
New South Wales Auditor-General's Report

Performance Audit

Building the readiness of the non-government sector for the NDIS

Department of Family and Community Services



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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Building the readiness of the non-government sector for the NDIS: Department of Family and Community Services.**

A handwritten signature in black ink, appearing to read 'I. Goodwin'.

Ian Goodwin
Deputy Auditor-General
23 February 2017

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Executive summary

The National Disability Insurance Scheme (NDIS) is a major reform that aims to change the way disability support is provided and received. Responsibility for overseeing the system to support people with disability in New South Wales will transfer from the NSW Government to the National Disability Insurance Agency (NDIA), an independent statutory agency of the Australian Government. Eligible people with disability will receive individual funding from the NDIA and purchase support from their chosen service providers, rather than being referred to services funded or provided by government. The NSW Government will transfer all disability services it currently provides to the non-government sector.

Approximately 78,000 people received NSW Government-funded disability support in 2015–16 at a cost of around \$3.3 billion. An estimated 142,000 people will have an individual NDIS support plan in New South Wales, with total funding rising to around \$6.8 billion in 2018–19. NDIS trials began in New South Wales in 2013. The full scheme was introduced in July 2016 and is scheduled to be operating across the state by July 2018.

This audit assessed the effectiveness of the NSW Department of Family and Community Services' (the Department's) management of the risks of the NDIS transition in New South Wales. It focused on the Department's work to build the readiness of the non-government sector for the NDIS. To make this assessment, we asked whether:

1. the Department supported the non-government sector to build capacity to meet the expected increase in demand under the NDIS
2. the Department supported disability service providers in NSW to improve their capability to deliver NDIS services
3. the Department's work to prepare for the NDIS has been coordinated with the Australian Government's NDIS readiness work.

In addition to the audit questions above, this audit identified principles governments should consider when building the capacity and capability of the non-government sector to deliver human services.

Conclusion

The Department of Family and Community Services has managed the risks of the transition to the NDIS in New South Wales effectively by increasing the overall capacity of the sector and investing in provider capability building initiatives. More work is needed to build the sector's capacity to provide services to people with more complex support needs and to help existing providers complete the transition to the NDIS successfully.

The Department expanded the capacity of the non-government sector over the past decade in a way that was consistent with NDIS objectives. The development of a national market and workforce for the NDIS is an Australian Government responsibility and the Department has supported the Australian Government's work. More targeted work will be needed to build the capacity of the non-government sector to provide services to people with the most complex support and access needs.

The Department invested in provider capability building by funding programs that were delivered in partnership with sector peak bodies. The larger programs were evaluated and received positive feedback, but many providers will need more support to transition to the NDIS. The overall impact of the programs on provider readiness for the NDIS is not clear because baseline information on provider capability was not collected and targets for improvement were not set.

The Department managed the transition coordination risks by establishing comprehensive governance arrangements, contributing to the Australian Government's sector development work through national policy coordination forums and sharing lessons from New South Wales.

Building the capacity of the non-government sector

The Department supported an increase in the capacity of non-government providers

The Department started building the capacity of the non-government sector before the NDIS was developed. This included moving services provided by government into the non-government sector, funding early intervention and community-based disability support, and introducing some individual support packages. The Department checks that the business and operational systems of non-government disability providers are adequate. However, its understanding of the outcomes for people using the services is limited.

Service gaps are possible for people with more complex support or access needs

There are risks to the supply of services to people who have more complex support or access needs, including people who need specialist clinical support, people in remote areas, Aboriginal and Torres Strait Islander communities and culturally and linguistically diverse communities. The Department has supported the NDIA's initial market development work and funded some programs to help providers build their capacity to support these groups. However, there is a risk the market will not expand quickly enough to meet the increase in demand for services.

Sector sustainability depends on support from outside the disability services sector

The sustainability of funded disability services provided by the non-government sector depends on support from outside the sector. Most people with disability receive significant unpaid support from family members, so carers will play a key role in the sustainability of the NDIS. There are opportunities for organisations that do not provide specific disability services to contribute to sector sustainability by providing some NDIS services. To do this, many will need help to make their services more accessible and inclusive to people with disability.

Helping non-government providers develop their capability

The Department invested in capability building programs for providers

The Department has spent more than \$30 million over six years on programs that aim to improve the capability of disability support providers. This work began before the NDIS was established and was adjusted to focus on NDIS readiness from December 2012. It was guided by an industry development strategy that was developed after consultation with the sector and delivered in partnership with sector peak bodies. This approach gave the sector some responsibility for developing its own capability, which is important because the sector will not receive support from the NSW Government after the transition to the NDIS.

The overall impact of the programs on the capability of providers is not clear

The overall effectiveness of the Department's spending on provider capability is not clear. The Department had some information on the general financial health and organisational capability of providers from previous industry development work. However, baseline information on provider capability was not collected before programs commenced and targets for improvements in provider capability were not set. Without this information, the Department cannot demonstrate clearly that the capability building programs it funded represent good value for money.

Most providers will need more support to transition to the NDIS effectively

In late 2015, the Department assessed the transition progress of providers in New South Wales. This assessment indicates almost one third of providers are highly likely to need additional assistance to transition to the NDIS successfully, with only 14 per cent unlikely to need further assistance. We conducted a survey of 299 providers in New South Wales in August 2016. Most reported that they feel they are on track to transition to the NDIS successfully. Sixty-two per cent said the Department-funded programs and resources they had used had improved their readiness for the NDIS. Fifty-four per cent said the changes made because of using these programs and resources had a lasting impact on their organisation.

Coordinating sector development

Governance systems and planning processes for the NDIS transition were established

The Department developed governance arrangements for the transition in New South Wales. It contributed actively to the development of national policy and strategy documents including a strategy for national market development.

The Department shared sector readiness lessons with the Australian Government

Two NDIS sector readiness programs funded by the NSW Government were later expanded to national programs through funding from the Australian Government. New South Wales only received around five per cent of the total Australian Government funding for NDIS sector readiness initiatives. A report by the Australian National Audit Office in 2016 found there was limited evidence of a strategic approach by the Australian Government when allocating this funding to states and territories.

The Department has monitored transition issues and mitigated these where possible

The Department has monitored administrative issues for providers, which have included the changes in funding arrangements and registering for the NDIS. It has taken action to mitigate these where possible, although some issues, such as the operation of NDIA administrative systems, are beyond its control.

Recommendations

For the rest of the transition, the Department of Family and Community Services should:

1. Work with the Australian Government, NDIA and other NSW Government agencies to identify gaps and develop the capacity of specialist clinical services, focusing on regional and rural areas.
2. Continue to implement projects to increase the number of organisations that can support Aboriginal and Torres Strait Islander and culturally and linguistically diverse communities.
3. Target remaining capability building assistance to less prepared providers, including via one-to-one support and mentoring in identified areas of weakness.
4. Continue working with the Australian Government and the NDIA to ensure lessons from sector capability programs are shared.

Principles for developing the non-government sector

1. Commence work to increase the capacity of the non-government sector early to allow time for service capacity to be built in a sustainable way.
2. Decide whether to increase the capacity of the sector by supporting existing providers to expand their operations, attracting new organisations from outside the existing provider group, or some combination of these.
3. Tailor approaches to supporting groups that have additional support or access needs because of cultural or geographic factors.
4. Define the desired outcomes for people using services and, where possible, include outcomes in service delivery contracts.
5. Invest in the sector by partnering with sector peak bodies to deliver capability programs.
6. Include one-to-one support and mentoring in capability building programs where possible to improve the targeting of support to the specific needs of providers.
7. Collect baseline information on provider capability before commencing programs and build robust tracking and evaluation into their design.
8. Establish whole-of-government governance arrangements to ensure roles, responsibilities and accountability for delivery are clear.

Introduction

The National Disability Insurance Scheme (NDIS)

The NDIS is a fundamental change to the disability support system

The NDIS is a major reform that aims to make significant changes to the way disability support is provided and received. Under the NDIS, the administration of funding for disability support in New South Wales will transfer from the NSW Government to the National Disability Insurance Agency (NDIA), an independent statutory agency of the Australian Government. The NSW and Australian Governments will both contribute to funding the NDIS. The size of the disability services sector in New South Wales is expected to more than double when the NDIS is fully operational (Exhibit 1).

Exhibit 1: Estimated increase in the disability services sector under the NDIS

Measure of sector capacity	Pre-NDIS (2015–16)	NDIS (2018–19)
Funding for services	\$3.3 billion	\$6.8 billion
People receiving support	78,000	142,000
Workforce required	25,000-30,000	48,000-59,000
Number of providers	699	Determined by the market

Sources: NSW Government *Budget Paper No.3, 2015–16*; NDIS *NSW Market Position Statement*, March 2016; Department of Family and Community Services Funding Management System, 2015–16 (unpublished).

One of the main objectives of the NDIS is to increase the choice and control that people with disability have over the support they receive. Under the NDIS, people with disability receive individual funding packages which they can use to pay their chosen providers for the support they need, instead of being referred to services that are deemed appropriate for their needs. This is a fundamental change to the nature of disability support. Before the NDIS, people with disability were moved around the system according to decisions made by government or other organisations providing disability support. Under the NDIS, the funding will move around the system based on the choices people with disability make. The development of the new market for NDIS disability services is expected to take up to ten years because the changes to the system are so extensive.

In addition to increasing choice and control for participants, the NDIS aims to:

- improve outcomes for people with disability by intervening early to help reduce the need for support later in life
- increase integration by helping people with disability access mainstream government services such as health and education
- increase the involvement of people with disability in the community by making it easier to access community services such as sports clubs and community groups.

The transition to the NDIS is underway

The transition to the NDIS is underway in most Australian states and territories, following trials over the last three years. In New South Wales, a trial site was established in the Hunter area in July 2013. Early roll out of the NDIS began in July 2015 for people aged under 18 in the Nepean Blue Mountains area. On 30 June 2016, about 7,800 people had an NDIS plan in the Hunter trial site and around 1,800 people had a plan in the Nepean Blue Mountains area.

The full roll out of the NDIS began in about half of New South Wales in July 2016. The NDIS will start operating in the rest of the state from July 2017 and the transition is scheduled to be completed by July 2018 (Exhibit 2).

Exhibit 2: Planned timing of the NDIS rollout in New South Wales



Source: Adapted from Every Australian Counts website, <http://www.everyaustraliancounts.com.au/ndis-roll-out/>.

