



# Annual Report

for the Year Ended 30 June 2011







**Education Review Office**  
**Te Tari Arotake Mātauranga**

**Annual Report**

*for the Year Ended 30 June 2011*

*Presented to the House of Representatives  
pursuant to section 44 of the Public Finance Act 1989*



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## PART 1: CHIEF REVIEW OFFICER'S OVERVIEW

Government departments are funded by the taxpayer to produce the results expected by the government of the day, and, of course, we put all our efforts into doing this to the best of our ability.

Our annual report will show we have achieved what we promised in our *Statement of Intent* at the beginning of this financial year and, of course, there is more to this than matching promised numbers of reviews with achieved numbers. What governments want to be able to measure is the impact departments have made for the money that has been invested in them.

So, for the Education Review Office (ERO), while we deliver the numbers we promised, the government, the public and we, ourselves, want to know that in producing these reviews and reports we have also improved the lot of a particular section of the New Zealand population. In the case of ERO this is an improvement in the education and care provided for children and students in early childhood services and schools.

Measuring the numbers is easy. Measuring impact is not so scientific, or so accessible. We assemble and analyse statistics on schools and services that fall into our high performing, middle range or poor-performing categories. These tell us the percentage of schools and services that improved following an ERO review. We invite schools and services to tell us what they found useful about their review, and what actions they took to improve their performance following the review. This information currently tells us that ERO reports are generally welcomed and used for their intended purpose – to give those reviewed unbiased external feedback on their performance and a basis for making improvements.

During this year we have had meetings with many education sector organisations, and we have asked each of them: What does your organisation see as the main impact of ERO reviews? We have been given some constructive answers.

Interestingly and encouragingly, several school and early childhood organisations said that it was the process rather than the report that was the most useful part of the review. A review notification prompted varying degrees of activity in an institution, depending on whether or not regular self review had been carried out, or if achievement and assessment had been monitored, analysed and documented.

The review was seen as a chance for stimulating professional discussions among teachers and educators with reviewers, and to have good practice confirmed by peers in the education world.

ERO's new briefer school reports were seen as more parent-friendly, but with the proviso that the review itself needed to yield the kind of information a school would need to prompt constructive change.

Organisations also saw value in the 'system' reports – ERO's national reports on specific topics of current interest in the education sector. These were welcomed as giving a view of what was happening elsewhere in New Zealand, and descriptions of good practice were particularly useful.

This past year ERO has published national reports on a wide range of topics including: alternative education, *The New Zealand Curriculum*, progress with implementation of the National Standards, the teaching of literacy in early childhood services, and on promoting success for Māori students. These evaluation topics are chosen each year with an eye to the impact the findings could have on improving education in particular areas.

ERO's individual reviews of schools and early childhood services and national reports are powerful tools for change, and rely on the independence and credibility of the organisation and the professionalism of the staff.

ERO's staff work hard to improve education for New Zealand's children, and every person in our organisation has a vital part to play. I would like to acknowledge the professionalism of ERO staff, their dedication to their work and the commitment to improving ERO's own performance that allows ERO to make its contribution to the wider education goals.



Graham Stoop  
Chief Review Officer  
2011

## PART 2: NATURE AND SCOPE OF FUNCTIONS

### Role of the Education Review Office

The role of the Education Review Office (ERO) is to provide assurance to the Government of the quality and effectiveness of schools and early childhood services.

Children and young people are central to ERO's work. This is reflected in ERO's whakataukī and is the foundation for ERO's vision and mission statement

**VISION:** ERO will be a significant contributor to a world-leading education system

#### Mission

To provide high quality evaluation that contributes to high quality education for all young New Zealanders

#### Whakataukī

Ko te Tamaiti te Pūtake o te Kaupapa  
The Child – the Heart of the Matter

### Scope

#### Legislative authority and scope of statutory powers

The Education Review Office is a public service department established under the State Sector Act 1988. The Chief Executive of ERO is the Chief Review Officer.

Under Part 28 of the Education Act 1989 it is a function of the Chief Review Officer to administer reviews of general or particular matters about the performance of pre-tertiary education providers in relation to the educational services they provide.

The Chief Review Officer is required to carry out reviews when directed to do so by the Minister Responsible for the Education Review Office. The Chief Review Officer may also initiate reviews.

Review Officers are statutory officers designated under Part 28 of the Education Act, and they exercise powers of entry, investigation and reporting.

#### Scope of operation

The core activity of ERO in schools and early childhood services in 2010/11 was the conduct of Accountability Reviews, which included:

- *Education Reviews* – scheduled reviews carried out in schools and early childhood services
- *Special Reviews* – carried out where a matter needed to be reviewed and reported outside regular reviews
- *Private School Reviews* – carried out under section 35 and Part 28 of the Education Act 1989

- *Homeschooling Reviews* – reviews of programmes for students exempt from enrolment at a registered school, undertaken in the context of section 21 and Part 28 of the Education Act 1989 and usually at the request of the Ministry of Education
- *Post Review Assistance workshops* – provided to early childhood services on request.

At a system level, ERO reports on topical education issues through:

- national evaluations of education sector performance
- reports about good practice in schools and early childhood services
- evaluation reports provided for policy makers and government.

## PART 3: STRATEGIC DIRECTION

### ERO's Contribution to Government Outcomes

#### Sector Goal and Outcomes

The Government's education sector goal is to have a world-leading education system that equips all New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century.

A high performing education system supports the Government's vision for economic growth that delivers greater prosperity and opportunities for New Zealanders. It gives all young people the skills they need to realise their potential and contribute to the economy and society.

The six education agencies directly involved in the management of education are: the Ministry of Education, the Education Review Office, the New Zealand Qualifications Authority, the Tertiary Education Commission, the New Zealand Teachers Council, and Careers New Zealand.

These agencies work towards the Government's priorities both individually and collectively. The following priorities provide a common direction and purpose:

- every child has the opportunity to participate in high quality early childhood education
- every child achieves literacy and numeracy levels that enable their success
- every young person has the skills and qualifications to contribute to their and New Zealand's future
- relevant and efficient tertiary education provision that meets student and labour market needs
- Māori enjoying success as Māori.
- value for money from Government expenditure in education.

#### ERO's Contribution

ERO contributes to a high-performing education system by assuring the Government of the quality and effectiveness of schools and early childhood services.

This reassurance is provided through evaluations that are independent of the schools and early childhood services and independent of those that set the standards (ie the Ministry of Education). This independence promotes accountability.

By providing complementary review processes, ERO also assists schools and early childhood services to improve their own capacity to deliver quality education services (*Impact 1*).

ERO's independence enables it to act as a key lever for the Government to promote improvement at a system level and to prioritise resources. ERO influences the national debate and informs the development and implementation of education policy and practice (*Impact 2*).

*Audience and Intermediate Outcomes*

Providing early childhood and school education involves many participants and each has a distinct role that is crucial to improving New Zealand's education system. The quality of the governance of schools and early childhood services, the quality of leadership and teaching, the role of parents and whānau in nurturing their children's learning, and appropriate and well implemented education policy, all contribute to improved educational outcomes.

For this reason, ERO's work is coordinated with its target groups to achieve intermediate outcomes.

Table 1: Intermediate Outcomes

	OUTPUTS/ IMPACT		TARGET AUDIENCE		INTERMEDIATE OUTCOME
ERO promotes quality assurance by providing...	complementary evaluation processes that focus on improved self- review capacity (Impact 1)	so that...	schools and early childhood services	can...	improve governance, leadership, and teaching and learning practices
	evaluative information		parents, whānau, iwi and communities		play a more active part in their children's education
	system-wide evaluations that influence the national debate (Impact 2)		government agencies		put in place policies and strategies, and focus resources on areas of high priority

Consistent with the priorities for education, ERO helps the sector to build strong learning foundations for literacy and numeracy.

**Strategic Focus**

In recent years, ERO has re-focused its review methodologies so that it can provide better, smarter services for less. Based on recent evaluation research, theory and practice, ERO has incorporated initiatives to:

- make schools' self review and ERO's external review more complementary (building evaluation capacity)
- differentiate ERO's evaluation of schools according to their capability and performance, and to focus more on those schools that are not performing well (differentiated evaluation)

- increase the focus on school assessment processes, and student achievement in literacy and numeracy
- promote improved outcomes for Māori and Pacific students, and success for all students.

Following the implementation of the methodology for reviews in schools, ERO began redesigning its early childhood services' review methodology in 2011. The new methodology will allow ERO to give greater attention to the quality and effectiveness of early childhood services' self review.

#### **Complementary evaluation (building evaluation capacity)**

As part of its new approach, ERO has focused its evaluation capacity-building activities on developing schools' confidence and competence in conducting self review as part of an ongoing focus on continuous improvement.

ERO's reviews balance internal and external evaluation perspectives in an education system that requires both accountability and improvement. The setting up of school charters following the 1989 Education Act saw the emergence of self-managing schools, increasingly accountable for their decision-making. Current requirements for school charters, self review, strategic planning and reporting encourage all schools to adopt a culture of continuous evidence-based improvement. ERO provides an external quality assurance and evaluation mechanism that encompasses both external verification of school decision-making and support for improvement.

ERO's emphasis has shifted over the years from accountability, to accountability and improvement, and now to complementary evaluation. The theory underpinning ERO's complementary evaluation approach was published during 2011, alongside the development of revised review practices and procedures. Complementary evaluation and differentiated methodologies enable ERO to respond quickly to developments in the school sector, specifically in terms of curriculum, self review and school capability.

#### **Differentiated reviews of schools**

ERO's differentiated review methodologies take account of each school's context and capability. The quality of school self review is a critical factor in determining the nature of the review process, and how soon a return review should be scheduled. ERO gives greater attention to schools where students are not progressing and achieving well, and where self review processes are not driving continuous improvement. In these schools ERO's review processes are designed to support schools in building their self-review capacity so they can develop strategies to improve student outcomes.

Where self review is effective, ERO can place greater reliance on the school's own evaluation of its performance. ERO expects such schools to demonstrate a cycle of enquiry and improvement that leads to improved student progress and achievement. Where these processes are of high quality, ERO can have greater confidence in the schools' ability to sustain its own performance and continuous improvement.

Each ERO report tells a school board when they can expect their next review – over a period of one-to-two years (where there are issues to be addressed and school self review is limited and requires improvement), in three years (where there are no material concerns) or in four-to-five years (if the school has strong self-review processes that are sustainable, and meets all the criteria that would indicate a school to be consistently high performing).

