The role of the Auditor-General

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the Public Finance and Audit Act 1983. Our major responsibility is to conduct financial or ‘attest’ audits of State public sector agencies’ financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies’ accounts.

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

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

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

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

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Section One

Education
Executive Summary

This report analyses the results of the financial statement audits of the Education cluster agencies for the year ended 30 June 2016.

**Financial performance and reporting**

**Financial reporting**

Unqualified audit opinions were issued for all agencies. All statutory deadlines were met.

**Financial performance**

Changes to the cluster affected the financial performance of agencies.

**Financial controls**

**Human resources**

Agencies should continue to reduce employees’ excess annual leave balances.

**Work health and safety**

The increase in the total cost of workers’ compensation claims by 36 per cent to $57.8 million in 2015–16 was driven by a rise in psychological injury claims.

**Asset management**

The Department will receive funding of $330 million over 2016–17 and 2017–18 to address increasing backlog maintenance in schools.

**Governance**

**Fraud and corruption**

The Department reviewed its Fraud and Corruption Control Framework against the revised 2015 Audit Office Fraud Control Improvement Kit.

**Compliance framework**

Agencies should review compliance with the Government Information (Public Access) Act 2009.

**Risk management**

The Department has an Enterprise Risk Management framework in place.

**Service delivery**

**Before and After School Care Fund**

The Fund has allocated around $2.0 million in grant funds and created 6,000 out of school hours care places as at 30 June 2016.

**School performance**

The Department should reassess current strategies for achieving performance targets relating to the reading and numeracy skills of NSW students.

**Student population growth**

The student population in Sydney is growing at a significant rate. The ten year growth rate is 11.4 per cent. The Department is developing strategies to cope with this growth in student numbers.
Unqualified audit opinions issued for all agencies’ 30 June 2016 financial statements

Unqualified audit opinions were issued on the 2015–16 financial statements of all agencies in the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

Larger misstatements were identified in agencies’ financial statements

Both the number and dollar value of misstatements identified in cluster agencies’ 2015–16 financial statements increased when compared to the prior year. Five misstatements individually greater than $5.0 million, three of which were corrected, were identified.

Agencies can still improve their hard close and early close procedures

Although there was compliance with hard close and early close requirements, opportunities exist for agencies to further improve these procedures.

Recommendation (repeat issue)

Cluster agencies should ensure all supporting documents for hard close and early close are ready by the due date. All significant accounting issues should be resolved as part of these procedures.

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

Discrepancies were noted in the annual leave and long service leave balances reported from the Department’s Leave Management System. This issue did not impact leave entitlements paid to employees as all requests for leave are verified and approved on payment.

Recommendation

The Department should review the data and assumptions in the Leave Management System and resolve unusual balances and potential errors prior to starting the transition to the new HR/Payroll system in November 2017.

The number of control weaknesses identified is decreasing

The number of control weaknesses identified during the audits of cluster agencies for 2015–16, including the number of repeat issues, has decreased. No high risk internal control weaknesses were identified.

Revised Learning Management and Business Reform program costs were released

The budget for the Learning Management and Business Reform (LMBR) program has increased. The program is expected to cost up to $752 million and be fully deployed by 30 June 2018.

Information technology systems rolled out to more schools in 2016

The roll-out of the Finance and Student Administration and Learning Management (SALM) systems to schools progressed in 2016. The total number of schools transitioned to these systems at 17 October 2016 was 1,100. The roll-out to the remaining schools is on track for completion by the end of 2017.

The Department recognised the difficulties experienced by the schools in the pilot implementation group and provided additional support to the schools transitioned during 2016.
Managing excess annual leave remains a challenge for agencies

At 30 June 2016, 901 or 5.5 per cent of employees (excluding teaching service staff in schools and school administrative and support staff), exceed the whole-of-government target of 30 days for annual leave balances. This is an improvement on the previous year when 1,199 or nine per cent had balances above the 30 day target.

Recommendation (repeat issue)

Cluster agencies should continue efforts to reduce employees’ excess annual leave balances to meet whole-of-government targets.

The cost of workers’ compensation claims has increased

While the total number of workers’ compensation claims has remained stable, the total cost of claims has increased by 36 per cent from $42.5 million in 2014–15 to $57.8 million in 2015–16. This increase was driven by escalating claim numbers and costs in the psychological injury category.

The total number of claims relating to psychological injuries has increased by 32.5 per cent, from 467 in 2014–15 to 619 in 2015–16. The associated cost of these claims has escalated by 71.5 per cent, from $15.1 million to $25.9 million over the same period.

Recommendation

The Department should consider the effectiveness of workplace health and safety strategies for addressing the rise in psychological injuries.

Bullying, harassment and violence contribute to rise in psychological injury claims

In 2015–16, 308 employees lodged a compensation claim citing bullying, harassment and violence as the alleged cause of injury at a total cost of $12.5 million. This represents an increase of 78 claims and a 64.5 per cent increase in total costs from 2014–15.

The Department is working to address backlog maintenance

Estimated backlog maintenance at 30 June 2016 was $775 million, an increase of $43.0 million from 2014–15. The Department is working with Treasury to address this issue and will receive funding of $330 million over 2016–17 and 2017–18 to address maintenance needs in schools.

Instances of non-compliance with the GIPA Act were identified across the sector

This year, the Audit Office reviewed a selection of agencies’ compliance with the requirements of Part 3 Division 5 of the Government Information (Public Access) Act 2009 (GIPA Act). While there was material compliance with the requirements, instances of non-compliance with specific requirements resulted in a qualified review conclusion for each agency.

Recommendation

Cluster agencies should review compliance with the Government Information (Public Access) Act 2009.

Allegations of fraud in the Department have remained relatively stable

The number of allegations of fraud in the Department has remained relatively stable over the past five years. The Department reviewed its Fraud and Corruption Control Framework against the revised 2015 Audit Office Fraud Control Improvement Kit in August 2016.
Enterprise-wide risk management is improving

The Department has an Enterprise Risk Management framework with accompanying policy and guidelines. In 2016–17, the Department plans to continue embedding risk management into day-to-day activities and decision making.

Service delivery

All NSW early childhood and school teachers need accreditation

The Teacher Accreditation Act 2004 was amended to require the accreditation of all teachers in schools and early childhood centres in New South Wales from 1 January 2018.

The Before and After School Care Fund created 6,000 new places

The NSW Government established the $20.0 million Before and After School Care Fund in August 2015 to deliver up to 45,000 new out of school hours care (OSHC) places. At 30 June 2016, the Fund had allocated around $2.0 million in funding and created 5,993 new OSHC places. The Department is currently considering options for the future implementation of the Fund and is gaining an understanding of the barriers to the uptake of grant funding.

Education and care provided at 1,503 services did not meet National Quality Standards

At 30 June 2016, 80 per cent of early childhood services had been assessed with 2,621 services meeting or exceeding the National Quality Standards (NQS) and 1,503 services not fully meeting the NQS.

Four targets in the Department’s Strategic Plan 2012–2017 are at risk

Four of the 12 performance targets in the Department’s Strategic Plan 2012–17 are at risk. Those targets relate to increasing the reading and numeracy skills of NSW students, increasing the proportion of NSW students in the top two NAPLAN bands in reading and numeracy, reducing the reading and numeracy gap between Aboriginal and non-Aboriginal students, and increasing the qualifications of rural and regional youths.

Recommendation (repeat issue)

The Department should reassess current strategies for achieving performance targets in reading and numeracy and consider the effectiveness of strategies in the other domains.

Meeting the Premier’s Priority will be a challenge

The Premier’s Priority for the Education cluster is to increase the proportion of NSW students in the top two NAPLAN bands by eight per cent by 2019. The proportion of students achieving results in the top two NAPLAN bands in reading and numeracy in 2016 is lower than the original baseline year.

Growth in student numbers is concentrated in metropolitan Sydney

Student enrolments have grown significantly in Sydney over the last decade. The ten year growth rate is 11.4 per cent. The Department projects the student population will continue to increase in the future.

The Department is developing strategies to cope with the growth in student numbers

The Department recently developed a School Assets Strategic Plan (SASP) designed to ensure there are sufficient fit-for-purpose places for students up to 2031. The Audit Office is currently conducting a performance audit based on Planning for School Infrastructure which is expected to be tabled in NSW Parliament in 2017.
Introduction

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

- Financial Performance and Reporting
- Financial Controls
- Governance
- Service Delivery.

A snapshot of the cluster for the year ended 30 June 2016 is shown below.

Snapshot of the cluster

<table>
<thead>
<tr>
<th>Total assets</th>
<th>$24.0 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>$13.2 billion</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$1.7 billion</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$13.2 billion</td>
</tr>
</tbody>
</table>

Early childhood education and care

- 5,379 approved services

Primary and secondary schools

- 771,978 school students
- 2,200 schools
- 47,143 teaching staff

Changes to the cluster

The cluster was impacted by the Administrative Arrangements (Administrative Changes – Public Service Agencies) Order (No 2) 2015, which was effective from 1 July 2015, as follows:

- the name of the Department of Education and Communities changed to the Department of Education (the Department)
- the Office of Communities (except the Office of Aboriginal Affairs) was transferred from the Department to the Department of Family and Community Services
- State Training Services (within the Department) and the Technical and Further Education Commission (TAFE NSW) (within the cluster) were transferred to the Industry, Skills and Regional Development cluster
- Multicultural NSW and the Office of the Advocate for Children and Young People were transferred to the Family and Community Services cluster.
From 1 January 2017, the name of the Board of Studies, Teaching and Educational Standards (BOSTES) will change to NSW Education Standards Authority. BOSTES was established in 2014 following the merger of the former Board of Studies NSW and the NSW Institute of Teachers.

