their current investment plans. We include a table that defines outcomes, impacts, and outputs alongside examples taken from current investment plans.

1.7 Part 4 explains that we issued 2614 audit reports for entities in our education portfolio during the year ended 31 October 2011. It discusses the 163 non-standard audit reports issued on the financial and non-financial information of those entities.

1 See "State of Education in New Zealand: 2008 (Part 6 – Appendices)" on the Ministry of Education's Education Counts website (www.educationcounts.govt.nz).

2 See "Total public expenditure on education" on the Ministry of Education's Education Counts website (www.educationcounts.govt.nz).

3 Ministry of Education, *Statement of Intent 2011/12-16/17*, page 10.

1.8 Part 5 comments on the Ministry of Education's management of early childhood education funding. Our comments are based on some additional assurance work on the management of early childhood education funding that we carried out as part of the annual audit of the Ministry of Education.

1.9 Part 6 considers matters arising from our annual audits of Māori immersion schools (kura). We identified these matters in our report on the results of the 2008/09 audits.[4]

1.10 Part 7 notes our recent and ongoing work in the education sector. We summarise recently completed reports on variance reporting and payments to principals above normal remuneration. We also note our work on four performance audits.

1.11 The first Appendix describes the three levels of education providers (early childhood education, schools, and tertiary education institutions). The second Appendix summarises the roles of government agencies working in the education sector.

1.12 The third Appendix is a flowchart that explains how an auditor decides on the most appropriate form of audit report, and the fourth Appendix sets out the details of the non-standard audit reports discussed in Part 4.

4 Controller and Auditor-General (2009), *Central government: Results of the 2008/09 audits*, Wellington.

Part 2
Results of tertiary education institution audits for 2010

2.1 In this Part, we briefly discuss the current operating environment for tertiary education institutions (TEIs), compare TEIs' financial information, and set out the results of our annual audits of TEIs for 2010.

2.2 The financial year for TEIs ends on 31 December, to align with their academic teaching year.

Recent changes to the operating environment

2.3 In December 2009, the Government released its *Tertiary Education Strategy 2010–2015* (the Strategy).[5] The Strategy states that the Government's continuing reform of the TEI sector is focused on making tertiary education more relevant and more efficient, so that it meets the needs of students, the labour market, and the economy.

2.4 The Strategy outlines the Government's priorities for the five-year period and how it will achieve them. It states that the global economic downturn and recession in New Zealand have influenced the Government's mid-term priorities for tertiary education. According to the Strategy, those priorities are:

- *increasing the number of young people (aged under 25) achieving qualifications at levels four and above, particularly degrees*
- *increasing the number of Māori students enjoying success at higher levels*
- *increasing the number of Pasifika students achieving at higher levels*
- *increasing the number of young people moving successfully from school into tertiary education*
- *improving literacy, language, and numeracy and skills outcomes from levels one to three study*
- *improving the educational and financial performance of providers*
- *strengthening research outcomes.*

2.5 In the current environment, the Government has been moving funding in the tertiary education sector away from "low-quality qualifications" (such as those with low completion rates or poor educational or labour market outcomes) to fund growth in "high-quality qualifications" that "benefit New Zealanders" and contribute to economic growth.

5 Ministry of Education, *Tertiary Education Strategy 2010–2015*, Wellington.

2.6 To achieve the short-term priorities and long-term direction, the Government wants the tertiary education sector to:

- target priority groups;
- improve system performance; and
- support high-quality research that helps to drive innovation.

2.7 Tertiary education providers are expected to manage costs, seek efficiency gains, ensure that the qualifications they offer best meet student and employer needs, and explore additional sources of revenue. A major driver to improve the efficiency of public investment in tertiary education is to improve course and qualification completion rates.

2.8 In March 2010, the Government announced that it would introduce performance-linked funding to the tertiary education system from 2011.

2.9 Also of note is that Tairawhiti Polytechnic has merged with the Eastern Institute of Technology, and Telford Rural Polytechnic with Lincoln University. The disestablishment of both Polytechnics was effective from 1 January 2011.

Tertiary education institutions' financial performance in 2010

Funding

2.10 TEIs receive funding from four sources:

- Government tuition funding (called Student Achievement Component or SAC funding);
- student tuition fees;
- research income; and
- other sources (such as interest, dividends, and sub-contracting income).

2.11 Total revenue in 2010 for the sector amounted to $4.4 billion (see Figure 1). Of this:

- 42% ($1.883 billion) was from Government tuition funding (that is, SAC funding);
- 27% ($1.196 billion) was from student tuition fees;
- 18% ($740 million) was from research income; and
- 13% ($598 million) was from other sources.

2.12 Total government funding amounted to 49.7% of total 2010 revenue. This included Performance-Based Research Fund or PBRF funding of $242 million and TEC-provided “off-plan funding” (that is, funding not received through an investment plan) of $62 million. International student fees made up 30% ($362 million) of all student fees earned during the year, while external research revenue accounted for 38% ($285 million) of total research revenue.

2.13 All data in the following figures are sourced from the Tertiary Education Commission (TEC) and are as at 31 December.

Figure 1
Total revenue for tertiary education institutions, 2008 to 2010

	2008 $m	2009 $m	2010 $m
Universities	2,795	2,961	3,125
Institutes of technology and polytechnics	942	1,021	1,089
Wānanga	172	195	204
Total	**3,910**	**4,177**	**4,417**

Note: Figures do not add up exactly due to rounding.

2.14 Figure 2 sets out TEIs’ revenue sources for 2010 from each source as a percentage of total revenue.

Figure 2
Funding sources, as a percentage of total revenue, for 2010

	Tuition funding* %	Student fees %	Research income** %	Other %
Auckland University of Technology	44.1	38.9	5.7	11.3
Lincoln University	21.5	19.7	34.4	24.3
Massey University	34.4	28.8	22.0	14.7
University of Auckland	30.5	22.8	32.9	13.8
University of Canterbury	36.7	33.6	16.6	13.1
University of Otago	35.4	22.6	24.5	17.4
University of Waikato	33.2	31.4	20.2	15.2
Victoria University of Wellington	37.1	32.4	17.3	13.2
Aoraki Polytechnic	73.5	10.3	0.0	16.2
Bay of Plenty Polytechnic	64.2	24.6	0.0	11.2
Christchurch Polytechnic Institute of Technology	54.1	32.8	0.8	12.3
Eastern Institute of Technology	60.3	27.7	1.3	10.8
Manukau Institute of Technology	56.5	32.6	0.3	10.5
Nelson Marlborough Institute of Technology	31.6	44.9	0.1	23.4
Northtec	77.5	17.0	0.2	5.4
Otago Polytechnic	55.9	29.7	1.2	13.2
Southern Institute of Technology	70.5	20.7	0.0	8.9
Tai Poutini Polytechnic	79.2	16.7	0.0	4.1
Tairawhiti Polytechnic	79.9	13.9	0.0	6.2
Telford Rural Polytechnic	78.0	7.0	0.0	15.0
The Open Polytechnic of New Zealand	71.9	25.1	0.4	2.6
Unitec Institute of Technology	54.3	35.7	2.3	7.7
Universal College of Learning	60.3	28.3	0.0	11.4
Waiariki Institute of Technology	61.7	30.3	0.0	8.0
Waikato Institute of Technology	54.9	29.9	0.7	14.4
Wellington Institute of Technology	63.0	25.2	0.0	11.8
Western Institute of Technology at Taranaki	69.9	21.8	0.0	8.3
Whitireia Community Polytechnic	47.6	44.5	0.3	7.6
Te Wānanga o Aotearoa	85.3	3.6	2.1	9.1
Te Wānanga o Raukawa	57.5	25.7	0.0	16.9
Te Whare Wānanga o Awanuiārangi	56.9	6.9	8.0	28.2

* Government tuition funding excludes PBRF funding and off-plan funding from the TEC.

** Includes PBRF funding.

Surplus income

2.15 A 3% surplus is one of the measures the TEC uses to assess the financial viability of a TEI. In arriving at these figures, the TEC has excluded certain expenses (such as restructuring expenses and expenses associated with the Canterbury earthquakes) that are not expected to recur.

2.16 Figure 3 sets out each TEI's surplus for 2010 compared with 2009.

Figure 3
Surplus, as a percentage of total revenue, for 2009 and 2010

	2010 %	2009 %
Auckland University of Technology	7.2	3.1
Lincoln University	-4.1	-5.2
Massey University	2.4	0.6
University of Auckland	3.1	3.4
University of Canterbury	4.0	3.2
University of Otago	5.9	5.6
University of Waikato	4.2	5.2
Victoria University of Wellington	4.8	4.1
Aoraki Polytechnic	7.1	15.8
Bay of Plenty Polytechnic	11.3	19.5
Christchurch Polytechnic Institute of Technology	11.1	10.8
Eastern Institute of Technology	8.2	5.1
Manukau Institute of Technology	3.0	4.6
Nelson Marlborough Institute of Technology	9.7	3.3
Northtec	7.5	4.9
Otago Polytechnic	4.0	1.4
Southern Institute of Technology	13.1	8.1
Tai Poutini Polytechnic	2.3	1.4
Tairawhiti Polytechnic	6.4	16.5
Telford Rural Polytechnic	8.0	6.8
The Open Polytechnic of New Zealand	10.8	5.2
Unitec Institute of Technology	6.4	6.4
Universal College of Learning	11.5	8.6
Waiariki Institute of Technology	16.0	10.3
Waikato Institute of Technology	8.6	2.3
Wellington Institute of Technology	6.7	9.2
Western Institute of Technology at Taranaki	11.7	7.2
Whitireia Community Polytechnic	6.1	3.0
Te Wānanga o Aotearoa	4.1	5.4
Te Wānanga o Raukawa	21.3	17.1
Te Whare Wānanga o Awanuiārangi	13.1	9.6

2.17 The average surplus for universities amounted to 4.0% (2009: 3%).

2.18 The average result for institutes of technology and polytechnics (ITPs) was 8%, which is an increase on the 6.9% for 2009. The number of ITPs below the 3% mark decreased from three in 2009 to one in 2010.

Personnel expenditure

2.19 Personnel account for a major portion of TEIs' expenditure. It is important to note that comparing what TEIs spend on personnel is difficult because the items included can vary. For example, some TEIs include the costs of contractors in their personnel expenditure while others disclose contractors as a separate item.

2.20 Figure 4 shows each TEI's personnel costs as a percentage of total expenditure and total revenue.

Figure 4
Personnel costs as a percentage of expenditure and revenue, for 2009 and 2010

	2010 %	2009 %
Auckland University of Technology	62.5	63.9
Lincoln University	54.9	54.0
Massey University	59.1	59.0
University of Auckland	55.4	54.6
University of Canterbury	62.2	62.2
University of Otago	61.9	61.3
University of Waikato	60.4	59.8
Victoria University of Wellington	56.9	57.1
Aoraki Polytechnic	41.2	39.4
Bay of Plenty Polytechnic	63.7	60.9
Christchurch Polytechnic Institute of Technology	63.1	62.6
Eastern Institute of Technology	62.0	63.3
Manukau Institute of Technology	67.8	66.1
Nelson Marlborough Institute of Technology	31.8	33.7
Northtec	55.1	56.3
Otago Polytechnic	60.6	61.5
Southern Institute of Technology	42.6	42.3
Tai Poutini Polytechnic	63.2	58.4
Tairawhiti Polytechnic	49.4	56.7
Telford Rural Polytechnic	31.0	29.1
The Open Polytechnic of New Zealand	52.9	56.3
Unitec Institute of Technology	63.0	64.0
Universal College of Learning	57.7	57.9
Waiariki Institute of Technology	64.2	63.5
Waikato Institute of Technology	58.3	54.6
Wellington Institute of Technology	56.6	58.0
Western Institute of Technology at Taranaki	53.1	49.1
Whitireia Community Polytechnic	54.5	51.9
Te Wānanga o Aotearoa	54.6	52.5
Te Wānanga o Raukawa	56.2	57.9
Te Whare Wānanga o Awanuiārangi	45.0	47.6

Depreciation costs

2.21 With an asset base of more than $7 billion, the annual depreciation charge for TEIs is significant. This requires a substantial annual investment on the part of institutions from their operating income and other sources.

2.22 Figure 5 shows depreciation as a percentage of total expenditure for each TEI. Figure 6 shows the ratio of capital expenditure to the depreciation charge.

Figure 5
Depreciation costs as a percentage of total expenditure, for 2009 and 2010

	2010 %	2009 %
Auckland University of Technology	10.9	10.4
Lincoln University	8.8	10.0
Massey University	10.0	9.3
University of Auckland	10.3	12.3
University of Canterbury	9.6	10.0
University of Otago	8.6	8.7
University of Waikato	7.6	8.0
Victoria University of Wellington	9.8	8.7
Aoraki Polytechnic	7.0	6.5
Bay of Plenty Polytechnic	9.4	8.7
Christchurch Polytechnic Institute of Technology	7.5	7.8
Eastern Institute of Technology	8.8	8.3
Manukau Institute of Technology	8.0	8.0
Nelson Marlborough Institute of Technology	5.9	5.6
Northtec	6.8	6.6
Otago Polytechnic	8.8	7.4
Southern Institute of Technology	6.3	6.6
Tai Poutini Polytechnic	6.8	6.5
Tairawhiti Polytechnic	4.8	4.8
Telford Rural Polytechnic	4.0	3.5
The Open Polytechnic of New Zealand	5.3	5.7
Unitec Institute of Technology	8.1	8.2
Universal College of Learning	9.8	8.4
Waiariki Institute of Technology	7.5	6.9
Waikato Institute of Technology	6.9	9.3
Wellington Institute of Technology	10.0	11.5
Western Institute of Technology at Taranaki	7.8	6.9
Whitireia Community Polytechnic	6.2	7.6
Te Wānanga o Aotearoa	4.4	5.0
Te Wānanga o Raukawa	7.7	7.2
Te Whare Wānanga o Awanuiārangi	4.4	3.1

Figure 6
Ratio of capital expenditure to depreciation, for 2010

	2010
Auckland University of Technology	0.92
Lincoln University	0.81
Massey University	0.86
University of Auckland	1.89
University of Canterbury	1.36
University of Otago	1.50
University of Waikato	1.76
Victoria University of Wellington	1.64
Aoraki Polytechnic	0.95
Bay of Plenty Polytechnic	2.52
Christchurch Polytechnic Institute of Technology	1.08
Eastern Institute of Technology	2.06
Manukau Institute of Technology	1.10
Nelson Marlborough Institute of Technology	3.41
Northtec	0.76
Otago Polytechnic	1.03
Southern Institute of Technology	2.85
Tai Poutini Polytechnic	2.45
Tairawhiti Polytechnic	1.66
Telford Rural Polytechnic	1.24
The Open Polytechnic of New Zealand	1.79
Unitec Institute of Technology	1.43
Universal College of Learning	0.91
Waiariki Institute of Technology	1.08
Waikato Institute of Technology	4.50
Wellington Institute of Technology	0.78
Western Institute of Technology at Taranaki	0.71
Whitireia Community Polytechnic	0.79
Te Wānanga o Aotearoa	1.91
Te Wānanga o Raukawa	1.97
Te Whare Wānanga o Awanuiārangi	3.39

2.23 For most TEIs, the level of capital expenditure exceeded the depreciation charge for the year (that is, the ratio was greater than 1). This shows that the level of investment continues to be high. In interpreting these ratios, it is important to note that some TEIs might have recently completed a large capital development programme, giving rise to higher expenditure that might not be repeated in later years.

2.24 We also note that, in 2009, the average ratios of capital expenditure to depreciation exceeded 1 for all three groups of TEIs.

Student-to-staff ratios

2.25 Student-to-staff ratios can be indicative of efficiencies at a TEI. However, these ratios will vary depending on the courses that a TEI offers. TEIs that offer skills training would be expected to have a higher student-to-staff ratio than research-focused TEIs.

