

Report on Education 2017

14 DECEMBER 2017



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

FINANCIAL AUDIT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983*.

Our major responsibility is to conduct financial or 'attest' audits of State public sector agencies' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

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 agencies to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to agencies and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on agency 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 agency 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 agency's operations, or consider particular issues across a number of agencies.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

© 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.



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 38E of the *Public Finance and Audit Act 1983*, I present a report titled
Education 2017

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

Margaret Crawford
Auditor-General
14 December 2017

contents

Education 2017

Section one – Education 2017

Executive summary	1
Introduction	5
Financial reporting and controls	6
Service delivery	10

Section two – Appendices

Appendix one – List of 2017 recommendations	29
Appendix two – Status of 2016 recommendations	30
Appendix three – Agencies selected for this volume	31
Appendix four – Financial audit reporting	32

Section one

Education 2017

This report analyses the results of the financial statement audits of the Education cluster agencies for the year ended 30 June 2017.



Executive summary



1. Financial reporting and controls

Financial reporting

Unqualified audit opinions were issued for all agencies' financial statements.

Early close procedures were successfully performed and all financial statements were submitted by the statutory deadline.

Leave management

Inconsistencies were again noted in the annual leave and long service leave balances reported from the Department's Leave Management System. This issue may impact the Department's liability for long service leave assumed by the Crown Entity.

Internal controls

No high risk internal controls deficiencies were identified in the audit of cluster agencies.



2. Service delivery

Information technology

The Department expects to complete the Learning Management and Business Reform (LMBR) program by 30 June 2018.

The LMBR program has been a major project for the Department since it was established in 2006.

Human resources

The Department confirmed that all employees in child-related work currently have a valid Working with Children Check clearance, or application submitted for clearance, following a staged transition process conducted during 2017.

Amendments to the *Teacher Accreditation Act 2004* require all school teachers to obtain accreditation to continue teaching from 1 January 2018. The Department will manage cases on an individual basis for any teacher not accredited by that date.

Asset planning

The number of students enrolled in New South Wales public schools is growing at a significant rate and is projected to increase in the future. The Department has developed a School Assets Strategic Plan to cope with this growth in student numbers.

While the government has yet to agree to fully fund the Department's Strategic Plan, it raised the Department's capital planning limit from four to ten years.

Asset management

Data provided by the Department indicates that 678 new classrooms were delivered in 16 new or relocated schools and 41 major upgrades to existing schools since 2011.

The Department is working with the Treasury to address backlog maintenance and received funding to undertake more planned maintenance in existing schools.

Premier and State Priorities

Data from the Australian Curriculum, Assessment and Reporting Authority shows the Premier's Priority, to increase the proportion of New South Wales students in the top two NAPLAN bands, was achieved this year.

The target for the State's Priority, to increase the proportion of Aboriginal and Torres Strait Islander students in the top two NAPLAN bands for reading and numeracy, has not yet been achieved. However, performance against this target improved this year.

1. Financial reporting and controls

Unqualified audit opinions were issued for all agencies' financial statements

Unqualified audit opinions were issued on the 30 June 2017 financial statements for all agencies in the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

Agencies completed early close procedures but opportunities for improvement noted

Early close procedures continue to facilitate the timely preparation of financial statements and completion of audits. All agencies complied with the mandatory early close procedures set by the Treasury. However, we noted opportunities to improve other aspects of early close procedures including ensuring that agencies provide all necessary supporting work papers by the agreed dates and resolve significant accounting issues early.

Inconsistencies in leave data should be addressed before transition to new system

Inconsistencies were again noted in the annual leave and long service leave balances reported from the Department's Leave Management System. This issue impacts the Department's liability for long service leave assumed by the Crown Entity. It does not impact leave entitlements paid to employees as all requests for leave are verified and approved on payment.

Recommendation

The Department should confirm leave data and review assumptions as part of the transfer and migration of data to the new HR/Payroll system.

No high risk internal control deficiencies identified

The audits of cluster agencies for 2016–17 did not identify any high risk internal control weaknesses. However, areas where internal controls could be improved were identified and these were reported to the relevant agencies' management with recommendations to address the weaknesses.



2. Service delivery

The Learning Management and Business Reform (LMBR) program is nearly complete

The LMBR program has been a major project for the Department since it was established in 2006. The Department now expects the program to be fully deployed by June 2018.

The roll-out of the Finance and Student Administration and Learning Management (SALM) systems to schools progressed in 2017 and is now complete. The final group of schools went live on 16 October 2017.

The new SAP HR/Payroll system for the Department's school and corporate staff will be rolled out in four progressive releases and is expected to conclude by June 2018.

All employees in child-related work need a Working with Children Check

The Office of the Children's Guardian required all secondary school employees to provide a current Working with Children Check (WWCC) application or valid clearance to the Department by 31 March 2017. The Department reported that a compliance rate of 98.7 per cent was achieved by the transition date. This represented 43,293 individual clearances.

The Department endorsed a policy in June 2017 requiring all employees in child-related work in primary schools, central schools, environmental education centres, infants and hospital schools to provide a current WWCC application or valid clearance to the Department by 17 November 2017. The Department advised that a compliance rate of 99.2 per cent was achieved by the transition date. This represented approximately 69,689 individual clearances.

Non-compliant employees are no longer eligible for employment in child-related work in New South Wales public schools.

All school teachers need accreditation to continue teaching from 1 January 2018

The *Teacher Accreditation Act 2004* was amended to require the accreditation of all teachers in schools and early childhood centres in New South Wales. Accreditation for all New South Wales early childhood teachers working in long day care and preschool became mandatory from 18 July 2016. All teachers working in New South Wales schools need to be accredited to continue teaching from 1 January 2018.

The Department is targeting support to teachers yet to achieve accreditation to ensure maximum compliance by the transition date. The Department will manage each case individually to determine appropriate employment action for teachers who are ineligible for accreditation.

The Department now has a plan to address the growth in student numbers

The Department recently developed a School Assets Strategic Plan designed to ensure there are sufficient fit-for-purpose places for students up to 2031. The Strategic Plan has been developed with the benefit of expert advice and has been reviewed extensively within the Department, by other key government agencies and experts.

The Acting Auditor-General released a performance audit report on [Planning for School Infrastructure](#) in May 2017 which found that the Department's School Assets Strategic Plan is a good plan.

The School Assets Strategic Plan identifies that the student population in government schools will increase by 21 per cent in the years to 2031 and that the Department will need 7,200 additional classrooms and to upgrade many existing classrooms to meet future teaching and learning needs.

While the government has yet to agree to fully fund the Department's School Assets Strategic Plan, it approved a ten-year capital planning limit for school infrastructure from 2017–18. Previously, the Department had a rolling four-year capital planning limit and only had control and certainty of funding for four years into the future at any time.

The Department has delivered 678 new classrooms since 2011

Data provided by the Department indicates that 678 new classrooms were delivered since 2011 in 16 new or relocated schools and 41 major upgrades to existing schools. Five hundred of the new classrooms (73.7 per cent) and 13 of the new schools (81.3 per cent) were delivered in Sydney where the ten-year growth rate in student numbers has been 12.7 per cent.

The Department is working with the Treasury to address backlog maintenance

The Department is working with the Treasury to develop various strategies to respond to backlog maintenance issues in school facilities. In 2017–18, the New South Wales Budget allocated \$747 million over four years to undertake planned maintenance in schools.

The Department will prioritise the 2017–18 funding on assets at the end of their service life in the three biggest areas of backlog maintenance, roofs, floor coverings and painting.

One in three service providers are still working towards the National Quality Standard

The National Quality Standard (NQS), established in 2012, sets a national benchmark for the quality of early childhood education and care services. The Department works with all approved providers to make them aware of the requirements of the legislation and regulation to help ensure quality outcomes for children.

At 30 June 2017, 91 per cent of early childhood services in New South Wales had been assessed with 3,296 services meeting or exceeding the NQS and 1,591 services not fully meeting the NQS.

Strategies and funding are in place for the State and Premiers' priorities

The Premier's Priority for the education cluster, to increase the proportion of New South Wales students in the top two NAPLAN bands, was achieved this year.

The target for the State's Priority, to increase the proportion of Aboriginal and Torres Strait Islander students in the top two NAPLAN bands for reading and numeracy, has not yet been achieved. However, performance against this target improved this year.

The Literacy and Numeracy Strategy 2017–2020 has been developed to ensure students leave school with the literacy and numeracy skills required for life beyond school. As part of this strategy, \$340 million was committed over the next four years to maintain a focus on literacy and numeracy in the early years of schooling.



1. Introduction

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

- Financial Reporting and Controls
- Service Delivery.