Status of 2015 recommendations

Last year’s Auditor-General’s Report to Parliament included 14 recommendations for cluster agencies to improve financial management and internal controls. The current status of each recommendation is shown below.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Current status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cluster agencies should:</strong></td>
<td></td>
</tr>
<tr>
<td>Ensure all supporting documents for early close are ready by the due date. All significant accounting issues should be resolved as part of the early close procedures.</td>
<td>Opportunities for further improvement to hard close and early close procedures were identified. Details are provided in the chapter on Financial Performance and Reporting.</td>
</tr>
<tr>
<td>Address repeat issues from previous audits in a timely manner.</td>
<td>The number of control weaknesses identified during the audits of cluster agencies, including the number of repeat issues, has decreased. Details are provided in the chapter on Financial Controls.</td>
</tr>
<tr>
<td>Ensure their disaster recovery plans for financial systems are current and fully tested.</td>
<td>The Department has planned a full test of its disaster recovery plan by the end of 2016 and has engaged external assistance to undertake this process.</td>
</tr>
<tr>
<td>Continue to reduce employees’ excess annual leave balances to meet whole-of-government targets.</td>
<td>Cluster agencies have made significant progress in reducing these balances. Details are provided in the chapter on Financial Controls.</td>
</tr>
<tr>
<td>Reassess their fraud controls against the Audit Office’s Fraud Control improvement Kit.</td>
<td>A review of the Department’s fraud controls against the kit was completed in August 2016. Details are provided in the chapter on Governance.</td>
</tr>
<tr>
<td>Develop and maintain centralised conflicts of interest and gifts and benefits registers.</td>
<td>Cluster agencies have implemented the registers.</td>
</tr>
<tr>
<td><strong>The Department should:</strong></td>
<td></td>
</tr>
<tr>
<td>Formalise processes for reviewing and monitoring the financial performance of the 229 pilot schools transitioned to the new School Finance System before further Learning Management and Business Reform (LMBR) program deployment occurs to the remaining schools. Management reports should be prepared to identify significant variances between actual and budgeted results.</td>
<td>Reporting templates have been created to review the transactions. The Department is looking to further embed the processes into day-to-day activities.</td>
</tr>
</tbody>
</table>
### Recommendation

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Current status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen its processes to ensure that there are no inappropriate changes to financial systems.</td>
<td>The Department has implemented controls to reduce the risk of inappropriate changes being made to financial systems. Details are provided in the chapter on Financial Controls.</td>
</tr>
<tr>
<td>Ensure LMBR project staff receive more effective training to increase awareness of the Department’s IT security and change management policies and procedures, and compliance should be monitored regularly.</td>
<td>The Department has implemented policies, procedures and controls to improve security and change management. Details are provided in the chapter on Financial Controls.</td>
</tr>
<tr>
<td>Work with Treasury to establish an appropriate response to backlog maintenance.</td>
<td>The Department is working with Treasury to address backlog maintenance and will receive funding of $330 million over 2016–17 and 2017–18 to address maintenance needs in schools. Details are provided in the chapter on Financial Controls.</td>
</tr>
<tr>
<td>Ensure service delivery in metropolitan areas is not compromised by the disposal of major assets.</td>
<td>The Department is developing strategies to cope with the growth in student numbers as part of its School Assets Strategic Plan. Details are provided in the chapters on Financial Controls and Service Delivery.</td>
</tr>
<tr>
<td>Consider how risk management at an agency level is reported and monitored at the cluster level.</td>
<td>The Department has consulted with cluster agencies during the year to understand how risks at a cluster level are captured, managed, treated and reported. Details are provided in the chapter on Governance.</td>
</tr>
<tr>
<td>Reassess current strategies for achieving performance targets in reading and numeracy and consider the effectiveness of strategies in the other domains.</td>
<td>Results in reading and numeracy for NSW students have not improved significantly from prior years. The Department is implementing a range of targeted strategies to support achievement of performance targets. Details are provided in the chapter on Service Delivery.</td>
</tr>
<tr>
<td>Ensure appropriate strategies are in place to cope with the growth in the student population in Sydney.</td>
<td>The Department is developing strategies as part of its School Assets Strategic Plan. Details are provided in the chapter on Service Delivery.</td>
</tr>
</tbody>
</table>

### Status of 2015 recommendations

<table>
<thead>
<tr>
<th>Status of 2015 recommendations</th>
<th>Fully addressed</th>
<th>Partially addressed</th>
<th>Not addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Financial Performance and Reporting

Financial performance and reporting are important elements of good governance. Confidence in public sector decision making and transparency is enhanced when financial reporting is accurate and timely. Effective financial management and reporting by agencies helps key stakeholders, such as the NSW Government, make effective decisions and achieve desired outcomes efficiently.

This chapter outlines observations, conclusions and recommendations relating to the financial performance and reporting of agencies in the Education cluster for 2015–16.

<table>
<thead>
<tr>
<th>Financial reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Observation</strong></td>
</tr>
<tr>
<td>Unqualified audit opinions were issued on the financial statements of all agencies in the cluster.</td>
</tr>
<tr>
<td>Although there was compliance with hard close and early close requirements, opportunities exist for agencies to further improve these procedures.</td>
</tr>
<tr>
<td>Discrepancies were noted in the annual leave and long service leave balances reported from the Department's Leave Management System.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial performance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Observation</strong></td>
</tr>
<tr>
<td>The Department recorded a net surplus of $70.1 million in 2015–16. Expenditure and revenue fell by $911 million and $678 million respectively over the same period.</td>
</tr>
<tr>
<td>The Board of Studies, Teaching and Educational Standards (BOSTES) recorded a net deficit of $6.3 million.</td>
</tr>
</tbody>
</table>

Quality of financial reporting

Unqualified audit opinions issued for all agencies’ 30 June 2016 financial statements

Unqualified audit opinions were issued on the 2015–16 financial statements of all agencies in the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.
Larger misstatements were identified in agencies' financial statements

Both the number and dollar value of misstatements identified in cluster agencies' 2015–16 financial statements increased when compared to the prior year.

The table below summarises misstatements detected during the audit process over the past five years.

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>Reported misstatements</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Education</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Education related entity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Studies, Teaching and Educational Standards</td>
<td>5</td>
<td>4</td>
<td>11</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>7</td>
<td>14</td>
<td>3</td>
<td>N/A</td>
</tr>
</tbody>
</table>

N/A Not applicable. The Board of Studies, Teaching and Educational Standards was established on 1 January 2014.

Source: Statutory Audit Reports issued by the Audit Office.

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

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>Number of misstatements</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Corrected</td>
<td>Uncorrected</td>
<td>Corrected</td>
<td>Uncorrected</td>
<td>Corrected</td>
</tr>
<tr>
<td>Less than $50,000</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>$50,000 - $250,000</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>$250,001 - $1,000,000</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>$1,000,001 - $5,000,000</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Greater than $5,000,000</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Total number of misstatements</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Audit Office of New South Wales.

The two uncorrected misstatements in 2015–16 individually greater than $5.0 million relate to the financial statements of the Department. Management determined these misstatements to be immaterial and did not correct the financial statements. The Audit Office accepted management's assessment.

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

Timeliness of financial reporting

Financial statements were submitted and audits completed by statutory deadlines

The Audit Office completed the year end audits and issued audit opinions for all cluster agencies' financial statements within statutory deadlines. The impact of hard close and early close procedures enabled the Audit Office to issue all audit opinions before the end of September.

The Department completed hard close procedures for the first time

The Department was one of nine agencies that participated in NSW Treasury's hard close pilot. The Department completed all required hard close activities by the due dates.

NSW Treasury conducted the pilot to determine if hard close procedures should be adopted on a wider basis across the NSW public sector to further improve the timeliness and quality of financial statements.

Hard close comprises year end procedures being performed to the fullest extent practicable at a preliminary month end date. Agencies are expected to address any material findings or concerns raised as part of the hard close before year end.
Agencies can still improve their hard close and early close procedures

**Recommendation (repeat issue)**

Cluster agencies should ensure all supporting documents for hard close and early close are ready by the due date. All significant accounting issues should be resolved as part of these procedures.

Although there was significant compliance with hard close and early close requirements, our review of these procedures identified some shortcomings. Opportunities for agencies to further improve hard close and early close procedures include:

- providing all necessary supporting work papers by the due date
- ensuring sufficient and appropriate documentation is available to support the outcomes
- resolving significant accounting issues early or documenting a clear path towards timely resolution
- formally assessing and documenting the impact of new and updated accounting standards.

**Key issues from financial audits**

**Discrepancies in leave data should be addressed before transition to new system**

**Recommendation**

The Department should review the data and assumptions in the Leave Management System and resolve unusual balances and potential errors prior to starting the transition to the new HR/Payroll system in November 2017.

During the year end audit, discrepancies were noted in the annual leave and long service leave balances reported from the Department’s Leave Management System (LMS). This issue did not impact leave entitlements paid to employees as all requests for leave are verified and approved on payment.

The Department should consider the use of exception reports as a means to review unusual balances and potential errors in the leave data in the LMS system.

A new HR/Payroll system for schools and the Department's corporate offices is a deliverable of Stage 3 of the LMBR program. Details are provided in the chapter on Financial Controls.

The design phase for the new HR/Payroll system commenced in July 2016 and is expected to be complete by the end of December 2016. Deployment will commence in November 2017 and full deployment is expected by 30 June 2018.

The Department's payroll operating environment is relatively complex. The Department employs around 90,000 permanent and temporary staff and approximately 20,000 casual employees. Staff are employed under various awards depending on whether they are classified as school teaching and related employees, school non-teaching staff or administrative, trades or miscellaneous employees. While some staff work in more than one capacity, others have complicated service histories.
Key financial information

**Net result of cluster agencies has improved from the prior year**

The Department recorded a net surplus of $70.1 million in 2015–16, an improvement of $216 million from the prior year. Expenditure and revenue fell by $911 million and $678 million respectively over the same period.

The decrease in the Department's revenue and expenditure is largely due to administrative restructures effective from 1 July 2015.

The Department's assets rose by $1.7 billion, primarily due to an increase of $1.6 billion in the value of building assets on revaluation.

The Board of Studies, Teaching and Educational Standards recorded a net deficit of $6.3 million. This is an improvement of $2.9 million from the prior year. Expenditure and revenue increased by $8.4 million and $11.3 million respectively over the same period.

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

**Performance against budget**

Incorrect budgets may lead to over spending, cost inefficiencies and potential wastage of resources. Comparing agency performance against budget assists in understanding how public funds are being used to achieve NSW Government policy objectives.