2.26 Figure 7 provides the ratios during 2010 for total staff and academic staff.

Figure 7
Student-to-staff and student-to-academic staff ratios, for 2010

	Number of students* for every:	
	staff member	academic staff member
Auckland University of Technology	9.8	19.7
Lincoln University	4.6	13.8
Massey University	6.6	17.5
University of Auckland	6.9	16.0
University of Canterbury	7.8	20.4
University of Otago	5.3	16.3
University of Waikato	6.8	18.1
Victoria University of Wellington	9.2	20.1
Aoraki Polytechnic	15.6	37.2
Bay of Plenty Polytechnic	9.0	18.4
Christchurch Polytechnic Institute of Technology	8.3	15.6
Eastern Institute of Technology	8.4	16.0
Manukau Institute of Technology	9.0	17.0
Nelson Marlborough Institute of Technology	13.2	24.8
Northtec	10.2	17.3
Otago Polytechnic	8.2	19.2
Southern Institute of Technology	15.5	30.1
Tai Poutini Polytechnic	12.3	19.1
Tairawhiti Polytechnic	9.3	16.3
Telford Rural Polytechnic	10.7	13.4
The Open Polytechnic of New Zealand	15.9	56.1
Unitec Institute of Technology	9.4	17.7
Universal College of Learning	9.2	18.7
Waiariki Institute of Technology	11.4	21.9
Waikato Institute of Technology	10.5	18.8
Wellington Institute of Technology	11.0	21.5
Western Institute of Technology at Taranaki	12.1	23.5
Whitireia Community Polytechnic	10.3	18.3
Te Wānanga o Aotearoa	20.5	46
Te Wānanga o Raukawa	7.2	19
Te Whare Wānanga o Awanuiārangi	21.2	45

* Equivalent full-time students.

Working capital (current) ratios and "quick ratios"

2.27 Two measures are used to determine the ability of an organisation to meet its short-term commitments: working capital ratios and "quick ratios". The working capital ratio measures assets available to settle any current liabilities. A ratio of \$2 of current assets for every \$1 of current liabilities is considered acceptable in general financial management terms.

2.28 Figure 8 sets out TEIs' working capital ratios at the end of 2009 and 2010.

2.29 Of the 31 TEIs, 20 were unable to attain a 2:1 ratio and 10 had less than \$1 of current assets available for every dollar of current liabilities.

2.30 The second ratio is known as the "quick ratio", which is the amount of cash available to settle current liabilities. A ratio of \$1 of cash for every \$1 of current liabilities is considered acceptable in general financial management terms.

2.31 Using only cash resources (which includes short-term investments), the "quick ratios" for the TEIs as at the end of 2010, as calculated by the TEC,[6] are set out in Figure 9. This calculation is not the conventional ratio used by accountants. We are interested in any debate on the usefulness or otherwise of this "quick ratio" in the tertiary education sector.

6 The TEC excludes some account balances from its calculation of the "quick ratio": current assets—prepayments, inventory, and other; current liabilities—employee entitlements, fees in advance, other funding in advance, trust current liabilities, and other.

Figure 8
Current assets for every $1 of current liabilities, for 2009 and 2010

	2010 $	2009 $
Auckland University of Technology	0.35	0.18
Lincoln University	1.48	1.62
Massey University	1.42	1.18
University of Auckland	0.63	0.86
University of Canterbury	2.12	2.06
University of Otago	0.96	0.89
University of Waikato	0.79	0.71
Victoria University of Wellington	0.98	1.02
Aoraki Polytechnic	9.13	10.61
Bay of Plenty Polytechnic	0.98	1.01
Christchurch Polytechnic Institute of Technology	1.85	1.73
Eastern Institute of Technology	1.95	1.77
Manukau Institute of Technology	2.45	2.45
Nelson Marlborough Institute of Technology	1.47	1.35
Northtec	2.58	1.64
Otago Polytechnic	0.19	0.36
Southern Institute of Technology	5.24	4.64
Tai Poutini Polytechnic	1.80	2.19
Tairawhiti Polytechnic	0.48	1.04
Telford Rural Polytechnic	8.18	7.43
The Open Polytechnic of New Zealand	1.94	1.87
Unitec Institute of Technology	0.24	0.27
Universal College of Learning	1.05	0.83
Waiariki Institute of Technology	2.93	2.27
Waikato Institute of Technology	0.47	0.63
Wellington Institute of Technology	1.46	1.48
Western Institute of Technology at Taranaki	2.02	1.01
Whitireia Community Polytechnic	1.33	1.08
Te Wānanga o Aotearoa	2.63	2.32
Te Wānanga o Raukawa	24.34	18.63
Te Whare Wānanga o Awanuiārangi	9.09	2.56

Figure 9
"Quick ratio" of cash available for every $1 of current liabilities, for 2009 and 2010

	2010 $	2009 $
Auckland University of Technology	0.91	0.36
Lincoln University	3.26	3.80
Massey University	4.57	3.58
University of Auckland	0.68	0.91
University of Canterbury	4.63	6.32
University of Otago	2.59	2.43
University of Waikato	3.05	3.12
Victoria University of Wellington	1.33	1.38
Aoraki Polytechnic	18.16	14.42
Bay of Plenty Polytechnic	3.50	2.48
Christchurch Polytechnic Institute of Technology	3.47	3.42
Eastern Institute of Technology	4.87	4.02
Manukau Institute of Technology	4.73	4.55
Nelson Marlborough Institute of Technology	5.74	6.39
Northtec	4.10	3.06
Otago Polytechnic	0.28	0.54
Southern Institute of Technology	45.82	72.92
Tai Poutini Polytechnic	2.30	3.40
Tairawhiti Polytechnic	0.57	0.91
Telford Rural Polytechnic	9.06	8.31
The Open Polytechnic of New Zealand	7.93	9.10
Unitec Institute of Technology	0.38	0.41
Universal College of Learning	2.61	1.80
Waiariki Institute of Technology	13.72	5.56
Waikato Institute of Technology	0.57	0.72
Wellington Institute of Technology	4.13	4.67
Western Institute of Technology at Taranaki	3.23	1.79
Whitireia Community Polytechnic	7.18	5.43
Te Wānanga o Aotearoa	4.39	3.98
Te Wānanga o Raukawa	50.83	32.96
Te Whare Wānanga o Awanuiārangi	21.36	14.26

2.32 Six of the 31 TEIs had less cash resources available than total current liabilities, which would have required them to liquidate long-term investments to settle current obligations. However, the “quick ratio” is based on the year-end statement of financial position. TEIs receive additional cash flows at the start of a new academic year (or would have a borrowing facility in place to provide additional cash resources).

Term debt levels

2.33 Term debt levels at TEIs are conservative. About one-third of TEIs carry long-term debt on their statements of financial position and, for each, it totals less than 10% of the TEI’s asset base. Figure 10 shows debt as a percentage of total assets.[7]

7 The TEC calculates the debt equity ratio based on total debt to total debt plus equity.

Figure 10
Term debt as a percentage of total assets, for 2009 and 2010

	2010 %	2009 %
Auckland University of Technology	6.46	9.94
Lincoln University	-	-
Massey University	2.22	2.28
University of Auckland	1.36	1.37
University of Canterbury	5.76	5.93
University of Otago	-	-
University of Waikato	-	0.02
Victoria University of Wellington	5.82	5.29
Aoraki Polytechnic	-	-
Bay of Plenty Polytechnic	0.06	1.15
Christchurch Polytechnic Institute of Technology	1.87	3.43
Eastern Institute of Technology	-	-
Manukau Institute of Technology	-	-
Nelson Marlborough Institute of Technology	-	-
Northtec	-	-
Otago Polytechnic	0.11	3.68
Southern Institute of Technology	-	-
Tai Poutini Polytechnic	0.33	-
Tairawhiti Polytechnic	-	-
Telford Rural Polytechnic	-	-
The Open Polytechnic of New Zealand	-	-
Unitec Institute of Technology	0.53	4.43
Universal College of Learning	2.48	3.81
Waiariki Institute of Technology	-	-
Waikato Institute of Technology	7.67	2.66
Wellington Institute of Technology	-	-
Western Institute of Technology at Taranaki	8.80	9.32
Whitireia Community Polytechnic	-	-
Te Wānanga o Aotearoa	-	-
Te Wānanga o Raukawa	-	-
Te Whare Wānanga o Awanuiārangi	-	-

Audit results for 2010

2.34 We issue audit opinions for each TEI (usually referred to as "the parent accounts"), for each TEI subsidiary that is also a public entity, and for the combined entities (of the "parent" and its subsidiaries) that represent the TEI group (usually referred to as "the group accounts").

2.35 We issued unmodified audit opinions for all 31 TEI group accounts in 2010. This means that the financial statements that we audited complied with generally accepted accounting practice and fairly reflected each TEI group's financial position and the results of their operations and cash flows for the year ended 31 December 2010.

2.36 These audit opinions also mean that the performance information reported by the TEIs fairly reflects their service performance achievements, as measured against the performance targets adopted for the year ended 31 December 2010.

2.37 The unmodified audit opinions of three TEIs (University of Auckland, Tairawhiti Polytechnic, and Telford Rural Polytechnic) contained explanatory paragraphs.

2.38 We provide more detail about each of these "non-standard" audit reports in Part 4.

Audit timeliness

2.39 An important aspect of the performance of public entities is for them to issue audited financial statements within statutory time frames. We want those interested in the accountability of public entities to receive our audit assurance as soon as possible after the end of the financial year.

2.40 For the 2010 TEI audits, the statutory deadline (that is, when audit reports must be provided) was 2 May 2011. Audits of all but two of the 31 TEI group accounts were completed by this deadline.

2.41 In the main, it is the timeliness of TEI subsidiary audits that affects the audit arrears figures for TEIs. We asked auditors to work closely with TEIs during the 2010 audits to bring any public entity subsidiary audit arrears up to date and to ensure the timely completion of all TEI audits.

2.42 The Canterbury earthquakes caused delays to some audits in the TEI sector. Part 2 of our report, *Central government: Results of the 2010/11 audits (Volume 1)* outlines the effect of the earthquakes on audit work in the Canterbury region.

Focus in 2010 audits

2.43 Each year, we identify particular aspects to focus on during the audit. We discuss some of these below.

Reporting service performance from 2011

2.44 TEIs' statements of service performance (SSPs) report on their performance compared with the proposed outcomes described in their investment plans. The SSP requirement is set out in section 220(2B) of the Education Act 1989. Our audit work on the 2010 SSPs focused on:

- determining whether the SSP fairly reflects performance against the performance measures and targets outlined in the investment plan at the start of the year; and
- checking the reported levels of achievement for significant performance measures.

2.45 The TEC has introduced educational performance indicators (EPIs) for all TEIs to report against in 2011. In our 2010 annual audit work, we determined the readiness of TEIs to be able to report fairly against EPIs in 2011. Generally, we found that TEIs were adequately positioned to report against the EPIs in 2011.

2.46 In keeping with our interest in improving non-financial performance reporting in the public sector, we will apply our revised auditing standard to audits of TEIs' service reporting for periods starting on or after 1 January 2012. We discuss the implications of this in Part 3.

TEI group governance practices

2.47 During our 2010 audit, appointed auditors enquired about and documented the level of oversight that a TEI, both at governance and senior management level, had over its subsidiary entities in the TEI group. They also documented the processes that each TEI uses to satisfy itself as to the business need and viability of each TEI subsidiary. Appointed auditors identified the nature, frequency, and quality of any "upwards" reporting by TEI subsidiaries.

2.48 In our view, many TEIs need to improve their assessment of the business need for their subsidiaries, and their reporting about those subsidiaries. This would help to reduce costs for the sector.

Capital asset management

2.49 Capital asset management (CAM) is the process of achieving optimal whole-of-life effectiveness from assets at minimal cost. Where asset management is, or should be, a significant part of an entity's activities, the asset management process should be an important part of the entity's decision-making and management control environment.

2.50 TEIs own and manage a substantial portfolio of assets, mostly land and buildings. Total assets in the TEI sector in 2010 totalled $7.728 billion (2009: $7.538 billion).

2.51 Asset management continues to be a priority for central government entities, including TEIs. In line with the Treasury's work on a CAM framework for the state sector, the TEC has been working collaboratively with TEIs on a number of initiatives to encourage stronger capital asset management planning practices and to seek better information on TEIs' assets. As part of this, the TEC has been developing a standard for CAM practices across the tertiary education sector. A review of polytechnics was completed during 2010. Similar work will soon be carried out with wānanga and universities.

2.52 During the 2010 audit, our auditors mostly followed up on CAM issues raised in previous years. However, many audit teams identified CAM as a risk for the entity they were auditing. There is work under way in many TEIs to update their CAM policies and plans, but there is still more to be done for TEIs' CAM practices to meet standards of good public sector practice as defined by the Treasury. As such, and given the extent of capital investment taking place, capital asset management remains a significant area of our audit focus. We are mindful of the need to align our work in this area with that of other agencies.

Investment planning and future funding

2.53 Our auditors considered the validity or otherwise of the going-concern assumption given funding changes for TEIs. Our auditors noted that the broadening of revenue streams, generation of surpluses, and cost reductions were at the forefront of TEI management thinking. Although these areas remain major challenges for TEIs, our auditors were satisfied about the validity of the going-concern assumption for TEIs. We will continue to focus on this in future audits.

Summary and focus in 2011 audits

2.54 Our auditors will continue to consider the areas outlined above as part of our standard audit plan and process.

2.55 Ongoing policy changes in the tertiary education sector may further affect some TEIs' planning and future funding. Our auditors will continue to improve their understanding of the actions TEIs have taken, or plan to take, to respond to these changes, and to satisfy themselves of the validity of the going-concern assumption. Subsidiary entities can create additional compliance costs for the parent entity, and can place greater pressure on the parent entity to properly govern the group. We remain interested in seeing improvements in how TEI subsidiaries assess their business needs and report to their parent entities.

2.56 Non-financial performance reporting will be a particular focus for the 2011 annual audit of TEIs. This is because the Auditor-General's revised auditing standard will apply to audits of TEIs' service reporting from 1 January 2012 (see Part 3).

2.57 We are focusing on effective non-financial performance reporting because it should not only drive, and be driven by, effective performance management (that is, internal effectiveness and efficiency), but also influence how TEIs' services and outcomes are externally perceived and valued. Our work with TEIs is aimed at encouraging TEIs to adopt a positive, business improvement attitude to non-financial performance information and reporting. We see this as adding important value from the annual audit process. Our attention to non-financial performance information and reporting for TEIs also fits with the broader drive for cost effectiveness in the public sector.[8]

8 Our views on the importance and the quality of performance information and reporting are set out in our June 2008 discussion paper, *The Auditor-General's observations on the quality of performance reporting*, which is available at www.oag.govt.nz.

Part 3
Non-financial performance reporting by tertiary education institutions

3.1 In this Part, we discuss our review of the performance information in the 2011–13 investment plans of most tertiary education institutions (TEIs).[9] The performance information in these plans will be the basis of TEIs' reports of their service performance in their 2011, 2012, and 2013 annual reports. We note the legislative content requirements for the investment plans and discuss general requirements for performance reporting before outlining our preliminary observations.

3.2 For this review, our comments are limited to presentation and content matters rather than the overall appropriateness of the performance information. From next year, auditors will assess performance information within the context of their knowledge and understanding of the entity's strategies, operations, and priorities, and the performance management arrangements underpinning them.[10]

3.3 Overall, the presentation of performance or outcomes frameworks is a step forward for performance reporting by TEIs. We are aware of several initiatives under way to further develop performance information for the sector. We trust that our observations will be useful to TEIs as they make progress in this regard.

Background

3.4 The Education Act 1989 requires a TEI's investment plan to describe its proposed outcomes – what it will achieve through its education programmes and services – and the performance indicators it will use to measure whether those outcomes have been achieved. The annual report has to contain a statement that reports the TEI's performance in relation to those outcomes (a statement of service performance, or SSP).

3.5 Under generally accepted accounting practice (GAAP), an SSP reports primarily on output or service delivery performance – effectively, the services produced. The Tertiary Education Commission (the TEC) has clarified that:

> *Those parts of an institution's Plan that make up the forecast Statement of Service Performance will be expected to reflect the outcome framework agreed with TEC and be prepared in accordance with generally accepted accounting principles.*[11]

9 The investment plans are public documents (as required under section 159YO of the Education Act 1989) and are available from each TEI. Our review did not include the three wānanga.

10 For 2012 reporting, auditors will apply the Auditor-General's revised auditing standard, AG-4 *The audit of service performance reports*, to their audits of TEIs' performance information. The most significant change in the revised standard is that auditors will be required to attest to whether the statement of service performance (SSP) fairly reflects actual service performance for the year – previously, they attested to whether the SSP reported faithfully against the forecast SSP (which will still be the basis of the audit opinion on the 2011 annual reports).

