



FINANCIAL AUDIT

13 DECEMBER 2021

# Education 2021

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

# THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.



GPO Box 12  
Sydney NSW 2001

The Legislative Assembly  
Parliament House  
Sydney NSW 2000

The Legislative Council  
Parliament House  
Sydney NSW 2000

In accordance with section 52B of the *Government Sector Audit Act 1983*, I present a report titled '**Education 2021**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

**Margaret Crawford**

Auditor-General for New South Wales  
13 December 2021

© Copyright reserved by the Audit Office of New South Wales. All rights reserved. No part of this publication may be reproduced without prior consent of the Audit Office of New South Wales. The Audit Office does not accept responsibility for loss or damage suffered by any person acting on or refraining from action as a result of any of this material.

# contents

---

## Education 2021

Auditor-General's foreword	1
<b>Section one – Education 2021</b>	
Report highlights	5
Introduction	6
Financial reporting	7
Audit observations	17
<b>Section two – Appendices</b>	
Appendix one – Early close procedures	23

---

# Auditor-General's foreword

This report analyses the results of our audits of the Education cluster agencies for the year ended 30 June 2021.

Our preferred approach is to table the 'Report on State Finances' in Parliament before any other cluster report. This is because the 'Report on State Finances' focuses on the audit results and observations relating to the Total State Sector Accounts, in effect a consolidation of all government agencies. This year the 'Report on State Finances' has been delayed due to significant accounting issues being considered in the Total State Sector Accounts and which may impact the Treasury and Transport clusters.

As there are no outstanding matters relating to audits in the Education cluster impacting the Total State Sector Accounts we have decided to break with normal practice and table this cluster report ahead of the 'Report on State Finances'.

# **Section one**

## **Education 2021**

This report analyses the results of our audits of the Education cluster agencies for the year ended 30 June 2021.

# Report highlights

## What the report is about

The results of Education cluster (the cluster) agencies' financial statements audits for the year ended 30 June 2021.

## What we found

Unmodified audit opinions were issued on the Department of Education (the Department), the NSW Education Standards Authority and the NSW Skills Board's financial statements.

An 'other matter' paragraph was included in the Technical and Further Education Commission's (the TAFE Commission) audit opinion drawing attention to legislative non-compliance concerning financial delegations during the reporting year.

The number of misstatements identified in the financial statements of cluster agencies decreased from 14 in 2019–20 to seven.

## What the key issues were

The Department and the TAFE Commission revalued their land assets this year, recognising collective increases of \$863.8 million.

The Department and the TAFE Commission are not scheduled to perform comprehensive revaluations of their buildings until 2022–23. Construction costs, which are a key input in their current replacement cost valuation methodologies for buildings, may have increased by an estimated nine per cent since the last comprehensive revaluation in 2017–18 based on broad based indices used by the Department and the TAFE Commission. While the estimated index increase indicates the fair value of buildings may exceed the carrying values, the use of such high-level indicators has a degree of estimation uncertainty due to the specialised nature of the assets. Therefore, both

agencies did not adjust the values of their buildings.

The number of issues we reported to management decreased. Fifty per cent of issues were repeated from prior years.

Of the 11 newly identified moderate rated issues, seven related to internal control deficiencies, with six identified in procurement and payroll controls.

## What we recommended

The Department and the TAFE Commission reconsider policy settings governing the frequency of revaluations; and refine and consider the outcomes of interim fair value assessments to ensure asset carrying values reflect fair value at each balance date.

Cluster agencies should prioritise and action recommendations to address internal control deficiencies.

## Fast facts

The Education cluster, comprising four agencies, administers and delivers education and training services for NSW students, workers and industry.

\$38.6b

property, plant and equipment as at 30 June 2021

100%

unqualified audit opinions were issued on agencies' 30 June 2021 financial statements

7

monetary misstatements were reported in 2020–21

\$21.2b

total expenditure incurred in 2020–21

22

moderate risk management letter findings were identified and reported to management

50%

of reported issues were repeat issues

# 1. Introduction

This report provides Parliament and other users of the Education cluster's financial statements with the results of our audits, our observations, analysis, conclusions and recommendations in the following areas:

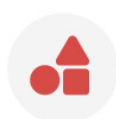
- financial reporting
- audit observations.

## 1.1 Snapshot of the cluster

### Education Cluster

Administers and delivers education and training services for NSW students, workers and industry.

#### State Outcomes



##### Best start in life for young children

A sustainable, accessible, high-quality early childhood education sector.



##### Educational foundations for success

A high standard of education for all children and young people in public and non-government schools.



##### Skilled and employable workforce

A highly skilled and adaptable workforce that contributes to the State's prosperity and productivity.



