



Annual Report

for the Year Ended 30 June 2012



Ko te Tamaiti te Pūtake o te Kaupapa

The Child – the Heart of the Matter



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Education Review Office
Te Tari Arotake Mātauranga

Annual Report

for the Year Ended 30 June 2012

*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

The Education Review Office is increasingly viewed as an agency for change and this is a role which we are well-placed and prepared to fulfil. We are privileged to have access to New Zealand's schools and early childhood services on a daily basis. This gives us an authentic perspective for seeing what works and what doesn't in teaching and learning practice.

Through our review work we continue to make a real-time difference in early childhood services and schools, the length and breadth of New Zealand.

I believe that in our role we have the ability to make an impact that can be both immediate and long term, and often quite profound for learners.

This happens not only as a result of the reviews which we undertake every day in schools and services, but also from the national evaluations and reports of good practice that we regularly publish on particular topics. These national reports are grounded in the best of evaluation theory and are designed to be a call to action for New Zealand educators and leaders. Gathering the information for these national reports is an important part of every reviewer's job, together with the review of the schools and services they are visiting.

Our individual institutional reports don't just tell local stories; they build up a picture of what is happening nationally, and it is this information which feeds into our recommendations for schools and services.

This past year has been no exception with many of ERO's reports recommending steps which need to be taken by educators and leaders to get system-wide lift, in particular focusing on the needs of priority learners. Topics we have covered include improving education outcomes for Pacific learners, partnership with whānau Māori in early childhood services, science for years 5 to 8, working with National Standards, and literacy and mathematics achievement in years 9 and 10.

We have greatly appreciated the support of the many education agencies which make up the education sector and with which we regularly meet. The drive to increase quality education outcomes for learners must be a joint effort across the entire sector, and ERO is just one part of that push.

During the year ERO was the subject itself of two significant external reviews – the Central Agencies' Performance Improvement Framework (PIF), and the OECD's review of New Zealand's evaluation and assessment methods for schools.

Both reviews confirmed that we are on the right track with our approach to evaluating and supporting schools. The OECD report noted that ERO's approach to varying the review frequency of schools from one to five years depending on performance is 'exemplary', as it takes into account the 'educational health' of the school. The PIF report said that: 'ERO is in a unique position as a strongly performing review agency to make a real difference through its work in the pre-tertiary education sector.'

These results, whilst gratifying, also encourage us to constantly reassess what we are doing to see what improvements can be made. For example, during the year ERO developed a new methodology for reviewing early childhood services, with greater attention on the quality and effectiveness of each service's self-review process. The feedback from the sector with regard to this approach has been very positive. Further, we commissioned research that focused on parents. We wanted to gather their views on our school review reports to see what we can do better. We are also looking at ways to increase readership and uptake of our national reports so they can truly be a lever for change.

Finally, I would like to acknowledge the dedication and professionalism of the ERO staff. Their commitment to the job has enabled us to meet targets and make a difference for children and young people in this country.

Our whakataukī embodies our work and is central to everything we do: Ko te tamaiti te pūtake o te kaupapa – The child, the heart of the matter.



Graham Stoop
Chief Review Officer

PART 2: NATURE AND SCOPE OF FUNCTIONS

Role of the Education Review Office (ERO)

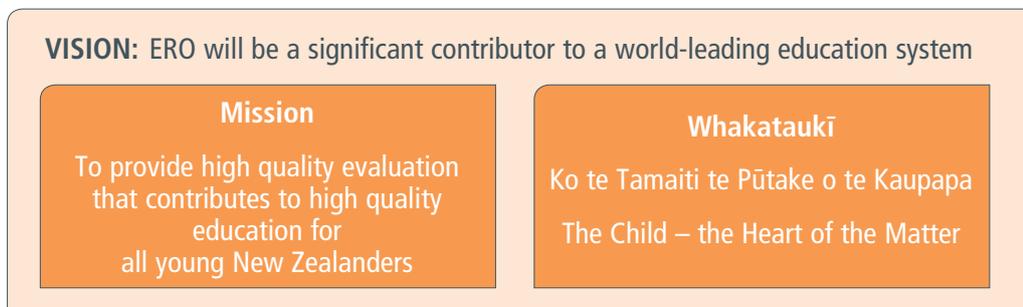
ERO evaluates the quality of education and care in schools and early childhood services, and the implementation of Government education priorities in these sectors. Our independence from schools and services, as well as from the agencies that set the policies and standards, enables us to provide assurance to the Government about the quality of education provided and system-wide performance.

We play a guardianship and improvement role for the sector. Our evaluation processes and reports lead to improvement at both the institution and system levels. Our independence also provides an accountability lever, in that we can make authoritative judgements on action to be taken by schools, services, or interventions by the Ministry of Education.

In addition to evaluating the progress of current Government priorities, ERO informs the development of future priorities and proactively notifies the Minister of emerging issues in the sector.

Children and young people are at the heart of ERO's approach. This is reflected in our whakataukī and is the foundation for our vision and mission statement (figure 1):

Figure 1 – ERO's vision, mission, and whakataukī



Scope of ERO's Powers and Activities

Legislative authority and scope of statutory powers

The Education Review Office is a government 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 can initiate reviews. The Chief Review Officer may also carry out reviews when directed to do so by the Minister of Education.

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

Scope of operation

The core activity of ERO in schools and early childhood services is the conduct of Accountability Reviews, which includes:

- *Education Reviews* – regularly scheduled reviews carried out in schools and early childhood services
- *Special Reviews* – carried out where a matter needs to be reviewed and reported outside of regular reviews
- *New School Assurance Reviews* – carried out to provide assurance to new school boards and their communities that the school has undertaken suitable administration processes and curriculum preparation
- *Private School Reviews* – carried out under section 35A 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 at the request of the Ministry of Education
- *Post Review Assistance* – provided to early childhood services on request.

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

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

PART 3: STRATEGIC DIRECTION

Our Strategic Focus

ERO's strategic intent is to raise the capacity of the education sector while continuing to assure the Government of the quality and effectiveness of schools, kura, early childhood services and kōhanga reo.

We know that to contribute to a high performing education system, ERO must continue to provide a service that is better and smarter, for less cost. This means ensuring that our evaluations and work in the sector continue to benefit the child, by improving the system's own capacity to deliver successful teaching and learning outcomes. It means working alongside communities, schools, early childhood services and our partners in the education sector so that collectively we understand what works well and where our future priorities lie. It means ongoing improvement of our own internal capacity so that we can continue to be courageous, to challenge, to influence system improvement, and to generate debate about the future of education.

Most of all, it means assuring the Government, parents, communities and the sector that our pre-tertiary education system is of a high quality and continues to provide world leading teaching and learning outcomes. In order to do this, we need to continually strive to ensure the information we produce is user-friendly, accessible, and attractive to parents.

Working within its baseline, ERO has specific initiatives in place to support the continuous improvement of its own methodologies, and the evaluation capacity of the sector. These are:

- to implement improved review methodologies for schools and early childhood services – which give greater attention to self review and sustainability, and the use of differentiated evaluation to support school improvement
- to focus on how effectively schools and early childhood services are promoting the participation and learning of all children and young people, and especially priority groups (Māori learners, Pasifika learners, learners with special education needs, and learners from low-socio-economic backgrounds)
- to promote Māori success by incorporating the Māori world view into our review processes – as well as building the capacity of kura kaupapa, kōhanga reo, and the sector
- to promote Pacific success through the development of a new strategy
- to use our national evaluation programme to align to and influence the Government's education priorities.

Our Audiences and Outcomes

ERO's strategic focus recognises that the education system 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 of these contribute to improved educational outcomes.

For this reason, ERO's work is coordinated with its target audiences to achieve the following outcomes:

	IMPACTS		TARGET AUDIENCES		ERO OUTCOMES
ERO delivers...	national evaluations that report the progress of Government priorities and influence the national debate about education <i>(Impact 1)</i>	so that...	government agencies	can...	put in place policies and strategies, and focus resources on areas of high priority
	accountability reviews that focus on improving self-review capacity <i>(Impact 2)</i>		schools and early childhood services		improve their governance, leadership, and teaching and learning practices

ERO's national evaluation reports and accountability reviews help inform the community (parents, whānau, aiga) and encourage them to play a more active part in their children's education.

The Operating Environment

There is pressure on the education sector to improve the performance of the entire education system. ERO recognises that better student performance will be enhanced by all education agencies working together on key issues in the system. We will continue to develop relationships within the sector and contribute to cross-sector initiatives.

