



# Annual Report

for the Year Ended 30 June 2013



# 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 2013*

*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

Too often in the education sector we hear about what's wrong with the system, what needs to be changed, and who should fix it. Sometimes this is necessary and changes do need to be made. However, I believe we should switch the conversation around and focus more on what the good things are and ways to share good practice so that it multiplies.

The Education Review Office has the privilege of observing good practice in schools and early childhood services every day, the length and breadth of New Zealand.

Yes, our job is to review, to suggest improvements where needed, to nudge in the right direction, and to encourage school and service leaders. This is our bread and butter work. Through reviewing and helping build capability we aim to improve the self review of every school and service so they can successfully examine their processes and practices. In effect, and from an evaluation perspective, we are looking to do ourselves out of a job. The better that schools and services are at undertaking self review, less frequent visits by ERO are required. Of course, from a different perspective, ERO understands that its job is to provide the government of the day with assurance in terms of its significant investment in education.

Increasingly we see our role as also being to recognise and share good practice and success wherever we see it, and we do see it in abundance in schools and services of every style and philosophy. We are determined to share this more widely to help get system-wide lift. For example, our experiences indicate that there are three factors crucial to raising achievement:

- shifting the focus of the education system to student-centred learning
- knowledgeably implementing a responsive and rich curriculum
- good use of assessment information to know about, and plan for, students' learning.

Really what we are trying to do is close the gap between theory and practice. I believe part of this is finding ways for teachers to be able to reflect on research about teaching and learning and look at what works.

During reviews we gather and analyse evidence on particular topics, and disseminate our findings as national evaluations and reports of good practice. The methodology that we use is rigorous and, because the national evaluations are based on evidence our reviewers collect in schools and services, they are up-to-date and relevant. As well as examples of good practice, they contain self-review tools. The feedback we have received from schools and services shows these are very useful.

We have worked with many education agencies and other organisations throughout the year and we are very grateful for their input and support.

This was particularly evident in the redevelopment of the methodology for reviewing early childhood services this year, and in the ongoing work relating to the Prime Minister's Youth Mental Health Project.

Finally, I would like to acknowledge the dedication and professionalism of the ERO staff. Their commitment to the job and their passion for their work contributes to ERO making 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.

A handwritten signature in black ink that reads "Diana Anderson". The signature is written in a cursive, flowing style.

Diana Anderson  
Acting 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 services, and the implementation of Government education priorities in these sectors. ERO's 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 of the quality of education provided.

ERO plays a guardianship and improvement role for the sector. Our evaluation processes and reports lead to improvement at the institution and system levels. Our independence also provides an accountability lever, in that we can make authoritative judgements on the performance and actions taken by schools, services, and 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.

### 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 CONTEXT

### Operating Context

#### Government and priorities

Our society has become increasingly more complicated and uncertain. This is to be expected as New Zealand becomes more diverse and as New Zealanders' expectations become increasingly wide-ranging. Government must meet the challenges of this new operating environment and ensure that its public services are more responsive, nimble and resilient. This is essential if New Zealand is to provide economic and social progress to meet the needs of our people. This focus is reflected in the Government's core priorities for:

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

#### Education sector priorities

Education is vital to transforming New Zealand's future. It sets a foundation for economic and social success by equipping our learners with the necessary skills and pathways to navigate the future. Education must therefore be future focused and ensure that all students are prepared for the 21<sup>st</sup> century. This is reflected in the 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 21<sup>st</sup> century.”*

To support this goal, the entire education system must provide a foundation for all children to succeed. A focus on priority learners is central to this success. The following education system outcomes provide a common direction and purpose:

- Education provision of increasing quality and value to all.
- Every learner achieving and managing their education success.
- The education system is a major contributor to economic prosperity and growth.
- Investment in education has provided higher returns.

Through its evaluation processes, ERO makes a vital contribution to the strategic leadership of education in New Zealand. Our analysis and the information that we provide is increasingly being used to shape thinking about future policy and operational strategy. It drives improvement. It demands accountability and it challenges others to improve capacity. In this way, ERO complements the work of the other six agencies in the education sector: the Ministry of Education, Careers New Zealand, Tertiary Education Commission, New Zealand Qualifications Authority, New Zealand Teachers' Council, and Education New Zealand.

### Better Public Services programme

New Zealanders must receive good value from the significant investment the Government makes in education. This is part of the Government's commitment to providing better public services to New Zealanders. As part of its Better Public Services work programme to increase the effectiveness and efficiency of government expenditure, the following targets have been 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).

ERO has recognised the need for the sector to shift its work to align to the Better Public Services' targets. We are directly contributing to the achievement of the first two targets by aligning our national evaluation programme and review methodologies to improving outcomes for all priority learners. This includes increasing the quality of education provided by schools and early childhood services to better meet the needs of learners. Our information relating to the secondary-tertiary interface also supports attainment of the third target.

ERO has also recognised that a culture shift is essential to support Better Public Services. How government departments mobilise themselves around achieving these targets is critical. We are progressively transforming our own methodologies and internal capacity so that we are working in more collaborative and innovative ways. This means that we can provide better value for money, while delivering the results that the Government and the public want. It is also essential at a time when both Government and the public seek innovation from public services.

By continuing to improve our methodologies and internal capacity, we have been able to exercise fiscal restraint while remaining focused on the needs of the learner and improvements to the system.

## Strategic Direction

### Our vision, mission, and whakataukī

In the last five years, ERO has consulted widely with the community and with its education partners to develop an innovative and collaborative strategy to advance the Government's priorities and the Better Public Services programme. Children and young people are at the heart of this strategy. This is reflected in our whakataukī and is the foundation for our vision and mission statement:

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

#### Mission

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

#### Whakataukī

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

### Our strategic focus

The core intent of our strategy is to utilise evaluation 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. This means ensuring that our evaluations and work in the sector 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 New Zealand's pre-tertiary education system is of a high quality and continues to provide world-leading teaching and learning outcomes for students. To do this, we must ensure the information we produce is user-friendly, accessible, and centres on the needs of the learner.

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

- maximise the benefits of our 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 improvement
- focus on how effectively schools and early childhood services are promoting the participation and learning of all children and young people, and responding to priority groups (Māori students, Pacific students, children with special education needs, and children from low income families)

- ensure our national evaluation programme is aligned to and can influence the Government’s education priorities.

These initiatives will improve capability, self review, and sustained good performance in schools and early childhood services. This will help the Government assess the impact and outcomes of government education policy. It will mobilise the sector towards achieving the priorities that the Government and public expect from the education system.

