



FINANCIAL AUDIT

28 NOVEMBER 2023

# Education 2023

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

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# 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 give reasonable assurance that financial statements are true and fair, 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 assess whether the activities of government entities are being carried out effectively, economically, 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. Our performance audits may also extend to activities of non-government entities that receive money or resources, whether directly or indirectly, from or on behalf of government entities for a particular purpose.

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 2023**'.

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

**Margaret Crawford PSM**

Auditor-General for New South Wales  
28 November 2023



## 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 2023**

This report analyses the results of our audits of the Education portfolio of agencies for the year ended 30 June 2023.

# 1. Introduction

This report provides Parliament and other users of the Education portfolio of agencies' 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 portfolio of agencies

### Education

#### Key agencies



Source: NSW Budget Papers 2023–24.

The NSW Government announced in the 2023–24 budget papers its intention to move away from agency-based outcomes to a broad set of wellbeing and performance measures. The outcomes that were applicable to this portfolio of agencies in 2022–23 are listed below.

**Key objectives of the Education portfolio:** Administer and deliver education and training services for NSW students, workers and industry. This includes the early childhood education and care sector, government and non-government schools, and the vocational education and training sector.

State outcomes	Description
<b>Best start in life for young children</b>	A sustainable, accessible, high-quality early childhood education sector.
<b>Education foundations for success</b>	A high standard of education for all children and young people in public and non-government schools.
<b>Skilled and employable workforce</b>	A highly skilled and adaptable workforce that contributes to the State's prosperity and productivity.
<b>High-quality standards for schooling</b>	High-quality standards for schooling in New South Wales through the regulation of schooling, accreditation of early childhood, primary and secondary teachers, and provision of quality curriculum, assessment and certification.

Source: NSW Budget Papers 2022–23.

## 1.2 Changes to the portfolio of agencies

On 26 October 2022, the NSW Childcare and Economic Opportunity Fund Board (the Board) and the NSW Childcare and Economic Opportunity Fund (the Fund) were established under the *Childcare and Economic Opportunity Fund Act 2022*.

The Board is a GSF Agency under section 2.4(1)(i) of the *Government Sector Finance Act 2018* (the GSF Act) as it is a statutory body representing the Crown. The Board has five members. As a GSF agency, the Board is required to prepare annual GSF financial statements, unless exempted from financial reporting under section 7.3 of the GSF Act. The Board assessed themselves as being exempted from financial reporting requirements.

The Fund was established as a Special Deposits Account (SDA), which for the financial years 2024–26 will be appropriated a total of \$775 million from the Consolidated Fund. The Fund is required to prepare financial reports and submit them to the Auditor-General, unless they are exempted from reporting under a Treasurer's Direction. NSW Treasury has yet to release a Treasurer's Direction to exempt the Fund from preparing financial reports. Refer to [section 2.2](#) for further information.



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## 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 portfolio (the portfolio) for 2023.

### Section highlights

- Unqualified audit opinions were issued on all the portfolio agencies 2022–23 financial statements.
- An ‘other matter’ paragraph was included in the independent auditor’s report for the Technical and Further Education Commission (the TAFE Commission) as it did not have a delegation or sub-delegation from the Minister for Education and Early Learning to incur expenditure on grants from other portfolio agencies.
- Comprehensive valuations of buildings in the current year identified that certain assumptions applied in previous years were incorrect. The effects of these corrections are disclosed as prior period errors in the financial statements of the Department of Education (the department) and the TAFE Commission.
- The department made corrections to its financial statements to reflect increases to NSW teachers’ wages announced post balance date. This impacted amounts recorded as liabilities for a range of employee benefits and entitlements totalling \$225.4 million, of which \$147.9 million is accepted by the Crown and \$77.5 million is borne by the department.
- A change to the NSW paid parental leave scheme, effective October 2022, created a new legal obligation that needed to be recognised by impacted government agencies. Of the three affected portfolio agencies, only the department and the NSW Education Standards Authority recognised a liability to account for this change. The aggregated unrecorded liabilities of other agencies in the portfolio totalled \$2.4 million. The errors within the individual agencies’ financial statements were not material.
- The total number of errors (including corrected and uncorrected) in the financial statements increased compared to the prior year.
- The NSW Childcare and Economic Opportunity Fund should prepare financial statements unless NSW Treasury releases a Treasurer’s Direction under section 7.8 of the GSF Act that will exempt the SDA from financial reporting requirements.