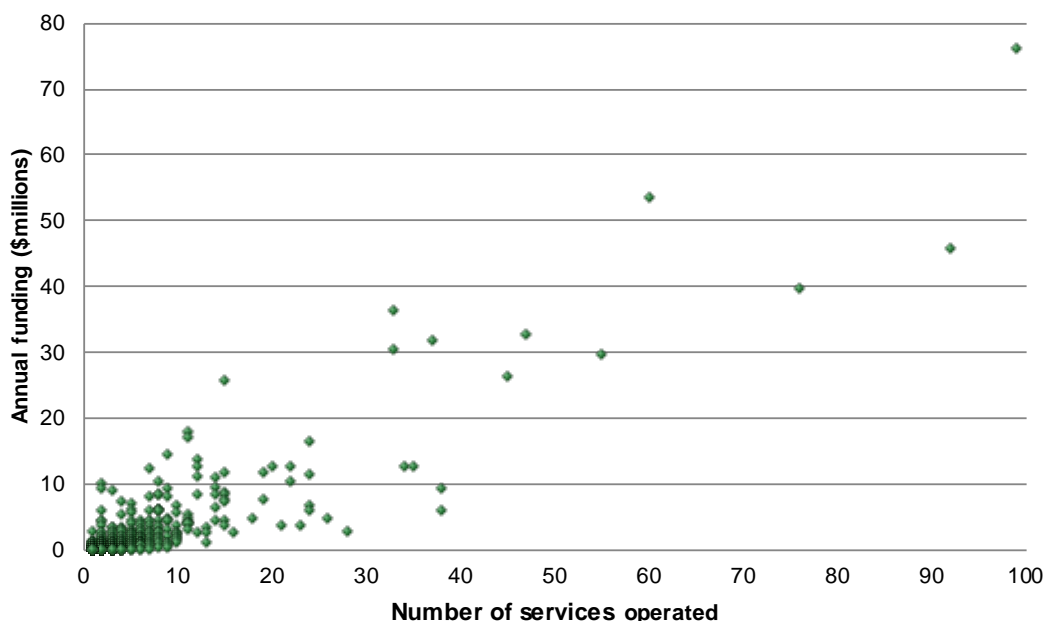
Changes to the non-government sector

Non-government organisations played a large role prior to the NDIS

Many disability services were provided by non-government organisations prior to the NDIS in New South Wales. In 2014–15, almost \$1.4 billion of funded services were provided by non-government organisations, which was over 60 per cent of all disability services. These organisations provided services including accommodation, respite and personal care. They also provided people with support to develop life skills, such as communication, social interaction and daily household tasks.

The non-government provider population is diverse, ranging from small providers such as local 'meals on wheels' services to large Statewide organisations delivering accommodation services. Most non-government providers operate fewer than ten services and receive less than \$5 million annual funding, while a small number of large organisations receive the bulk of the funding (Exhibit 3). Many local councils provided disability services funded by the Department, so councils are considered providers for this audit.

Exhibit 3: Funding and service distribution to non-government providers, 2014–15



Source: Audit Office analysis of Department of Family and Community Services Funding Management System, 2014–15 (unpublished).

The increase in demand for support presents opportunities and risks

There will be an unprecedented increase in funding for disability support under the NDIS because of the move to a 'social insurance' model. In this system, anyone who meets the eligibility criteria will receive funding for the support they need. This contrasts with the previous system where services were capped based on the amount of money allocated by governments each year.

Many more people will be eligible for funding under the NDIS. This will create opportunities for providers to expand to meet the additional demand for services and for new providers to enter the market and offer services in different ways. An increase in the size of a service system can also present risks to the oversight of public service markets, particularly when reforms include many new providers entering the system.

The Productivity Commission's 2016 report on competition in human services highlighted the Australian Government's vocational education and training (VET) reforms as an example of problems that can arise when a market for public services changes rapidly. The Australian Government allowed the number of VET providers delivering government-subsidised courses to double in two years, which supported its objective of increasing consumer choice. However, providers were not required to demonstrate they were providing high quality courses or supporting good outcomes for students and many students were subsequently enrolled in courses which would be unlikely to help them find employment.

The transition to the NDIS will require careful monitoring of outcomes for people using services to ensure existing and new organisations provide quality support that helps people achieve good outcomes. The Australian and state and territory governments agreed on principles for a national quality system for the NDIS in 2016 to support the maintenance and monitoring of the quality and safety of support provided.

Providers will need to adapt to operate in a market

The creation of a market for disability services places different demands on non-government providers. Before the introduction of the NDIS, service providers were funded by the Department to deliver disability services under annual contracts. Providers were usually paid three months in advance, which is described as 'block funding'. Under the NDIS, payments will be received after the service has been provided, which will require more sophisticated business systems.

Prior to the NDIS, providers did not need to market themselves to clients because they were not competing with other providers. Under the NDIS, some providers will have to do more work to advertise their services because they will be competing with other providers for clients who have choices about the supports they purchase.

While these changes will be challenging for many providers, they also present opportunities to rethink their approach and improve outcomes for people using their services. For example, organisations that previously provided fixed recreational activities for large groups may need to develop services that can support smaller groups and allow individuals to choose what they want to do and when they want to do it.

Providers will be overseen nationally, not by the NSW Government

Before the introduction of the NDIS, the Department's staff were responsible for overseeing the work of providers because the Department had funding agreements with each provider. The Department also delivered some disability services directly and worked with non-government providers and other NSW and Australian Government departments and agencies to provide integrated disability services.

The Department will close its disability operations when the transition to the NDIS is complete because it will no longer have funding relationships with providers and will not provide any services itself. Other NSW Government departments and agencies will need to clarify how they will work with NDIS providers in the new system.

Responsibilities of the NSW Government during the transition

The NSW and Australian Governments signed an agreement in September 2015 which set out the roles and responsibilities for the transition to the NDIS in New South Wales. This was followed by an operational plan in December 2015 which included details of the major pieces of work required for the successful implementation of the NDIS. This included developing a market for disability services and establishing a national approach to quality and safeguards.

The Council of Australian Governments Disability Reform Council (the Council) oversees NDIS implementation across Australia. In September 2016, the Council formalised the division of roles and responsibilities for sector development during the transition. This stated that:

- the NDIA and Australian Government have lead responsibility for developing and managing the national market for disability services and for workforce development, which includes attracting new providers and staff to the sector and responding to any gaps in the supply of services
- the NSW Government has lead responsibility for helping existing service providers in New South Wales prepare for the transition to the NDIS
- the NSW Government will support the NDIA and Australian Government's sector and workforce development work
- the NSW Government will work with the NDIA and the Australian Government to ensure NDIS transition activities in NSW are coordinated
- the NSW Government will work with the NDIA and the Australian Government to ensure existing safeguards for people with disability remain in place during the transition to the NDIS.

Key findings

1. Building the capacity of the non-government sector

The service capacity of the non-government sector in New South Wales increased ahead of the NDIS transition and the Department has supported national market development work. There are risks to the supply of services to support people with complex needs.

The overall goal of sector capacity development for the NDIS is to create a market for disability services that is sustainable, diverse, competitive and innovative. The major risks are the significant increase in demand for support overall and the potential inability of non-government providers to support people with complex support needs. The development and oversight of the national market is primarily the responsibility of the Australian Government. The NSW Government has agreed to support this work during the transition to the NDIS.

The Department started moving disability service delivery into the non-government sector, funded more early intervention and community-based disability support, and introduced individual support packages in the period leading to the NDIS transition. The Department checks that the business and operational systems of non-government providers are adequate, but it does not have a clear picture of the outcomes for people using the services it funds.

There are potential risks to the supply of services to people who have more complex support needs, including specialist clinical support, people in remote areas, Aboriginal and Torres Strait Islander communities and culturally and linguistically diverse communities. The Department has supported the NDIA's initial market development work and assessed risks to support for some of the most high-risk groups in New South Wales. It has funded several projects that aim to increase service capacity for Aboriginal and culturally and linguistically diverse communities.

The sustainability of funded disability services provided by the non-government sector relies on support from outside the sector. Most people with disability receive significant unpaid support from family members, so support for carers needs to continue to ensure sector sustainability. There are opportunities for organisations that do not currently provide disability support to contribute to sector sustainability by making their services more accessible to people with disability.

Recommendations

For the rest of the transition, the Department of Family and Community Services should:

1. Work with the Australian Government, NDIA and other NSW Government agencies to identify gaps and develop the capacity of specialist clinical services, focusing on regional and rural areas.
2. Continue to implement projects to increase the number of organisations that can support Aboriginal and Torres Strait Islander and culturally and linguistically diverse communities.

1.1 Non-government service capacity has increased overall

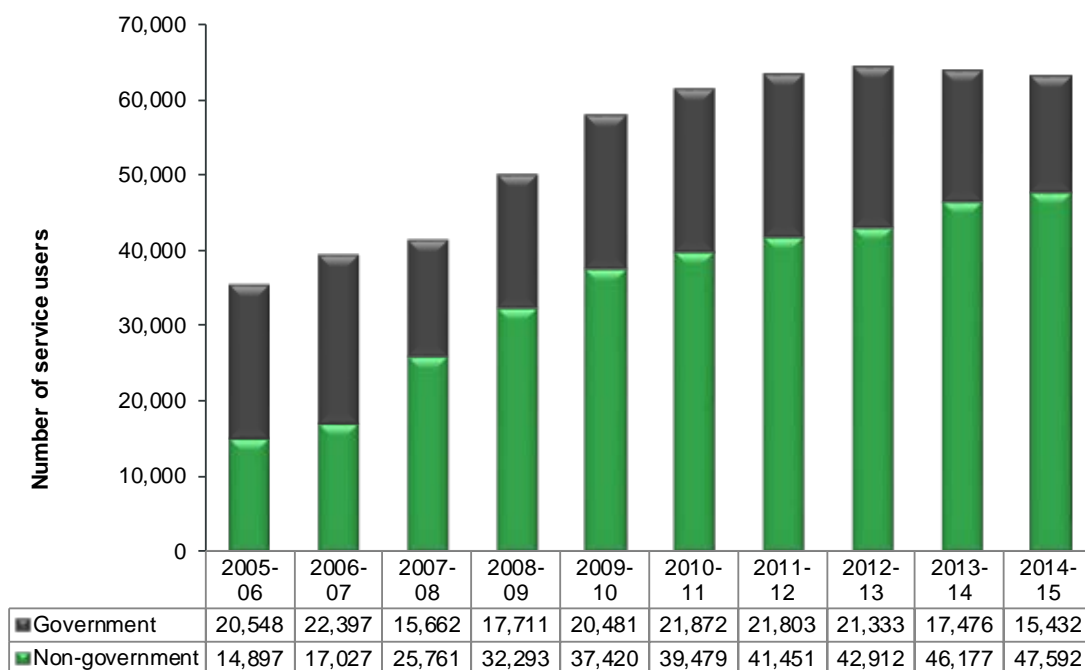
Non-government providers are delivering more disability services

The NSW Government had a strategy to increase funding for disability services and build non-government capacity before the NDIS was established. 'Stronger Together' was a ten year NSW Government disability services strategy that began in 2006 and provided a total of more than \$5 billion additional funding. Most of this funding went to additional services and many of these were delivered by non-government providers. The aims of the strategy included:

- making disability support more personalised, including using individual funding
- providing more early intervention services
- supporting people with disability to participate in the community.

Spending on disability services increased by 71 per cent from 2005–06 to 2014–15, from around \$1.4 billion to over \$2.3 billion. Most of the extra funding went to services delivered by non-government providers. The number of people receiving support from non-government providers more than tripled, from fewer than 15,000 in 2005–06 to over 47,000 in 2014–15 (Exhibit 4).

Exhibit 4: Change in number of people receiving government and non-government services, 2005–06 to 2014–15



Note: The figures in this exhibit do not include people receiving services from the Community Care Supports Program. This program is reported separately and spending on this program represents a small proportion of total spending on disability services in New South Wales.