The public and the Government will demand further improvements in educational achievement for all students, in particular for priority learners. This means we will continually look for opportunities to successfully generate change and support leadership and capability in schools and early childhood services.

At the same time ERO will face continued fiscal restraint alongside an increased demand for early childhood services. We need to remain flexible and able to adapt our own systems to meet this increased workload.

ERO has implemented a business transformation programme to capture the initiatives underway to support change to the sector. The programme covers work on our review methodologies, and the alignment needed between our operating model and business processes to support the development of those methodologies. Ensuring value for money underpins the entire programme.

Government Priorities and ERO's Contribution

By providing evaluation services that influence improvement and assure the quality of education provided, ERO makes a significant contribution to the Government's education sector goal of:

“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 all New Zealanders. It gives young people the skills they need to realise their potential and contribute to the economy and to society. It therefore supports the Government's core priorities for:

- responsibly managing government finances
- delivering better public services
- building a more competitive and productive economy
- rebuilding Christchurch.

Better Public Services Programme

The Government is committed to providing better public services to New Zealanders. In 2012, the Government announced the next phase in its public sector reform programme, focusing on reducing costs and increasing the effectiveness and efficiency of government expenditure. The following targets were identified for the education sector:

- increase participation in early childhood education (to 98% by 2016)
- increase the proportion of 18-year-olds with NCEA Level 2 or an equivalent qualification (to 85% by 2017)
- increase the proportion of 25-to 34-year-olds with advanced trade qualifications, diplomas and degrees (level 4 or above on the New Zealand Qualifications Framework) (to 55% by 2017).

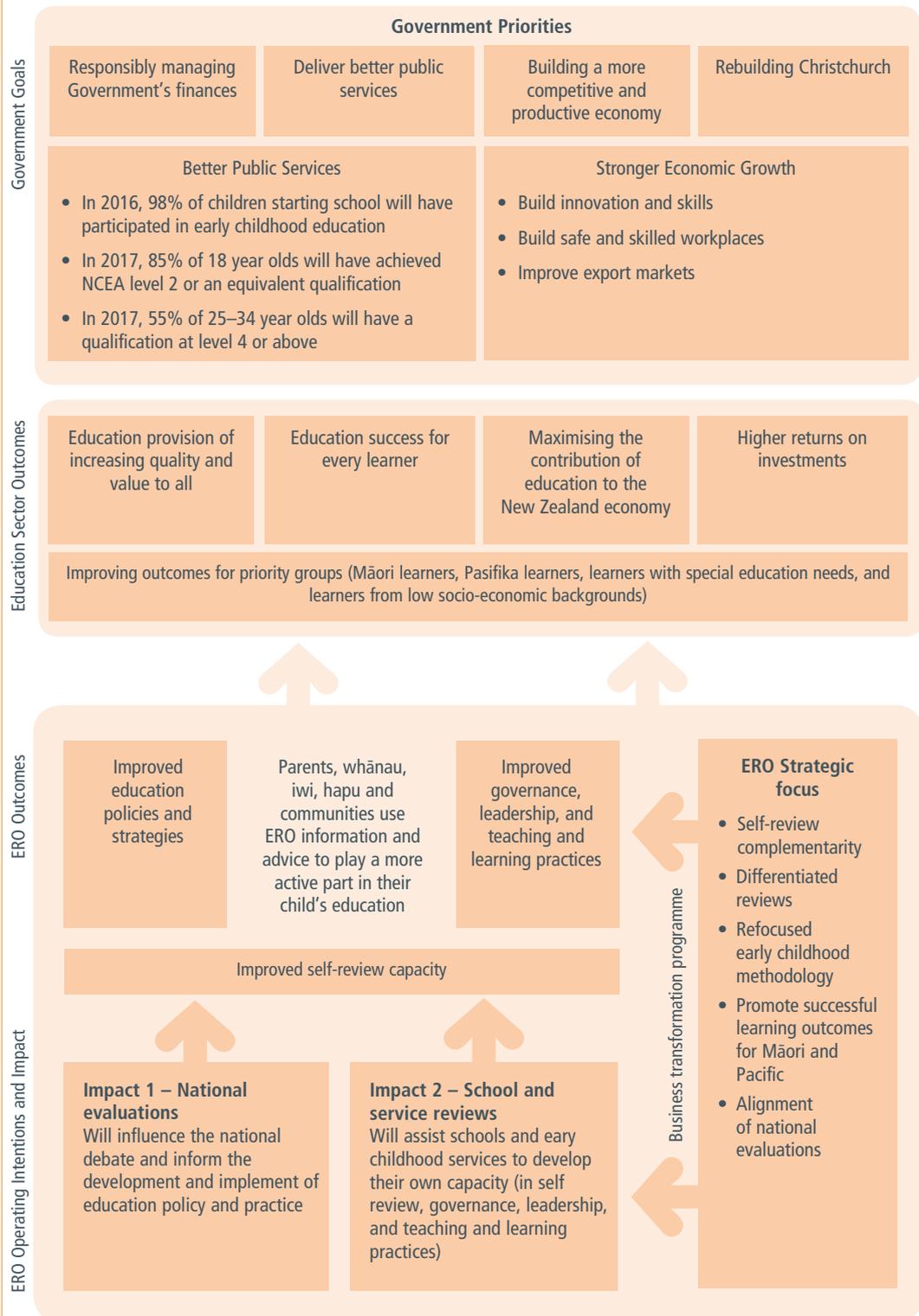
Over the next three to five years, there will be a focus on increasing skill levels and employment, reducing long-term welfare dependency, supporting vulnerable children, reducing crime, and improving interactions with Government. ERO is already directly contributing to the achievement of these targets by aligning its national evaluation programme and review methodologies to improving outcomes for those young people least well-served by the current system, that is Māori learners, Pasifika learners, learners with special education needs, and learners from low socio-economic backgrounds.

Sector alignment and priorities

ERO works with six agencies¹ to ensure that the education system delivers on the Government's key goals. The following diagram summarises ERO's contribution to a set of shared priorities for the sector:

¹ The six other education agencies: Ministry of Education, Tertiary Education Commission, New Zealand Qualifications Authority, Career Services, Education NZ, New Zealand Teachers' Council.

Figure 2 – ERO’s contribution to Government education priorities



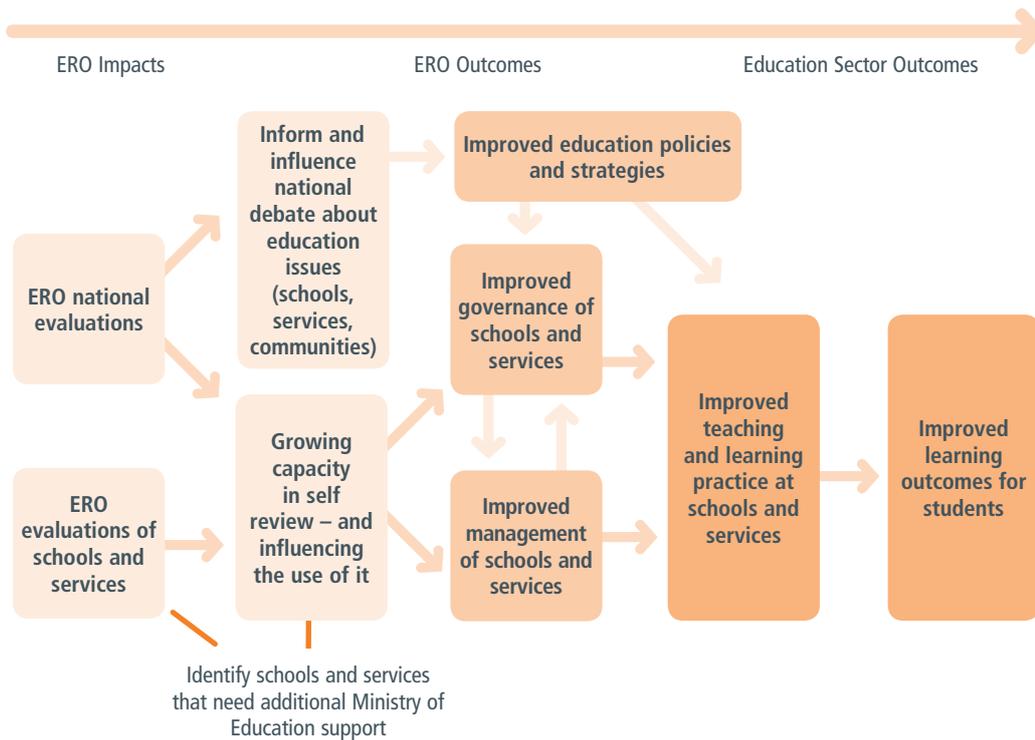
ERO has aligned its national evaluation programme and its methodological practices so that it can help build capacity and inform progress in each of these areas.