##### High-quality standards for schooling

High-quality standards for schooling in NSW through the regulation of schooling, accreditation of early childhood, primary and secondary teachers, and provision of quality curriculum, assessment and certification.

#### Key Agencies

##### Lead Agency



##### Other Key Agencies



Source: NSW Budget Papers 2021–22.

Note: Administrative Arrangements (Administrative Changes–Miscellaneous) Order 2021 was issued 26 March 2021 transferring the Waratah Research Network function from the Department of Education to Investment NSW effective 29 March 2021. The total financial impact of the transfer, under Section 4.9 of the *Government Sector Finance Act 2018*, was \$0.25 million.

## 2. Financial reporting

Financial reporting is an important element of good governance. Confidence and transparency in public sector decision making are enhanced when financial reporting is accurate and timely.

This chapter outlines our audit observations related to the financial reporting of agencies in the Education cluster (the cluster) for 2021.

### Section highlights

- Unqualified audit opinions were issued on the financial statements of cluster agencies.
- Comprehensive revaluations of the Department of Education (the Department) and the Technical and Further Education Commission's (the TAFE Commission) land assets resulted in collective net increases of \$863.8 million to the carrying values of these entities' land assets.
- Fair value assessments, based on broad indices, of the Department and the TAFE Commission's buildings, indicated that replacement costs may have increased by an estimated nine per cent. Whilst the next comprehensive valuation is not scheduled until 2022–23, the Department and the TAFE Commission will need to consider the outcomes of their annual assessments to ensure that the carrying amounts continue to reflect the fair value of these specialised assets in their financial statements.

### 2.1 Cluster financial information 2021

Agency	Total assets		Total liabilities		Total income*		Total expenses**	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m
<b>Principal department</b>								
Department of Education	37,146.0	35,189.4	3,114.1	2,815.7	20,410.1	19,465.0	19,239.8	18,156.7
<b>Other cluster agencies</b>								
NSW Education Standards Authority	66.8	33.5	38.9	25.0	183.3	157.5	163.9	153.8
NSW Skills Board	1.8	2.2	0.3	0.3	2.2	2.2	2.5	2.2
Technical and Further Education Commission	4,905.5	4,373.0	495.7	448.5	1,974.0	1,862.7	1,855.5	1,861.7

\* Includes other gains.

\*\* Includes other losses.

Source: Agencies' audited 2020–21 financial statements.

## 2.2 Quality of financial reporting

### Audit opinions

#### Unqualified audit opinions were issued on agencies' financial statements

Unqualified audit opinions were issued on all cluster agencies' 30 June 2021 financial statements. Sufficient and appropriate audit evidence was obtained to conclude the financial statements were free of material misstatement.

#### An 'Other Matter' paragraph was included in the TAFE Commission's audit opinion

'Other Matters' are included in an agency's independent auditor's report for matters that have not been explicitly presented or disclosed by the agency in its certified financial statements. Whilst they do not constitute a qualification, they do highlight matters that are, in our judgement, relevant to Parliament's understanding of the audit.

An 'Other Matter' paragraph was included in the TAFE Commission's audit opinion for 30 June 2021 as the TAFE Commission had contravened sections 4.6(1) and 5.5(3) of the *Government Sector Finance Act 2018* (GSF Act) by not obtaining an authorised delegation from the Minister for Skills and Tertiary Education to spend deemed appropriation money from the Consolidated Fund for most of the financial year.

#### The number of identified monetary misstatements decreased in 2020–21

The number of monetary misstatements identified during the audit of the financial statements of cluster agencies decreased from 14 in 2019–20 to seven in 2020–21. A monetary misstatement is an error in an amount recognised in the financial statements initially submitted for audit.

Reported corrected misstatements decreased from eight in 2019–20 to six with an impact to the cluster agencies' collective net worth of \$4.7 million in 2020–21. Reported uncorrected misstatements decreased from six in 2019–20 to one with a collective net worth impact of \$10.3 million in 2020–21.

The table below shows the number and quantum of monetary misstatements for the past two years.

Year ended 30 June	2021		2020	
	✓	!	✓	!
Less than \$50,000	--	--	--	1
\$50,000 to \$249,999	--	--	1	--
\$250,000 to \$999,999	1	--	2	3
\$1 million to \$4,999,999	1	--	--	2
\$5 million and greater	4	1	5	--
<b>Total number of misstatements</b>	<b>6</b>	<b>1</b>	<b>8</b>	<b>6</b>
<b>Key</b>	✓	!	<b>Corrected misstatements      Uncorrected misstatements</b>	

Source: Engagement Closing Reports issued by the Audit Office of New South Wales.

The table below shows the number of corrected and uncorrected monetary misstatements for the past two years by cluster agency.