Source: Audit Office analysis of Australian Institute of Health and Welfare, *Minimum Data Set, Disability Services*, 2014–15.

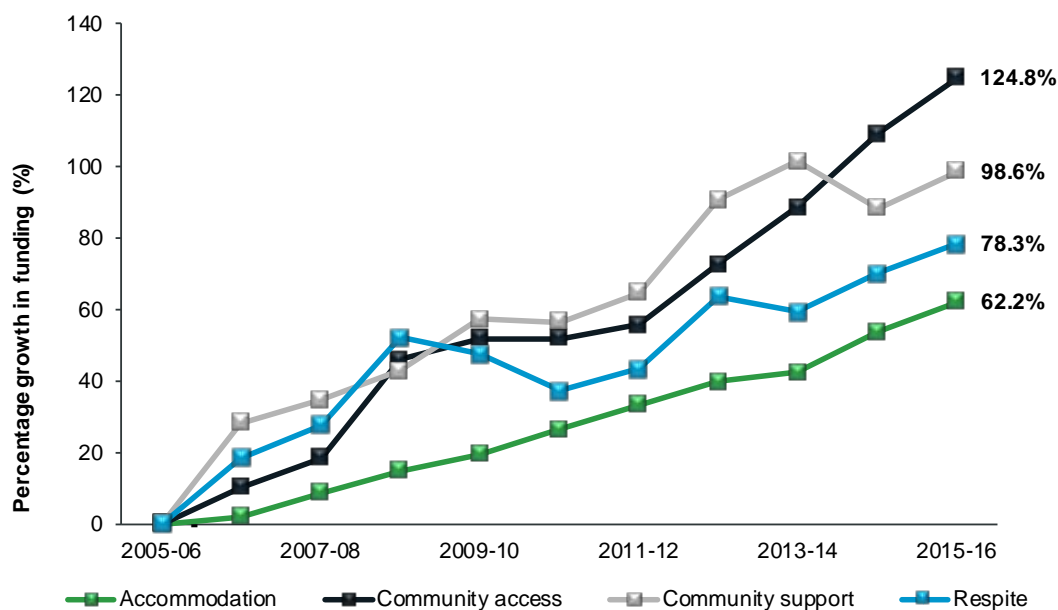
The additional funding directed to non-government providers had a positive impact on the financial sustainability of providers. The Department previously operated a \$9.9 million annual fund which it drew on to provide payments to providers struggling with their business costs. No payments were made from this fund from 2010–11 onward.

More services are being provided in areas consistent with NDIS objectives

The additional funding was directed to types of support that aim to increase the involvement of people with disability in the community and provide early intervention services that aim to reduce the need for more intensive support later in life. This approach was consistent with the objectives of the NDIS and helped to develop the service capacity of the non-government sector in areas relevant to the NDIS.

Funding in the service category of 'community access', which includes learning and life skills programs and recreation activities, more than doubled from 2005–06 to 2015–16. Funding for 'community support', which includes early intervention for therapy and behaviour support, increased by 99 per cent. By comparison, funding for accommodation support only increased by 62 per cent in this period (Exhibit 5). This reflects the move toward more individual and community-based service delivery. Despite this shift, accommodation is still the largest funding category in New South Wales. Individual funding plans have been trialled in New South Wales, with over 15,000 people (28 per cent of clients) using individualised services in 2014–15.

Exhibit 5: Percentage increase in funding by service type, 2005–06 to 2015–16



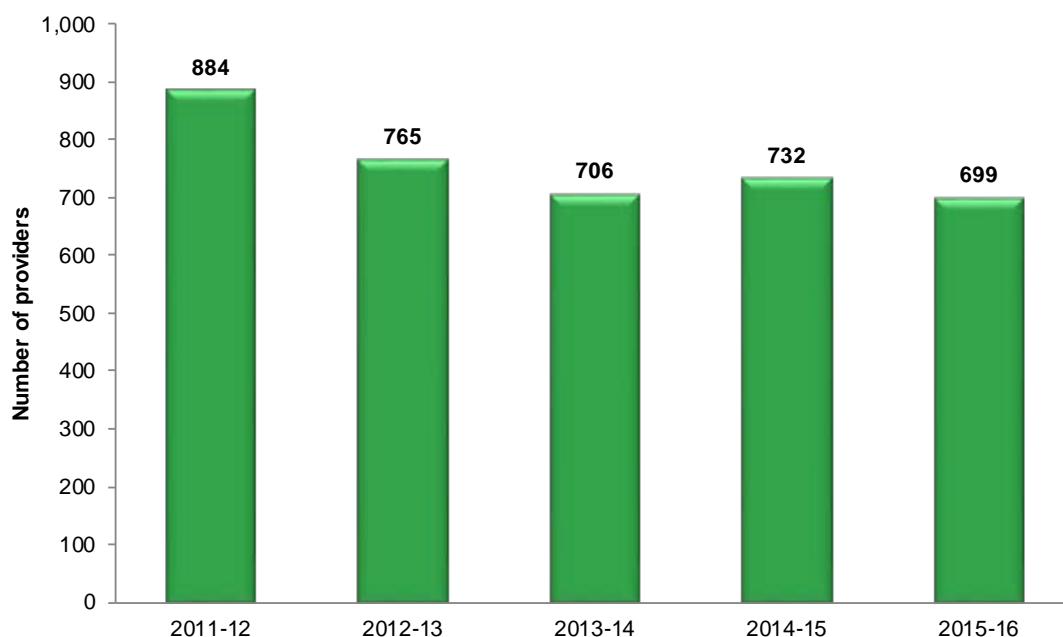
Note: excludes 'other' funding category, which includes non-service activities such as information and referrals, advocacy and research.

Source: Audit Office analysis of Australian Institute of Health and Welfare, *Minimum Data Set, Disability Services*, 2014–15.

New providers will be needed for the full roll out of the NDIS

Most of the Department's sector capacity building work has involved increasing the service capacity of non-government providers that were already providing disability services. While funding for disability services increased significantly during the period when the 'Stronger Together' strategy was being implemented, the number of non-government providers funded by the Department to deliver services decreased (Exhibit 6). However, there was a high degree of stability in the provider group during this period, with 594 organisations receiving funding to deliver services in every year from 2011–12 to 2015–16.

Exhibit 6: Non-government providers funded by the Department, 2011–12 to 2015–16



Note: The number of providers funded by the NSW Government decreased significantly from 2011–12 to 2012–13 because in 2012–13, the Australian Government started directly funding organisations that provided Home and Community Care services to people over 65. The NSW Government previously funded these providers via transfer payments from the Australian Government.

Source: Department of Family and Community Services Funding Management System, 2015–16 (unpublished).

Existing providers took on more services by building their capacity over a longer period. The establishment of the NDIS will create a much more rapid increase in demand for services and the need for different, more flexible services. Existing providers will not be able to expand to meet this demand so new providers will be required.

There were more than 1,400 providers registered for the NDIS in the Hunter area trial site on 30 June 2016, while there were 127 providers funded by the Department to deliver services in this district in 2014–15. Most of the new providers were registered to provide types of support that received less funding prior to the NDIS. This indicates that as the NDIS is introduced across New South Wales, new organisations will register to provide NDIS supports. As well as increasing the number of people who will be eligible for funding, the use of individual funding packages will change the nature of demand for services. People will be able to request more flexible service delivery, so new and existing providers will need to explore different models for providing support (Exhibit 7).

Exhibit 7: Opportunities for providers to deliver services differently under the NDIS

Several organisations are already providing services in ways that are more flexible and are consistent with the objectives of the NDIS. These types of services will not be suitable for everyone, but they have the potential to increase choice and control for many people with disability.

Hireup is a Sydney-based company that uses an internet-based platform to help people with disability connect with support workers. Users create a profile which includes information about the support they need or can provide as well as their personal interests. People with disability can book and pay for support workers directly through the platform and Hireup manages the administrative tasks. This allows people with disability to make a more informed choice about the type of support they receive and the person they receive the support from. It also simplifies the process of booking and paying for support using their individual funding.

The Parent Assisted Residential Accommodation (PaRA) Co-operative is a small organisation that provides an alternative model of supported accommodation to traditional larger group homes operated by government or non-government providers. The PaRA Co-operative model involves residents pooling their individual funding packages to cover their accommodation costs, which include rent and support workers. Family members of the residents also contribute some support such as helping with gardening and general maintenance, or purchasing furniture, as many parents of young people without disability do. This model allows people with disability more choice about where they live and who they live with. It also avoids the high administration costs charged by large service providers.

The Department has business and operational safeguards for service providers

The Department has systems to check that non-government providers have business and operational systems that support compliance with the NSW Disability Service Standards (the standards). All funded providers must go through a Third Party Verification (TPV) process once in every three year funding period. This involves an externally accredited organisation checking the provider has systems including a quality management process and a board with the skills and experience to guide the organisation. The standards set out expectations for providers in areas including human rights, participation in the community, individual outcomes for people using services, and feedback and complaints. All organisations providing disability services in New South Wales have completed the TPV process.

The Department has spent almost \$7 million to support providers to comply with the standards. This included providing online training and guidance documents explaining the standards and offering providers grants to subsidise the cost of producing quality management policies and completing the TPV process. The Department has also produced more specific guidance on appropriate care for people with complex care needs and care for children to help providers understand their obligations under human rights legislation.

The Department's understanding of outcomes for people receiving support is limited

Expanding sector capacity creates risks to the quality of services being delivered. Governments retain some responsibility for outcomes for people using services, even when the services are being delivered by a non-government provider. The Department has encouraged and supported providers to improve the quality of their services, but it has limited information about the outcomes for people using the services.

The Department defined the broad outcomes it wanted from its investment in building sector capacity through the 'Stronger Together' strategy. These included increasing the choice and control that people have over the support they receive and increasing the involvement of people with disability in the community. The Department measured outputs against these, including the number of individual funding packages and number of services provided. The Department produced a document suggesting performance indicators that providers could use. Some programs were evaluated to measure outcomes for people using the services but this was not done for all programs.

Some parts of the acquittals and TPV processes give the Department information about the experiences of people using services. Providers must have policies and procedures that support compliance with the standards. Providers complete a self-assessed survey on their compliance as a part of their annual acquittal report. The annual self-assessment is not verified by the Department, but the TPV process includes external assessment of the provider's policies, processes and practices against the standards.

The TPV process includes discussions with a small number of people with disability about the quality of the services they use. This is done once every three years, so provides information on quality at a point in time but does not provide real time information about quality and outcomes. The NSW Ombudsman operates the Official Community Visitors program which involves site visits to residential care services, but this does not cover other services such as day programs or in-home support.

Our previous performance audits of the Department's work to build non-government service capacity in other areas found similar limitations in measuring outcomes for service users:

- our 2015 audit of the Department's transfer of out-of-home care services to the non-government sector found the Department did not define the outcomes it wanted for the wellbeing of children in care or set measurable targets to monitor progress
- our 2015 audit of the transfer of community housing services to the non-government sector found the Department identified areas in which it wanted outcomes for tenants to improve, but did not define how it would measure these or set targets for improvements
- our 2015–16 financial audit report on the Department noted there is limited independent assurance on how well non-government organisations use the funding provided.