**The Department's result was below budget**

The Department's net surplus of $70.1 million was $96.0 million less favourable than the budgeted net surplus of $166 million.

The Board of Studies, Education and Teaching Standards net deficit of $6.3 million was $1.1 million more favourable than the budgeted net deficit of $7.4 million.

The 2015–16 statement of comprehensive income and financial position, as summarised in Appendix Three, shows the following performance against budgeted results for agencies in the cluster.

**2016 Statement of Comprehensive Income**

**Total expenses of the Department exceeded budget by two per cent**

In 2015–16, the actual expenses of the Department exceeded budget by $242 million (or two per cent). The Department's unfavourable variance against budget was largely due to a $350 million increase in employee related expenses.

The $1.6 billion increase in the value of the Department's building assets, reflected in other comprehensive income, was not budgeted for.

**2016 Statement of financial position**

**Total cluster assets were higher than budget**

Total cluster assets were $1.8 billion higher than budget. This was also primarily due to the $1.6 billion increase in the value of the Department's building assets on revaluation not being budgeted for.

Liabilities were $358 million higher than budget, mainly due to the deferred repayment of the advance from the Crown Entity ($141 million), higher than budgeted payables ($242 million) and increased employee leave and on-cost provisions ($147 million).
Financial Controls

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

This chapter outlines audit observations, conclusions or recommendations related to the financial controls of agencies in the Education cluster for 2015–16.

<table>
<thead>
<tr>
<th>Financial controls</th>
<th>Observation</th>
<th>Conclusion or recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of control weaknesses identified during the audits of cluster agencies, including the number of repeat issues, decreased. No high risk internal control weaknesses were identified.</td>
<td>Cluster agencies accepted audit findings and are actioning recommendations.</td>
<td></td>
</tr>
<tr>
<td>The budget for the LMBR program has increased. The program is expected to cost up to $752 million and be fully deployed by 30 June 2018.</td>
<td>Overall, LMBR program costs are significantly higher than the original business case budget and deployment is behind the original schedule.</td>
<td></td>
</tr>
<tr>
<td>At 30 June 2016, the number of employees in the cluster with an excessive annual leave balance was 901 or 5.5 per cent. This is an improvement on the previous year when 1,199 or nine per cent had balances above the 30 day target.</td>
<td>Recommendation (repeat issue): Cluster agencies should continue efforts to reduce employees’ excess annual leave balances to meet whole-of-government targets.</td>
<td></td>
</tr>
<tr>
<td>The total number of claims relating to psychological injuries increased by 32.5 per cent, from 467 in 2014–15 to 619 in 2015–16. The associated cost of these claims has escalated by 71.5 per cent, from $15.1 million to $25.9 million over the same period.</td>
<td>Recommendation: The Department should consider the effectiveness of workplace health and safety strategies for addressing the rise in psychological injuries</td>
<td></td>
</tr>
<tr>
<td>Backlog maintenance at schools increased by $43.0 million from $732 million in 2014–15 to $775 million in 2015–16.</td>
<td>The Department is working with Treasury to address the backlog maintenance issue and will receive funding of $330 million over 2016–17 and 2017–18 to address maintenance needs in schools.</td>
<td></td>
</tr>
<tr>
<td>Capital funding from NSW Treasury is expected to decrease over the coming years. The Department is expected to off-set this decrease through their asset sales program.</td>
<td>Identifying assets for disposal will be a challenge for the Department given the expected growth in the school population.</td>
<td></td>
</tr>
</tbody>
</table>

Internal controls

No high risk internal control weaknesses identified

The audits of cluster agencies for 2015–16 did not identify any high risk internal control weaknesses. However, areas were identified where internal controls could be improved and these were reported to relevant agencies’ management with recommendations to address the weaknesses.

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. The 2015–16 financial statement audits of cluster agencies identified that internal controls were generally designed appropriately and operated effectively to produce reliable and timely financial statements.
The number of control weaknesses identified is decreasing

The number of control weaknesses identified during the audits of cluster agencies for 2015–16, including the number of repeat issues, has decreased. Sixteen audit findings, including three repeat issues, were identified and reported to management. Twelve of the audit findings related to financial controls and four related to information system controls.

The number and associated risk of audit findings reported to management for the years ended 30 June 2016 and 2015 are analysed below.

<table>
<thead>
<tr>
<th>Risk assessment</th>
<th>Year ended 30 June</th>
<th>2016</th>
<th>Total</th>
<th>2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>New</td>
<td>Repeat</td>
<td>Total</td>
<td>New</td>
<td>Repeat</td>
</tr>
<tr>
<td>High</td>
<td>--</td>
<td>--</td>
<td>2</td>
<td>--</td>
<td>2</td>
</tr>
<tr>
<td>Moderate</td>
<td>7</td>
<td>1</td>
<td>8</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Low</td>
<td>6</td>
<td>2</td>
<td>8</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>3</td>
<td>16</td>
<td>16</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Audit findings and recommendations identified.

Agencies vary in size and complexity and the risk ratings assigned to audit recommendations depend on the importance of an issue to the respective agency. The same issue may be categorised as high risk in one agency, but low risk in another.

The risk assessment matrix used to rate issues in management letters is aligned to Treasury Policy Paper TPP12–03 ‘Risk Management Toolkit for the NSW Public Sector’. The risk rating considers consequence and likelihood. The more frequent the event/transaction combined with a high consequence, the higher the risk.

Financial controls

Twelve financial control weaknesses, including two repeat issues, were identified and reported to management. The issues, relating to operational matters, were assessed as moderate or low risk to the agencies.

Financial Control Weaknesses by Nature

Note: Allocation of audit findings to categories is on best fit. A finding and associated recommendation might cross over more than one category, but is only counted once.
Information systems controls

Four information systems control weaknesses, including one repeat issue, were identified and reported to management. The matters were assessed as moderate or low risk to the agencies.

All information system audit findings related to information security, in particular, the risk of users having excessive or unauthorised access to critical financial systems, which can compromise the integrity and security of financial data.

Information system audits focus on the IT processes and controls supporting the integrity of financial data used in the preparation of agencies’ financial statements.

Information technology projects

Learning Management and Business Reform program

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

To manage the scale of the LMBR program, the Department segmented major components of work and used a pilot implementation approach for schools. The Department signed contracts for the final element of the LMBR program for NSW public schools on 27 June 2016.

Revised program costs have been released

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

The Department released updated budget figures for the program in June 2016. The cost of the program, from its start in 2006 until completion, is now expected to total up to $752 million. This comprises forecast capital costs of $470 million and recurrent costs of $282 million.

The cumulative cost of the program to 30 June 2016 was $603 million.
The LMBR program was rolled out to TAFE NSW in 2013. All TAFE NSW institutes were transitioned onto the HR/Payroll systems in 2013 and the student management system in 2014. TAFE NSW announced in June 2016 that it would seek a replacement for the student management system due to system implementation and limitation issues. The new system is expected to be in place for 2018.

The Department expects to complete the program by June 2018

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

<table>
<thead>
<tr>
<th>Component</th>
<th>Original timeline</th>
<th>Initial roll out date</th>
<th>Fully deployed date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance + SALM solutions - 229 schools</td>
<td>June 2013</td>
<td>November 2013</td>
<td>November 2013</td>
</tr>
<tr>
<td>HR/Payroll solution - 229 schools</td>
<td>June 2013</td>
<td>November 2017</td>
<td>June 2018</td>
</tr>
<tr>
<td>Finance + SALM solutions - nearly 2,000 remaining schools</td>
<td>By 2014</td>
<td>May 2016</td>
<td>December 2017</td>
</tr>
<tr>
<td>HR/Payroll solution - nearly 2,000 remaining schools</td>
<td>By 2014</td>
<td>November 2017</td>
<td>June 2018</td>
</tr>
<tr>
<td>HR/Payroll - DoE Corporate</td>
<td>By 2014</td>
<td>November 2017</td>
<td>December 2017</td>
</tr>
</tbody>
</table>

The LMBR program’s Stage 3 deployment timetable was revised and approved by the program’s governance committee and the Department in July 2015. Under this plan, the LMBR program will complete its rollout of Finance and Student Administration and Learning Management (SALM) systems to all remaining schools by the end of 2017. The HR/Payroll systems for schools and the Department’s corporate offices will start deployment in November 2017 and full rollout will be complete by June 2018.

Systems were successfully rolled-out to more schools in 2016

The roll-out of the Finance and SALM systems to schools progressed in 2016 with an additional 871 schools transitioned by 17 October 2016. This takes the total number of schools using the systems to 1,100 at that date.

The Department recognised the difficulties experienced by the pilot schools and provided additional support to the schools transitioned during 2016 including:

- ensuring that all training and change management materials were suitable for the task and the intended participants
- providing face-to-face training for school principals and administration support staff in the new processes
- providing additional targeted support to schools with the greatest need.

Deployment groups completed pre-deployment activities and participated in ‘go-live’ activities. Following ‘go-live’, each group received ten weeks of intensive post deployment support provided by the Department’s shared services support centre and local deployment teams.

The local deployment teams were recruited from experienced school administration support staff, principals and technical support personnel. Post ‘go-live’ support provided to all participating schools included face-to-face and telephone support as well as targeted online training sessions.
The program has established a benefits realisation plan

The Auditor General released a performance audit report on the LMBR program in December 2014. It found the Department had not established an effective benefits realisation process and had not measured or reported on any benefits that may have been achieved or changed.

The Department's LMBR Steering Group and Finance Executive Committee approved the program's Benefits Realisation Management (BRM) Plan in January 2016. An updated BRM Plan was approved by the LMBR Steering Group on 26 August 2016. The Department collected preliminary data relating to the deployment of the Finance and SALM systems to the transitioning schools. The Department's results indicate that the realisation of the program's benefits is progressing to plan.

The BRM plan will also identify, assess and validate benefits for the HR/Payroll work stream solution currently under design. This component of the plan is due for completion by the end of December 2016.