11 *New Zealand Gazette* (3 June 2010), "Requirements and Exemptions for Investment Plans from 2011 onwards for Tertiary Education Organisations", Notice 4030.

3.6 The TEC has set out separate outcomes frameworks for universities and for institutes of technology and polytechnics (ITPs). Although aspects of the outcomes frameworks use slightly different terms from those used in GAAP, they capture the significant parts of a performance framework. The significant parts include inputs, services, the immediate effects of those services, and longer-term outcomes, together with associated performance measures.

3.7 TEIs' investment plans must include the following parts:

- The *Plan Context*, which covers a variety of background information. For example, the TEI's response to government priorities in the *Tertiary Education Strategy 2010–2015* (the Strategy), the needs of learners and industry and employers, and how the TEI will improve its educational performance.
- The *Summary of Activity*, which sets out information on the services the TEI plans to deliver (commonly referred to as the "mix of provision") during the period of the plan.
- The *Performance Commitments*, which sets out the proposed performance commitments and the associated indicators used in evaluating performance. TEIs are expected to use common "educational performance indicators" (EPIs).

3.8 From 2012, 5% of the Student Achievement Component funding received by TEIs will be based on their performance against mandatory EPIs. The EPIs, all related to student achievement, are: successful course completion; student retention; qualification completion; and student progression. Dimensions relevant to the Strategy, such as age and ethnicity, are presented for each indicator.

3.9 The TEC provided a template to TEIs for recording *Performance Commitments*. The template included the mandatory indicators, measures on participation of targeted priority groups,[12] and measures relating to literacy and numeracy.

Performance frameworks

3.10 A non-financial performance framework, in both the forecast and historical (annual) reports, typically comprises information on the entity's outcomes, impacts, and related performance measures and targets, linked to outputs, performance measures, and targets. The reporting is about how well services are delivered and the effects of the services on the community.

3.11 In their investment plans, only a small number of TEIs presented performance frameworks that explicitly distinguished outcomes, impacts, and outputs and/or provided a diagram that identified these and indicated the links between them.

3.12 However, they discussed to varying degrees in the investment plans what they were trying to achieve and how they planned to do it. This made it possible to

12 Māori, Pasifika, those aged under 25, and international students.

infer the formal performance elements (outcomes, impacts, and outputs), and the links between them, from the narrative (the performance story). For example:

- **planned courses are linked to the needs of local industry and employers** - Waiariki Institute of Technology supported this discussion with a table that linked its planned programmes with historical and predicted employment trends; and
- **initiatives related to the quality of teaching are discussed within the context of influencing student achievement rates** - Nelson Marlborough Institute of Technology stated:

  We aim to improve the educational performance of our learners by … improving teaching and learning. … For NMIT students, the most important indicator of quality is the standard of teaching and learning they receive. … The Teaching and Learning Observation programme is … designed to ensure maximum effectiveness of curriculum delivery by encouraging good practice within NMIT to be shared …

3.13 We encourage TEIs to consider presenting the SSP so that it clearly identifies the relevant aspects of performance (including costs of outputs), logically groups these aspects, and explicitly attaches measures to these aspects. Such a coherent, cohesive presentation of performance information helps the reader to understand the relevance of the performance information and is consistent with external performance reporting requirements (based on legislative requirements, GAAP, and the TEC's expectations). This information and these linkages would ideally be drawn from, and feed into, TEIs' internal strategic planning.

Outcomes and impacts – the difference tertiary education institutions make

3.14 The TEC-published outcomes frameworks relate high-level outcome measures (measures of whether outcomes are achieved) to economic development, social and community development, and environmental enhancement. The impacts – the more immediate differences a TEI will make from delivering its outputs or services – in TEIs' investment plans are different for universities and ITPs (see Figure 11).

Figure 11
Impacts, as described in the outcomes frameworks for tertiary education institutions

Universities	Institutes of technology and polytechnics
People with critical thinking skills	People progress to higher levels of learning
Educated and skilled workforce	People progress to (self) employment
Value to society	Value added to industry and society
	More engaged communities
	Enhanced environmental sustainability

3.15 In the TEIs' investment plans, the outcomes and impacts we found were often addressed (to varying extents) through the narrative rather than through formal outcome and/or impact statements.

3.16 In measuring their achievement of, or progress towards, the outcomes and impacts, we note that:

- The TEC-published outcomes frameworks note that central government agencies will carry out research and analysis of system-level measures for TEIs' outcomes and impacts. An example of this is the Employment Outcomes of Tertiary Education project, which looks at the post-study earnings of recent participants in tertiary education and training. The feasibility study was a joint project by Statistics New Zealand, the Ministry of Education, the Department of Labour, the Inland Revenue Department, and the TEC.[13]
- Consistent with this, it is likely to be appropriate that performance measures for individual TEIs focus on measuring lower-level impacts (such as the employment rate of graduates), but with commentary, linkages, and, where relevant, measurement of the expected contribution of these to the bigger picture.
- In their investment plans, several TEIs presented a measure on the destination of graduates – such as the percentage of those who were in employment or further education within six months of graduation. At least one TEI commented on efforts to improve response rates to the survey. A number also presented a measure on the satisfaction of employers with graduates from their institute.
- A new longitudinal study of university graduates has replaced the Graduates Destination Survey that questioned all New Zealand university graduates about their employment outcomes six months after graduation. The study aims to determine the ongoing effect of a tertiary education on university graduates.[14] This may provide useful data for future performance reporting in TEIs' annual reports.

13 Available on Statistics New Zealand's website (www.stats.govt.nz).

14 See "Graduate Longitudinal Study New Zealand" at www.glsnz.org.nz.

- The mandatory EPIs on student achievement were the most commonly used measures in TEIs' investment plans. Student achievement measures best fit as impact measures given they are a consequence of service or output (that is, courses or programmes taught) delivery. In our view, the TEIs' performance stories should help the reader to understand how to interpret planned (and actual) performance against these measures.
- At least some of the universities used impact measures for research. Measuring research outcomes seems to be a "work in progress". Some TEC guidance for universities discusses the links between the research produced by universities and economic, social, health, and environmental outcomes, and the importance of strong connections with firms to enable the use and commercialisation of research. The guidance says that the "TEC will discuss with universities how their research contributions to national goals can be best measured."[15]

Outputs – what tertiary education institutions produce or do

3.17 Based on the core roles of TEIs (see Figure 12), there is potential for fairly standard descriptions of TEIs' outputs in their (forecast) SSPs. Outputs are services delivered to external parties.

Figure 12
Core roles of universities and institutes of technology and polytechnics, as described in the *Tertiary Education Strategy 2010-2015*

Universities	Institutes of technology and polytechnics
To carry out research that adds to the store of knowledge	To deliver vocational education that provides skills for employment
To provide a wide range of research-led degree and postgraduate education that is of an international standard	To carry out applied research that supports vocational learning and technology transfer
To act as sources of critical thinking and intellectual talent	To assist progression to higher levels of learning or work through foundation education

3.18 In their investment plans, the forecast SSPs for ITPs typically consisted of the completed standard *Performance Commitments* template provided by the TEC. This template groups the measures under participation, educational performance, and financial performance. Some TEIs added other groups of measures into the template. There was no description of the output at the start of each group of measures.

15 See "Strengthen research and economic outcomes" in the universities' section of the TEC's website (www.tec.govt.nz).

3.19 Universities relied less on the standard template for presenting their performance measures but did not necessarily explicitly describe their “outputs”. For example, about half of the universities set out their performance measures by objectives.

3.20 Although outputs did not tend to be explicitly identified as such, or described when presenting the performance measures, it was clear that they related primarily to teaching and (applied) research.

3.21 There are risks if outputs are not explicitly identified, including:

- groups of internally focused measures, such as financial, asset, and resourcing measures, being incorrectly presented in the SSP;
- a lack of explicit distinction between impact and outputs and their measures. This differentiation is important for internal performance management and for telling a complete and meaningful performance story, and for clearly depicting TEIs’ accountability for their service performance (what they plan to deliver), as opposed to the effects of providing those services (over which TEIs have varying levels of influence), and for allowing a better view of the completeness of the output performance information; and
- non-compliance with GAAP. As well as disclosing output performance, GAAP also requires that TEIs disclose the cost of each output. For example, if universities identify research as an output, they need to separately disclose how much they plan to spend on it.

Output performance measures

3.22 Investment plans serve two main purposes – they are a funding agreement between the TEIs and the TEC, on behalf of the Government, and they inform the annual report, which is the accountability document to Parliament and the public.

3.23 The TEC template of performance measures contains useful measures. However, in our view, a broader set of performance measures is more appropriate for accountability purposes. The output measures and targets need to provide a balanced and rounded performance story about service delivery by covering various dimensions of performance, such as quantity and quality of service delivery. Appropriate performance information is relevant, reliable, understandable, and comparable.

3.24 Nearly half the ITPs relied primarily on the measures in the TEC template. The other ITPs, and most of the universities, presented a more comprehensive set of performance measures and, in our view, provided a more meaningful and complete picture of their forecast service performance.

3.25 The investment plans, as reviewed, present a list of courses offered and the planned number of Equivalent Full-Time Students for each course. TEIs could consider what level of information on courses and/or faculties might be appropriate to include in the SSP in the annual report – for instance: Were the courses provided as planned and were there any significant changes?

3.26 It might be difficult for a lay reader to understand the different levels of courses (such as Levels 1 – 3), the different types of qualifications (such as certificates, diplomas, degrees), and the cross-over between schools, ITPs, and universities.

3.27 There are existing quality assurance mechanisms in place for course approval, accreditation, and external review. It would be worthwhile considering to what extent, if at all, aspects of these processes should be reflected in formal performance measures. Some TEIs do reflect them.

3.28 A common indirect measure of the quality of teaching/course provision is student satisfaction. A few TEIs presented measures from a benchmarked Australasian Survey of Student Engagement (AUSSE) and one university presented a measure from the Staff Student Engagement Survey.

3.29 As would be expected, the universities had a much stronger focus on research and more measures on research. In general, they appeared to present a reasonable set of measures, covering a range of performance dimensions.

3.30 Measures impart costs to institutions and should only be included if they are useful to the business decisions of the institution. The value of some measures might be questionable without associated analysis, interpretation, and indication of planned responses.

Performance story

3.31 Finally, it is important that a TEI's performance story, in both the investment plan and the annual report, gives a complete and meaningful picture of the entity and its performance, especially where similar measures are being presented. TEIs have the opportunity in their investment plans and annual reports to explain their own context, including their performance on the mandatory performance indicators of student achievement.

3.32 Figure 13 defines outcomes, impacts, outputs, and inputs.[16] It presents extracts from some TEIs' investment plans and annual reports for the teaching/education output and shows the type of logical flow of performance information we would expect to see. (Note that these are not the only TEIs presenting this information – they are just used as examples.)

16 Based on GAAP and definitions in the Public Finance Act 1989 and the Crown Entities Act 2004.

Figure 13
Performance framework definitions and examples from current investment plans

Outcomes – definition	**Example outcome**	**Example outcome measures**
Changes in the state of, condition of, effects on, or consequences for the community, society, economy, or environment resulting from the existence and operations of the entity.	Through skills in leadership, in communication and in critical and creative thinking, our graduates contribute to a more educated and skilled workforce and society. *(Victoria University of Wellington)*	Earnings gained by new graduates. Standard of living. *(Unitec Institute of Technology)*
Impacts – definition	**Example impact**	**Example impact measures**
The contributions made to an outcome by a specified set of outputs. Often referred to as "intermediate outcomes", they represent the relatively immediate or direct effect on stakeholders of the entity's outputs.	Graduates who are advanced practitioners, highly sought after and who will make an impact. *(Auckland University of Technology)*	Proportion of graduates gaining employment or going on to further study (annual graduate destination survey). Relevant qualifications (annual employer satisfaction survey). Work readiness of graduates (annual employer satisfaction survey). *(Wellington Institute of Technology)*
		Student progression rates. Qualification completion rates. Student retention rates. Course completion rates. (mandatory EPIs)

Outputs – definition	Example output	Example output measures
The goods or services that are produced by the entity for third parties.	The major output provided by the Polytechnic is education and training to students. Full-time, short, and part-time, pre-vocational, vocational, and personal development courses are provided to Certificate and/or Diploma level. *(Aoraki Polytechnic*)* Deliver high quality, relevant courses and qualifications and support students. *(University of Canterbury)*	External Evaluation and Review reports "High Confidence" in both Educational Performance and Capability in Self Assessment. *(Nelson Marlborough Institute of Technology)* Level and nature of students' contacts with teaching staff (benchmarked, percentage-based measure from the Australasian Survey of Student Engagement – AUSSE). (*University of Canterbury)* Percentage of students who would recommend the TEI to others. *(Auckland University of Technology)* Proportion of students evaluating lecturers as "excellent" or "good". *(Lincoln University)* Student satisfaction with student support services and facilities. *(Unitec Institute of Technology)* Student engagement – proportion of students who are withdrawn by the Polytechnic because of non-engagement. *(The Open Polytechnic of New Zealand)* Academic staff with a doctoral qualification ratio (% of full-time equivalent). *(Massey University)*.
Inputs – definition	**Example input**	
The resources used by the entity to produce its outputs	Implement the annual published programme of staff development. *(Victoria University of Wellington)*	

* This example is from the annual report, rather than the investment plan.

Part 4
Non-standard audit reports issued

4.1 We issued 2614 audit reports for entities in our education portfolio[17] during the year ended 31 October 2011.[18] Of these, 2451 were standard audit reports. In this Part, we discuss the 163 non-standard audit reports issued on the financial and non-financial information of those entities.

4.2 We did not need to issue the most serious form of non-standard audit report (an adverse opinion) for any education entities during the year. We issued one "disclaimer of opinion" for a school, which is the next most serious form of non-standard audit report, and issued 25 qualified opinions in our audit reports on a range of entities (schools and others).

4.3 More commonly, auditors included explanatory paragraphs in the audit reports to draw the readers' attention to different matters, such as financial difficulties, potential closures, or breaches of the law.

Why we report this information

4.4 An audit report is addressed to the readers of an entity's financial and non-financial information. However, all public entities are ultimately accountable to Parliament for their use of public money and their use of any statutory powers or other authority given to them by Parliament. Therefore, we consider it important to draw Parliament's attention to the matters that give rise to non-standard audit reports.

4.5 In each instance, the issues underlying a non-standard audit report are drawn to the attention of the entity and discussed with its governing body or chief executive.

17 There are about 2460 state schools governed by boards of trustees, which are made up of members of the local community (usually parents of children attending the school). The board of each school is a Crown entity and, as such, is required to prepare annual financial statements in keeping with generally accepted accounting practice. The other entities are mostly tertiary education institutions and their subsidiaries.

18 We report separately on non-education entities in the central government portfolio and the local government portfolio in our yearly reports on the results of audits for those portfolios.

What is a non-standard audit report?

4.6 A non-standard audit report[19] is one that contains:

- a modified opinion; and/or
- an "emphasis of matter" or an "other matter" paragraph.

4.7 The auditors who we appoint to audit education entities express a **modified opinion** because of:

- a misstatement about the treatment or disclosure of a matter in the financial and/or non-financial information; or
- a limitation in scope because the appointed auditor has been unable to obtain sufficient appropriate evidence to support, and accordingly is unable to express, an opinion on the financial and/or non-financial information or a part of the financial and/or non-financial information.

4.8 There are three types of modified opinion:

- an "adverse" opinion (see paragraphs 4.11-4.12);
- a "disclaimer of opinion" (see paragraphs 4.14-4.15); and
- a qualified opinion (see paragraphs 4.17-4.19).

4.9 The appointed auditor will include an "**emphasis of matter**" paragraph (see paragraph 4.22) or an "**other matter**" paragraph (see paragraph 4.30) in the audit report to draw attention to matters such as:

- fundamental uncertainties;
- breaches of law; or
- concerns over probity or financial prudence.

4.10 The appointed auditor has to include an "emphasis of matter" paragraph or an "other matter" paragraph in the audit report in such a way that it cannot be mistaken for a modified opinion.

Adverse opinions

4.11 An adverse opinion is the most serious type of non-standard audit report.

4.12 An adverse opinion is expressed when the appointed auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial and/or non-financial information.