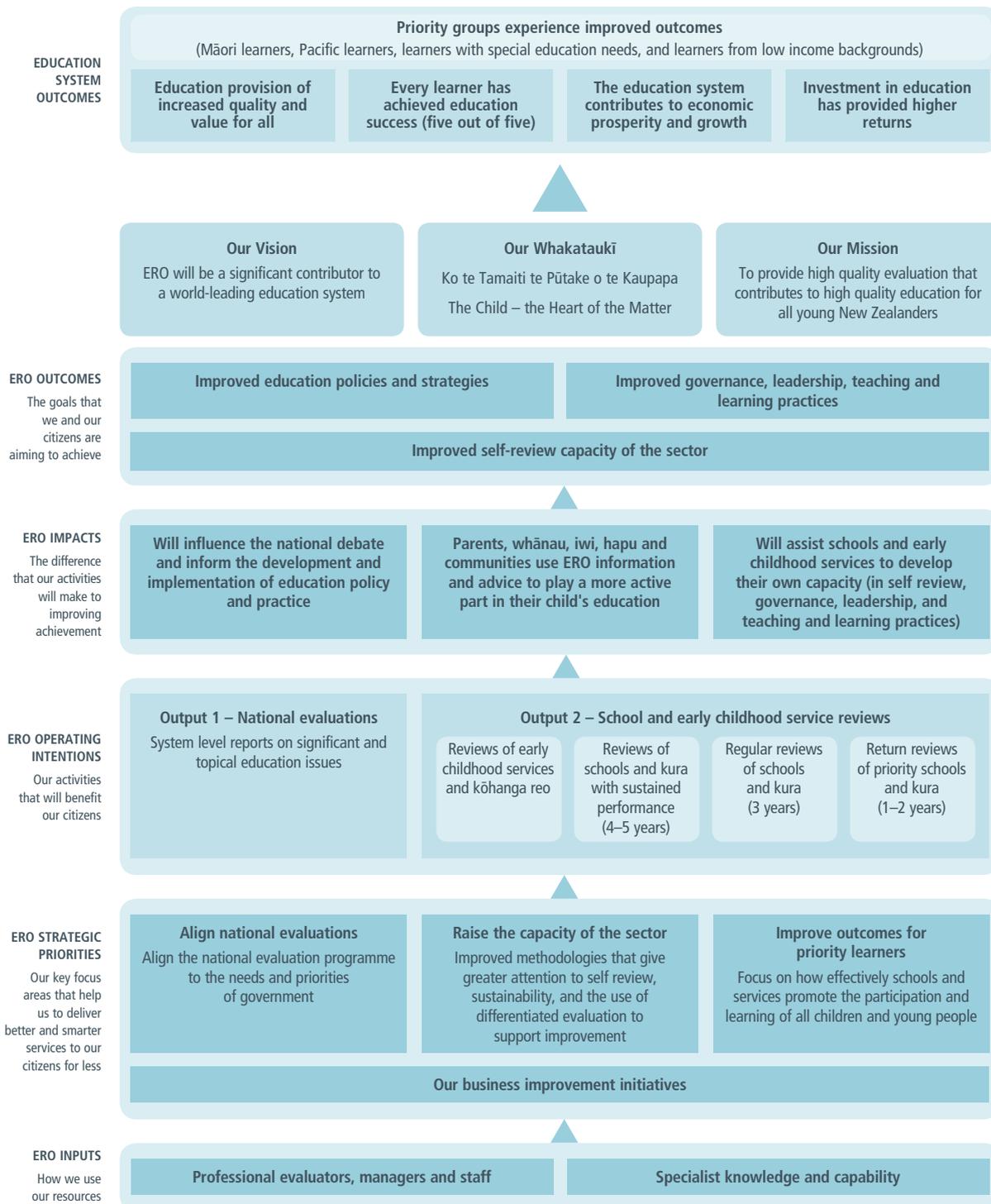
#### Our audiences and outcomes

ERO’s strategy recognises that education involves many participants with each having 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 demanding high quality education services for their children, and appropriate and well-implemented education policy – all of these contribute to achieving results. For this reason, ERO’s work is coordinated with its target audiences to achieve the following outcomes:

	IMPACTS		TARGET AUDIENCES		SECTOR 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 school performance and self-review capacity <i>(Impact 2)</i>		schools and early childhood services		improve their governance, leadership, and teaching and learning practices

In addition, parents, whānau, iwi, hapū, and communities use ERO’s evaluations to play a more active part in their children’s education.

Figure 1 – ERO’s contribution to Government education priorities

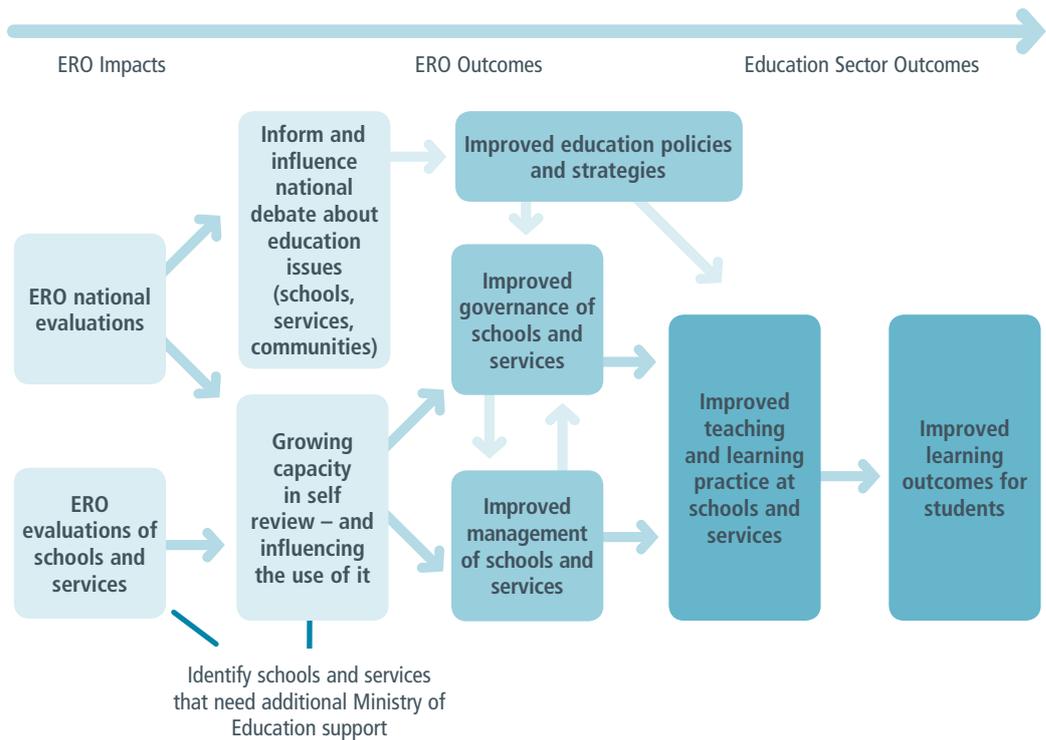


**PART 4: OPERATING INTENTIONS**

**Intervention Logic**

The following intervention logic demonstrates the relationships and links between ERO’s evaluations and the desired results (Figure 2).

Figure 2 – ERO’s intervention logic



**Impact 1 – National Evaluations**

**What did we aim to achieve?**

In its 2012/13 Statement of Intent, ERO stated that it aimed to inform and influence the development and implementation of education policy and practice through system-wide evaluations.

**What did we achieve?**

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 2012/13.

*Priority learners – Māori, Pacific, learners with special needs, and those from low income families*

ERO is committed to improving processes for raising student achievement for priority groups of learners. In our report *Evaluation at a Glance: Priority Learners* (August 2012) we identified three issues to significantly lift the achievement of students, particularly priority learners. These broadly relate to the need for schools to develop systems, processes

and connections that put students at the heart of learning and teaching; to understand the permissive nature and intent of *The New Zealand Curriculum*, and implement responsive curricula in their schools; and to make improvements in the ways they engage in assessment and evaluation processes so that these are dynamic and responsive to information about students. This report was shared widely with sector groups and generated significant news media coverage when it was released.

#### *Priority learners in primary schools*

A further report *Accelerating the Progress of Priority Learners in Primary Schools* (May 2013) examined the extent to which primary schools were using effective strategies to improve outcomes for priority learners. We found that although many schools had some deliberate actions intended to accelerate the progress of priority learners, only some used highly effective practices for students to catch up with their peers.

We also included a focus on priority learners in the report *Mathematics Years 4 to 8: Developing a Responsive Curriculum* (February 2013). The findings reflect a lack of sector understanding about what accelerated progress looks like, and the importance of reviewing how well interventions are working for priority learners.

Both these reports attracted considerable news media coverage with radio interviews and articles in print and online.

#### *Inclusion of special needs students*

Several of our evaluations focused on students and children with special education needs. Following on from ERO's 2010 report, *Including Students with High Needs*, the Government developed its policy and a performance target for all schools to demonstrate inclusive practice by the end of 2014. Specifically, the target is 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.

In 2012 we asked schools to complete a questionnaire about their provision for students with special needs. The report *Including Students with High Needs: Schools' Questionnaire (2)* showed that, overall, schools expressed positive attitudes towards including students with special needs, and described many ways they included these students in all aspects of school life. However, schools provided less information about how well they promoted students' learning and academic achievement.

ERO is continuing to focus on schools' inclusion of students with special needs and will publish a further national evaluation report based on data gathered from 81 primary schools in Term 4, 2012. ERO is also undertaking a further national evaluation in Term 3, 2014 that will provide data that can be directly compared with the 2012 findings.

