



FINANCIAL AUDIT

6 DECEMBER 2022

Education 2022

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*.

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In accordance with section 52B of the *Government Sector Audit Act 1983*, I present a report titled '**Education 2022**'.

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

Margaret Crawford

Auditor-General for New South Wales
6 December 2022



RECONCILIATION COMMITMENT STATEMENT

The Audit Office of New South Wales pay our respect and recognise Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and cultural connection with their lands and waters, and have made and continue to make a rich, unique and lasting contribution to the State. We are committed to continue learning about Aboriginal and Torres Strait Islander peoples' history and culture.

We honour and thank the traditional owners of the land on which our office is located, the Gadigal people of the Eora nation, and the traditional owners of the lands on which our staff live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

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Section one

Education 2022

This report analyses the results of our audits of the Education cluster agencies for the year ended 30 June 2022.

1. Introduction

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





- financial reporting
- audit observations.

1.1 Snapshot of the cluster

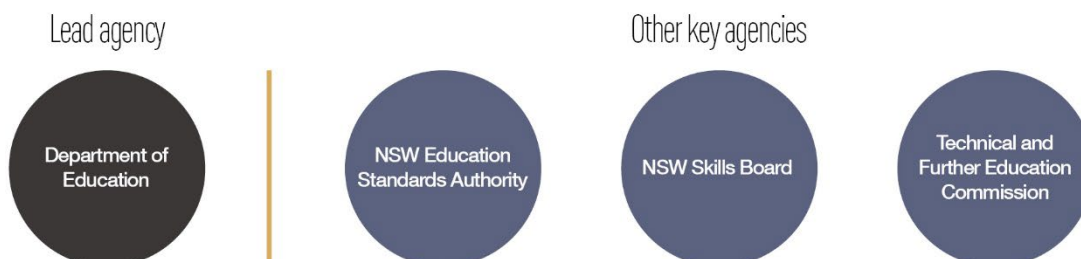
Education

Administering and delivering education and training services for NSW students, workers and industry. This includes early childhood education and care sector, government and non-government schools, and the vocational education and training sector.

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



Source: NSW Budget Papers 2022–23.

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 2022.

Section highlights

- Unqualified audit opinions were issued on the financial statements of cluster agencies.
- An 'other matter' paragraph was included in the independent auditor's report for the Technical and Further Education Commission (TAFE Commission) as they did not have a delegation or sub-delegation from the Minister for Education and Early Learning to incur expenditure from cluster grants.
- The Department of Education and the TAFE Commission's land and buildings were revalued upwards by a collective \$5.9 billion. These uplifts were the result of managerial fair value assessments showing that the carrying values of land and buildings had materially departed from fair value.
- Changes to accommodation arrangements managed by Property NSW on behalf of the department and the NSW Education Standards Authority resulted in the collective derecognition of approximately \$270.6 million in right-of-use assets and corresponding lease liabilities totalling \$382.9 million from the balance sheets of these agencies.

2.1 Cluster financial information 2022

Agency	Total assets \$m	Total liabilities \$m	Total income* \$m	Total expenses** \$m
Principal department				
Department of Education	42,920.8	2,875.3	20,576.8	20,001.4
Other cluster agencies listed in Appendix A of Treasury Direction TD21-02				
NSW Education Standards Authority	74.5	29.0	194.9	177.2
NSW Skills Board	2.6	0.08	2.3	1.2
TAFE Commission	5,249.3	446.2	1,879.8	1,889.5

* Includes other gains.

** Includes other losses.

Source: Agencies audited 2021–22 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 2022 financial statements. Sufficient and appropriate audit evidence was obtained to conclude the financial statements were free of material misstatement.

An 'other matter' was included in the TAFE Commission's audit opinion







'Other matter' paragraphs 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 2022 because they did not have a delegation or sub-delegation from the Minister for Education and Early Learning to incur expenditure from cluster grants, which are monies appropriated out of the consolidated fund through the *Appropriations Act 2021*.