19 Appendix 3 describes how an auditor determines the most appropriate form of audit report. A non-standard audit report is issued in keeping with International Standard on Auditing (New Zealand) 705: *Modifications to the Opinion in the Independent Auditor's Report* and/or International Standard on Auditing (New Zealand) 706: *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

4.13 We did not express an adverse opinion on the financial statements or non-financial performance information of any entities in our education portfolio.

Disclaimers of opinion

4.14 A disclaimer of opinion is expressed when the appointed auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion (that is, a limitation in scope), and the appointed auditor concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be both material and pervasive.

4.15 A disclaimer of opinion is also expressed when, in extremely rare circumstances involving multiple uncertainties, the appointed auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements and/or non-financial performance information because of the potential interaction of the uncertainties and their possible cumulative effect on the financial and/or non-financial information.

4.16 During 2011, a disclaimer of opinion was expressed for one school – Te Wharekura O Te Rau Aroha – for the two years ended 31 December 2008 and 31 December 2009. Appendix 4 sets out the details of these disclaimers of opinion.

Qualified opinions

4.17 A qualified opinion is expressed when the appointed auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the financial and/or non-financial information.

4.18 A qualified opinion is also expressed when the appointed auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the appointed auditor concludes that the possible effects on the financial and/or non-financial information of undetected misstatements, if any, could be material but not pervasive.

4.19 In addition, a qualified opinion is expressed when the appointed auditor concludes that a breach of statutory obligations has occurred and that the breach is material to the reader's understanding of the financial and/or non-financial information. An example of this is where a Crown entity has breached the requirements of the Crown Entities Act 2004 because it has not included budgeted figures in its financial statements.

4.20 During 2011, we expressed qualified opinions on the financial and/or non-financial information of 25 entities in the education portfolio:

- Whitireia Performing Arts Company Limited (a subsidiary of Whitireia Community Polytechnic);
- Ivey Hall and Memorial Hall 125th Anniversary Appeal Gifting Trust (a trust controlled by Lincoln University);
- Ivey Hall and Memorial Hall 125th Anniversary Appeal Taxable Activity Trust (a trust controlled by Lincoln University);
- Wellington Girls' College;
- Wanganui City College;
- Manawatu College;
- Wellington East Girls' College;
- Fraser Community Childcare Society Incorporated (two years ended 31 December 2008 and 31 December 2009);
- Edendale School (Auckland);
- Pakuranga Health Camp School;
- Puriri School;
- Putorino School;
- Red Beach School;
- Riverslea School;
- Taumarunui High School and Community Trust;
- Te Kura O Waharoa (two years ended 31 December 2009 and 31 December 2010);
- Tongariro Area School;
- Paeroa Central School;
- Te Kura Kaupapa Māori O Ruamata (year ended 31 December 2008);
- Kutarere School;
- Tomahawk School;
- Hunterville School;
- Tokoroa East School;
- Allenvale Special School & Resource Centre; and
- Corstorphine School.

4.21 Appendix 4 sets out the details of the qualified opinions. In some instances, the audit opinion was qualified for more than one reason.

“Emphasis of matter” paragraphs

4.22 In certain circumstances, it may be appropriate for the appointed auditor to include additional comments in the audit report to draw readers’ attention to a matter that, in the appointed auditor’s professional judgement, is fundamental to a reader’s understanding of the financial and/or non-financial information. The additional comments will be included in the audit report in an “emphasis of matter” paragraph, provided the appointed auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial and/or non-financial information.

4.23 During 2011, we used two main types of “emphasis of matter” paragraphs for education entities other than schools.

4.24 The first type of “emphasis of matter” paragraph related to funding from a capital appropriation that was not recognised as an equity transaction. The audit report for the University of Auckland and Group included such a paragraph.

4.25 The second type of “emphasis of matter” paragraph related to the “going concern” assumption being appropriately not used because entities were disestablished or expected to be disestablished in the near future. The following entities’ audit reports included such a paragraph:

- Telford Rural Polytechnic;
- iPredict Limited and Group (a subsidiary of Victoria University of Wellington);
- Predictions Clearing Limited (a subsidiary of Victoria University of Wellington);
- Weltec Connect Limited (a subsidiary of Wellington Institute of Technology); and
- Tai Poutini International Limited and Group (a subsidiary of Tai Poutini Polytechnic).

School boards

4.26 Because of the number of “emphasis of matter” paragraphs included in audit reports for schools, we have not listed each school separately. We have instead reported the types of “emphasis of matter” paragraphs that were issued and the number of schools that received each type.

4.27 There were three main types of “emphasis of matter” paragraphs:

- serious financial difficulties (32 schools);
- closures of schools (13 schools); and
- potential closure of schools (eight schools).

4.28 Also, we included "emphasis of matter" paragraphs in eight schools' audit reports for other reasons.

4.29 Appendix 4 contains more information about the "emphasis of matter" paragraphs that were included in audit reports.

"Other matter" paragraphs

4.30 In certain circumstances, it may be appropriate for the appointed auditor to communicate a matter that is not adequately presented or disclosed in the financial and/or non-financial information because, in the appointed auditor's professional judgement, the matter is relevant to readers' understanding of the financial and/or non-financial information. The additional comments will be included in the audit report in an "other matter" or similarly titled paragraph.

4.31 There were six major types of "other matter" paragraphs included in audit reports for schools, which were for breaches of law:

- not reporting by 31 May 2011 (54 schools);
- not submitting financial statements for audit by 31 March 2011 (11 schools);
- borrowing above the permitted limit without approval (nine schools);
- not having a 10-year property plan (eight schools);
- making loans to third parties (six schools); and
- making loans to staff (four schools).

4.32 Most schools disclose breaches of law in their financial statements, and if they do so then we do not normally include an "other matter" paragraph in the audit report. Therefore, this list of breaches is not a complete list of the breaches of law by schools – there were many more breaches of law by schools than we have shown here.

4.33 Also, we included "other matter" paragraphs for other breaches of law for 11 schools.

4.34 Appendix 4 contains more information about the "other matter" paragraphs that we included in audit reports.

Part 5
How early childhood education services are funded

5.1 The Ministry of Education (the Ministry) is responsible for licensing early childhood education services and setting the maximum number of places for children attending that service.

5.2 The funding the Ministry gives to each early childhood education service is directly based on the information that each service gives to the Ministry about the rates they are eligible to claim and children's hours of attendance.

5.3 The funding for early childhood education is significant. The introduction of the "20 Hours ECE" early childhood education policy in 2007/08 has led to an increase in overall funding for early childhood education from about $0.584 billion in 2006/07[20] to about $1.325 billion in 2010/11.[21]

Our review of the process used to fund the providers of early childhood education

5.4 We reviewed publicly available documentation that describes the process the Ministry uses to administer early childhood education funding. We also reviewed internal material that Ministry staff use to apply the Ministry's funding rules, and spoke with staff in the Ministry.

5.5 Our document review and discussions were supported by detailed analysis using data taken from the Ministry's primary funding system (EDUMIS). Our analysis assessed the degree to which funding payments met our expectations. Payments are based on information that the services supply about children's attendance and contact hours with registered teachers.

5.6 We assessed the processes the Ministry used to fund early childhood education services. Specifically, we reviewed whether the Ministry ensured that services were funded at the appropriate rates, and whether the Ministry's monitoring of information submitted by services about child attendance and teacher contact hours was adequate.

5.7 Based on our work, we are satisfied that the Ministry has, in almost all instances, funded services at the appropriate rates.

5.8 The Ministry's monitoring arrangements enable it to identify when services submit inaccurate information. The procedures, described in paragraph 5.20, are designed to be sensitive to factors that increase the risk of inaccurate information.

20 Ministry of Education (2007), *Annual Report 2006/07*, page 142.

21 Ministry of Education (2011), *Annual Report 2010/11*, page 120.

5.9 The Ministry is currently considering changes to its monitoring approach to take account of changes in the composition of the early childhood education market.

5.10 We encourage the Ministry to monitor changes in how services are structured, so that its monitoring arrangements can respond appropriately to changes in the risk a particular service presents.

Background

5.11 The overall government priority for early childhood education is to increase the opportunity "for children to participate in high-quality early childhood education". The specific impact sought by the Ministry is improved participation rates for Māori and Pasifika children, and children from lower socio-economic communities.[22] These children are less likely to participate in early childhood education than other groups. Participation also varies significantly between and within regions.

5.12 The Government is investing in intensive, community-led participation projects in high-priority areas, parent engagement programmes, supported playgroups, and support for early childhood education services to work more effectively with Māori and Pasifika families and families from lower socio-economic backgrounds.[23]

5.13 Appropriations targeted at early childhood education subsidise services for children under six years of age. Those education services are provided by licensed and chartered early childhood education service providers. Total appropriations for the 2010/11 financial year were about $1.264 billion (see Figure 14).

Figure 14
Analysis of total early childhood education appropriations for 2010/11

Components of appropriation	$million
Licensed early childhood education (for children under two)	243.97
Licensed early childhood education (for children two and over)	281.76
Licence-exempt early childhood education	3.52
20 hours early childhood education	696.73
Targeted funding pool	37.93
Total	**1,263.91**

Source: The Treasury (2010), "Performance Information for Appropriations, Vote Education", *Education and Science Sector – Information Supporting the Estimates 2010/11*, Vol. 2, page 108.

22 See the strategic direction section in the Ministry of Education's *Statement of Intent 2011/12-2016/17*.

23 See "ECE participation" on the Ministry of Education's website (in the Budget 2010 factsheets section).

5.14 About 11.4% of the spending in Vote Education in 2010/11 was allocated to early childhood education. The allocations for schooling and tertiary education were about 65.1% and 23.5% respectively.[24]

Early childhood education services

5.15 The providers of early childhood education services are primarily private organisations, with a mix of for-profit and not-for-profit services. During 2010/11, there were 5152 early childhood education services. Of these, 4321 were licensed and 831 were licence-exempt or certified playgroups.[25]

The process for funding early childhood education

5.16 The Ministry funds early childhood education services at rates approved by Cabinet. Early childhood services are required to submit student attendance returns three times each year, and they are funded based on these returns.

5.17 The Ministry carries out a range of quality assurance checks on the returns submitted by services, including checking the licence to make sure that the maximum number of children under that licence is not exceeded, before the funding is provided.

Rules and guidelines

5.18 The Ministry's website sets out its full funding rules and eligibility criteria for early childhood education services. We reviewed a sample of the material available on the Ministry's website. In our view, it is generally clearly written, with useful explanations of situations where funding will and will not apply. Each category contains a "frequently asked questions" section.

5.19 As well as the information provided on the Ministry's website, each early childhood education service receives periodic memoranda that describe any changes to the funding rates or eligibility criteria and provide additional guidance.

Monitoring

5.20 The Ministry has a dedicated monitoring team responsible for auditing early childhood education services' adherence to the funding conditions and any specific licensing requirements. All services are subject to audit based on:

- service-specific risk indicators;
- random selection;
- results of any previous audits;

24 Ministry of Education (2011), *Annual Report 2010/11*, Wellington.

25 Ministry of Education (2011), *Annual Report 2010/11*, Wellington, page 13.

- requests for an audit; and
- the time elapsed since the last audit.

5.21 According to the Ministry, most (about 60%) of the audits of early childhood education services are carried out based on risk indicators specific to a service. The Ministry produces these indicators using information obtained about individual early childhood services and their operations. The remaining 40% of audits are carried out based on the other criteria.

5.22 During 2010/11, the monitoring team carried out 583 audits. This represents about 14% of all early childhood education services.

5.23 For those 583 audits, 497 funding returns (85.2%) needed some adjustment that resulted in the Ministry recovering money from the early childhood education service. The results indicate that aspects of the funding rules, criteria, and regulations are not well understood.

5.24 Through these audits, the Ministry recovered $2.06 million for 2010/11. Figure 15 sets out the main types of errors that early childhood education services made.

Figure 15
Types of errors leading to recoveries of funding in 2010/11

Type of error leading to recovery of funding	Total recovery $000
Inaccurate claim for child hours	1,592
Incorrect funding rate claimed	383
Inappropriate claims for support grants	89
Total recovery	**2,064**

Source: Ministry of Education.

Causes of the funding errors

5.25 "20 Hours ECE" funding errors were mainly caused by errors in "attestation" by parents to the services. These errors relate to situations where the service was unable to provide evidence of an attestation from the parents that the child for whom funding was being claimed was not also claiming free hours at another service (or if they were, disclosing the split of the 20 hours between services). This situation accounted for 43% of the errors that resulted in an adjustment and subsequent recovery by the Ministry.

5.26 Incorrect use of the "absence" rules has also resulted in a large number of services having to repay funding. The absence rules are explained in detail within the Handbook and guidelines. This guidance includes examples on how to continue to claim funding where a child is absent from the service, and when this is not permitted.

5.27 We considered the frequency and number of errors identified by the Ministry's monitoring processes. On average, each audit identified $3,540 in recoveries, or about 1.2% of the average funding paid to services. In our view, the number and value of the errors identified through the monitoring process is not a cause for concern.

5.28 The Ministry plans to address the apparent gaps in understanding by updating the Funding Handbook. The Ministry has also provided all centres where a funding recovery was made with tailored advice on how the service can best meet the funding guidelines.

5.29 The Ministry regularly receives a range of intelligence. This information is used to ensure that the monitoring regime responds to emerging issues associated with the quality of information submitted from services in support of their funding claims. Recent allegations of inappropriate filing behaviours have included:

- allegations of fraud using roll and teacher contact hour returns;
- charging contact hours for employees not normally in contact with children;
- falsifying the registered teacher hours;
- individual managers claiming to be working at two separate services at the same times;
- pressure applied to staff to record all time as being contact time (which means the service reaches a threshold for higher funding); and
- claiming funding during the Christmas break when the service had been closed during that period.

5.30 The Ministry is considering adopting measures specifically designed to address these behaviours. It is considering obtaining more detailed information from services about the systems and processes providers commit to putting in place to prevent inflated claims and ensure that funding claims are accurate.

5.31 The Ministry's future audits will be used to ensure that assurances made by services can be relied on. The Ministry is also planning to audit providers with multiple services on a regional or national basis. We support the introduction of these measures to strengthen the Ministry's monitoring of funding claims made by services.

Funding rate error

5.32 In April 2009, the Ministry identified that early childhood education services had been over-funded since February 2008. The over-funding was the result of an error in the application of an early childhood teacher collective agreement settlement to the calculation of the rate at which services were funded for each claimable hour.

5.33 After the Ministry identified this, it disclosed the error and carried out a comprehensive internal investigation. The investigation reported to the Secretary for Education in June 2009. The report concluded that, overall, the error was originally the result of an inappropriate determination of funding rates that the Ministry's review procedures did not detect. Further, the report identified:

- The setting of rates is fairly complex. The process for setting rates was not documented in a way that facilitated the process being re-performed in a consistent manner. This documentation should have included reference to all files and documents used and readily available for review.
- The Central Forecasting and Monitoring Unit (CFMU) maintains a documented process for forecasting; there was no such rigour applied to costing of policy initiatives. Without documentation, the Ministry's process relied too heavily on an individual reviewing the work to identify errors.
- Lack of clear accountabilities. The report identified an absence of a clear understanding of the roles and responsibilities between the CFMU and the Early Childhood Policy group.

5.34 The report also highlighted contributing factors that included staff turnover, time pressures, multiple papers being prepared for Cabinet and the Minister, and that collective agreement settlements were not the primary focus of the CFMU review of the funding rates.

5.35 The Ministry did not seek to recover the additional funding provided to early childhood education services as a result of the error.

Subsequent changes

5.36 During the course of our 2010/11 annual audit, we specifically asked the Ministry about the progress it had made to address the factors that contributed to the error.

5.37 At a high level, the Ministry has:

- clarified responsibilities for the steps involved in setting funding rates for early childhood education, including the various quality assurance procedures and the sign-offs required within each group, with ultimate responsibility held by the Deputy Secretary - Early Childhood and Regional Education; and

- implemented a policy and procedures that include:
  - accountabilities for policy costing and early childhood funding rate setting; and
  - standard templates to be used throughout the Ministry where staff are costing policy initiatives and seeking approval for any consequential impact on funding rates.[26]

5.38 The Ministry's investigation identified a number of control failures that led to the funding error occurring. It concluded that implementing strong quality assurance processes over the rates-setting process was critical to reducing the risk of this type of error.