ERO also evaluated inclusive practices in 268 early childhood services. In the report *Inclusion of Children with Special Needs in Early Childhood Services* (December 2012) we found that just over one-third of services had children with moderate to severe special needs enrolled. Most of these services were very or mostly inclusive of children with special needs. However, many had not reviewed the impact of practices and programmes on outcomes for children with special needs.

*Increasing the number of students gaining NCEA level 2*

ERO evaluated the quality of programmes developed to gain NCEA Level 2 and to support young people in their transition from compulsory education to tertiary education, training and employment.

The recently published report *Secondary Schools: Pathways for future education, training and employment* indicates that fundamental questions remain about secondary schooling in New Zealand. It shows the need for schools to be far more innovative in responding to the individual pathways of each of their students. Effective secondary schooling is moving away from offering a programme that is suitable for most students, and towards identifying and responding to the aspirations, strengths, culture and needs of every student.

In schools that responded effectively to each student's future career aspirations ERO found:

- processes and practices that encouraged the individualisation of student pathways
- a school curriculum that was effective for a large majority of the students enrolled at the school
- senior students having access to a range of academic, careers and pastoral systems that worked together to support them
- individual course and school-wide initiatives that encouraged students to develop leadership and self-management skills
- an extensive range of vocational and academic options
- purposeful partnerships with others in the community to support student learning and development
- some effective initiatives for Māori and Pacific students
- some effective self-review systems.

The report continues the focus on senior secondary students begun with the report *Careers Information, Advice, Guidance and Education (CIAGE) in Secondary Schools* published in August 2012. That report emphasised the importance of school-wide processes to develop the career management competencies of students. It showed that, in the most effective examples, careers education is central to a school's delivery of *The New Zealand Curriculum*. This finding was also emphasised again in the recently published report.

ERO is continuing to focus on how well secondary schools are supporting students to gain the necessary qualifications to reach their potential and to achieve their future career aspirations. A further report outlining successful practices schools used to help students gain NCEA Level 2 will be published soon.

### *Other national evaluation reports: schools*

In addition to the above work, in 2012/13 ERO published the following national evaluation reports of interest to schools:

- *Evaluation at a Glance: Transitions from Primary to Secondary School*. This report combined current research and findings from recent ERO reports. It was intended to help schools introduce practices that are likely to help students succeed when they transition to secondary school. The report identified six key factors that contribute to successful transitions.
- *Provision for Students in Activity Centres*. In 2011, the Ministry of Education released the *Activity Centre Policy Toolkit* to guide centres' roles and responsibilities. ERO's report found good care processes but a variable quality of education across the 14 Activity Centres. The report made recommendations for the Ministry of Education and schools encouraging the implementation of management, reporting and support processes which are consistent with the *Activity Centre Policy Toolkit*.
- *Reporting to Parents: National Standards Years 4 to 8*. This short report identified that the percentage of schools meeting their National Standards reporting requirements increased between 2010 and 2011, which is a positive development in the implementation of the Standards.
- *Schools' Provision for International Students*. This is part of an ongoing series of reports about international students. It identified that most schools are complying with the *Code of Practice for the Pastoral Care of International Students*. The report provides examples of teaching, pastoral care and self review from across the schools in this evaluation.
- *Board Employment Responsibilities: Linking Charter Targets to Appraisal in Primary Schools*. This is the first in a series of reports about board employment responsibilities. ERO investigated whether primary school leaders' and teachers' appraisal was linked to charter targets or school achievement goals. The report noted the need for a greater emphasis on accountability for raising achievement in principals' and teachers' appraisal.
- *Stories of Resilience and Innovation in Schools and Early Childhood Services in Canterbury*. This report shares the experiences of teachers, leaders and managers during the earthquakes from 2010–2012. The examples of improvements schools and services made after the earthquakes are intended to help others to review and improve their disaster response systems. The report generated positive news coverage, with several newspapers running items on the back of ERO's news release.
- *KiwiSport in Schools*. This is the second and final report investigating how schools are using their KiwiSport funding. Many schools reported positive impacts of the funding.

### *Booklets for parents of school children*

ERO published two booklets in a series for parents to help them better understand what happens in schools. They include questions that parents might ask their child's teachers or school principal about their child's learning.

*How is my child doing? Questions to ask at school* – This booklet has questions parents can use to find out how their child is progressing and learning at school. It includes information about the framework ERO uses when it reviews schools. There has been a very positive response from schools and parents with two reprints to date.

*School Trustees: Helping you ask the right questions* – This booklet is primarily for boards of trustees. It includes questions trustees can ask to get the information they need about student achievement and welfare. Again, there has been high demand for this booklet from schools, boards and parents.

We will publish a further three booklets for parents in 2013/14.

#### *National evaluation reports: early childhood*

In 2012/13 ERO also published national evaluation reports of interest to early childhood services.

In 2011, the ECE Taskforce report, *An Agenda for Amazing Children*, recommended an evaluation of the implementation of the early childhood curriculum *Te Whāriki*. ERO conducted a national evaluation that investigated how effectively early childhood services were determining, enacting and reviewing their curriculum priorities to support education success for every learner. Our evaluation of the early childhood curriculum has resulted in a series of reports which we began publishing in 2012/13.

In the report *Working with Te Whāriki* (May 2013) ERO found that although most early childhood services were making some use of the prescribed curriculum framework of principles and strands in *Te Whāriki*, teachers lacked an understanding of the intent and depth of the curriculum document. The report posed challenges for policy makers and the early childhood education sector about the implications of having a non-prescriptive curriculum that is reliant on the professional knowledge of those who implement it and recommended that the curriculum should be reviewed or revised.

*Priorities for Children's Learning in Early Childhood Services* (May 2013). This report highlighted the variability in how well early childhood services identified and responded to their priorities for children's learning. While most services identified their priorities, in many services these were not reflected in their curriculum and associated assessment and self-review practices. ERO also found a lack of responsiveness to Māori and Pacific children in many services. Only two-fifths of services had thought about a curriculum that might support Māori children to achieve success as Māori, and about one-fifth of services had considered this for Pacific children.

A third report in this series, focusing on good practice in five early childhood services, will be published in 2013/14.

#### **How effective were we?**

ERO's national evaluations are intended to promote debate and influence change in 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 and whānau
- they are topical, timely, and consistent with the Government's priorities for education.

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

ERO prints and distributes copies of selected national evaluation reports to schools and services, and all reports are available online. For national reports of particular interest we issue news releases and conduct media interviews. We also share and discuss report findings with education sector groups at regular liaison meetings, as well as at conferences and workshops.

We have introduced two-page summaries for all national evaluation reports. These generally include key findings, self-review questions and case studies. They are emailed to services or schools when reports are released and accompany the reports on the website.

A request for feedback about the summaries from schools and early childhood services showed that these were useful. Sixty of the 87 early childhood services who responded said that the two-page summary encouraged them to read the full report. Twenty-two of the 34 schools said that the summary encouraged them to read the full report and 10 said it did not. All of the schools and early childhood services said the content of the summary was easily understood.

A review of the use of the national evaluation summaries and reports by schools is underway and will be completed by the end of 2013.

**Table 1 – Impact 1, measures and targets**

Impact Measures and Targets	2012/13 Actual	2012/13 Forecast
% of ERO's reports that are used to inform policy development at the Ministry of Education (sign-out processes)	Sign-out processes (which are undertaken throughout the life-cycle of each evaluation) and ongoing relationship meetings with the Ministry of Education and sector agencies confirm the use of ERO's evaluations for future planning, policy development, and professional development (100%)	80 – 100%
% of ERO's reports that are used to establish priorities for the sector (sign-out processes)		
% of ERO's reports that are used by schools and early childhood services to inform their own practice (school questionnaires)	Achieved (80%+)	80 – 100%

## Impact 2 – School and Early Childhood Service Reviews

### What did we aim to achieve?

In the 2012/13 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?

#### *Improving the capacity of schools*

In 2012/13, ERO completed 793 reviews of schools, 31 private school reviews, and 16 home school reviews.