PART 4: OPERATING INTENTIONS

Intervention Logic

The following intervention logic demonstrates the relationships and links between ERO’s evaluations and the desired results (Figure 3).

Figure 3 – ERO’s intervention logic



Impact 1 – National Evaluations

What did we aim to achieve?

In its 2011/12 Statement of Intent, ERO stated that it aimed to influence the development and implementation of education policy and practice through system-wide evaluations.

What did we achieve?

In 2011/12, ERO completed:

Measure	2011/12 Actual	2011/12 Forecast
National Evaluation Reports	15	Up to 20
Costs (\$000)	\$2,322	\$1,979

The aggregation and analysis of national review data allows us to provide a broader independent picture of the topical issues, initiatives or policies of interest to the sector and Government. The following summarises the findings for 2011/12.

Priority learners

ERO is committed to improving processes for raising student achievement for priority groups of learners.

Improved outcomes for Māori

ERO evaluated the quality of partnerships with whānau Māori in early childhood services as part of each service's regular education review. In our report *Partnership with Whānau Māori in Early Childhood Services*, released in May 2012, we explored the extent to which the services understood and valued the identity, language and culture of Māori children and their whānau, the relationships between service managers, educators and whānau of Māori children, and how each service worked in partnership with whānau to promote participation and engagement.

We found that while the majority of early childhood services had built positive relationships with whānau, only 10 percent had built effective and culturally responsive partnerships. These findings reflected a lack of understanding in early childhood education about the nature and importance of culturally responsive partnerships. Services will be able to use ERO's report to build their capacity in this area.

During 2011/12 ERO initiated a new approach to reviewing how effectively New Zealand schools promote educational success for Māori learners. We have asked schools to provide examples of successful approaches that have led to improved outcomes and success for Māori as Māori. Stories from the schools are being gathered and analysed, and will be published as a national report in 2012/13.

Promoting the achievement of Pacific learners

ERO has been actively supporting the Ministry of Education in the development of the *Pasifika Education Plan, 2013–2017*, by providing information from our national evaluation programme and institutional reviews.

ERO recently released its report *Improving Education Outcomes for Pacific Learners*. This report looked at how primary and secondary schools engaged with Pacific learners and worked to lift their achievement. Unfortunately the results are in line with earlier reports, again showing that schools need to make significant improvements in the ways they respond to Pacific students. ERO will continue to ask schools about the progress and achievement of Pacific students, and undertake further national evaluations in the forthcoming year.

In order to build our evaluative capacity, and to provide additional support for Pacific staff, ERO has recently appointed a Manager Pacific Services and a Senior Advisor Pacific. A key task for these staff will be to work with the sector to progress a Pacific strategy that uses evaluation to inform policy and promote high quality education for Pacific learners.

Students with special learning needs

The 2010 ERO report *Including Students with High Needs* found that only half of the schools studied demonstrated mostly inclusive practices for these students. Thirty percent of schools had some areas of good performance, and 20 percent had few inclusive practices.

Subsequently, the Government developed its policy, *Success for All*, to promote the achievement, participation, and presence of children with special education needs in every mainstream school. The policy set a performance target for all schools to demonstrate inclusive practice by the end of 2014, specifically for 80 percent of schools to be doing a good job, and for none to be doing a poor job, of including and supporting students with special education needs.

ERO has continued to focus on schools' and early childhood services' provision for these students. Over the past year we have required schools to complete a self report on their inclusive practices and student achievement outcomes, and we have produced two reports of the findings of these surveys. ERO intends to undertake a further national evaluation during Term 4, 2012 which will provide data that can be directly compared with its 2012 findings. ERO has also recently completed data gathering for a report on inclusion of children with special needs in early childhood services.

National evaluation reports: schooling

In addition to the above work, in 2011/12 ERO published further national evaluation reports of interest to schools:

- *Working with the National Standards: Good Practice*. This report used information gathered during 2011 to highlight the best examples of good practice in schools working well with National Standards.
- *Working with the National Standards to Promote Students' Progress and Achievement*. This is the fourth update report in an ongoing series of evaluations over three years about schools' implementation of the National Standards. A consistent theme in all the reports to date has been the need to focus on strong professional leadership to effectively implement and work with the standards.
- *Science in the New Zealand Curriculum: Years 5 to 8*. This report contained recommendations for the Teachers' Council, the Ministry of Education and for schools, including that schools review the quality of science teaching and learning using the indicators in ERO's good practice report from 2010. This earlier report, *Science in Years 5 to 8: Capable and Confident Teaching*, provided examples of high quality teaching and management practices for science education, self-review questions and indicators of good practice.
- *Readiness to Implement Te Marautanga o Aotearoa and Ngā Whanaketanga Rumaki Māori*: This report is the first in a series of national reports we will publish over the next two years on this topic. The findings are based on kura and schools reviewed in both 2010 and 2011. Included in the report are examples of good practice.
- *Literacy and Mathematics Achievement in Years 9 and 10*. This report contained recommendations for leaders, trustees and teachers to increase their focus on Years 9 and 10 learners. It identified a need for improved practice in using literacy and mathematics assessment information for planning, implementing and reviewing the curriculum for these learners. Overall, this report notes that there are improvements needed in most secondary schools' practice in three broad areas: using achievement information well; planning to improve outcomes for priority students; and building learning partnerships with students.

- *The New Zealand Curriculum Principles: Foundations for Curriculum Decision-making*. This report followed a May 2011 evaluation, which considered the extent to which the principles of *The New Zealand Curriculum* were evident in schools' curricula and enacted in classrooms. In 2011/12 ERO conducted a further investigation of a new cohort of 200 classrooms. As in the earlier ERO report there was considerable variability in the extent to which the curriculum principles were evident in the schools reviewed.
- *Teaching As Inquiry: Responding to Learners*. In early 2010, ERO conducted an initial evaluation,² with a follow-up evaluation one year later using the same methodology. The evaluations were to capture, at points in time, the nature of the inquiry teachers were using, and to describe the extent to which teachers were using inquiry to inform their practice. This report outlines findings from the second group of schools reviewed in 2011.
- *Education Outside the Classroom*. In 2009, the Ministry of Education revised and released *EOTC Guidelines: Bringing the Curriculum Alive, Learning Safely*. ERO evaluated how well schools were using the revised guidelines in their provision of Education Outside the Classroom (EOTC) activities, and how they used EOTC activities to support teaching and learning of the national curriculum, and to promote continuous improvement of education and safety.
- *Enterprise in the New Zealand Curriculum: Secondary Schools*. This report was written to help schools develop enterprise learning. Seven case studies present the challenges and benefits of enterprise as authentic teaching and learning.

National evaluation reports: early childhood services

In 2011/12 ERO also published the following national evaluation reports of interest to early childhood services:

- *Positive Foundations for Learning: Confident and Competent Children in Early Childhood Services*. The early childhood curriculum, *Te Whāriki*,³ provides a framework for early childhood services to implement a curriculum that supports children's competence and confidence as learners. Developing social competence enables children to relate to others in ways that enrich and extend their learning. Educators have a key role in nurturing children's emotional wellbeing and helping children to develop an understanding of appropriate behaviour. ERO evaluated how effectively early childhood services helped children to develop social competence, emotional wellbeing and an understanding of appropriate behaviour.
- *Literacy in Early Childhood Services: Good Practice*. This report follows ERO's previous major review of literacy teaching and learning in early childhood services. We subsequently selected 13 services with high quality literacy teaching and learning, and revisited them, to gather in-depth information about specific practices that underpinned their literacy teaching and learning. The report presents examples that exemplified good practice in some aspects of literacy teaching and learning, including ideas that other services could use.

2 The report from the initial evaluation, *Directions for Learning: The New Zealand Curriculum Principles and Teaching as Inquiry*, was published in May 2010.

3 Ministry of Education, (1996). *Te Whāriki, He Whāriki Mātauranga mō ngā Mokopuna o Aotearoa*. Wellington: Ministry of Education.

Evaluations undertaken by agreement with other agencies

ERO is often asked by the Ministry of Education and other agencies to undertake specific projects. This year the Ministry provided additional funding to enable ERO to produce its reports on service academies, alternative education, Ako Panuku, curriculum principles and teaching as inquiry. The Ministry for Trade and Enterprise provided partial funding for ERO's report on *Enterprise in The New Zealand Curriculum*.