## 2.1 Portfolio financial information 2023

Agency	Total assets \$m 	Total liabilities \$m 	Total income* \$m 	Total expenses** \$m 
<b>Principal department</b>				
Department of Education	44,905.9	3,124.6	23,565.1	22,701.5
<b>Agencies</b>				
NSW Education Standards Authority	24.1	29.0	167.8	218.2
NSW Skills Board	3.1	0.09	2.4	1.9
TAFE Commission	6,358.3	398.9	2,115.0	2,034.4

\* Includes other gains.

\*\* Includes other losses.

Source: Agencies' audited 2022–23 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 portfolio agencies' 30 June 2023 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 2023 because it did not have a delegation or sub-delegation from the Minister for Education and Early Learning to incur expenditure on grants from other portfolio agencies, which are monies appropriated out of the consolidated fund through the *Appropriation Act 2022*.

#### The number of identified monetary misstatements increased in 2022–23

The number of monetary misstatements identified during the audits of portfolio agencies' financial statements increased from seven in 2021–22 to 22 in 2022–23. A monetary misstatement is an error in amount recognised in the financial statements initially submitted for audit. In our view, misstatements should be corrected. They are reported to management for this purpose. Management has determined not to correct some errors because they are not material, either individually or in aggregate. These are reported in this report as 'uncorrected misstatements'.

Reported corrected misstatements increased from five in 2021–22 to 14 with a gross value of \$1.1 billion in 2022–23. Reported uncorrected misstatements increased from two in 2021–22 to eight with a gross value of \$244.3 million in 2022–23.

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

Year ended 30 June	2023		2022	
	✓	!	✓	!
Less than \$50,000	2	--	--	--
\$50,000 to \$249,999	1	--	--	--
\$250,000 to \$999,999	2	--	--	--
\$1 million to \$4,999,999	--	2	--	--
\$5 million and greater	9	6	5	2
<b>Total number of misstatements</b>	<b>14</b>	<b>8</b>	<b>5</b>	<b>2</b>
<b>Key</b>	✓	!	✓	!
	<b>Corrected misstatements</b>		<b>Uncorrected misstatements</b>	

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

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

	2022–23			2021–22		
	Uncorrected	Corrected	Total	Uncorrected	Corrected	Total
Department of Education	5	8	13	2	4	6
NSW Education Standards Authority	--	3	3	--	--	--
NSW Skills Board	--	2	2	--	--	--
TAFE Commission	3	1	4	--	1	1

Source: Engagement Closing Reports issued to portfolio agencies.

Of the 14 corrected monetary misstatements, nine had a gross value of greater than \$5 million and related to the following:

Agency	Description of corrected misstatements > \$5 million
Department of Education	<p>Building and improvements comprehensive valuation</p> <ul style="list-style-type: none"> <li>The valuer provided rates for the gross floor area (GFA) when calculating the replacement cost of building shells. The department incorrectly applied the GFA rates on the gross building area, resulting in an overstatement of assets by \$1.7 billion, accumulated depreciation by \$1.0 billion, depreciation expenses by \$11.2 million and asset revaluation reserve by \$723.6 million.</li> <li>Depreciation expense was overstated by \$5.5 million from 1 July 2022 to 31 December 2022 due to a prior period error in building shell assets.</li> </ul> <p>NSW teachers' wage increase was subsequently reflected in the financial statements due to AASB 110 'Events After the Reporting Period'</p> <ul style="list-style-type: none"> <li>Employee provisions were not based on the recently approved increase in teachers' wages. This resulted in an understatement of annual and vacation leave provisions and employee related expenses by \$48.5 million.</li> <li>There was an uplift in the present value of Crown acceptance liabilities due to the changes in the salary growth assumptions for the forward years. This resulted in an understatement of nominal expense and revenue by \$147.9 million.</li> </ul>