ERO has ensured that its reviews of schools benefit the child, by improving the system's own capacity to deliver successful teaching and learning outcomes. ERO has placed emphasis on assuring the Government, parents, communities and the sector, that New Zealand's pre-tertiary education system is of a high quality and continues to provide world-leading teaching and learning outcomes for our students. To do this, ERO has focussed on producing reports that are user-friendly, accessible, and centre on the needs of the learner.

ERO has continued to refine its review methodologies for schools which:

- give greater attention to the quality of self review and sustainability, and the use of differentiated evaluation to support improvement
- focus on how effectively schools are promoting the participation and learning of all children and young people, and responding to priority groups (Māori students, Pacific students, children with special education needs, and children from low income families).

Using its differentiated methodologies,<sup>1</sup> ERO focuses greater attention on schools where students are not progressing and achieving well.

An internal review of the Arotake Paetawhiti procedures has provided ERO with areas where improvement could be made to the process. The Arotake Paetawhiti has been generally found to be a very successful approach to improving student achievement and school development.

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.

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<sup>1</sup> 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 2012/13 and describes those schools who can *consistently* demonstrate *sustained* effective student learning – engagement, progress and achievement.

### *Improving the capacity of early childhood services*

In 2012/13, ERO completed 1,350 reviews of early childhood services.

ERO has completed work on the redesign of its early childhood methodology after significant consultation with the sector. 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 who the system is targeting as requiring additional support.

In 2012, ERO completed a new review framework and new evaluation indicators. The draft document was made available to all early childhood services. It has now been finalised and implemented as *He Pou Tātaki – How ERO reviews early childhood services*.

As a part of the new approach, in May 2013 ERO introduced differentiated future action criteria aimed at improving the quality of early childhood provision. Using this criteria, ERO now determines how well placed a service is to promote positive learning outcomes for children. While this approach has been supported widely by providers and the Ministry of Education, it is as yet too early to determine the impact of the new approach.

Over the 2012/13 year ERO has continued its briefing meetings, self-review workshops and presentations to a wide range of early childhood education services and providers. Cluster reviews of services governed and managed by an umbrella organisation have also proven to be an effective way of managing reviews of groups of centres.

### *Māori success strategies for schools*

In 2012 ERO developed and incorporated into its review methodology a new approach for evaluating how well schools are promoting Māori succeeding as Māori. Schools now 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.

Anecdotal information suggests that this approach has been effective in encouraging and assisting schools to review their own performance, and also to identify their next steps.

ERO is also working closely with Te Rūnanganui o ngā Kura Kaupapa of Aotearoa to progress the re-development of the Te Aho Matua review methodologies for one-to-two year and three year return cycles. Members of ERO's Māori Review Services (Te Uepū-ā-Motu) undertook in-depth training on the new processes. This included a collaborative approach to the reviews of selected kura kaupapa Māori trials for the one-to-two year and three year processes. In 2013 the two organisations will continue this work with a focus on the process for the four-to-five year returns for kura kaupapa Māori Te Aho Matua.

ERO has also continued to develop relationships with iwi and the sector to support a collaborative approach to improving success for Māori. ERO has contributed to the sector's work on re-developing *Ka Hikitia – Accelerating Success 2013–17*, responding to the Wai 2336 claim, iwi relationship plans, and joint workplans and work programmes.

*Pacific success strategies*

ERO's Pacific Strategy, which aligns to the education sector's Pasifika Education Plan 2013–2017, was developed from May–November 2012 and was launched in December 2012. Its main focus is to build ERO's capacity in evaluating Pacific success within the organisation and across the wider education sector.

Early childhood services and schools are being asked to respond urgently to the needs of Pacific learners and to accelerate their achievement progress. ERO will use both its refocused evaluation methodology and national evaluation reports to support this focus.

Within ERO the response to the Pacific strategy has been positive. Across the organisation there is a proactive approach to increase reviewers' cultural awareness and responsiveness when evaluating Pacific success in early childhood services and schools. There is also a collective response within ERO to ensure that information on Pacific learners' success is visible and current.

**How effective were we?**

ERO 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.

*Effectiveness of ERO's school and early childhood reviews*

ERO uses school questionnaires to help determine the effectiveness of its methodology for reviewing schools. In 2012/13 the questionnaire was made available on ERO's website. Invitations to complete the questionnaire were sent to 725 schools. There were 316 responses from principals, board chairs and others, representing 264 individual schools. The findings indicated that 94 percent of respondents found ERO's school review process to be useful. Respondents were particularly positive about:

- onsite communication and relationship building
- feeling that their views were listened to, and their areas of strength were recognised
- their own self-review information having contributed significantly to the review
- having the opportunity to contribute to areas of focus for the review
- having access to resources, particularly the Evaluation Indicators for School Reviews, which helped increase transparency of the review
- how well ERO evaluated the engagement, progress and achievement of Māori students.

ERO's revised early childhood methodology has been in place for less than 12 months and so effectiveness data has yet to be received and analysed.

In addition to seeking feedback about its review approach, ERO monitors its review cycle to determine the percentage of schools that are positioned in each cycle.<sup>2</sup>

Of the reviews completed between 1 July 2012 and 30 June 2013:

- 13.7 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

<sup>2</sup> 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.

- 74.8 percent have been placed on the ‘regular’ three year cycle (Arotake Paerewa)
- 11.5 percent will be reviewed again within four-to-five years (Arotake Paehiranga).

From 2013, ERO will be analysing data and 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.

*Table 2 – Impact 2, measures and targets*

	2012/13 Actual	2012/13 Forecast
80% of institutions* evaluated will have used ERO’s evaluation process to make improvements	Achieved (80%+)	80%+
An increase in the % of schools that move on to the 4–5 year review cycle	11.5%	16%
An increase in the % of schools (previously on the 1–2 year review cycle) that move to the 3 year review cycle	75%	To establish a baseline

\*Schools were surveyed through school questionnaires. Early childhood services were surveyed about the implementation during the year of ERO’s new methodology, and are therefore not reported under this measure.

### *Cost-effectiveness*

In 2012/13, 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.

*Table 3 – Cost-effectiveness of reviews*

		2012/13 Actual	2012/13 Forecast
Reviews	Schools	793	710–840
	Early childhood	1,350	1,300–1,460
Cost (\$000)	Schools	14,582	14,046
	Early childhood	9,566	10,382
Review frequency	Schools	33%	33%
	Early childhood	33%	33%
Review officers (FTE)		145	145

### *Improving ERO’s measures (sustained performance at individual schools)*

As ERO has progressively undertaken return visits to the same school under the new review methodology, data is now being collected to gauge the level of self-improvement at each school. The 2012/13 data indicated that:

- 75% of schools reviewed in 2012/13 moved from the one-to-two year review cycle to the three year review cycle, demonstrating that schools had established effective processes for self-review, and for student learning, engagement, and achievement.
- 11% of schools reviewed in 2012/13 moved from a three year review cycle to the four-to-five year review cycle, demonstrating that more schools had sustained effective processes for student learning, engagement, and achievement.

ERO will expect incremental improvements to its data from 2013/14.

Further measures of the effectiveness of ERO’s review processes on early childhood services are expected to be developed once the new methodology has been in place for 12 months. Data will then be analysed and a baseline established.

## PART 5: ORGANISATIONAL HEALTH AND CAPABILITY

ERO is committed to delivering a responsive and valued service to the Government and New Zealanders. So that ERO can better support the Government's learner focus and continue to implement its methodological changes, a shift in organisational practice is needed. ERO is midway through a transformation programme to support this improvement. Key initiatives have been established to:

- improve its culture and climate, using the staff engagement survey as a measure
- identify and implement improvements to ERO's operating model, to support better reviewer and organisational practice
- align the professional learning and development programme to the shift in practice sought through new methodologies
- align ERO's capability to meeting the Government's education and Better Public Services priorities. This includes continuing to provide efficient and effective infrastructure to support the delivery of the service.

