

Future of School Financial Reporting

Sector Consultation



Te Tāhuhu o
te Mātauranga
Ministry of Education



Current Issues

School financial reporting is currently too complex, costly, and not always fit-for-purpose.

Schools are Crown entities and must meet strict compliance standards, but they are generally simple in nature, with many being small or financially low-risk.

Audit fees have risen due to:

- Evolving audit standards
- Auditor shortages
- Historically constrained fees

Schools are estimated to spend **85–140 hours** annually on audit prep and completion.

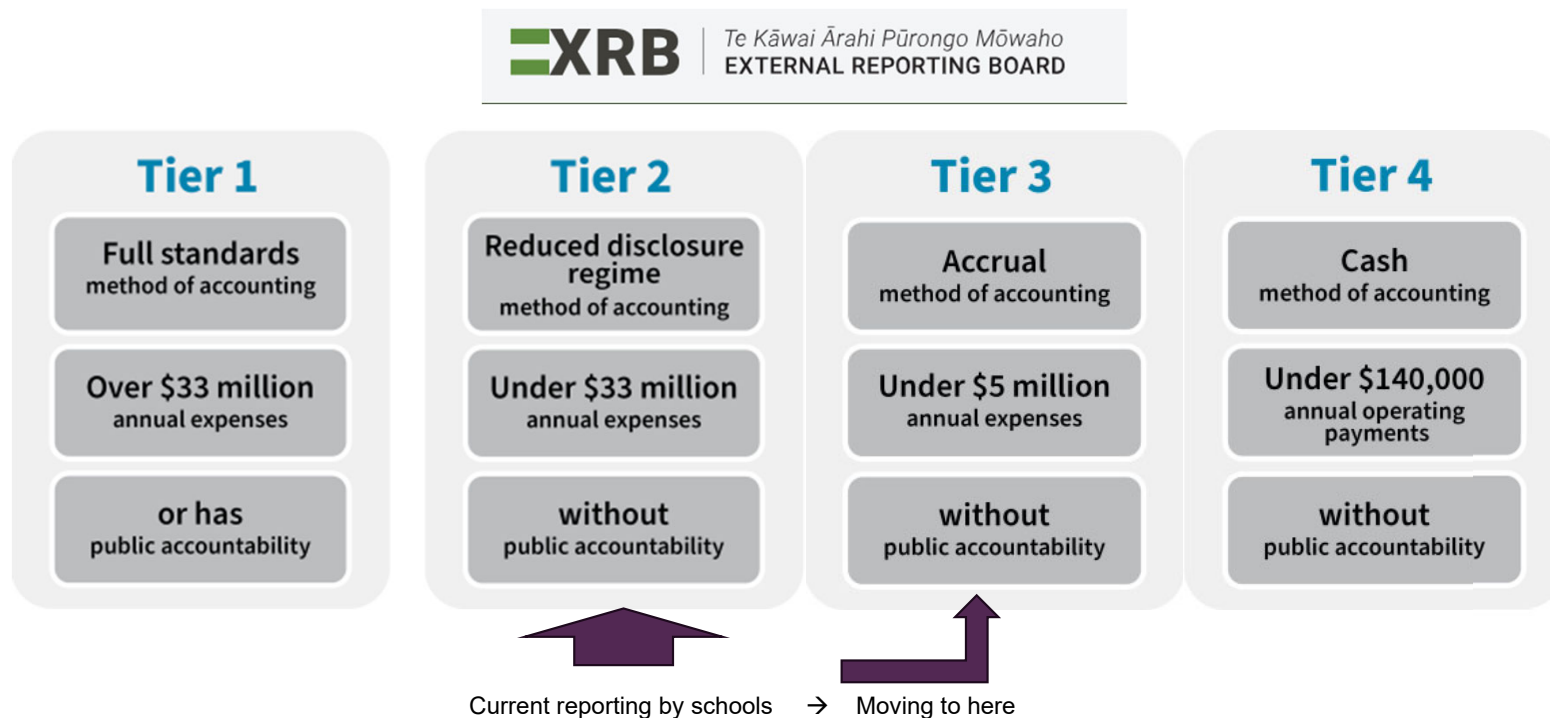
Many schools report at **Tier 2**, despite a large number now being eligible for **Tier 3**.