ERO's targeted approach to evaluation supports the Government's value-for-money priority by focusing resources on schools that need the most support while promoting self review and accountability for continuous improvement throughout the sector.

### **Promoting Successful Learning for Māori Students**

ERO's evaluations contribute to improved educational success for Māori and demonstrate its commitment to upholding Te Tiriti o Waitangi. This is reflected in ERO's strategy He Toa Takitini, which seeks to build evaluation processes that help schools to promote success for Māori, build relationships in the sector, and improve ERO's own internal capabilities, identity and understanding.

As part of the refocused approach, ERO is promoting successful learning for Māori in its school reviews. One of ERO's criteria for high performance in a school is that Māori learners are actively engaged in their learning, are progressing well and succeeding as Māori. ERO will not regard a school as high performing if it cannot show that it is improving the achievement of its Māori students.

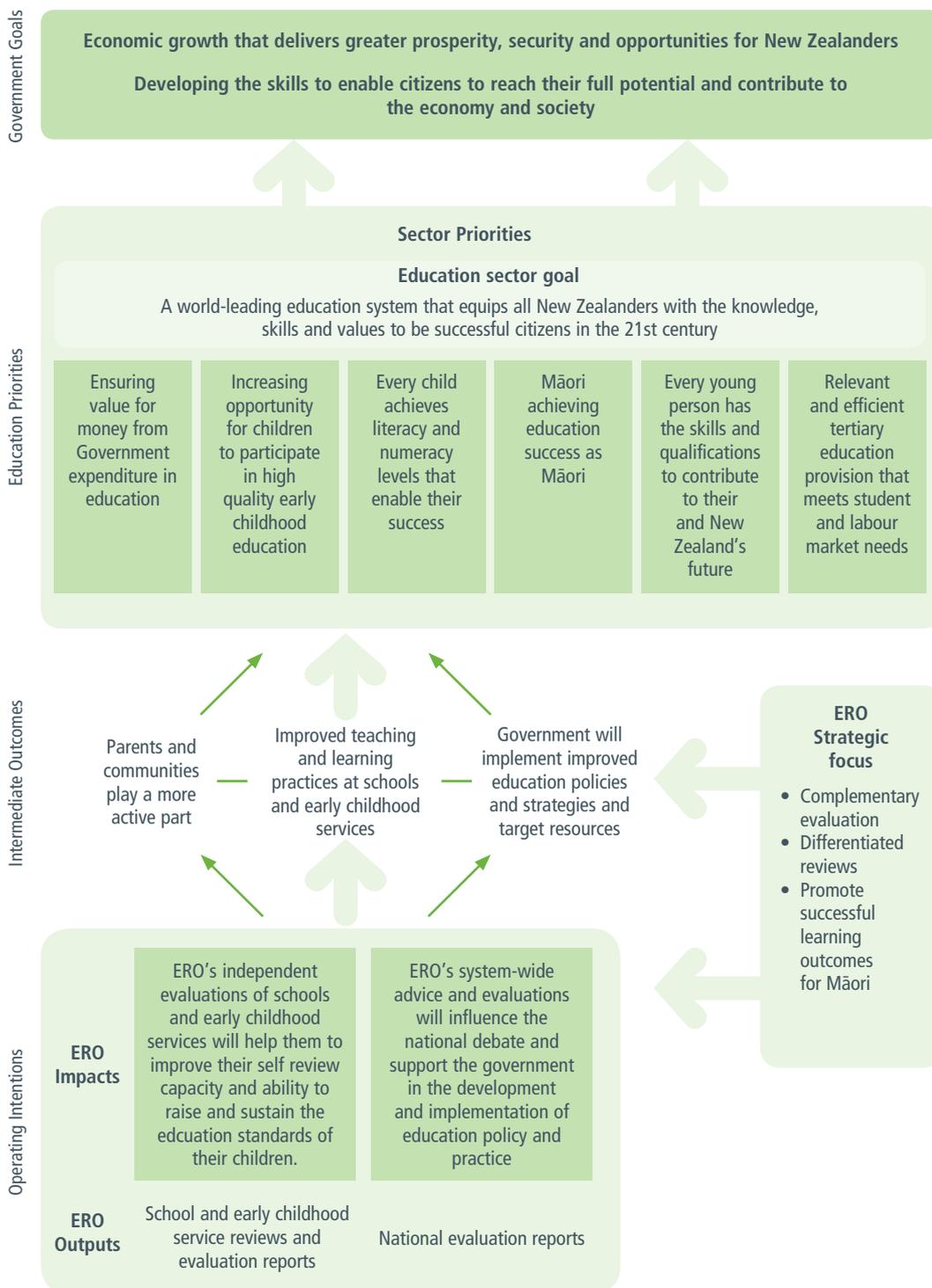
A working group was established in 2010/11 to refine ERO's reviews so they could have an even greater impact on improving outcomes for Māori students. The working group:

- conducted internal evaluation throughout the period of trial reviews to guide refinements, support the development of high quality tools and resources, and inform professional learning and development planning for reviewers
- strengthened alignment of ERO's priorities, operations and projects, including the development work for the early childhood review methodology and evaluation indicators
- began planning for the launch of ERO's work on evaluating outcomes for Māori learners in schools and kura.

### **Improved Outcomes for Pacific Students**

So that ERO could develop its approach to reviewing Pacific education, it prepared a paper in 2010/11, which explored the history of Pacific peoples, the issues they faced, and how ERO currently approached Pacific needs and issues. This work will continue in 2011/12.

Figure 1: ERO's Contribution to Education Priorities

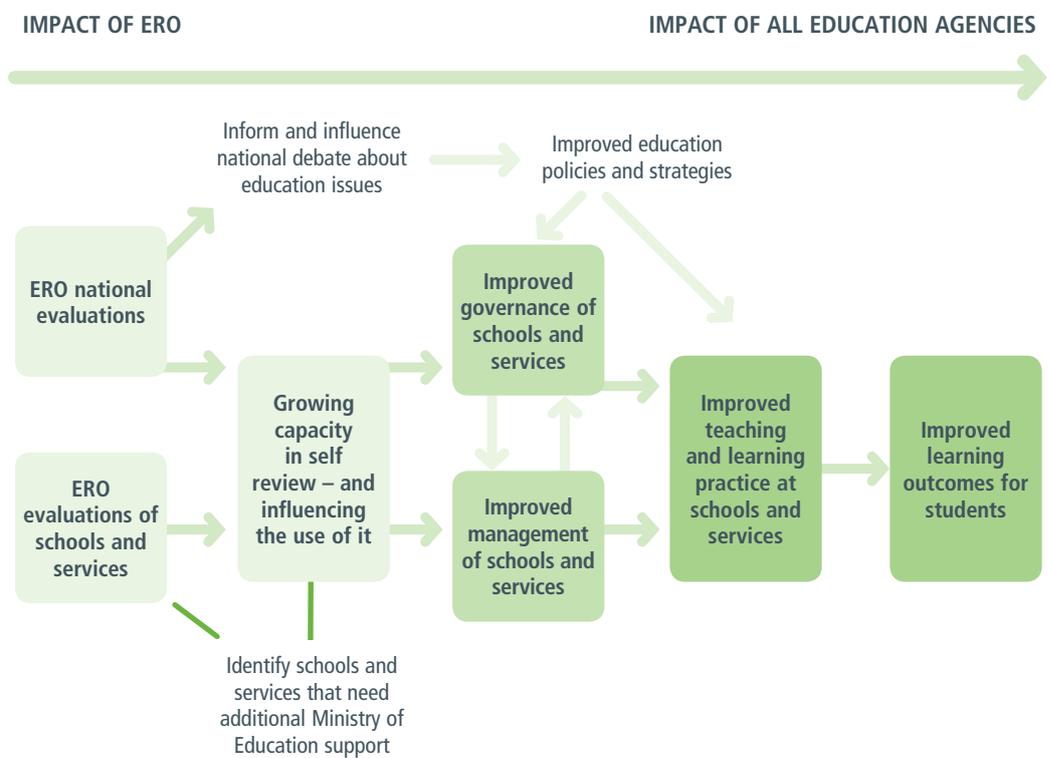


## PART 4: OPERATING INTENTIONS

### Intervention Logic

In 2011, ERO and Victoria University of Wellington's School of Government developed an intervention logic model to demonstrate the relationship and links between ERO's evaluations and its desired results. Impacts 1 and 2 (below) and their associated measures should be considered in this context.

Figure 2: ERO's Intervention Logic



### Impact 1

What did we aim to achieve?

Through its complementary review processes, ERO aimed to improve the self-review capacity of schools and early childhood services and their ability to raise and sustain the education standards for their children.

## What we achieved

During 2010/11 ERO completed:

- 1,265 education reviews of early childhood services at a cost of \$9.7m<sup>1</sup>
- 807 education reviews of schools and other education services<sup>2</sup> at a cost of \$15.8m
- self-review workshops involving more than 3,000 participants.

To increase internal and external evaluation capacity in a complementary manner, ERO focused its school review methodology on assessing how schools used their self-review processes to set priorities, make and implement strategic decisions, and monitor their own continuous improvement. Work undertaken to support this included:

- revising review procedures to reflect the differentiated review methodology, including the documentation of criteria to identify how soon a return visit should be scheduled
- implementing its review procedures for those schools that could expect a review return over a period of one-to-two years. ERO will continue to implement review procedures for the three and four-to-five year returns
- aligning ERO's internal reporting processes so that the Ministry of Education was kept informed about when it needed to intervene and/or provide additional support.

ERO's differentiated review methodology and evaluation capacity-building initiatives also focused ERO's resources on schools that needed most support and guidance for improving performance. In 2010/11, 19 percent of schools were given a one-to-two year review return timing. This provided an additional lever for the Ministry of Education (and Minister) to intervene and give additional support where needed. ERO's evaluation of underperforming schools over a period of one-to-two years enabled it to judge the progress made by these schools as they implemented improvement plans.

ERO has worked closely with the Ministry to align interventions (in particular the Ministry's Student Achievement Function) to ensure that schools received well-targeted and timely support. Additionally, ERO is increasingly accumulating in-depth information about the support available and progress made by underperforming schools as they implement improvement plans. This becomes a useful source of information for ERO and the sector to use to focus future strategies.