In addition to the national evaluations noted above, ERO was funded by the Ministry of Education to undertake evaluative projects reporting directly to the Ministry in relation to the Youth Guarantee:

- *An Evaluation of Trades Academies*
- *An Evaluation of the Manukau Institute of Technology School of Secondary-Tertiary Studies.*

ERO also completed reports for the Ministry on the readiness for opening of four new schools.

How effective were we?

ERO's national evaluations are intended to promote debate and influence change to the education system. ERO expects its national evaluations and reports of good practice to add value to the sector's policy decision-making processes when:

- there is evidence that they are used by the Ministry of Education and other government agencies to establish priorities for the education sector
- there is evidence that they help the Government to target resources and interventions to areas of poor performance
- there is evidence that they are used by schools and early childhood services to inform their own practice
- there is evidence that they are used by parents, whānau and aiga
- they are topical, timely, and consistent with the Government's priorities for education.

Use of ERO's national evaluations by the Ministry of Education

Periodically, ERO undertakes a study of the Ministry of Education's use of ERO's national evaluation reports and policy information. In the 2011 study, the reports were regarded as independent, credible and useful.

Use of ERO's national evaluations by schools and early childhood services

ERO undertakes studies, on a periodic basis, of how its national evaluation reports are used by the early childhood and school sectors to inform and improve their own practice. The 2012 review affirmed that ERO's national reports about early childhood education are well used and are regarded as a valuable resource for the sector to review and improve their own performance. The self-review tools and exemplars of good practice provided through national reports are particularly appreciated by the sector and also used by those providing teacher education and professional learning programmes.

A study of the use of ERO's evaluation reports and findings by schools will be undertaken in 2012/13.

Impact 2 – School and Early Childhood Service Reviews

What did we aim to achieve?

In the 2011/12 Statement of Intent, ERO stated that it aimed to improve student achievement, the quality of teaching and learning, governance, self-review and leadership through independent reviews.

What did we achieve?

In 2011/12, ERO completed:

Measure		2011/12 Actual	2011/12 Forecast
Reviews	Schools	798	710–840
	Early childhood	1,333	1,240–1,400
Cost (\$000)	Schools	\$15,401	\$14,854
	Early Childhood	\$9,737	\$10,048
Review Officers (FTEs)		143	145

Improving the capacity of schools – through a refocused methodology

ERO has adopted a complementary approach to external review and self review in schools. ERO's evaluation process incorporates using schools' own self-review information to determine the scale and scope of the review. This process is designed to build schools' self-review capability and encourage schools to establish a cycle of ongoing improvement.

The ERO review focuses on student learning, engagement, progress and achievement. It is the explicit point of reference for evaluating how effectively schools' programmes, processes and teaching promote positive outcomes for learners, and for formulating strategies for improvement.

ERO's reviews help build strong learning foundations for literacy and numeracy, increase levels of educational attainment and provide value for money services. Resources are focused on those schools which need the most support, while increasing self accountability and continuous improvement across the sector.

The quality of school self review is also a critical factor in determining when ERO will schedule the next review. Using its differentiated methodologies,⁴ ERO focuses greater attention on schools where students are not progressing and achieving well.

ERO's differentiated methodologies continue to receive favourable responses from the sector. ERO has established feedback and evaluation processes so that it can continue to refine the methodologies in future years.

⁴ ERO's differentiated review categories comprise:

- The one-to-two year return category (Arotake Paetawhiti), which was developed in 2010. In these schools ERO's longitudinal review processes supported schools to develop their self-review capacity so that they could develop strategies to improve student achievement.
- The three year return category (Arotake Paerewa), which was introduced in 2010/11 and describes those schools that have established effective processes for self review and student learning – engagement, progress and achievement.
- The four-to-five year return category (Arotake Paehiranga), which was further developed in 2011/12 and describes those schools who can consistently demonstrate *sustained* effective student learning – engagement, progress and achievement.

Early childhood services – improving the capacity through a refocused methodology

ERO commenced work on redesigning its early childhood methodology. The methodology builds on ERO's earlier initiatives for increasing capacity in evaluation, and gives greater attention to the quality and effectiveness of services' self review. In particular, the new approach focuses on lifting quality for all children, and especially those priority learners the system is targeting as requiring additional support. The new approach was trialled in individual services and clusters of services in early 2012.

In 2012, ERO completed its new review framework and evaluation indicators – *ERO's Approach to Reviews in Early Childhood Services (Draft) 2012*. This was made available to early childhood services and is being implemented from mid 2012.⁵ ERO will be monitoring developments and making adjustments over the draft's 12-month consultation period.

Improved outcomes for Māori

In 2011/12 ERO developed and incorporated into its review methodology a new approach for evaluating how well schools are promoting Māori succeeding as Māori. We now invite schools to describe, in their own way, their processes and success in working with Māori learners, whānau and iwi. One of ERO's criteria for high performance in a school is that Māori learners are actively engaged in their learning, are progressing and achieving well, and succeeding as Māori. ERO does not regard a school as high performing if it cannot show that it is improving the achievement of its Māori students.

Although the new approach is in the early stages of implementation, anecdotal information suggests that it is effective in encouraging and assisting schools to review their own performance, and also to identify their next steps.

Improved outcomes for Pacific

ERO's Pacific strategy will be developed in 2012/13 and will also identify new approaches for evaluating for promoting Pacific success through the review methodologies.

How effective were we?

ERO deliberately focuses its effectiveness measures on the impacts on and benefits to schools and early childhood education services, parents and communities, and the Ministry of Education and government agencies. We use a range of evaluation and survey techniques to collect feedback and effectiveness data about the improved capacity of schools and services.

⁵ The new methodology applies to ERO's reviews of all education and care services including kindergartens, playcentres and immersion centres. It does not apply to home-based education and care services, kōhanga reo or hospital-based education and care services.

Reviews of early childhood services

Considerable effort has gone into consulting and informing the early childhood sector about ERO's proposed new approach to reviewing early childhood services. To assist with the development of the new methodology, we undertook a series of online surveys in 2011 seeking feedback from early childhood educators and parents about improvements in the review process and ideas for future directions. Nearly 1,500 respondents provided feedback.

ERO has also provided numerous presentations and workshops to key early childhood sector conferences and organisations. These have included information about the new methodology, ERO's revised evaluation indicators and workshops to help services build their own self-review capacity.

ERO will invite further feedback from the sector on our new methodology and indicators for early childhood reviews in 2012/13.

Reviews of schools/kura

ERO uses school questionnaires to determine the effectiveness of its methodology for reviewing schools. In 2011/12 the questionnaire was sent out to 798 schools of which 152 responded. The findings indicated 94 percent (target 80 percent) of the schools that responded found ERO's school review processes to be useful. 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 were useful for the review and for their own self review
- noted that reviewers modelled transparency
- indicated that they believed 'Success for Māori' had been thoroughly reviewed in their schools.

In addition to seeking feedback about its review approach, ERO monitored its review cycle to determine the percentage of schools that are positioned in each cycle.⁶ Of the reviews completed between 1 July 2011 and 30 June 2012:

- 15 percent will be reviewed again within two years. In these cases the school will receive a longitudinal review (Arotake Paetawhiti). These reviews will typically include a series of workshops, discussions and Ministry of Education support while a plan for improvement is completed, concurrent with support from ERO to assist the school to build its self-review capacity
- 71 percent have been placed on the 'regular' three year cycle (Arotake Paerewa)
- 14 percent will be reviewed again within four-to-five years (Arotake Paehiranga).

ERO meets regularly with local Ministry of Education offices so that the Ministry is kept well-informed about when it needs to intervene and/or provide additional support.

⁶ The review cycle provides an indication of the relative success to which schools are using self review to improve their practice. For example, a school will not be placed on the four-to-five year review cycle unless it has clearly demonstrated the capacity to promote success for all students at risk of underachieving.

Parents, iwi, whānau, and communities

Engaging parents, iwi, whānau, and communities is a key part of the review process.

In 2012, ERO commissioned market research into how parents view the school review report format. The research comprised a number of focus groups with parents, with the aim of evaluating whether the new format of our review reports is meeting parents' needs, so we can make any changes required. The progress of this work will be reported in 2012/13.

ERO also uses the Kiwicounts survey, which tracks the New Zealand public's satisfaction with its public services. In 2011/12 (in its first year of reporting this data) ERO had an overall satisfaction score of 68%.

Cost-effectiveness

In 2011/12, ERO demonstrated its cost-effectiveness by maintaining its review frequency (one-third of schools and early childhood services reviewed annually), while maintaining and reducing its service costs and input levels over the medium term.