The number of identified monetary misstatements remains consistent with 2020–21

The number of monetary misstatements identified during the audit of the financial statements for the cluster remained consistent with 2020–21. Seven monetary misstatements were identified in 2021–22. A monetary misstatement is an error in amount recognised in the financial statements initially submitted for audit.

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

Year ended 30 June	2022		2021	
				
Less than \$249,999	--	--	--	--
\$250,000 to \$999,999	--	--	1	--
\$1 million to \$4,999,999	--	--	1	--
\$5 million and greater	5	2	4	1
Total number of misstatements	5	2	6	1
Key	 Corrected misstatements	 Uncorrected misstatements		

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.

	2021–22			2020–21		
	Corrected	Uncorrected	Total	Corrected	Uncorrected	Total
Department of Education	4	2	6	3	1	4
NSW Education Standards Authority	--	--	--	3	--	3
NSW Skills Board	--	--	--	--	--	--
TAFE Commission	1	--	1	--	--	--
Total	5	2	7	6	1	7

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

Reported corrected misstatements decreased from six in 2020–21 to five with a gross value greater than \$5 million related to the following:

Agency	Description of corrected misstatements > \$5 million
Department of Education	<p>Re-classification between current and non-current receivables totalling \$18.2 million related to external party debtors on long-term debt collection plans.</p> <p>Re-classification of two liability items totalling \$73.3 million. While the re-classification did not impact the net result, the recognition and measurement principles applied in accounting for these liabilities fall under different Australian Accounting Standards.</p> <p>Re-classification of expenditure relating to contributions made by the department to the Teacher Housing Authority.</p>
TAFE Commission	Understatement of property, plant and equipment totalling \$30.9 million due to the incorrect application of indices to reflect fair value of the commission's buildings at 30 June 2022.

Reported uncorrected misstatements increased, from one in 2020–21 to two with a gross value greater than \$5 million comprised of the following:

Agency	Description of uncorrected misstatements > \$5 million
Department of Education	<p>Understatement of personal protective equipment and rapid antigen tests held by the department but yet to be distributed at balance date totalling \$14.6 million.</p> <p>Overstatement of employee provision on-costs totalling \$7.1 million relating to superannuation on annual leave loading.</p>

In the instances highlighted above, the department concluded that the effect of not correcting the misstatement was immaterial, individually and in aggregate to its financial statements as a whole.

Two staff agencies were exempted from financial reporting in 2021–22

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 2021–22, 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
Special purpose staff agencies		
NSW Education Standards Authority 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.
TAFE Commission (Senior Executives) Staff Agency		Staff agencies satisfy this requirement and therefore are exempted from preparing financial statements in 2021–22. These exemptions are standing in nature and continue from the previous year.

2.3 Timeliness of financial reporting

Early close procedures

Early close mandatory procedures were submitted on time for all cluster agencies

NSW Treasury introduced early close procedures to improve the quality and timeliness of year-end financial statements. In April 2022, NSW Treasury reissued Treasurer's Direction TD19-02 'Mandatory Early Close as at 31 March each year' (TD19-02) and released Treasury Policy and Guidelines TPG22-11 'Agency Direction for the 2021–22 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 27 April 2022.

All cluster agencies met the statutory deadline for submitting their 2021–22 early close financial statements and other relevant mandatory procedures. The 17 mandatory early close procedures and the details of the non-applicable procedures are listed in Appendix one.

A full impairment assessment by the department was delayed as a result of significant flooding in New South Wales

The department was required to perform a thorough impairment assessment over its physical non-financial assets as part of its early close submissions. However, due to severe flooding events experienced in New South Wales, the department was unable to perform an in-depth assessment in time for early close. An exemption from this requirement was sought by the department from NSW Treasury, which was subsequently granted. In lieu of a comprehensive impairment assessment, the department provisionally estimated impairment losses totalling \$36.6 million in its 31 March 2022 submissions.

At 30 June 2022 the full impairment assessment was completed by the department. Eight schools, with a carrying value of \$35.3 million were destroyed and subsequently written-off. An additional 13 schools were assessed to have sustained partial damage, resulting in an estimated \$18.4 million impairment write-down to the carrying value of these assets.