### ERO's staff engagement survey

Over recent years ERO has used an annual engagement survey of staff to measure the 'health' of the organisation. In 2013 ERO had a response rate of 86 percent. The improvement in ERO's overall engagement score has continued. This year it was 4.05, compared to 3.95 in 2012, and 3.84 in 2011. The overall satisfaction score also improved over this period from 3.81 to 4.03. Overall, ERO has doubled the ratio of engaged to actively disengaged employees since 2012. Managers will be working with their teams to acknowledge progress, identify further improvements and implement follow-up action plans. The next engagement survey is scheduled for 2015.

### Improvements to ERO's operating model

In 2012, ERO was assessed by the State Services Commission's Performance Improvement Framework (PIF) review. The 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. At the same time it identified additional improvements that could be made to its operating model to support the practice of both management and review staff.

In 2012/13 ERO reviewed its operating model and the frameworks and tools used to guide its professional practice. Programmes are in place and/or under development to:

- ensure its evaluation methodologies are sound and robust – so as to continue to be able to inform and influence the development of a world-leading education system
- provide improved professional practice tools (coaching, planning, quality assurance, performance management, peer processes, and internal team dialogue) to support more meaningful conversations and better judgements about review practice
- improve the reporting formats and templates so that parents, communities, and education sector professionals, can better access ERO's information and review material
- improve the understanding of ERO's internal decision-making and communication processes.

### 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.

Carefully planned national and regional professional learning and development programmes support the shift in practice sought through the new methodologies. For example, specific work is underway to develop dimensions for effective evaluation practice, strengthen the induction programme for new reviewers, promote national consistency, and develop the competencies and skills needed for effective implementation. These programmes also help staff to develop their understanding of ERO's policy context, the Government's education priorities and policy direction, knowledge of evaluation theory and practice, and developments in the education sector.

The programme also encompasses the leadership learning and development of managers (with a focus on leadership of evaluation and management practice), a cross-sector aspiring leaders programme, internal and external secondment opportunities (including to the Minister's office), and development opportunities with ANZEA,<sup>3</sup> LDC,<sup>4</sup> and ANZSOG.<sup>5</sup>

### 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 2012/13 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 – Accelerating Success 2013–17*), government education policy initiatives, and joint responses to the Treaty of Waitangi claims
- a recruitment round for ERO review officers and review services managers
- participation in all relevant All-of-Government procurement initiatives including electricity and air travel
- 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, a fit-out for ERO's new accommodation in Christchurch (co-located with Careers New Zealand) and co-location with New Zealand Transport Agency in Napier
- streamlining procedures for notifying institutions about their forthcoming reviews, using the technology available to ERO
- implementing new software that will scrape data from scanned accounts payable invoices to upload into ERO's financial management system
- in-house printing of ERO stationery such as letterheads and business cards
- preparation and deployment of a cyber security plan in line with Government Communications Security Bureau requirements
- migration to one-Government Wide Area Network (WAN) and internet services
- work on ERO's security of information and assets in line with the Government Chief Information Officer (GCIO).

### 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 self-review work to support the recommendations from the State Services Commission’s formal assessment of ERO using 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.

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3 Australia and New Zealand Evaluation Association

4 Leadership Development Centre

5 Australia and New Zealand School of Government

## PART 6: FINANCIAL STATEMENTS AND SERVICE PERFORMANCE

### Statement of Responsibility

In terms of the Public Finance Act 1989, I am responsible, as the Acting 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.

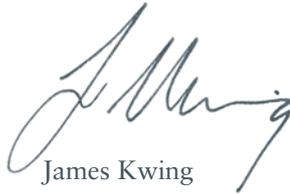
I have the responsibility for establishing, and I have established, a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

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 2013.



Diana Anderson

Chief Review Officer (Acting)



James Kwing

Chief Financial Officer

30 September 2013

## 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 2013

The Auditor-General is the auditor of the Education Review Office (the Department). The Auditor-General has appointed me, J.R. Smaill, 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 33 to 50, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2013, the statement of comprehensive income, statement of changes in tax payers' funds, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenses 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 26 to 32 and the report about outcomes on pages 10 to 19.

#### Opinion

In our opinion:

- the financial statements of the Department on pages 33 to 50:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Department's:
    - financial position as at 30 June 2013;
    - 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 2013; and
    - unappropriated expenses and capital expenditure for the year ended 30 June 2013.
- the non-financial performance information of the Department on pages 10 to 19 and 26 to 32:
  - 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 2013, 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 30 September 2013. 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, in our judgement, are likely to influence readers' 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. Also we did not evaluate the security and controls over the electronic publication 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 is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

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 External Reporting Board.

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 2013

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 2013 are reported against the forecast information contained in the *Estimates of Appropriation 2012/13* and of those as amended by the Supplementary Estimates. Explanations of major variations from the *Estimates of Appropriation 2012/13* 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 2013:

2011/12 Quantity Delivered <sup>a</sup>	Note	2012/13 Quantity Delivered <sup>a</sup>	2012/13 Quantity Estimated	Percentage of Estimated <sup>b</sup>
1,333		1,350	1,300–1,460	100%
35	1	17	80–120	21%
100%		100%	100%	-
100%	2	100%	100%	-

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 2012: 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 these quality standards.

<sup>a</sup> 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.

<sup>b</sup> 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 2013 (continued)

2011/12 Actual Timeliness %		2012/13 Actual Timeliness %	2012/13 Forecast Timeliness Standard %
	1.1 Education Reviews – Early Childhood Education Services		
	Unconfirmed report sent within:		
84	20 working days	88	80
94	25 working days	97	90
98	35 working days	100	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 80 percent of near-final reports to be sent within 20 working days of the end of the last week on site, 90 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 2013 was:

30 June 2012 Actual \$000		30 June 2013 Actual \$000	30 June 2013 Main Estimates \$000	30 June 2013 Supp. Estimates \$000
	<b>Revenue</b>			
9,794	Revenue Crown	9,633	10,608	9,633
109	Revenue Department and Other	28	12	24
<b>9,903</b>	<b>Total Revenue</b>	<b>9,661</b>	<b>10,620</b>	<b>9,657</b>
	<b>Cost</b>			
6,788	Personnel	6,876	7,686	7,020
2,542	Operating	2,322	2,383	2,217
387	Depreciation and Amortisation	307	436	315
103	Capital Charge	105	115	105
<b>9,820</b>	<b>Total Costs</b>	<b>9,610</b>	<b>10,620</b>	<b>9,657</b>
<b>83</b>	<b>Net Surplus</b>	<b>51</b>	<b>-</b>	<b>-</b>

### 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 2013 (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.

Education reviews address the following areas:

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

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 2013:

2011/12 Quantity Delivered <sup>a</sup>	Note	2012/13 Quantity Delivered <sup>a</sup>	2012/13 Quantity Estimated	Percentage of Estimated <sup>b</sup>
798	2.1	793	710–840	100%
26	2.2	16	25–35	64%
22	2.3	31	15–25	124%
<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 2012: 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 these quality standards.

## Statement of Service Performance

for the year ended 30 June 2013 (continued)

2011/12 Actual Timeliness %		2012/13 Actual Timeliness %	2012/13 Forecast Timeliness Standard %
	2.1 Education Reviews of State Schools		
	Unconfirmed report sent within:		
84	20 working days	86	80
94	25 working days	95	90
99	35 working days	99	98
	2.2 Homeschooling Reviews		
	Unconfirmed report sent within:		
81	20 working days	100	80
100	25 working days	100	90
100	35 working days	100	98
	2.3 Private School Reviews		
	Unconfirmed report sent within:		
91	20 working days	81	80
100	25 working days	100	90
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 80 percent of near-final reports to be sent within 20 working days of the end of the last week on site, 90 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 2013 (continued)

### Cost

The cost of services for Accountability Reviews – Schools and Other Education Service Providers for the year ended 30 June 2013 was:

30 June 2012 Actual \$000		30 June 2013 Actual \$000	30 June 2013 Main Estimates \$000	30 June 2013 Supp. Estimates \$000
	<b>Revenue</b>			
15,397	Revenue Crown	15,093	14,082	15,094
176	Revenue Department and Other	40	141	43
<b>15,573</b>	<b>Total Revenue</b>	<b>15,133</b>	<b>14,223</b>	<b>15,137</b>
	<b>Cost</b>			
10,748	Personnel	10,601	10,296	11,004
4,027	Operating	3,582	3,192	3,476
612	Depreciation and Amortisation	473	582	493
163	Capital Charge	162	153	164
<b>15,550</b>	<b>Total Costs</b>	<b>14,818</b>	<b>14,223</b>	<b>15,137</b>
<b>23</b>	<b>Net Surplus</b>	<b>315</b>	<b>-</b>	<b>-</b>

### Major variances against budget

There are no major variances against budget for this output class. The surplus includes funding received for review of schools non-compliant with National Standards. These reviews were not required to be carried out during the financial year.