Fifteen percent of schools reviewed in 2010/11 were considered well-performing and were given a 4-to-5 year review return, increasing time between reviews, and allowing ERO to focus its resources on underperforming schools.

## Effectiveness

ERO's evaluation processes provided assurance to the Government, and parents and communities, of the quality and effectiveness of schools and early childhood services. Schools and early childhood services were able to refer to ERO's resources and evaluation tools to improve their own capability and performance.

ERO worked collaboratively with the Ministry of Education at national and regional levels. The Ministry used ERO's findings and work to inform its decisions about allocating resources to schools identified as requiring additional support.

1 Includes post-review assistance to 23 early childhood services.

2 Other education services included 10 homeschooling reviews and 35 private school reviews.

*Feedback Questionnaire Results*

In the course of its work, ERO collects feedback, using a range of survey techniques, to determine the likely impact of its reviews on schools and early childhood services.

In 2010 ERO redeveloped its school questionnaire to reflect changes in ERO's methodology for reviewing schools. Overall the findings indicate that schools are positive about ERO's school review processes. In particular respondents:

- were positive about the extent to which professional dialogue and ongoing discussions characterised their reviews
- valued and appreciated ERO's strengths-based approach to reviewing
- found the tools ERO used and provided useful for the review and for their own self review
- noted that reviewers modelled transparency
- indicated that they believed Māori student achievement and progress had been thoroughly reviewed in their schools.

ERO will also be developing questionnaires following the review of its early childhood services review methodology in 2011/12.

*Cost Effectiveness*

In 2010/11 ERO demonstrated its cost-effectiveness by maintaining its review frequency (one-third of schools and early childhood services reviewed annually) and high effectiveness rating (80 percent), while maintaining and reducing its service costs and input levels over the medium term.

Table 2: Measures and trends

MEASURE		2010/11 ACTUAL	2009/10 ACTUAL	2008/09 ACTUAL
Reviews*	Schools	807	868	837
	Early childhood	1,265	1,283	1,222
Cost (\$000)	Schools	\$15,518	\$16,304	\$16,030
	Early childhood	\$9,653	\$9,113	\$9,334
Review Officers (FTE)		152.5	147	150

\*On average ERO reviews one third of schools and early childhood services annually.

## Impact 2

### What did we aim to achieve?

ERO aimed to influence national education debate and to support the Government in the development and implementation of education policy and practice.

### What we achieved

ERO provided support for system improvement through its national evaluation programme. It gathered information from education providers to produce reports on system-wide performance in response to government priorities. These reports are key information sources for government policy direction in education, while also informing the Government about the impact of its policy settings and agencies. ERO published indicators and reports of good practice to support improvement in system performance.

During 2010/11 ERO worked with the Ministry of Education and other government agencies and completed 14 national evaluation reports at a cost of \$2.01m.

As part of the refocused reviews, ERO aligned its national evaluation programme to reflect the education priorities of the Government. The following summarises the national reports published in relation to each of the education priorities.

#### *Increasing opportunity for children to participate in high quality early childhood education.*

Through regular reviews of the quality of education in early childhood services, ERO reports on the participation of target groups in early childhood education and how services are building foundations for children's future learning. National evaluation reports completed in 2010/11 were:

- *Quality in Early Childhood Services*, August 2010
- *Literacy in Early Childhood Services: Teaching and Learning*, November 2010.

#### *Every child achieves literacy and numeracy levels that enable their success*

ERO gave the Government regular and timely information on how well schools were implementing national standards in literacy and numeracy, and using assessment for educational improvement. ERO also reported on literacy and numeracy in secondary schools and across the curriculum. National evaluation reports completed in 2010/11 were:

- *Working with National Standards within The New Zealand Curriculum*, August 2010
- *Schools Working with National Standards Implementation: Interim Report*, October 2010
- *Working with National Standards: Raising Student Achievement in Reading, Writing and Mathematics*, March 2011
- *Education on the East Coast: Schools and Kura Kaupapa Māori*, May 2011.

*Every young person has the skills and qualifications to contribute to their and New Zealand's future*

ERO reported on sector strategies aimed at enhancing students' attainment of skills and qualifications, and how well schools were supporting groups of students to achieve, particularly Māori and Pacific, and those with special needs. National evaluation reports completed in 2010/11 were:

- *Good Practice in Alternative Education*, September 2010
- *Schools' Provision for International Students*, February 2011
- *Evaluation of Teen Parent Units*, March 2011
- *Secondary Schools and Alternative Education*, April 2011
- *Literacy and Numeracy in East Coast Schools and Kura Kaupapa Māori*, May 2011
- *Kiwisport in Schools*, November 2010
- *Directions for Learning: New Zealand Curriculum Principles and Teaching as Inquiry*, June 2011.

*Relevant and efficient tertiary education provision that meets student and labour market needs*

ERO provided information about the senior secondary school/tertiary interface, focusing on programmes developed to support young people's transition from school to tertiary education and employment. The national evaluation report completed in 2010/11 was:

- *Good Practice in Alternative Education*, September 2010.

*Māori achieving education success as Māori*

ERO has also received considerable feedback regarding its report *Promoting Success for Māori Students: Schools' Progress*, released in June 2010. ERO found that too many schools were not effectively supporting Māori students to reach their potential and achieve success in education. This has led ERO to look at ways to encourage schools to improve their reviewing and reporting on outcomes for Māori students, as part of the external review process.

In 2010/11 ERO also reported on training in governance and management in kura kaupapa Maori:

- *Governance Training for Boards of Trustees and Whānau in Kura / Ngā Whakangungu Kawanatanga mā ngā Poari Whakahaere me ngā Whānau, i roto i ngā Kura*, October 2010

*Contractual Services*

ERO completed six evaluation projects funded by agreement with other agencies in 2010/11:

- *New Schools Readiness to Open in 2011 – Golden Sands School*
- *New Schools Readiness to Open in 2011 – Papamoa College*
- *New Schools Readiness to Open in 2011 – Stonefields School*
- *New Schools Readiness to Open in 2011 – Ormiston Senior School*
- *An Evaluation of Enterprising Food and Technology*, December 2010
- *Evaluation Report: Ohore Student Education and Transition Programme*, December 2010.

### *Contribution to Policy*

ERO participated in relevant meetings with Ministry of Education officials in order to align its work programme towards achieving government goals for education. ERO met with officials from other agencies as appropriate. ERO's national evaluations and comments on the policy programme were useful in guiding policy decisions and in adding value to the education sector. ERO also published a national evaluation report that summarised its findings in relation to successful schools:

- *Evaluation At a Glance: Successful Schools*, March 2011

### **Effectiveness**

ERO's findings and work are extensively used by the Minister of Education and the education sector as a lever to improve policy and system level performance. This influence is evident in agencies' stated intentions to use the information for policy development, in planning and work programmes, in professional development, for allocating resources, performance improvement and for ministerial advice and briefings.

Demand for ERO's evaluation services indicates that it is considered a lead agency for advice about government education policy implementation, and a source of reliable and well-targeted evaluation information. Direct feedback from the Ministry of Education and its response to ERO's evaluation programme and comment on policy indicates that the information provided in 2010/11 was both useful and influential. ERO has also noted an increase in the number of requests from policy makers for information about specific aspects of education.

*Table 3: Measures and trends*

MEASURE	2010/11 Actual	2009/10 Actual	2008/09 Actual	2007/08 Actual
<b>Education Evaluation Reports</b>	14	13	18	17
<b>Contractual Services</b>	6	7	7	16
<b>Policy Services</b>	32	23	33	39

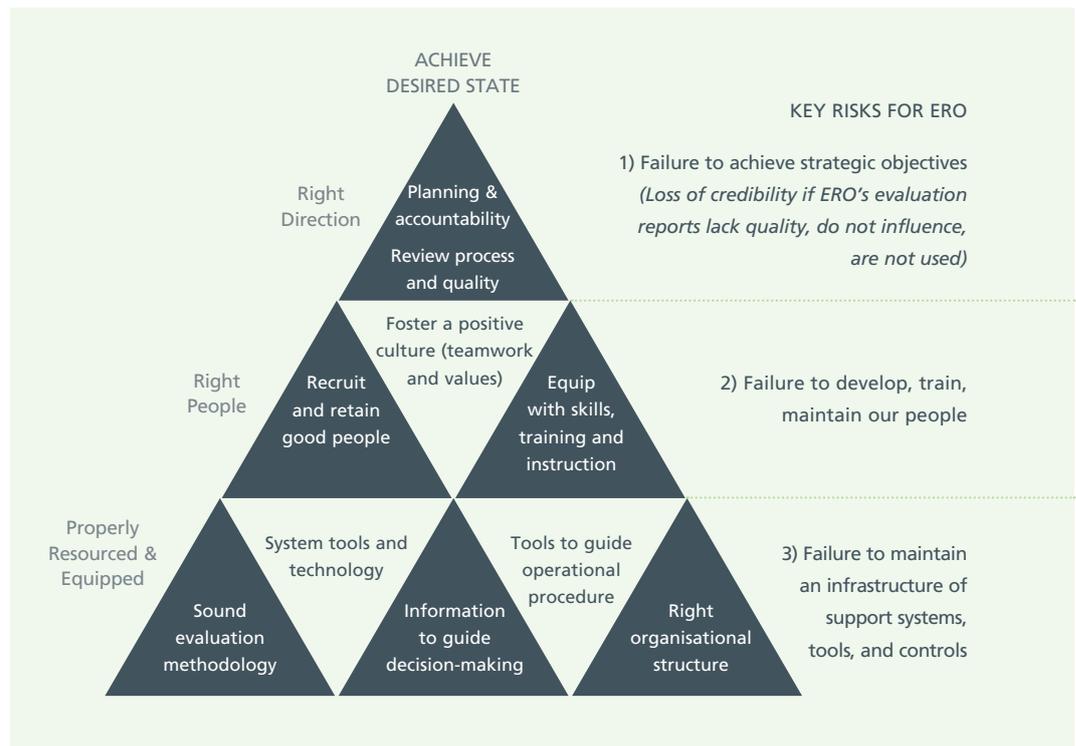
## PART 5: MANAGING IN A CHANGEABLE OPERATING ENVIRONMENT

### Risk and Assurance Framework

The quality of its reports and their impact on the target audiences are the key strategic and business risks for ERO. Without quality and impact, ERO’s reputation would lack the credibility needed to champion improvement across the sector.