5.39 We have considered the controls implemented after the error was identified. In particular, we considered whether the steps taken to improve the understanding of people's roles and responsibilities, and the introduction of additional review processes, minimise the risk of similar errors recurring.

5.40 We are satisfied that the steps taken by the Ministry have addressed the cause of the previous error.

Detailed funding analysis

5.41 As part of our annual audit, we reviewed whether the Ministry's processes were effective in ensuring that early childhood education services were funded appropriately.

5.42 For teacher-led services,[27] the funding rate is based on the hours the service operates (part of the day or all day) and the percentage of hours that children spend with registered teachers. Generally, services are funded at higher rates when the percentage of registered teachers increases. The current target is for 80% of the teachers in early childhood education services to be registered, by 2012.

5.43 We assessed the Ministry's payments to services for the four categories that account for the most funding:

- early childhood education centres where 80 to 100% of the teachers are fully qualified and registered;
- early childhood education centres where 100% of the teachers are fully qualified and registered;

26 See the Ministry's *Policy Costing and Rate Setting Corporate Policy*, dated September 2010.

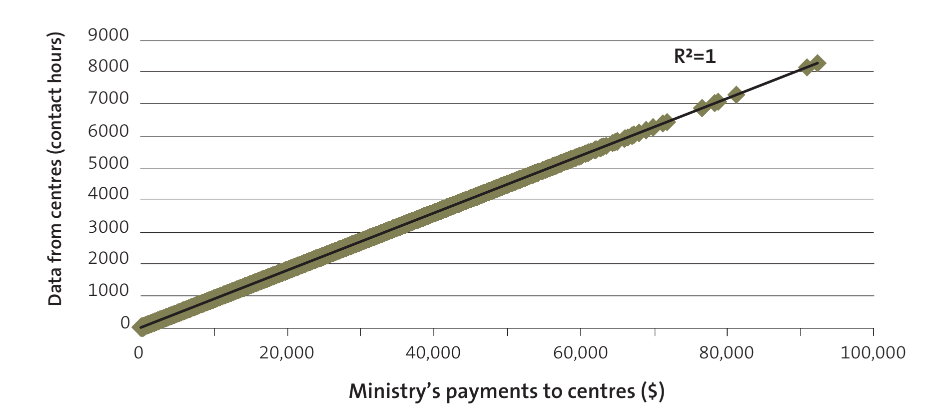
27 An early childhood education service is called "teacher-led" when at least half of the adults who educate and care for children are qualified and registered early childhood education teachers. Teacher-led services include early childhood education centres, kindergartens, and care services. In home-based services, all the co-ordinators must be qualified and registered. Parent-led services are where parents and family or caregivers educate and care for their children.

- early childhood education centres where 80 to 99% of the teachers are fully qualified and registered; and
- early childhood education centres where 50 to 79% of the teachers are fully qualified and registered.

5.44 There are overlaps in the percentages covered because, from 1 February 2011, the "100%" category and the "80 to 99%" categories were replaced by the "80%" category. This is to bring the funding categories in line with the target to have 80% (rather than 100%) of the teachers in early childhood education centres registered.

5.45 The results of our analysis indicate that the Ministry is funding services at the appropriate rates. The following regression analysis charts compare the payments the Ministry made to early childhood education centres against the data the centres submitted about children's attendance and time with qualified and registered teachers. The closer the results are to a perfect line, the more accurately the funding paid matched the amount expected to be paid.[28]

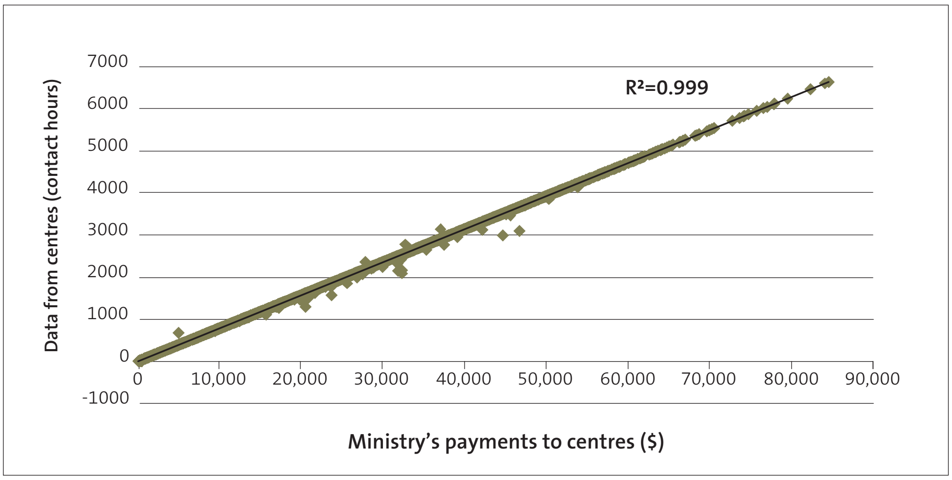
Figure 16
Accuracy of "20 Hours ECE" payments to teacher-led centres where 80-100% of the teachers are fully qualified and registered



5.46 Between 1 July 2010 and 31 May 2011, the Ministry paid out $231.1 million in the category of early childhood education funding shown in Figure 16.

28 These results rely on the accuracy of information that centres submit to the Ministry. As noted, the Ministry has monitoring processes to help ensure that data from centres is accurate. A result of R2 =1 shows a perfect relationship between actual funding paid to the early childhood education centre and funding claimed by that centre.

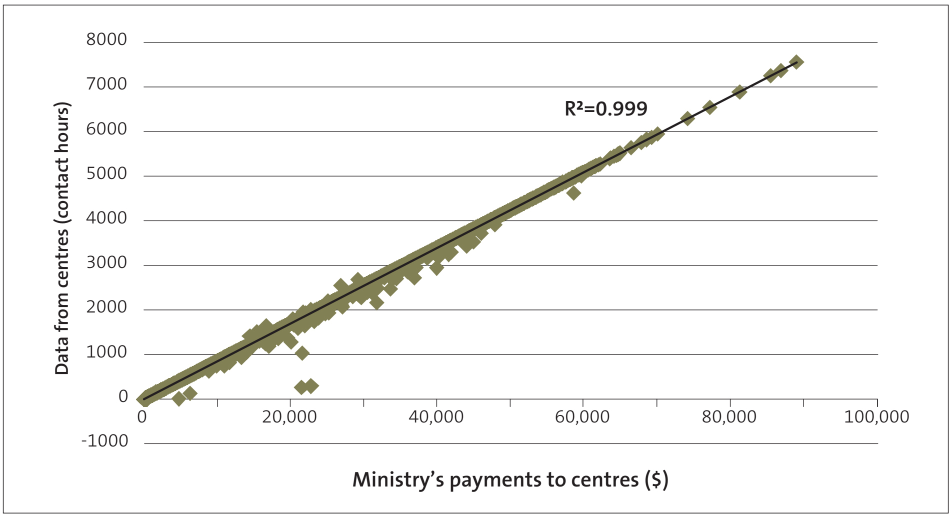
Figure 17
Accuracy of "20 Hours ECE" payments to teacher-led centres where 100% of the teachers are fully qualified and registered



5.47 Between 1 July 2010 and 31 May 2011, the Ministry paid out $130.2m in the category of early childhood education funding shown in Figure 17.

5.48 The Ministry needed to adjust the funding of a small number of centres, and these adjustments were processed during the period that we examined. The adjustments are shown as the "outliers" in Figure 17. The total value of the adjustments was $0.06 million.

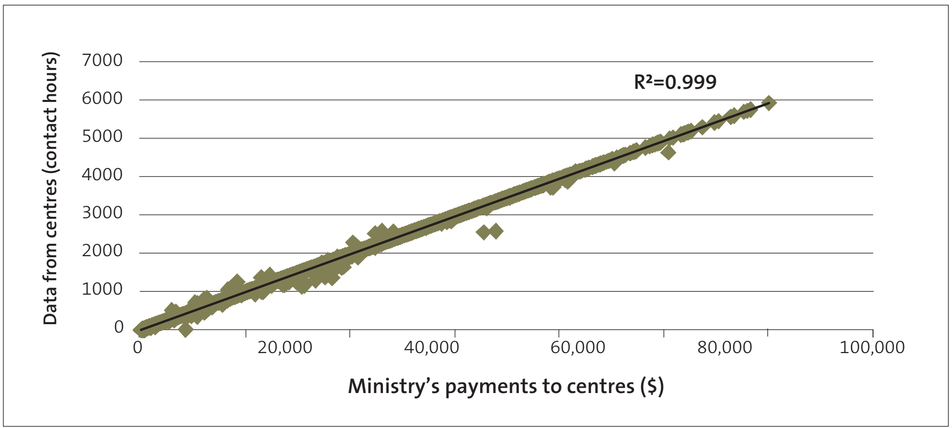
Figure 18
Accuracy of "20 Hours ECE" payments to teacher-led centres where 80-99% of the teachers are fully qualified and registered



5.49 Between 1 July 2010 and 31 May 2011, the Ministry paid out $189.1 million in the category of early childhood education funding shown in Figure 18.

5.50 Again, there were a small number of early childhood education centres that had their funding adjusted during the period that we examined. The total value of the adjustments was $0.24 million.

Figure 19
Accuracy of "20 Hours ECE" payments to teacher-led centres where 50-79% of the teachers are fully qualified and registered



5.51 Between 1 July 2010 and 31 May 2011, the Ministry paid out $105.3 million in the category of early childhood education funding shown in Figure 19. Again, the Ministry adjusted some funding payments during the period, and they are the "outliers" in Figure 19. The total value of the adjustments was $0.08 million.

5.52 The results of our analysis for all other categories of early childhood education funding also show strong relationships between the amount of funding paid to early childhood education services and the attendance data submitted by the services.

Part 6
The financial management of Māori immersion schools

6.1 In this Part, we provide the findings of our review of financial management in kura kaupapa Māori (Māori immersion schools), where most or all of the teaching is conducted in te reo Māori.

6.2 Some people refer to kura kaupapa Māori teaching years 1 to 8 as “kura” and to those schools teaching above year 8 as “wharekura”. We use kura to refer to both types of Māori immersion school.

6.3 Overall, most kura had good policies and processes in place to manage their finances, comply with the law, and appropriately manage sensitive expenditure and conflicts of interest. However, the policies and practices in a significant minority of kura did not reflect the good practice set out in the guidance that the Ministry of Education (the Ministry) has provided to schools.

Financial management

6.4 Most kura (90%) had adequate budgetary control systems, but 41% recorded a deficit for the year. Half of the kura recorded a result that differed from their budget by more than $25,000. In some kura, variances were much greater. For example, one kura had budgeted for a $34,000 deficit but recorded an actual deficit of $158,000.

6.5 The financial understanding, policies, and controls of many kura were less than appropriate. Our appointed auditors considered that 17% of kura boards of trustees (boards) and 16% of kura principals did not adequately understand financial management, 16% of kura did not have sound financial policies, and 29% of kura had significant deficiencies in their financial controls.

Complying with the law

6.6 One-third of kura did not comply with all the legal requirements expected of them. The most common problem (noted in 18% of kura) was giving financial advances to school staff. An advance to staff is considered to be a security, and section 73 of the Education Act 1989 (the Act) prevents schools from acquiring securities unless they have ministerial approval. Advances to staff are undesirable. If loans are not repaid, they could lead to losses for the school and can add unnecessary complications to the relationship with the employee.

Sensitive expenditure policies

6.7 We noted that 15% of kura did not have a sensitive expenditure policy. A further 13% of kura lacked policies to adequately address gifts, travel, credit cards, and entertainment.

Managing conflicts of interest

6.8 Given the relatively few students and isolation of many kura, there is more potential for conflicts of interest arising at these schools than at other schools.

6.9 Many kura (72%) had employees who were close relatives of trustees. We consider that most conflicts of interest were dealt with appropriately. We have identified and highlighted conflicts of interest and the ways that boards have handled them.

Guidance from the Ministry of Education

6.10 We consider that the *Financial Information for Schools Handbook* (the Handbook) and the "Kiwi Park" examples available from the Ministry's website provide detailed guidance and examples to schools and encourage good practice in financial governance, management, and reporting.

6.11 Professional guidance and support is available for boards that need help or that the Ministry considers to be at risk.

6.12 In our view, the information provided by the Ministry should be enough for kura to be aware of, and meet, their responsibilities to comply with the law and manage finances, sensitive spending, and conflicts of interests. The Ministry told us that it has been revising the model financial management policies it makes available to schools. The revised guidance, which the Ministry plans to publish in December 2011, will include more detailed guidance about sensitive expenditure and delegations.

6.13 The Ministry is also reviewing the Handbook to more clearly and explicitly link the information about financial advances to staff to the raising securities provisions in the legislation.

6.14 We recommend that the Ministry monitor the effectiveness of, and compliance with, its guidance in kura and other small schools, and, if necessary, produce more targeted guidance.

Background

6.15 Kura kaupapa Māori are state schools established under section 155 of the Act.[29] Schools designated as kura kaupapa Māori adhere to a particular philosophy known as Te Aho Matua, which sets out an approach to teaching and learning. Māori values, beliefs, and customs underpin Te Aho Matua.

6.16 The first kura opened in 1985. It operated as a private school until 1989, when the Act was amended to permit the establishment of kura kaupapa Māori state schools. At 1 July 2009, there were 72 kura.

29 Our review did not include the character schools designated under section 156 that use the words kura or kaupapa in their name, nor the character schools designated under section 156 that are referred to as a kura ā-iwi.

6.17 Kura tend to be small, with an average roll of 80 students. The number of students ranges from nine to 388 (see Figure 20).

Figure 20
Number of students enrolled at kura

Number of students enrolled	Number of kura
Fewer than 50	22
50-100	27
More than 100	21

Accountability and funding arrangements

6.18 The Act prescribes the process for establishing kura. Like other state schools, kura are governed by boards of trustees (boards) and managed by principals. Each kura also has specific governance mechanisms and a constitution that are meant to ensure that the community is fully involved in its governance and operation.

6.19 Kura are subject to the same accountability requirements that govern all other state schools. For example, they are required to prepare a school charter and to prepare and have audited annual financial statements. The Auditor-General appoints the auditors of all kura.

6.20 Kura are funded in the same way as all other state schools. In line with government policies, funding is based on roll numbers and the school's decile rating. Kura receive extra money to fund the higher costs of teaching in te reo Māori.

Why we did this review

6.21 In 2002, the ERO reviewed the performance of kura.[30] The review concluded that many kura need to improve aspects of their practices, including their teaching practices. Serious deficiencies in effective systems for financial and asset management were noted in one-third of kura.

6.22 After the 2002 ERO report, we identified some common issues in our audits of the annual financial statements of kura. We described the settings in which kura operated and identified these common themes in our 2009 report, *Central government: Results of the 2008/09 audits*.

30 Education Review Office (June 2002), *The performance of Kura Kaupapa Māori*, Wellington.

6.23 These common themes identified in our 2009 report included the need for:

- more financial governance and management expertise;
- preparing timely annual financial statements for audit;
- keeping adequate accounting records;
- adequately disclosing related party transactions in financial statements;
- effectively identifying and managing conflicts of interest;
- developing and implementing sound governance and operating policies that ensure the probity of decision-making and public expenditure; and
- approving any additional remuneration for principals and teaching staff.

6.24 In our 2009 report, we noted that we were completing our 2009 annual audit of all schools, including kura, and we would be considering what further work we might carry out to address these common themes.

How we carried out this review

6.25 We asked our appointed auditors to complete a questionnaire addressing the kura's performance during the financial year.

6.26 From the responses to these questionnaires, we identified four aspects where performance could be improved. These were:

- financial management;
- complying with the law;
- sensitive expenditure policies; and
- managing conflicts of interest.

6.27 We then examined the financial statements for 2010 of kura and reviewed the audit reports completed for each kura. At the time of writing, we had received financial statements and audit reports for 70 kura. Because of the Canterbury earthquakes, the audits of the two kura in Canterbury had not been completed and could not be assessed. Another kura had to be assessed on its 2009 audit because its 2010 audit had not been completed.