## 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 2013 (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 2013:

2011/12 Quantity Delivered	Note	2012/13 Quantity Delivered	2012/13 Quantity Estimated	Percentage of Estimated <sup>b</sup>
15	3.1 Education Evaluation Reports	17	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	30	25–30	100%
	<i>Quality</i>			
	Consistent with approved presentational standards	100%	100%	-
100%				
91	3.3 Ministerial Services	100	145–210	69%
	<i>Quality</i>			
	Consistent with Cabinet Office Manual and Minister's requirements	6	100%	100%
100%				
5	3.4 Contractual Services	9	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 2012: nil). There were also no first drafts returned by the Minister of Education (30 June 2012: nil).

## Statement of Service Performance

for the year ended 30 June 2013 (continued)

### Cost

The cost of services for Quality of Education Reports and Services for the year ended 30 June 2013 was:

30 June 2012 Actual \$000		30 June 2013 Actual \$000	30 June 2013 Main Estimates \$000	30 June 2013 Supp. Estimates \$000
<b>Revenue</b>				
2,642	Revenue Crown	2,671	2,708	2,671
704	Revenue Department and Other	250	461	547
<b>3,346</b>	<b>Total Revenue</b>	<b>2,921</b>	<b>3,169</b>	<b>3,218</b>
<b>Cost</b>				
2,300	Personnel	2,169	2,294	2,339
862	Operating	732	711	739
131	Depreciation and Amortisation	97	129	105
34	Capital Charge	33	35	35
<b>3,327</b>	<b>Total Costs</b>	<b>3,031</b>	<b>3,169</b>	<b>3,218</b>
<b>19</b>	<b>Net (Deficit)/Surplus</b>	<b>(110)</b>	<b>-</b>	<b>-</b>

### Major variances against budget

Other Revenue received for contractual services was \$211,000 below budget due to lower levels of activity than anticipated.

## Statement of Comprehensive Income

for the year ended 30 June 2013

30 June 2012 Actual		Note	30 June 2013 Actual	30 June 2013 Main Estimates	30 June 2013 Supp.* Forecasts
\$000			\$000	\$000	\$000
<b>Revenue</b>					
27,833	Crown		27,397	27,398	27,398
956	Departments		249	450	393
33	Other	1	293	27	291
<b>28,822</b>	<b>Total Revenue</b>		<b>27,939</b>	<b>27,875</b>	<b>28,082</b>
<b>Expenses</b>					
19,836	Personnel	2	19,646	20,177	20,078
7,431	Operating	3	6,636	6,256	6,341
1,130	Depreciation and Amortisation	6,7	877	1,142	900
300	Capital Charge	4	300	300	300
<b>28,697</b>	<b>Total Expenses</b>		<b>27,459</b>	<b>27,875</b>	<b>27,619</b>
125	Net Surplus		480	-	463
-	Other comprehensive income		-	-	-
<b>125</b>	<b>Total Comprehensive Income</b>		<b>480</b>	<b>-</b>	<b>463</b>

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 2013

30 June 2012 Actual		30 June 2013 Actual	30 June 2013 Main Estimates	30 June 2013 Supp.* Forecasts
\$000		\$000	\$000	\$000
125	Total Comprehensive Income	480	-	463
(125)	Repayment of Surplus to the Crown	(480)	-	(463)
-	Movements in Taxpayers' Funds for the Period	-	-	-
<b>3,746</b>	<b>Taxpayers' Funds at the Start of the Year</b>	<b>3,746</b>	<b>3,746</b>	<b>3,746</b>
<b>3,746</b>	<b>Taxpayers' Funds at the End of the Year</b>	<b>3,746</b>	<b>3,746</b>	<b>3,746</b>

\* These are the estimated actuals presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2013, as amended by the Supplementary Estimates. The individual output statements disclosed with the Statements of Service Performance reflect the appropriations for the 2012/13 Supplementary Estimates.

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

## Statement of Financial Position

as at 30 June 2013

30 June 2012 Actual \$000	Note	30 June 2013 Actual \$000	30 June 2013 Main Estimates \$000	30 June 2013 Supp.* Forecasts \$000
<b>Assets</b>				
<i>Current Assets</i>				
6,244	Cash	6,612	5,031	5,730
213	Debtors and Other Receivables	37	115	175
78	Prepayments	91	105	85
<u>6,535</u>	<i>Total Current Assets</i>	<u>6,740</u>	<u>5,251</u>	<u>5,990</u>
<i>Non-Current Assets</i>				
2,443	Property, Plant and Equipment	2,655	3,065	2,895
514	Intangibles	577	450	629
<u>2,957</u>	<i>Total Non-Current Assets</i>	<u>3,232</u>	<u>3,515</u>	<u>3,524</u>
<u>9,492</u>	<b>Total Assets</b>	<u>9,972</u>	<u>8,766</u>	<u>9,514</u>
<b>Liabilities</b>				
<i>Current Liabilities</i>				
1,656	Creditors and Other Payables	1,874	1,753	1,845
63	Provisions	208	70	207
125	Repayment of Surplus to the Crown	480	-	463
1,958	Employee Entitlements	2,230	1,464	1,864
<u>3,802</u>	<i>Total Current Liabilities</i>	<u>4,792</u>	<u>3,287</u>	<u>4,379</u>
<i>Non-Current Liabilities</i>				
802	Provisions	682	379	666
1,142	Employee Entitlements	752	1,354	723
<u>1,944</u>	<i>Total Non-Current Liabilities</i>	<u>1,434</u>	<u>1,733</u>	<u>1,389</u>
<u>5,746</u>	<b>Total Liabilities</b>	<u>6,226</u>	<u>5,020</u>	<u>5,768</u>
<b>Taxpayers' Funds</b>				
3,746	Taxpayers' Funds	3,746	3,746	3,746
<u>3,746</u>	<b>Total Taxpayers' Funds</b>	<u>3,746</u>	<u>3,746</u>	<u>3,746</u>
<u>9,492</u>	<b>Total Liabilities and Taxpayers' Funds</b>	<u>9,972</u>	<u>8,766</u>	<u>9,514</u>

\* These are the estimated actuals presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2013, as amended by the Supplementary Estimates. The individual output statements disclosed with the Statements of Service Performance reflect the appropriations for the 2012/13 Supplementary Estimates.