	2020–21			2019–20		
	Corrected	Uncorrected	Total	Corrected	Uncorrected	Total
Department of Education	3	1	4	5	--	5
NSW Education Standards Authority	3	--	3	3	1	4
NSW Skills Board	--	--	--	--	1	1
Technical and Further Education Commission	--	--	--	--	4	4
<b>Total</b>	<b>6</b>	<b>1</b>	<b>7</b>	<b>8</b>	<b>6</b>	<b>14</b>

Source: Engagement Closing Reports issued by the Audit Office of New South Wales.

Four corrected misstatements had a gross value of greater than \$5.0 million and related to an:

- understatement of expenditure and provisions by the Department totalling \$20.4 million arising from a contractual dispute with third-parties. Whilst identified by management and brought to the attention of audit, underpinning the error was a lack of co-ordination between the Department's business units in identifying potential contractual obligations that may warrant inclusion in the financial statements
- understatement of other revenue and overstatement of finance costs by the Department totalling \$13.3 million because make-good assets and associated provisions had been incorrectly recognised in the previous year due to a misinterpretation of the recognition requirements of 'AASB 16 Leases' when that standard was first implemented
- understatement of assets and overstatement of expenses by the Department totalling \$8.7 million because school redevelopment costs that were capital in nature incurred by the Department in previous years had not been correctly recognised as assets. Underpinning this error was the misinterpretation of the cost recognition requirements of 'AASB 116 Property, Plant and Equipment'
- understatement of grant revenue and overstatement of contract liabilities by the NSW Education Standards Authority totalling \$18.6 million because of a misinterpretation of the initial recognition requirements of 'AASB 15 Revenue from Contracts with Customers' and 'AASB 1058 Income of Not-for-Profit entities'.

The Department did not correct a misstatement of \$10.3 million relating to the June 2021 quarter impairment advice received from Property and Development NSW. It was received after the financial statements were submitted for audit. The uncorrected misstatement had the effect of understating impairment losses and overstating right-of-use assets in the financial statements. The Department concluded that the effect of not correcting the misstatement was immaterial, individually and in aggregate to its financial statements as a whole.

### **New financial reporting provisions became effective from 1 July 2021**

The financial reporting provisions in Division 7.2 of the GSF Act commenced on 1 July 2021. All four agencies in the Education cluster prepared their annual GSF financial statements for the 2020–21 financial year under these provisions.

### The Department reported a retrospective correction of a prior period error

The Department reported a retrospective correction of a prior period error leading to the restatement of other current liabilities and appropriation revenue.

Previously, the Department recognised a liability to the Consolidated Fund in its financial statements for appropriated monies drawn down but not used by the end of the financial year. This was based on the premise that the spending authority conferred by the annual Appropriations Act had lapsed for the year, and the Department as a result did not have the legal authority to spend the unused amount in the following financial year. In 2020–21 NSW Treasury reviewed the accounting for lapsed appropriations, concluding that the previous treatment had misapplied the legal concept of lapsed appropriations and therefore a liability should not have been recognised.

This error resulted in a restatement of the 2019–20 comparative figures, being a reduction in other current liabilities and a corresponding increase of appropriation revenue by \$35.9 million.

### Two agencies were exempt from financial reporting in 2020–21

Part 3A Division 2 of the Government Sector Finance Regulation 2018 (GSF Regulation) prescribes certain kinds of GSF agencies not to be a reporting GSF agency. For 2020–21, the following cluster agencies have assessed and determined they met the reporting exemption criteria under the GSF Regulation, and therefore were not required to prepare annual financial statements:

Exempted agencies	GSF Regulation reference	Basis for reporting exemption
<b>Special purpose staff agencies</b>		
NSW Education Standards Authority Staff Agency TAFE Commission (Senior Executives) Staff Agency	Part 3A, Division 2, Section 9F of the GSF Regulation	GSF Regulation prescribes that a GSF agency that comprises solely of persons who are employed to enable another particular GSF agency to exercise its function not to be a reporting GSF agency. Staff agencies satisfy this requirement and therefore are exempted from preparing financial statements in 2020–21.

## 2.3 Timeliness of financial reporting




### Early close procedures

#### Early close mandatory procedures were submitted on time

NSW Treasury prescribes certain mandatory early close procedures to improve the quality and timeliness of agency year-end financial statements. In March 2021, NSW Treasury reissued Treasurer's Direction TD19-02 'Mandatory Early Close as at 31 March each year' (TD19-02) and released TPP21-01 'Agency Direction for the 2020–21 Mandatory Early Close'. These pronouncements require the GSF agencies listed in Appendix A of TD19-02 to perform the mandatory early close procedures and provide the outcomes to the audit team by 26 April 2021.