A snapshot of the cluster for the year ended 30 June 2017 is shown below.

1.1 Snapshot of the cluster



The above statistics include Norfolk Island Central School. The NSW Department of Education provides school education services to this school under an agreement with the Australian Government.

1.2 Changes to the cluster

From 1 January 2017, the name of the Board of Studies, Teaching and Educational Standards (BOSTES) changed to the NSW Education Standards Authority. BOSTES was established in 2014 following the merger of the former Board of Studies NSW and the NSW Institute of Teacher.



2. Financial reporting and controls

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

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

This chapter outlines observations, conclusions and recommendations related to the financial reporting and controls of agencies in the Education cluster for 2016–17.

Observation	Conclusion or recommendation
2.1 Quality of financial reporting	
Unqualified audit opinions were issued for all agencies' financial statements	The quality of financial reporting continues to remain strong across the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.
2.2 Timeliness of financial reporting	
Cluster agencies complied with the statutory timeframes for completion of early close procedures and the preparation and audit of financial statements	Early close procedures continue to facilitate the timely preparation of financial statements and completion of audits, but agencies can make further improvement.
2.3 Key issues from financial audits	
Inconsistencies were again noted in the annual leave and long service leave balances reported from the Department's Leave Management System	Recommendation (repeat issue): The Department should confirm leave data and review assumptions as part of the transfer and migration of data to the new HR/Payroll system.
2.4 Key financial information	
Cluster agencies recorded net deficits in 2016–17	The Department recorded a net deficit of \$246 million in 2016–17 against a budgeted deficit of \$237 million. The NSW Education Standards Authority recorded a net deficit of \$5.7 million in 2016–17 against a budgeted deficit of \$2.2 million.
2.5 Internal controls	
No high risk internal control deficiencies were identified in the audit of cluster agencies	Areas where internal controls could be improved were identified and these were reported to the relevant agencies' management with recommendations to address the weaknesses.

2.1 Quality of financial reporting

Unqualified audit opinions were issued for all agencies' financial statements

Unqualified audit opinions were issued on the 30 June 2017 financial statements for all agencies in the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

The quality of financial reporting continues to remain strong

The number and dollar value of misstatements in cluster agencies' financial statements over the past three years are detailed in the table below:

Year ended 30 June	Number of misstatements					
	2017		2016		2015	
	Corrected	Uncorrected	Corrected	Uncorrected	Corrected	Uncorrected
Less than \$50,000	3	--	2	--	--	--
\$50,000 to \$249,999	3	--	1	--	2	--
\$250,000 to \$999,999	--	--	1	--	1	--
\$1 million to \$4,999,999	--	1	1	--	1	--
\$5 million and greater	1	2	3	2	--	3
Total number of misstatements	7	3	8	2	4	3

Source: Statutory Audit Reports issued by the Audit Office.

The uncorrected misstatements in 2016–17 greater than \$5.0 million relate to the financial statements of the Department. Management determined these misstatements to be immaterial and did not correct the financial statements. The impact on total expenses was less than 0.2 per cent.

A material misstatement relates to an incorrect amount, classification, presentation or disclosure in the financial statements that could reasonably be expected to influence the economic decisions of users. It is important to correct large misstatements, where possible, so users of financial statements can rely on them as an accurate representation of an agency's financial performance and position.

2.2 Timeliness of financial reporting

Financial statements were submitted on time

In 2016–17, all cluster agencies met the statutory deadlines for completing early close procedures and submitting financial statements.

The table below shows the timeliness of financial reporting and internal control weaknesses reported in our management letter by risk.

Agencies	Timeliness of financial reporting and audit reporting			Management letter findings				
	Early close procedures	Financial statements	Audit report	High	Moderate	Low	Total	Repeat*
Principal Department								
Department of Education	✓	✓	✓	--	2	5	7	1
Cluster Agency								
NSW Education Standards Authority	✓	✓	✓	--	2	--	2	--

Source: Management Letters issued by the Audit Office.

* Repeat management letter findings have been classified within the 'High', 'Moderate' and 'Low' columns and form part of the total.

The Treasury has reduced the scope of mandatory early close procedures

Treasury Circular 16-13 'Agency guidelines for the 2016–17 Mandatory Early Close' limited the mandatory early close procedures to non-financial asset valuations and proforma financial statements.

The Treasury encouraged agencies to maintain the disciplines implemented over the last few years and recommended they complete the additional good practice procedures listed in the circular.

Agencies can still improve their early close procedures

Cluster agencies were successful in performing early close procedures in 2016–17. However, we did identify opportunities for agencies to further improve early close procedures including:

- providing all necessary supporting work papers by the agreed date
- ensuring sufficient and appropriate documentation is available to support the results
- resolving significant accounting issues early or documenting a clear path towards timely resolution.

2.3 Key issues from financial audits

Inconsistencies in leave data should be addressed before transition to new system

Recommendation (repeat issue)

The Department should confirm leave data and review assumptions as part of the transfer and migration of data to the new HR/Payroll system.

During the current and the prior year end audit, inconsistencies were noted in the annual leave and long service leave balances reported from the Department's Leave Management System (LMS). This issue may impact the Department's liability for long service leave assumed by the Crown Entity. The Department has adequate controls in place to ensure that leave entitlements paid to employees are correct as individual requests for leave are verified and approved on payment.

A new HR/Payroll system for schools and the Department's corporate offices is a deliverable of Stage 3 of the Learning Management and Business Reform program. Details are provided in the chapter on Service Delivery.

The design phase for the new HR/Payroll system was completed during the year. Deployment will commence in February 2018 and is expected to be complete by 30 June 2018.

The Department's payroll operating environment is relatively complex. The Department employs around 90,000 permanent and temporary staff and approximately 20,000 casual employees. Staff are employed under various awards depending on whether they are classified as school teaching and related employees, school non-teaching staff or administrative, trades or miscellaneous employees.

2.4 Key financial information

Cluster agencies recorded net deficits in 2016–17

The Department recorded a net deficit of \$246 million in 2016–17, a decline of \$316 million from the net surplus of \$70.1 million recorded in the prior year. This result was slightly less favourable compared to the budgeted net deficit of \$237 million.

The decline in the net result was primarily due to an increase in expenditure of \$341 million over the same period. The increase in expenditure was mostly due to \$153 million more paid in grants and subsidies to the government, non-government and other school sectors, a \$84.4 million increase in operating expenses and a \$68.5 million increase in employee related expenses.

The value of the Department's assets was \$23.9 billion at 30 June 2017 (\$23.9 billion at 30 June 2016). Total liabilities increased to \$1.8 billion at 30 June 2017 from \$1.7 billion in the previous year.

The NSW Education Standards Authority recorded a net deficit of \$5.7 million in 2016–17 against a budgeted net deficit of \$2.2 million. This result is an improvement of \$0.6 million from the net deficit of \$6.3 million recorded in the prior year. Expenditure and revenue increased by \$5.0 million and \$5.6 million respectively over the same period.

Appendix Four of this report provides a summary of key financial results for each cluster agency.

2.5 Internal Controls

No high risk internal control deficiencies identified

The audits of cluster agencies for 2016–17 did not identify any high risk internal control weaknesses. However, areas where internal controls could be improved were identified and these were reported to the relevant agencies' management with recommendations to address the weaknesses.

The table in Section 2.2 details internal control weaknesses reported in our management letter by risk and by agency. The Department's repeat internal control weakness relates to the leave data issue noted in Section 2.3.

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. We report deficiencies in internal controls, matters of governance interest and unresolved issues identified during our audits to management and those charged with governance of the agencies. We do this through Management Letters, which include our observations, related implications, recommendations and risk ratings.



3. Service delivery

The achievement of government outcomes can be improved through effective delivery of the right mix of services, whether from the public, private or not-for-profit sectors. Service delivery reform will be most successful if there is clear accountability for service delivery outcomes, decisions are aligned to strategic direction and performance is monitored and evaluated.

This chapter outlines our audit observations, conclusions and recommendations related to service delivery by agencies in the Education cluster for 2016–17.