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 2013

30 June 2012 Actual		Note	30 June 2013 Actual	30 June 2013 Main Estimates	30 June 2013 Supp.* Forecasts
\$000			\$000	\$000	\$000
<b>Cash Flows from Operating Activities</b>					
<i>Cash provided from:</i>					
27,833	Crown		27,397	27,398	27,398
814	Departments		451	450	433
60	Other		267	27	289
<i>Cash applied to:</i>					
(19,630)	Personnel		(19,708)	(20,275)	(20,591)
(6,732)	Operating		(6,474)	(6,301)	(6,151)
(300)	Capital Charge		(300)	(300)	(300)
20	Goods and Services Tax (net)		16	-	-
<b>2,065</b>	<b>Net Cash Inflow from Operating Activities</b>	<b>11</b>	<b>1,649</b>	<b>999</b>	<b>1,078</b>
<b>Cash Flows from Investing Activities</b>					
<i>Cash provided from:</i>					
11	Sale of Property, Plant and Equipment		363	124	248
<i>Cash applied to:</i>					
(543)	Purchase of Property, Plant and Equipment		(1,285)	(949)	(1,415)
(146)	Purchase of Intangible Assets		(234)	(51)	(300)
<b>(678)</b>	<b>Net Cash Outflow from Investing Activities</b>		<b>(1,156)</b>	<b>(876)</b>	<b>(1,467)</b>
<b>Cash Flows from Financing Activities</b>					
<i>Cash applied to:</i>					
(406)	Repayment of Surplus to the Crown		(125)	(202)	(125)
<b>(406)</b>	<b>Net Cash Outflow from Financing Activities</b>		<b>(125)</b>	<b>(202)</b>	<b>(125)</b>
<b>981</b>	<b>Net Increase/(Decrease) in Cash</b>		<b>368</b>	<b>(79)</b>	<b>(514)</b>
<b>5,263</b>	<b>Cash at Start of the Year</b>		<b>6,244</b>	<b>5,110</b>	<b>6,244</b>
<b>6,244</b>	<b>Cash at the End of the Year</b>		<b>6,612</b>	<b>5,031</b>	<b>5,730</b>

\* These are the estimated actuals presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2013, as amended by the Supplementary Estimates. The individual output statements disclosed with the Statements of Service Performance reflect the appropriations for the 2012/13 Supplementary Estimates.

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.

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

## Statement of Contingent Liabilities and Contingent Assets

as at 30 June 2013

There are no quantifiable contingent liabilities and assets as at 30 June 2013 (30 June 2012: one contingent asset).

## Statement of Unappropriated Expenditure and Capital Expenses

for the year ended 30 June 2013

ERO has not incurred expenses in excess of or without appropriation by Parliament (30 June 2012: nil).

## Statement of Departmental Expenses and Capital Expenditure against Appropriations

for the year ended 30 June 2013

30 June 2012 Expenditure after Remeasurements Actual \$000		30 June 2013 Expenditure before Remeasurements Actual \$000	30 June 2013 Remeasurements Actual \$000	30 June 2013 Expenditure after Remeasurements Actual \$000	30 June 2013 Appropriation \$000
	<b>Vote Education Review Office</b>				
	<b>Departmental Output Expenses</b>				
	<b>Multi-class Output Expense Appropriation</b>				
	<b>Accountability Reviews</b>				
9,820	Early Childhood Education Services	9,610	(4)	9,606	9,657
15,550	Schools and Other Education Service Providers	14,818	(7)	14,811	15,137
<b>25,370</b>	<b>Total Accountability Reviews</b>	<b>24,428</b>	<b>(11)</b>	<b>24,417</b>	<b>24,794</b>
3,327	Quality of Education Reports and Services	3,031	(1)	3,030	3,218
<b>28,697</b>	<b>Total Departmental Output Expenses</b>	<b>27,459</b>	<b>(12)</b>	<b>27,447</b>	<b>28,012</b>
	<b>Permanent Legislative Authority (PLA)</b>				
689	Capital Expenditure – PLA	1,519	-	1,519	1,774

The appropriation figures are those presented in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2013, 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 2013

ERO has entered into a capital commitment by placing an order for eight motor vehicles 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 2012 Actual \$000		30 June 2013 Actual \$000
	<b>Capital Commitments</b>	
202	Property, Plant and Equipment	210
202	<b>Total Capital Commitments</b>	210
	<b>Non-Cancellable Operating Lease Commitments</b>	
1,380	Less than one year	1,350
1,227	One to two years	1,227
2,691	Two to five years	2,387
1,691	More than five years	1,165
6,989	<b>Total Non-Cancellable Operating Commitments</b>	6,129
7,191	<b>Total Commitments</b>	6,339

## Statement of Accounting Policies

for the year ended 30 June 2013

### 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 2013 and were authorised for issue by the Acting Chief Review Officer on 30 September 2013.

### 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.

*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 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 2.71 percent for 1 year, 3.14 percent for 2 years and 5.5 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), Estimated Actual forecast and those presented in the *Estimates of Appropriations 2012/13* (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 2013, 77 percent of total output costs were direct costs (30 June 2012: 75 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 23 percent of total output costs for the year ended 30 June 2013 (30 June 2012: 25 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 2013

30 June 2012 Actual \$000		30 June 2013 Actual \$000
<b>1. Other Revenue</b>		
32	Rent Recoveries	69
1	Other	224
<b>33</b>	<b>Total Other Revenue</b>	<b>293</b>
<b>2. Personnel Costs</b>		
18,922	Salaries and wages	18,993
595	Employer contribution to superannuation schemes	566
147	Increase/(decrease) in employee entitlements	(136)
172	Other	223
<b>19,836</b>	<b>Total Personnel Costs</b>	<b>19,646</b>
<b>3. Operating Costs</b>		
2,027	Leasing and Rental Costs	1,803
53	Fees paid to Auditors for Financial Statements Audit	52
628	Consultancy	300
25	Net Loss on Sale of Property, Plant and Equipment	4
4,698	Other	4,477
<b>7,431</b>	<b>Total Operating Costs</b>	<b>6,636</b>
<b>4. Capital Charge</b>		
<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 2013 was 8 percent (30 June 2012: 8 percent).</p>		
<b>5. Debtors and Other Receivables</b>		
213	Sundry Debtors	37
<b>213</b>	<b>Total Debtors and Other Receivables</b>	<b>37</b>

The carrying value of debtors and other receivables approximate their fair value as they are normally issued with duration of not more than three months. All debtors were less than 30 days old.

## Notes to the Financial Statements

for the year ended 30 June 2013 (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
<b>1 July 2011</b>						
Cost	1,114	1,867	452	144	2,890	6,467
Accumulated Depreciation	(771)	(816)	(309)	(94)	(1,590)	(3,580)
Carrying amount at 1 July 2011	343	1,051	143	50	1,300	2,887
<b>Year ended 30 June 2012</b>						
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
<b>30 June 2012</b>						
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
<b>Year ended 30 June 2013</b>						
Carrying amount at 1 July 2012	343	822	109	34	1,135	2,443
Additions	37	1,024	2	-	222	1,285
Disposals – Cost	(383)	(933)	(4)	(28)	-	(1,348)
Disposals – Accumulated Depreciated	354	596	4	27	-	981
Depreciation	(137)	(219)	(41)	(12)	(297)	(706)
Carrying amount at 30 June 2013	214	1,290	70	21	1,060	2,655
<b>30 June 2013</b>						
Cost	817	1,931	413	64	3,346	6,571
Accumulated Depreciation	(603)	(641)	(343)	(43)	(2,286)	(3,916)
Carrying amount at 30 June 2013	214	1,290	70	21	1,060	2,655

## Notes to the Financial Statements

for the year ended 30 June 2013 (continued)

### 7. Intangibles

	Computer Software	Review Procedures	Total Intangible Assets
	\$000	\$000	\$000
<b>1 July 2011</b>			
Cost	1,620	233	1,853
Accumulated Amortisation	(1,301)	(5)	(1,306)
Carrying amount at 1 July 2011	319	228	547
<b>Year ended 30 June 2012</b>			
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
<b>1 July 2012</b>			
Cost	1,204	373	1,577
Accumulated Amortisation	(1,007)	(56)	(1,063)
Carrying amount at 1 July 2012	197	317	514
<b>Year ended 30 June 2013</b>			
Carrying amount at 1 July 2012	197	317	514
Additions	-	234	234
Amortisation	(117)	(54)	(171)
Carrying amount at 30 June 2013	80	497	577
<b>30 June 2013</b>			
Cost	1,204	607	1,811
Accumulated Amortisation	(1,124)	(110)	(1,234)
Carrying amount at 30 June 2013	80	497	577

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 2013 (continued)

30 June 2012 Actual \$000	30 June 2013 Actual \$000
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### 8. Creditors and Other Payables

567	Trade Creditors	451
693	Accrued Expenses	540
-	Revenue in Advance	477
396	Tax Payables – GST, FBT and PAYE	406
1,656	<b>Total Creditors and Other Payables</b>	<b>1,874</b>

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 accommodation in Napier that will have three months remaining on the lease when ERO moves into a new premise in August 2013.