Agency	Description of corrected misstatements > \$5 million
	<ul style="list-style-type: none"> <li>There was an increase in extended leave/long service leave on-costs due to the uplift in the present value of Crown acceptance liabilities. This resulted in an understatement of extended leave/long service leave on-costs provisions by \$29 million.</li> </ul> <p>Provision for paid parental leave</p> <ul style="list-style-type: none"> <li>Recognition of employee entitlement provisions estimated at \$42.9 million arising from recent changes to the paid parental leave scheme effective from 1 October 2022.</li> </ul> <p>Restart NSW funding</p> <ul style="list-style-type: none"> <li>Recognition of an impairment for \$21.9 million of work-in-progress assets as a result of a change in NSW Government and election commitments, which ceased the project in its current form.</li> <li>Derecognition of a prepayment of \$15.5 million to a building contractor for a project as there was no longer an expectation of receiving goods and/or services in a future period.</li> </ul>
TAFE Commission	<p>Revenue accounting for National Fee Free Courses</p> <ul style="list-style-type: none"> <li>Understatement of grant revenue and overstatement of contract liabilities by \$43.9 million due to the incorrect application of the revenue accounting standards.</li> </ul>

Of the eight uncorrected monetary misstatements, six had a gross value of greater than \$5 million, which comprise the following:

Agency	Description of uncorrected misstatements > \$5 million
Department of Education	<p>Property, plant and equipment</p> <ul style="list-style-type: none"> <li>Fair value assessment for assets under construction (AUC) was conducted at 30 June 2023. Fair value adjustments were not recorded, resulting in an understatement of \$141.3 million.</li> <li>AUC costs were not capitalised to appropriate asset components. The components have different useful lives and therefore assets were not appropriately depreciated. The prior period error was estimated to be \$56.4 million.</li> <li>Overstatement of special buildings by \$6.1 million due to errors in rolling forward asset balances from 31 December 2022 (valuation date) to 30 June 2023.</li> <li>Land assets were understated by \$5.4 million due to differences in the areas of two sites that are shared between the department and the TAFE Commission.</li> </ul> <p>Inventory</p> <ul style="list-style-type: none"> <li>Personal protective equipment and rapid antigen tests that were held by the department but not distributed at 30 June 2023 were not recorded as assets, resulting in an understatement of \$21.5 million.</li> </ul>
TAFE Commission	<p>Buildings comprehensive valuation</p> <ul style="list-style-type: none"> <li>Certain building components were not valued in the 2023 comprehensive valuation, resulting in an understatement of assets by \$9.2 million.</li> </ul>

In the instances highlighted above, the portfolio agencies concluded that the effects of not correcting the misstatements were immaterial, individually and in aggregate to their financial statements as a whole.

### Three agencies were exempted from financial reporting in 2022–23

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 2022–23, 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:

Agencies	GSF Regulation reference	Basis for reporting exemption
<b>Small agencies</b>		
NSW Childcare and Economic Opportunity Fund Board	Part 3A, Division 2, Section 9D of the GSF Regulation	<p>GSF Regulation prescribes a GSF agency meeting all the following requirements not to be a reporting GSF agency:</p> <ul style="list-style-type: none"> <li>the assets, liabilities, income, expenses, commitments and contingent liabilities of the agency are each less than \$5 million</li> <li>the total cash or cash equivalent held by the agency is less than \$2.5 million</li> <li>at least 95% of the agency's income is derived from money paid out of the Consolidated Fund or money provided by other GSF agencies</li> <li>the agency does not administer legislation for a minister by or under which members of the public are regulated.</li> </ul>
<b>Special purpose staff agencies</b>		
NSW Education Standards Authority Staff Agency	Part 3A, Division 2, Section 9F of the GSF Regulation	GSF Regulation prescribes 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 2022–23. These exemptions are standing in nature and continue from the previous year.