Human resources

Managing excess annual leave

Managing excess annual leave remains a challenge for agencies

<table>
<thead>
<tr>
<th>Recommendation (repeat issue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster agencies should continue efforts to reduce employees’ excess annual leave balances to meet whole-of-government targets.</td>
</tr>
</tbody>
</table>

At 30 June 2016, 901 or 5.5 per cent of employees (excluding teaching service staff in schools and school administrative and support staff), exceed the whole-of-government target of 30 days for annual leave balances. This is an improvement on the previous year when 1,199 or nine per cent of employees had balances above the 30 day target.

There are several implications of excessive leave balances, including:

- possible work health and safety implications
- disruptions to service delivery if key employees are absent for lengthy periods to reduce leave balances
- employee fraud may remain undetected
- the associated financial liability generally increases over time as salaries increase.

Treasury Circular TC16/03 ‘Managing Accrued Recreation Leave Balances’ requires agencies to make all reasonable attempts to reduce accrued employee annual leave balances to a maximum of 30 days or less, within the constraints of relevant industrial instruments and legislation.
Workplace health and safety

The total cost of workers’ compensation claims has increased by 36 per cent

Recommendation

The Department should consider the effectiveness of workplace health and safety strategies for addressing the rise in psychological injuries.

The total number of workers’ compensation claims has remained stable from last year, increasing slightly from 4,020 in 2014–15 to 4,044 in 2015–16. However, the total cost of workers’ compensation claims has increased by 36.0 per cent from $42.5 million to $57.8 million over the same period.

There was an increase in total cost for all categories of workplace injuries, except for the laceration, contusion and superficial injuries category. The largest increase in total cost related to the psychological injuries category, which also accounted for the largest increase in the number of claims.

The total number of claims relating to psychological injuries has increased by 32.5 per cent, from 467 in 2014–15 to 619 in 2015–16. The associated cost of these claims has escalated by 71.5 per cent, from $15.1 million to $25.9 million over the same period.

<table>
<thead>
<tr>
<th>Nature of workplace injuries</th>
<th>Number of claims 2016</th>
<th>Total cost $m 2016</th>
<th>Number of claims 2015</th>
<th>Total cost $m 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sprains strains injuries</td>
<td>870</td>
<td>9.4</td>
<td>815</td>
<td>7.1</td>
</tr>
<tr>
<td>Laceration contusion superficial injuries</td>
<td>1,042</td>
<td>4.6</td>
<td>1,023</td>
<td>4.8</td>
</tr>
<tr>
<td>Psychological injuries</td>
<td>619</td>
<td>25.9</td>
<td>467</td>
<td>15.1</td>
</tr>
<tr>
<td>Fracture dislocation injuries</td>
<td>249</td>
<td>4.4</td>
<td>195</td>
<td>3.1</td>
</tr>
<tr>
<td>Other injuries</td>
<td>1,264</td>
<td>13.5</td>
<td>1,520</td>
<td>12.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,044</strong></td>
<td><strong>57.8</strong></td>
<td><strong>4,020</strong></td>
<td><strong>42.5</strong></td>
</tr>
</tbody>
</table>

Source: Department of Education (unaudited).

The incurred cost associated with claims represents all costs including estimated future expenses as determined by the insurer and does not reflect actual monies paid to the injured employees as compensation.
The average cost of psychological injury claims has increased by over 47 per cent

The general trend in the average cost of workers’ compensation claims for each category of injury over the past five years is shown in the graph below.

![Graph showing average cost of workers' compensation claims by nature of injury over the past five years](image)

The total number of claims decreased significantly from 6,340 in 2011–12 to 4,044 in 2015–16. While the average cost per claim for most categories has fluctuated to a small degree, the average costs per claim in the psychological injuries category trended upwards. Over this period, the average cost per claim in the psychological injuries category increased by 47.7 per cent from $27,953 to $41,291.

Bullying, harassment and violence contribute to rise in psychological injury claims

Workers’ compensation claims lodged with the Department's fund manager separately identify those where the mechanism of injury is described as allegations of harassment, violence, and bullying.

In 2015–16, 308 employees lodged a compensation claim citing bullying, harassment and violence as the cause of injury at a total cost of $12.5 million. This represents a rise of 33.9 per cent in the number of claims and an increase of 64.5 per cent in total cost from 2014–15.

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of claims</td>
<td>308</td>
<td>230</td>
<td>203</td>
<td>239</td>
<td>382</td>
</tr>
<tr>
<td>Total cost ($m)</td>
<td>12.5</td>
<td>7.6</td>
<td>6</td>
<td>7.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Average cost per claim ($)</td>
<td><strong>40,492</strong></td>
<td><strong>32,993</strong></td>
<td><strong>29,127</strong></td>
<td><strong>31,407</strong></td>
<td><strong>30,219</strong></td>
</tr>
</tbody>
</table>

Source: Department of Education (unaudited).

The 2015 Australian Principal Occupational, Safety and Wellbeing Survey, released in December 2015, reported that 41 per cent of school principals had experienced threats of violence and 36 per cent had experienced bullying. More than 4,000 school principals and assistant principals from around Australia took part in the survey conducted by Associate Professor Philip Riley from the Australian Catholic University.
The Department’s Health and Safety Directorate manages all workers’ compensation claims relating to workplace injury, illness and health conditions. Management focuses on supporting an early return to work in consultation with the injured employee and medical providers to minimise the impact to schools.

The Department has a range of policies and procedures in place to manage allegations of bullying, harassment and/or violence including:

- Critical incident and post incident support
- Return to Work Program
- Employee Assistance Program
- Complaint Handling Policy and Guidelines
- WHS Policy
- Dignity and Respect Charter
- Code of Conduct
- Respectful Workplaces website
- Online eLearning system within modules including injury management and return to work, and WHS Induction
- Living Well program.

Asset management

**Major investments in the Department**

The Department has a number of major capital works projects in progress

<table>
<thead>
<tr>
<th>Project description</th>
<th>2015-16 budget allocation</th>
<th>2015-16 expenditure</th>
<th>Current status</th>
<th>Delays</th>
<th>Estimated completion date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major works – 11 new projects</td>
<td>15</td>
<td>19</td>
<td>In progress</td>
<td>No</td>
<td>2019</td>
</tr>
<tr>
<td>Work-in-progress (exclude LMBR project) – 27 projects</td>
<td>172</td>
<td>121</td>
<td>In progress</td>
<td>Delays in development approvals</td>
<td>2019</td>
</tr>
<tr>
<td>Trade Training Centres</td>
<td>47</td>
<td>37</td>
<td>Completed</td>
<td>No</td>
<td>Completed</td>
</tr>
<tr>
<td>School infrastructure upgrades</td>
<td>160</td>
<td>152</td>
<td>In progress</td>
<td>No</td>
<td>Ongoing program</td>
</tr>
<tr>
<td>Technology for Learning and ICT</td>
<td>54</td>
<td>61</td>
<td>In progress</td>
<td>No</td>
<td>Ongoing program</td>
</tr>
<tr>
<td>Other minor works</td>
<td>6</td>
<td>4</td>
<td>In progress</td>
<td>No</td>
<td>Ongoing program</td>
</tr>
</tbody>
</table>

Source: Department of Education (unaudited).

Work-in-progress expenditure was lower than expected due to delays in development approvals. NSW Treasury approved $46.0 million of the 2015–16 budget allocation to be rolled over to 2016–17.

The Trade Training Centres in Schools Program was fully delivered in 2015–16 under budget. Funding from the Australian Government for this program ceased in 2015–16, ahead of the original timeline of 2016–17.

**School facilities and building maintenance**

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

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

A program of planned maintenance works is developed for each individual school on an annual basis in consultation with school principals. These planned maintenance works are delivered during school holidays and out of school hours to minimise the impact on school operations.
School backlog maintenance increased by $43.0 million from last year

Estimated backlog maintenance at 30 June 2016 was $775 million, an increase of $43.0 million from 2014–15. Maintenance funding is not keeping pace with the growth in school maintenance needs. Total school maintenance funding decreased from $347 million in 2014–15 to $343 million in 2015–16.

In 2015–16, NSW Treasury allocated $343 million for maintenance in NSW schools. Of this amount, $217 million was directed to regular maintenance of school facilities including preventative and routine maintenance, planned maintenance, and essential urgent repairs. The remaining $126 million was directed to address backlog maintenance works.

Funding announced to address backlog maintenance

The 2016–17 NSW Budget announced funding of $330 million to address maintenance needs in schools. The funding will be delivered over two years with $80.0 million provided in 2016–17 and $250 million in 2017–18.

The Department will prioritise the 2017–18 funding on assets at the end of their service life in the three biggest areas of backlog maintenance, roofs, floor coverings and painting. The Department’s local Asset Management Units are currently undertaking planning for this program of works, including the development of procurement strategies to ensure the program achieves best value for money.

The Department is working to address backlog maintenance

The Department is working with NSW Treasury to develop various strategies to respond to increasing backlog maintenance. These strategies include:

• developing the School Assets Strategic Plan
• highlighting the increasing funding gap associated with maintenance in the annual Total Asset Management (TAM) submission to Treasury
• using maintenance backlog as a key indicator to allocate funding as part of the Secondary Schools Renewal Program, a capital funded program targeted at high schools
• allocating the revenue generated from the Department’s asset disposal program to schools with the highest maintenance liability.

Disposal of major assets

Asset disposals will contribute to new school infrastructure

Capital funding from NSW Treasury is expected to decrease over the coming years. The Department is expected to off-set this decrease through their asset sales program. The revenue raised from the disposal of assets will be reinvested in school infrastructure.

The Department maintains a register of property assets and annually identifies properties surplus to service delivery requirements that can be sold with ministerial approval. Assets will only be sold if:

• they are surplus to planned requirements and not in growth precincts
• they form part of a larger site and the school has room for expansion without it
• all funds generated are redirected to improve capacity in schools within the local district.
Identifying assets for disposal will be a challenge for the Department

The challenge for the Department is to generate sufficient revenue from the sale of assets to meet budget without compromising service delivery in metropolitan areas. The fair value of assets held by the Department in the Sydney metropolitan region is higher than those held in regional New South Wales, which may make them more attractive for sale. However, all Sydney regions have experienced growth in student populations over the past ten years and the Department projects this growth will continue in the future.

