

March 2016 Newsletter for Schools

School sector reviews happening in 2016

We appreciate that various reviews are often happening in schools in New Zealand but we think two of these underway in 2016 have potential to be quite significant longer term.

1. Review of the Education Act 1989

A revolutionary piece of legislation in its day. Resulted in fundamental change in the sector and set NZ on the path of education today. This is however over 25 years old now and worthy of revisiting. Hence the consultation document released in late 2015. Our read on this is an aim for the Education Act to become a higher level framework for education with more detail legislation or regulation below as needed. Proposals provide some interesting implications:

- a. Making responsibilities of boards clearer and improving the way they plan and report i.e. making it more explicit for boards
- b. Providing better and timelier information on a school's performance i.e. a standard set of indicators proposed
- c. Enabling collaboration - Tomorrow's Schools could be argued as setting schools up for competition. Aim going forward is to better encourage collaboration and clusters.
- d. More options to help schools that are not performing to get them back on track

While the initial consultation has ended, as with any legislation change there will still be a number of input opportunities as new legislation is drafted and goes through the parliamentary processes.

2. OAG Review of school property

The school property portfolio is one of the larger property portfolios in Government. Hence its management is of national significance. As such the office of the Auditor General is commencing a review of whether the MOE is managing school property effectively. This may impact some of you if you are selected, in which case we have a special questionnaire that we will conduct onsite. This will require input from the principal and a board representative and possibly your property manager or anyone involved in our property management process.

Key changes for 2015 Reporting periods:

Kiwipark Model financial statements are now compulsory – Although in the past the Kiwipark Model has been there to guide schools into ideal disclosure and presentation of school annual financial statements, for this annual reporting round and onwards – it is now legislated that Kiwipark is now mandatory for all schools to follow.

Key changes to note:

Statement of cash flows

A statement of cash flows is now required to be disclosed for 2014 and 2015. A budgeted statement of cash flows is also required to be disclosed – and should be per your school's approved budget.

Accounting and disclosure around revenue:

There are now two main classifications for revenue; exchange revenue (in essence selling something or a contract for service i.e. "something for something") and non-exchange revenue (a donation or gift i.e. "something for nothing").

It is important to understand what revenue your school is generating and to now differentiate between exchange and non-exchange revenue. In particular, exchange revenue needs to be identified as it can potentially impact prior year comparatives and classification in the current year's financial statements. Key things to consider for exchange revenue are:

- Conditions and restrictions of funds (explicit)
- Recognised on receipt unless right of return exists
- "Return" condition must be enforceable

Furthermore – exchange and non-exchange transactions need to be separately disclosed in accounts receivables and payables.

Related Party Disclosures

New disclosure requirements around Key Management Personnel have brought about the need for schools to consider the following:

Definition of Key Management Personnel (KMP)

For some schools Key Management Personnel is likely to only be the principal. However, the definition of KMP is broader and can encompass other roles such as any Deputy Principals and Head of Departments depending on the nature of the roles.

Disclose Fulltime Equivalent (FTE) for each category of KMP

For board member time – some schools have found this difficult to compute. Remember that this is an estimate only. The latest Kiwipark Model financial statements includes a helpful broad calculation of how to estimate this number.

Related parties have been an area where we have always encouraged disclosure of any transactions that involved a related party. The change in accounting standards now only require schools to disclose related party transactions that are *not* on normal terms. As such, where schools have identified that there are related party transactions on normal arm's length terms – then it is up to the school to prove that, this is in fact the case.

In conclusion these are only some of the key changes highlighted above. There have also been other financial statement disclosure and presentation changes. If you have any questions or queries, we are only a phone call away in the first instance. Otherwise feel free to ask our audit team when they come onsite for your audit visit.

School Visit Bookings

Given all the change that is happening relating to schools financial reporting, we have seen a slower receipt of school annual reports, compared to the past years.

As is the case every year, we strongly encourage booking a school visit during the school holidays. School holiday visits in our opinion have the following benefits:

- Dedicated time with minimal disruptions from staff and students alike
- Ample space to place the auditors within proximity to finance staff and the files and documents they may need to access
- Less Auckland traffic to battle

Please feel free to call our office to arrange a school holiday visit – otherwise we will be in touch with you once we have received your work papers and draft financial statements.

Interesting Current Issues

Leaseback of IT hardware to students

Over recent years as schools move with technology, there have been a number of different arrangements to facilitate obtaining portable devices for students to utilise and use in the classroom and at home. In some situations, there have been instances where schools may have leased equipment from a vendor and then on-leased, or in one case we have seen attempted to sell, the equipment to parents. We highlight that this approach can be highly problematic. This is because legally the equipment still belongs to the leasing company and is not the schools to on-lease or sell. If your school has something similar operating currently, or you want a second opinion on an arrangement you may be considering you must take advice. We are always happy to assist and please ensure that you consider raising the issue with us, **before** entering into any agreements.

Finance Leases vs. Operating Leases

A recent review of school leases has identified that items that were previously deemed to be operating leases are in fact finance leases. The distinction is that an operating lease is akin to renting an item whereas a finance lease is akin to buying an asset and paying for it over time. Hence an operating lease just has a statement of financial performance impact whereas a finance lease also impacts the balance sheet, i.e. Finance leases should be reflected in your statement of position and the asset should be depreciated.

The most common item where this assessment had been misinterpreted was for photocopiers. If you are unsure of whether an item should constitute an operating or finance lease, we suggest that you obtain all the relevant information from the finance company – and in conjunction with advice from us, conclude whether an operating or finance lease is in place, and whether any adjustments need to be made.