Issues	Conclusion or recommendation
3.1 Information technology	
The Department expects to complete the LMBR program by 30 June 2018	<p>The LMBR program has been a major project for the Department since it was established in 2006.</p> <p>The rollout of Finance and SALM solutions to all schools is now complete and the new HR/Payroll system is expected to be rolled out progressively in 2017–18.</p>
3.2 Human resources	
All child related employees needed a Working with Children Check by 17 November 2017 and all New South Wales school teachers need accreditation to continue teaching from 1 January 2018	<p>The Department confirmed that all employees in child-related work currently have a valid Working with Children Check clearance, or application submitted for clearance, following a staged transition process conducted during 2017.</p> <p>School teachers not accredited by 1 January 2018 will be ineligible to teach in New South Wales. The Department will manage cases on an individual basis for any teacher not accredited by that date.</p>
3.3 Asset planning	
The number of students enrolled in New South Wales public schools is growing at a significant rate and is projected to increase in the future	<p>The student population increased by over 32,000 in the period from 2012 to 2016, taking total enrolments in 2016 to 780,600.</p> <p>The Department expects the student population to increase by 21 per cent in the years to 2031.</p> <p>The Department recently developed a School Assets Strategic Plan designed to ensure that there are sufficient fit-for-purpose places for students up to 2031. The Government has yet to agree to fully fund the Department's School Assets Strategic Plan.</p>
3.4 Asset management	
The Department is delivering new and upgraded classrooms	<p>Data provided by the Department indicates that 678 new classrooms were delivered since 2011. Five hundred of the new classrooms (73.7 per cent) and 13 of the new schools (81.3 per cent) were delivered in Sydney.</p>
The Department is working with the Treasury to address backlog maintenance	<p>Additional funding for maintenance in New South Wales schools has been allocated and the Treasury has agreed to a funding benchmark to ensure the maintenance liability of schools does not exceed three per cent of the asset replacement value.</p>

Issues	Conclusion or recommendation
3.5 Performance reporting	
<p>One in three assessed early childhood services are still working towards meeting the National Quality Standard</p> <p>The NSW 2021 State Plan, announced in September 2015, introduced two new targets for the Education cluster</p>	<p>The Department works with all approved providers to make them aware of the requirements of the legislation and regulation to help ensure quality outcomes for children in early childhood education and care.</p> <p>The Premier's Priority for the education cluster, to increase the proportion of New South Wales students in the top two NAPLAN bands, was achieved this year.</p> <p>The target for the State's Priority, to increase the proportion of Aboriginal and Torres Strait Islander students in the top two NAPLAN bands for reading and numeracy, has not yet been achieved. However, performance against this target improved this year.</p>

3.1 Information technology

Learning Management and Business Reform program

The Learning Management and Business Reform (LMBR) program was established in 2006 to modernise how the Department manages and delivers student enrolment and administration, learning management, support services, finance, human resources and technology services to 2,200 public schools and the Department's corporate offices.

To manage the scale of the LMBR program, the Department segmented major components of work and used a pilot implementation approach for schools.

Revised program costs have been released

The cumulative cost of the LMBR program to 30 June 2017 was \$677 million.

LMBR program costs 2017	\$m
Total capital cost for the year ended 30 June 2017	28.7
Total capital cost at 30 June 2017	434.4
Total recurrent cost for the year ended 30 June 2017	45.0
Total recurrent cost at 30 June 2017	242.1
Total capital and recurrent costs at 30 June 2017	676.5

Source: Department of Education (unaudited).

The program was originally planned to be delivered in two phases over eight years. The overall cost, including capital and recurrent costs, was initially expected to total \$483 million.

The cost of the program, from its start in 2006 until completion, is expected to total up to \$752 million. This comprises forecast capital costs of \$470 million and recurrent costs of \$282 million.

The Department expects to complete the program by June 2018

The table below summarises the delivery schedule for Stage 3 of the LMBR program.

	Original timeline	Initial roll out date	Fully deployed date
Finance + SALM solutions - 229 schools	June 2013	November 2013	November 2013
Finance + SALM solutions - nearly 2,000 remaining schools	By 2014	May 2016	October 2017
HR/Payroll solution	By 2014	February 2018	June 2018

Source: Department of Education (unaudited).

The rollout of Finance and SALM solutions to all schools is now complete

The final group of schools went live with the Finance and Student Administration and Learning Management (SALM) systems on 16 October 2017. Schools received targeted support in the lead up to their 'go-live' dates. In the ten week post 'go-live' support period, schools were provided with intensive on-site support by members of their local deployment team and LMBR specialists.

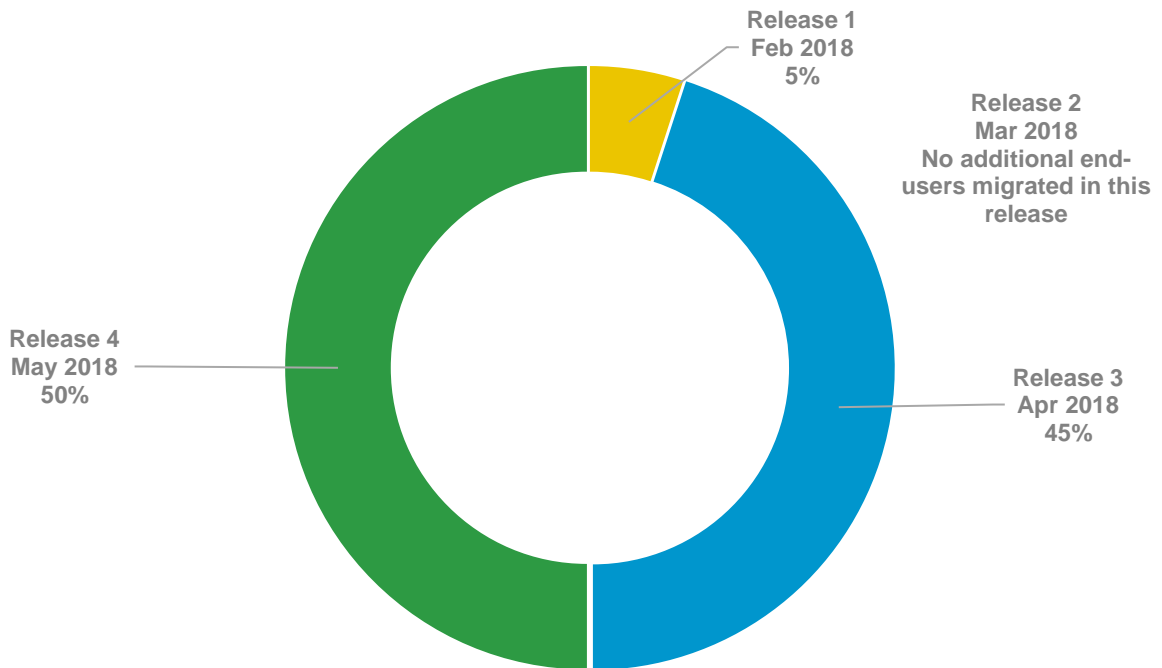
As the rollout of the Finance and SALM solutions to schools is now complete, the Department needs to focus on the successful transition of these new systems to a 'business as usual' environment. This includes:

- ensuring adequate induction procedures are available for new school principals and School Administration Managers (SAMs)
- providing support materials that are consistent, easy to access and updated regularly
- identifying the knowledge and skills gaps in individual school principals and SAMs and addressing them with supplementary training in a timely manner.

The new HR/Payroll system is expected to be rolled out progressively in 2017–18

The new SAP HR/Payroll system for the Department's school and corporate staff will be rolled out in four progressive releases. The Department employs around 90,000 permanent and temporary staff and approximately 20,000 casual employees. Release One includes all corporate staff and staff from 32 schools. Release Two does not include any staff but introduces new employee and manager self-services. Releases Three and Four are limited to school staff and are expected to be complete by June 2018.

Proportion of employees implemented at each release date



Source: Department of Education (unaudited).

Governance processes oversee the delivery of the new HR/Payroll system

The Department established a Program Steering Group to perform regular reviews and deep dives into the implementation plan to ensure that all key milestones are achieved. The Group has representation from the Treasury, the Department of Finance, Services and Innovation and the Premier's Office. An external independent government member and an Independent Quality, Assurance and Transformation Advisor were also appointed.

The Program Steering Group meets regularly with key stakeholders within the Department including information technology, human resources, shared services and finance. This engagement informs the development of the HR/Payroll system to ensure that it meets the needs of all key stakeholders.

The Department also regularly engages with the NSW Primary Principals' Association, NSW Secondary Principals' Council, NSW Teachers Federation and the Public Service Association to review and validate planning and training approaches for the new system.

3.2 Human resources

Working with Children Checks

All child-related employees need a Working with Children Check

A new Working with Children Check (WWCC) process was introduced by the Office of the Children's Guardian on 15 June 2013 following implementation of the *Child Protection (Working with Children) Act 2012* and the 'Child Protection (Working with Children) Regulation 2013'. Obtaining a WWCC clearance is a prerequisite for anyone in paid or voluntary child-related work.

Those seeking to be employed or engaged in child-related work in the Department since 15 June 2013 have been required to provide a valid WWCC clearance.