The cluster agencies that were subject to the pronouncements performed the mandatory early close procedures and met the statutory deadlines for submitting their 2020–21 early close financial statements.

The table below summarises the agencies' completion of the 16 mandatory early close procedures noting that some procedures are not relevant to all agencies. The mandatory early close procedures and the details of the non-applicable procedures are listed in Appendix one.

Agency	Completed 	Not completed 	Not applicable 
<b>Principal department</b>			
Department of Education	15	--	1
<b>Other cluster agencies</b>			
NSW Education Standards Authority	12	--	4
NSW Skills Board*	--	--	--
Technical and Further Education Commission	14	--	2

\* The NSW Skills Board was not required to complete early close procedures as they were not listed under TD19-02.

## Year-end financial reporting

### NSW Treasury extended financial reporting deadlines

Due to the COVID-19 pandemic, NSW Treasury extended the year-end financial reporting deadline for agencies listed in Appendix A of Treasury Direction TD21-02 'Mandatory Annual Returns to Treasury' (TD21-02) to 2 August 2021.

During May and June 2021, NSW Treasury issued a suite of Treasurer's Directions, Treasury Circulars and policy papers for 2020–21 financial reporting requirements and timetables:

- Treasurer's Direction TD21-02 and Treasury Policy Paper TPP21-04 'Agency Direction for the 2020–21 Mandatory Annual Returns to Treasury' require agencies listed in the Appendix A of TD21-02 to submit their 2020–21 financial statements to both NSW Treasury and the Audit Office by 26 July 2021
- Treasury Circular TC21-04 '2020–21 Mandatory Annual Returns to Treasury for non-GSF agencies' requires NSW public sector agencies not listed in Appendix A of TD21-02 to submit their draft 2020–21 financial statements to NSW Treasury by 26 July 2021
- Treasurer's Direction TD21-03 'Submission of Annual GSF Financial Statements to the Auditor-General' requires reporting GSF agencies that are not listed in Appendix A of TD21-02 to submit their annual financial statements within six weeks after the year end.

### Financial statements were submitted on time for all cluster agencies

Cluster agencies met the revised or approved reporting deadlines for submitting their 2020–21 year-end financial statements.

On 1 July 2021, the *Public Finance and Audit Act 1983* (PF&A Act) was renamed the *Government Sector Audit Act 1983* (GSA Act). While the PF&A Act required the Auditor-General to audit agencies' financial statements within ten weeks of their receipt, the GSA Act does not specify the statutory deadline for issuing the Independent Auditor's Report. The audits of all cluster agencies financial statements have been completed.

The table below shows the timeliness of the year-end financial reporting for cluster agencies.

### Timeliness of financial reporting

Cluster agencies	Financial statements submission	Audit report date
Department of Education	✓	21 October 2021
NSW Education Standards Authority	✓	27 October 2021
NSW Skills Board	✓	21 October 2021
Technical and Further Education Commission	✓	30 September 2021



Original reporting deadline, including Treasury's revised reporting deadline, was met.

## 2.4 Key accounting issues

### Asset accounting

In 2020–21 agencies within the Education cluster collectively reported \$38.6 billion in property, plant and equipment. Land and buildings, measured at fair value in accordance with Australian Accounting Standards and NSW Treasury financial reporting requirements, represent over 99 per cent of these assets and are controlled predominantly by the Department and the TAFE Commission.

The buildings controlled by the Department and the TAFE Commission are for the large part, specialised in nature and provide education-based services to the citizens of NSW. Due to their nature, the fair value of these specialised assets is determined with reference to replacement cost. Land is determined with reference to market prices taking into account any restrictions that apply to that land. At a whole-of-government level, the land and buildings controlled by the Department and the TAFE Commission represent 37 per cent of the total land and buildings class in the general government sector.

The Department and the TAFE Commission last performed comprehensive revaluations of their land and buildings in 2017–18. Comprehensive revaluations are then typically performed in three-year and five-year intervals for land and buildings respectively, with an assessment of key inputs performed at the end of each intervening year to ensure the carrying values continue to reflect the fair value of the assets.

#### The Department and the TAFE Commission revalued its land assets this year

In 2020–21 the Department and the TAFE Commission completed a comprehensive revaluation of their land assets, increasing their collective net value by \$863.8 million. The change in value since the last comprehensive revaluation performed in 2017–18 recognised market movement increases, particularly for land in the Sydney metropolitan areas and in the coastal areas of New South Wales.

## Policies to ensure robust annual fair value assessments require review

Fair value assessments of the Department and the TAFE Commission's buildings are based on indices in the years between comprehensive revaluations. The aim is to ensure carrying amounts of the \$38.6 billion of property plant and equipment reported in the financial statements of these entities approximate their fair values based on replacement cost at each balance date. These assessments are performed using publicly available indicators from the Australian Bureau of Statistics, or by engaging a valuation specialist.