What we expect of kura

6.28 The Ministry has provided schools with detailed guidance and examples in the Handbook that set out good practice in financial governance, financial management, and financial reporting. This guidance includes reference to examples of financial policies that include: a credit card policy, entertainment policy, gift policy, and a travel policy.

6.29 The Ministry has also provided conflict of interest advice for schools and school employees on its website.[31] This guidance includes reference to our guidance on conflicts of interest.[32]

6.30 In carrying out our review of kura, we assessed how well each kura was complying with good practice. We were not looking for specific systems and policies within the kura, recognising that the systems and policies would be tailored to address the types and complexity of transactions that each kura carries out and the staff resources available.

6.31 Resourcing restraints can make it difficult for small schools to achieve good practice, but it is possible. Our review established that some kura were doing this well.

Financial management

Roles and responsibilities at kura

6.32 School boards are responsible for the financial governance of the school. This governance role includes establishing and maintaining financial policies, setting the strategic direction for the school, and allocating resources to achieve the school's goals. Every board must establish and maintain appropriate financial policies and understand significant financial information about their school.

6.33 Overall, boards and principals in most kura adequately understand financial management matters.

6.34 Twelve of the 64 boards (six kura had commissioners appointed) did not adequately understand financial management matters. We expect all boards to have at least one member who adequately understands financial management matters.

6.35 Boards usually delegate the day-to-day financial management of schools to principals.

6.36 Principals are responsible for monitoring and controlling spending to ensure that money is spent carefully on the school's priorities as planned and budgeted. Principals are to report regularly to the board and prepare audited financial reports.

6.37 In our view, 11 of the 70 principals did not adequately understand financial management matters. In nine kura, neither the board nor the principal adequately understood financial management matters. We looked at the financial results that these kura recorded.

31 See www.minedu.govt.nz.

32 Controller and Auditor-General (2007), *Managing conflicts of interest: Guidance for public entities*, Wellington.

6.38 In five of the nine kura, the kura had recorded an operating deficit for the year. Having a budget deficit might be appropriate in some circumstances, but in two of the five kura the deficit was much higher than the board had planned. In one of the kura, the board had planned for a $37,000 surplus and recorded a $39,000 loss. A similar loss had been recorded the previous year and the working capital[33] and equity in the kura are at a level where another loss of this magnitude could place the kura in financial difficulty. The other three of the five kura were in a much healthier financial situation. Although the deficits were higher than budgeted, the kura had a healthy working capital surplus and equity.

6.39 In another of the nine kura, the kura had incurred an operating deficit of more than $85,000 and this resulted in a working capital deficit. The three remaining kura had operating surpluses of $35,000, $62,000, and $73,000, respectively.

6.40 Principals can delegate financial management tasks to school employees and can also pay for external accounting services. However, principals retain full responsibility for the financial records and reporting.

6.41 Only four kura had not used a financial service provider. In these four kura, we considered that the board and the principal adequately understood financial management matters. We noted that two out of the four schools had recorded deficits for the year. However, only one of these two might face financial difficulty. This school incurred a $87,582 deficit for the year and its working capital was only $67,246. Another deficit this large would place the school in financial difficulty.

Quality of budgeting

6.42 A budget is an estimate of costs, revenue, and resources for a specified period, reflecting managers' reading of future financial conditions. This important management tool serves as:

- a plan of action for achieving quantified objectives;
- a standard for measuring performance; and
- a device for coping with foreseeable adverse situations.

6.43 Seven of the 70 kura did not have reasonable budgetary control. Four of these kura had fewer than 50 students. Two had 50-100 students and one had more than 100. In six of these seven kura, the board and/or principal lacked a reasonable understanding of the school's finances. Five of the seven had recorded deficits for the year and two had significant surpluses (of more than $100,000).

6.44 In our view, schools should make a small operating surplus each year, so that funds can be put aside for larger items such as replacing assets, and to pay for

33 Working capital is a measure of an entity's short-term financial health. A negative working capital means that an entity is unable to meet its short-term liabilities with its current assets (cash, accounts receivable, and inventory).

unexpected expenses. A good example is one kura that maintained a healthy financial position despite reporting a deficit. For years, this school had recorded surpluses in case this deficit situation occurred.

6.45 An operating deficit for one year might be planned for a specific purpose, such as to address a particular educational need within the school. This is a useful way of using surpluses that have been accumulated in previous years and means that the school will have cash reserves set aside for the planned purpose.

6.46 Ongoing operating deficits can indicate financial difficulty. They will progressively deplete any reserves that the school might have and put the school at risk of not being able to pay its bills. This means that the school needs to reduce its expenses or increase its income (or both) to make ends meet.

6.47 When we analysed the financial results for 2010, we noted that 29 of the 70 kura had recorded deficits. Fourteen of the 29 kura recorded deficits of less than \$20,000, four were in the \$50,000 to \$100,000 range, and two kura recorded deficits of more than \$100,000. One of these schools budgeted for a deficit of \$34,000 but the actual deficit was \$158,000. In three of the last four years, the school posted a deficit of more than \$155,000.

6.48 Forty-one kura recorded surpluses. The largest surplus was nearly \$700,000. Three more kura recorded surpluses of more than \$200,000 and nine further kura recorded surpluses of more than \$100,000. In one of these schools, the surplus was because local fundraising brought in \$100,000 more than what had been budgeted. The kura that had the surplus of nearly \$700,000 did so with more than \$600,000 of fundraising.

6.49 Of the 70 kura, 38 recorded a result that differed from the budget by more than \$25,000.

Financial records and internal control

6.50 Internal control refers to the set of policies, procedures, and systems that an organisation uses to safeguard its resources. These can range from requiring two signatures on a cheque to having a computerised purchasing and accounting system that separates ordering, approving, receipting, and paying for purchases.

6.51 Every principal has a responsibility to maintain sound financial systems, understand significant financial information about their school, and provide appropriate reporting.

6.52 In our view, 11 of the 70 kura did not have sound financial policies. In six of these schools the board and/or principal lacked an understanding of financial management matters. One of the six recorded large deficits for the year and were in a negative working capital situation (that is, they did not have enough liquid assets on hand to meet their current liabilities).

6.53 The auditors we appoint prepare management letters after each year's audit to help kura improve and strengthen their systems of internal control. We note that 25 of the 70 kura did not resolve significant problems noted in the previous year's management letters.

6.54 More than three-quarters of kura have fewer than 100 pupils. Staff are often required to carry out several roles. This can make it easier for dishonest behaviour to occur without detection. The appointed auditors noted in their management letters that 20 of the 70 kura (29%) had significant deficiencies in financial control. This is a concern.

6.55 Kura can improve how they segregate duties. In one management letter, the auditor noted that the person responsible for opening mail receipted the money that came in and did the banking. The auditor recommended that these duties be separated. In another management letter, the auditor recommended that the school introduce better separation of duties between receipting and recording of local funds.

6.56 The auditors were unable to locate invoices to support some of the payments made. A lack of supporting documents was a theme in some kura, even though management letters had highlighted a problem with approving the payment of invoices. In some kura, the evidence of approval for payments was not available. Our auditors found that not all cash that the schools received was banked, and the money used for small purchases was not always recorded nor approved.

Annual financial reports

6.57 In 68 of the 70 kura, the standard of financial reporting was reasonable (that is, the financial statements were of the standard that the auditors had expected).

Complying with the law

6.58 Of the 70 kura, 24 had breached the law during 2010. The most common breach of law was for giving advances to staff, which breaches section 73 of the Act. There have also been breaches of sections 87(2)(e), 89, 103(3), and 103A , which we discuss below.

Loans to staff

6.59 Section 73 of the Act places restrictions on the acquisition of securities by schools. School boards can only acquire a debt security nominated in New Zealand dollars that is issued by a registered bank, or by any other entity, a public security, or where approval is given jointly by the Minister of Education and the Minister of Finance.

6.60 Our view, and that of the Ministry of Education, is that an advance of wages to a staff member is a loan. This is an investment which, under the Act, needs the approval of both the Minister of Education and the Minister of Finance.

6.61 Fourteen kura breached section 73, and of these 13 were breaches by providing advances to employees. This high proportion indicates a lack of understanding of the legislation. None of the advances had the required approval of the Ministers.

6.62 We consider such loans undesirable because they could lead to losses for the kura if the amounts are not repaid. The loans also add unnecessary complications to the employer/employee relationship.

6.63 In one kura, some of money still owed to the kura was paid to the staff member before 1 January 2007. One kura has $6,000 outstanding from advances to staff in 2009. Another kura was forced to write off almost $7,000 that had not been repaid.

6.64 The Ministry's website provides information about section 73 to help school boards, and the Handbook discusses loans to staff in section 3.3.16. This section makes it clear that unapproved loans to staff are illegal.

6.65 Securities are covered by section 3.3.19 of the Handbook, which explains what a security is and what the approved securities are. The explanation of security in the Handbook includes a loan, but does not specifically identify advancing wages to staff as a security and does not refer to section 73.

6.66 Given the number of breaches of section 73, we consider that the Ministry needs to clarify the guidance it provides about advances to staff and securities. The Ministry told us that it will review the Handbook to clarify the link between financial advances to staff and the wording in the legislation about raising securities.

Local payments to staff

6.67 Two kura boards have failed to comply with section 89(2) of the Act because they paid teachers directly. Section 89(2) of the Act states that "unless authorised by the Secretary not to do so, every board shall use the payroll service for the calculation and payment of the salaries and wages of all employees of the board who are in the education service".

6.68 It also says that:

> *The Secretary shall ensure that there are established and maintained, within or on behalf of the Ministry, staff and facilities for, and sufficient for, servicing the payrolls of boards.*

6.69 It is important that correct procedures are followed so that all kura spending can be properly accounted for. The Ministry pays teachers, and kura are not supposed to pay teachers directly.

Rules for board members

6.70 One kura was in breach of section 103(3) of the Act. In 2009 and 2010, a teacher who was also a parent of a pupil at the same school served on the board, along with the principal and the staff representative. Section 103(3) prevents a permanently appointed member of staff being elected to the board or being appointed or co-opted on to the board if they are not the staff representative. This rule is in place to prevent potential staff over-representation on the board.

6.71 If a person has an interest in contracts with the board that total more than $25,000 in a financial year, section 103A of the Act requires the Secretary for Education to approve the contracts. Without an approval, the board member will be disqualified.

6.72 At one kura, a board member was the owner/operator of a bus company that had service contracts with the school. These contracts were for more than $25,000 a year but Ministry approval was not obtained. The board has taken steps to rectify the breach, and the kura disclosed the breach in its 2010 annual report.

Sensitive expenditure policies

6.73 Fifteen of the 70 kura (21%) needed to improve their probity or sensitive expenditure practices. The main concerns were:

- cash cheques that were not supported by an invoice or a receipt from the recipient of the money;
- no policy about significant payments towards school trips (this included overseas travel); and
- payments for principals' and parents' spending on privately owned assets.

6.74 Nine of the 70 schools lacked a sensitive expenditure policy. One management letter to the board of a kura stated:

> *We noted the school does not have documented policies and procedures for dealing with expenditure of a sensitive nature. These include expenses relating to travel, credit cards, entertainment and gifts. It is essential to have a policy*

> *relating to sensitive expenditure to ensure school funds are used for appropriate purposes.*

6.75 A further eight kura (11%) lacked policies for gifts, travel, credit cards, and entertainment. In one management letter to a kura, the auditor noted that:

> *Having such a policy would provide clear guidance on the classification and treatment of transactions relating to these categories.*

6.76 The Ministry's website and Handbook each have a section on probity, which addresses the importance of boards being accountable for all expenditure. The section states that boards "should not spend money on transactions or activities that are extravagant or wasteful, but only approve spending that is appropriate and necessary for the effective operation of the school". The website gives examples of inappropriate spending and the factors that the board needs to consider before approving spending.

6.77 The Handbook and website have examples of sensitive expenditure, entertainment, travel, and credit card policies. The Ministry told us that it is revising the model financial policies that it makes available to schools. The revised model policies will provide more detailed guidance about sensitive expenditure and financial delegations.

6.78 The policy examples provided on the website are based on a fictional school called Kiwi Park. These examples are clear and easy to understand and can be easily adjusted and applied to other schools. The example policy for sensitive expenditure sets out the reasons for the policy and when it applies. The policy outlines the principles and questions that need to be taken into account before authorising spending.

6.79 The example policy for credit card expenditure sets out the reasons for the policy, the process for issuing credit cards, procedures to be followed when using the cards, discretionary benefits, and cardholder responsibility. These explanations are clear and should be easy for any school to follow.

6.80 One kura paid for some of the travel costs and accommodation costs for its principal and the principal's daughter to help with their attendance at the World Waka Ama championships in New Caledonia. The auditor reported to the school that "we are concerned how this type of assistance would be seen by members of the general public and whether it would be considered appropriate use of public funds". A sensitive expenditure policy might have helped this kura better decide on the appropriateness of this spending.

6.81 The auditor of another kura found that cash was often provided to teachers and parents responsible for school trips. No documented evidence was produced to justify this and the money was distributed to teachers and parents inconsistently.

Managing conflicts of interest

6.82 Every member or official of a public entity has professional and personal interests and roles. Conflicts of interest sometimes cannot be avoided, and can arise without anyone being at fault. Conflicts need not cause problems when they are promptly disclosed and well managed. Given the close community nature of kura, conflicts of interest are likely to occur regularly.

6.83 Our 2007 good practice guide, *Managing conflicts of interest: Guidance for public entities*, stated that there is a conflict of interest where:

> … *a member's or official's duties and responsibilities to a public entity could be affected by some other interest or duty that the member or official may have.*

6.84 Another way to consider whether there is a conflict of interest is to ask: Does the trustee's other interest create an incentive for them to act in a way that might not be in the best interests of the kura?

6.85 It is not enough to consider the possibility of financial loss or other direct disadvantage to the kura. Sometimes, there is a risk that a trustee could:

- use publicly funded resources or time to advance their own interests; or
- be influenced in their decision-making by a sense of loyalty or obligation to someone else, or by an unduly fixed view.

6.86 The Ministry has summarised the main points of our 2007 good practice guide and provides guidance for all state and state-integrated schools. This guidance, available on the Ministry's website and in its Handbook, clearly sets out the nature of conflicts of interests, and information on dealing with conflicts of interest and policies and procedures that can be applied. This applies to trustees and staff.

6.87 The Handbook describes a situation where a trustee has an interest that conflicts (or might conflict, or might be perceived to conflict) with the interests of the board. The interest can relate to money or any other potential benefit. The Handbook states that the question to ask when considering whether an interest might create a conflict is:

> *Does the interest have the potential to create an incentive for the trustee to act in a way which might not be in the best interests of the school?*

6.88 The Handbook identifies situations where trustees will need to assess the risk of a conflict of interest. These situations include:

- involvement in meetings where decisions are made about close relatives;
- principals or staff representatives attending meetings where any matter relating to their own employment is discussed;
- the student representative attending meetings where any matter relating to that student is discussed;
- where a trustee has a child at school, where any matter specifically involving that child is considered at the meeting; and
- where an appointed trustee faces a problem and the interests of the school diverge from the outside interests of the body that appointed the trustee.

6.89 If any of these situations exist, then there is a conflict of interest. A conflict of interest does not necessarily mean that a trustee has done anything wrong, or that the interests of the kura have suffered. The existence of the incentive is enough to create a conflict of interest. Whether or not the individual concerned would act on the incentive or allow it to influence their decision-making is irrelevant.

6.90 The Handbook identifies situations where a conflict can arise. It could be professional or family related, financial or non-financial, and direct or indirect.

Relationships

6.91 Given the special character of kura, we were not surprised to find that, of the 64 kura that had boards, 46 (72%) had employees who were close relatives of trustees. Related parties are required to be disclosed in annual accounts.

6.92 The Handbook identifies family relationships and existing professional and personal relationships as situations where a conflict of interest could occur.

6.93 Our 2007 good practice guide dealt with situations where relatives and close friends need to be considered. In general, we considered that, at least, the interests of any relative who lives with the member or official (or where one is otherwise dependent on the other) must be treated as being effectively an interest of the trustee.

6.94 In Māori culture, there is a broad concept of who is regarded as a family member or relative. Whether a person is considered a family member or relative depends on the closeness of the relationship and the degree to which the kura's decision or activity could directly affect the family member or relative. A relationship could become close because of the directness of the blood or marriage link, or because of the amount of association.