The Office of the Children's Guardian implemented a staged transition schedule to ensure all existing government employees that work with children (those employed or engaged in child-related work prior to 15 June 2013) hold a current WWCC application or valid clearance by 31 March 2018.

The Department communicated with school principals and employees, including via email and SMS, to ensure maximum compliance by the scheduled transition dates.

Almost all secondary school employees received clearance by 31 March 2017

The schedule set by the Office of the Children's Guardian, as part of the transitional provisions, required all secondary school employees to provide a current WWCC application or valid clearance to the Department by 31 March 2017.

The Department reported that a compliance rate of 98.7 per cent was achieved by the transition date. This represented 43,293 individual clearances.

Almost all other employees in child-related work received clearance by 17 November 2017

The Department endorsed a policy in June 2017 requiring all employees in child-related work in primary schools, central schools, environmental education centres, infants and hospital schools to provide a current WWCC application or valid clearance to the Department by 17 November 2017. This deadline was ahead of the Office of Children's Guardian scheduled date of 31 December 2017.

The Department advised that a compliance rate of 99.2 per cent was achieved by 17 November 2017. This represented approximately 69,689 individual clearances.

Non-compliant employees are no longer eligible for employment in child-related work in New South Wales public schools.

Accreditation of teachers

All school teachers need accreditation to continue teaching from 1 January 2018

The *Teacher Accreditation Act 2004* was amended to require the accreditation of all teachers in schools and early childhood centres in New South Wales. Accreditation for all New South Wales early childhood teachers working in long day care and preschool became mandatory from 18 July 2016. All teachers working in New South Wales schools need to be accredited to continue teaching from 1 January 2018.

Accreditation supports quality teaching, recognises the invaluable role teachers play in the community, helps train and develop teachers and improves student learning outcomes.

Previously, teachers who had worked in New South Wales before 1 October 2004, and had not taken a break from teaching in New South Wales of more than five years, were not required to be accredited.

The NSW Education Standards Authority (NESA), the Department of Education, the Catholic Education Commission and the Association of Independent Schools of NSW worked together to develop a process for awarding Proficient Teacher Accreditation to pre-2004 teachers.

Any teacher starting work or returning to work in a New South Wales school after a break of more than five years must be provisionally or conditionally accredited by NESA and work towards achieving Proficient Teacher Accreditation. Higher levels of accreditation are also available to teachers who want to extend themselves professionally and be recognised for stand-out achievements.

Teachers with Proficient Teacher Accreditation must maintain this status to continue working as a teacher in New South Wales. Teachers will have five years (if employed full-time) or seven years (if part-time or casual) to complete requirements by participating in high quality professional development to continuously improve and maintain teaching practice.

School teachers not accredited by 1 January 2018 will be ineligible to teach

Teachers who are in positions that require mandatory accreditation and are not accredited by 1 January 2018 will not be able to teach in New South Wales. The Department will manage each case individually to determine appropriate employment action for teachers who are ineligible for accreditation.

Support has been targeted towards teachers yet to achieve accreditation

The Department's key initiatives under the Great Teaching, Inspired Learning reform for 2016–17 focussed on the implementation requirements for all teachers to be accredited by 1 January 2018.

The Department launched a comprehensive communication strategy in early 2017 to inform teachers of the accreditation transition process. The Department used various forms of communication including a dedicated web page, departmental-wide bulletins, targeted emails and information sessions to ensure all teachers were advised and alert to the new requirements.

3.3 Asset planning

The Department has over 780,000 students enrolled in 2,210 schools across the state, including 1,608 primary schools, 401 secondary schools, and 66 central schools. Central schools provide a comprehensive education for children from Kindergarten to Year 12, and are usually located in areas of relatively low student population.

The Department forecasts that the number of students enrolled in New South Wales Government schools will increase significantly over the next 15 years. Much of this growth is expected in established areas within Sydney.

Growth in the student population

The student population is growing at a significant rate

There were 780,600 students enrolled at New South Wales public schools in 2016. This represents a growth of 32,366 students from the 748,234 students enrolled in 2012. The Department projects that enrolments will continue to increase in the future.

Year ended 31 December	2016	2015	2014	2013	2012
Total students	780,600	771,978	763,698	755,346	748,234

Source: Mid-year census data obtained from the Department of Education (unaudited).

Growth in student numbers is concentrated in Sydney

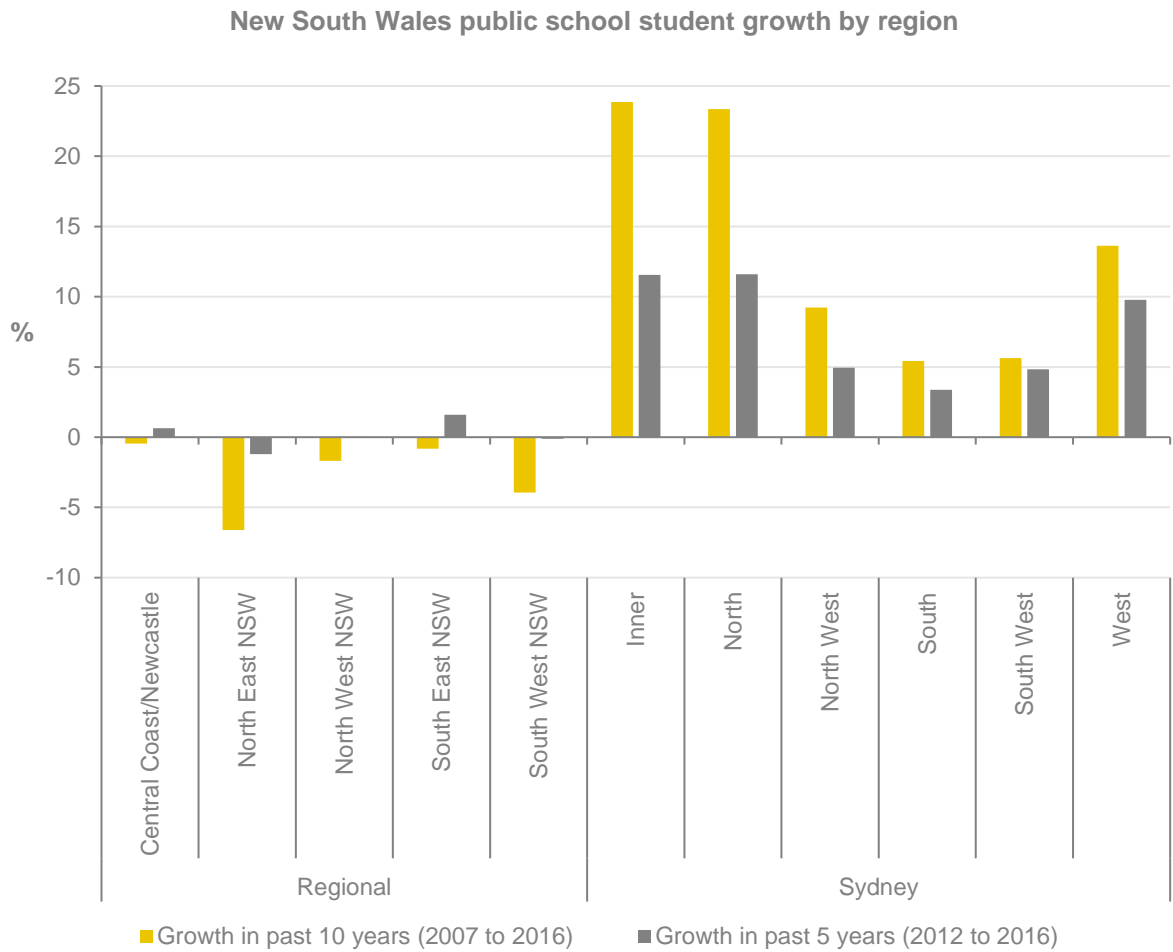
Enrolments by region	2016	Growth in past 10 years	Growth in past 5 years
	(number)	(%)	(%)
Regional NSW	333,460	(2.6)	0.2
Sydney	447,140	12.7	7.5

Source: Mid-year census data obtained from the Department of Education (unaudited).

Student enrolments have grown significantly in Sydney over the last decade. The ten-year growth rate is 12.7 per cent and the five-year growth rate is 7.5 per cent.

Student enrolments in regional New South Wales have declined over the past ten years.

Inner and North Sydney regions experienced a ten-year growth rate over 20 per cent



Source: Mid-year census data obtained from the Department of Education (unaudited).