Year-end financial reporting

NSW Treasury required all agencies to submit their financial statements by 1 August 2022

In June 2022, NSW Treasury issued a suite of Treasurer's Directions and Treasury Policy and Guidelines for 2021–22 financial reporting requirements and timetables:

- Treasurer's Direction TD21-02 'Mandatory Annual Returns to Treasury' (TD21-02) and Treasury Policy and Guidelines TPG22-16 'Agency Direction for the 2021–22 Mandatory Annual Returns to Treasury' require agencies listed in the Appendix A of TD21-02 to submit their 2021–22 financial statements to both NSW Treasury and the Audit Office by 1 August 2022
- Treasury Policy and Guidelines TPG22-17 'Agency guidelines for the 2021–22 Mandatory Annual Returns to Treasury for NSW public sector agencies that are not included in TD21-02' requires NSW public sector agencies not listed in Appendix A of TD21-02 to submit their draft 2021–22 financial statements to NSW Treasury by 1 August 2022
- 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 for audit within six weeks after the year-end.

The following agencies obtained NSW Treasury's approval to extend submission of their 30 June 2022 annual report:

Cluster agencies	Revised deadline	Reason
NSW Education Standards Authority	21 November 2022	Re-prioritisation of resources amidst operational challenges due to the pandemic.





Financial statements were submitted on time for all cluster agencies




Cluster agencies met the reporting deadlines for submitting their 2021–22 year-end financial statements.

The *Government Sector Audit Act 1983* does not specify the statutory deadline for issuing the audit reports. At the date of this 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	2021–22 Financial statements submission	Date audit report was issued
Department of Education		19 October 2022
NSW Education Standards Authority		21 November 2022
NSW Skills Board		21 September 2022
TAFE Commission		27 October 2022

-  Treasury's reporting deadline was met.
-  Treasury's approved extension timeframe was met.
-  Treasury's reporting deadline was not met.

2.4 Key accounting issues

Asset accounting

In 2021–22 agencies within the Education cluster collectively reported \$45.3 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% 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 are used to provide education-based services to the citizens of New South Wales. Due to their nature, the fair value of these specialised assets is determined with reference to their current replacement cost.

The value of land, which is not a specialised asset, 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 39% of the total land and buildings classes within the general government sector.

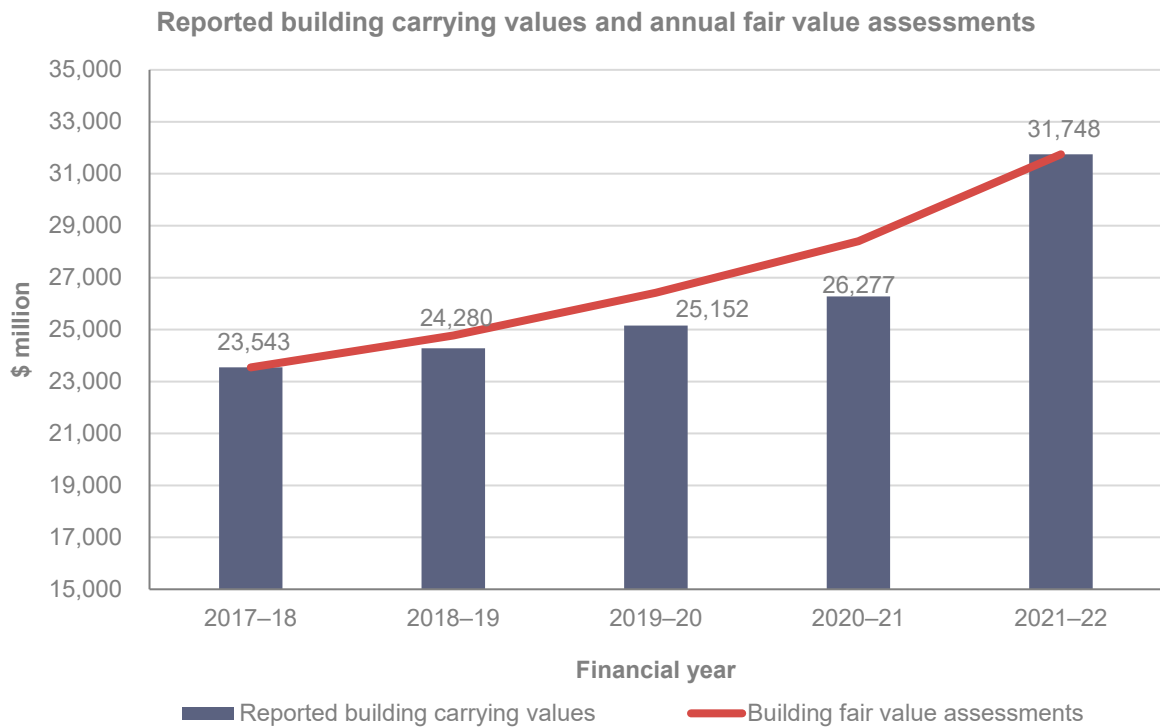
In 2021–22 the department and the TAFE Commission adjusted the carrying values of land and buildings, collectively increasing the value of these assets by \$1.2 billion and \$4.7 billion respectively.

