



Results of the 2020 school audits

This year our school audits were again disrupted by Covid-19, with only 70% of the 2020 school audits completed by the 31 May deadline. Although this was better than last year, border closures have created an auditor shortage and our auditors could not complete all their school audits on time. There were also more audits than normal carrying over from the previous year following last year's disruptions.

This was particularly disappointing because this year we received about 96% of draft financial statements received by 31 March. This is the best result we have had in the past 10 years. We appreciate all the hard work that schools and their financial service providers put in to achieve this. Getting the information early gives us the best chance of completing as many audits as possible on time.

What we found

As is the case each year, we issued standard unmodified opinions for most of the schools we audit. This means that, in our opinion, those schools' financial statements fairly reflect their transactions for the year and their financial position at the

end of the year. Our report includes details where we have reported on specific matters. These are opinions where we cannot get enough evidence about a matter, or we conclude there is an error in the financial statements. Where we want to draw readers' attention to a specific matter, we include an additional paragraph in our audit report. Since our last report we have issued more "modified" audit opinions than usual, but nearly half of them are for previous years' audits.

We continue to have more previous years' audits outstanding than normal at this time of year and some schools have multiple years in arrears. The ongoing auditor shortage has affected our ability to get these audits up to date. We are keen to get these up to date as soon as possible.

Our recommendations

We have repeated two recommendations for the Ministry of Education from our previous reports on school audits.

The first is to make sure that schools are properly planning for their future maintenance. This is an area



that causes a lot of work for auditors and despite raising this matter regularly in our reports, it has not improved. We have issued more audit opinions than normal this year (23) where we could not get enough information about a school's cyclical maintenance provision. We understand that the Ministry is working on further guidance to schools about this. We will also be collecting information during our 2021 school audits to share with the Ministry to help resolve this long-running issue.

The second is to make sure that changes to the school payroll result in schools having appropriate controls over all their payroll transactions. The audit of school payroll for the 2020 audits went smoothly, apart from a small delay in distributing the payroll reports to schools. However, our auditors have since made us aware of a change to the payroll system as it has moved to EdPay, which means that a key control schools rely on is no longer available. We have asked the Ministry to follow this up with Education Payroll Limited.

Financial health of schools

Although we did not expect the impact of Covid-19 on the finances of most schools to be significant, we were concerned that we would see more schools in financial difficulty in 2020. From our 2020 audits we only identified 17 schools that were in financial difficulty and needed a letter of support from the

Ministry, compared to about 40 schools in a normal year. Our analysis of school financial information showed an overall improvement in the financial position of schools, but this was a result of additional government funding. As the restrictions resulting from Covid-19 alert level changes has continued, and some of the additional funding has not continued into 2021, we might see a different picture from our 2021 audits.

Future of school audits

School audits have become more complex over time because of increased financial reporting requirements and increasing professional requirements of auditors. At the same time the number of audit firms in New Zealand has been reducing, a trend worsened by the current shortage of auditors. This made the recent auditor appointment process for the next three years' school audits challenging and has meant a substantial increase in audit fees for most schools. It is therefore an opportune time for the Ministry to consider the future of school audits so that schools can continue to be accountable, and that accountability can be efficient and cost-effective. We have had some initial discussions with the Ministry on this subject and we have worked with the Ministry to identify opportunities for efficiencies in the audit process.