1.2 There are risks to the supply of services for specific groups

The Department has supported the NDIA's work to develop a national market and workforce for the NDIS

The development of the national market and national workforce for the NDIS are primarily Australian Government responsibilities, with New South Wales responsible for supporting work in this area. The Department has contributed to the development of Australian Government strategies including the 'Integrated Market, Sector and Workforce Strategy and NSW Market Position Statement'. We also saw evidence of contributions from the NSW Government to planning for industry advisory groups and oversight of the operation of the national market.

The Australian National Audit Office's 2016 report on the Australian Government's management of the NDIS transition found the development of a national workforce is a major risk because the sector needs to expand significantly and rapidly. It also needs to change to meet the demands of the new system. For example, individualised funding may lead to demand for more flexible hours and different skills. We saw evidence of NSW Government contributions to national discussions about workforce development. The Department has also

established two programs in New South Wales: the Care Careers website, which provides an online job board and other careers resources, and the project ABLE program, which promotes careers in the sector to young people.

Non-government sector capacity to provide complex clinical support is limited

The supply of complex clinical support may be limited during or after the transition to the NDIS. Types of complex support include specialist medical support, such as therapists who specialise in working with children, and behaviour support for people with disability and mental health conditions, or people with disability who have been in contact with the criminal justice system. Several Department staff from district offices interviewed for our audit expressed concerns about the capacity of the non-government sector to provide these services, especially in regional and remote areas because of the difficulty in attracting and retaining specialist staff in these areas. The Department currently provides some of these more complex services directly but will transfer these functions to non-government organisations during the transition to the NDIS. The Department has made plans to retain the skills and expertise of staff during this transfer process.

In 2015, the Department commissioned work to identify people in New South Wales with complex support needs and assess the capacity of the market to support these people. This report advised that concentrating complex work in a small number of organisations would allow organisations to grow so they could invest in the additional staff development and supervision structures required for complex support work. This was consistent with the Department's approach to sector capacity growth under the 'Stronger Together' strategy.

The Department supported staff skill development for specialist clinical support by running workshops for staff that provide therapy services to people with disability, such as speech therapists and child psychologists. These sessions aimed to build staff skills by increasing awareness of evidence-based practice. The Department also funded programs to build non-government staff skills to work with people with the most complex support needs. Small grants were offered to providers to develop policies and processes. Training programs and guidelines were issued for the use of 'restricted practices' in behaviour support, which include interventions such as physical restraints and the use of medication to control behaviour.

Supply and choice of services in rural and remote areas will be limited

The supply risks in services for people with more complex support needs are particularly acute in rural and remote areas, where workforce challenges are exacerbated and the cost of delivering services is higher. The Department directed *Stronger Together* funding to providers it believed could provide more services in rural and remote areas. The Department's goal was to help these providers to absorb some of the additional costs of delivering services in remote areas by building up their overall service capacity.

In the Far West district, which has the most remote towns in New South Wales, the top ten highest-funded providers received 88 per cent of funding in the district in 2015–16. By comparison, the funding concentration among the ten largest providers in the more highly populated areas of Western Sydney and Sydney were 44 and 50 per cent respectively. While concentrating funding in a small number of providers may create more stability in the supply of services, care needs to be taken to ensure people using services in these areas have some choice of providers.

Some local councils are choosing not to continue providing disability services under the NDIS, which adds to the capacity risks in regional and remote areas. In some regional and rural areas councils are the major, or only, provider of disability services. Several councils in the Far West and Murrumbidgee district have stopped, or plan to stop, providing disability services because they do not feel they are suited to operate under the NDIS. Broken Hill City Council in the Far West district of New South Wales decided to close its disability services operations in 2016 and these functions will be taken over by CareWest, a large service provider based in western New South Wales. If more councils leave the disability support sector and are replaced by a small number of larger providers, choice of providers may be reduced.

Some Aboriginal and Torres Strait Islander communities will need additional support

The Department has supported the NDIA's work to build capacity to support Aboriginal and Torres Strait Islander people with disability by contributing to the development of the NDIA's draft Aboriginal and Torres Strait Islander Strategy. It has also funded several programs that aim to build the capacity of organisations to provide support to Aboriginal people with disability in New South Wales. These include:

- \$1.5 million funding for two programs that aim to increase the ability of organisation to provide support to Aboriginal people (announced in 2016)
- a \$1.5 million project that aimed to build the capacity of Aboriginal community organisations to provide disability services
- a program that produced guidance for existing disability service providers on working with Aboriginal people and communities.

Service capacity risks remain due to the low number of providers with expertise in working with Aboriginal people with disability and the additional costs in establishing a market to serve remote Aboriginal and Torres Strait Islander communities. Department executives and district staff acknowledged this is a concern and ongoing work is needed in these areas.

Alternative ways of delivering services may be required in some areas where external factors such as geographic isolation will limit the ability of markets to form. Peak representative group the First People's Disability Network argues there is an existing workforce in many Aboriginal and Torres Strait Islander communities because family members provide support informally. Giving resources to people already providing informal support may help fill capacity gaps in a culturally appropriate way. Additionally, area or community-based cooperatives could be used to develop capacity in Aboriginal and Torres Strait Islander communities.

Some culturally and linguistically diverse communities will need additional support

The Department acknowledges that more work will be required to build the capacity of non-government providers to support people from culturally and linguistically diverse communities. General capacity building programs have been available to providers supporting culturally and linguistically diverse communities. The Department funded a \$2.0 million project to increase the number of organisations capable of providing support to people with disability from culturally and linguistically diverse communities. This included initial work to estimate the number of culturally and linguistically diverse people with disability and to identify challenges for service providers. The project began in 2014 and has supported 16 organisations to prepare for the NDIS.

There will be additional challenges engaging people with disability from some culturally and linguistically diverse communities because of different understandings of disability and a potential lack of staff with appropriate language skills. Community organisations that do not currently provide disability services could play a role in explaining the NDIS to people in their communities and help connect them with NDIS providers.

1.3 The sustainability of the disability services sector depends on support from outside the sector

Support for carers is important for sector sustainability

Most people with disability receive unpaid support from a carer which would otherwise need to be paid for by government. Any reduction in unpaid care would place additional demand on NDIS-funded support. Carers are more likely than the general population to report physical and mental health problems and the carer population is ageing. Maintaining support for carers is important in its own right, but is also a key element of the sustainability of the NDIS.

Research commissioned by the Department estimated that for every hour of care funded by the NSW Government, almost four hours of unpaid care are provided. This means that even a small decrease in the amount of unpaid care provided would have a large impact on the sector. For example, a two per cent decrease in the hours of support provided by carers would lead to an eight per cent increase in demand for funded services.

The 'NSW Carers Strategy 2014–2019' includes a range of programs that aim to improve the health and wellbeing of carers, provide employment and education opportunities, and involve them in decisions about support for the people they care for. Support for carers, such as respite care, can be included in the NDIS support plan of a person with disability, but carers are not eligible for their own support plans under the NDIS. Recent research in New South Wales indicates some carers have limited understanding of their support options under the NDIS. The Department has produced information sheets for carers and funded Carers NSW, the industry peak body, to provide information to carers about the NDIS during the transition.

Mainstream organisations can help meet demand for support under the NDIS

People with NDIS support plans will be able to use some of their funding to purchase support from organisations that do not provide specialist disability support. For example, people might use NDIS funding to pay for a group fitness class at a local gym, or for personal care at a hairdresser. This aligns with the NDIS objectives of increasing the integration of people with disability in the community and increasing personal choice.

If more services from non-specialist organisations are accessible to people with disability, pressure on some specific disability support organisations will be eased. This will help ensure the sustainability of the sector during the transition as the demand for services increases rapidly. It also presents business opportunities for organisations that can make their services accessible to people with disability. Business groups or local councils could be engaged to assist in promoting these opportunities to local organisations.

2. Helping non-government providers develop their capability

The Department has invested considerable resources in programs to develop the capability of non-government providers. Some of these programs were evaluated and received positive feedback. However, the overall impact of the investment is not clear as baseline information on provider capability was not collected and targets for improvement were not set. Most providers will need more support to transition to the NDIS effectively.

The overall goal of the Department's provider capability building investment is to ensure providers are ready to transition to the NDIS. Provider capability is a high-risk area for the transition because many providers need to make major changes to their business systems and the way they provide services. The NSW Government agreed to take lead responsibility for supporting providers to develop their capability to operate effectively under the NDIS.

The Department has spent more than \$30 million over 6 years on programs that aim to improve the capability of disability service providers. This work began before the NDIS was established and was adjusted to focus on NDIS readiness from December 2012. It was guided by an industry development strategy that was developed after consultation with the sector and delivered in partnership with sector peak bodies. This approach gave the sector some responsibility for developing its own capability, which is important because the sector will not receive support from the NSW Government after the transition to the NDIS is complete.

The overall effectiveness of the Department's spending on provider capability is not clear. Some of the larger individual programs were evaluated and received positive feedback. However, baseline information was not collected before programs commenced, targets for improvements in capability were not set and a robust evaluation of the overall impact of the investment was not completed. Without this information, the Department cannot demonstrate clearly that the capability building programs it funded represent value for money.

The Department assessed the transition progress of providers in New South Wales in 2015. This assessment indicates almost one third of providers are highly likely to need additional assistance to transition to the NDIS successfully, with only 14 per cent unlikely to need further assistance. Most providers responding to our survey reported they feel ready to transition to the NDIS. Sixty-two per cent agreed the programs and resources they used had improved their readiness for the NDIS. Fifty-four per cent said changes made had a lasting impact on their organisation.

Recommendations

For the rest of the transition, the Department of Family and Community Services should:

3. Target remaining capability building assistance to less prepared providers, including via one-to-one support and mentoring in identified areas of weakness.

2.1 The Department has invested in provider capability

The Department's capability programs were guided by strategy and available evidence

The Department began investing in programs to develop the capability of existing providers in 2009–10 through the Industry Development Fund (IDF). It also ran two grants programs that provided one-off payments to providers to assist with the cost of NDIS transition activities:

- the Organisation Transition Fund, which was available to all non-government providers
- the Transition Assistance Program, which was targeted to smaller organisations with operations in regional, rural or remote areas.

The IDF was guided by a sector strategy and the programs and resources were updated in response to sector changes and lessons learned from early projects. The IDF was established before the NDIS was developed, but IDF programs became more targeted to NDIS readiness from 2012.

The Department spent over \$30 million on provider capability programs from 2009–10 to 2015–16. The IDF included more than 30 programs and resources for providers that aimed to build capability in areas across seven identified capability areas including financial management skills, corporate governance, strategic planning and workforce development (Exhibit 8).

Exhibit 8: Industry Development Fund provider capability focus areas

Capability area	Description
Strategy	Clear organisational objectives, business development plans, understanding of the changes required for the NDIS
Corporate governance	Robust risk management frameworks, appropriately skilled board members to oversee decisions
Clients and market focus	Responding to client demand, pricing services competitively, effective marketing strategies
Financial sustainability	Understanding costs of running the organisation, efficient financial management systems, access to working capital
People and capability	Staff with the right skills and attributes, human resources management systems, change management skills
Information and knowledge	Reliable data collection, information management systems that support billing of individual clients for services
Quality and improvement	Systems that measure the quality of services being delivered, compliance with disability service standards

Ownership of the programs was shared with the sector

The Department partnered with National Disability Services, a sector peak body, to deliver the IDF capability programs. National Disability Services was responsible for developing and delivering the programs, but the Department retained oversight of spending and program development through its representation on the IDF governance board.