Fair value assessments by the department and the Commission highlighted material differences between the carrying values and fair value of buildings

The department and the TAFE Commission last performed comprehensive revaluations of their land in 2020–21 and their buildings in 2017–18. Comprehensive revaluations are performed in three-year and five-year cycles for land and buildings respectively, with fair value assessments undertaken during the intervening years to determine whether the carrying amounts of the assets are materially different to fair value at each reporting date.

This year's fair value assessments by the department and the commission had identified material departures between the carrying value and fair value of their land and building assets since these assets were last valued. The predominant driver of these valuation uplifts, specifically in buildings, was inflation of construction costs, which affected the Australian domestic economy more broadly over the past 12 months.

The graph below shows the carrying value of buildings reported in the audited financial statements of the department and the TAFE Commission marked against the annual managerial fair value assessments at reporting date.



Since the last comprehensive revaluation exercise in 2017-18, through to 2019-20, fair value assessments have shown that the reported carrying values have increased by an average of four per cent per annum. However, from 2019-20 onwards, fair value assessments have shown a substantial deviation from the carrying values reported, by an average of ten per cent per annum. As a result, management adjusted the carrying values of their buildings by \$4.7 billion to better reflect the fair value of these assets at balance date.

The department and the TAFE Commission are scheduled to comprehensively revalue buildings next year

The department and the TAFE Commission are scheduled to perform comprehensive revaluations of their buildings in 2022-23. Notwithstanding, the department and the TAFE Commission need to reconsider their policy settings governing the nature and timing of revaluation exercises given the ongoing volatility within the current macroeconomic environment. This will help ensure carrying values more accurately reflect the fair value of the assets at each balance date.

Errors identified in the TAFE Commission's desktop valuation underscore the need for a robust quality assurance regime to be in place

The TAFE Commission engaged the services of an external valuation expert to conduct an independent review of the carrying amounts of the TAFE Commission's land and buildings at 30 June 2022. This review resulted in a cumulative increase of \$273.6 million in the carrying value of building assets and \$109.1 million for land assets since the last comprehensive valuations were performed. Our audit procedures over the basis for the valuation identified a \$30.9 million understatement of the fair value of the TAFE Commission's buildings at 30 June 2022 which was subsequently corrected by management.

Agencies are responsible for the asset valuations included in their financial statements and are required to assess the reasonableness of those valuations independently of the valuation expert. An absence of appropriate evidence to support key judgements, or a lack of thorough quality assurance processes can delay the outcomes of a valuation and/or cause incorrect or unsupported valuations.