Matters around the effectiveness of the exemptions framework will be included in our Report on State Finances.

### Financial statements were not prepared for the NSW Childcare and Economic Opportunity Fund (Special Deposits Account)

The NSW Childcare and Economic Opportunity Fund was established as a Special Deposits Account (SDA) under the *Childcare and Economic Opportunity Fund Act 2022*. The new financial reporting provisions in section 7.8 of the GSF Act commenced on 1 July 2023 effective for the 2022–23 financial year. These provisions require responsible managers of SDAs to prepare financial reports for each SDA account in accordance with the Treasurer's Directions and give those reports to the Auditor-General to audit unless they are exempted from reporting under a Treasurer's Direction.

The Fund is required to prepare financial statements for the year ended 30 June 2023 unless NSW Treasury releases a Treasurer's Direction under section 7.8 of the GSF Act to exempt the Fund from financial reporting requirements. As at the date of this report, the Fund has not prepared financial statements.

## 2.3 Timeliness of financial reporting

### Early close procedures

**Early close mandatory procedures were submitted on time for all portfolio agencies except for the NSW Education Standards Authority**


NSW Treasury introduced early close procedures to improve the quality and timeliness of year-end financial statements. In February 2023, NSW Treasury reissued Treasurer's Direction TD19-02 'Mandatory Early Close as at 31 March each year' (TD19-02) and reissued Treasury Policy and Guidelines TPG22-11 'Agency Direction for the 2022–23 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 2023. The 17 mandatory procedures are listed in [Appendix one](#).

Two agencies met the statutory deadline for submitting their 2022–23 early close financial statements and other mandatory procedures. The NSW Education Standards Authority delayed their submission of certain early close mandatory procedures due to resourcing issues.

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

**NSW Education Standards Authority needs to improve their completion of early close procedures**

The NSW Education Standards Authority did not complete all mandatory early close procedures:

Portfolio agencies	Not completed	Description of incomplete early close procedures
		
<b>Other agencies listed in Appendix A of TD19-02</b>		
NSW Education Standards Authority	2	<b>Finalise assessment of all revenue contracts</b> Management did not perform the revenue assessment for new funding received.  <b>Monthly management reports</b> Management performed the variance analysis for the income statement balances but not for balance sheet items.

Source: Reports on early close procedures 2023 issued by the Audit Office of New South Wales.

### Year-end financial reporting

**NSW Treasury required all agencies to submit their financial statements by 1 August 2023**

In June 2023, NSW Treasury issued a suite of Treasurer's Directions and Treasury Policy and Guidelines for 2022–23 financial reporting requirements and timetables:

- Treasurer's Direction TD21-02 'Mandatory Annual Returns to Treasury' (TD21-02) and Treasury Policy and Guidelines TPG23-13 'Agency Direction for the 2022–23 Mandatory Annual Returns to Treasury' require agencies listed in the Appendix A of TD21-02 to submit their 2022–23 financial statements to both NSW Treasury and the Audit Office by 1 August 2023.
- Treasury Policy and Guidelines TPG23-14 'Agency guidelines for the 2022–23 Mandatory Annual Returns to Treasury for New South Wales public sector agencies that are not included in TD21-02' requires New South Wales public sector agencies not listed in Appendix A of TD21-02 to submit their draft 2022–23 financial statements to NSW Treasury by 1 August 2023.

NSW Treasury extended the year-end submission deadline for agencies to provide the note to the financial statements that provides disclosures on appropriations to 11 August 2023. The submission date for the rest of the financial statements (that is, excluding the appropriations disclosures) remained as 1 August 2023. The extension was granted under clause 7A of TD21-02.

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.

