
New South Wales Auditor-General's Report
Financial Audit

Volume Six 2016

Report on Family and Community Services



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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Pursuant to the *Public Finance and Audit Act 1983*,
I present Volume Six of my 2016 report.

A handwritten signature in black ink, appearing to read 'S. Stanton'.

Scott Stanton
Acting Deputy Auditor-General
17 November 2016

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Section One

Family and Community Services



Executive Summary

This report analyses the results of the financial statement audits of the 13 Family and Community Services cluster agencies for the year ended 30 June 2016. The table below summarises key observations and recommended actions.

Financial performance and reporting

Financial reporting

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

Financial performance

While the Land and Housing Corporation's operating losses continue, its liquidity ratio of 1.5 indicates it can meet obligations as they fall due.

Financial controls

Internal controls

The audits did not identify any high risk internal control issues at cluster agencies.

Asset Management

The Public Accounts Committee made ten recommendations to the Department to improve management of maintenance contracts.

Governance

Better practice

The Audit Office's 'Governance Lighthouse - Strategic Early Warning System' can help agencies improve governance.

Compliance management

The Department did not fully comply with the *Government Information (Public Access) Act 2009* (GIPA Act).

Service delivery

Performance reporting

There is limited use of targets and benchmarks in the Department's published performance statistics.

Commissioning

The Department's audits of NGO performance can improve.

Contract management

The recording of contracts and the monitoring of contract performance can improve.

Accreditation

Three of the Department's 15 Community Service Centres are not meeting out-of-home-care service standards.

Statutory child protection

Children and young people in statutory care with a documented case plan improved from 80 to 95 per cent at 30 June 2016, with priority given to high risk cases.

Financial performance and reporting

Quality and timely financial reporting

The statutory deadlines for completing early close procedures and submitting financial statements were met by all agencies in the cluster. Unmodified audit opinions were issued for all 30 June 2016 financial reports.

LAHC's financial sustainability is at risk due to recurring operating losses

The Land and Housing Corporation (LAHC) remains a going concern, but its financial sustainability is at risk due to recurring operating losses. However, LAHC's liquidity ratio of 1.5, indicates it can meet obligations as they fall due.

Financial controls

No high risk internal control issues identified at cluster agencies

The 2015–16 audits identified internal control weaknesses of low and moderate risk. These were reported to the relevant agencies' management together with our recommendations. While some of these issues had been identified and reported in the previous year, management is addressing the recommendations.

Department must issue a progress report on the new maintenance contract

The Public Accounts Committee inquiry into the 'Management of NSW Public Housing Contracts' made ten recommendations to the Department to improve management of maintenance contracts. One requires the Department to prepare a progress report on the operation of the new maintenance contract.

Governance

Governance can be improved at cluster agencies

The Audit Office's 'Governance Lighthouse - Strategic Early Warning System' can be used by agencies to self-assess governance frameworks and identify areas for improvement.

Recommendation

Family and Community Services cluster agencies should use the Audit Office's 'Governance Lighthouse - Strategic Early Warning System' to assess their governance frameworks.

The Department did not fully comply with the GIPA Act

The Department has commenced a project plan to address non-compliance with the *Government Information (Public Access) Act 2009*.

Recommendation

Family and Community Services cluster agencies should review compliance with the *Government Information (Public Access) Act 2009* and report results to their Audit and Risk Committee.

Service delivery

Limited use of targets or benchmarks in published performance data

The Department regularly publishes performance statistics for each strategic objective, but the use of targets or benchmarks is limited.

Recommendation (repeat)

The Department of Family and Community Services should include targets and benchmarks in its performance reporting, where appropriate.

NGOs received \$2.8 billion in government funding in 2015–16 to deliver services

Cluster agencies have significant contracts with non-government organisations (NGOs) to deliver services to people with disability, children and young people and social housing. There is limited independent assurance on how well NGOs use government funding as the NSW Auditor-General's mandate does not extend to the NGO sector.

Recommendation

The Department of Family and Community Services should develop a consistent process for auditing NGO performance and report results to the Audit and Risk Committee.