Improving ERO's measures

As ERO progressively undertakes return visits to the same school under the new review methodology, we expect to be able to gauge the level of self-improvement (including governance and management) at each school. Therefore, from next year ERO will be reporting on:

- the increase in the percentage of schools that move to the four-to-five year review cycle
- the increase in the percentage of schools (previously on the one-to-two year review cycle) that move to the three year review cycle.

Further measures of the effectiveness of ERO's review processes on early childhood services are expected to be developed as part of the project work on the new early childhood services review methodology.

PART 5: ORGANISATIONAL HEALTH & CAPABILITY

ERO continues to focus on incorporating the desired culture of the organisation and improved review practices to support the new priorities. In 2011/12, ERO aimed to:

- improve its culture and climate, using the staff engagement survey as a measure
- foster innovation in its review methodology processes
- align ERO's capability to meeting the Government's education and Better Public Services priorities
- continue to provide supporting infrastructure, while maintaining an efficient and effective operation.

External review of performance and capability

In 2011/12, ERO participated in two significant external reviews, which reaffirmed the progress of ERO's work and capability:

The recently released OECD report endorsed ERO's methods of evaluating school performance and promoting improvement, noting that practices were high quality, transparent and world leading.

The State Services Commission, as part of its Performance Improvement Framework (PIF) review, noted that ERO was an exemplar in the way it has recognised the need for transformative change directed at delivering better services for less. The PIF report said that 'ERO performs its review and reporting functions well and is highly regarded by stakeholders as independent, expert, nimble and credible'. ERO's response to the report is available on the SSC website: www.ssc.govt.nz/performanceimprovementframework.

ERO's staff engagement survey

ERO uses an annual engagement survey of staff to measure the 'health' of the organisation. ERO had a response rate of 90 percent to its 2012 survey. ERO continued to improve its overall engagement score (3.95 percent in March 2012, compared to 3.84 percent in June 2011) and overall satisfaction score (3.81 to 3.91). Managers are now working with their teams to acknowledge progress and identify further improvements. A further survey is planned for the first quarter of 2013.

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).

ERO is currently reviewing *He Toa Takitini* with a view to aligning a new strategy to our improved review methodologies, to Government priorities for education, to *Ka Hikitia* (the education sector's strategy for promoting Māori success), and to Better Public Services.

Professional learning and development

To deliver high quality evaluation processes that support the Government's education and Better Public Services priorities, ERO needs skilled education evaluators, complemented by good quality managers and support staff who are committed to ERO's goals.

ERO continues to provide a carefully planned professional learning and development programme to support reviewers with implementing the new differentiated review methodology for schools. The programme provides opportunities for reviewers to develop their understanding of ERO's policy context, government education priorities and policy direction, knowledge of evaluation theory and practice, and developments in the education sector. In addition to further promoting the key principles that underpin ERO's review methodology, the programme has focused on the competencies and skills needed for the effective implementation of the methodology.

In line with ERO's aim to develop and strengthen leadership skills, a wide range of staff have participated in planning and delivering the training. ERO continues to build national consistency as an outcome of its professional learning and development programme, but retains flexibility in design and delivery for best results at a regional level. ERO's ongoing internal programme supports the leadership learning and development of tier two and three managers, with a focus on leadership of evaluation practice, and leadership of people.

Efficient and effective infrastructure

To support improvements to ERO's capability and to the Government's targets for Better Public Services, further initiatives completed (or commenced) in 2011/12 included:

- joint development work with the education sector to progress a sector outcomes framework, the Better Public Services programme, planning for Māori Success (*Ka Hikitia* sector strategy), government education policy initiatives, and joint responses to the Treaty of Waitangi claims
- contribution to the education sector human resource managers' Talent Management Action Plan, which includes investigating joint initiatives such as graduate recruitment, induction and initial training of staff, job shadowing/rotations/secondment across the sector, leadership development programmes and succession planning
- redevelopment of the ERO website to improve delivery of information, particularly the national reports. ERO uses the sector's joint Te Kete Ipurangi (TKI) platform for the website
- participation in the All-of-Government procurement initiatives and sector ICT planning
- ongoing review of office accommodation requirements as each location lease nears its completion. This has included aligning ERO to the Property Management Centre of Expertise (PMCoE) guidelines, and a fit out for ERO's new accommodation in Christchurch
- development of new review report templates to support the new early childhood methodology
- upgrades to ERO's human resource and financial systems
- upgrades to ERO's computer operating system (Windows) and electronic data management system (TRIM)
- preparation and deployment of a cyber security plan in line with Government Communications Security Bureau requirements.

ERO is also currently trialling the use of Wi-Fi, iPads and smartphones for better access to information outside the office (and the potential use of Bring Your Own Device).

Improvement actions identified in the Performance Improvement Framework (PIF) assessment report have been integrated into ERO's business transformation programme for 2012/13. Progress will be reported on a six-monthly basis.

Internal evaluation and risk and assurance committees

We continue to be active in evaluating our own performance. To support our ongoing improvement, ERO has maintained working programmes for:

- Internal evaluation – which focused on ERO's self-review processes in 2011/12 to support the formal assessment of the Performance Improvement Framework
- Risk and assurance – which provided assurance to the Chief Executive on the discharge of ERO's risk management activities.

Relationship with the Public Service Association

ERO and the PSA continue to meet regularly at national and local levels as part of the Working Relationship Agreement. Both parties find these meetings useful.

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 reflected this in its ongoing work plans.

PART 6: 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 2012.



Graham Stoop
Chief Review Officer



James Kwing
Chief Financial Officer

28 September 2012

INDEPENDENT AUDITOR'S REPORT

To the readers of the Education Review Office's financial statements and non-financial performance information for the year ended 30 June 2012

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 non-financial performance information of the Department on her behalf.

We have audited:

- the financial statements of the Department on pages 31 to 48, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2012, the statement of comprehensive income, statement of changes in taxpayers' funds, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated 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 non-financial performance information of the Department that comprises the statement of service performance on pages 24 to 30 and the report about outcomes and impacts on pages 9 to 17.

Opinion

In our opinion:

- the financial statements of the Department on pages 31 to 48:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Department's:
 - financial position as at 30 June 2012;
 - financial performance and cash flows for the year ended on that date;
 - 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 2012; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2012 and
- the non-financial performance information of the Department on pages 9 to 17 and 24 to 30:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Department's service performance and outcomes for the year ended 30 June 2012, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - its 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 28 September 2012. 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 non-financial performance information 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 non-financial performance information. 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 non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the

non-financial performance information, 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 non-financial performance information 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 appropriateness of the reported non-financial performance information within the Department's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and the non-financial performance information; and
- the overall presentation of the financial statements and the non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the non-financial performance information. 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 non-financial performance information 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 reflect its service performance and outcomes.

The Chief Review Officer is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements and non-financial performance information 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 non-financial performance information 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.



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 2012

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 2012 are reported against the forecast information contained in the *Estimates of Appropriation 2011/12* and of those as amended by the Supplementary Estimates. Explanations of major variations from the *Estimates of Appropriation 2011/12* are included.

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.

Quantity, Quality and Timeliness

ERO estimated and provided the following numbers of Accountability Reviews – Early Childhood Education Services for the year ended 30 June 2012:

2010/11 Quantity Delivered ^a	Note	2011/12 Quantity Delivered ^a	2011/12 Quantity Estimated	Percentage of Estimated ^b
1,265		1,333	1,240–1,400	100%
	1.1 Education Reviews – Early Childhood Education Services			
23	1	35	80–120	44%
	1.2 Post-Review Assistance workshops for Early Childhood Education Services			
	<i>Quality</i>			
100%		100%	100%	-
	Consistent with approved standard procedures			
100%	2	100%	100%	-
	Reports will pass a quality assurance check			

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 2011: 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.

^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 of Education. 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.

Statement of Service Performance

for the year ended 30 June 2012 (continued)

2010/11 Actual Timeliness %		2011/12 Actual Timeliness %	2011/12 Forecast Timeliness Standard %
	1.1 Education Reviews – Early Childhood Education Services		
	Unconfirmed report sent within:		
81	20 working days	84	75
91	25 working days	94	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 2012 was:

30 June 2011 Actual \$000		30 June 2012 Actual \$000	30 June 2012 Main Estimates \$000	30 June 2012 Supp. Estimates \$000
	Revenue			
10,228	Revenue Crown	9,794	10,066	9,794
157	Revenue Department and Other	109	116	116
10,385	Total Revenue	9,903	10,182	9,910
	Cost			
6,835	Personnel	6,788	7,222	7,220
2,459	Operating	2,542	2,438	2,257
322	Depreciation and Amortisation	387	420	330
92	Capital Charge	103	102	103
9,708	Total Costs	9,820	10,182	9,910
677	Net Surplus	83	-	-

Major variances against budget

There are no major variances against budget for this output class.