Further details on school demographics are provided in the chapter on Service Delivery.
Governance

Governance refers to the high-level frameworks, processes and behaviours established to ensure an entity performs by meeting its intended purpose, and conforms with legislative and other requirements, and meets expectations of probity, accountability and transparency.

This chapter outlines audit observations, conclusions or recommendations related to the governance of agencies in the Education cluster for 2015–16.

<table>
<thead>
<tr>
<th>Observation</th>
<th>Conclusion or recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>All cluster agencies have established and maintained a risk management framework, an internal audit function, and an independent Audit and Risk Committee.</td>
<td>Cluster agencies have core corporate governance arrangements in place.</td>
</tr>
<tr>
<td>The Department has implemented all 17 components of the Audit Office of New South Wales’ Governance Lighthouse framework.</td>
<td>The Audit Office's 'Governance Lighthouse - Strategic Early Warning System' helps agencies improve governance.</td>
</tr>
<tr>
<td>All cluster agencies have a compliance framework in place.</td>
<td>Effective compliance management helps to prevent agencies from breaching laws and regulations.</td>
</tr>
<tr>
<td>Instances of non-compliance with the GIPA Act were identified across the sector.</td>
<td>Recommendation: Cluster agencies should review compliance with the Government Information (Public Access) Act 2009 (GIPA Act).</td>
</tr>
<tr>
<td>Incidents of fraud allegations in the Department have remained relatively stable.</td>
<td>The Department has fraud control strategies in place.</td>
</tr>
<tr>
<td>Risk management is performed at an agency level with oversight by Audit and Risk Committees.</td>
<td>Effective risk management can improve decision making and lead to significant efficiencies and cost savings.</td>
</tr>
<tr>
<td>We assessed the risk management maturity of the Department using the Audit Office of New South Wales’ Risk Management Maturity Toolkit.</td>
<td>The Department has an Enterprise Risk Management framework with accompanying policy and guidelines.</td>
</tr>
</tbody>
</table>

Governance framework

Structure and key committees

All cluster agencies have corporate governance arrangements in place

In 2015–16, all cluster agencies demonstrated that they had established and maintained a risk management framework, an internal audit function, and an independent Audit and Risk Committee.

Effective corporate governance arrangements are essential to the performance, integrity and transparency of public sector organisations.

Treasury Policy Paper TPP15–03 ‘Internal Audit and Risk Management Policy for the NSW Public Sector’ aims to ensure agencies maintain organisational arrangements that provide additional assurance, independent from operational management, on internal audit and risk management.
Governance lighthouse – Strategic Early Warning System

The Department assessed its governance framework using the Audit Office tool

In 2015–16, the Department implemented all 17 components of the Audit Office’s governance lighthouse framework. An assessment against all components was completed and reviewed by the Audit and Risk Committee.

Good governance promotes public confidence in government and its agencies. Well governed agencies can have improved service delivery and use resources efficiently.

The Audit Office published its updated Best Practice Guide ‘Governance Lighthouse - Strategic Early Warning System’ (Guide) in ‘Volume One 2015 Areas of focus from 2014’. The Guide includes a checklist which enables agencies to self-assess and identify areas which need attention.

Governance of major capital works projects

The Department has a project governance framework in place

The Department is responsible for delivering major capital works projects every year. The Department’s Program Management Office (PMO) within the Asset Management Directorate is responsible for overseeing the execution of projects approved by the NSW Government.

The PMO has established procedures to prescribe project management and delivery activities for major capital works’ projects including:

- project governance structure
- project roles and responsibilities
- project meeting governance
- risk management
- workplace health and safety and environmental management.

The PMO procedures are designed to ensure compliance with the NSW Government Procurement Policy Agency Accreditation Scheme for Construction and with better practice program and project management principles. The PMO’s risk management framework is tailored for the major capital works program. The framework is based on ISO 31000:2009 Risk Management standard and is in compliance with the Department's Enterprise Risk Management standard.

Compliance framework

All cluster agencies have a compliance framework in place

All cluster agencies have maintained or updated their compliance registers and policies and procedures to help ensure they comply with relevant legislative frameworks and requirements in 2015–16.

Effective compliance management helps to prevent agencies from breaching laws and regulations. An effective compliance framework requires agencies to:

- identify all applicable laws, regulations and government directions
- maintain a centralised up-to-date compliance register
- assign responsibility for each requirement
- monitor and report on compliance.
Compliance with the GIPA Act

Non-compliance with the GIPA Act identified across the NSW public sector

Recommendation

 Cluster agencies should review compliance with the Government Information (Public Access) Act 2009.

This year, the Audit Office reviewed a selection of agencies’ compliance with the requirements of Part 3 Division 5 of the Government Information (Public Access) Act 2009 (GIPA Act). The review was performed on thirteen agencies covering each cluster within the NSW Government.

The evidence gathered at all thirteen agencies was sufficient to conclude that they had materially complied with the requirements of Part 3 Division 5 of the GIPA Act. However, identified instances of non-compliance with specific requirements resulted in a qualified review conclusion for each agency.

The Auditor-General released the results of this review in a special report, Government agencies compliance with the GIPA Act, in October 2016.

Fraud control

Allegations of fraud in the Department have remained relatively stable

The table below shows the trend in the Department's fraud allegations over the past five years.

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustained</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Unsustained</td>
<td>0</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Current</td>
<td>7</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>9</td>
<td>7</td>
<td>3</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Department of Education (unaudited)

A number of fraud allegations came from whistle blower information or were detected by internal audit. All allegations were reported to the Department’s Employee Performance and Conduct Directorate (EPAC) for further investigation. This process is aided by the Internal Notification System where suspected instances of fraud or misconduct can be anonymously reported.

The Department is managing and preventing instances of fraud

A review of the Department’s Fraud and Corruption Control Framework against the revised 2015 Audit Office Fraud Control Improvement Kit was completed in August 2016 and reported to the Department’s Audit and Risk Committee.

A fraud and corruption control management plan for 2016–17 was also presented and endorsed by the Audit and Risk Committee in August 2016.

The Department conducted the following key fraud and corruption prevention activities in 2015–16:

• published a corruption prevention e-Learning Course
• maintained a corruption prevention online reporting form for staff to report instances of corruption
• maintained a register of pecuniary and private interests
• maintained a central register of gifts and benefit
• provided Ethical Decision-Making training to staff.
In collaboration with the Leadership and High Performance Directorate, the Employee Performance and Conduct Directorate developed a series of online modules as part of the Principals Credentialing project. One of these e-Learning modules, Ethical Leadership, aims to provide principals with the understanding and knowledge to lead and manage their school in an ethical way.

Risk management

Cluster agencies have implemented risk management processes

Each agency in the cluster has its own risk profile and risk management framework. Risk management is performed at an agency level with oversight by Audit and Risk Committees. There is no cluster wide risk assessment or risk register maintained.

The Department has consulted with cluster agencies during the year to understand how risks at a cluster level are captured, managed, treated and reported. The assessment also considered if it would be effective and practical to implement cluster wide risk reporting. It was established that a cluster wide risk register is impractical as agencies are independent of each other and their risks would not have any significant impact at a cluster level.

Effective risk management can improve decision making and lead to significant efficiencies and cost savings. By embedding risk management directly into processes, agencies can derive additional value from their risk management programs. The more mature an agency’s risk management, the stronger its culture in balancing the tension between value creation and protection.


A mature risk management process should:

• foster an embedded risk aware culture
• align strategic and business decision making processes with risk management activities
• improve resilience in dealing with adversity
• increase agility in pursuing new opportunities.

Agencies will need to evaluate the costs and benefits of risk management capability if they are to achieve a desirable balance between risk and reward. Some agencies may need more sophisticated risk management processes than others to suit the size and complexity of their activities.

Enterprise-wide risk management is improving

We assessed the risk management maturity of the Department using the Audit Office’s Risk Management Maturity Toolkit. The assessment toolkit was based on international standards, the NSW Treasury Policy Guideline TPP 12–03: ‘Risk Management Toolkit for the NSW Public Sector’ and TPP 15–03: ‘Internal Audit and Risk Management Policy for the NSW Public Sector’.

The five critical assessment criteria include:

• strategy and governance
• monitoring and review
• process
• systems and intelligence
• culture.

The Department has an Enterprise Risk Management framework with accompanying policy and guidelines. In 2016–17, the Department plans to continue embedding risk management into day-to-day activities and decision making.
Service Delivery

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

This chapter outlines our audit observations, conclusions and recommendations related to service delivery by agencies in the Education cluster for 2015–16.

<table>
<thead>
<tr>
<th>Service delivery</th>
<th>Observation</th>
<th>Conclusion or recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Department will receive $1.3 billion less in funding than expected following the termination of the National Education Reform Agreement in 2017.</td>
<td>While the Department continues to press the Australian Government to honour the commitment, needs-based funding is being delivered through the implementation of the Resource Allocation Model.</td>
<td></td>
</tr>
<tr>
<td>The Teacher Accreditation Act 2004 was amended to require the accreditation of all teachers in schools and early childhood centres in New South Wales from 1 January 2018.</td>
<td>This reform aims to improve the quality of teaching and learning.</td>
<td></td>
</tr>
<tr>
<td>The Before and After School Care Fund has allocated around $2.0 million in grant funds and created 6,000 out of school hours care places as at 30 June 2016.</td>
<td>The Department needs to understand any barriers to the uptake of funding in order to ensure it meets its target of delivering 45,000 new out of school hours care places by March 2019.</td>
<td></td>
</tr>
<tr>
<td>The Department’s performance targets in its Strategic Plan 2012–17 for students’ NAPLAN performance and attainment of Year 12 or equivalent certificates are at risk.</td>
<td>Recommendation (repeat issue): The Department should reassess current strategies for achieving performance targets in reading and numeracy and consider the effectiveness of strategies in the other domains.</td>
<td></td>
</tr>
<tr>
<td>The NSW 2021 State Plan, announced in September 2015, introduced two new targets for the Education cluster.</td>
<td>Meeting the targets for the Premier’s Priority and the State’s Priority will be a challenge.</td>
<td></td>
</tr>
<tr>
<td>The number of students enrolled in NSW public schools has increased by over 26,000 since 2011 taking the total number of enrolments in 2015 to 771,978. Enrolments are projected to increase in the future.</td>
<td>The Department recently developed a School Assets Strategic Plan which is designed to ensure that there are sufficient fit-for-purpose places for students up to 2031.</td>
<td></td>
</tr>
</tbody>
</table>
Key reform

The Department is implementing reforms to improve the quality of teaching in schools and outcomes for all students, and to give schools more authority to meet the needs of their communities.