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

Portfolio agencies met the reporting deadlines for submitting their 2022–23 year-end financial statements. The *Government Sector Audit Act 1983* does not specify the statutory deadline for issuing the audit reports.

The audits of all portfolio agencies financial statements that were submitted have been completed. The table below shows the timeliness of the year-end financial reporting for portfolio agencies.

#### Timeliness of financial reporting

Portfolio agencies	2022–23 Financial statements submission	Date audit report was issued
Department of Education	✓	9 October 2023
NSW Education Standards Authority	✓	31 October 2023
NSW Skills Board	✓	25 October 2023
TAFE Commission	✓	16 October 2023

- ✓ 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 2022–23, agencies within the Education portfolio collectively reported \$48.4 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 mostly specialised in nature and 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 37% of the total land and buildings classes within the general government sector. In 2022–23, the department and the TAFE Commission adjusted the carrying values of land and buildings, collectively increasing the value of these assets by \$398.7 million and \$2.4 billion respectively.

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.

In 2022–23, the department performed a comprehensive revaluation of their building and improvement assets and the TAFE Commission performed a comprehensive valuation of their land and building assets.

### Department of Education and the TAFE Commission retrospectively corrected prior period errors identified during the revaluation of buildings

The following material prior period errors were adjusted in the Department of Education (the department) and TAFE Commission's 30 June 2023 financial statements.

Agency	Description of prior year errors
Department of Education	<p>The valuation process found the department incorrectly included removable furniture in the replacement cost of buildings and improvements in the previous comprehensive valuation in 2017–18. Removable furniture is not a directly attributable cost to the buildings and improvements and should be separately classified as plant and equipment. The error resulted in an overstatement of buildings and improvements by \$437.2 million at 31 March 2018. As at 1 July 2021, the overstated balance reduced to \$368.5 million due to depreciation and disposals. Depreciation expense was overstated by \$20 million for the year ended 30 June 2022 and \$85.7 million for the period 31 March 2018 to 30 June 2022.</p> <p>The valuer provided rates for the gross floor area (GFA) when calculating the replacement cost of building shells. The department incorrectly applied the GFA rates on the gross building area. This resulted in an overstatement of buildings and improvements assets by \$525.6 million at 31 March 2018. As at 1 July 2021, the overstated balance reduced to \$470.5 million due to depreciation. Depreciation expense was overstated by \$9.2 million for the year ended 30 June 2022, and \$41.3 million for the period 31 March 2018 to 30 June 2022.</p>
TAFE Commission	<p>Since the comprehensive valuation in 2017–18, the TAFE Commission enhanced their asset data which formed the basis of the comprehensive revaluation of buildings in 2022–23. A prior period error was identified due to inaccurate building gross floor areas being applied in previous valuations. The error was corrected by restating the balances at the beginning of the earliest period presented (1 July 2021) and taking the adjustment through to the asset revaluation reserve and accumulated funds at that date. The net impact of the prior period error at 1 July 2021 was \$138.1 million, and a further adjustment of \$13.7 million was made to account for the desktop indexation and related depreciation at 30 June 2022.</p>

## Paid parental leave entitlements

On 27 September 2022 the former Department of Premier and Cabinet issued a determination that provided for a change to the paid parental leave scheme for all NSW government employees with children born on or after 1 October 2022. This change expanded on previous parental leave entitlements and provided greater access to paid parental leave to eligible public sector employees, regardless of gender. These changes created a new legal obligation for agencies, which needed to be assessed and recorded within their financial statements.

Agencies within the Education portfolio had not evaluated the change to the paid parental leave scheme for any financial-statement related impacts prior to financial statements being submitted for audit. Given the accumulating nature of the entitlement, a collective liability of \$46 million, of which the Department of Education and the NSW Education Standards Authority accounted for \$43.6 million or 95%, should have been reported in the individual financial statements of agencies within the Education portfolio. The remaining impacted agencies concluded that the effects of not correcting the misstatements were not material individually, or in aggregate to their financial statements as a whole.