Statement of Service Performance

for the year ended 30 June 2012 (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.

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 2012:

2010/11 Quantity Delivered ^a	Note	2011/12 Quantity Delivered ^a	2011/12 Quantity Estimated	Percentage of Estimated ^b
807	2.1	798	710–840	100%
10	2.2	26	25–35	100%
35	2.3	22	15–25	100%
<i>Quality</i>				
100%		100%	100%	-
100%	4	100%	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 2011: 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 2012 (continued)

2010/11 Actual Timeliness %		2011/12 Actual Timeliness %	2011/12 Forecast Timeliness Standard %
	2.1 Education Reviews of State Schools		
	Unconfirmed report sent within:		
86	20 working days	84	75
95	25 working days	94	85
99	35 working days	99	98
	2.2 Homeschooling Reviews		
	Unconfirmed report sent within:		
100	20 working days	81	75
100	25 working days	100	85
100	35 working days	100	98
	2.3 Private School Reviews		
	Unconfirmed report sent within:		
91	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 2012 (continued)

Cost

The cost of services for Accountability Reviews – Schools and Other Education Service Providers for the year ended 30 June 2012 was:

30 June 2011 Actual \$000		30 June 2012 Actual \$000	30 June 2012 Main Estimates \$000	30 June 2012 Supp. Estimates \$000
Revenue				
15,545	Revenue Crown	15,397	15,302	15,397
255	Revenue Department and Other	176	296	296
15,800	Total Revenue	15,573	15,598	15,693
Cost				
11,109	Personnel	10,748	11,064	11,432
3,995	Operating	4,027	3,735	3,577
524	Depreciation and Amortisation	612	643	522
149	Capital Charge	163	156	162
15,777	Total Costs	15,550	15,598	15,693
23	Net Surplus/(Deficit)	23	-	-

Major variances against budget

There are no major variances against budget for this output class.

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 of Education, 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 2012 (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 2012:

2010/11 Quantity Delivered	Note	2011/12 Quantity Delivered	2011/12 Quantity Estimated	Percentage of Estimated ^b
14	3.1 Education Evaluation Reports	15	Up to 20	100%
	<i>Quality</i>			
	Consistent with approved presentational standards and agreed terms of reference	100%	100%	-
100%				
32	3.2 Policy Services	32	25–30	107%
	<i>Quality</i>			
	Consistent with approved presentational standards	100%	100%	-
100%				
138	3.3 Ministerial Services	91	145–210	63%
	<i>Quality</i>			
	Consistent with Cabinet Office Manual and Minister's requirements	6	100%	-
100%				
6	3.4 Contractual Services	5	5–10	100%
	<i>Quality</i>			
	Consistent with terms of contracts	100%	100%	-
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 of Education.

Note 6: In no cases did the information gathering and consultation process exceed 15 days (30 June 2011: nil). There were also no first drafts returned by the Minister (30 June 2011: nil).

Statement of Service Performance

for the year ended 30 June 2012 (continued)

Cost

The cost of services for Quality of Education Reports and Services for the year ended 30 June 2012 was:

30 June 2011 Actual \$000		30 June 2012 Actual \$000	30 June 2012 Main Estimates \$000	30 June 2012 Supp. Estimates \$000
Revenue				
2,368	Revenue Crown	2,642	2,341	2,642
299	Revenue Department and Other	704	481	733
2,667	Total Revenue	3,346	2,822	3,375
Cost				
1,963	Personnel	2,300	2,002	2,458
705	Operating	862	675	770
92	Depreciation and Amortisation	131	117	112
27	Capital Charge	34	28	35
2,787	Total Costs	3,327	2,822	3,375
(120)	Net Surplus/(Deficit)	19	-	-

Major variances against budget

Other Revenue received for contractual services was \$223,000 over budget due to higher levels of activity than anticipated.

Statement of Comprehensive Income

for the year ended 30 June 2012

30 June 2011 Actual		Note	30 June 2012 Actual	30 June 2012 Main Estimates	30 June 2012 Supp. Forecasts
\$000			\$000	\$000	\$000
Revenue					
28,141	Crown		27,833	27,709	27,833
535	Departments		956	450	918
176	Other	1	33	-	27
28,852	Total Revenue		28,822	28,159	28,778
Expenses					
19,907	Personnel	2	19,836	20,288	21,110
7,158	Operating	3	7,431	6,405	6,202
939	Depreciation and Amortisation	6,7	1,130	1,180	964
268	Capital Charge	4	300	286	300
28,272	Total Expenses		28,697	28,159	28,576
580	Net Surplus		125	-	202
-	Other comprehensive income		-	-	-
580	Total Comprehensive Income		125	-	202

Explanations of major variances against budget are provided in the Notes to the Financial Statements.

Statement of Changes in Taxpayers' Funds

for the year ended 30 June 2012

30 June 2011 Actual		30 June 2012 Actual	30 June 2012 Main Estimates	30 June 2012 Supp. Forecasts
\$000		\$000	\$000	\$000
580	Total Comprehensive Income	125	-	202
(406)	Repayment of Surplus to the Crown	(125)	-	(202)
174	Movements in Taxpayers' Funds for the Period	-	-	-
3,572	Taxpayers' Funds at the Start of the Year	3,746	3,572	3,746
3,746	Taxpayers' Funds at the End of the Year	3,746	3,572	3,746

Explanations of major variances against budget are provided in the Notes to the Financial Statements.

Statement of Financial Position

as at 30 June 2012

30 June 2011 Actual \$000	Note	30 June 2012 Actual \$000	30 June 2012 Main Estimates \$000	30 June 2012 Supp. Forecasts \$000
Assets				
<i>Current Assets</i>				
5,263	Cash	6,244	4,372	4,752
98	Debtors and Other Receivables	213	150	115
102	Prepayments	78	120	105
<u>5,463</u>	<i>Total Current Assets</i>	<u>6,535</u>	<u>4,642</u>	<u>4,972</u>
<i>Non-Current Assets</i>				
2,887	Property, Plant and Equipment	2,443	3,061	3,404
547	Intangibles	514	622	735
<u>3,434</u>	<i>Total Non-Current Assets</i>	<u>2,957</u>	<u>3,683</u>	<u>4,139</u>
<u>8,897</u>	Total Assets	<u>9,492</u>	<u>8,325</u>	<u>9,111</u>
Liabilities				
<i>Current Liabilities</i>				
1,668	Creditors and Other Payables	1,656	1,790	1,755
85	Provisions	63	-	43
406	Repayment of Surplus to the Crown	125	-	202
1,523	Employee Entitlements	1,958	1,428	1,452
<u>3,682</u>	<i>Total Current Liabilities</i>	<u>3,802</u>	<u>3,218</u>	<u>3,452</u>
<i>Non-Current Liabilities</i>				
133	Provisions	802	-	449
1,336	Employee Entitlements	1,142	1,535	1,464
<u>1,469</u>	<i>Total Non-Current Liabilities</i>	<u>1,944</u>	<u>1,535</u>	<u>1,913</u>
<u>5,151</u>	Total Liabilities	<u>5,746</u>	<u>4,753</u>	<u>5,365</u>
Taxpayers' Funds				
3,746	Taxpayers' Funds	3,746	3,572	3,746
<u>3,746</u>	Total Taxpayers' Funds	<u>3,746</u>	<u>3,572</u>	<u>3,746</u>
<u>8,897</u>	Total Liabilities and Taxpayers' Funds	<u>9,492</u>	<u>8,325</u>	<u>9,111</u>

Explanations of major variances against budget are provided in the Notes to the Financial Statements.