The Department's decision to partner with National Disability Services gave the sector more responsibility for its own development and placed the programs closer to the organisations using them. This approach will help to make the sector more self-sustaining, which is particularly important given the closure of the Department's disability services operations in July 2018.

More could have been done to encourage knowledge sharing and mentoring between providers as they will need to be self-sufficient after the transition is complete. For example, providers with complementary skills and experience could have been paired to help them prepare for the transition.

One disadvantage of putting the IDF in a sector peak body was that it limited the ability of some Department staff that work directly with providers to share their knowledge of provider development needs. A more coordinated approach between staff from National Disability Services and the Department at the local level could have improved the coherence and targeting of the capability building support for providers.

2.2 The impact of provider capability programs is not clear

Baseline information was not collected, so value for money cannot be demonstrated

Baseline information on provider capability was not collected before starting the IDF and the program did not set targets for improvement in provider capability. The lack of baseline and monitoring information means that the Department cannot know what impact the programs have had on overall provider capability.

Several of the larger IDF programs were evaluated formally but most of the measures were of engagement with the program, such as the number of people attending, rather than the outcomes of the program. An overall evaluation of the IDF focused mostly on showcasing

good practice examples rather than evaluating the impact of the programs funded. An evaluation of the Organisation Transition Fund found many providers rated their specific projects as effective, but lessons from projects funded were not all shared across the sector. Reporting requirements on providers for the Transition Assistance Program are minimal, which will limit the ability to measure the impact of this funding or share lessons.

Providers gave positive feedback on one-to-one support from the Sector Support Consultant program, so this program was extended until the end of the transition. The experience of the IDF indicates that one-to-one capability support is more effective than more generic resources because it allows support to be targeted to the specific needs of providers. It also allows generic resources to be promoted and explained, which could increase their use and effectiveness. In addition, one-to-one meetings could provide useful information for the Department about the readiness of individual providers. This would help it to manage risks during the rest of the transition if this information is shared.

Recent assessment of provider readiness can help guide the rest of the transition

The Department began an assessment of provider preparations for transitioning to the NDIS in late 2015, completing this analysis in mid-2016. The assessment was well designed, considering both quantitative financial measures and qualitative aspects including the provider's governance structure and marketing. The assessment drew on financial reports from providers and information from websites and annual reports.

Department staff who work directly with providers were consulted at the end of this process to validate the results. Staff we consulted said they disagreed with some of the assessments of providers in their area, because they had additional knowledge of providers that might not be picked up in a desk-based assessment. The Department was only able to gather complete data for 56 per cent of funded providers, which meant that 318 providers were not assessed. This is a significant gap in the assessment, as providers that did not have enough information to be assessed may be among the least prepared for the NDIS.

The information collected for this assessment can help the Department to monitor provider progress in the transition to the NDIS. It was completed too late to be useful for assessing and monitoring risks before the full NDIS roll out began but could be used to target assistance to providers preparing to transition in the second year of the roll out. Most staff in district offices did not have plans to use the assessments during the rest of the transition period. This indicates the Department will need to do more work to ensure the assessment is used to help manage transition risks at the district level.

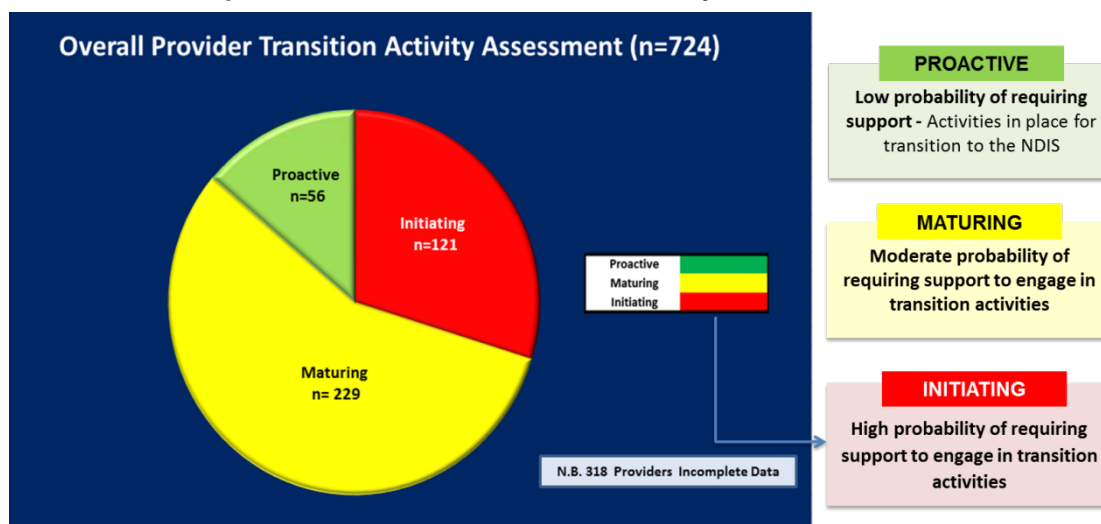
Some providers are well prepared but most will require further support

The Department's assessment of provider capability and readiness in 2015 indicates most providers will require further support to transition to the NDIS successfully. The assessment divided providers into three categories:

- 'initiating', which means they were judged as highly likely to require further support to transition to the NDIS
- 'maturing', which means they are moderately likely to need further support to transition
- 'proactive', which means they are unlikely to need further support to transition.

Most providers were rated as moderately likely to need support to transition to the NDIS, with fifty-six per cent judged as 'maturing'. A further 30 per cent were rated as 'initiating', which means the clear majority of providers were judged as either moderately or highly likely to need more support to transition to the NDIS. Only 14 per cent were assessed as 'proactive' and unlikely to need further support to transition (Exhibit 9). These ratings only include the 56 per cent of providers that the Department could assess, so may under-represent the proportion of providers at the 'initiating' stage.

Exhibit 9: The Department's Provider Transition Activity Assessment



Source: Department of Family and Community Services, *Provider Transition Activity Assessment*, 2016 (unpublished).

The results of National Disability Services' 2015 'State of the Disability Sector' report indicate that most providers are confident about their readiness in the areas of data collection, financial reporting and corporate governance, with 75 to 78 per cent rating themselves as ready. Only around 20 per cent of providers rated themselves as ready in costing services, marketing, and workforce strategy. Fewer than half of providers felt ready in a range of other key business areas including financial controls, business planning and risk management.

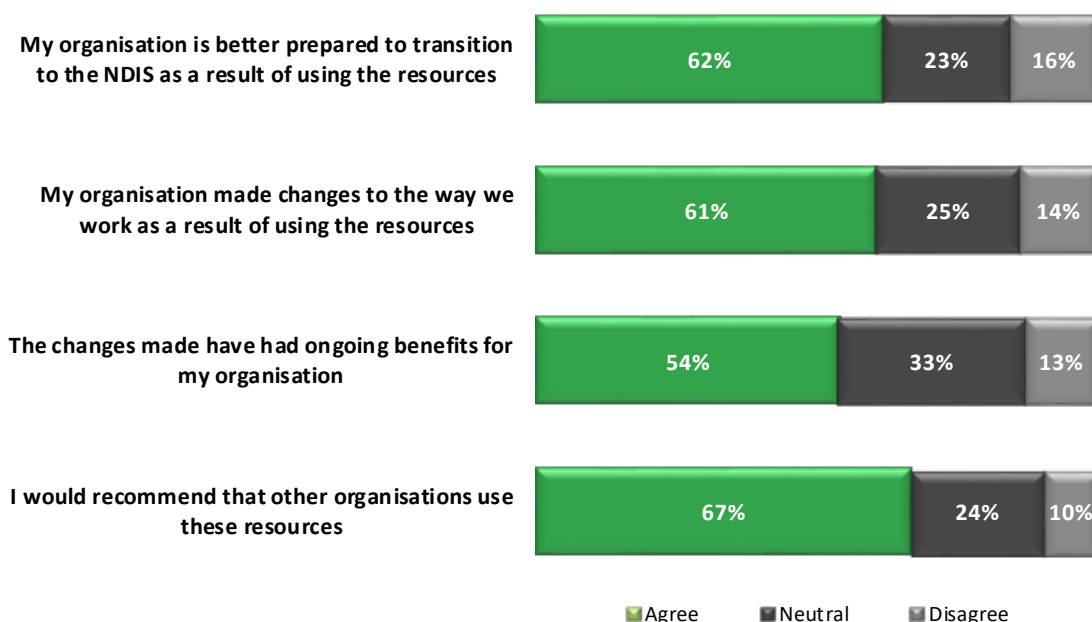
2.3 Usefulness of the Department's capability programs

Providers have mixed views on the effectiveness of capability building support

We conducted a survey of non-government organisations that received funding from the Department to provide disability services. We received 299 responses, which was approximately 43 per cent of all providers funded in 2015–16.

Sixty-two per cent of respondents said they felt better prepared to transition to the NDIS because of using the Department-funded resources (Exhibit 10). Sixty-one per cent said their organisation made business changes after using the resources, with 54 per cent saying these had ongoing benefits for their organisation.

Exhibit 10: Provider views on the impact of Department-funded capability resources



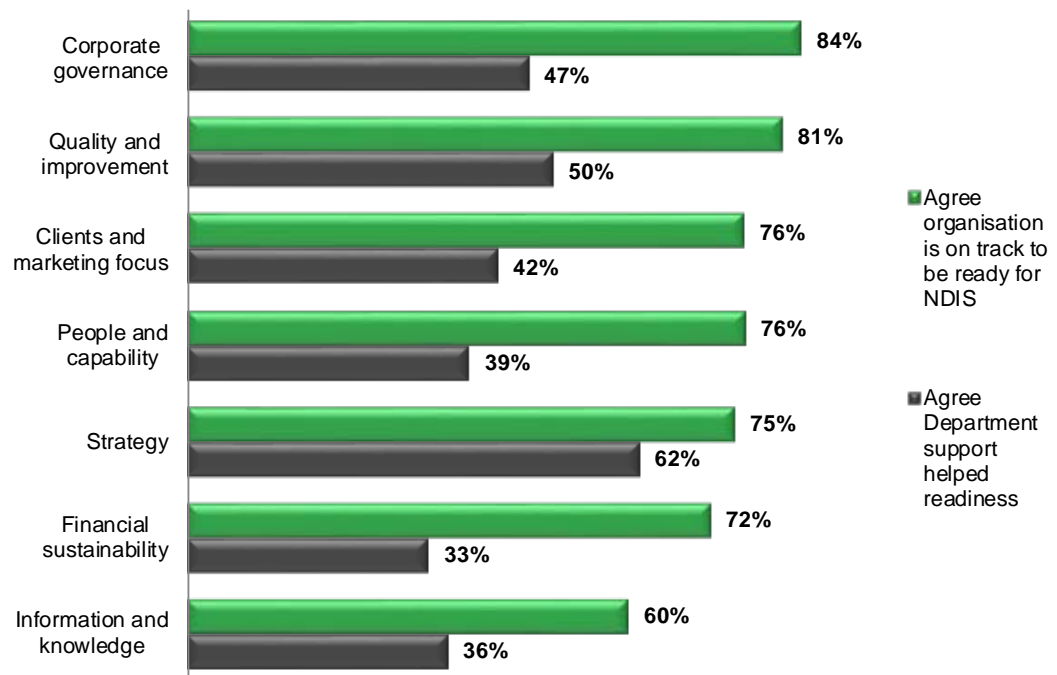
Source: Audit Office survey of Department-funded disability service providers in New South Wales, August 2016.