## Recommendation

**Portfolio agencies should ensure any changes to employee entitlements are assessed for their potential financial statements impact under the relevant Australian Accounting Standards.**

## Restart NSW Funding to the Department of Education for a project

### Department of Education duplicated a claim for funds from Restart NSW

The department received funding for a project from the Restart NSW Fund. The department made a claim of \$20 million for the project on 29 June 2021 and then duplicated the claim of \$20 million on 31 August 2021. When the department identified the duplicate claim from Restart, they ceased claiming costs for this project for almost two years.

The 30 June 2023 submitted financial statements of the department initially disclosed a contingent liability of \$40 million as monies it planned to return to Restart. The \$20 million unspent duplicate claim should have been disclosed as restricted cash. The Department corrected its financial statements to reflect the unspent funding available for Restart grant purposes.

### Department of Education prepaid a building contractor \$20 million, of which \$15.5 million is in legal dispute

The department engaged a building contractor under early contractor involvement (ECI) and early works contract for the same project. The department prepaid the building contractor \$20 million on 17 June 2021, which they claimed from Restart on 29 June 2021.

The ECI did not continue as the major works offer from the building contractor was unsuccessful, and the early works contract was terminated. There was a change in government and election commitments, which ceased the project in its current form. Of the \$20 million prepaid to the building contractor, \$2.9 million was for completed works, \$1.6 million was returned to the department and \$15.5 million is in legal dispute.

## Recommendation

**We recommend the Department of Education:**

- **improve processes to ensure project claims are not duplicated**
- **assess the risks associated with providing prepayments to contractors, including the value for money principle and governance of public monies**
- **review contract arrangements to ensure there are mechanisms to recover funds paid in advance without legal dispute.**

## Revenue accounting for National Fee Free Courses

### TAFE Commission incorrectly applied the revenue accounting standards for national fee free courses



In 2022–23, the Commonwealth Government entered into agreements with State and Territory Governments to deliver National Fee Free Courses in agreed areas of priority. The NSW Treasury distributed the funds received from the Commonwealth Government to the Department of Education, which then funded the TAFE Commission. In 2022–23, the TAFE Commission received \$65 million to deliver the NSW Fee Free initiative.

The TAFE Commission incorrectly applied the revenue accounting standards, resulting in an understatement of revenue by \$43.9 million. The TAFE Commission corrected its 30 June 2023 financial statements.

## 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 New South Wales student population.

	Key financial statement risk	Audit response
 Property, plant and equipment – \$42.8 billion	<p>The department's property, plant and equipment consist of specialised assets such as school buildings and gymnasiums, which are measured at fair value based on their current replacement cost.</p> <p>Our audit risk rating for property, plant and equipment is higher because these assets are proportionately significant to the financial statements of the department, and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified valuer upon revaluation.</p>	<p>Our audit procedures included testing the accuracy and completeness of the asset register; reviewing the appropriateness of the valuation methods, assumptions and judgements applied; and reviewing the presentation in the financial statements in accordance with Australian Accounting Standards.</p>
 Employee related expenses – \$13.1 billion	<p>The department's employee related expenses consist of payments made to teachers, school administrative and support staff and corporate staff.</p> <p>Our audit risk rating for employee related expenses is higher because these expenses represent a significant proportion of the department's overall expenditure. The payroll system of the department processes a high volume of transactions that incorporate various remuneration structures and industrial awards.</p>	<p>Our audit procedures evaluated and tested on a sample basis, the design, implementation and operating effectiveness of key controls over payroll processes and systems. In addition, our procedures included testing a sample of employees to ensure the employment details, award types and conditions in calculating payroll have been agreed to underlying supporting evidence.</p>