No centralised contract register or monitoring of contract performance

Some cluster agencies do not have complete centralised contract registers or effective processes to manage contract compliance and performance.

Recommendation

Cluster agencies should:

- develop and regularly update a centralised contracts register
- centrally monitor and report on contract compliance and performance.

The Department is yet to be fully accredited to provide out-of-home-care

Three of the Department's 15 Community Service Centres (CSCs) are not meeting all required out-of-home care (OOHC) service standards and have received interim accreditation from the Children's Guardian until 1 December 2016.

If the remaining CSCs are not accredited they will need to stop providing statutory OOHC. Case management of the children and young people for these CSCs will need to transfer to an accredited NGO or an accredited CSC of the Department.

Placement reviews of children and young people increased by 9 per cent

The *Children and Young Persons (Care and Protection) Act 1998* requires the Department to review placements at least every 12 months. The Department has increased documented case plans for children and young people in statutory care from 80 to 95 per cent at 30 June 2016, with priority given to high risk cases

Recommendation

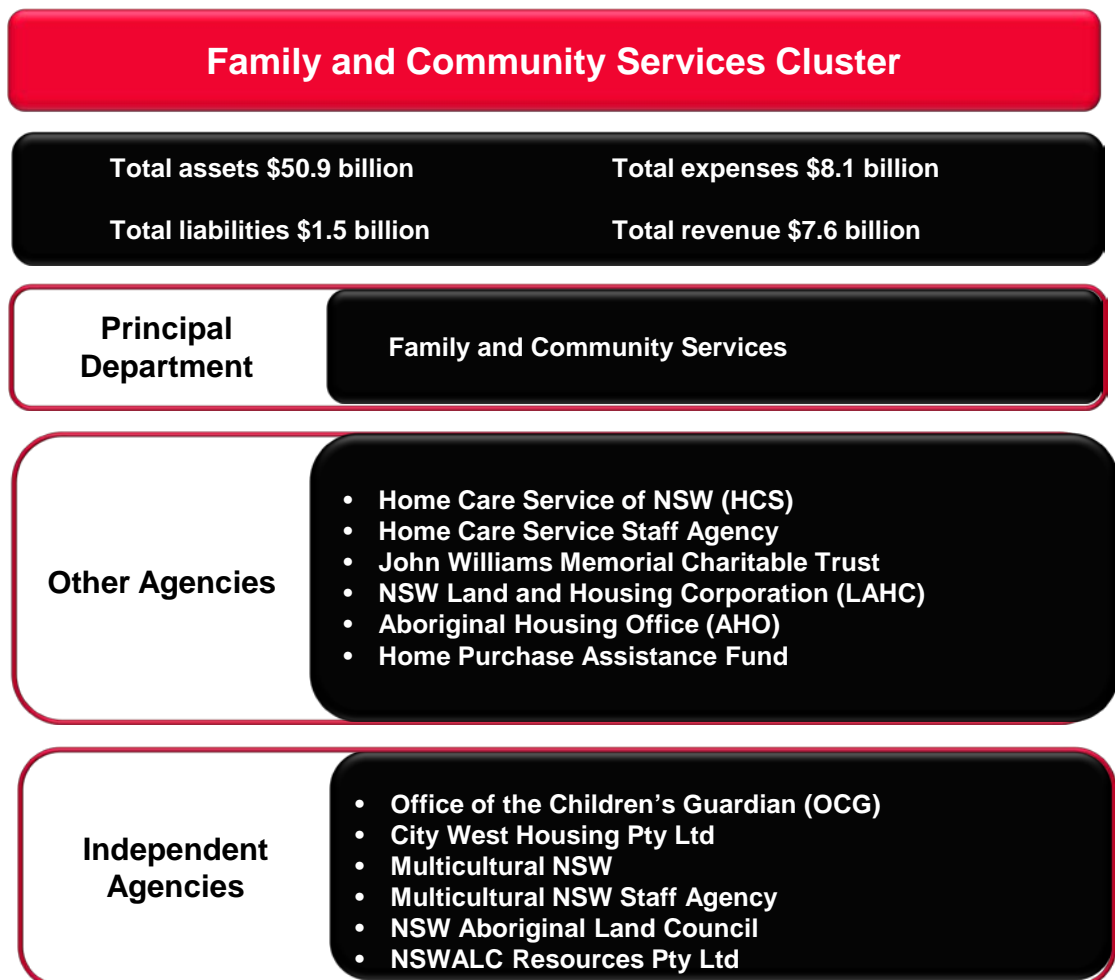
The Department of Family and Community Services should continue with strategies to improve compliance with its requirement to review placements of children and young people in statutory care.