When asked about readiness in specific NDIS capability areas, providers responding to the survey were fairly confident about their readiness for the NDIS, but were less positive about whether the support funded by the Department had helped them improve (Exhibit 11).

A large proportion of respondents were confident in their corporate governance (84 per cent) and quality management systems (81 per cent). However, only 60 per cent of respondents felt ready in information and knowledge management.

Department-funded resources to help improve business strategies were rated most highly, with 62 per cent of respondents agreeing these resources were helpful. Only around one third of respondents felt that Department-funded resources helped their organisation prepare in the key areas of financial sustainability and information and knowledge management.

Exhibit 11: Provider self-assessments of NDIS readiness and helpfulness of Department support, by NDIS capability area



Source: Audit Office survey of Department-funded disability service providers in New South Wales, August 2016.

These findings, when combined with the assessments of provider readiness discussed above, indicate that the capability programs funded by the Department have helped some providers to improve their readiness for the NDIS. However, more work will be required to support many providers to make a successful transition to the NDIS. Our research indicates the most common areas of need are financial management and information management skills, and this would be most effective if delivered in on-to-one settings with providers.

3. Coordinating sector development

Governance arrangements and transition plans for the NDIS have been established and the Department has been active in national forums on NDIS policy. The Department has monitored transition issues and mitigated them where possible.

The transition to the NDIS is a major reform that relies on good coordination between the NSW and Australian Governments. The main risk is the potential for duplication of effort or gaps being left in important areas due to the shared responsibilities for the transition. The NSW Government agreed to coordinate its sector readiness work with the Australian Government.

The Department established comprehensive governance arrangements for the transition. It has contributed actively to national sector development strategies. The Department identified transition risks in some areas that will become Australian Government or NDIA responsibilities, such as oversight of the market for specialist disability service providers, and funded programs in New South Wales to cover potential gaps during the transition period.

Two programs funded by the NSW Government's Industry Development Fund were later expanded to national programs through the Australian Government's Sector Development Fund (SDF). Only around five per cent of the funding from the SDF to state and territory governments has been provided for initiatives in New South Wales.

The Department has monitored administrative issues for providers relating to the funding transition and registration for the NDIS. It has mitigated these where possible, although some issues such as the operation of NDIA administrative systems are beyond its control. More issues are likely as the full rollout continues, so ongoing monitoring will be required.

Recommendations

For the rest of the transition period, the Department should:

4. Continue working with the Australian Government and the NDIA to ensure lessons from sector capability programs are shared.

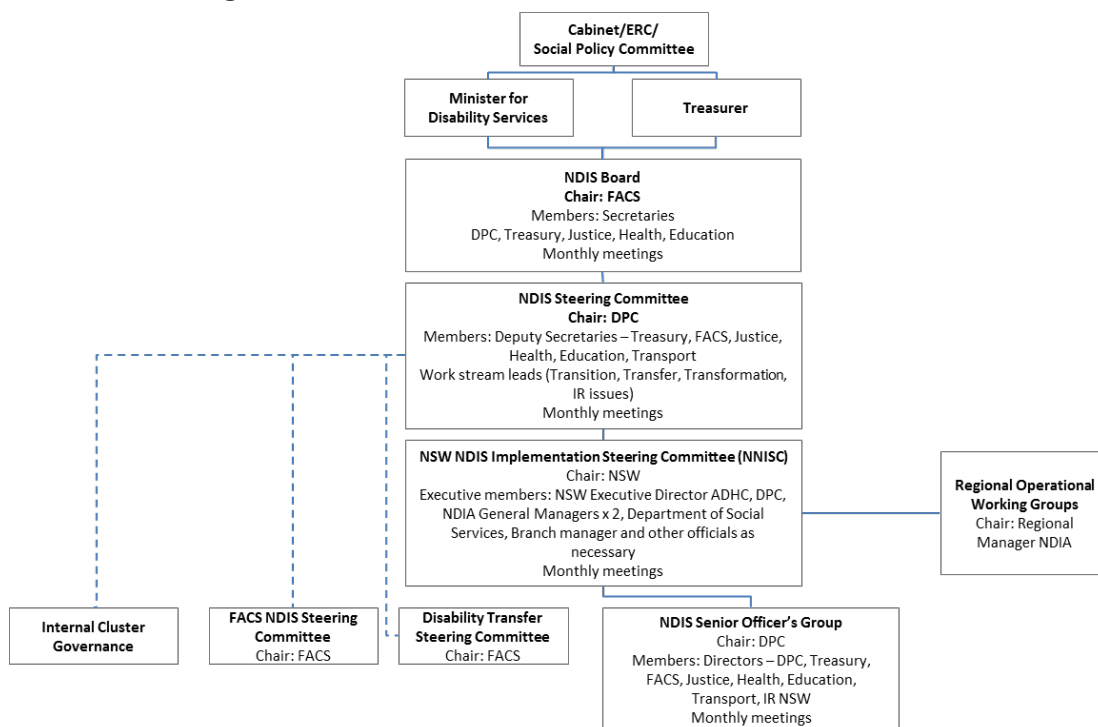
3.1 The Department's governance and planning has been clear

Clear governance arrangements were established to oversee the transition

The NSW Government and Australian Government signed a bilateral agreement in September 2015 which set out the roles and responsibilities for the transition to the NDIS in New South Wales. This was followed by an operational plan in December 2015. This included an outline of the major pieces of work required for the successful implementation of the NDIS, such as developing a national approach to quality and safeguards and building provider readiness. The operational plan included some desired outcomes and performance measures for these outcomes. The Department also produced an NDIS Transition Plan to document its responsibilities for the NDIS transition in New South Wales.

The governance structures to monitor the NDIS transition in New South Wales are complex because the reform involves several parts of the NSW Government (Exhibit 11). The roles and responsibilities of the governance boards and committees are clearly defined and risk registers are used to monitor risks and share information when required.

Exhibit 12: NDIS governance structure in New South Wales



Source: NSW NDIS Governance Model, provided by Department of Family and Community Services, December 2016.

The Department has been active in national forums for NDIS strategy

The Australian Government is responsible for leading national strategies for NDIS market development. The Australian National Audit Office's 2016 report on the Australian Government's management of the NDIS transition found there was a lack of clarity about roles and responsibilities for market development, but that clarity was improved in September 2016. The Department contributed to the development of national strategies including:

- 'NDIS Integrated Market, Sector and Workforce Strategy'
- draft 'NDIS Quality and Safeguards Framework'
- draft 'National Disability Advocacy Framework'
- draft 'Rural and Remote Strategy'
- draft 'Aboriginal and Torres Strait Islander Engagement Strategy'.

Australian Government staff confirmed the Department had played a positive role by sharing knowledge and experience of service delivery risks and promoting issues of interest to New South Wales. For example, the Department had extensive input into the 'NDIS Integrated Market, Sector and Workforce Strategy', which was needed to provide a framework for key areas for the NDIS transition.

The Australian Government and most state and territory governments agreed on a National Quality and Safeguards Framework in September 2016 and transition arrangements are in place until this is implemented. States will be responsible for administering pre-employment worker screening and there will be some additional costs to operate this system. The NSW Government is currently deciding which part of government will be responsible for worker screening and how the system will work in New South Wales.

Lessons from successful NSW Government programs can be shared with the Australian Government

Several NSW Government-funded programs that support the transition to the NDIS, including Industry Development Fund capability programs, Ability Links (Exhibit 13) and a range of more specific provider initiatives are only funded until June 2018. Some of these programs could be adapted for use in other states and territories. For example, the objectives of the

Ability Links program are similar to the objectives of the Information, Linkages and Capacity Building program in the NDIS.

Exhibit 13: Ability Links

The NSW Government's Ability Links program aims to help people with disability and their families and carers connect with people and services in their local communities. The guiding principles of the program are consistent with NDIS objectives, including providing choice and control to people with disability and supporting people to participate in the community. The program is available to all people with disability, including those who do not qualify for specialist disability support through the NDIS.

The program employs 'linkers', who have three main roles:

- building the capacity of people with disability to participate in community activities by helping them to identify and achieve their goals
- building the capacity of communities to include people with disability by talking to local organisations about potential access improvements and programs to support the participation of people with disability
- helping to link people with disability to appropriate community groups and services.

Evaluations of the program indicate Ability Links has supported participants to be more socially engaged by linking them with appropriate community groups. Linkers have also improved the accessibility of local services. For example, linkers in one area lobbied a local government to make a local swimming pool more accessible to people with disability.

3.2 Some sector development lessons have been shared

Two programs funded by the NSW Government have been extended across Australia

The Sector Development Fund (SDF) is an Australian Government program that provides funding for projects that support the transition to the NDIS by improving provider readiness. The Department worked with the Australian Government to share lessons from two successful programs in New South Wales.

The NDIS provider toolkit was developed by National Disability Services as a major part of the Industry Development Fund in New South Wales in 2013. It was developed further and extended to other states and territories in 2014 using funding from the SDF. Similarly, the Care Careers website was developed for use in New South Wales and later received funding from the SDF so it could expand to cover other states and territories.

New South Wales has received minimal Australian Government funding

Sector development projects sponsored by the NSW Government have received around \$2 million, or five per cent, of the \$42 million allocated from the SDF to projects in states and territories. New South Wales has the largest population of people with disability and had the largest NDIS trial site in Australia, but other states and territories have received significantly more funding from the SDF. For example, the Victorian Government received over \$6.9 million, or 17 per cent of the total funding allocated, which included around \$4 million for building capacity in communities with additional access needs such as rural and remote areas and Aboriginal and Torres Strait Islander communities.

The Australian National Audit Office's 2016 report found there was limited evidence of a strategic approach by the Australian Government to allocating funding from the SDF. There was no documented strategy guiding decisions about funding allocations until April 2015 and almost one third of the total SDF funding was allocated before this strategy was finalised. The Department advised us that it argued the SDF should be used to fund projects relating to national priorities such as workforce development or market development in rural and remote areas, rather than individual state or territory priorities.

3.3 Transition issues have been monitored and mitigated

Administrative issues for non-government providers have been monitored

The transition of funding from the NSW Government to the NDIA is one of the major practical risks of the transition. Providers who have previously received funding via quarterly payments in advance are required to switch to a system where they bill the NDIA for services they have provided. The Department published guidelines for providers describing how the funding transition would work so that providers would know when their funding from the NSW Government would reduce. It responded to funding transition issues caused by problems with the NDIA's online payment systems by deferring planned reductions in payments to providers. This eased short-term financial stress on providers.