This year's assessments, using benchmark indices, indicated there may have been an estimated cumulative increase of around nine per cent in the carrying value of buildings reported by the Department and the TAFE Commission since the last comprehensive revaluations were performed. We acknowledge the estimation uncertainty inherent in the measurement of the Department and the TAFE Commission's specialised assets because the use of broad-based indices may not reflect the unique nature of replacing these specialised assets. Both agencies elected not to adjust the carrying values of their buildings on the basis that the assessments used indices that did not consider possible cost movement in individual components comprising buildings, their varying useful lives or the condition of those buildings.

Whilst not scheduled to perform comprehensive valuations on buildings until 2022–23, the Department and the TAFE Commission's fair value assessments indicated that significant increases may have occurred in the costs of construction since the last comprehensive valuation was conducted in 2017–18. Given that the Department and the TAFE Commission were of the view that the assessments were subject to a degree of estimation uncertainty, we recommend the Department and the TAFE Commission better refine the inputs to its annual assessment model, or reconsider its policy settings governing the nature and timing of revaluation exercises to ensure the carrying values reported more accurately reflect fair value at each balance date.

## Shared locations between TAFE Commission and the Department

Our Education 2020 report highlighted instances where land and buildings used to deliver education-based services were shared between the TAFE Commission, the Department, and in some cases, entities outside of the NSW public sector. Occupancy arrangements or agreements had not been formalised for many of these sites and as a result, the basis for recording the assets in the financial statements of either the Department or the TAFE Commission was unclear.

As part of this year's land revaluation, the Department and the TAFE Commission undertook an exercise to address the findings from 2020. A memorandum of understanding was created between the two agencies to review and reconcile property and financial data, agree the financial accounting treatment of shared sites, and to outline future actions such as formalising agreements on occupancy or legally transferring these assets. At 30 June 2021, a net increase of \$12.2 million in land and buildings was recognised by the Department and a \$5.6 million was derecognised by the TAFE Commission to reflect the arrangements and their effect on the financial statements.

### Recommendation

**We recommend the Department and the TAFE Commission:**

- **reconsider policy settings governing the frequency of revaluations; and refine and consider the outcomes of interim fair value assessments having regard to the specialised nature of the assets to ensure asset carrying values reflect fair value at each balance date**
- **finalise their work in formalising arrangements for the occupancy, control and ownership of shared assets sites.**

## Implementation of new accounting standard

### The Department changed its accounting policy for its public private partnership arrangements

The Department has two arrangements with private sector entities for the financing, design, construction and commission of 20 schools in NSW. Accounting for these arrangements, commonly known as 'public private partnerships' was, in the absence of a specific Australian Accounting Standard prescribing the accounting for such arrangements, guided by TPP06-08 'Accounting for Privately Financed Projects'.

In 2020–21 'AASB 1059 Service Concession Arrangements: Grantors' became effective for all NSW public sector agencies. The new standard addressed the lack of specific guidance for public sector grantors or service concessions, and sought to minimise diverging accounting practices. The Department assessed its arrangements under the new standard concluding that the arrangements did not meet the 'public service' requirements of the standard. Whilst the private sector had been engaged to finance, design, construct and commission the schools, the core service delivery of teaching students was still performed by the Department. As a result, the Department accounted for these schools as finance leases under 'AASB 16 Leases', reflecting the treatment as a change in accounting policy in its financial statements.

The change in accounting policy, applied retrospectively, resulted in:


- a reclassification of \$327.6 million in property, plant and equipment to right-of-use assets
- a reclassification of \$176.8 million in asset revaluation reserves to accumulated funds.


## 2.5 Key financial statement risks

The table below details our specific audit coverage and response over key areas of financial statements risks that had the potential to impact the financial statements of cluster agencies.

### Department of Education


The NSW Department of Education (the Department) is the largest provider of public education in Australia with responsibility for delivering high-quality public education to two-thirds of the NSW student population.