A Risk and Assurance Framework is used to identify and mitigate potential risks to the achievement of ERO’s objectives, and to promote internal business improvement. Integral to the framework is regular engagement with ERO’s audiences to identify their expectations. Well-trained and professionally knowledgeable employees, with the necessary tools and equipment, are essential to ERO’s ability to deliver high quality evaluation services.

Figure 3: ERO Framework for Risk and Assurance



### Risk and Assurance Committee

A Risk and Assurance Committee made up of internal and external members reports to the Chief Review Officer. Audit New Zealand attends committee meetings. The committee delivers an opinion to the Chief Review Officer on the discharge of risk and assurance activities, and the progress of performance against ERO’s medium-term objectives.

### Internal Evaluation Programme

ERO continues to evaluate its own performance. An internal evaluation programme aims to increase ERO’s own capacity to deliver valued and effective evaluation processes. An Internal Evaluation Committee advises the Chief Review Officer on the development of the programme and the discharge of its activities.

## PART 6: ORGANISATIONAL HEALTH AND CAPABILITY

Embedding the desired culture of the Education Review Office and adjusting the practice of reviewers to support its new priorities continues to be a focus for ERO's leadership.

ERO continues to improve its culture and climate, and to foster innovation in its review processes and supporting infrastructure, while maintaining an effective and efficient operation.

Initiatives in the last three years have focused on building the capacity to develop review methodologies, and this has seen ERO implement new procedures, a revised framework for school reviews, and a revised set of review indicators to support the evaluation process.

ERO's revised report format, introduced in 2011, reflects the changes in methodology, and reports are now briefer and to the point.

ERO designed a new website in 2010 to improve site performance and to make ERO's work and evaluation reports more useful and accessible to the public.

ERO uses the Gallup organisation to conduct an engagement survey to measure the health of the organisation. ERO undertook its third engagement survey in 2011 and this showed a continued increase in staff engagement (3.84 percent in June 2011 compared with 3.76 percent in June 2009) and an overall improvement in satisfaction across most business groups. This is a pleasing result, particularly as ERO has sought to develop a culture that is participatory, high trust, and collaborative. ERO managers and staff are using the results to improve ERO's working environment.

### Professional Learning and Development

To deliver high quality evaluation processes, ERO needs skilled education evaluators complemented by good quality managers and support staff who are committed to ERO's goals.

To support reviewers in implementing the new methodology, ERO introduced a phased professional leadership and development programme. The programme identified and established the competencies and skills needed for the effective implementation of ERO's new review methodology, as well as promoting an understanding of key principles that underpin the methodology.

Staff were given in-depth training to increase their understanding of ERO's new review procedures and methodology, and the National Standards for literacy and numeracy. The professional development also supported staff in understanding ERO's methodology for schools experiencing difficulty and the criteria for each review return time. Each level of training was introduced at specifically identified times to coincide with and support the introduction of the new review procedures. In line with ERO's aim of developing and strengthening leadership skills, senior review staff participated in planning and delivering the content of the training. ERO aimed to achieve national consistency in the outcomes of its professional learning and development programme but retain flexibility in how the programme was designed and delivered for best results at a regional level.

### Efficient and Effective Infrastructure

ERO has responded promptly to the tight financial climate. Reductions in staffing and baseline in the last three years have been managed through careful planning, organisational change, and changes in methodology and practice. All these activities produced efficiencies and cost savings without putting at risk ERO's ability to deliver its work programme. As such, ERO has reduced its total expenditure and returned money to the Crown at year end, consistent with its performance improvement actions agreed with the Minister.

Savings are now being realised through better use of facilities and equipment, and opportunities for shared services.

Further initiatives completed (or started) in 2010/11 included:

- the implementation of an ERO-wide communications strategy and associated work plans
- participation in the All-of-Government procurement initiative (vehicles and stationery)
- a review of office accommodation as each location lease neared its end. To date the Wellington regional office has been relocated and the Corporate Office has been redesigned. Both initiatives reduced space and provide substantial ongoing cost savings. New premises for Christchurch are currently being investigated
- a review of hotel accommodation, to consolidate the number of suppliers used to achieve cheaper rates where possible
- a roll-out of an electronic document record management system to all regions
- the participation of all regions and units in annual planning and budgeting (and reporting) processes. Internal plans and budgets have been aligned to strategic priorities and internal budgets have been made more flexible giving ERO the ability to shift resources to areas of priority.

### Partnership with the Public Service Association

ERO has maintained a productive working relationship with the PSA. In 2010/11 a remuneration practice document and core competencies for review officers were implemented as part of the performance management process. The document and competencies were developed by a joint ERO/PSA working group.

### Responding to the Christchurch Earthquake

ERO implemented its business contingency plans following the loss of its office premises in the Christchurch earthquake of 22 February 2011. The contingency plan included implementing a revised review schedule due to the temporary closure of schools and early childhood services in the Canterbury region. While staff health has been paramount, ERO maintained its output levels during this time.

### ERO's commitment to Te Tiriti o Waitangi

To meet its commitment to Te Tiriti o Waitangi and its stated intention to focus on promoting success for Māori learners, ERO developed *He Toa Takitini: Outcomes for Māori* (an internal strategy) in 2009. The strategy identified work strands to strengthen ERO's own understanding and internal capabilities, and build its relationships with the sector (iwi, whānau, communities and education agencies).

In 2010/11 professional learning and development initiatives to support *He Toa Takitini* focused on developing reviewers' understanding of issues pertaining to Māori.

### Equal Employment Opportunities

#### Equality and diversity

In line with the New Zealand Public Service Equal Employment Opportunities Policy, ERO:

- treated people fairly and with respect, ensuring equality of access to opportunities (equality)
- understood, appreciated and realised the benefits of individual differences (diversity).

Integrating equality and diversity is a key ingredient for organisational success. It helps to improve services to the Government and people of New Zealand, and to attract and retain talented staff. ERO remains committed to integrating equality and diversity into all aspects of its business and this is reflected in its ongoing work plans.

## PART 7: FINANCIAL STATEMENTS AND SERVICE PERFORMANCE

### Statement of Responsibility

In terms of the Public Finance Act 1989, I am responsible, as the Chief Review Officer of the Education Review Office (ERO), for the preparation of the financial statements and statement of service performance, and for the judgements made in them.

I have the responsibility for establishing, and I have established, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In my opinion, these financial statements and statement of service performance fairly reflect the financial position and operations of ERO for the year ended 30 June 2010.



Graham Stoop  
Chief Review Officer

30 September 2011



James Kwing  
Chief Financial Officer

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE READERS OF THE EDUCATION REVIEW OFFICE'S**  
**FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2011**

The Auditor-General is the auditor of the Education Review Office (the Department). The Auditor-General has appointed me, J. R. Smail, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the statement of service performance of the Department on her behalf.

**We have audited:**

- the financial statements of the Department on pages 35 to 54, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2011, the statement of comprehensive income, statement of changes in equity, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Department on pages 24 to 34.

**Opinion**

**In our opinion:**

- the financial statements of the Department on pages 35 to 54:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Department's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the year ended on that date; and
    - expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2011; and
    - unappropriated expenses and capital expenditure for the year ended 30 June 2011.
- the statement of service performance of the Department on pages 24 to 34:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects for each class of outputs for the year ended 30 June 2011 the Department's:
    - service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
    - actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 30 September 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Review Officer and our responsibilities, and we explain our independence.

### Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the statement of service performance are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and the statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Department's preparation of the financial statements and the statement of service performance that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Chief Review Officer;
- the adequacy of all disclosures in the financial statements and the statement of service performance; and
- the overall presentation of the financial statements and the statement of service performance.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the statement of service performance. We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

### Responsibilities of the Chief Review Officer

The Chief Review Officer is responsible for preparing:

- financial statements and a statement of service performance that:
  - comply with generally accepted accounting practice in New Zealand;
  - fairly reflect the Department's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
  - fairly reflects its service performance.

The Chief Review Officer is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements and a statement of service performance that are free from material misstatement, whether due to fraud or error.

The Chief Review Officer's responsibilities arise from the Public Finance Act 1989.

### Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

### Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Department.

### Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Education Review Office (the Department) for the year ended 30 June 2011 included on the Department's web site. The Department is responsible for the maintenance and integrity of the Department's web site. We have not been engaged to report on the integrity of the Department's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 30 September 2011 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



J. R. Smaill  
Audit New Zealand  
On behalf of the Auditor-General  
Wellington, New Zealand

## Statement of Service Performance

for the year ended 30 June 2011

The following service performance information outlines, for each output class, the actual performance measured against quality, quantity, timeliness specifications, and cost.

The results for the year ended 30 June 2011 are reported against the forecast information contained in the Estimates of Appropriation 2010/11 of ERO. Explanations of major variations from the Estimates of Appropriation 2010/11 are included.

### Summary

The services provided by ERO in 2010/11 were:

2009/10 Expenditure Actual \$000	Departmental Output Expenses	2010/11 Expenditure Actual \$000	2010/11 Appropriation \$000
<b>Multi-class Output Expense Appropriation</b>			
<b>Accountability Reviews</b>			
9,193	Early Childhood Education Services	9,708	10,344
16,447	Schools and Other Education Service Providers	15,777	15,841
<b>25,640</b>	<b>Total Accountability Reviews</b>	<b>25,485</b>	<b>26,185</b>
2,719	Quality of Education Reports and Services	2,787	2,849
<b>28,359</b>	<b>Total</b>	<b>28,272</b>	<b>29,034</b>

In addition to revenue Crown, ERO provided contract-based services to third parties on a fee-for-service basis and generated revenue from rent recoveries during 2010/11. ERO also received departmental funding for the state sector retirement and KiwiSaver schemes.

The appropriation figures are those presented in the *Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011*, as amended by the Supplementary Estimates.

## Statement of Service Performance

*for the year ended 30 June 2011 (continued)*

### Accountability Reviews – Early Childhood Education Services

#### Description

This class of outputs involves reporting on the performance of early childhood education services. These reviews include:

- education reviews of early childhood education services
- post-review assistance to early childhood education services.

Education reviews in the early childhood education sector focus on:

- how services are contributing to children's learning and development
- whether or not services are providing a safe environment that promotes children's safety and wellbeing
- national evaluation topics.