Department staff who work with providers told us some providers do not know which of their clients have moved onto NDIS funding plans and which are still eligible for services funded by the Department. Some providers told us they were expecting the NDIA or the Department to give them this information. Privacy restrictions mean that the NDIA will not share information about individual clients with providers or the NSW Government. The Department has responded to this problem by giving providers de-identified client information to help them know how many clients have moved to an NDIS plan. It also established a dedicated phone line to respond to provider queries about the funding transition.

The Department has allowed dual recognition of registration for providers with other states that have quality frameworks compatible with New South Wales. This has helped to reduce duplication of administration for providers. Further administrative issues are likely as the full rollout continues and more providers enter the NDIS. For example, the Australian National Audit Office's 2016 report on the NDIS transition found provider registration may remain a problem for the NDIA.

Other NSW Government departments are impacted by the NDIS

The changes to the disability support sector will have an impact on other NSW Government departments that provide services that are used by people with disability. The Department currently provides some support to connect people with relevant services but will not do this after the transition to the NDIS. This means other NSW Government departments and agencies may have to establish processes and dedicate resources to do this work. Many staff currently working in the Department have extensive knowledge of the disability support system that may be valuable in other NSW Government departments after the transition.

The NSW Department of Premier and Cabinet is responsible for coordinating work to manage the impact of the transition on other NSW Government departments. Work in this area is expected to be completed in 2017 and includes:

- producing operational guidance for NSW Government departments that need to connect with NDIS services, including Health, Education and Transport
- coordinating work to assess the potential impact of the closure of the Department's disability support functions on other NSW Government departments
- planning to retain the skills and knowledge of the Department's staff during and after the transition to the NDIS through the 'NDIS Workforce Mobility Pathway' program.

4. Principles for developing the non-government sector

The non-government sector is providing more human services and these are increasingly being provided through 'public service markets'. Our audit examined the Department of Family and Community Services' (the Department's) work with non-government disability service providers to build sector capacity, develop provider capability and coordinate work with other governments. It identified some principles governments and agencies should consider when doing similar work to develop the non-government sector to deliver human services.

The role of government in human services is changing, with non-government organisations increasingly providing services through public service markets which are established and overseen by government. Governments are delivering fewer services, but retain a stewardship role in which they oversee the functioning of the system.

Our audit found the NSW Government made investments over an extended period to build capacity in the non-government sector. To develop the capability of providers, the Department formed partnerships and played a supporting role rather than delivering the programs themselves. The Department could have done more to measure outcomes of its work in both areas. The Department managed coordination risks by establishing whole-of-government oversight arrangements and communicating actively with the Australian Government.

Principles for developing the non-government sector

1. Commence work to increase the capacity of the non-government sector early to allow time for service capacity to be built in a sustainable way.
2. Decide whether to increase the capacity of the sector by supporting existing providers to expand their operations, attracting new organisations from outside the existing provider group, or some combination of these.
3. Tailor approaches to supporting groups that have additional support or access needs because of cultural or geographic factors.
4. Define the desired outcomes for people using services and, where possible, include outcomes in service delivery contracts.
5. Invest in the sector by partnering with sector peak bodies to deliver capability programs.
6. Include one-to-one support and mentoring in capability building programs where possible to improve the targeting of support to the specific needs of providers.
7. Collect baseline information on provider capability before commencing programs and build robust tracking and evaluation into their design.
8. Establish whole-of-government governance arrangements to ensure roles, responsibilities and accountability for delivery are clear.

Changing role for government in the delivery of human services

The way human services are provided in Australia is changing, with governments playing a smaller role in service delivery as public service markets are established to facilitate competition and user choice. Human services include health care, disability support, aged care and social housing.

A government can establish a public sector market by contracting with non-government organisations to provide services instead of delivering services itself. Government retains the role of purchaser of the services and refers people to the providers. This introduces competition between providers to deliver services funded by government. In others cases, such as the NDIS, government goes further by giving the role of purchaser to the people using the services. This is usually achieved by giving people individual funding for support. This introduces competition for services and allows users some choice of provider.

Governments have been introducing market-based elements to service delivery since at least the 1990s. The pace of change has accelerated recently, with several reviews for the Australian Government investigating potential reforms to human services delivery.

The 2015 'Australian Government Competition Policy Review' included consideration of the role of competition in the delivery of human services. The review argued introducing more providers could improve user choice and promote innovation in service delivery. It also noted governments should retain a stewardship role which includes overseeing the commissioning and regulation of providers and setting desired outcomes for people using human services.

The Productivity Commission's 2016 report on competition in human services investigated whether introducing competition could improve the efficiency and effectiveness of human services. It argued some human services could benefit from this reform, including social housing, palliative care and support for people who have problems from drug and alcohol abuse. The report argued one of the objectives of introducing competition into public services should be to improve outcomes for people using the services.

Public service markets allow governments to give responsibility for the delivery of services to non-government providers. However, governments retain ultimate responsibility for access to and outcomes of the services. The main elements of market stewardship include:

- determining policy priorities and intended outcomes for users of the services
- establishing systems to measure the quality and safety of services
- ensuring there is effective competition between providers
- supporting service users to make good choices about services.

The NSW Government has started moving service delivery to the non-government sector in areas including out-of-home care, community housing and disability support. The delivery of other human services may be reformed in similar ways.

Our audit identified several principles that should be considered by other governments and agencies seeking to increase the capacity and capability of the non-government sector to deliver human services.

Building the capacity of the non-government sector

When a government decides to move the delivery of human services to the non-government sector, some work will be required to increase the number of providers in the system. A decision to move service delivery to the non-government sector requires adequate planning and time. The Department's approach to capacity building in the disability sector involved ten years of targeted funding increases to achieve growth in service capacity. Growth in out-of-home care and community housing involved similarly long-term reform.

Governments should decide whether to increase capacity by building the service capacity of existing providers, introducing new providers to the system, or using a mixture of these. The Department achieved a significant capacity increase in disability services without increasing the number of providers. If the policy goal includes increasing user choice or encouraging innovation in the way services are delivered, new providers might be required to achieve this aim.

Different risk management approaches are required depending on the strategy chosen to expand the sector. Existing providers need to develop operational and business systems to support the delivery of more services so that any increases are sustainable. Introducing many new providers requires safeguards to ensure quality standards are maintained.

Governments retain responsibility for the outcomes of the services it funds, so outcomes for people using services delivered by non-government organisations need to be defined and measured. It should not be assumed that moving services to the non-government sector will automatically improve the quality of services or outcomes for people using them. Where possible, outcomes should be built into contracts with service providers to increase accountability and provide direct incentives to provide high quality services.

Governments typically measure outputs, such as the number of services delivered. Outcomes for people using the services, such as improvements in health and wellbeing or skills, are measured less often. Assessments of the quality of services being delivered should include the views of the people using the services, as well as some quantitative measures where possible.

Information on the quality of support provided is important because it allows benchmarks for service quality to be established and increases the accountability of non-government service providers. This helps governments to assess and manage risks more effectively, including by helping underperforming providers to improve the quality of their services.

The Department used a different approach to commissioning for its Ability Links program. The program is based on achieving outcomes for participants rather than delivering a certain number of services in a specific way. For example, an Ability Links provider might help a participant to achieve their goal of becoming involved in a local sports club by talking to the club about making its facilities more accessible. The commissioning process aimed to identify suitable organisations with links to the community, rather than their experience providing specific disability services. The process included active engagement with potential providers. For example, organisations that applied to deliver the program were invited to participate in developing the approach to measuring outcomes for the program. This partnership approach helped the Department to select appropriate organisations and define outcomes for the program in a meaningful way.

Ensuring a market-based system works for people with additional support or access needs is among the most important elements of market stewardship. Governments will often need to do additional work to ensure the most vulnerable people are well served by a public service market. This includes those with more complex support needs, people in remote areas, and people from Aboriginal and Torres Strait Islander or culturally and linguistically diverse communities.

The Department's approach to this challenge was to identify non-government disability service providers with the capacity to provide more services and worked with them to build their capacity. In some cases, it will be very difficult to form a market due to low population or significant additional costs or risks in supporting specific groups. Alternative arrangements may be needed for specific groups in these situations.

Helping non-government providers to develop their capability

There are already many non-government providers delivering human services under government contracts or grants. For example, the Department provided funding to almost 2,000 non-government organisations to provide services in areas including disability support, out-of-home care and child protection in 2015–16. Many of these are not-for-profit or charity organisations that receive most of their income from government or charitable sources. These organisations are often good at delivering services and have valuable connections with local communities, but do not have sophisticated business or client management systems. Participating in a public service market that requires providers to compete for clients will be challenging for many of these organisations.

The Department delivered its capability building programs for disability service providers in partnership with the peak body for disability service providers. Involving peak bodies in the planning and delivery of capability building programs can be beneficial because:

- it draws on existing skills and networks within the sector
- it makes it more likely that the programs will be targeted to what providers need
- it encourages the sector to take responsibility for its own development.

If responsibility for delivering capability building programs is given to the sector, it is important that close working relationships with government staff are maintained, especially with those who have worked with service providers at a local level. This ensures government staff with knowledge of provider strengths and weaknesses have the chance to give their input to programs.

Programs involving one-to-one support from trained consultants received the most positive feedback from service providers preparing to transition to the NDIS. This kind of support will be more expensive per capita than other options such as producing generic resources that can be distributed to providers. However, including one-to-one support as part of the mix of support provided allows consultants to identify the individual development needs of providers. It also allows any existing resources such as good practice guides or checklists to be promoted to providers, which can increase their use.

Baseline information on existing capability levels should be collected before any capability building programs begin so the impact of capability building programs can be tracked. Without this information, it is not possible to demonstrate the impact of government investment to build provider capability.

Evaluating individual programs is also important. This should include measures of learning and development outcomes in addition to outputs such as the number of people participating in programs or downloading resources. Outcomes could be measured through 'before and after' self-assessments. Follow up surveys to determine if organisations implemented the changes and whether they had an ongoing impact would also help measure impact.

Coordinating sector development and changes to human services delivery

Sector development work needs to be coordinated with other departments and other jurisdictions to ensure resources are used in an efficient way that avoids duplication or gaps. The Department set up governance systems and implementation plans to coordinate work with the Australian Government and other NSW Government departments. Clear governance arrangements are needed during a transition to market-based arrangements to define roles and responsibilities and monitor risks. Pathways to escalate issues identified at the local level are important so that any systemic issues can be identified early.

In situations where governments stop delivering services when establishing a public service market, governments should consider the potential impact on the way people access services. The Department currently delivers some disability services directly in New South Wales, which means it deals with clients directly and can refer people to non-government providers where needed. When the delivery of services is moved to non-government providers, another organisation needs to take on this referral role. Without this, people needing support may find it harder to access services because they would have to source the service themselves.

Most human services need to connect with other government services. For example, an individual might receive specialist services for both disability and mental health, while also using mainstream services through the government health and education systems. Changes to the way one service is delivered can have knock-on effects to other services.