6.95 Our 2007 good practice guide noted that there are no clear rules, because these questions involve matters of degree, but it will usually be wise to not participate in decision-making if relatives are seriously affected. In our view, a conflict of interest issue will not often arise where the connection is simply that a person belongs to a trustee's or employee's iwi or hapū. However, care must be taken.

6.96 In one kura, the principal and the office administrator were in a relationship and were authorising each other's reimbursements. This is a conflict of interest because the situation could create an incentive for the principal and the office administrator to act in ways that might not be in the best interests of the kura.

6.97 Some kura were handling conflicts of interest appropriately. For example, in one kura the principal's husband tendered for the contract to paint the school's fence. The school received three tenders. To ensure that the process was fair, and seen to be fair, the principal abstained from the vote and did not take part in discussions about the contract. The chosen tender was the lowest of the three.

6.98 In another positive example, the brother of a trustee at a kura worked for a firm that had tendered for a contract at the school. It was felt that the company he worked for covered all the board's requirements. The board minutes state that the board member concerned was not consulted because there would have been a conflict of interest.

Other interests

6.99 The Handbook identifies directorships or other employment, interests in business enterprises or professional practices, and share ownership as situations where a conflict of interest could arise.

6.100 In one kura, a conflict of interest occurred where the principal owned half of a business that provided services to the school. The principal left meetings when the business was discussed and returned when those discussions ended, and did not take part in decisions about the business the principal owned.

6.101 The Handbook identifies decisions that could benefit the decision-maker as a conflict of interest. At one kura, a board member worked as the school bus driver. We expect that, in situations where the school bus was discussed, he would excuse himself from the discussion.

6.102 The Handbook states that there is a conflict of interest where board members or principals have a beneficial interest in a trust and professional associations or relationships with organisations such as appointing bodies. We did not identify any situations where this occurred in kura.

Policies and procedures

6.103 All kura should have policies and procedures to help them and their trustees to identify and deal with conflicts of interest.

6.104 Policies and procedures can provide clear rules for simple and predictable situations, and establish a process for dealing with more difficult ones.

6.105 Policies and procedures could:

- establish rules for the most important and obvious actions that people must or must not take;
- establish a mechanism for recording types of ongoing interests that commonly give rise to a conflict of interest, and a procedure for putting this mechanism into effect and regularly updating it;
- set out a process for identifying and disclosing instances of conflicts of interest as and when they arise (including a clear explanation of how a member or official should disclose a conflict of interest); and
- set out a process for managing conflicts of interest that arise (including who makes decisions, and perhaps detailing the principles, criteria, or options that will be considered).

6.106 Policies and procedures cannot be expected to anticipate every situation. Policies and procedures need to retain some flexibility for the exercise of judgement in individual cases. A policy should not state or suggest that the specific situations it covers are an exhaustive list.

6.107 We identified that about 20% of the audited kura did not have a reliable system for identifying conflicts of interest. We asked for further information about what the schools did to identify a conflict of interest and how they managed the conflicts of interest that arose.

6.108 Some kura managed these situations well. In one kura, some school employees were close relatives of the principal. The school had a separate personnel subcommittee that made recruitment decisions. Affected personnel on this committee would be asked to “stand down” when decisions were made about employing any of their relatives.

Part 7

Our recent and ongoing work in the education sector

7.1 In this Part, we discuss our recent reports and ongoing work in the education sector.

Recent reports

Variance of analysis report

7.2 As part of its annual report, a school board of trustees (board) is required to measure and report on how well the school has achieved its aims and targets for student achievement set out in the school's charter. It also has to report on how these results will be used in the following year. How well the school performs against its aims and targets, and the actions taken as a result, is reported in the analysis of variance (referred to as "variance reporting") in the school's annual report.

7.3 In 2010, we assessed how well a sample of primary school boards reported on student achievement in the variance reporting in their 2009 annual reports. We found wide disparity in the ease with which the boards communicated what they were doing in their variance reporting. Although some reports were very clear, others were hard to understand. In our view, the boards needed to think more carefully about their target audiences and tailor the information in the reports accordingly.

7.4 To help boards improve their variance reporting, in February 2011 we provided guidance to all schools on:

- setting meaningful targets;
- clearly describing what was achieved, and why; and
- how best to use plans for the coming year.

Payments over and above a school principal's normal salary

7.5 In December 2010, we reported the results of our review of the additional remuneration paid to secondary school principals.[34] In 82 (20%) of the 411 schools reviewed, auditors found that either additional remuneration had been paid without the approval of the Ministry of Education (the Ministry) or it was not clear whether some payments were remuneration that would need the Ministry's approval.

7.6 In most instances, the additional payments were not large. However, the underlying principles are still important. First, payments that are remuneration are lawful only if they are approved by the Ministry. Secondly, there is always heightened sensitivity around payments that have the potential to create

34 *Central government: Results of the 2009/10 audits (Volume 1)*, Part 8.

private benefits, even if they are genuine business expenses. Thirdly, in some circumstances reimbursing a private expense can be unlawful and lead to prosecution by the Police.

7.7 After our report, the Ministry issued comprehensive guidance to schools to clarify when its approval is required.

7.8 For the most common forms of possible unlawful remuneration (for example, home telephone, Internet, or insurance bills, or the use of a car) we expected the Ministry, in keeping with its established practice, to seek clarification from the relevant boards. The Ministry has not yet told us whether it has sought this clarification.

7.9 The Ministry also said that it would consider requiring boards of integrated schools to disclose financial transactions with proprietors in their financial statements. This would help maintain the transparency of any remuneration received from proprietors by principals. The Ministry is still considering this.

7.10 We understand that the Ministry is also still considering the other issues we raised about payments by proprietors; that is, the possibility of some of the payments being unlawful, equality of remuneration for all state schools, and the proper management of conflicts of interest.

7.11 The Ministry agreed to publish a circular on the need for boards to consider recovering unlawful payments. This should ensure that boards are aware of the general expectation that they consider recovering the money when unlawful payments are made. This circular has not yet been published.

Ongoing work

New Zealand Qualifications Authority

7.12 In July 2011, we began a performance audit on how well the New Zealand Qualifications Authority (NZQA) ensures that National Certificate of Educational Achievement (NCEA) internal assessment for secondary students is accurate and consistent.

7.13 By carrying out this audit, we aim to:

- provide assurance about the accuracy and consistency of the internal assessment by schools of one of the most important national qualifications for senior secondary school students;
- provide assurance that NZQA accurately monitors the accuracy and consistency of internal assessment for NCEA assessment;

- promote improvements in the accuracy and consistency of internal assessment by schools through recommendations from our work; and
- add valuable insight into how national qualifications are managed and monitored.

7.14 We intend to publish the results of this performance audit in March 2012.

School governance

7.15 To build on the work that we have carried out on variance reporting, we will audit how well a sample of school boards carries out strategic planning and self-review. In particular, our audit will focus on:

- how well the board uses information to underpin its strategic planning and self-review;
- how coherently the board works to focus the school's efforts on student achievement, including how it aligns resources, policies, and practices; and
- how well the board uses and responds to assessment data.

7.16 The report of our performance audit will include examples of good governance practice identified during our audit. The report will help boards to focus and improve their strategic planning and self-review function. We intend to publish this report by June 2012.

Focus on Māori education

7.17 We are setting up a framework of audits to consider aspects of Māori education during the next five years. The first audit will lay the foundation for future audits focused on Māori education. The audits will include activities and programmes under the Māori education strategy (*Ka Hikitia – Managing for Success*), and research, systems, and controls supporting these activities and programmes.

7.18 These audits will also look at the alignment of activities and programmes with broader Māori perspectives and objectives for the education sector and, potentially, with other relevant sectors. We intend to publish the results of the first audit in June 2012.

Teacher quality

7.19 Having teachers who are well equipped with the necessary skills to teach in our schools is a significant objective of the education system, given the role of the system in preparing our youth for the future.

7.20 In our 2010/11 work programme, we proposed to provide assurance over activities that are designed to improve the quality of teaching in the classroom. We have examined the system for assuring the quality of teaching, including the roles of the various public entities involved. We intend to report our observations and findings from this work in early 2012.

Special education

7.21 Our annual progress report, *Public entities' progress in implementing the Auditor-General's recommendations* (2012), will include a second report on the Ministry's progress with the recommendations that we made in our 2009 performance audit report *Ministry of Education: Managing support for students with high special educational needs*. We intend to publish the next annual progress report in April 2012.

Appendix 1
Education providers

New Zealand's education system has three levels – early childhood education, schooling, and tertiary education.

Under the Education Act 1989, administrative authority for most education service provision is devolved from central government to educational institutions, which are governed by individual boards of trustees (boards) at schools or councils at tertiary education institutions (TEIs). Board and council members are elected or appointed.

Schools and TEIs work within the framework of guidelines, requirements, and funding arrangements set by central government and administered by its agencies. Although educational institutions are diverse, the Ministry relies on national policies and quality assurance to provide continuity and consistency throughout the system.

Early childhood education providers

Early childhood education is for children under six. There is a high degree of participation in early childhood education (nationally, 85-95% of new entrants have had some early childhood education when they start school).[35]

An early childhood education service is defined by section 310 of the Education Act, as:

> *... premises used regularly for the education or care of 3 or more children (not being children of the persons providing the education or care ...) under the age of 6–*
>
> - *by the day or part of a day; but*
> - *not for any continuous period of more than 7 days.*

Sections 315 to 317 of the Education Act also set out the licensing requirements and regulations that early childhood education providers must follow (unless they have a specific exemption from the Minister of Education). The regulations covering early childhood education services are called the Education (Early Childhood Services) Regulations 2008.

Most early childhood education providers are private not public entities, and, as such, the Auditor-General is not their auditor. However, the Auditor-General maintains an interest in the appropriate use of public funds distributed to early childhood education providers by the Government as a subsidy to their normal business. Early childhood education regulations set out eligibility and conditions for the subsidy. Regulations also provide for other aspects of government interests

35 See "ECE participation" on the Ministry of Education's website (www.minedu.govt.nz).

in early childhood education provision, such as the provision for the Minister of Education to set a national curriculum for early childhood education (Te Whāriki).

Schools

There are about 2460 state and 90 private schools, providing education to children between the ages of five and 19. Schooling is compulsory from the age of six to 16, but most students begin school at age five.

There are several different types of schools. Some are differentiated by the range of year levels to which they offer education (full, composite, or contributing schools) or by whether they are state schools or state integrated (operated as a state school, but with the particular religious or philosophical perspective of their owner), private (independent) schools, home schooling-based schools, or special education schools. Most school-aged children (96%) attend state schools.[36]

Most schools are publicly owned and funded by the Government. Schools can also raise additional, non-government funding (for example, from donations, fundraising activities, international students' fees, or hostel fees). Boards are responsible for ensuring that the purpose of any fundraising is clear and that the donor understands the purpose for which the funds will be used.

Because all state schools are public entities, the Auditor-General is their auditor and maintains an interest in their financial and non-financial performance reporting. Schools follow a national curriculum but are self-managing and governed by locally elected boards. Boards are required to prepare individual charters and annual plans and to report their performance against these.

Tertiary education providers

Tertiary education in New Zealand is delivered by a variety of providers – universities, institutes of technology and polytechnics (ITPs), private training establishments (PTEs), industry training organisations (ITOs), wānanga, and other types of providers. The Education Act defines these various types of tertiary education organisations (TEOs) and the Tertiary Education Strategy (the Strategy) specifies core roles and expectations for each type. The Crown funds much of the education and training offered by TEOs.

The Crown has an ownership interest in TEIs, which include universities (eight), ITPs (18), and wānanga (three).

Many TEIs have subsidiary organisations to carry out activities consistent with the functions and duties of a TEI, having decided that these activities can be more sensibly managed in a separate legal structure. Examples of these include research companies, scholarship trusts, childcare centres, and student hostel

36 See "NZ education system overview" on the Ministry of Education's website (www.minedu.govt.nz).

accommodation centres. In June 2011, the TEI sector was made up of 147 entities, with 116 entities controlled by, or related to, TEIs.

TEIs are Crown entities under section 7 of the Crown Entities Act 2004 and section 203 of the Education Act. They are independently governed by councils whose functions are set out in the Education Act. However, only the provisions set out in Schedule 4 of the Crown Entities Act apply to TEIs.

Unlike some other classes of Crown entities, TEIs are not directly accountable to a Minister. However, the Crown monitors the performance and viability of the TEI sector through the Ministry of Education, the Tertiary Education Commission, and the New Zealand Qualifications Authority (see Appendix 2).

Section 159ABA of the Education Act sets out the planning, funding, and monitoring framework of the tertiary education sector. This framework requires TEIs to prepare investment plans that set out TEIs' responses to the Government's tertiary education priorities and to stakeholder needs. The investment plans establish the levels of Crown funding for TEIs. TEIs are also required to prepare an annual report that includes, among other information, audited financial statements and a statement of service performance.

TEIs are Crown entities, so the Auditor-General appoints their auditors and maintains an interest in their financial and non-financial performance reporting.

Appendix 2
Public entities with a core role in the education sector

The **Ministry of Education** (the Ministry) is the central government agency responsible for putting into action the Government's priorities for education. The Ministry does this by:

- providing education policy advice to the Minister of Education and the Government;
- allocating funding and resources to schools and early childhood education providers;
- overseeing and supporting the implementation of approved education policies;
- managing special education services;
- carrying out research;
- collecting and processing education statistics and information; and
- monitoring the effectiveness of the education system.

The **Tertiary Education Commission** (the TEC) is the government agency responsible for managing the tertiary education sector. All forms of post-school education and training come under the TEC's umbrella. These forms include full-time academic study, on-the-job and work-related training, tertiary research and development, foundation education, distance education, and part-time study.

The TEC interacts more directly with TEIs than the Ministry does, and implements the Strategy. The TEC works with TEIs (and also the private providers of tertiary education) to agree investment plans that outline how they will respond to the Strategy.

The TEC's chief executive has statutory responsibilities for monitoring and assessing the operations and ongoing viability of TEIs. To do this, the TEC:

- monitors TEIs' financial, educational, governance, and management performance;
- advises the Minister for Tertiary Education on appointments to councils; and
- provides statutory intervention advice to the Minister and implements any decisions made by the Minister.

The **Education Review Office** (ERO) is a quality assurance agency that reviews schools and early childhood education services, and publishes national reports on current education practice.