Post-review assistance workshops for early childhood education providers are provided in the form of specific ERO assistance to help governing bodies to develop a plan of action to address serious issues identified during an education review relating to the safety or education of children.

Review reports inform the Crown, the governing bodies of services, their staff and parents about the quality of education and management practices.

## Statement of Service Performance

for the year ended 30 June 2011 (continued)

### Quantity, Quality and Timeliness

ERO estimated and provided the following numbers of Accountability Reviews – Early Childhood Education Services for the year ended 30 June 2010:

2009/10 Quantity Delivered <sup>a</sup>	Note	2010/11 Quantity Delivered <sup>a</sup>	2010/11 Quantity Estimated	Percentage of Estimated <sup>b</sup>
1,283		1,265	1,240-1,400	100%
35	1	23	80-120	29%
100%		100%	–	–
100%	2	100%	–	–

a ERO recognises a review as an output, in terms of the Statement of Service Performance, at the time it is available for delivery to the Minister responsible for the Education Review Office. Partially completed reports are not reported in the Statement of Service Performance.

b Percentage of Estimated is calculated using the following process:

- production falling within the 'Quantity Estimated' range is recorded as 100% achieved;
- production recorded below the 'Quantity Estimated' range is measured as a percentage of the lower point of the 'Quantity Estimated' range; and
- production recorded above the 'Quantity Estimated' range is measured as a percentage of the upper point of the 'Quantity Estimated' range.

Note 1: Post-review assistance is dependent on early childhood education providers taking up the offer of a meeting and is therefore not controllable by ERO.

Note 2: All reports passed a quality assurance check (30 June 2010: 100 percent). This check involves a formal process of peer review and management sign-off confirming adherence with standard procedures. ERO's Manual of Standard Procedures provides a detailed description of ERO's quality standards.

## Statement of Service Performance

for the year ended 30 June 2011 (continued)

2009/10 Actual Timeliness %		2010/11 Actual Timeliness %	2010/11 Forecast Timeliness Standard %
	1.1 Education Reviews – Early Childhood Education Services		
	Unconfirmed report sent within:		
86	20 working days	81	75
94	25 working days	91	85
98	35 working days	98	98

Unconfirmed (near-final) reports are sent to early childhood service providers for comment on any issues of fact or matters relating to findings. The timeliness criteria require 75 percent of near-final reports to be sent within 20 working days of the end of the last week on site, 85 percent of near-final reports within 25 working days and 98 percent of near-final reports within 35 working days. ERO met all the timeliness criteria for early childhood education services.

### Cost

The cost of services for Accountability Reviews – Early Childhood Education Services for the year ended 30 June 2011 was:

30 June 2010 Actual \$000		30 June 2011 Actual \$000	30 June 2011 Main Estimates \$000	30 June 2011 Supp. Estimates \$000
	<b>Revenue</b>			
9,114	Revenue Crown	10,228	10,084	10,228
104	Revenue Department and Other	157	64	80
<b>9,218</b>	<b>Total Revenue</b>	<b>10,385</b>	<b>10,148</b>	<b>10,308</b>
	<b>Cost</b>			
6,461	Personnel	6,835	7,203	7,321
2,306	Operating	2,459	2,400	2,515
339	Depreciation and Amortisation	322	448	375
87	Capital Charge	92	97	97
<b>9,193</b>	<b>Total Costs</b>	<b>9,708</b>	<b>10,148</b>	<b>10,308</b>
<b>25</b>	<b>Net Surplus</b>	<b>677</b>	<b>-</b>	<b>-</b>

## Statement of Service Performance

*for the year ended 30 June 2011 (continued)*

### Accountability Reviews – Schools and Other Education Service Providers

#### *Description*

This class of outputs involves reporting on the performance of schools and other education service providers (excluding early childhood). These reviews include:

- education reviews of state schools – primary and secondary
- homeschooling reviews
- private school reviews.

Reviews address the following areas:

- student learning – engagement, progress and achievement, as a central focus
- national evaluation topics
- compliance issues.

Homeschooling reviews are reviews of programmes for students granted exemption from attendance at school, and are carried out at the request of the Ministry of Education.

Private school reviews are carried out in order to meet the statutory requirement to review registered private schools under section 35I and Part 28 of the Education Act 1989.

Review reports inform the Crown, the governing bodies of schools, their staff and parents about the quality of education and management practices.

## Statement of Service Performance

for the year ended 30 June 2011 (continued)

### Quantity, Quality and Timeliness

ERO estimated and provided the following numbers of Accountability Reviews – Schools and Other Education Service Providers for the year ended 30 June 2011:

2009/10 Quantity Delivered <sup>a</sup>		Note	2010/11 Quantity Delivered <sup>a</sup>	2010/11 Quantity Estimated	Percentage of Estimated <sup>b</sup>
868	2.1 Education Reviews of State Schools		807	710–840	100%
5	2.2 Homeschooling Reviews	3	10	25–35	40%
33	2.3 Private School Reviews		35	35–45	100%
	<i>Quality</i>				
100%	Consistent with approved standard procedures		100%	–	–
100%	Reports will pass a quality assurance check	4	100%	–	–

Note 3: Homeschooling reviews are carried out at the request of the Ministry of Education. ERO met these demands and supplied the requested reviews to the Ministry.

Note 4: All education review reports on school service providers passed a quality assurance check (30 June 2010: 100 percent). This quality check involves a formal process of peer review and management sign-off confirming adherence with standard procedures. ERO's Manual of Standard Procedures provides a detailed description of ERO's quality standards.

### Statement of Service Performance

for the year ended 30 June 2011 (continued)

2009/10 Actual Timeliness %		2010/11 Actual Timeliness %	2010/11 Forecast Timeliness Standard %
	2.1 Education Reviews of State Schools		
	Unconfirmed report sent within:		
85	20 working days	86	75
94	25 working days	95	85
98	35 working days	99	98
	2.2 Homeschooling Reviews		
	Unconfirmed report sent within:		
100	20 working days	100	75
100	25 working days	100	85
100	35 working days	100	98
	2.3 Private School Reviews		
	Unconfirmed report sent within:		
94	20 working days	91	75
100	25 working days	100	85
100	35 working days	100	98

Unconfirmed (near-final) reports are sent to schools for comment on any issues of fact or matters relating to findings. The timeliness criteria require 75 percent of near-final reports to be sent within 20 working days of the end of the last week on site, 85 percent of near-final reports within 25 working days and 98 percent of near-final reports within 35 working days. ERO met all the timeliness criteria for schools and other education service providers.

## Statement of Service Performance

for the year ended 30 June 2011 (continued)

### Cost

The cost of services for Accountability Reviews – Schools and Other Education Service Providers for the year ended 30 June 2011 was:

30 June 2010 Actual \$000		30 June 2011 Actual \$000	30 June 2011 Main Estimates \$000	30 June 2011 Supp. Estimates \$000
	<b>Revenue</b>			
16,491	Revenue Crown	15,545	15,588	15,545
191	Revenue Department and Other	255	166	202
<b>16,682</b>	<b>Total Revenue</b>	<b>15,800</b>	<b>15,754</b>	<b>15,747</b>
	<b>Cost</b>			
11,562	Personnel	11,109	11,183	11,184
4,125	Operating	3,995	3,726	3,845
604	Depreciation and Amortisation	524	696	572
156	Capital Charge	149	149	146
<b>16,447</b>	<b>Total Costs</b>	<b>15,777</b>	<b>15,754</b>	<b>15,747</b>
<b>235</b>	<b>Net Surplus/(Deficit)</b>	<b>23</b>	<b>–</b>	<b>–</b>

## Statement of Service Performance

*for the year ended 30 June 2011 (continued)*

### Quality of Education Reports and Services

#### *Description*

This class of outputs comprises:

- education evaluation reports
- policy services
- ministerial services
- contractual services.

Each year ERO reports on educational matters such as delivery of the curriculum, governance, management structures and systems, student achievement, the delivery of teaching services and barriers to learning across a number of institutions. These education evaluation reports may also include case studies of good practice.

Education evaluation reports tend to follow specific themes. A theme may arise out of the Government's education initiatives or may surface as an issue of strategic importance identified by ERO in its regular reporting on schools and early childhood education services.

Policy services involve advice to, or on behalf of, the Minister responsible for the Education Review Office, on policy proposals or any other issues referred to, or identified by, the Chief Review Officer.

ERO is not primarily a provider of policy advice. From its regular presence in schools and early childhood services it is, however, in a position to make a useful contribution to assist the policy agencies. This service contributes to the Government's policy priorities for schools and early childhood education service providers.

Ministerial services include the provision of oral briefings and briefing papers to the Minister, preparation of answers to parliamentary questions, drafting of ministerial correspondence and speech notes, and responding to general and official information requests. Ministerial services also include advice to the Minister on the implementation of recommendations arising from institutional evaluations and evaluation reports, or any other matter on which the Minister seeks additional information or feedback.

Contractual services include one-off reviews of institutions (or certain aspects of them), and analyses of particular matters under specific terms of reference agreed with ERO. Contractual reviews are conducted on a fee-for-service basis.

## Statement of Service Performance

for the year ended 30 June 2011 (continued))

### Quantity, Quality and Timeliness

ERO estimated and provided the following numbers of Quality of Education Reports and Services for the year ended 30 June 2011:

2009/10 Quantity Delivered	Note	2010/11 Quantity Delivered	2010/11 Quantity Estimated	Percentage of Estimated <sup>b</sup>
13	3.1	14	12–20	100%
	<i>Quality</i>			
100%	Consistent with approved presentational standards and agreed terms of reference	100%	–	–
23	3.2	32	25–30	107%
	<i>Quality</i>			
100%	Consistent with approved presentational standards	100%	–	–
174	3.3	138	145–210	95%
	<i>Quality</i>			
100%	Consistent with Cabinet Office Manual and Minister's requirements	100%	–	–
7	3.4	6	5–10	100%
	<i>Quality</i>			
100%	Consistent with terms of contracts	100%	–	–

Note 5: The majority of services provided under this output are subject to external demand factors. ERO met these demands and supplied the requested services to the Minister responsible for the Education Review Office.

Note 6: In no cases did the information gathering and consultation process exceed 15 days (30 June 2010: nil). There were also no first drafts returned by the Minister (30 June 2010: nil).