At the start of the NDIS transition, some schools reported having problems because the increase in children receiving therapy support meant that more therapists were asking to use school facilities to provide in-school support to children. This was consistent with the NDIS objectives of supporting people with disability to participate in mainstream services wherever possible. However, it created logistical challenges for schools and teachers because they did not have policies or systems for managing the involvement of additional support staff in classrooms. Careful planning is needed to ensure these kinds of issues are identified and accounted for to reduce the impact of changes in one sector on other services.

Appendices

Appendix 1: Response from the Department



EAP17/1083

Mr Ian Goodwin
Deputy Auditor-General
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Mr Goodwin

Response to Audit Report – Building the readiness of the non-government sector for the NDIS

Thank you for your letter of 21 December 2016 in which you provide the final audit report 'Building the readiness of the non-government sector for the NDIS'.

Developing the capacity of the disability sector within NSW has been a key area of focus for my department. Since 2012, NSW has been a leader in industry development and has invested significantly in supporting our disability sector to thrive and innovate in a consumer-driven environment.

I am encouraged that the report has recognised our success in building a robust disability services sector which empowers people with disability and increases their participation in social and economic life. The strategies implemented by the NSW Government have prepared many NSW disability service providers to navigate the challenges and opportunities presented by the transition to the NDIS.

The Department of Family and Community Services (FACS) accepts the findings of the audit report and enclosed with this letter is our response to the four recommendations outlined. We acknowledge that to achieve the objectives we have set for the next phase of transition, it is essential to continue to support the growth of a diverse disability service sector which can appropriately meet the needs of people with disability.

The department's role in this area is ceasing following the full implementation of the NDIS in NSW in June 2018. During the transition to the NDIS, we will continue to collaborate with our national and state government counterparts to identify opportunities to strengthen sector capacity and importantly, to share the lessons we have learned and embed and transmit NSW knowledge into the national scheme.

Should you or your officials wish to discuss this further, please contact Samantha Taylor, Executive Director, NDIS Implementation on 9377 6013 or by email at Samantha.Taylor8@facs.nsw.gov.au

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Coutts-Trotter', written over the 'Yours sincerely' text.

Michael Coutts-Trotter
Secretary

Encl.

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**Performance Audit – Building the readiness of the non-government sector for the NDIS
Response by the Department of Family and Community Services
to report recommendations**

1. Building the capacity of the non-government sector

Recommendation 1:

Work with the Australian Government, National Disability Insurance Agency (NDIA) and other NSW Government agencies to identify gaps and develop the capacity of specialist clinical services, focusing on regional and rural areas.

RESPONSE:

The Department of Family and Community Services **accepts** Recommendation 1.

Ensuring a thriving market of disability service providers is crucial to improving choice and control for people with disability, and the Department recognises the importance of supporting existing specialist clinical services, particularly in regional and rural areas, throughout transition.

The Department has implemented and funded a range of initiatives to support the growth of the specialist disability workforce in NSW, and to support sector capacity in regional and rural areas.

In December 2016, the NSW Government entered into Working Arrangements with the Australian Government and the NDIA in relation to People with Complex Needs, and Market and Provider Readiness. Throughout the transition to the NDIS, the Department will work closely with other agencies to implement these arrangements, and to support the development and implementation of the NDIS Rural and Remote Servicing Strategy. From 2018, these arrangements will transition to, and form part of, the full scheme implementation of the NDIS.

The Department is also working with the NSW Department of Industry on the Disability Sector Scale Up program, to support the continued growth of the disability sector and workforce in NSW.

Recommendation 2:

Continue to implement projects to increase the number of organisations that can support Aboriginal and Torres Strait Islander and culturally and linguistically diverse communities.

RESPONSE:

The Department of Family and Community Services **accepts** Recommendation 2.

As recognised in the audit report, the Department has implemented a number of projects with a specific focus on developing the sector to meet the needs of Aboriginal and Torres Strait Islander and culturally and linguistically diverse (CALD) communities until transition is completed in 2018.

In late 2016, the Department developed two new projects focused on supporting the Aboriginal disability sector: *Building Capacity for Aboriginal People*; and the *Aboriginal Disability Provider Grants Program*.

The Department will continue to develop and implement projects targeting both the Aboriginal and Torres Strait Islander and CALD sectors during transition.

The Department will also work with the NDIA and the Australian Government to support the development and implementation of strategies to ensure that Aboriginal and CALD communities have access to appropriate services under the NDIS.

2. Helping non-government providers develop their capability

Recommendation 3:

Target remaining capability building assistance to less prepared providers, including via one-to-one support and mentoring in identified areas of weakness.

RESPONSE:

The Department of Family and Community Services **accepts** Recommendation 3.

The Department will continue to develop and deliver programs and initiatives to support disability service providers and build capacity within the sector until transition concludes in 2018.

The Department has supported, and will continue to support during the transition, the Sector Support Consultants program, which, as the audit report notes, has proven effective in supporting the capacity of providers via one-to-one support. The Department has worked with National Disability Services (NDS) to extend this program throughout transition.

The Department will complete a second round of provider readiness assessments in 2017, to update the data on sector readiness, and to guide further work with providers during the transition to the NDIS.

3. Coordinating sector development

Recommendation 4:

Continue working with the Australian Government and the NDIA to ensure lessons from sector capability programs are shared.

RESPONSE:

The Department of Family and Community Services **accepts** Recommendation 4.

The Department will continue to actively contribute to national and sector and market policy, and engage with the Australian Government and NDIA to share resources and lessons learned from the NSW experience.

In December 2016, the Market and Provider Readiness Working Arrangements were agreed between the NSW Government, the Australian Government and the NDIA. As part of the implementation of these arrangements, NSW will share its expertise and experience in disability sector and market development.

Principles for developing the non-government sector

The Department of Family and Community Services **accepts** the broader principles for developing the non-government sector.

The principles outlined are consistent with the Department's approach to the development of non-government organisations across the organisation, in sectors such as community housing and child and family services, and will be considered as part of future sector development initiatives in those areas.

Appendix 2: Survey of disability service providers

Development of the survey

In August 2016, the Audit Office conducted a survey of disability service providers funded by the Department.

The survey was developed in consultation with the Department and the relevant provider peak bodies, National Disability Services and Aged & Community Services NSW. It was distributed to all providers via the Department's online provider portal and providers were requested to submit only one response for each organisation.

Profile of survey respondents

The survey received 299 responses, a response rate of around 43 per cent of the provider population in 2015–16. Key characteristics of the survey respondents included:

- 87 per cent of respondents described themselves as not-for-profit or charity organisations
- respondents included providers based in metropolitan, regional and rural or remote areas
- all disability service types were represented among survey respondents, covering accommodation, respite, community support, employment support and information and advocacy
- almost one in five providers had participated in an NDIS trial site and a further 49 per cent were operating in an area where the NDIS commenced in 2015–16.

Survey questions

The survey asked questions in the following areas:

1. demographic information, including the geographic areas in which the organisation provides services, the type of services provided and the approximate annual revenue of the organisation
2. plans for delivering NDIS services and, where relevant, the reasons for planning to deliver more or fewer services
3. the organisation's assessment of its readiness for the NDIS, focussing on the seven capability areas used in the Industry Development Fund programs
4. the organisation's use of the capability building resources and programs funded by the Department, including the Industry Development Fund, the Organisation Transition Fund and the Transition Assistance Program
5. the organisation's assessment of the quality and usefulness of the resources and programs funded by the Department in helping them prepare for the NDIS.

Appendix 3: About the audit

Audit objective

This audit assessed the effectiveness of the NSW Department of Family and Community Services' work to manage the risks of the NDIS transition in New South Wales by building the readiness of the non-government sector for the NDIS.

Audit questions

We addressed the audit objective by asking the following questions:

1. Has the department supported the non-government sector to build capacity to meet expected changes in demand under the NDIS?
2. Has the department supported disability service providers in New South Wales to improve their capability to deliver NDIS services?
3. Has the Department's work to prepare for the NDIS been coordinated with the Australian Government's sector and provider readiness work?

Audit scope

The audit assessed:

1. the Department's planning to increase the capacity of the non-government sector
2. the Department's investment to build the capability of existing non-government disability service providers
3. the Department's working relationships with the Australian Government, NDIA and other NSW Government departments.

The audit did not assess:

- the transfer of the Department's services, staff or assets to the non-government sector
- the transition of client and provider data from the Department to the NDIA
- the effectiveness of the work of the Australian Government or NDIA in fulfilling their responsibilities for the NDIS transition.

Audit approach

Our procedures were:

1. Reviewing documents in areas including:
 - policies and plans to increase the service capacity of non-government organisations in New South Wales
 - planning and assessment of the Department-funded provider capability building programs, including meeting minutes and evaluation documents
 - transition planning documents, including correspondence with the Australian Government about the development of strategies to support the NDIS transition.
2. Analysing data relating to:
 - the distribution of funding to disability service providers in New South Wales
 - the number and type of people using disability services in New South Wales.
3. Interviewing staff from the Department, including:
 - executives and managers with sector development responsibilities
 - staff in the Department's district offices who manage the contracts of service providers in their area.
4. Surveying disability service providers in NSW to seek their views on:
 - their readiness to provide services under the NDIS
 - the usefulness of the Department-funded programs in helping them prepare for the transition to the NDIS.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standards ASAE 3500 on performance auditing. The Standard requires the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with the auditing requirements specified in the Public Finance and Audit Act 1983.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by staff at the Department of Family and Community Services, including our audit liaison leads Craig Layton and David Gledhill and the Department staff who gave their time to participate in interviews and provide documents and data. We also thank the other stakeholders that made the time to speak to us during the audit.

Audit team

The audit was conducted by Alex Kaiser, Matthew Blunt and Michelle Ravindran. Oversight and quality assurance was provided by Michael Thistlethwaite, Andrew Hayne and Kathrina Lo.

Audit cost

The cost of the audit was approximately \$230,000 including overheads and travel costs.

Performance auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of a government agency or consider particular issues which affect the whole public sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

Through their recommendations, performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also focus on assisting accountability processes by holding managers to account for agency performance.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, the public, agencies and Audit Office research.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing. They can take up to nine months to complete, depending on the audit's scope.

During the planning phase the audit team develops an understanding of agency activities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the agency or program activities are assessed. Criteria may be based on best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with agency management to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with agency management to check that facts presented in the draft report are accurate and that recommendations are practical and appropriate.

A final report is then provided to the CEO for comment. The relevant minister and the Treasurer are also provided with a copy of the final report. The report tabled in parliament includes a response from the CEO on the report's conclusion and recommendations. In multiple agency performance audits, there may be responses from more than one agency or from a nominated coordinating agency.

Do we check to see if recommendations have been implemented?

Following the tabling of the report in parliament, agencies are requested to advise the Audit Office on action taken, or proposed, against each of the report's recommendations. It is usual for agency audit committees to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee (PAC) to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report is tabled. These reports are available on the parliamentary website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

Internal quality control review of each audit ensures compliance with Australian assurance standards. Periodic review by other Audit Offices tests our activities against best practice.

The PAC is also responsible for overseeing the performance of the Audit Office and conducts a review of our operations every four years. The review's report is tabled in parliament and available on its website.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in progress, please see our website www.audit.nsw.gov.au or contact us on 02 9275 7100.

Our vision

Making a difference through audit excellence.

Our mission

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

Our values

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

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

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