Recommendation

- **Given the ongoing volatility in the current macroeconomic environment, agencies should reconsider their policy settings governing the nature, frequency, and timing of revaluation exercises. This is to ensure that the carrying values reported in the financial statements more accurately reflect fair value at each balance date.**
- **In anticipation of the comprehensive revaluation exercise scheduled for 2022–23, agencies should have in place the governance, systems, processes and quality assurance regimes to ensure that the valuations are timely, well supported by appropriate evidence, and are complete and accurate.**

Intra-government property leases managed by Property NSW

The changes in office accommodation arrangements with Property NSW resulted in the derecognition of right-of-use assets and lease liabilities

Property NSW (PNSW) is responsible for managing most of the state government agencies leased real estate property portfolio. During 2021–22, PNSW made some changes to its intra-government lease arrangements, including rewriting the standard client acceptance letter (CAL) to include a 'Relocation and substitution right' clause. This clause allows PNSW to relocate agencies to other premises and removes the agency's right to occupy the identified accommodation on an ongoing basis. As a result, the new CALs no longer constitute a lease under AASB 16 'Leases'. The changes became effective from 30 June 2022.

The department and the NSW Education Standards Authority accepted the changes to their office accommodation arrangements with PNSW. This has resulted in:



- the derecognition of \$270.6 million of right-of-use assets
- the derecognition of \$382.9 million of lease liabilities
- \$112.3 million of gains on derecognition recorded in the statement of comprehensive income.

Going forward, these agencies will recognise the office accommodation payments as expenses in the Statement of Comprehensive Income. Agreements between the agencies and PNSW mean agencies will continue to recognise leasehold improvement (or fit-out) assets and liabilities for the makegood of premises.

2.5 Key financial statement risks


Department of Education

The 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
 <p>Property, plant and equipment - \$40.8 billion</p>	<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 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>
 <p>Payroll expenses - \$11.5 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 that 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 Learning, overseeing teacher quality, curriculum, assessment and school standards.

 <p>Grants and other contributions - \$164.7 million</p>	<p>Key financial statement risk</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>Audit response</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>
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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.

 <p>Preparation of financial statements</p>	<p>Key financial statement risk</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, the Department of Planning, Industry and Environment and the NSW Education Standards Authority.</p>	<p>Audit response</p> <p>Our audit procedures included understanding the controls operating at the Department of Education; the Department of Planning, Industry and Environment, and the NSW Education Standards Authority relevant to the financial statements of the board. We tested, on a sample basis, the completeness and accuracy of transactions reported in the financial statements.</p>
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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>Sales of goods and services from contracts with customers - \$254.6 million</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>Property, plant and equipment - \$4.5 billion</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 2021–22 audits identified 18 moderate issues across the cluster. Seven moderate risk issues were repeat issues related to general and application information technology controls and control deficiencies in key transactional systems used in preparing financial statements.
- Of the 11 newly identified moderate risk issues, five related to information technology controls deficiencies; and five related to internal control deficiencies in key transactional systems used in preparing financial statements.
- A high-risk matter was raised at the TAFE Commission relating to identified instances of non-compliance with policies and procedures guiding purchasing card use.

The number of findings reported to management has increased, and 31% 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 2021–22, there were 29 findings raised across the cluster (28 in 2020–21). Thirty-one per cent of all issues were repeat issues (50% in 2020–21).

The most common new and repeat issues related to internal control deficiencies in agencies' information technology general controls, application controls, and 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.













A high-risk matter was reported at the TAFE Commission highlighting instances of non-compliance with policies and procedures guiding appropriate purchasing card use

As part of our audit of the TAFE Commission, we integrated the use of data analytics into the audit approach. We performed data analytics over aspects of payroll, procurement and accounts payable activities. This helped us to highlight anomalies or risks in those data sets that are relevant to the audit of the TAFE Commission and plan testing procedures to address those risks. Data analytics also assisted us in providing an insight into the internal control environment of the TAFE Commission, highlighting areas where key controls are not in place or are not operating as management intended.

Our analysis over purchasing card data supplied by the TAFE Commission for the period July 2021 to March 2022 found deficiencies in the provisioning, use and cancellation of purchasing cards. This included identified instances of:

- controls effectively bypassed when a purchasing card surrendered by a former employee had been used by another employee
- split payments, circumventing delegation / cardholder limits
- delays in the submission and approval of purchasing card transactions.