National Education Reform Agreement

The Department will receive less funding than expected

The Department will receive $1.3 billion less in funding than expected following the termination of National Education Reform Agreement (NERA) in 2017. The NERA provided for $3.3 billion in funding from the Australian Government over the six year period from 2014 to 2019. The Australian Government confirmed it will not fund the last two years of the agreement. Instead, funding is proposed to be indexed at a rate of 3.6 per cent from 2018.

The NERA commenced in New South Wales in 2014. Additional funding has been distributed to both public and non-government schools via a new needs-based funding approach. The funding supports reforms in the five key areas of quality teaching, quality learning, empowered school leadership, meeting student needs and transparency and accountability.

Implementation of NERA within New South Wales to date includes:

- the phased implementation of the Resource Allocation Model in government schools
- the implementation of new needs based funding arrangements for non-government schools consistent with the Schooling Resource Standard
- the implementation of a suite of reforms including teacher quality, rural and regional reforms and participating in national initiatives such as implementing national curriculum and transitioning to NAPLAN online.

Local Schools, Local Decisions

The largest component of the Resource Allocation Model is being delivered

The Local Schools, Local Decisions (LSLD) education reform agenda commenced in 2012. A key initiative of LSLD is the implementation of the needs-based Resource Allocation Model (RAM) for allocating funding to public schools.

The Department is currently delivering the base school allocation component of the RAM. This component, which is the largest of the three components, reflects the core cost of educating each student and school operation.

In 2016, every NSW public school was provided with a full RAM funding allocation report that included base core staffing and base operational funding. The base core staff funding was determined in accordance with the Department's policy on class sizes.

In 2015, schools received the equity and location loadings. The four equity loadings provide additional resources to address student needs in schools, including support for Aboriginal students, students from low-socioeconomic backgrounds, students with low-level disability and students learning English as an additional language or dialect. A location loading was also received by geographically remote and isolated schools.
The diagram below illustrates the funding components and timing of the RAM model.

Great Teaching, Inspired Learning

Reform aims to improve teaching and learning quality

In 2015–16, the Great Teaching, Inspired Learning (GTIL) initiative provided funding for 2,600 new teachers in over 1,100 schools. This is a significant increase from 2013–14 when funding was provided for 1,500 new teachers in 850 schools.

The GTIL initiative was released by the NSW Government at the end of 2013 and implemented in 2014 to improve the quality of teaching and learning in schools. The initiative aims to help students achieve better results by supporting the professional development of all teachers.

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

The Teacher Accreditation Act 2004 was amended to require the accreditation of all teachers in schools and early childhood centres in New South Wales. All teachers working in NSW schools need to be accredited to continue teaching from 1 January 2018.

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

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

BOSTES, the Department of Education, the Catholic Education Commission and the Association of Independent Schools of NSW worked together to develop a simple process for awarding Proficient Teacher Accreditation to pre-2004 teachers.

Any teacher starting work or returning to work in a NSW school after a break of more than five years must be provisionally or conditionally accredited by BOSTES and work towards achieving Proficient Teacher Accreditation. Higher levels of accreditation are also available to teachers who want to extend themselves professionally and be recognised for stand-out achievements.
Teachers with Proficient Teacher Accreditation must maintain this status to continue working as a teacher in NSW. Teachers will have five years (if employed full-time) or seven years (if part-time or casual) to complete requirements by participating in high quality professional development to continuously improve and maintain teaching practice.

**Accreditation for all NSW early childhood teachers is now mandatory**

From 18 July 2016, all NSW early childhood teachers working in long day care and preschools must be accredited.

Early childhood teachers employed prior to 1 October 2016 can apply to BOSTES to be accredited at the Proficient Teacher level after providing certified documentation including a current NSW Working with Children Check clearance.

All early childhood teachers seeking employment for the first time after 1 October 2016 require provisional or conditional accreditation from BOSTES prior to commencing teaching.

**Support is being targeted towards teachers yet to achieve accreditation**

The Department’s key initiatives under GTIL for 2016–17 focus on the implementation requirements for all teachers to be accredited by 31 December 2017.

Beginning Teachers Support Funding, a GTIL initiative, was revised in Term 2, 2016. This funding specifically targets teachers in their first permanent appointment within the Department who have not yet achieved accreditation at Proficient Teacher level at the date of entering on duty.

The funding allows release from face-to-face teaching and the support of an experienced teacher for mentoring. The release time is used for studies, coaching, mentoring and any other activity that supports professional development and attaining accreditation.

**Before and After School Care Fund**

**6,000 new out of school hours care places created**

The NSW Government established the $20.0 million Before and After School Care Fund (the Fund) in August 2015 to deliver up to 45,000 new out of school hours care (OSHC) places in government and non-government schools in New South Wales.

At 30 June 2016, the Fund had allocated around $2.0 million in grant funds and created 5,993 new OSHC places.

**Options for the Fund’s future are being considered**

The commitment for the Fund is due for completion by March 2019. The Department is currently considering options for the future implementation of the Fund. Feedback from the implementation of Phase 1 and Phase 2 is being collated and focus groups have been held to better understand the barriers to the uptake of the grant funding.

The majority of funds (78.6 per cent) were granted to new services. These new services were responsible for 89 per cent of the new places created. Government schools were allocated 58.8 per cent of the total funding, creating 53.8 per cent of the new places.

<table>
<thead>
<tr>
<th>Before and after school care</th>
<th>At 30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of grants made</td>
<td>59</td>
</tr>
<tr>
<td>Total amount of grants made ($)</td>
<td>1,540,914</td>
</tr>
<tr>
<td>Total OSHC places created</td>
<td>5,333</td>
</tr>
</tbody>
</table>

Source: Department of Education (unaudited).
Phase 1 of the Fund opened on 3 August 2015 and closed on 9 February 2016. Grants of up to $20,000 were made to establish new services. The grants could be used for fit-out costs, tendering or establishment costs, or to pay for necessary equipment to support the new service.

Phase 2 of the Fund opened on 10 February 2016. The nominal closing date for this phase was 30 November 2016 although applications will continue to be supported past this date. In this phase, the maximum grant was increased to $30,000 and the eligibility criteria were extended. Schools with an existing OSHC service that had a need and capacity to expand their service were encouraged to apply. Local councils with unmet demand for OSHC places could also apply for funding to assist with creating new services or to expand existing services.

The Department manages the Fund with a cross-sectoral steering committee, including the Catholic Education Commission of NSW and the Association of Independent Schools of NSW.

Performance reporting

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

Early childhood outcomes

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

The Department's Strategic Plan 2012–2017 includes the following performance measures:

- increase the proportion of children ready for school, as measured by the Best Start literacy and numeracy assessment, when children start school
- ensure all children have access to quality early childhood education programs in the 12 months prior to formal schooling by 2013
- ensure all Aboriginal four-year-olds have access to a quality early childhood education programs by 2013.
School readiness

The skill level of school starters is improving

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

The results for the last four years are shown below.

In 2015, 93 per cent of students achieved level 1 or higher on at least one aspect of the numeracy assessment and 79 per cent achieved the same level in the literacy assessment. The results for literacy increased by four percentage points compared to 2014 while those for numeracy increased by three percentage points.

Access to quality early childhood education

Access to early childhood education has been increasing in New South Wales

In 2015, 99 per cent of children in the year before school were enrolled in an education program compared to 82 per cent in 2008. The number of disadvantaged children enrolled in early childhood education also increased from 74 per cent in 2008 to 86 per cent in 2015.

The government has adopted a benchmark of 95 per cent of children enrolled in early childhood education in the year before school for at least 600 hours. On this benchmark, New South Wales lags behind other States and Territories with only 77 per cent of children enrolled in the year before school for at least 600 hours in 2015. Fees for families in New South Wales are higher, and the NSW Government's contribution per child is lower, than in most other States and Territories.

The Auditor-General released a performance audit report on Early Childhood Education in May 2016.
Funding under the National Partnership Agreement will continue until December 2017

Under the National Partnership Agreement on universal access to early childhood education, New South Wales received $103 million in 2015–16 and is expecting to receive $151 million in 2016–17 to provide access to quality early childhood education programs. The Australian Government has not committed to further funding after December 2017. The Department has commenced early negotiations with the Australian Government to provide funding for early childhood from 2018.

The first National Partnership Agreement on Early Childhood Education was signed by the Council of Australian Governments on 29 November 2008. Under this agreement, all governments committed to work together to ensure that all children have access to a quality early childhood education programs, delivered by a qualified early childhood teacher for 15 hours per week or 600 hours of preschool education in the year before they attend full-time school. Since the initial signing in 2008, the agreement has been renewed three times.

New funding aims to make early childhood education more affordable

In September 2016, the NSW Government announced an additional $115 million in funding to support universal access to early childhood education. The extra funding, which adds to the $151 million already allocated under the National Partnerships Agreement, is designed to significantly reduce preschool fees, making 600 hours of early childhood education more affordable for families. Preschool providers will be required to pass on the bulk of the additional funding to families through fee reductions.

Funding under this initiative, called Start Strong, includes $85.0 million for community preschools to increase enrolments and reduce fees as well as $30.0 million for long day care services to support enrolments for the most disadvantaged children.

From 1 January 2017 to 30 June 2017, community preschools will receive increased base funding rates for all children enrolled for at least 600 hours. Children enrolled for fewer than 600 hours will continue to receive the existing rates of funding until 1 July 2017.