*The Statement of Accounting Policies and the Notes to the Financial Statements form part of these Financial Statements.*

### Statement of Service Performance

for the year ended 30 June 2011 (continued)

#### Cost

The cost of services for Quality of Education Reports and Services for the year ended 30 June 2011 was:

30 June 2010 Actual \$000		30 June 2011 Actual \$000	30 June 2011 Main Estimates \$000	30 June 2011 Supp. Estimates \$000
	<b>Revenue</b>			
2,447	Revenue Crown	2,368	2,469	2,368
218	Revenue Department and Other	299	260	340
<b>2,665</b>	<b>Total Revenue</b>	<b>2,667</b>	<b>2,729</b>	<b>2,708</b>
	<b>Cost</b>			
1,912	Personnel	1,963	1,938	1,923
681	Operating	705	646	662
100	Depreciation and Amortisation	92	120	98
26	Capital Charge	27	25	25
<b>2,719</b>	<b>Total Costs</b>	<b>2,787</b>	<b>2,729</b>	<b>2,708</b>
(54)	<b>Net (Deficit)/Surplus</b>	<b>(120)</b>	<b>-</b>	<b>-</b>

*The Statement of Accounting Policies and the Notes to the Financial Statements form part of these Financial Statements.*

## Statement of Comprehensive Income

for the year ended 30 June 2011

30 June 2010 Actual		Note	30 June 2011 Actual	30 June 2011 Main Estimates	30 June 2011 Supp. Forecasts
\$000			\$000	\$000	\$000
<b>Revenue</b>					
28,052	Crown		28,141	28,141	28,141
464	Departments		535	450	622
34	Other	1	176	40	–
15	Net Gain on Disposal of Property, Plant and Equipment		–	–	–
<b>28,565</b>	<b>Total Revenue</b>		<b>28,852</b>	<b>28,631</b>	<b>28,763</b>
<b>Expenses</b>					
19,935	Personnel		19,907	20,075	20,430
7,112	Operating	2	7,158	6,686	7,019
1,043	Depreciation and Amortisation	5,6	939	1,251	1,046
269	Capital Charge	3	268	269	268
<b>28,359</b>	<b>Total Expenses</b>		<b>28,272</b>	<b>28,281</b>	<b>28,763</b>
<b>206</b>	<b>Net Surplus</b>		<b>580</b>	<b>350</b>	<b>–</b>
–	<b>Other Comprehensive Income</b>		–	–	–
<b>206</b>	<b>Total Comprehensive Income</b>		<b>580</b>	<b>350</b>	<b>–</b>

*The Statement of Accounting Policies and the Notes to the Financial Statements form part of these Financial Statements.*

### Statement of Changes in Taxpayers' Funds

for the year ended 30 June 2011

30 June 2010 Actual \$000		30 June 2011 Actual \$000	30 June 2011 Main Estimates \$000	30 June 2011 Supp. Forecasts \$000
206	Total Comprehensive Income	580	350	–
(206)	Repayment of Surplus to the Crown	(406)	(350)	–
(26)	Capital Withdrawal	–	–	–
(26)	Movements in Taxpayers' Funds for the Period	174	–	–
3,598	Taxpayers' Funds at the Start of the Year	3,572	3,572	3,572
3,572	Taxpayers' Funds at the End of the Year	3,746	3,572	3,572

*The Statement of Accounting Policies and the Notes to the Financial Statements form part of these Financial Statements.*

## Statement of Financial Position

as at 30 June 2011

30 June 2010 Actual \$000	Note	30 June 2011 Actual \$000	30 June 2011 Main Estimates \$000	30 June 2011 Supp. Forecasts \$000
<b>Assets</b>				
<i>Current Assets</i>				
4,479		5,263	3,328	3,857
84	4	98	230	147
89		102	100	100
<u>4,652</u>		<u>5,463</u>	<u>3,658</u>	<u>4,104</u>
<i>Non-Current Assets</i>				
3,289	5	2,887	3,139	3,503
610	6	547	856	760
<u>3,899</u>		<u>3,434</u>	<u>3,995</u>	<u>4,263</u>
<u>8,551</u>		<u>8,897</u>	<u>7,653</u>	<u>8,367</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
1,753	7	1,668	840	1,773
54	8	85	–	–
206		406	350	–
1,475	9	1,493	1,329	1,507
<u>3,488</u>		<u>3,652</u>	<u>2,519</u>	<u>3,280</u>
<i>Non-Current Liabilities</i>				
–	8	133	–	–
1,491	9	1,366	1,562	1,515
<u>1,491</u>		<u>1,499</u>	<u>1,562</u>	<u>1,515</u>
<u>4,979</u>		<u>5,151</u>	<u>4,081</u>	<u>4,795</u>
<b>Taxpayers' Funds</b>				
3,572		3,746	3,572	3,572
<u>3,572</u>		<u>3,746</u>	<u>3,572</u>	<u>3,572</u>
<u>8,551</u>		<u>8,897</u>	<u>7,653</u>	<u>8,367</u>

The Statement of Accounting Policies and the Notes to the Financial Statements form part of these Financial Statements.

## Statement of Cash Flows

for the year ended 30 June 2011

30 June 2010 Actual \$000		Note	30 June 2011 Actual \$000	30 June 2011 Main Estimates \$000	30 June 2011 Supp. Forecasts \$000
<b>Cash Flows from Operating Activities</b>					
<i>Cash provided from:</i>					
28,052	Crown		28,141	28,141	28,141
503	Departments		551	450	559
52	Other		146	40	–
<i>Cash applied to:</i>					
(19,744)	Personnel		(20,014)	(20,094)	(20,374)
(7,343)	Operating		(6,938)	(6,836)	(6,880)
(252)	Capital Charge		(268)	(269)	(268)
10	Goods and Services Tax (net)		35	–	–
<b>1,278</b>	<b>Net Cash Inflow from Operating Activities</b>	<b>10</b>	<b>1,653</b>	<b>1,432</b>	<b>1,178</b>
<b>Cash Flows from Investing Activities</b>					
<i>Cash provided from:</i>					
386	Sale of Property, Plant and Equipment		87	100	98
<i>Cash applied to:</i>					
(1,081)	Purchase of Property, Plant and Equipment		(636)	(750)	(1,302)
(575)	Purchase of Intangible Assets		(114)	(250)	(390)
<b>(1,270)</b>	<b>Net Cash Outflow from Investing Activities</b>		<b>(663)</b>	<b>(900)</b>	<b>(1,594)</b>
<b>Cash Flows from Financing Activities</b>					
<i>Cash applied to:</i>					
(26)	Repayment of Surplus to the Crown		(206)	(204)	(206)
(26)	Capital Withdrawal		–	–	–
<b>(52)</b>	<b>Net Cash Outflow from Financing Activities</b>		<b>(206)</b>	<b>(204)</b>	<b>(206)</b>
(44)	Net (Decrease)/Increase in Cash		784	328	(622)
4,523	Cash at Start of the Year		4,479	3,000	4,479
<b>4,479</b>	<b>Cash at the End of the Year</b>		<b>5,263</b>	<b>3,328</b>	<b>3,857</b>

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

*The Statement of Accounting Policies and the Notes to the Financial Statements form part of these Financial Statements.*

## Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2011

There are no contingent liabilities and assets as at 30 June 2011 (30 June 2010: nil).

## Statement of Unappropriated Expenditure

for the year ended 30 June 2011

ERO has not incurred expenses in excess of or without appropriation by Parliament (30 June 2010: nil).

## Statement of Departmental Expenses and Capital Expenditure against Appropriations

for the year ended 30 June 2011

30 June 2010 Expenditure Actual \$000		30 June 2011 Expenditure Actual \$000	30 June 2011 Appropriation \$000
	<b>Vote Education Review Office</b>		
	<b>Departmental Output Expenses</b>		
	<b>Multi-class Output Expense Appropriation</b>		
	<b>Accountability Reviews</b>		
9,193	Early Childhood Education Services	9,708	10,344
16,447	Schools and Other Education Service Providers	15,777	15,841
<u>25,640</u>	<b>Total Accountability Reviews</b>	<u>25,485</u>	<u>26,185</u>
2,719	Quality of Education Reports and Services	2,787	2,849
<u>28,359</u>	<b>Total Departmental Output Expenses</b>	<u>28,272</u>	<u>29,034</u>
	<b>Permanent Legislative Authority (PLA)</b>		
<u>1,656</u>	Capital Expenditure – PLA	750	1,692

The appropriation figures are those presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2011, as amended by the Supplementary Estimates.

The Capital Expenditure—Permanent Legislative Authority appropriation is limited to the purchase or development of assets by and for the use of ERO, as authorised by section 24(1) of the Public Finance Act 1989. No amount is appropriated for Capital Expenditure—Permanent Legislative Authority.

*The Statement of Accounting Policies and the Notes to the Financial Statements form part of these Financial Statements.*

## Statement of Commitments

as at 30 June 2011

ERO leases all of its office premises in New Zealand. The annual lease rental payments are subject to regular reviews. The amounts disclosed below as future commitments are based on the current rental rates.

ERO has also entered into non-cancellable contracts for computer network services totalling \$212,000 as at 30 June 2011 (30 June 2010: \$245,000).

30 June 2010 Actual \$000		30 June 2011 Actual \$000
	<b>Non-Cancellable Operating Lease Commitments</b>	
1,562	Less than one year	1,186
799	One to two years	1,355
1,732	Two to five years	3,324
–	More than five years	2,488
4,093	Total Non-Cancellable Operating Commitments	8,353

*The Statement of Accounting Policies and the Notes to the Financial Statements form part of these Financial Statements.*

## Statement of Accounting Policies

for the year ended 30 June 2011

### Reporting Entity

The Education Review Office (ERO) is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand. The primary objective of ERO is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, ERO has designated itself as a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements of ERO are for the year ended 30 June 2011 and were authorised for issue by the Chief Review Officer on 30 September 2011.

### Basis of Preparation

These financial statements include all the activities of ERO, are reported as required by the Public Finance Act 1989, and comply with generally accepted accounting practice (and therefore comply with NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

The measurement base applied is historical cost unless otherwise stated and the information is presented in New Zealand dollars.

### Changes in Accounting Policies

There have been no changes in accounting policies, including cost allocation policies, and all policies have been applied on a basis consistent with those adopted in the last audited financial statements.