	<b>Current Portion</b>	
45	Leasing Incentives	45
18	Onerous Contracts	25
-	Reinstatement	138
63	<b>Total Current Portion at End of Year</b>	<b>208</b>
	<b>Non-Current Portion</b>	
302	Leasing Incentives	257
500	Reinstatement	425
802	<b>Total Non-Current Portion at End of Year</b>	<b>682</b>
865	<b>Total Provisions</b>	<b>890</b>
	<b>Leasing Incentives</b>	
-	Balancing at Start of Year	347
348	Additional Provision during the Year	-
(1)	Provision used during the Year	(45)
347	<b>Total Leasing Incentives Provision at the End of the Year</b>	<b>302</b>

## Notes to the Financial Statements

for the year ended 30 June 2013 (continued)

30 June 2012 Actual \$000		30 June 2013 Actual \$000
	<b>Onerous Contract</b>	
-	Balance at Start of Year	18
18	Additional Provision during the Year	25
-	Unused Provision reversed during the Year	-
-	Provision used during the Year	(18)
18	<b>Total Onerous Contract Provision at End of Year</b>	25
	<b>Reinstatement</b>	
183	Balance at Start of Year	500
367	Additional Provision during the Year	87
(50)	Unused Provision reversed during the Year	(24)
500	<b>Total Reinstatement Provision at End of Year</b>	563
865	<b>Total Provisions at End of Year</b>	890

### 10. Employee Entitlements

	<b>Current Liabilities</b>	
1,133	Annual Leave, Special Leave and Sick Leave	1,138
295	Retirement Leave and Long Service Leave	544
530	Accrued Salaries	548
1,958	<b>Total Current Portion</b>	2,230
	<b>Non-Current Liabilities</b>	
1,142	Retirement Leave and Long Service Leave	752
1,142	<b>Total Non-Current Portion</b>	752
3,100	<b>Total Employee Entitlements</b>	2,982

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 \$46,744 higher/lower.

## Notes to the Financial Statements

for the year ended 30 June 2013 (continued)

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 \$47,450 higher/lower.

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

30 June 2012 Actual \$000	30 June 2013 Actual \$000	30 June 2013 Main Estimates \$000	30 June 2013 Supp. Forecasts \$000
125	480	-	463
<i>Net Surplus/ (Deficit)</i>			
<i>Add/(deduct) Non-Cash Items from Statement of Financial Performance</i>			
1,130	877	1,142	900
<i>Depreciation and Amortisation</i>			
<i>Add/(deduct) Movements in Working Capital Items</i>			
(115)	176	-	40
<i>Decrease/(Increase) in Debtors and Other Receivables</i>			
24	(13)	-	(9)
<i>(Increase)/Decrease in Prepayments</i>			
(12)	218	(2)	189
<i>Increase/(Decrease) in Creditors and Other Payables</i>			
647	25	(43)	8
<i>Increase/(Decrease) in Provisions</i>			
241	(118)	(98)	(513)
<i>(Decrease)/Increase in Employee Entitlements</i>			
785	288	(143)	(285)
<i>Items Classified as Investing Activities</i>			
25	4	-	-
<i>Net Loss/(Gain) on Disposal of Fixed Assets</i>			
2,065	1,649	999	1,078
<b>Net Cash Flows from Operating Activities</b>			

### 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 \$27.397 million (2012: \$27.833 million) to provide services to the public for the year ended 30 June 2013.

#### 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.

## Notes to the Financial Statements

for the year ended 30 June 2013 (continued)

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 2013 totalled \$0.94 million (30 June 2012: \$1.11 million). These purchases included the procurement of electricity from Genesis, legal services from Crown Law Office, information technology services from the Department of Internal Affairs and air travel from Air New Zealand. As at 30 June 2013, ERO had \$239,000 (30 June 2012: \$102,000) in trade payables for entities related to the Crown.

ERO also receives revenue from government-related entities. Revenue from these government-related entities totalled \$318,000 (30 June 2012: \$956,000). These revenue streams included rent recoveries from Careers New Zealand and from various contractual services for the Ministry of Education conducted on a fee-for-service basis. As at 30 June 2012, ERO had \$8,000 (30 June 2012: \$210,000) in trade receivables from entities related to the Crown.

### Key management personnel compensation

30 June 2012 Actual \$000		30 June 2013 Actual \$000
1,464	Salaries and Other Short-Term Employee Benefits	1,594
127	Post-Employment Benefits	144
<b>1,591</b>	<b>Total Key Management Personnel Compensation</b>	<b>1,738</b>

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 2012: nil).

### Interest Rate Risk

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

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

### Credit Risk

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

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

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

ERO's maximum credit exposure for each class of financial instrument is represented by the total carrying amount of cash, debtors and other receivables (note 5).

## Notes to the Financial Statements

for the year ended 30 June 2013 (continued)

### 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 2012 Actual \$000		30 June 2013 Actual \$000
	<b>Loans and Receivables</b>	
6,244	Cash	6,612
213	Debtors and Other Receivables (note 5)	37
<b>6,457</b>	<b>Total Loans and Receivables</b>	<b>6,649</b>
	<b>Financial Liabilities measured at Amortised Cost</b>	
1,656	Creditors and Other Payables (note 8)	1,874

## 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 2013 (continued)

### 15. Major Variances from Budget in the Main Estimates

	30 June 2013 Actual	30 June 2013 Main Estimates	30 June 2013 Variance
	\$000	\$000	\$000
<b>Statement of Comprehensive Income</b>			
Revenue Departments	249	450	(201)
Revenue Other	293	27	266
Depreciation and Amortisation	877	1,142	(265)
<b>Statement of Financial Position</b>			
Cash	6,612	5,031	1,581
Property, Plant and Equipment	2,655	3,065	(410)
Employee Entitlements – Current	2,230	1,464	766
Employee Entitlements – Non-Current	752	1,354	(602)
Provisions – Non-Current	682	379	303

Revenue Departments was \$201,000 below budget due to lower levels of contractual services than anticipated.

Revenue Other was \$266,000 over budget due to a final insurance proceed arising from the Christchurch earthquake.

Depreciation and amortisation was \$265,000 below budget due to timing of capital expenditure.

Cash was \$1,581,000 over budget due to a combination of no expenditure incurred for reviews of schools that are non-compliant with National Standards and timing of capital expenditure.

Property, Plant and Equipment was \$410,000 below budget due to timing of capital expenditure.

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. Also for the current portion of employee entitlements there was a higher level of annual leave than forecast in ERO's Main Estimates.

Provisions – Non-Current was \$303,000 over budget due to leasing incentives received by ERO 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 2012 Actual		Unit	30 June 2013 Actual	30 June 2013 Main Estimates	30 June 2013 Supp. Forecasts
<b>Working Capital<sup>6</sup></b>					
2,733	Net Current Assets <sup>7</sup>	\$000	1,948	1,964	1,611
1.72	Current Ratio <sup>8</sup>		1.41	1.60	1.37
20.2	Average Creditors Outstanding <sup>9</sup>	Days	19.0	-	-
<b>Resource Utilisation</b>					
Fixed Assets:					
2,957	Total Non-Current Assets at Year End	\$000	3,232	3,515	3,524
13.9	Value per Employee	\$000	15.1	16.7	16.8
23.3	Additions as % of Non-Current Assets	%	47.0	28.4	48.7
Taxpayers' Funds:					
3,746	Level at Year End	\$000	3,746	3,746	3,746
17.6	Level per Employee	\$000	17.5	17.8	17.8
<b>Human Resources</b>					
11.40	Staff Turnover <sup>10</sup>	%	4.78	-	-
8.80	Average Length of Service <sup>11</sup>	Years	9.30	-	-
213.55	Total Staff <sup>12</sup>	FTEs	213.89	210.00	210.00

6 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.

7 Current assets minus current liabilities.

8 Current assets as a proportion of current liabilities.

9 Average days to pay invoices.

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

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

12 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.



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