Statement of Cash Flows

for the year ended 30 June 2012

30 June 2011 Actual		Note	30 June 2012 Actual	30 June 2012 Main Estimates	30 June 2012 Supp. Forecasts
\$000			\$000	\$000	\$000
Cash Flows from Operating Activities					
<i>Cash provided from:</i>					
28,141	Crown		27,833	27,709	27,833
551	Departments		814	447	901
146	Other		60	-	27
<i>Cash applied to:</i>					
(20,014)	Personnel		(19,630)	(20,347)	(21,053)
(6,938)	Operating		(6,732)	(6,408)	(5,844)
(268)	Capital Charge		(300)	(286)	(300)
35	Goods and Services Tax (net)		20	-	-
1,653	Net Cash Inflow from Operating Activities	11	2,065	1,115	1,564
Cash Flows from Investing Activities					
<i>Cash provided from:</i>					
87	Sale of Property, Plant and Equipment		11	100	101
<i>Cash applied to:</i>					
(636)	Purchase of Property, Plant and Equipment		(543)	(850)	(1,397)
(114)	Purchase of Intangible Assets		(146)	(150)	(373)
(663)	Net Cash Outflow from Investing Activities		(678)	(900)	(1,669)
Cash Flows from Financing Activities					
<i>Cash applied to:</i>					
(206)	Repayment of Surplus to the Crown		(406)	-	(406)
(206)	Net Cash Outflow from Financing Activities		(406)	-	(406)
784	Net Increase/(Decrease) in Cash		981	215	(511)
4,479	Cash at Start of the Year		5,263	4,157	5,263
5,263	Cash at the End of the Year		6,244	4,372	4,752

Explanations of major variances against budget are provided in the Notes to the Financial Statements.

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.

Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2012

There are no quantifiable contingent liabilities and assets as at 30 June 2012 (30 June 2011: nil).

ERO has one unquantifiable contingent asset as at 30 June 2012 (30 June 2011: nil) arising from a claim to be lodged with ERO's insurer in 2012/13 for material loss and damage and business interruption caused by the Christchurch earthquake in February 2011.

Statement of Unappropriated Expenditure

for the year ended 30 June 2012

ERO has not incurred expenses in excess of or without appropriation by Parliament (30 June 2011: nil).

Statement of Departmental Expenses and Capital Expenditure against Appropriations

for the year ended 30 June 2012

30 June 2011 Expenditure Actual \$000		30 June 2012 Expenditure Actual \$000	30 June 2012 Appropriation \$000
	Vote Education Review Office		
	Departmental Output Expenses		
	Multi-class Output Expense Appropriation		
	Accountability Reviews		
9,708	Early Childhood Education Services	9,820	9,910
15,777	Schools and Other Education Service Providers	15,550	15,693
25,485	Total Accountability Reviews	25,370	25,603
2,787	Quality of Education Reports and Services	3,327	3,375
28,272	Total Departmental Output Expenses	28,697	28,978
	Permanent Legislative Authority (PLA)		
750	Capital Expenditure – PLA	689	1,770

The appropriation figures are those presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2012, 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.

Statement of Commitments

as at 30 June 2012

ERO has entered into a capital commitment for a building fit-out to its new Christchurch premise that has not been paid for nor recognised as a liability.

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.

30 June 2011 Actual \$000		30 June 2012 Actual \$000
	Capital Commitments	
-	Property, Plant and Equipment	202
-	Total Capital Commitments	202
	Non-Cancellable Operating Lease Commitments	
1,186	Less than one year	1,380
1,355	One to two years	1,227
3,324	Two to five years	2,691
2,488	More than five years	1,691
8,353	Total Non-Cancellable Operating Commitments	6,989
<u>8,353</u>	Total Commitments	<u>7,191</u>

Statement of Accounting Policies

for the year ended 30 June 2012

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 2012 and were authorised for issue by the Chief Review Officer on 28 September 2012.

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. The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of ERO is 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.

ERO has adopted the amendments to NZ IFRS 7 *Financial Instruments: Disclosures* during the financial year. The amendment reduces the disclosure requirements relating to credit risk and Note 13 has been updated for the amendments.

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

A standard, amendment, and interpretation issued but not yet effective that has not been early adopted, and which is relevant to ERO is NZ IFRS 9 *Financial Instruments*. This standard will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following three 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 2016. However, as a new Accounting Standards Framework approved by the Minister of Commerce will apply before this date, there is no certainty when an equivalent standard to NZ IFRS 9 will be applied by public benefit entities.

Due to the change in the Accounting Standards Framework for public benefit entities, it is expected that all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the External Reporting Board has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standard Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

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.

Impairment of a receivable is established when there is objective evidence that ERO will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, receivership or liquidation, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. The carrying amount of the asset is reduced through the use of a provision for impairment account, and the amount of the loss is recognised in the surplus or deficit. Overdue receivables that are renegotiated are reclassified as current (that is, not past due).

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Property, Plant and Equipment

Property, plant, and equipment consists of leasehold improvements, furniture and office equipment, computer hardware and motor vehicles.

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

Additions

The cost of an item of property, plant, and equipment is recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to ERO and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the surplus or deficit. When a revalued asset is sold, the amount included in the property revaluation reserve in respect of the disposed asset is transferred to taxpayers' funds.

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	Up to 10	Up to 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, sick 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.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where ERO has a contractual obligation or where there is a past practice that has created a constructive obligation.

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 2.43 percent for 1 year, 2.47 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.

Equity

Equity is the Crown's investment in ERO and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified as taxpayers' funds, memorandum accounts and property revaluation reserves.

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 2011/12* (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 2012, 75 percent of total output costs were direct costs (30 June 2011: 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 25 percent of total output costs for the year ended 30 June 2012 (30 June 2011: 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 provision for reinstatement, retirement leave and long service leave. Notes 9 and 10 provide an analysis of the exposure in relation to estimates and uncertainties surrounding reinstatement obligations of leased premises, retirement leave and long service leave liabilities.

Notes to the Financial Statements

for the year ended 30 June 2012

30 June 2011 Actual \$000		30 June 2012 Actual \$000
1. Other Revenue		
1	Rent Recoveries	32
175	Other	1
176	Total Other Revenue	33
2. Personnel Costs		
19,128	Salaries and wages	18,922
735	Employer contribution to superannuation schemes	595
(159)	Increase/(decrease) in employee entitlements	147
203	Other	172
19,907	Total Personnel Costs	19,836
3. Operating Costs		
2,232	Leasing and Rental Costs	2,027
50	Fees paid to Auditors for Financial Statements Audit	53
231	Consultancy	628
189	Net Loss on Sale of Property, Plant and Equipment	25
4,456	Other	4,698
7,158	Total Operating Costs	7,431
4. Capital Charge		
<p>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 2012 was 8 percent (30 June 2011: 7.5 percent).</p>		
5. Debtors and Other Receivables		
98	Sundry Debtors	213
98	Total Debtors and Other Receivables	213

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. There were nine debtors that are less than 30 days old (\$58,000) and five debtors that are more than 30 days old (\$155,00).

Notes to the Financial Statements

for the year ended 30 June 2012 (continued)

6. 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
1 July 2010						
Cost	1,389	2,040	502	185	2,651	6,767
Accumulated Depreciation	(899)	(639)	(304)	(120)	(1,516)	(3,478)
Carrying amount at 1 July 2010	490	1,401	198	65	1,135	3,289
Year ended 30 June 2011						
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
30 June 2011						
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
Year ended 30 June 2012						
Carrying amount at 1 July 2011	343	1,051	143	50	1,300	2,887
Additions	173	-	27	-	343	543
Disposals	(1)	(7)	(14)	(6)	(3)	(31)
Depreciation	(172)	(222)	(47)	(10)	(505)	(956)
Carrying amount at 30 June 2012	343	822	109	34	1,135	2,443
30 June 2012						
Cost	1,163	1,840	415	92	3,124	6,634
Accumulated Depreciation	(820)	(1,018)	(306)	(58)	(1,989)	(4,191)
Carrying amount at 30 June 2012	343	822	109	34	1,135	2,443

Notes to the Financial Statements

for the year ended 30 June 2012 (continued)

7. Intangibles

	Computer Software	Review Procedures	Total Intangible Assets
	\$000	\$000	\$000
1 July 2010			
Cost	1,580	160	1,740
Accumulated Amortisation	(1,125)	(5)	(1,130)
Carrying amount at 1 July 2010	455	155	610
Year ended 30 June 2011			
Carrying amount at 1 July 2010	455	155	610
Additions	41	73	114
Amortisation	(177)	-	(177)
Carrying amount at 30 June 2011	319	228	547
1 July 2011			
Cost	1,620	233	1,853
Accumulated Amortisation	(1,301)	(5)	(1,306)
Carrying amount at 1 July 2011	319	228	547
Year ended 30 June 2012			
Carrying amount at 1 July 2011	319	228	547
Additions	6	140	146
Disposal	(5)	-	(5)
Amortisation	(123)	(51)	(174)
Carrying amount at 30 June 2012	197	317	514
30 June 2012			
Cost	1,204	373	1,577
Accumulated Amortisation	(1,007)	(56)	(1,063)
Carrying amount at 30 June 2012	197	317	514

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 2012 (continued)

30 June 2011 Actual \$000	30 June 2012 Actual \$000
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8. Creditors and Other Payables

523	Trade Creditors	567
749	Accrued Expenses	693
396	Tax Payables – GST, FBT and PAYE	396
1,668	Total Creditors and Other Payables	1,656

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

9. Provisions

Leasing Incentives

Lease incentives received as an inducement to enter into an operating lease are recognised evenly over the term of the lease as a reduction in the rental expense.