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

Risk rating	Issue
Information technology	
 High: 0 new, 0 repeat	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: <ul style="list-style-type: none"> 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 the level of cyber security maturity the monitoring of privileged user activities.
 Moderate: 5 new, 3 repeat	
 Low: 2 new, 1 repeat	
Internal control deficiencies or improvements	
 High: 1 new, 0 repeat	The financial audits identified internal control weaknesses across key business processes relevant to financial reporting. Of note were deficiencies identified in: <ul style="list-style-type: none"> the adequacy of monitoring and oversight activities over the use of multiple financial delegation configurations in finance systems for specific users the timely recording and approval of overtime claims and higher duties allowances the timely finalisation of policies and procedures the management of excessive annual leave balances formalisation of service-provider arrangements between government agencies non-compliance with policies and procedures to guide secondary employment and pecuniary interest declarations non-compliance with policies and procedures to guide the appropriate use of purchasing cards.
 Moderate: 5 new, 3 repeat	
 Low: 4 new, 1 repeat	
Financial reporting	
 High: 0 new, 0 repeat	The financial audits identified: <ul style="list-style-type: none"> opportunities for agencies to strengthen their financial preparation processes to facilitate a timelier and more efficient year-end audit matters in respect of the timely capitalisation of work-in-progress the need for agencies with non-financial assets subject to fair value to reconsider policy settings governing the frequency of revaluations refinements in considering the outcomes of interim fair value assessments to ensure asset carrying values reflect fair value at each balance date.
 Moderate: 1 new, 1 repeat	
 Low: 2 new, 0 repeat	
 High risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	
 Moderate risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	
 Low risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	

Note: Management letter findings are based either on final management letters issued to agencies, or draft letters where findings have been agreed with management.

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.	✓	✓	✓
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	Revaluation of property, plant and equipment	Complete the comprehensive revaluation of property, plant and equipment (PPE) by early close.	–	–	–
4	Update employee annual leave provisions	Reconcile and calculate annual leave provisions. The balances calculated for the early close 31 March financial statements must be rolled forward with adjustments for monthly accruals and actual payments as part of the 30 June financial statements.	✓	✓	✓
5	Inter and intra (cluster) agency transactions and balances	Agree and confirm all inter and intra (cluster) agency balances and transactions with the counterparty agency.	✓	✓	✓
6	Significant management judgements and assumptions	Document all significant management judgements and assumptions made when estimating transactions and balances.	✓	✓	✓

No.	Procedure	Description	Department of Education	NSW Education Standards Authority	TAFE Commission
7	Reconciliation of key account balances	Reconcile all key account balances (including annual leave provisions) and clear reconciling items.	✓	✓	✓
8	Reconcile March 2022 month-end Prime submission to the proforma financial statements	Reconcile the March 2022 month-end Prime submission to the proforma financial statements and provide explanations for variances above \$5 million.	✓	✓	✓
9	Changes in accounting policy	Review and agree changes in accounting policy with the principal cluster agency.	–	–	–
10	Finalise right-of-use assets and lease liability balances	Ensure that all lease arrangements are accurate and complete.	✓	✓	✓
11	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'.	✓	✓	✓
12	Correction of material prior period errors	Confirm there are no changes to the 2020–21 closing balances. Proposed changes are accompanied by journals, explanations and proposed disclosures.	–	–	–
13	Monthly management reports	Perform variance analysis with meaningful explanations for actuals versus budget, and year-to-date actuals for the previous year.	✓	✓	✓
14	Accounting treatment for restructures and discontinued / abolished agencies	Identify and document the accounting treatment for changes to agency structures resulting from legislative or other changes.	–	–	–
15	Delegations	Ensure all material transactions are supported by appropriate delegations.	✓	✓	✓

No.	Procedure	Description	Department of Education	NSW Education Standards Authority	TAFE Commission
16	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).	✓	✓	✓
17	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 2021–22 financial year.	–	–	–

Key ✓ Completed ! Not completed – Not applicable

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.

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

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