	Key financial statement risk	Audit response
 <b>Property, plant and equipment</b> – \$34.5 billion	<p>The Department's property, plant and equipment consists of specialised assets such as school buildings and gymnasiums, which are measured at fair value based on their current replacement cost.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are proportionately significant to the financial statements of the Department, and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>

	Key financial statement risk	Audit response
 <p>Payroll expenses – \$11.4 billion</p>	<p>The Department's payroll consists of payments made to teachers, school administrative and support staff, and corporate staff.</p> <p>Our audit risk rating for payroll is higher because these expenses represent a significant proportion of the Department's overall expenditure. The payroll system of the Department processes a high volume of transactions that incorporate various remuneration structures and industrial awards.</p>	<p>Our audit procedures evaluated and tested on a sample basis, the design, implementation and operating effectiveness of key controls over payroll processes and systems. In addition, our procedures included testing a sample of employees to ensure the employment details, award types and conditions in calculating payroll have been agreed to underlying supporting evidence.</p>


## NSW Education Standards Authority

The NSW Education Standards Authority (the Authority) is an independent statutory authority reporting to an independent Board and the NSW Minister for Education and Early Childhood Learning, overseeing teacher quality, curriculum, assessment and school standards.

	Key financial statement risk	Audit response
 <p>Grants and other contributions – \$159.0 million</p>	<p>The Authority is predominantly funded by grants from the Department of Education to support its activities to oversee teacher accreditation, curriculum review, and assessments including NAPLAN and the HSC.</p> <p>Our audit risk rating is higher because these grants and other contributions are proportionately significant to the Authority's financial statements. There is also an element of management judgement that is applied in recognising these grants appropriately under the relevant Australian Accounting Standards.</p>	<p>Our audit procedures included understanding and reviewing grant agreements to confirm that the recognition, measurement and presentation principles of the accounting standards have been correctly applied.</p>

## NSW Skills Board

The NSW Skills Board (the Board) provides independent, high-level, strategic advice on the NSW vocational education and training system to NSW Government.

	Key financial statement risk	Audit response
 <p>Preparation of financial statements</p>	<p>Our audit risk rating is higher because the preparation of the financial statements of the Board relies on corporate support activities and information systems provided by the Department of Education and the Department of Planning, Industry and Environment.</p>	<p>Our audit procedures included understanding the controls operating at the Department of Education and the Department of Planning, Industry and Environment relevant to the financial statements of the Board and we tested, on a sample basis, the completeness and accuracy of transactions reported in the financial statements.</p>

## Technical and Further Education Commission

The Technical and Further Education Commission (the TAFE Commission) is the leading provider of vocational education and training in Australia. The TAFE Commission aims to contribute to job growth by delivering a highly skilled workforce that meets current and future requirements of NSW business and industry.

	Key financial statement risk	Audit response
 <p><b>Sales of goods and services from contracts with customers – \$322.0 million</b></p>	<p>Revenue generated by the TAFE Commission consists of student fees, course fees and entitlement subsidies from Training NSW for the Smart and Skills government assistance program.</p> <p>Our audit risk rating is higher because these revenue streams are proportionately significant to the financial statements of the TAFE Commission. Underlying systems process a high volume of transactions that involve complex fee structures and calculations of entitlements.</p> <p>There is also an element of management judgement that is applied in recognising revenue from its fees and charges as performance obligations are satisfied in accordance with the relevant Australian Accounting Standards.</p>	<p>Our audit procedures involved evaluating and testing, on a sample basis, the design and implementation of controls over key revenue processes and systems as well as testing a sample of transactions to underlying supporting evidence.</p> <p>Our procedures also included understanding and reviewing contracts with customers and grant agreements to confirm that the recognition, measurement and presentation principles of the accounting standards have been correctly applied.</p>
 <p><b>Property, plant and equipment – \$4.1 billion</b></p>	<p>The TAFE Commission's property, plant and equipment consists of specialised assets such as classrooms, auditoriums, theatres and laboratories, which are measured at fair value based on their current replacement cost.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are proportionately significant to the financial statements of the TAFE Commission and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included reviewing the accuracy and completeness of asset registers; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>

---

## 3. Audit observations

Appropriate financial controls help ensure the efficient and effective use of resources and administration of agency policies. They are essential for quality and timely decision making.

This chapter outlines our observations and insights from our financial statement audits of agencies in the Education cluster.

### Section highlights

- The 2020–21 audits identified 22 moderate issues across the cluster. Eleven moderate risk issues were repeat issues and related to general and application information technology controls and deficiencies in procurement and payroll practices.
- Of the 11 newly identified moderate rated issues, seven related to internal control deficiencies and improvements, with identified deficiencies in procurement and payroll accounting for six.
- A high-risk issue identified in 2019–20 relating to the Department of Education's (the Department) monitoring of privileged user activity has largely been addressed.

### Findings reported to management

**The number of findings reported to management has decreased. Fifty per cent of all issues were repeat issues**

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. Deficiencies in internal controls, matters of governance interest and unresolved issues were reported to management and those charged with governance of agencies. The Audit Office does this through management letters, which include observations, related implications, recommendations and risk ratings.

In 2020–21, there were 28 findings raised across the cluster (33 in 2019–20). Fifty per cent of all issues were repeat issues (45 per cent in 2019–20).