Introduction

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

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

Family and Community Services cluster



The Department of Family and Community Services (the Department), led by the Secretary, is the lead agency in the cluster. Most agencies operate within the Department's structure and report to the Secretary, except for the independent agencies listed above.

Changes to the cluster from 1 July 2015

From 1 July 2015, Administrative Arrangements (Administrative Changes – Public Service Agencies) Order (No 2) 2015 changed the name of the Department of Education and Communities to the Department of Education. Communities agencies were transferred to the Family and Community Services cluster and other smaller bodies absorbed by the Department.

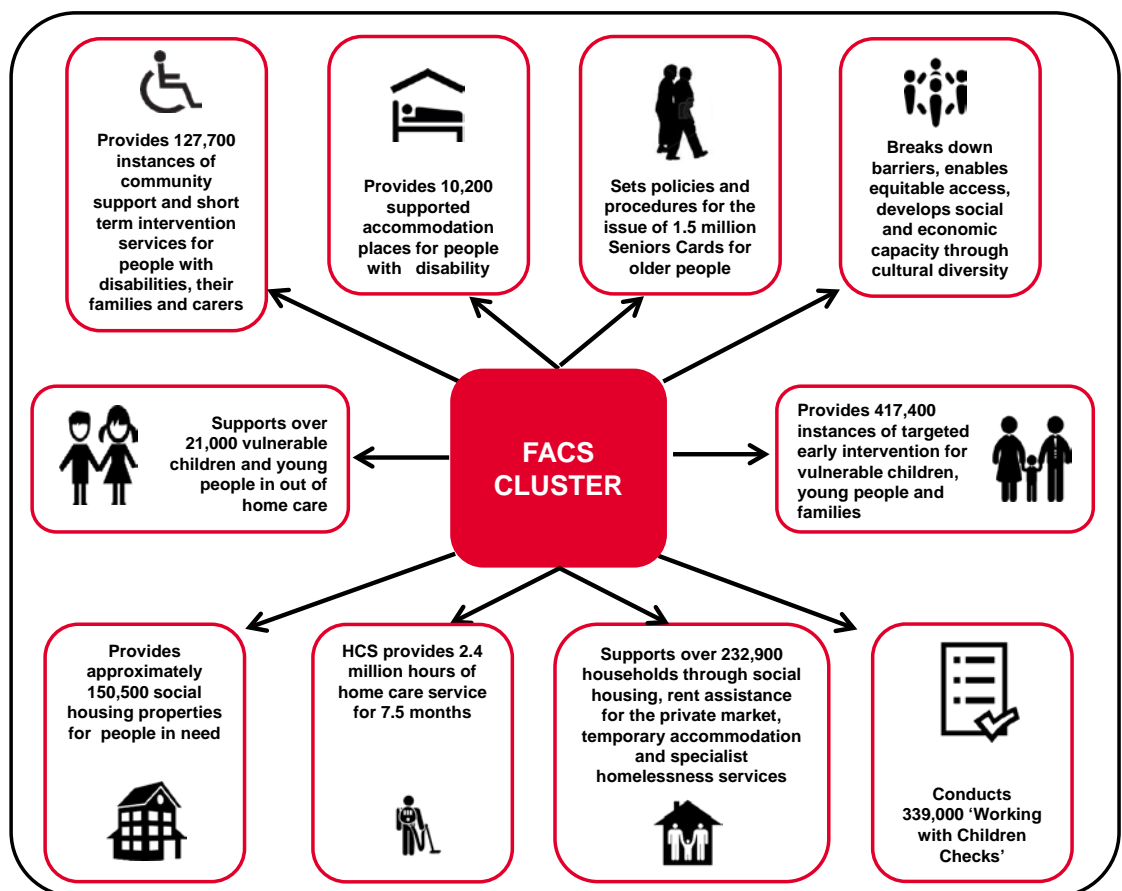
Multicultural NSW and its staff agency were transferred into the cluster.