The graph shows:

- all Sydney regions have experienced ten year and five year growth in student enrolments
- student enrolments in regional New South Wales have declined over the past ten years
- the Inner Sydney and North Sydney regions have experienced the most significant ten year growth rates (23.9 and 23.4 per cent) and five year growth rates (11.5 and 11.6 per cent) respectively
- the North East NSW region has experienced the most significant decline in students over ten years (6.6 per cent) and five years (1.2 per cent)
- the Central Coast/Newcastle and South East NSW regions have seen a five year growth reversing a ten year decline in student enrolments.

School Assets Strategic Plan

The Department now has a Plan to address future needs

The Department recently developed a School Assets Strategic Plan designed to ensure that there are sufficient fit-for-purpose places for students where and when required up to 2031. The Strategic Plan outlines the:

- predicted demand for future learning spaces
- condition of existing infrastructure and additional infrastructure and maintenance required
- proposed new initiatives to deliver the required infrastructure economically
- proposed new cluster planning model to determine priorities and initiatives to be implemented at the school level
- indicative funding needed to provide appropriate learning spaces where and when needed.

The School Assets Strategic Plan was developed with the benefit of expert advice and has been reviewed extensively within the Department, by other key government agencies and experts. The review process examined the Strategic Plan's assumptions, data quality, proposals and cost estimation approach.

Many more learning spaces will be needed

The School Assets Strategic Plan identifies that the student population in government schools will increase by 21 per cent in the years to 2031 and that the Department will need:

- 7,200 additional classrooms and to upgrade many existing classrooms to meet future teaching and learning needs
- to undertake much more planned maintenance, otherwise 40 per cent of existing government school buildings will be in such poor condition that learning outcomes could be compromised.

A performance audit on Planning for School Infrastructure was tabled in 2017

The Acting Auditor-General released a performance audit report on [Planning for School Infrastructure](#) in May 2017.

The performance audit found that the Department's School Assets Strategic Plan is a good plan. It covered the expected issues and benefited from expert input and independent validation of assumptions, proposed solutions, and the likely costs. It also found that the Department's assessment of future needs was robust.

To provide and maintain the infrastructure needed up until 2031, the Department estimates it will need significantly more money than it receives now even if it implements its initiatives and cluster planning effectively. The government has yet to agree to fully fund the Department's School Assets Strategic Plan.

The report recommended that the Department seek a ten-year capital planning limit from the Treasury for school infrastructure. This has now been approved from 2017–18. Previously, the Department had a rolling four-year capital planning limit which did not provide the flexibility needed for the Department to manage its allocations and respond to changes in priorities or emerging challenges.

3.4 Asset management

The Department has over \$37 billion invested in school infrastructure and land throughout New South Wales in 2017, including approximately \$30 billion in built assets. As at October 2017, the gross floor area of operating schools is approximately 8.7 million square metres across approximately 21,500 buildings of varying condition, age and functionality. As at May 2017, there were over 40,700 permanent teaching spaces and over 4,600 demountable teaching spaces in government schools.

The Department has robust and timely data on school assets

The Department's asset management system is a primary repository for all school infrastructure data. The system holds data and spatial information on sites, facilities, programs of capital and maintenance works, facilities management data and compliance, and demountable accommodation.

This system allows assets to be viewed spatially at a local level with site and building plans, and at a strategic level in relation to other features including school transport networks, school catchment areas and demographic data on population, housing development and education. It provides support for the planning, funding and prioritisation of decisions across all asset categories.

The Department regularly assesses the condition of school assets using industry standards, and functionality against internationally recognised factors impacting education outcomes. This information is stored in the Department's asset management system and is used for life cycle costing.

The asset management system is regularly updated and enhanced to improve the depth and accessibility of asset information.

Major asset investments

The Department has several major capital works projects in progress

Project description	2016–17 budget allocation \$m	2016–17 expenditure \$m	Current status	Delays	Estimated completion date
Major works – 12 new projects	75	64	In progress	Delays in development approvals	2020
Work-in-progress (exclude LMBR project) – 27 projects	188	106	In progress	Delays in development approvals	2020
School infrastructure upgrades	232	215	In progress	No	Ongoing program
Technology for Learning and ICT	51	51	Completed	No	Completed
Other minor works	6	8	In progress	No	Ongoing program

Source: Department of Education (unaudited).

Major works and Work-in-progress expenditure was lower than expected due to delays in development approvals. The Treasury approved \$77.0 million of the 2016–17 budget allocation to be rolled over into future years.

Technology for Learning and ICT was delivered in 2016–17 on budget.

Delivery of new classrooms

The 2016–17 New South Wales Budget announced funding of \$1 billion to deliver 1,100 new classrooms over the next four years. The classrooms will come in new schools and upgrades to existing schools across Sydney and regional growth areas.

The Department has delivered 678 new classrooms since 2011

Data provided by the Department indicates that 678 new classrooms were delivered in 16 new or relocated schools and 41 major upgrades to existing schools since 2011. Five hundred of the new classrooms (73.7 per cent) and 13 of the new schools (81.3 per cent) were delivered in Sydney.

	New/relocated schools		Upgraded schools	
	Number of classrooms	Number of schools	Number of classrooms	Number of schools
Regional NSW	25	3	153	21
Sydney	304	13	196	20
Total	329	16	349	41

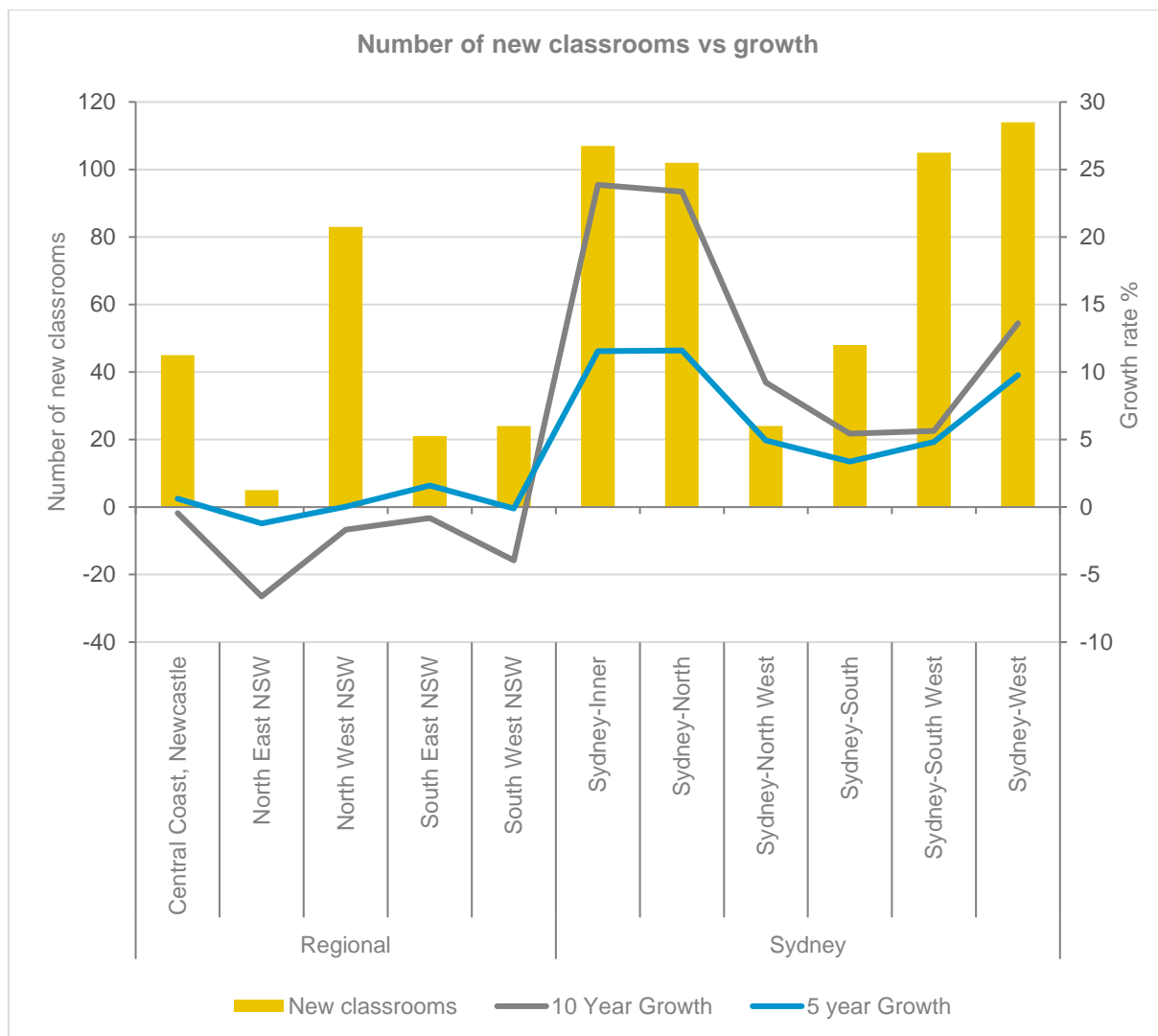
Source: Department of Education (unaudited).