The most common repeat issues related to weaknesses in controls over information technology general controls, application controls, and identified deficiencies in procurement and payroll practices.

A delay in implementing audit recommendations increases the risk of intentional and accidental errors in processing information, producing management reports and generating financial statements. This can impair decision-making, affect service delivery and expose agencies to fraud, financial loss and reputational damage. Poor controls may also mean agency staff are less likely to follow internal policies, inadvertently causing the agency not to comply with legislation, regulation and central agency policies.

The table below describes the common issues identified across the cluster by category and risk rating.

Risk rating	Issue
<b>Information technology</b>	
<div> <div>—</div> <div>Moderate: 2 new, 6 repeat</div> </div> <div> <div>✓</div> <div>Low: 2 new, 1 repeat</div> </div>	<p>The financial audits identified areas for agencies to improve information technology processes and controls that support the integrity of financial data used to prepare agencies' financial statements. Of note were deficiencies identified in:</p> <ul style="list-style-type: none"> <li>agencies' user access administration and change management procedures, notably in the timing and frequency of managerial reviews over the granting and revocation of access to key systems relevant to financial reporting</li> <li>application controls and segregation of duties in payroll systems, allowing certain users to access or modify employee records as well as process payroll</li> <li>system configurations whereby preparers of manual journals can also post without a secondary review</li> <li>password reviews undertaken that align with approved password guidelines</li> <li>the monitoring of privileged user activities.</li> </ul>
<b>Internal control deficiencies or improvements</b>	
<div> <div>—</div> <div>Moderate: 7 new, 4 repeat</div> </div> <div> <div>✓</div> <div>Low: 1 new, 2 repeat</div> </div>	<p>The financial audits identified internal control weaknesses across key business processes relevant to financial reporting. Of note were deficiencies identified in:</p> <ul style="list-style-type: none"> <li>the adequacy of monitoring and oversight activities over the use of multiple financial delegation configurations in finance systems for specific users</li> <li>the timely recording and approval of overtime claims and higher duties allowances</li> <li>the timely finalisation of policies and procedures</li> <li>procurement practices including a high proportion of retrospective purchase orders and the timely receipting of goods and services</li> <li>the timely notification of employee resignations or employees applying for leave without pay, leading to salary overpayments</li> <li>the management of excessive annual leave balances</li> <li>the extent of review or approval of changes to leave information.</li> </ul>
<b>Financial reporting</b>	
<div> <div>—</div> <div>Moderate: 2 new, 1 repeat</div> </div> <div> <div>✓</div> <div>Low: 0 new, 0 repeat</div> </div>	<p>The financial audits identified:</p> <ul style="list-style-type: none"> <li>opportunities for agencies to strengthen their financial preparation processes to facilitate a timelier and more efficient year-end audit</li> <li>the need for agencies with non-financial assets subject to fair value to reconsider policy settings governing the frequency of revaluations; and to refine and consider the outcomes of interim fair value assessments to ensure asset carrying values reflect fair value at each balance date.</li> </ul>
<div> <div>!</div> <div>High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.</div> </div> <div> <div>—</div> <div>Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.</div> </div> <div> <div>✓</div> <div>Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.</div> </div>	

Note: Management letter findings are based on final management letters issued to agencies.

### **The Department continues to address recommendations to improve monitoring of privileged user access**

Privileged users have higher levels of access to systems, and in some instances, may include access that can bypass segregation of duty controls. If reviews of access logs are not fully embedded in the control environment, the risk of unauthorised transactions occurring and not being detected in a timely manner is elevated.

In 2019–20 a high-risk issue was reported at the Department relating to the inadequate monitoring and follow up of privileged user activity in its enterprise resource planning system – SAP. This year the Department has largely addressed our findings by initiating a review of the identified instances of privileged user activity and establishing periodic oversight controls. There remains a need to improve the timeliness and completeness of these newly implemented controls.

### **Data analytics identified the root cause of internal control deficiencies in procurement and payroll**

Our 2020–21 agency management letters identified seven new moderate risk internal control deficiency matters, of which six related to payroll and procurement.

To enhance our financial statement audit of the Department we applied data analytics over elements of the Department's procurement and payroll control processes. Our procedures, conducted over periods across the financial year, helped identify the following:

- a low level of compliance with procurement practices requiring the creation of purchase orders before invoices are received. The root cause was a lack of understanding by agency staff of the procurement processes.
- transactions related to previous years being recorded in the current year. The root cause was a lack of understanding of the three-way matching process and the goods received/not invoiced facilities within SAP.
- negative payments in fortnightly pay runs, predominantly representing deductions to recover salary payments made in error. The root cause was the lack of timeliness in notifying payroll for cessation of employment, or for employees undertaking secondments who should have been classified as being on leave without pay.