From 1 July 2017 onward, community preschools will receive the maximum base funding rate for children enrolled for at least 600 hours. Children enrolled for fewer hours will attract a pro-rata amount.

Regulation of early childhood education and care

Education and care provided at 1,503 services did not meet National Quality Standards

In August 2016, the Australian Children’s Education and Care Quality Authority released the ‘NQF Snapshot Q2 2016’ which provided analysis and information on the state of the sector, progression of assessment and rating, and quality ratings of services.

The National Quality Framework, established in 2012, introduced a new quality standard to improve education and care. The table below summarises the quality ratings trend across children’s education and care services in New South Wales. ‘Working towards NQS’ in the table below indicates services may be meeting the National Quality Standards (NQS) in some areas, but one or more areas were identified for improvement.

<table>
<thead>
<tr>
<th>National Quality Standards</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services rated Significant Improvement Required</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Services rated Working Towards NQS</td>
<td>1,496</td>
<td>1,421</td>
</tr>
<tr>
<td>Services rated Meeting NQS</td>
<td>1,607</td>
<td>1,209</td>
</tr>
<tr>
<td>Services rated Exceeding NQS</td>
<td>1,004</td>
<td>695</td>
</tr>
<tr>
<td>Services rated Excellent by ACECQA</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>4,124</td>
<td>3,341</td>
</tr>
</tbody>
</table>

Source: Australian Children’s Education and Care Quality Authority – NQF Snapshot Q2 2016 (unaudited).
At 30 June 2016, 2,621 (1,913 at 30 June 2015) services met or exceeded the NQS and 1,503 services did not fully meet the NQS.

The increase in the number of services that met or exceeded the NQS resulted from a boost in the number of approved services that had been assessed against the National Quality Framework and been given a rating. At 30 June 2016, 80 per cent of services had been assessed compared with only 65 per cent at 30 June 2015.

School outcomes against the Department’s strategic plan

A key strategic outcome of the Department is for all students to receive the teaching and support they need to learn, achieve and progress.

Four targets in the Department’s Strategic Plan 2012–2017 are at risk

Recommendation (repeat issue)

The Department should reassess current strategies for achieving performance targets in reading and numeracy and consider the effectiveness of strategies in the other domains.

The Department’s strategic plan focuses on reading and numeracy as key targets. The other domains are not key performance targets.

The Department set 12 targets to assess its performance in student learning, achievement and progression. These are outlined in the Department’s Strategic Plan 2012–2017.

NAPLAN is an annual assessment for all students in Years 3, 5, 7 and 9 and has been part of the school calendar since 2008. NAPLAN comprises tests in five areas (or ‘domains’), including Reading, Writing, Spelling, Numeracy, and Grammar and Punctuation.

Target relating to national minimum standards in reading and numeracy is at risk

The Department has a target to increase the proportion of NSW students achieving at or above national minimum standards in reading and numeracy.
The graphs below show the proportion of NSW students performing at or above the national minimum standard for each grade assessed.

**Proportion of NSW students at or above national minimum standards**

Between 2008 (the first year of NAPLAN) and 2016, the following trends relating to reading and numeracy were identified:

- the proportion of Year 3 students above the national minimum standard for reading has improved by 0.7 percentage points
- the proportion of Years 7 and Year 9 students above the national minimum standard for reading has fallen by 0.2 and 1.3 percentage points respectively
- the proportion of Year 5 students above the national minimum standard for reading has remained consistent with the baseline year
- the proportion of Year 5 and Year 9 students above the national minimum standard for numeracy has improved by 0.3 and 0.7 percentage points respectively
- the proportion of Years 3 and 7 students above the national minimum standard for numeracy has fallen by 1.0 and 0.2 percentage points respectively.

Note: In the graphs above, only Reading and Numeracy are included in the Department's Strategic Plan 2012–2017.

* 2011 NAPLAN results were used as a comparative year for Writing due to changes in this domain.

The following trends were identified in the other NAPLAN domains:

- Writing: Year 5, 7 and 9 are below the baseline year
- Spelling: All grades are below the baseline year
- Grammar and punctuation: Year 7 and Year 9 are below the baseline year.

**Target relating to the performance bands in reading and numeracy is at risk**

The Department has a target to increase the proportion of NSW students in the top two NAPLAN performance bands in reading and numeracy.

The graph below shows the movement in the proportion of NSW students in the top two performance bands for each grade assessed.

![Graph showing movement in the proportion of students in the top two performance bands between 2008 and 2016 for reading, writing, spelling, grammar and punctuation, and numeracy for Years 3, 5, 7, and 9.](image)

Note: In the graphs above, only Reading and Numeracy are included in the Department’s Strategic Plan 2012–2017.

* 2011 NAPLAN results were used as a comparative year for Writing due to changes in this domain.


Between 2008 (the first year of NAPLAN) and 2016, the following trends relating to reading and numeracy were identified:

- the proportion of students in the top two performance bands for reading has increased for Years 3 and 5. Year 3 shows a significant increase of 6.4 percentage points from the baseline year, followed by Year 5 with a 4.0 percentage point increase
- the proportion of students in the top two performance bands for reading has decreased for Years 7 and 9
- the proportion of students in the top two performance bands for numeracy has increased for Year 5 by 4.3 percentage points
- the proportion of students in the top two performance bands for numeracy has deceased for Years 3, 7 and 9 falling 2.7, 1.2 and 2.8 percentage points respectively.

The following trends were identified in the other NAPLAN domains:

- Writing: the proportion of students in the top two performance bands has decreased for all grades
- Spelling: Year 3 had the highest increase of 3.9 percentage points in the proportion of students in the top two performance bands
- Grammar and Punctuation: Year 3, 5 and 7 increased the proportion of students in the top two performance bands while there was a deceased proportion for Year 9.
Target relating to gaps between Aboriginal and non-Aboriginal students at risk

The Department has a target to halve the gaps between Aboriginal and non-Aboriginal students achieving at or above the national minimum standard in reading and numeracy by 2018.

The graph below shows the movement in the gap between the number of Aboriginal and non-Aboriginal students achieving at or above the national minimum standards for each grade assessed.

An analysis of the key performance targets between 2008 and 2016 indicates:

- Reading: The gap for all grades decreased except for Year 9 where the gap increased by 7.8 per cent
- Numeracy: The gap for all grades decreased.

The following trends were identified in the other NAPLAN domains:

- Writing: The gap for all grades decreased
- Spelling: The gap for all grades except Year 3 increased
- Grammar and Punctuation: The gap for all grades decreased.

Note: In the graphs above, only Reading and Numeracy are included in the Department’s Strategic Plan 2012–2017.

**Target relating to attainment of Year 12 or AQF III qualification at risk**

The Department has a target to increase the proportion of 20–24 year olds in rural and regional New South Wales who attain a Year 12 or AQF qualification at Certificate III or above to 90 per cent by 2020.

The proportion of 20–24 year olds who attained a Year 12 or Australian Qualifications Framework (AQF) qualification at Certificate III or above has fluctuated between 2010 and 2015. At 31 December 2015, the attainment rate for students in rural and regional New South Wales was still 12.7 percentage points below the 2020 target of 90 per cent.

**Proportion of 20-24 Year Olds in Rural and Regional NSW who have Attained a Year 12 or AQF Qualification at Certificate III or Above**

![Chart showing proportion of 20-24 year olds in rural and regional NSW who have attained a Year 12 or AQF qualification at Certificate III or Above from 2011 to 2020.](image)

Source: Department of Education (unaudited).

**School outcomes against the State and Premier’s Priorities**

**The NSW Government has announced a new set of priorities**

In September 2015, the NSW 2021 State Plan was replaced by a new State Plan ‘NSW Making it Happen’. This plan comprises 30 State Priorities including 12 Premier’s Priorities.

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

**Meeting the target for the Premier’s Priority will be a challenge**

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

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

The baseline year, representing an average of the actual 2013 and 2014 NAPLAN results, was 32.7 per cent.
The proportion of students achieving results in the top two performance bands in 2015 and 2016 is lower than the baseline year. In 2016, the average is 32.5 per cent (32.2 per cent in 2015).

In reading and numeracy, there are mixed results and the improvements made in one grade or domain are offset by lower performance in others. The results for reading and numeracy in 2016 compared to the baseline year are shown below.

An analysis of the 2016 results for reading indicates:
- Year 3 and 5 are higher than the baseline year
- Year 7 and 9 are lower than the baseline year.

An analysis of the 2016 results for numeracy indicates:
- Year 5 and 7 are higher than the baseline year
- Year 3 and 9 are lower than the baseline year.
Meeting the target for the State’s Priority will be a challenge

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

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

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

![Graph showing average proportion of Aboriginal and Torres Strait Islander students in the top two performance bands in reading and numeracy.](image)

* The baseline year represents an average of the actual 2013 and 2014 NAPLAN results.

The proportion of students achieving results in the top two performance bands has improved from 8.9 per cent in 2015 to 9.1 per cent in 2016.

In reading and numeracy, there are mixed results and the improvements made in one grade or domain is offset by lower performance in others. The results for reading and numeracy in 2016 compared to the baseline year are shown below.

![Graph showing proportion of Aboriginal and Torres Strait Islander students in the top two performance bands for reading and numeracy.](image)

* The baseline year represents an average of the actual 2013 and 2014 NAPLAN results.
Source: Australian Curriculum, Assessment and Reporting Authority 2016 NAPLAN summary report (unaudited).
An analysis of the 2016 results for reading indicates:

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

An analysis of the 2016 results for numeracy indicates:

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

**The Department has strategies to improve performance against the targets at risk**

The Department is implementing a range of evidenced-based universal and targeted actions to support achievement of strategic targets and the State and Premier's Priorities, focusing on:

- early childhood education
- improving teacher quality
- needs-based funding
- greater local school decision-making
- rural and remote education
- Connected Communities.

The Department has a number of specific actions to support achievement of the Premier’s Priorities including:

- the ‘Bump It Up’ strategy that targets schools with the greatest potential to improve their NAPLAN results
- an expanded K-2 Literacy and Numeracy Action Plan for low performing disadvantaged primary schools
- the introduction of a minimum literacy and numeracy standard for students undertaking the HSC.