### Early Adopted Amendments to Standards

The effect of early adopting the standard NZ IFRS 7 *Financial Instruments: Disclosures* is that the following information is no longer disclosed:

- the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated; and
- the maximum exposure to credit risk by class of financial instrument if the maximum credit risk exposure is best represented by their carrying amount.

### Standards, amendments, and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to ERO, are:

- NZ IAS 24 *Related Party Disclosures (Revised 2009)* replaces NZ IAS 25 *Related Party Disclosures (Issued 2004)* and is effective for reporting periods commencing on or after 1 January 2011. The revised standard:
  - Removes the previous disclosure concessions applied by ERO for arms-length transactions between ERO and entities controlled or significantly influenced by

the Crown. The effect of the revised standard is that more information is required to be disclosed about transactions between ERO and entities controlled or significantly influenced by the Crown.

- Requires information to be disclosed about any related party transactions with Ministers of the Crown.
- Clarifies that related party transactions include commitments with related parties.

ERO will adopt the revised standard for the year ending 30 June 2012.

- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting.

Phase 1 has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial assets (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit.

The new standard is required to be adopted for the year ended 30 June 2014. ERO has not yet assessed the effect of the new standard and expects it will not be early adopted.

#### Accounting Policies

The following are the accounting policies, which may have a material effect on the measurement of the financial position of ERO and the results of its operations.

#### Revenue

ERO derives revenue from the provision of outputs to the Crown, the provision of services to third parties and rent recoveries. ERO also receives departmental funding for the state sector retirement and KiwiSaver schemes.

ERO recognises Revenue Crown at fair value when earned and it is reported in the financial period to which it relates. Other Revenue is recognised at fair value at the time of completion of the service or in accordance with the terms of specific contracts and is reported in the financial period to which it relates.

#### Superannuation Schemes – Defined Contribution Schemes

Obligations for contributions to the State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Comprehensive Income as incurred.

### Financial Instruments

ERO is party to financial instruments entered into in the course of its normal operations. These include cash, debtors and creditors. All financial instruments are measured at fair value and are recognised in the Statement of Financial Position. All associated revenue and expenses are credited to or charged against the Statement of Comprehensive Income.

### Cash

Cash includes cash on hand and funds on deposit with banks.

### Debtors and Other Receivables

Debtors and other receivables are recognised and carried at fair value less any allowance for any uncollectible amounts. Impairment of debtors and other receivables are reviewed monthly.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

The initial cost of property, plant and equipment includes the purchase consideration and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose. Subsequent expenditure that extends or expands the asset's service potential and that can be measured reliably is capitalised.

Capitalisation thresholds applied for individual assets or group of assets are set out as follows:

	Capitalisation Threshold (\$)
Computer Hardware	1,000
Motor Vehicles	500
Office Equipment	1,000
Furniture and Fittings	1,500
Leasehold Improvements	1,500

### Depreciation

Depreciation is charged on property, plant and equipment on a straight-line basis over their estimated useful lives, which will write off the cost of the assets to their estimated residual value. The estimated useful life, residual values and associated depreciation rates applied to each class of property, plant and equipment are as follows:

	Estimated Useful Life (Years)	Depreciation Rates (%)	Residual Values (%)
Computer Hardware	4	25	–
Motor Vehicles	4–5	20–25	25
Office Equipment	5	20	–
Furniture and Fittings	10	10	–
Leasehold Improvements	10	10	–

Depreciation is not charged on capital work in progress.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

### Intangible Assets

Intangible assets with finite lives are stated at cost less amortisation and any impairment losses.

Acquired intangible assets are initially recorded at cost. The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and when the development expenditure can be reliably measured.

Capitalisation thresholds applied for individual assets or group of intangible assets are set out as follows:

	Capitalisation Threshold (\$)
Computer Software	1,000
Review Procedures	20,000

### Amortisation

Amortisation is charged on intangible assets on a straight-line basis over their estimated useful lives. The estimated useful lives and associated amortisation rates applied to these assets are as follows:

	Estimated Useful Life (Years)	Amortisation Rates (%)
Review Procedures	5	20
Computer Software	4	25

### Impairment of Non-Financial Assets

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

### Creditors and Other Payables

Creditors and other payables are recognised and carried at fair value.

### Employee Entitlements

Provision is made in respect of ERO's liability for accrued salary, annual leave, special leave, retirement leave and long service leave. All associated expenses are charged against the Statement of Comprehensive Income.

### Short-term Employee Entitlements

Accrued salary, annual leave, special leave and sick leave are recognised on an entitlement (nominal) basis.

### Long-term Employee Entitlements

Retirement leave and long service leave are recognised on a present value (actuarial) basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated cash flows. Discounts rates of 2.84 percent for 1 year, 3.81 percent for 2 years and 6 percent for over 3 years were used. The discount rates are based on the figures published by the Treasury. Also a salary inflation factor of 3.5 percent was used. The inflation factor published by the Treasury is based on the expected long-term increase in remuneration for employees.

### Commitments

Future expenses and liabilities to be incurred, on contracts that have been entered into as at balance date, are disclosed as commitments to the extent that there are equally unperformed obligations.

### Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

### Goods and Services Tax (GST)

The Statement of Financial Position is exclusive of GST, except for Creditors and Payables and Debtors and Receivables, which are GST inclusive. All other statements are GST exclusive. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The amount of GST owing to or from the Inland Revenue Department at balance date, being the difference between Output GST and Input GST, is included in Creditors or Debtors.

### Provisions

ERO recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either constructive or legal) as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount or timing of the obligation.

Provisions are measured at the present value of the expenditures expected to settle the obligations.

### Taxation

ERO, as a government department, is exempt from the payment of income tax in terms of the Income Tax Act 2004. Accordingly, no charge for income tax has been provided.

### Budget figures

The budget figures are the latest set of supplementary forecast (Supp. Forecasts) and those presented in the *Estimates of Appropriations 2010/11* (Main Estimates).

### Cost Allocation

Direct costs are costs incurred by output delivery management units.

Direct costs are attributed to the three classes of outputs based on time spent on each class from ERO's time recording system. For the year ended 30 June 2011, 74 percent of total output costs were direct costs (30 June 2010: 74 percent).

Indirect costs are the costs of corporate management and support services which cannot be identified with a specific output in an economically feasible manner. Indirect costs are allocated to output-delivery management units (excluding 3.2 Policy Services and 3.3 Ministerial Services) through the most appropriate cost driver as a proxy for consumption. Indirect costs amounted to 26 percent of total output costs for the year ended 30 June 2011 (30 June 2010: 26 percent).

The cost of 3.1 Education Evaluation Reports includes a transfer of time from institutional reporting activities. This transfer represents time spent by review officers in institutions collecting overview information.

The costs of 3.2 Policy Services and 3.3 Ministerial Services are based on the estimated hours at the average charge-out rate.

### Critical Accounting Estimates and Assumptions

In preparing these financial statements ERO has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are retirement leave and long service leave. Note 9 provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement leave and long service leave liabilities.

## Notes to the Financial Statements

for the year ended 30 June 2011

30 June 2010 Actual \$000	30 June 2011 Actual \$000
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### 1. Other Revenue

4	Rent Recoveries	1
30	Other	175
<b>34</b>	<b>Total Other Revenue</b>	<b>176</b>

### 2. Operating Costs

2,066	Leasing and Rental Costs	2,232
49	Fees paid to Auditors for Audit of Financial Statements	50
332	Consultancy	231
–	Net Loss on Sale of Property, Plant and Equipment	189
4,665	Other	4,456
<b>7,112</b>	<b>Total Operating Costs</b>	<b>7,158</b>

### 3. Capital Charge

ERO pays a Capital Charge to the Crown based on its Taxpayers' Funds as at 30 June and 31 December each year. The Capital Charge rate for the year ended 30 June 2011 was 7.5 percent (30 June 2010: 7.5 percent).

### 4. Debtors and Other Receivables

84	Sundry Debtors	98
<b>84</b>	<b>Total Debtors and Other Receivables</b>	<b>98</b>

The carrying value of debtors and other receivables approximate their fair value as they are normally issued with duration of not more than three months. The total debtors and other receivables reported above are less than one month.

## Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

## 5. Property, Plant and Equipment

	Computer Hardware	Motor Vehicles	Office Equipment	Furniture and Fittings	Leasehold Improvements	Total Property, Plant and Equipment
	\$000	\$000	\$000	\$000	\$000	\$000
<b>1 July 2009</b>						
Cost	1,259	2,551	386	249	2,900	7,345
Accumulated Depreciation	(919)	(993)	(303)	(168)	(1,598)	(3,981)
Carrying amount at 1 July 2009	340	1,558	83	81	1,302	3,364
<b>Year ended 30 June 2010</b>						
Carrying amount at 1 July 2009	340	1,558	83	81	1,302	3,364
Additions	302	443	149	–	187	1,081
Disposals	(8)	(281)	(1)	(2)	(79)	(371)
Depreciation	(144)	(319)	(33)	(14)	(275)	(785)
Carrying amount at 30 June 2010	490	1,401	198	65	1,135	3,289
<b>30 June 2010</b>						
Cost	1,389	2,040	502	185	2,651	6,767
Accumulated Depreciation	(899)	(639)	(304)	(120)	(1,516)	(3,478)
Carrying amount at 30 June 2010	490	1,401	198	65	1,135	3,289
<b>Year ended 30 June 2011</b>						
Carrying amount at 1 July 2010	490	1,401	198	65	1,135	3,289
Additions	59	–	7	–	570	636
Disposals	(35)	(76)	(14)	(3)	(148)	(276)
Depreciation	(171)	(274)	(48)	(12)	(257)	(762)
Carrying amount at 30 June 2011	343	1,051	143	50	1,300	2,887
<b>30 June 2011</b>						
Cost	1,114	1,867	452	144	2,890	6,467
Accumulated Depreciation	(771)	(816)	(309)	(94)	(1,590)	(3,580)
Carrying amount at 30 June 2011	343	1,051	143	50	1,300	2,887

## Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

### 6. Intangibles

	Computer Software \$000	Review Procedures \$000	Total Intangible Assets \$000
<b>1 July 2009</b>			
Cost	1,168	632	1,800
Accumulated Amortisation	(875)	(632)	(1,507)
Carrying amount at 30 July 2009	293	–	293
<b>Year ended 30 June 2010</b>			
Carrying amount at 1 July 2009	293	–	293
Additions	415	160	575
Amortisation	(253)	(5)	(258)
Carrying amount at 30 June 2010	455	155	610
<b>1 July 2010</b>			
Cost	1,580	160	1,740
Accumulated Amortisation	(1,125)	(5)	(1,130)
Carrying amount at 1 July 2010	455	155	610
<b>Year ended 30 June 2011</b>			
Carrying amount at 30 June 2010	455	155	610
Additions	41	73	114
Amortisation	(177)	–	(177)
Carrying amount at 30 June 2011	319	228	547
<b>30 June 2011</b>			
Cost	1,620	233	1,853
Accumulated Amortisation	(1,301)	(5)	(1,306)
Carrying amount at 30 June 2011	319	228	547

There are no restrictions over the title of ERO's intangible assets, nor any intangible assets pledged as security for liabilities.

## Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

30 June 2010 Actual \$000	30 June 2011 Actual \$000
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### 7. Creditors and Other Payables

742	Trade Creditors	523
631	Accrued Expenses	749
380	Tax Payables – GST, FBT and PAYE	396
<b>1,753</b>	<b>Total Creditors and Other Payables</b>	<b>1,668</b>

The carrying value of creditors and other payables approximate their fair value as they are normally settled within three months.

### 8. Provisions

#### *Restructuring Provision*

The restructuring provision arises from the phased implementation of ERO's new structure announced by the Chief Review Officer back in April 2009.

#### *Reinstatement Provision*

ERO has entered into leases on its premises in Auckland, Hamilton, Napier, Whanganui and Wellington. As part of the lease agreements, ERO has some reinstatement obligations at the termination of the leases.

	<b>Current Portion</b>	
40	Restructuring	35
14	Onerous contracts	–
–	Reinstatement	50
<b>54</b>	<b>Total Restructuring Provision at End of Year</b>	<b>85</b>
	<b>Non-Current Portion</b>	
–	Reinstatement	133
–	<b>Total Non-Current Portion at End of Year</b>	<b>133</b>
<b>54</b>	<b>Total Current Provisions</b>	<b>218</b>

## Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

30 June 2010 Actual \$000	30 June 2011 Actual \$000
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### 9. Employee Entitlements

	<b>Current Liabilities</b>	
1,091	Annual Leave, Special Leave and Sick Leave	1,057
384	Accrued Salaries	436
<b>1,475</b>	<b>Total Current Portion</b>	<b>1,493</b>
	<b>Non-Current Liabilities</b>	
1,491	Retirement Leave and Long Service Leave	1,366
<b>1,491</b>	<b>Total Non-Current Portion</b>	<b>1,366</b>
<b>2,966</b>	<b>Total Employee Entitlements</b>	<b>2,859</b>

The present value of retirement leave and long service leave obligations depend on factors that are determined on an actuarial basis using several assumptions. Two key assumptions used in calculating this liability include the discount rate and the salary inflation factor. Any changes in these assumptions will affect the carrying amount of the liability.

In determining the appropriate discount rate, ERO considered the interest rates on New Zealand government bonds, which have terms to maturity that match as closely as possible, the estimated future cash outflows. The salary inflation factor has been determined after considering historical salary inflation patterns and advice from the Treasury.

If the risk-free discount rates were to differ by 1 percent from ERO's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$33,880 higher/lower.

If the salary inflation factor were to differ by 1 percent from ERO's estimates, with all other factors held constant, the carrying amount of the liability would be an estimated \$23,525 higher/lower.

## Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

### 10. Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

30 June 2010 Actual \$000		30 June 2011 Actual \$000	30 June 2011 Main Estimates \$000	30 June 2011 Supp. Forecasts \$000
206	Net Surplus/(Deficit)	580	350	–
	<i>Add/(deduct) Non-Cash Items from Statement of Financial Performance</i>			
1,043	Depreciation and Amortisation	939	1,251	1,046
	<i>Add/(deduct) Movements in Working Capital Items</i>			
57	(Increase)/ Decrease in Debtors and Other Receivables	(14)	–	(63)
58	(Increase)/ Decrease in Prepayments	(13)	–	(11)
(181)	(Decrease)/Increase in Creditors and Other Payables	(85)	(150)	20
(81)	Increase/(Decrease) in Provisions	164	–	(54)
191	(Decrease)/Increase in Employee Entitlements	(107)	(19)	56
	<i>Items Classified as Investing Activities</i>	(55)	(169)	(52)
(15)	Net (Gain)Loss on Sale of Fixed Assets	189	–	184
1,278	<b>Net Cash Flows from Operating Activities</b>	<b>1,653</b>	<b>1,432</b>	<b>1,178</b>

### 11. Related Parties

ERO is a wholly owned entity of the Crown. The Government significantly influences the roles of ERO as well as being its major source of revenue.

ERO enters into transactions with other government departments, crown entities, and state-owned enterprises on an arm's length basis. Those transactions that occur within a normal supplier or client relationship on terms and conditions no more or less favourable than those which it is reasonable to expect ERO would have adopted if dealing with that entity at arm's length in the same circumstance are not disclosed.

Apart from those transactions described above, ERO has not entered into any related party transactions.

#### Key Management Personnel Compensation

30 June 2010 Actual \$000		30 June 2011 Actual \$000
1,726	Salaries and Other Short-Term Employee Benefits	1,825
51	Post-Employment Benefits	50
–	Termination Benefits	–
1,777	<b>Total Key Management Personnel Compensation</b>	<b>1,875</b>

Key management personnel include the Chief Review Officer and six members of the Senior Management Team.

## Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

### 12. Financial Instruments

#### *Currency Risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

ERO has minimal exposure to foreign currency risk arising from transactions denominated in foreign currency. ERO has no forward foreign exchange contracts at balance date (30 June 2010: nil).

#### *Interest Rate Risk*

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or, the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

ERO has no short or long-term debt and does not use financial instruments to manage interest rate risk. Therefore ERO does not have any interest rate risk exposure.

#### *Credit Risk*

Credit risk is the risk that a third party will default on its obligations to ERO, causing ERO to incur a loss.

In the normal course of its business, ERO incurs credit risk from debtors, and transactions with Westpac Banking Corporation and the New Zealand Debt Management Office (NZDMO).

ERO does not require any collateral or security to support financial instruments with financial institutions that ERO deals with, or with the NZDMO, as these entities have high credit ratings. For its other financial instruments, ERO does not have significant concentrations of credit risk.

ERO's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash, debtors and other receivables (note 4).

#### *Liquidity Risk*

Liquidity risk is the risk that there will be insufficient liquid assets to meet liabilities due. As all but an insignificant amount of funds come from the New Zealand Government and cash is drawn down on a monthly basis, ERO does not have significant liquidity risk.

ERO's financial liabilities comprising of creditors and other payables will be settled within three months based on the remaining period at the balance sheet date to the due dates of creditors and other payables.

## Notes to the Financial Statements

for the year ended 30 June 2011 (continued)

### Categories of Financial Instruments

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 *Financial Instruments: Recognition and Measurement* categories are as follows:

30 June 2010 Actual \$000		30 June 2011 Actual \$000
	<b>Loans and Receivables</b>	
4,479	Cash	5,263
84	Debtors and Other Receivables (note 4)	98
<b>4,563</b>	<b>Total Loans and Receivables</b>	<b>5,361</b>
	<b>Financial Liabilities measured at Amortised Cost</b>	
1,753	Creditors and Other Payables (note 7)	1,668

### 13. Capital Management

ERO's capital is its equity (or taxpayers' funds), which is represented by its net assets.

ERO manages its revenues, expenses, assets, liabilities and general financial dealings prudently. ERO's equity is largely managed as a by-product of managing revenues, expenses, assets, liabilities and compliance with the Government Budget processes and with the Treasury Instructions.

The objective of managing ERO's equity is to ensure ERO effectively achieves its goals and objectives for which it has been established, whilst remaining a going concern.

### 14. Major Variances from Budget

	30 June 2011 Actual \$000	30 June 2011 Main Estimates \$000	30 June 2011 Variance \$000
<b>Statement of Financial Position</b>			
Creditors and Other Payables	1,668	840	828
Cash	5,263	3,328	1,935

Creditors and other payables were \$828,000 over budget included in ERO's Main Estimates due to higher than expected level of accruals.

Cash was \$1,935,000 over budget due to a combination of higher levels of creditors and other payables described above and less capital expenditure being incurred than was forecast in ERO's Main Estimates.

### 15. Post Balance Date Events

There are no significant post balance date events.

## Performance Indicators

30 June 2010 Actual		Unit	30 June 2011 Actual	30 June 2011 Main Estimates	30 June 2011 Supp. Forecasts
<b>Working Capital<sup>3</sup></b>					
1,164	Net Current Assets <sup>4</sup>	\$000	1,811	1,139	824
1.33	Current Ratio <sup>5</sup>		1.50	1.45	1.25
43.3	Average Creditors Outstanding <sup>6</sup>	Days	42.5	29.6	35.8
<b>Resource Utilisation</b>					
Fixed Assets:					
3,899	Total Non-Current Assets at year end	\$000	3,434	3,995	4,263
18.7	Value per Employee	\$000	16.7	17.7	18.9
42.5	Additions as % of Non-Current Assets	%	21.8	25.0	39.7
Taxpayers' Funds:					
3,572	Level at year end	\$000	3,746	3,572	3,572
17.1	Level per Employee	\$000	18.3	15.8	15.8
<b>Human Resources</b>					
8.34	Staff Turnover <sup>7</sup>	%	9.36	–	–
8.42	Average Length of Service <sup>8</sup>	Years	8.60	–	–
208.52	Total Staff <sup>9</sup>	FTEs	205.12	226.0	226.0

- 3 The indicator for average debtors outstanding is not meaningful for ERO given the low level of external debtors with third party revenue at less than five percent of the Vote. ERO's policy is a collection rate of less than 30 days.
- 4 Current assets minus current liabilities.
- 5 Current assets as a proportion of current liabilities.
- 6 Calculated using ratios of estimated average accounts payable as at 30 June to total operating expenses.
- 7 Staff turnover is not reported in the Main and Supplementary Estimates.
- 8 Average length of service is not reported in the Main and Supplementary Estimates.
- 9 FTEs comprise of permanent full-time and part-time staff. Temporary staff on fixed-term contracts and casual staff are excluded. ERO's establishment numbers have been capped at 226 FTEs.







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