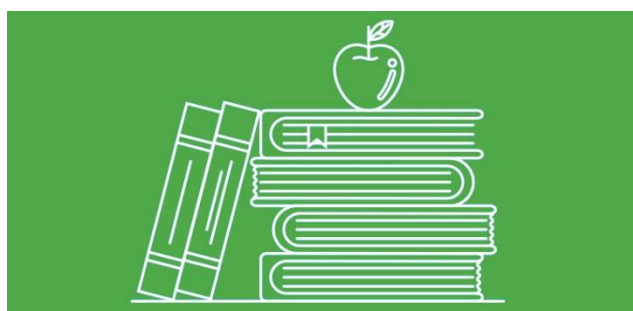


What happens to our school's annual financial statements?

Sometimes it can seem hard preparing your annual financial statements and you may start to question

"What is the point?"

Related to this is that sometimes the requirements of the specific accounting standards can seem totally unrelated or some may even say, pointless, to your school. So, what is the reason that schools must follow these accounting standards?



1. The big picture

State schools are Crown Entities and receive significant public funding from taxpayers via the government via the [Ministry of Education](#) (MoE). That means they are accountable for these monies to the Crown. Your state school annual financial statements are required to be consolidated with all other schools and become part of the Crown annual financial statements.

The Crown financial statements for the year ended 30 June are also audited and your schools audit forms part of this.

So, a big part of why your school is required to follow these accounting standards is to ensure **all 2000+ schools are preparing their financial statements in a consistent way**. This allows both comparability as well as consolidation to see the bigger picture. In your case, the Crown's (Government's) financial statements.

But your financial statements are also important for anyone in your local community to see. As taxpayers and community members they have a right to this information. However, they can't affect how this is presented. For this reason, all Crown entities are required by law to follow the generally accepted accounting standards (GAAP)



2. Right of access to information

Common questions that auditors get when carrying out their work are:

"Why do you want to see that?" and **"Do you have the right to access that information?"**

These questions commonly arise when the auditor may be asking about some sensitive areas such as requesting to see in-committee minutes. So let's address these common questions in turn.

Why does the auditor want to see the information they ask for?

An auditor's primary role is to form an independent opinion on the financial statements. That is; to provide credibility to readers that the financial statements are a fair reflection of the financial performance and position of the entity. To do this the auditor is required to understand, assess the suitability, and then test the operation of the underlying systems and processes that ultimately result in the annual summary that is the financial statements.

However, it is not just direct flows of income and expenses that can impact the financial statements. For example, something like an employee dispute could have future financial ramifications. There may be legal costs being incurred and more expected in future, there may be the cost of employee cover if the employee is on leave during the dispute, and there may be a likelihood of a grievance payout to name just three implications. Hence the auditor is required to understand the situation and status to determine if additional financial liabilities or contingent liabilities exist and need accounting for in the financial statements.

Accordingly, the auditor needs to ensure they are aware of such matters so that the financial statement ramifications can be appropriately assessed. Identification and detail of such a matter in the example above would generally be noted in governing body minutes, and possibly in-committee minutes and possibly related correspondence. Hence the auditor requesting information that to many may not initially seem directly related to their role to independently opine on the financial statements.

Do the auditors have a right of access? The short answer is yes.

Unless an auditor can have full access to all the information and explanations that they require then they cannot be sure they have seen the full picture. If access is denied or restricted, then the auditor will generally need to negatively opine that their scope of activity has been restricted and hence they are unable to form an unqualified audit opinion.

This right to access is part of the engagement contract between the auditor and the entity being audited and included in all engagement letters setting out the terms of engagement. In some cases, such as in the public sector, the auditor's right of access is specifically detailed in legislation.

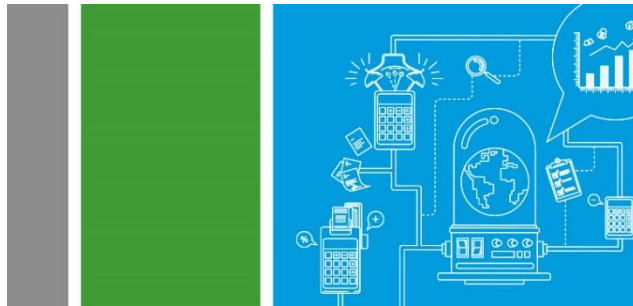
The **"safety valve"** however for organisations, especially regarding what may be considered sensitive information such as legal disputes where agreements are often subject to confidentiality clauses, is that auditors operate under very strict confidentiality requirements themselves. Information gained is only used for the auditor's purpose of forming their overall opinion on the financial statements and no confidential information can be shared.

It is worth remembering that we perform audits of schools on behalf of the Auditor-General, the top public watchdog in our country. The Auditor-General delegates power to approved auditors to gather whatever information is required to fulfil the Auditor-General's mandate. This mandate has a wider scope than for audits of non-public sector organisations, and hence at times our enquiries may also relate to potential matters of fraud, waste, probity, legislative compliance or other matters of public interest.



TELA Leases

A reminder regarding the change in classification of these leases from operating to finance leases. The MoE has now released its guidance on this, including their template to calculate the correct amounts to include in your year-end financial statements. This guidance should provide all the information you need. However, if you are unsure of the correct treatment of this or any other leases your school may have, we will be happy to provide our assessment of these before you finalise your financial statements.



Logistics

As 2016 comes to a close, it is an opportune time to start thinking about your year-end reporting requirements. We always appreciate receiving financial statements for audit in January and February as it allows us to spread our work load and complete those audits earlier. Now is a great time to be starting to think about processing accruals, updating your cyclical maintenance calculations and getting your fixed asset register finalised. Also, if you have any areas that you might be unsure about, we always like hearing about those and coming up with a solution before the audit.

If you have all your information compiled and closed your ledger for the year, we can commence our audit without the financial statements and will be trialling this approach on a few schools. If you would like to do this so that we can visit your school earlier, please get in touch with us.

As Schools start to break up for Christmas, we would like to take this opportunity to wish you all a very Merry Christmas and happy and healthy start to 2017.