The schools with the largest number of new permanent classrooms were as follows:

- the new/relocated school project that delivered the most new classrooms in the Sydney area was The Ponds High School in the Sydney West region (55 new classrooms)
- in regional New South Wales, the new/relocated school project at Gosford Public School in the Central Coast, Newcastle region added the most new classrooms (21 new classrooms)
- the school upgrade project that added the most new classrooms in the Sydney area was Mowbray Public School in the Sydney North region (38 classrooms)
- In regional New South Wales, the upgrade project at Rutherford Technology High School in North West NSW had the most new classrooms (27 classrooms).

Classroom delivery has been centred in Sydney

The graph below was created by comparing data provided by the Department that outlined the number of classrooms delivered in each region since 2011 against the five-year and ten-year growth rates per region.



Source: Department of Education (unaudited).

Over 100 classrooms were added in each of the three areas in Sydney with the highest ten-year growth rate (Inner, North and West). A significant number of new classrooms were also added in the South West Sydney region.

Maintenance of school facilities

The Department undertakes regular maintenance of school facilities including preventative and routine maintenance, planned maintenance and essential urgent repairs.

The Department uses Life Cycle Costing to measure and predict maintenance and capital renewal and to prioritise activities. The Department completed its initial Life Cycle Costing assessments for all schools in September 2013. The next assessment is occurring in 2017–18.

A program of planned maintenance works is developed for each individual school on an annual basis in consultation with school principals. These planned maintenance works are generally delivered during school holidays and out of school hours to minimise the impact on school operations.

The Department is working with the Treasury to address backlog maintenance

The Department is working with the Treasury to develop various strategies to respond to backlog maintenance issues in school facilities. Commencing in 2017–18, and as a key outcome of the School Assets Strategic Plan, the Government has agreed that the maintenance liability of the Department's schools at the end of any given year should not exceed three per cent of the asset replacement value. The Treasury has agreed to this benchmark and will fund the Department into the future accordingly.

Additional funding will be provided to supplement the maintenance program

In 2017–18, the New South Wales Budget allocated \$747 million over four years to undertake planned maintenance in New South Wales schools. This includes an additional \$411 million investment commencing from 2017–18.

The Department will prioritise the 2017–18 funding on assets at the end of their service life in the three biggest areas of backlog maintenance, roofs, floor coverings and painting. The Department's local Asset Management Units are currently delivering this program of works.

3.5 Performance reporting

A key objective of New South Wales public sector reform is to improve performance and create a culture of accountability. Performance reporting against benchmarks and targets is an effective means of measuring the success of these reforms.

Early childhood outcomes

A key strategic outcome of the Department is for all students to receive high quality early childhood education and care to promote a great start in life and at school.

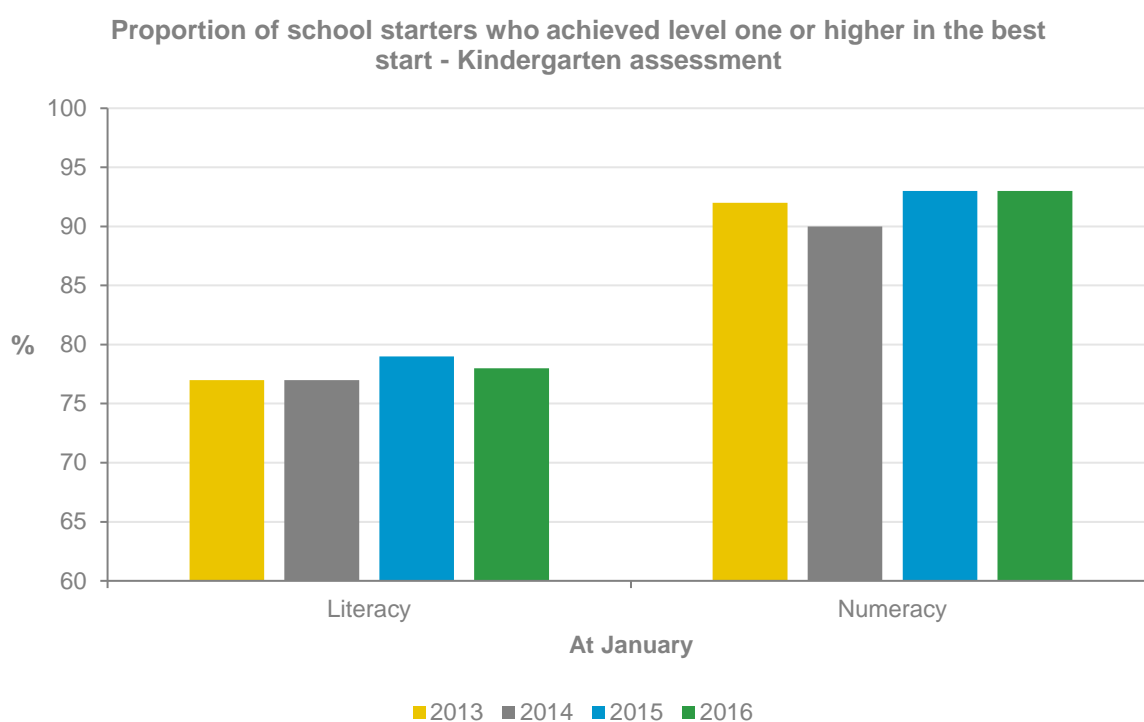
School readiness

The skill level of school starters has remained stable

The Department has a target to increase the proportion of children with the literacy and numeracy skills they need for the best start at school.

All students in New South Wales public schools undertake the Best Start Kindergarten Assessment within the first five weeks of starting school. Best Start is a one-on-one assessment designed to identify each student's literacy and numeracy skills at the beginning of Kindergarten. The assessment measures each student's level of understanding in relation to the National Literacy and Numeracy Learning Progressions on entry to school.

The results for the last four years are shown below.



Source: Department of Education (unaudited).

In 2016, 93 per cent of students achieved level 1 or higher on at least one aspect of the Best Start numeracy assessment and 78 per cent achieved the same level in the Best Start literacy assessment. The results for literacy decreased by one percentage points compared to 2015 while those for numeracy remain unchanged.

Regulation of early childhood education and care

One in three service providers are still working towards the National Quality Standard

The National Quality Standard (NQS) was established in 2012 in partnership with the State, Territory and Commonwealth Governments. It sets a national benchmark for the quality of early childhood education and care services in Australia. The NQS, overseen by the Australian Children's Education and Care Quality Authority (ACECQA), is accompanied by a national rating and assessment process to promote transparency and accountability. This enables families to make informed decision about the services providing education and care to their child.

In August 2017, ACECQA released the 'NQF Snapshot Q2 2017' which summarises the quality ratings trends across early children's education and care services in New South Wales.

National Quality Standards

At 30 June	2017	2016
Services rated Significant Improvement Required	25	7
Services rated Working Towards NQS	1,566	1,496
Services rated Meeting NQS	1,958	1,607
Services rated Exceeding NQS	1,325	1,004
Services rated Excellent by ACECQA	13	10
Total	4,887	4,124

Source: Australian Children's Education and Care Quality Authority (unaudited).

'Working towards NQS' in the table above indicates services may be meeting the NQS in some areas, but one or more areas were identified for improvement.

At 30 June 2017, 3,296 (2,621 at 30 June 2016) services met or exceeded the NQS and 1,591 (1,503 at 30 June 2016) services did not fully meet the NQS. The proportion of services that met or exceeded the NQS has increased to 67 per cent (64 per cent at 30 June 2016).

The increase in the number of services that met or exceeded the NQS resulted from a boost in the number of approved services that had been assessed and given a rating. At 30 June 2017, 91 per cent of services had been assessed compared with only 80 per cent at 30 June 2016.

The Department works with all approved providers to make them aware of the requirements of the legislation and regulation to help ensure quality outcomes for children and formally notifies providers if they detect breaches of early childhood education and care laws.

School outcomes against the State and Premier's priorities

The 'NSW Making It Happen' State Plan comprises 30 State Priorities including 12 Premier's Priorities.