## NSW Education Standards Authority

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

	Key financial statement risk	Audit response
 <p>Grants and other contributions – \$131.6 million</p>	<p>The Authority is predominantly funded by grants from the Department of Education to support its activities to oversee teacher accreditation, curriculum review, and assessments including NAPLAN and the HSC.</p> <p>Our audit risk rating is higher because these grants and other contributions are proportionately significant to the Authority's financial statements. There is also an element of management judgement that is applied in recognising these grants appropriately under the relevant Australian Accounting Standards.</p>	<p>Our audit procedures included understanding and reviewing grant agreements to confirm that the recognition, measurement and presentation principles of the accounting standards have been correctly applied.</p>

## NSW Skills Board

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

	Key financial statement risk	Audit response
 <p>Preparation of financial statements</p>	<p>Our audit risk rating is higher because the preparation of the financial statements of the Board relies on corporate support activities and information systems provided by the Department of Education and the NSW Education Standards Authority.</p>	<p>Our audit procedures included understanding the controls operating at the Department of Education 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>

## 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 – \$261.9 million</p> <p>Entitlement subsidies – \$479.6 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.</p> <p>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 – \$5.7 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>

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## 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 portfolio.

### Section highlights

- The 2022–23 audits identified one high risk and 20 moderate risk issues across the portfolio. Of these, one was a high risk repeat issue and four were moderate risk repeat issues.
- The total number of findings increased from 29 to 36, which mainly related to deficiencies in financial reporting, information technology, payroll and purchasing controls.
- The high risk matter relates to the lack of quality and timely information to support the financial statement close process at the NSW Education Standards Authority.

### 3.1 Findings reported to management

**The number of findings reported to management has increased, and 22% 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 2022–23, there were 36 findings raised across the portfolio (29 in 2021–22).

Twenty-two per cent of all issues were repeat issues (31% in 2021–22). The most common repeat issues related to internal control deficiencies in agencies' payroll, purchasing and information technology user access administration.

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.










## 2022–23 audits identified one high-risk finding









A high risk repeat finding was reported at the NSW Education Standards Authority.

Agency	Description	Assessment of action taken
<b>Repeat findings from prior years</b>		
NSW Education Standards Authority	<p>We continue to observe a number of matters relating to the quality and timely submission of information to support the financial statement close process. This resulted in clearance being delayed and additional costs, due to additional effort required by the audit team to complete the audit.</p> <p>This has been an on-going matter since 2018–19. While it was previously a moderate risk, it has been increased to high risk this year, as the matter has remained unresolved for more than 3 years.</p>	The authority has agreed to action the recommendations to assist in improving processes for the 2023–24 audit.

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

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

Risk rating	Issue
<b>Information technology</b>	
 High: 0 new, 0 repeat  Moderate: 4 new, 3 repeat  Low: 1 new, 1 repeat	<p>The financial audits identified deficiencies in information technology processes and controls that support the integrity of financial data used to prepare agencies' financial statements. Of particular concern are issues associated with:</p> <ul style="list-style-type: none"> <li>• user access management</li> <li>• privileged user access restriction and monitoring</li> <li>• lack of review and testing of disaster recovery plans</li> <li>• management of cyber security incidents.</li> </ul>
<b>Internal control deficiencies or improvements</b>	
 High: 0 new, 0 repeat  Moderate: 3 new, 1 repeat  Low: 4 new, 1 repeat	<p>The financial audits identified internal control deficiencies across key business processes, including:</p> <ul style="list-style-type: none"> <li>• lack of monitoring the use of purchasing cards</li> <li>• managing excessive annual leave balances</li> <li>• purchase orders not being approved prior to the receipt of invoices</li> <li>• documentation of procurement decisions and managing capital projects</li> <li>• incorrect payroll rates in the system for some casual employees</li> <li>• duplicate student records and student withdrawal forms not being processed in a timely manner.</li> </ul>
<b>Financial reporting</b>	
 High: 0 new, 1 repeat  Moderate: 6 new, 0 repeat  Low: 7 new, 1 repeat	<p>The financial audits identified deficiencies in agencies' financial reporting controls and processes, including:</p> <ul style="list-style-type: none"> <li>• providing better quality workpapers in a timely manner to facilitate a more efficient and effective audit</li> <li>• more timely assessment of accounting issues and changes to legislation and regulations impacting the financial statements</li> <li>• improving asset management processes</li> <li>• improving the quality of information in asset registers.</li> </ul>