## **Recommendation**

**We recommend cluster agencies prioritise and action recommendations to address the internal control deficiencies outlined above.**

## **Section two**

### Appendices

# Appendix one – Early close procedures

No.	Procedure	Description	Department of Education	NSW Education Standards Authority	TAFE Commission
1	Proforma financial statements	Complete proforma financial statements and ensure management has endorsed the statements and reviewed the supporting working papers. Reconcile the March 2021 month-end Prime submission to the proforma financial statements and provide explanations for variances exceeding \$5 million.	✓	✓	✓
2	Fair value assessment of property, plant and equipment	Perform and document an annual assessment of the fair value of property, plant and equipment (PPE), their useful lives and residual values, and the reasons why the carrying value was not materially different to the fair value. This assessment is performed between comprehensive revaluations.	✓	✓	✓
3 (i)	Revaluation of property, plant and equipment	Complete the comprehensive revaluation of property, plant and equipment (PPE) by early close.	✓	—	✓
4	Inter and intra (cluster) agency transactions and balances	Agree and confirm all inter and intra (cluster) agency balances and transactions with the counterparty agency.	✓	✓	✓
5	Significant management judgements and assumptions	Document all significant management judgements and assumptions made when estimating transactions and balances.	✓	✓	✓
6	Reconciliation of key account balances	Reconcile all key account balances (including annual leave provisions) and clear reconciling items.	✓	✓	✓
7 (ii)	Changes in accounting policy	Review and agree changes in accounting policy with the Principal Cluster Agency.	✓	—	✓

No.	Procedure	Description	Department of Education	NSW Education Standards Authority	TAFE Commission
8	Finalise right-of-use assets and lease liability balances	Ensure that all lease arrangements are accurate and complete.	✓	✓	✓
9	Finalise assessment of all revenue contracts	Ensure revenue is accurate and complete and has been correctly accounted for under 'AASB 15 Revenue from Contracts with Customers' or 'AASB 1058 Income of Not-for-Profit Entities'.	✓	✓	✓
10 (iii)	Correction of material prior period errors	Confirm there are no changes to the 2019–20 closing balances except for adjustments for 'AASB 1059 Service Concession Arrangements: Grantors' and 'TPP06-08 Accounting for Privately Financed Projects'. Proposed changes are accompanied by journals, explanations and proposed disclosures.	—	—	—
11	Monthly management reports	Perform variance analysis with meaningful explanations for actuals versus budget, and year-to-date actuals for the previous year.	✓	✓	✓
12	Changes to legislation	Identify and document changes to legislation affecting agency structures and/or financial reporting requirements.	✓	✓	✓
13	Delegations	Ensure all material transactions are supported by appropriate delegations.	✓	✓	✓
14	Prior year Management Letter and Engagement Closing Report issues	Agreed action plans are in place to address prior year Management Letter and Engagement Closing Report issues. Explanations are provided for any unresolved issues(s).	✓	✓	✓

No.	Procedure	Description	Department of Education	NSW Education Standards Authority	TAFE Commission
15 (iv)	Complete Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements	Complete and return the 'Commonwealth Funding Agreement – Revenue Assessment Form for Commonwealth Funding Agreements' for all new and amended Commonwealth Funding Agreements entered or amended during the 2020–21 financial year.	✓	–	–
16	New and updated accounting standards	Supporting workpapers evidencing how management has considered the requirements of new and updated accounting standards.	✓	✓	✓
<b>Key</b> ✓ <b>Completed</b> ! <b>Not completed</b> – <b>Not applicable</b>					

- (i) The NSW Education Standards Authority's property, plant and equipment are not subject to a comprehensive revaluation as they are carried at depreciated replacement cost.
- (ii) The NSW Education Standards Authority did not have any changes in accounting policy arising from the first-time implementation of 'AASB 1059 Service Concession Arrangements: Grantors'.
- (iii) No correction of prior period errors were identified at the date early close procedures were performed.
- (iv) The Department of Education was the only agency required to submit an assessment for 'Commonwealth Funding Agreements' to NSW Treasury.

## OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

## OUR PURPOSE

To help Parliament hold government accountable for its use of public resources.

## OUR VALUES

Pride in purpose  
Curious and open-minded  
Valuing people  
Contagious integrity  
Courage (even when it's uncomfortable)

Level 19, Darling Park Tower 2  
201 Sussex Street  
Sydney NSW 2000 Australia

**PHONE** +61 2 9275 7100

[mail@audit.nsw.gov.au](mailto:mail@audit.nsw.gov.au)

Office hours: 8.30am-5.00pm  
Monday to Friday.