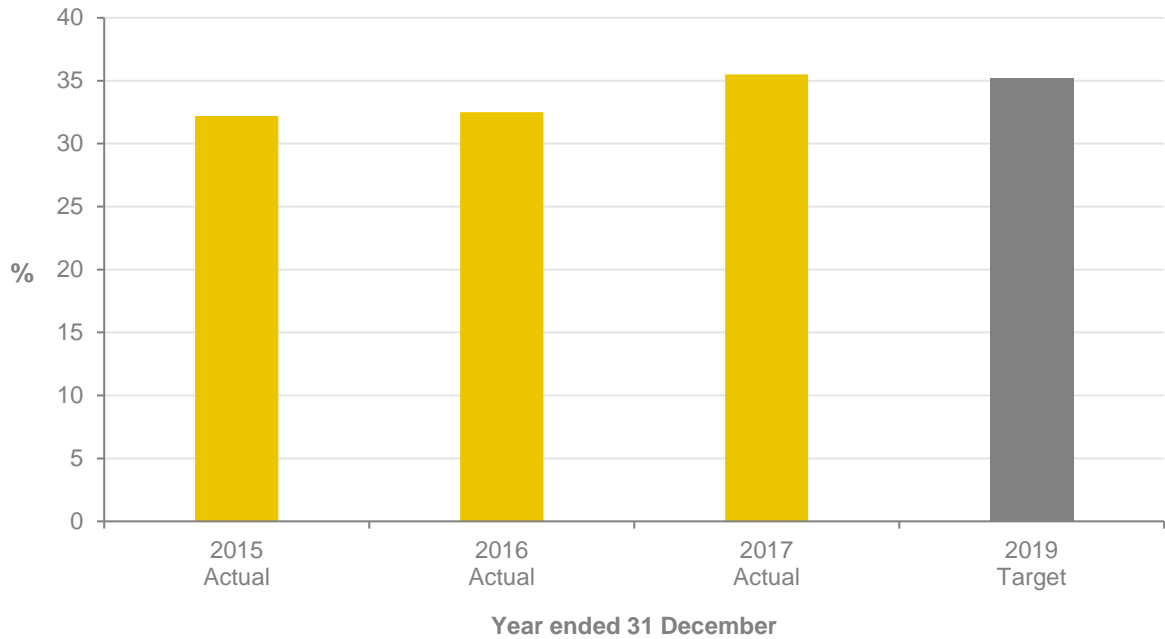
For the Education cluster, there are two priorities focussed on increasing the proportion of students in the top two NAPLAN performance bands. Both priorities are calculated based on the average performance of all grades tested, and across the reading and numeracy domains.

The target for the Premier's Priority has been achieved this year

The Premier's Priority for the Education cluster is to increase the proportion of New South Wales students in the top two NAPLAN bands by eight per cent by 2019.

The target for the Department is to ensure on average 35.2 per cent of students are in the top two NAPLAN bands in reading and numeracy by 2019.

Average proportion of students in the top two performance bands in reading and numeracy

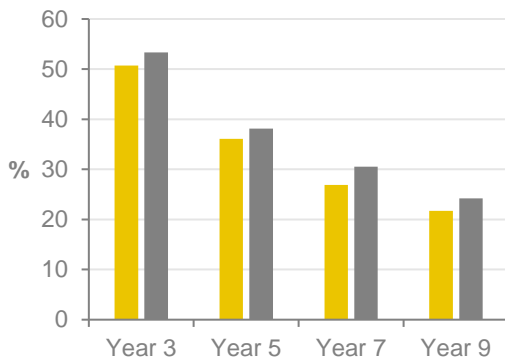


Source: Australian Curriculum, Assessment and Reporting Authority (unaudited).

The proportion of students achieving results in the top two performance bands in 2017 is higher than 2015 and 2016. In 2017, the average is 35.5 per cent (32.5 per cent in 2016).

In reading, there have been improvements made in every grade compared to 2016. In numeracy, only grade 5 achieved lower results compared to 2016. The results for reading and numeracy in 2017 compared to 2016 are shown below.

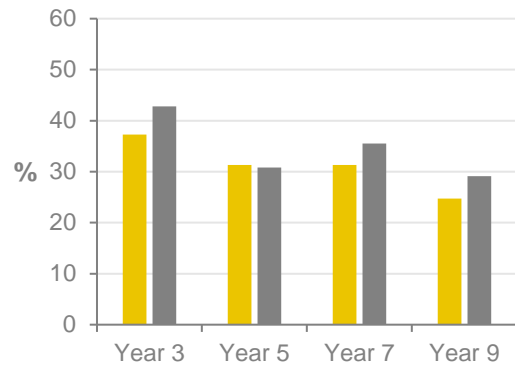
Proportion of students in the top two performance bands for reading



Year ended 31 December

■ 2016 ■ 2017

Proportion of students in the top two performance bands for numeracy



Year ended 31 December

■ 2016 ■ 2017

Source: Australian Curriculum, Assessment and Reporting Authority (unaudited).

An analysis of the 2017 results for reading indicates:

- Year 3, 5, 7 and 9 are higher than 2016.

An analysis of the 2017 results for numeracy indicates:

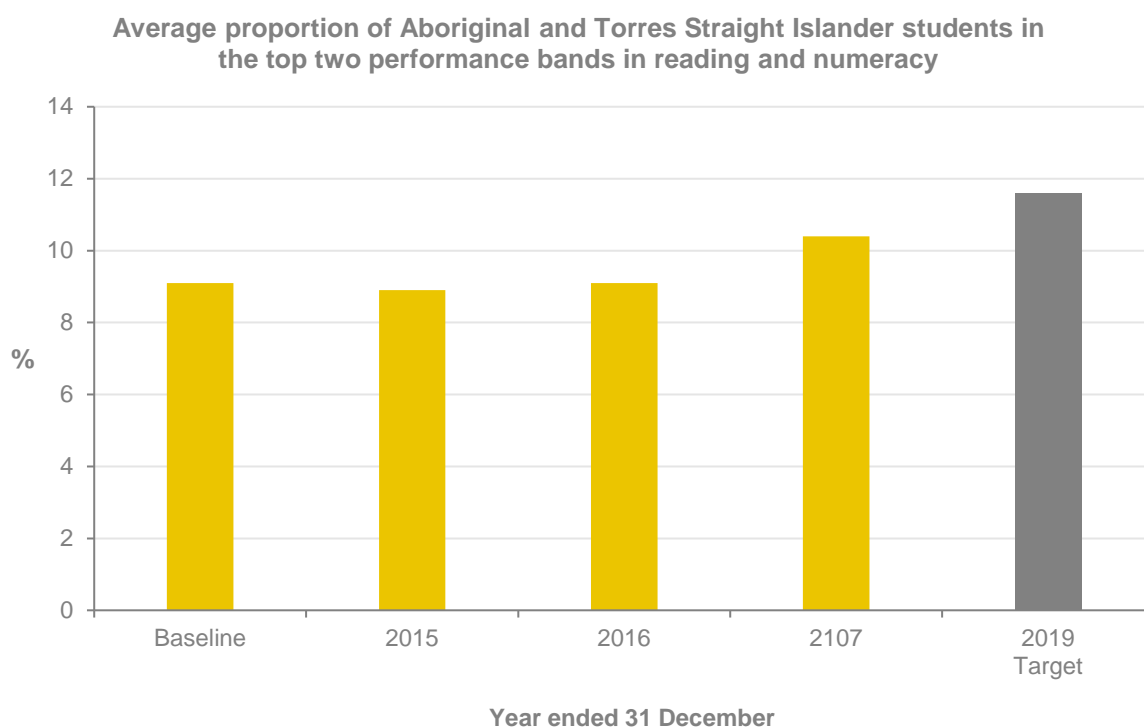
- Year 3, 7 and 9 are higher than 2016
- Year 5 is slightly lower than 2016.

Performance against the target for the State's Priority has improved

The State Priority directly relevant to the Education cluster is to increase the proportion of Aboriginal and Torres Strait Islander students in the top two NAPLAN bands for reading and numeracy by 30 per cent.

The target for the Department is to ensure that on average 11.6 per cent of the Aboriginal and Torres Strait Islander students are in the Top Two Performance bands in reading and numeracy by 2019.