Risk rating	Issue
Governance and oversight	
 High: 0 new, 0 repeat	The financial audits identified deficiencies in agencies' governance and oversight controls and processes, including: <ul style="list-style-type: none"><li>• assessing the risks associated with the provision of capital prepayments to contractors</li><li>• having better monitoring processes over claims for capital projects</li><li>• obtaining assurance from third party service providers over the effectiveness of controls.</li></ul>
 Moderate: 2 new, 0 repeat	
 Low: 0 new, 0 repeat	
Non-compliance with key legislation and/or central agency policies	
 High: 0 new, 0 repeat	The financial audits identified deficiencies in agencies' controls and processes to ensure compliance with key legislation and central agency policies, including having the appropriate delegations to incur expenditure.
 Moderate: 1 new, 0 repeat	
 Low: 0 new, 0 repeat	
 Extreme risk from the consequence and/or likelihood of an event that has had, or may have a negative impact on the entity.	
 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.

### The number of moderate risk findings increased from prior year

Twenty moderate risk findings were reported in 2022–23, representing an 11% increase from 2021–22. Of these, four were repeat findings, and 16 were new issues.

Moderate risk findings mainly related to:

- weaknesses in user access management and privileged user controls and monitoring
- inaccurate and incomplete data in asset registers
- deficiencies in asset capitalisation processes
- lack of an assessment to identify changes in legislation and regulations, impacting employee entitlements such as the provision for paid parental leave
- lack of delegation to incur expenditure on grants from other portfolio agencies.

### Recommendation

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



## **Section two**

### Appendices

# Appendix one – Early close procedures

No.	Procedure	Description
1	Revaluation of material non-financial assets	Complete (as required) the comprehensive revaluation of property, plant and equipment and other non-financial asset valuations by early close.
2	Fair value assessment of non-financial assets	Document the annual assessment of the fair value of non-financial assets, including property, plant and equipment. This should consider 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	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.
4	Inter and intra (cluster/portfolio) agency transactions and balances	Agree and confirm all inter and intra (cluster/portfolio) agency balances and transactions with the counterparty agency.
5	Significant management judgements and assumptions	Document all significant management judgements and assumptions made when estimating transactions and balances.
6	Reconciliation of key account balances	Reconcile all key account balances (including annual leave provisions) and clear reconciling items.
7	Reconcile March 2023 month-end Prime submission to the proforma financial statements	Reconcile the March 2023 month-end Prime submission to the proforma financial statements and provide explanations for variances above \$5 million.
8	Changes in accounting policy	Review and agree changes in accounting policy with the principal cluster/portfolio agency.
9	Proforma financial statements and supporting information	Complete proforma financial statements and provide supporting information in relation to the notes to the financial statements.
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 2021–22 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.

No.	Procedure	Description
15	Delegations	Ensure all material transactions are supported by appropriate delegations.
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 2022–23 financial year.

## Appendix two – Financial data

	Total assets		Total liabilities		Total revenue*		Total expense**	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Principal department</b>								
Department of Education	44,905.9	41,931.9	3,124.6	2,875.3	23,565.1	20,576.8	22,701.5	19,972.1
<b>Agencies</b>								
NSW Education Standards Authority	24.1	74.5	29.0	29.0	167.8	194.9	218.2	177.2
NSW Skills Board	3.1	2.6	0.09	0.08	2.4	2.3	1.9	1.2
TAFE Commission	6,358.3	5,401.1	398.9	446.2	2,115.0	1,879.8	2,034.4	1,898.5

\* Includes other gains.

\*\* Includes other losses and taxes, if applicable.

Source: Agencies' audited 2022–23 financial statements.

## OUR VISION

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

## OUR PURPOSE

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

## OUR VALUES

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

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