**Commitment to improve literacy and numeracy**

A new State Literacy and Numeracy Strategy (2017–2020) was released in September 2016. This cross-sectoral Strategy builds on previous effort and investment. It commits an additional $340 million over the next four years to maintain a focus on literacy and numeracy in the early childhood years. The additional funds will be used to provide instructional leadership support to 673 schools, for both government and non-government, to develop the literacy and numeracy skills of at-risk Kindergarten to Year 2 students.

The Strategy also includes actions to extend support into high schools and teacher education. Under the Strategy teachers will be provided with better information about their students’ progress, enabling them to target teaching.

**School demographic information**

**The student population is growing at a significant rate**

There were 771,978 students enrolled at NSW public schools in 2015. This represents a growth of 26,438 students from the 745,540 students enrolled in 2011. The Department projects that enrolments will continue to increase in the future.

<table>
<thead>
<tr>
<th>Year ended 31 December</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total students</td>
<td>771,978</td>
<td>763,698</td>
<td>755,346</td>
<td>748,234</td>
<td>745,540</td>
</tr>
</tbody>
</table>

Source: Department of Education (unaudited).
Growth in student numbers is concentrated in metropolitan Sydney

<table>
<thead>
<tr>
<th>Enrolments by region</th>
<th>2015</th>
<th>Growth in past 10 years</th>
<th>Growth in past 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional NSW</td>
<td>332,531</td>
<td>(3.9)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Sydney</td>
<td>439,447</td>
<td>11.4</td>
<td>6.6</td>
</tr>
</tbody>
</table>

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

Student enrolments have grown significantly in Sydney over the last decade. The ten year growth rate is 11.4 per cent (10.3 per cent in 2014) and the five year growth rate is 6.6 per cent (5.9 per cent in 2014).

Student enrolments in regional NSW have been in decline over the past ten years.
Inner and North Sydney regions experienced a ten year growth rate over 20 per cent

The graph shows:

- all Sydney regions have experienced ten year and five year growth in student enrolments
- regional New South Wales has seen a ten year decline in student enrolments
- the Inner Sydney and North Sydney regions have experienced the most significant ten year growth rates (23.9 and 22.6 per cent) and five year growth rates (11.4 and 11.2 per cent) respectively
- the North East NSW region has experienced the most significant decline in students over ten years (eight per cent) and five years (three per cent)
- the Central Coast/Newcastle, North West NSW and South East NSW regions have seen a five year growth reversing a ten year decline in student enrolments.

Source: Mid-year census data obtained from the Department of Education (unaudited).
Enrolments growth is concentrated in primary schools

Split of Primary and Secondary Students

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

Since 2011, the number of primary students has increased by 7.4 per cent, while the number of secondary students has decreased by 1.8 per cent.

Less than one per cent of NSW students are full fee paying overseas students

Full fee paying overseas students totalled 5,408 or 0.7 per cent of total students in 2015 (4,817 or 0.6 per cent in 2014). These students pay an annual tuition fee of $10,500 for primary schools, $12,500 for Year 7 to 10 and $14,000 for Year 11 and 12. In 2015–16, overseas student fees contributed $76.9 million in revenue ($68.8 million in 2014–15).

School Assets Strategic Plan

School enrolments are projected to increase at a significant rate

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

Keeping pace with the growth in the school population will require significant investment in education infrastructure options including the provision of new schools, upgrading existing schools to increase capacity, using demountable classrooms and reviewing and changing school catchment boundaries.

The Department is developing strategies to cope with the growth in student numbers

The Department recently developed a School Assets Strategic Plan (SASP) which is designed to ensure that there are sufficient fit-for-purpose places for students up to 2031. The plan has been reviewed within the Department and by other key government agencies and experts.
The Department has developed a new school cluster planning model to implement the SASP's strategies. School cluster planning assesses schools in a region or district to identify the best way to deliver school assets to a cluster rather than individual schools. It identifies the most effective and efficient asset solution within a cluster of five to 15 schools by reviewing the cluster’s:

- demographic trends
- asset condition
- catchment boundaries
- site sizes
- consolidation opportunities
- co-location with other services.

A performance audit on Planning for School Infrastructure will be tabled in 2017

The Audit Office is currently conducting a performance audit on Planning for School Infrastructure which is expected to be tabled in NSW Parliament in 2017.

This audit will assess the Department's strategy to ensure that it has sufficient fit-for-purpose student learning spaces when and where needed. In making this assessment, the audit will examine whether the Department has:

- identified the demand for future learning spaces
- determined the infrastructure required to meet demand
- developed an implementation model to provide learning spaces when and where needed and to do so economically
- secured the funding needed to provide required learning spaces.
Section Two

Appendices
# Appendix One – Recommendations

<table>
<thead>
<tr>
<th>Financial performance and reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Early close and hard close procedures</strong></td>
</tr>
<tr>
<td>Cluster agencies should ensure all supporting documents for hard close and early close are ready by the due date. All significant accounting issues should be resolved as part of these procedures.</td>
</tr>
</tbody>
</table>

| **Discrepancies in leave data** |
| The Department should review the data and assumptions in the Leave Management System and resolve unusual balances and potential errors prior to starting the transition to the new HR/Payroll system in November 2017. |

<table>
<thead>
<tr>
<th>Financial controls</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human resources</strong></td>
</tr>
<tr>
<td>Agencies should continue efforts to reduce employees’ excess annual leave balances to meet whole-of-government targets.</td>
</tr>
</tbody>
</table>

| **Work health and safety** |
| The Department should consider the effectiveness of workplace health and safety strategies for addressing the rise in psychological injuries. |

<table>
<thead>
<tr>
<th>Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance framework</strong></td>
</tr>
<tr>
<td>Cluster agencies should review compliance with the <em>Government Information (Public Access) Act 2009</em>.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>School performance</strong></td>
</tr>
<tr>
<td>The Department should reassess current strategies for achieving performance targets in reading and numeracy and consider the effectiveness of strategies in the other domains.</td>
</tr>
</tbody>
</table>
## Appendix Two – Financial Information

<table>
<thead>
<tr>
<th></th>
<th>Total assets</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principal department</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Education</td>
<td>23,950</td>
<td>22,226</td>
<td>1,669</td>
<td>1,609</td>
<td>13,112</td>
<td>13,790</td>
<td>13,018</td>
<td>13,929</td>
<td>70</td>
<td>(146)</td>
</tr>
<tr>
<td><strong>Education agency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Studies, Teaching and Educational Standards</td>
<td>25</td>
<td>31</td>
<td>18</td>
<td>17</td>
<td>134</td>
<td>122</td>
<td>140</td>
<td>132</td>
<td>(6)</td>
<td>(9)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>23,975</td>
<td>22,257</td>
<td>1,687</td>
<td>1,626</td>
<td>13,246</td>
<td>13,912</td>
<td>13,158</td>
<td>14,061</td>
<td>64</td>
<td>(155)</td>
</tr>
</tbody>
</table>

* Net result includes gain/(losses) on disposal and other gains/(losses). Hence total revenues minus total expenses may not equal to the net result.

Source: Financial statements (audited).
Appendix Three – Performance Against Budget

<table>
<thead>
<tr>
<th>Department of Education</th>
<th>Board of Studies, Teaching and Educational Standards</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016 actual $m</td>
<td>2016 budget $m</td>
</tr>
<tr>
<td>Abridged statement of comprehensive income - year ended 30 June</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee expenses</td>
<td>8,878</td>
<td>8,526</td>
</tr>
<tr>
<td>All other expenses and losses</td>
<td>4,142</td>
<td>4,250</td>
</tr>
<tr>
<td>Total expenses</td>
<td>13,010</td>
<td>12,776</td>
</tr>
<tr>
<td>Government contributions</td>
<td>12,290</td>
<td>12,192</td>
</tr>
<tr>
<td>Other revenue</td>
<td>222</td>
<td>750</td>
</tr>
<tr>
<td>Total revenue</td>
<td>13,112</td>
<td>12,942</td>
</tr>
<tr>
<td>Other gains/(losses)</td>
<td>(24)</td>
<td>--</td>
</tr>
<tr>
<td>Surplus/(deficit)</td>
<td>70</td>
<td>166</td>
</tr>
<tr>
<td>Total other comprehensive income/(expense)*</td>
<td>1,600</td>
<td>--</td>
</tr>
<tr>
<td>Total comprehensive income/(expense)</td>
<td>1,670</td>
<td>166</td>
</tr>
</tbody>
</table>

Abridged statement of financial position - at 30 June

<table>
<thead>
<tr>
<th></th>
<th>2016 actual $m</th>
<th>2016 budget $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>1,233</td>
<td>831</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>22,717</td>
<td>21,279</td>
</tr>
<tr>
<td>Total assets</td>
<td>23,950</td>
<td>22,110</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>1,465</td>
<td>1,122</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>203</td>
<td>192</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,669</td>
<td>1,314</td>
</tr>
<tr>
<td>Net assets</td>
<td>22,281</td>
<td>20,796</td>
</tr>
</tbody>
</table>

Abridged statement of cash flows - year ended 30 June

<table>
<thead>
<tr>
<th></th>
<th>2016 actual $m</th>
<th>2016 budget $m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of property, plant and equipment and intangibles assets</td>
<td>405</td>
<td>448</td>
</tr>
</tbody>
</table>

* Includes transactions taken directly to equity, such as asset revaluation movements and actuarial movements on defined benefit superannuation plans.

Source: Financial statements (audited).

Actual v Budget Indicator

- Variance below 2 per cent of budget
- Variance between 2 and 5 per cent of budget
- Variance greater than 5 per cent of budget
# Appendix Four – Cluster Information

<table>
<thead>
<tr>
<th>Agency</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principal department</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Education agency</strong></td>
<td></td>
</tr>
<tr>
<td>Board of Studies, Teaching and Educational Standards</td>
<td><a href="http://www.bostes.nsw.edu.au/">http://www.bostes.nsw.edu.au/</a></td>
</tr>
</tbody>
</table>

* This entity has no website.
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.