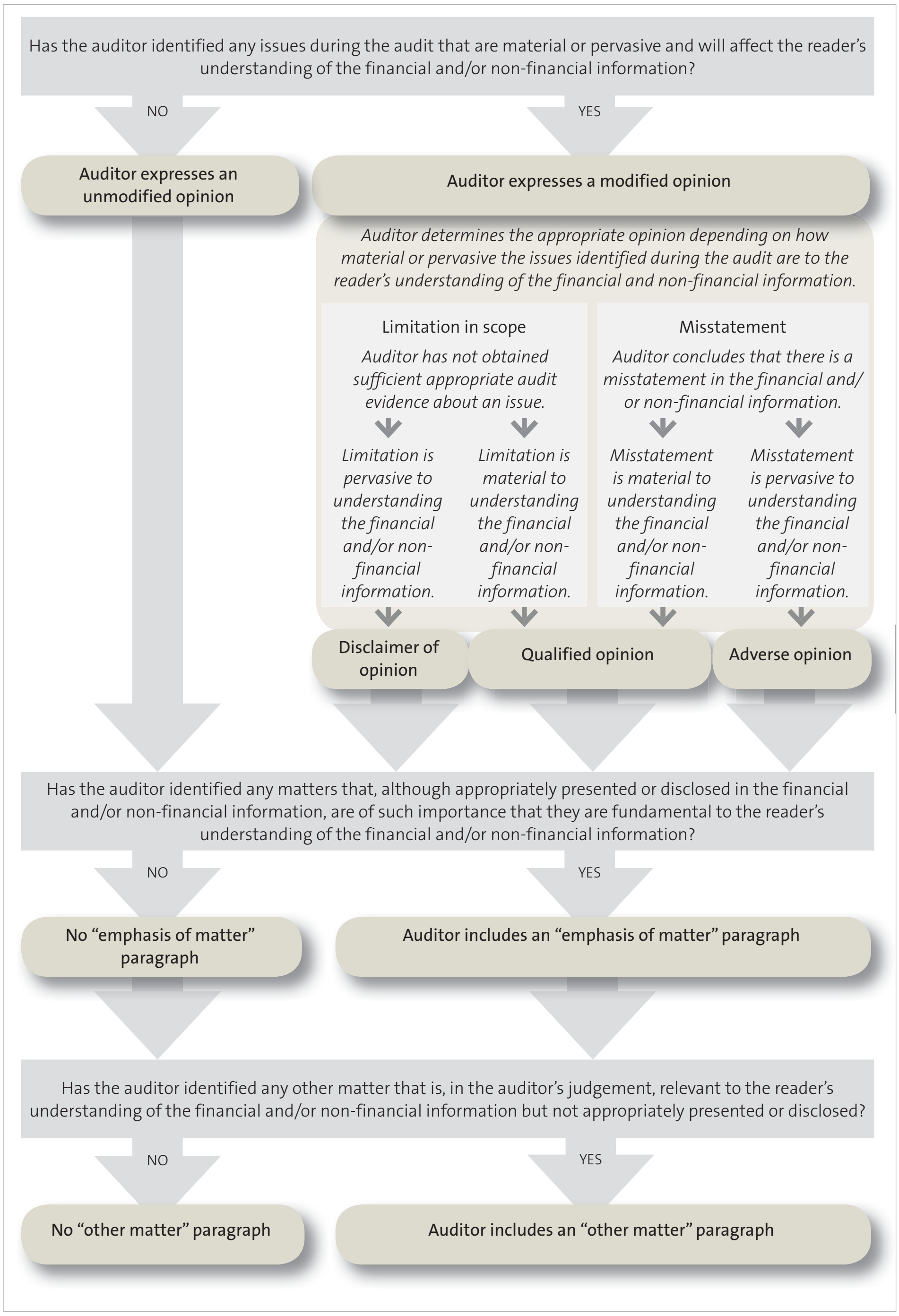
The **New Zealand Qualifications Authority** (NZQA) manages the New Zealand Qualifications Framework, administers the secondary school assessment system, provides independent quality assurance of non-university education providers, qualifications recognition, standard-setting for some specified unit standards, and develops qualifications in specific fields.

The **New Zealand Teachers Council** is the professional and regulatory body for teachers. It provides professional leadership and capability development for teachers to ensure a safe, high-quality teaching and learning environment for children and other learners. It also manages teacher registration.

Careers New Zealand is the government agency responsible for leading career development for New Zealanders.

Appendix 3
Deciding on the appropriate form of an audit report

The flowchart below shows how an auditor determines the appropriate form of an audit report.



Appendix 4
Details of the non-standard audit reports issued in 2011

Disclaimers of opinion

Te Wharekura O Te Rau Aroha

Financial statements year ended: 31 December 2008

There were no separate financial statements for the year ended 31 December 2007 because the school was a satellite of another school. This meant that we were unable to determine the opening balances of the school, and therefore unable to form an opinion on the financial statements of the school. Also, the school did not maintain adequate systems and controls over its revenue and expenditure so we were unable to obtain sufficient assurance over the completeness of revenue and expenditure.

Te Wharekura O Te Rau Aroha

Financial statements year ended: 31 December 2009

We were unable to form an opinion on the financial statements because we could not determine whether the expenses were properly incurred, correctly classified, or included in the right year. In addition, we were unable to obtain sufficient assurance over the completeness of local fundraising income and locally raised funds income because of limited controls over that income.

Qualified opinions

Whitireia Performing Arts Company Limited (Whitireia Community Polytechnic)

Financial statements and statement of service performance year ended: 31 December 2010

Our audit was limited because we were unable to obtain sufficient evidence to confirm some of the income for the comparative year. We also drew attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements (because the Board of Directors decided to merge the company with New Zealand Radio Training School Limited).

Ivey Hall and Memorial Hall 125th Anniversary Appeal Gifting Trust (Lincoln University)

Financial statements year ended: 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Ivey Hall and Memorial Hall 125th Anniversary Appeal Taxable Activity Trust (Lincoln University)

Financial statements year ended: 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Wellington Girls' College

Financial statements year ended: 31 December 2010

We disagreed with the Board of Trustees not preparing group financial statements to consolidate the financial statements of its controlled entity, the Wellington Girls' College Charitable Foundation. This is a departure from New Zealand Equivalent to International Accounting Standard No. 27: *Consolidated and Separate Financial Statements*, which requires the Board of Trustees to present consolidated financial statements.

Wanganui City College

Financial statements year ended: 31 December 2010

We disagreed with the Board of Trustees not preparing group financial statements to consolidate the financial statements of its subsidiary, the College House Hostel Trust. This is a departure from New Zealand Equivalent to International Accounting Standard No. 27: *Consolidated and Separate Financial Statements*, which requires the Board of Trustees to present consolidated financial statements.

Manawatu College

Financial statements year ended: 31 December 2010

We disagreed with the Board of Trustees not preparing group financial statements to consolidate the financial statements of its subsidiary, the Manawatu College Educational Trust. This is a departure from New Zealand Equivalent to International Accounting Standard No. 27: *Consolidated and Separate Financial Statements*, which requires the Board of Trustees to present consolidated financial statements.

Wellington East Girls' College

Financial statements year ended: 31 December 2010

We disagreed with the way the Board of Trustees made the provision for the increase in the amount owing to trusts for bequests, which took into account inflation for prior years. This is a departure from the New Zealand Equivalent to International Accounting Standard No. 37: *Provisions, Contingent Liabilities and Contingent Assets*, which requires provisions to be valued at their present obligation.

Fraser Community Childcare Society Incorporated (Hamilton's Fraser High School)

Financial statements year ended: 31 December 2008

Our audit was limited because the results of investigations into the financial management of the crèche were not fully known and further enquiries were being carried out. We were unable to obtain independent confirmation of opening balances relating to current assets as at 31 December 2007, and the financial statements did not disclose comparative information about Ministry of Education grants, debtors, and accruals.

Fraser Community Childcare Society Incorporated (Hamilton's Fraser High School)

Financial statements year ended: 31 December 2009

Our audit was limited because the results of investigations into the financial management of the crèche were not fully known and some legal action was yet to be concluded.

Edendale School (Auckland)

Financial statements year ended: 31 December 2010

Our work was limited because of uncertainty over the recoverability of money owed by the Ministry of Education, for a claim the school made to be reimbursed for payments made to repair the damage to several leaky school buildings.

Pakuranga Health Camp School

Financial statements year ended: 31 December 2010

We disagreed with the Board of Trustee's decision to omit a notional lease grant and expenditure from its 2010 financial statements. The Board of Trustees made this decision because there was uncertainty over the ownership of the school property. Omitting this notional lease amount caused the total income and total expenses to be understated but did not affect the net surplus for the year.

Puriri School

Financial statements year ended: 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Putorino School

Financial statements year ended: 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Red Beach School

Financial statements year ended: 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Riverslea School

Financial statements year ended: 31 December 2009

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Taumarunui High School and Community Trust (Taumarunui High School)

Financial statements year ended: 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Te Kura O Waharoa

Financial statements years ended: 31 December 2009 and 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Tongariro Area School

Financial statements year ended: 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue.

Paeroa Central School

Financial statements year ended: 31 December 2010

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue. We were also unable to obtain appropriate and sufficient audit evidence or explanations to support all expenditure, because invoices were missing.

Te Kura Kaupapa Māori O Ruamata

Financial statements year ended: 31 December 2008

Our audit was limited because limited controls over revenue meant that we were unable to obtain sufficient assurance over the completeness of revenue. We were also unable to obtain appropriate and sufficient audit evidence or explanations to support all expenditure.

Kutarere School

Financial statements year ended: 31 December 2010

Our audit was limited because of limited controls over expenditure. The Board of Trustees discovered a series of inappropriate and unauthorised payments made using the school's funds throughout 2009 and 2010. The unauthorised payments were estimated to be about $9,000 and there were no practical audit procedures that could be used to determine the effect of this limited control.

Tomahawk School

Financial statements for the 15 months ended: 1 April 2010

Our audit was limited because we were unable to obtain sufficient appropriate audit evidence to support all payments.

Hunterville School

Financial statements year ended: 31 December 2009

Our audit was limited because accounting records for part of the year were missing.

Tokoroa East School

Financial statements years ended: 31 December 2009 and 2010

Our audit was limited because we were unable to obtain adequate assurance about the number of staff employed.

Allenvale Special School & Resource Centre

Financial statements year ended: 31 December 2010

Our audit was limited because the results of an investigation into the financial management of the school were not known at the end of the audit.

Corstorphine School

Financial statements for the period ended: 2 July 2010

Our audit was limited because we were unable to obtain the school's Board of Trustees' minutes after 29 March 2010, which could have included matters affecting the financial statements.

"Emphasis of matter" paragraphs for non-school entities

University of Auckland and Group

Financial statements and performance information year ended: 31 December 2010

We drew readers' attention to the Partnerships for Excellence funding, which was appropriated by the Crown as capital for increasing the University's capability. This funding should have been recognised as equity and not recognised as income in advance. Also, some research contract funding should also been recognised as a capital contribution from the Crown in 2010 rather than partly as revenue and partly as a payable.

Telford Rural Polytechnic

Financial statements and statement of service performance year ended: 31 December 2010

We drew readers' attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements (because the Polytechnic was disestablished and incorporated in Lincoln University on 1 January 2011).

iPredict Limited and Group (Victoria University of Wellington)

Financial statements year ended: 31 December 2010

We drew readers' attention to the disclosures in the financial statements that referred to the going-concern assumption appropriately not being used in preparing the financial statements (because the company had negative equity).

Predictions Clearing Limited (Victoria University of Wellington)

Financial statements year ended: 31 December 2010

We drew readers' attention to the disclosures in the financial statements that referred to the going-concern assumption appropriately not being used in preparing the financial statements (because the company had negative equity and its immediate parent entity had negative equity).

Weltec Connect Limited (Wellington Institute of Technology)

Financial statements year ended: 31 December 2010

We drew readers' attention to the disclosures in the financial statements that referred to the going-concern assumption appropriately being used in preparing the financial statements (because the Wellington Institute of Technology provided a letter of comfort that it will not recall the loan from Weltec in the next 12 months). The going-concern assumption on which the financial statements were prepared depended on the loan not being recalled within this period.

Tai Poutini International Limited and Group (Tai Poutini Polytechnic)

Financial statements year ended: 31 December 2010

We drew readers' attention to the disclosures in the financial statements that referred to the disestablishment basis appropriately being used in preparing the financial statements (because in March 2011, the company shareholders resolved not to provide ongoing financial support to the company, and approved the dissolution of the company subsidiary, the Qatar Technical Institute LLC, which ceased trading on 31 March 2011).

"Emphasis of matter" and "other matter" paragraphs for schools

"Emphasis of matter" paragraphs, by type and number*

Serious financial difficulties (32 schools)

Some schools are in serious financial difficulties, mainly because of large working capital deficits.

We noted that 32 schools had included disclosures in their financial statements that outlined their financial difficulties and the actions they were taking to address the factors that had resulted in those difficulties.

Closures of schools (13 schools)

Accounting standards require schools that have been or are being closed to prepare their financial statements on the basis that they are not a going concern.

We noted that 13 closed schools had prepared their financial statements on the appropriate basis.

Potential closure of schools (eight schools) Some schools have their financial statements prepared on a going-concern basis while waiting for the Minister of Education's decision and community consultation about whether to close. We noted that eight schools were in this situation.
Other reasons (eight schools) Our audit reports included "emphasis of matter" paragraphs for other reasons: • Two schools had significant related-party transactions. • One school had made payments to some of its staff, which it then charged to the Ministry of Education by submitting incorrect financial records. This resulted in the school accessing funding to which it was not entitled. • One school had receipts and payments on behalf of the Crown for capital works funding that were not disclosed in the financial statements. • One school had financial irregularities covering several years when employees of the Board of Trustees had access to fuel cards that enabled them to charge petrol to an account in the school's name. Some staff were paid in advance, which involved submitting incorrect financial records to the Ministry of Education. This gave the Board access to funding to which it was not entitled. • One school had suffered losses because of the fraudulent activity of a staff member. • One school showed a lack of prudence in proceeding with an overseas trip without first ensuring that funds had been raised to cover the cost of the trip. • One school transferred funds collected from overseas students to the proprietor for the use of buildings that the Board had the right to use without charge.

* This section includes any "emphasis of matter" paragraphs in the audit reports for the schools listed earlier in this Appendix.

"Other matter" paragraphs: Breaches of law, by type and number*

Not reporting by 31 May 2011 (54 schools) Boards of Trustees have a statutory obligation to issue their audited financial statements by 31 May. We noted that 54 schools had breached the law by failing to meet this deadline, and had chosen not to disclose the breach in their financial statements.
Not submitting financial statements for audit by 31 March 2011 (11 schools) Boards of Trustees have a statutory obligation to submit their financial statements for audit by 31 March. Eleven schools had breached the law by failing to meet this deadline, and had chosen not to disclose the breach in their financial statements.
Borrowing above the permitted limit without approval (nine schools) Boards of Trustees are not permitted to borrow above a permitted limit without the approval of the Ministers of Education and Finance. Nine schools had breached the law by not seeking authority from the joint Ministers for borrowing above the permitted limit and had chosen not to disclose the breach in their financial statements.

Not having a 10-year property plan (eight schools)

Boards of Trustees have a statutory obligation to prepare and review annually, and have professionally reviewed every three years, a property plan that includes all the maintenance requirements of the school for a prospective 10-year period.

Eight schools had breached the law by failing to update the 10-year property plan annually and had chosen not to disclose the breach in their financial statements.

Loans to third parties (six schools)

To safeguard public money, schools may invest their surplus funds only in approved banking and other institutions.

Six schools had breached the law by lending money to third parties without the authority of the Ministers of Education and Finance.

Loans to staff (four schools)

To safeguard public money, schools may invest their surplus funds only in approved banking and other institutions.

Four schools had breached the law by lending money to staff without the authority of the Ministers of Education and Finance.

Other reasons (11 schools)

Our audit reports included "other matter" paragraphs for other reasons:

- Three schools had trustees who were interested in contracts with the Board of Trustees, under which the total payments made or to be made by or on behalf of the Board of Trustees exceeded $25,000 in a financial year, without the approval of the Minister of Education.
- Two schools failed to keep proper accounting records.
- One school acquired land and buildings without the authority of the Minister of Education.
- One school failed to provide a statement of variance.
- One school operated a bank account without the authority of the Minister of Education.
- One school acquired an equitable leasehold interest without the authority of the Minister of Education.
- One school acquired securities without the authority of the Minister of Education.
- One school did not prepare financial statements with budget figures.

* This section includes any "other matter" paragraphs in the audit reports for the schools listed earlier in this Appendix.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Central government: Results of the 2010/11 audits (Volume 1)
- Managing the implications of public private partnerships
- Cleanest public sector in the world: Keeping fraud at bay
- Annual Report 2010/11
- Transpower New Zealand Limited: Managing risks to transmission assets
- The Treasury: Implementing and managing the Crown Retail Deposit Guarantee Scheme
- Managing freshwater quality: Challenges for regional councils
- Local government: Improving the usefulness of annual reports
- New Zealand Transport Agency: Delivering maintenance and renewal work on the state highway network
- Government planning and support for housing on Māori land
- Inquiry into the use of parliamentary travel entitlements by Mr and Mrs Wong
- The Emissions Trading Scheme – summary information for public entities and auditors
- Planning to meet the forecast demand for drinking water in Auckland
- Appointing public sector auditors and setting audit fees
- Home-based support services for older people
- New Zealand Customs Service: Providing assurance about revenue
- Inland Revenue Department: Making it easy to comply
- Central government: Cost-effectiveness and improving annual reports
- Annual Plan 2011/12
- Progress in delivering publicly funded scheduled services to patients
- Final audits of Auckland's dissolved councils, and managing leaky home liabilities
- Statement of Intent 2011–14

Website

All these reports are available in HTML and PDF format on our website – www.oag.govt.nz. Most of them can also be obtained in hard copy on request – reports@oag.govt.nz.

Mailing list for notification of new reports

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Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Facsimile: (04) 917 1549

Email: reports@oag.govt.nz
Website: www.oag.govt.nz