Reinstatement Provision

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

Onerous Contracts

The provision for an onerous contract arises from a temporary accommodation in Christchurch that will have five months remaining on the lease when ERO moves into new premises in August 2012.

	Current Portion	
35	Restructuring	-
-	Leasing Incentives	45
-	Onerous Contracts	18
50	Reinstatement	-
85	Total Current Portion at End of Year	63
	Non-Current Portion	
-	Leasing Incentives	302
133	Reinstatement	500
133	Total Non-Current Portion at End of Year	802
218	Total Provisions	865

Notes to the Financial Statements

for the year ended 30 June 2012 (continued)

30 June 2011 Actual \$000		30 June 2012 Actual \$000
	Restructuring	
40	Balance at Start of Year	35
35	Additional Provision during the Year	-
(40)	Unused Provision reversed during the Year	-
-	Provision used during the Year	(35)
35	Total Restructuring Provision at End of Year	-
	Leasing Incentives	
-	Balance at Start of Year	-
-	Additional Provision during the Year	348
-	Provision used during the Year	(1)
-	Total Leasing Incentives Provision at End of Year	347
	Onerous Contract	
14	Balance at Start of Year	-
-	Additional Provision during the Year	18
(1)	Unused Provision reversed during the Year	-
(13)	Provision used during the Year	-
-	Total Onerous Contract Provision at End of Year	18
	Reinstatement	
-	Balance at Start of Year	183
183	Additional Provision during the Year	367
-	Unused Provision reversed during the Year	(50)
183	Total Reinstatement Provision at End of Year	500
218	Total Provisions at End of Year	865

10. Employee Entitlements

	Current Liabilities	
1,057	Annual Leave, Special Leave and Sick Leave	1,133
30	Retirement Leave and Long Service Leave	295
436	Accrued Salaries	530
1,523	Total Current Portion	1,958
	Non-Current Liabilities	
1,336	Retirement Leave and Long Service Leave	1,142
1,336	Total Non-Current Portion	1,142
2,859	Total Employee Entitlements	3,100

Notes to the Financial Statements

for the year ended 30 June 2012 (continued)

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 \$26,108 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 \$23,726 higher/lower.

11. Reconciliation of Net Surplus to Net Cash Flows from Operating Activities

30 June 2011 Actual \$000	30 June 2012 Actual \$000	30 June 2012 Main Estimates \$000	30 June 2012 Supp. Forecasts \$000
580 Net Surplus/ (Deficit)	125	-	202
<i>Add/(deduct) Non-Cash Items from Statement of Financial Performance</i>			
939 Depreciation and Amortisation	1,130	1,180	964
<i>Add/(deduct) Movements in Working Capital Items</i>			
(14) (Increase)/Decrease in Debtors and Other Receivables	(115)	(3)	(17)
(13) Decrease /(Increase) in Prepayments	24	(20)	(3)
(85) Increase/(Decrease) in Creditors and Other Payables	(12)	17	87
164 Increase/(Decrease) in Provisions	647	-	274
(107) Increase/(Decrease) in Employee Entitlements	241	(59)	57
(55)	785	(65)	398
<i>Items Classified as Investing Activities</i>			
189 Net Loss/(Gain) on Disposal of Fixed Assets	25	-	-
1,653 Net Cash Flows from Operating Activities	2,065	1,115	1,564

Notes to the Financial Statements

for the year ended 30 June 2012 (continued)

12. Related Parties

All related party transactions have been entered into on an arms' length basis.

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.

Significant transactions with government-related entities

ERO has received funding from the Crown of \$27.83 million (2011: \$28.14 million) to provide services to the public for the year ended 30 June 2012.

Collectively, but not individually significant transactions with government-related entities

In conducting its activities, ERO is required to pay various taxes and levies (such as GST, FBT, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. ERO is exempt from paying income tax.

ERO also purchases good and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2012 totalled \$1.11 million (2011: \$1.12 million). These purchases included the procurement of electricity from Genesis, legal services from Crown Law Office, audit services from Audit New Zealand, Performance Improvement Framework review by State Services Commission and air travel from Air New Zealand. As at 30 June 2012, ERO had \$102,000 (2011: \$131,000) in trade payables for entities related to the Crown.

ERO also receives revenue from government-related entities. Revenue from these government-related entities totalled \$956,000 (2011: \$535,000). These revenue streams included the subsidies received from the State Services Commission for the state sector retirement and KiwiSaver schemes and from various contractual services for the Ministry of Education conducted on a fee-for-service basis. As at 30 June 2012, ERO had \$210,000 (2011: \$68,000) in trade receivables from entities related to the Crown.

Key management personnel compensation

30 June 2011 Actual \$000		30 June 2012 Actual \$000
1,825	Salaries and Other Short-Term Employee Benefits	1,859
50	Post-Employment Benefits	127
1,875	Total Key Management Personnel Compensation	1,986

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

13. 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 2011: nil).

Notes to the Financial Statements

for the year ended 30 June 2012 (continued)

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. 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 5).

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.

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 2011 Actual \$000		30 June 2012 Actual \$000
	Loans and Receivables	
5,263	Cash	6,244
98	Debtors and Other Receivables (note 5)	213
5,361	Total Loans and Receivables	6,457
	Financial Liabilities measured at Amortised Cost	
1,668	Creditors and Other Payables (note 8)	1,656

14. 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.

Notes to the Financial Statements

for the year ended 30 June 2012 (continued)

15. Major Variances from Budget

	30 June 2012 Actual \$000	30 June 2012 Main Estimates \$000	30 June 2012 Variance \$000
Statement of Comprehensive Income			
Revenue Departments	956	450	506
Operating	7,431	6,405	1,026
Statement of Financial Position			
Cash	6,244	4,372	1,872
Employee Entitlements – Current	1,958	1,428	530
Employee Entitlements – Non-Current	1,142	1,535	(393)
Provisions – Non-Current	802	-	802

Revenue Departments was \$506,000 over budget due to higher levels of contractual services than anticipated.

Operating costs was \$1,026,000 over budget due to a combination of additional contractual services described above and higher lease provisions described below.

Cash was \$1,872,000 over budget due to a combination of higher levels of financial liabilities arising from leasing incentives and reinstatements as well as less capital expenditure being incurred than was forecast in ERO's Main Estimates.

The variances between the current and non-current portion of employee entitlements variances were mainly due to a reclassification of long service leave between the two portions.

Provisions-Non-Current was \$802,000 over budget due to higher provisions being made for reinstatement obligations for ERO's leased properties and for incentives received as an inducement to enter into an operating lease.

16. Post Balance Date Events

There are no significant post balance date events.

Performance Indicators

30 June 2011 Actual		Unit	30 June 2012 Actual	30 June 2012 Main Estimates	30 June 2012 Supp. Forecasts
Working Capital⁷					
1,811	Net Current Assets ⁸	\$000	2,733	1,424	1,520
1.48	Current Ratio ⁹		1.72	1.45	1.44
22.1	Average Creditors Outstanding ¹⁰	Days	20.2	-	-
Resource Utilisation					
Fixed Assets:					
3,434	Total Non-Current Assets at year end	\$000	2,957	3,683	4,139
16.7	Value per Employee	\$000	13.9	16.7	18.8
21.8	Additions as % of Non-Current Assets	%	23.3	27.2	42.8
Taxpayers' Funds:					
3,746	Level at Year End	\$000	3,746	3,572	3,746
18.3	Level per Employee	\$000	17.6	16.2	17.0
Human Resources					
9.36	Staff Turnover ¹¹	%	11.40	-	-
8.60	Average Length of Service ¹²	Years	8.80	-	-
205.12	Total Staff ¹³	FTEs	213.55	220.00	220.00

7 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.

8 Current assets minus current liabilities.

9 Current assets as a proportion of current liabilities.

10 Average days to pay invoices.

11 Staff turnover is not reported in the Main and Supplementary Estimates.

12 Average length of service is not reported in the Main and Supplementary Estimates.

13 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 216 FTEs.



Education Review Office
PO Box 2799
Wellington
New Zealand
www.ero.govt.nz