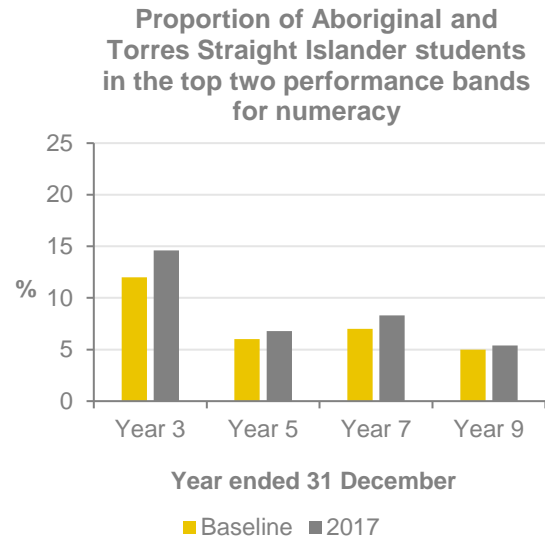
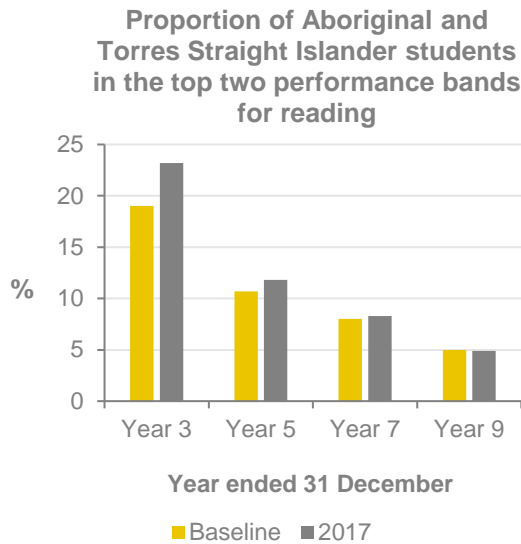
The baseline year, representing an average of the actual 2013 and 2014 NAPLAN results, was 9.1 per cent.



Source: Australian Curriculum, Assessment and Reporting Authority (unaudited).

The proportion of students achieving results in the top two performance bands has improved from 9.1 per cent in 2016 to 10.4 per cent in 2017.

The results for reading and numeracy in 2017 compared to the baseline year are shown below.



Source: Australian Curriculum, Assessment and Reporting Authority (unaudited).

An analysis of the 2017 results for reading indicates:

- Year 3, 5 and 7 are higher than the baseline year
- Only Year 9 is slightly lower than the baseline year.

An analysis of the 2017 results for numeracy indicates:

- Year 3, 5, 7 and 9 are higher than the baseline year.

The Department has strategies for the State and Premiers' priorities

The Literacy and Numeracy Strategy 2017–2020 and the NSW Stronger HSC reforms have been developed to ensure students leave school with the literacy and numeracy skills required for life beyond school. It is a plan to work with teachers, students and parents to improve literacy and numeracy outcomes.

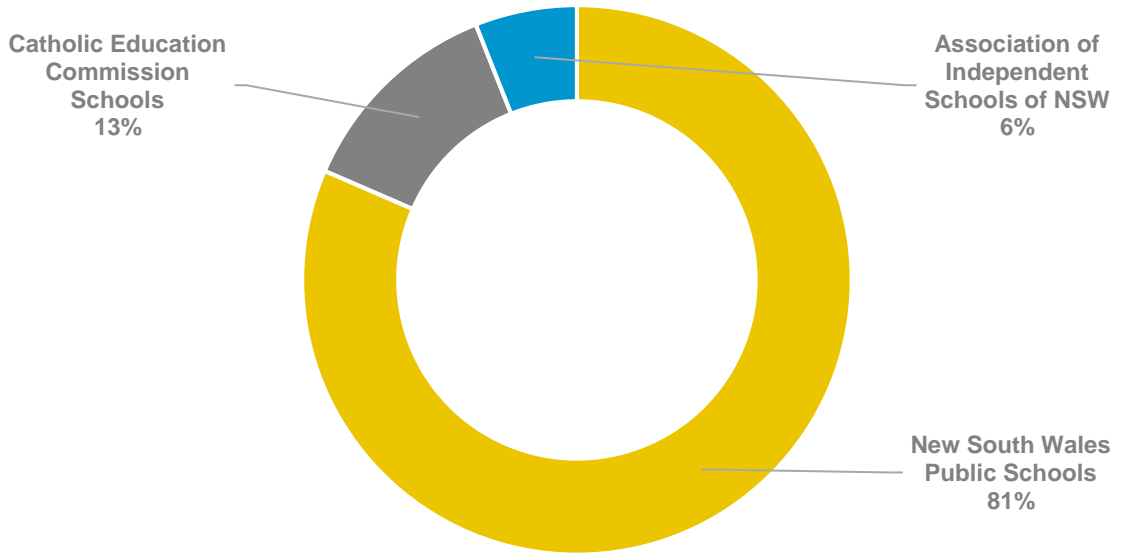
The Strategy will continue to enhance literacy and numeracy for all students by:

- expanding the K-2 Action Plan and evaluating its impact
- introducing evidence-based National Literacy and Numeracy Learning Progressions, which will help schools to accurately and consistently identify and address student need
- providing diagnostic assessments that map student learning to the learning progressions
- extending the focus on literacy and numeracy to secondary school with the introduction of Best Start Year 7 and minimum literacy and numeracy standards to receive an HSC
- strengthening the literacy and numeracy education components of initial teacher education programs.

\$340 million has been allocated to improve literacy and numeracy in New South Wales

As part of the Literacy and Numeracy Strategy 2017–2020, an additional \$340 million has been committed to maintain a focus on literacy and numeracy in the early years of schooling. The funding will provide \$69.3 million to New South Wales public schools, \$10.6 million to Catholic Education Commission schools and \$5.1 million to the Association of Independent Schools NSW per annum over four years.

Literacy and numeracy strategy funding allocation



Source: Department of Education (unaudited).

Section two

Appendices



Appendix one – List of 2017 recommendations

The table below lists the recommendations made in this report.



1. Financial reporting and controls

1.1 Inconsistencies in leave data

(Repeat issue) The Department should confirm leave data and review assumptions as part of the transfer and migration of data to the new HR/Payroll system.



Key



Low risk



Medium risks



High risks



Appendix two – Status of 2016 recommendations

Last year's Auditor-General's Report to Parliament on the Education cluster included 6 recommendations for cluster agencies to improve financial management and internal controls. The current status of each recommendation is shown below.

Recommendation	Current status	
Cluster agencies should:		
Cluster agencies should ensure all supporting documents for hard close and early close are ready by the due date. All significant accounting issues should be resolved as part of these procedures.	Cluster agencies were successful in performing early close procedures in 2016–17. However, opportunities to further improve these procedures were identified. Details are provided in the chapter on Financial Reporting and Controls.	
Agencies should continue efforts to reduce employees' excess annual leave balances to meet whole-of-government targets.	The number of staff with excess annual leave balances in the cluster agencies reduced in 2016–17. Agencies will continue strategies for managing excessive annual leave balances and regularly monitor their effectiveness.	
Cluster agencies should review compliance with the <i>Government Information (Public Access) Act 2009</i> .	Cluster agencies performed a review of their processes for achieving compliance with the Act in 2016–17.	
The Department should		
The Department should review the data and assumptions in the Leave Management System and resolve unusual balances and potential errors prior to starting the transition to the new HR/Payroll system in November 2017.	The Department undertook a significant amount of work in 2016–17 to cleanse the data in the Leave Management System. However, inconsistencies were still noted that are yet to be resolved. Details are provided in the chapter on Financial Reporting and Controls.	
The Department should consider the effectiveness of workplace health and safety strategies for addressing the rise in psychological injuries.	The Department continues to implement initiatives and programs designed to improve health and safety performance. These programs, executed under the Department's Corporate Safety Strategy, include specific plans for injury prevention, support and rehabilitation for injured staff.	
The Department should reassess current strategies for achieving performance targets in reading and numeracy and consider the effectiveness of strategies in the other domains.	The Premier's Priority for the education cluster, to increase the proportion of New South Wales students in the top two NAPLAN bands, was achieved this year. The target for the State's Priority, to increase the proportion of Aboriginal and Torres Strait Islander students in the top two NAPLAN bands for reading and numeracy, has not yet been achieved. However, performance against this target improved this year. Details are provided in the chapter on Service Delivery.	
Fully addressed	Partially addressed	Not addressed



Appendix three – Agencies selected for this volume

Agency

Principal department

Department of Education

Education agency

NSW Education Standards Authority



Appendix four – Financial audit reporting

	Total assets		Total liabilities		Total revenue		Total expense	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Cluster lead entity								
Department of Education	23,854	23,950	1,819	1,669	13,127	13,112	13,360	13,018
Education entity								
NSW Education Standards Authority	26	26	24	18	139	134	145	140

OUR VISION

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

OUR MISSION

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

OUR VALUES

Purpose – we have an impact, are accountable, and work as a team.

People – we trust and respect others and have a balanced approach to work.

Professionalism – we are recognised for our independence and integrity and the value we deliver.

Level 15, 1 Margaret Street
Sydney NSW 2000 Australia

PHONE +61 2 9275 7100

FAX +61 2 9275 7200

mail@audit.nsw.gov.au

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