The current model is burdensome, and the financial statements are not always meaningful to School Boards, whānau, or communities.



Reporting Tier Structure

- Accounting and auditing standards in New Zealand are set by the External Reporting Board (XRB).
- The Office of the Auditor-General (OAG) can apply its own standards or adapt versions of XRB standards.



Why We're Looking Into This Now

- The Office of the Auditor-General (OAG) first raised concerns about audit complexity and cost back in 2021.
- Government priorities include reducing regulatory and compliance burdens.
- We have heard feedback from the sector and the “Red Tape Tipline”.
- Our goal is to simplify reporting while maintaining integrity, transparency, and accountability.
- We are aligning this project with the next audit contract cycle, which begins with the 2027 school year-end audits.



Our Proposed Idea - Modified Tier 3 Reporting

Our proposal builds on the existing **Tier 3 Public Benefit Entity (PBE) standard**, which is designed for less complex entities.

The proposed modifications to the Tier 3 reporting framework aim to make reporting more fit-for-purpose and reduce the overall compliance burden:

Positives	Challenges We're Working Through
All schools would be eligible under the modified Tier 3 model.	Not fully compliant with Generally Accepted Accounting Practice (GAAP).
Removing items where a service is centrally provided by the Ministry of Education (e.g., teacher salaries, land/building leases), as schools do not directly control these, reduces potential distortions in financial statements.	Potential lowering of audit materiality thresholds, resulting in increased audit testing.
Reduces year-end adjustments, enabling earlier submission of financial statements for audit.	Alignment with the new Less Complexity Entity audit standard being considered by the Auditor-General.
Reduces compliance burden while retaining trust and transparency.	
Reduces accounting standards from 43 to 1 .	
Reduces disclosure notes from 30 to 13 .	
Alters disclosures to align with how resources are used, making reporting more meaningful.	
Supported by Treasury, Office of the Auditor-General (OAG), External Reporting Board (XRB), and Ministry for Regulation (MfR).	



Other Options Considered

Option	Why it's not viable
Status Quo (Tier 2 + full audit)	Too complex, costly, and not proportionate to school size or risk.
Tier 2 with reduced audit scope	Requires legislative change; still overly complex; risks reduced assurance.
Full Tier 3 reporting	Includes representation of centrally provided services that can create distortions or misinterpretations. There are better ways to report this information. Audited multiple times through the wider financial reporting process.
Alter audit cycle only (e.g., biannual or risk-based)	Provides reduced assurance and less accountability, no expected cost savings, increases modified audit opinions, and financial reporting complexity remains.



Proposed Timeframe

Phase	Timeframe	Key Activities
Phase 1a	Dec 2025 – Jan 2026	Sector consultation.
Phase 1b	Feb – Mar 2026	Feedback analysis and preferred option approval.
Phase 2	Mar – Dec 2026	Develop reporting templates, guidance, and implementation plan.
Phase 3	Jan – Dec 2027	Sector rollout aligned with new audit contract cycle.



Concerns and Questions We're Exploring

- Will the modified Tier 3 framework meet Generally Accepted Accounting Practice (GAAP) requirements?
- Can items like cyclical maintenance be centrally audited?
- Will audit materiality thresholds be affected?
- Will schools need to change accounting systems?
- Do we need to continue reporting budgeted amounts?
- What do users (Boards, whānau, communities) actually need from financial reports?
- Are there better ways to inform school communities about how resources have been used to deliver education?

We want to get this right the first time. Your input is essential.



How We'll Gather Your Feedback

We're Running a Sector-Wide Consultation via Survey Monkey

- A short questionnaire (5–10 minutes) for preparers and users of school financial reports.
- Open to schools, auditors, Boards, whānau, and communities.
- Complemented by live webinars.
- Results will inform final recommendations.

Your voice matters. Help shape the future of school financial reporting.



Questions?



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