On 19 February 2016, the operations, staff, assets and liabilities of Home Care Service of NSW were transferred to Australian Unity to prepare for national aged care reforms and the National Disability Insurance Scheme (NDIS).

The New South Wales Aboriginal Land Council (the Council) is included in this volume due to being associated with Communities. It is the largest member-based Aboriginal organisation in the State. The land council network operates as a two-tiered structure, with the Council as the peak body and a network of 120 [Local Aboriginal Land Councils](#) (LALCs). Both the Council and the LALCs are governed by elected Boards. The Council funds the LALCs through an annual grant.

The Council aims to protect the interests and further the aspirations of its members and the broader Aboriginal community. It works for the return of culturally significant and economically viable land, pursuing cultural, social and economic independence for its people. It is politically proactive and voices the position of Aboriginal people with governments and other stakeholders on issues that affect them.

2015–16 Family and Community Services activities are illustrated below



Status of 2015 recommendations

Last year's Auditor-General's Report to Parliament on the Family and Community Services cluster included six recommendations.

Recommendation	Current status	
The Department should:		
<ul style="list-style-type: none"> ● Benchmark its model for managing conflicts of interest against the Independent Commission Against Corruption publication 'Identifying and managing conflicts of interest in the public sector'. 	<p>The Department plans to address this recommendation by March 2017.</p> <p>Refer to the chapter on Governance for further details.</p>	
<ul style="list-style-type: none"> ● Include targets and benchmarks in its published performance reporting. 	<p>The Department publishes a range of performance and other statistics on its Statistics website. It will consider introducing targets and benchmarks where appropriate.</p> <p>Refer to the chapter on Service Delivery for further details.</p>	
<ul style="list-style-type: none"> ● <ul style="list-style-type: none"> • self-assess its contract management framework against the Audit Office's 'Better Practice Contract Management Framework' • develop a centralised contracts register which is regularly updated • centrally monitor and report on contract compliance. 	<p>The Department is implementing an interim solution by December 2016 with planned long term solution by June 2017.</p> <p>Refer to the chapter on Service Delivery for further details.</p>	
<ul style="list-style-type: none"> ● Comply with its statutory requirements to undertake annual placement reviews of children in statutory care. 	<p>The Department has implemented strategies to improve compliance levels from 80 to 95 per cent at 30 June 2016.</p> <p>Refer to the chapter on Service delivery for further details.</p>	
The Cluster agencies should:		
<ul style="list-style-type: none"> ● Revisit initiatives to reduce annual leave balances and regularly report against targets. 	<p>The Department has the largest component of workforce in the cluster. Annual leave balances over 30 days have fallen.</p> <p>Refer to the chapter on Financial Controls for further details.</p>	
<ul style="list-style-type: none"> ● Refer to the Audit Office's 'Fraud Control Improvement Kit' to enhance fraud control frameworks. 	<p>The Department developed a Fraud and Corruption Prevention Control Policy and Framework based on the Audit Office's 'Fraud Control Improvement Kit'.</p>	
2015 recommendation status		
<ul style="list-style-type: none"> ● Fully addressed 	<ul style="list-style-type: none"> ● Partially addressed 	<ul style="list-style-type: none"> ● Not addressed

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 audit observations, conclusions or recommendations related to the financial performance and reporting of agencies in the Family and Community Services cluster for 2015–16.

Financial reporting

Observation

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

Agencies completed early close procedures and submitted financial statements by statutory deadlines.

Conclusion or recommendation

Early close procedures continue to allow issues and financial reporting risk areas to be addressed early in the audit process.

Timeliness of financial reporting is consistent with the prior year.

Financial performance

Observation

Land and Housing Corporation's (LAHC) financial sustainability is at risk.

NSW Aboriginal Land Council's (NSWALC) expenditure exceeds spending target.

Conclusion or recommendation

While LAHC's operating losses continue, its liquidity ratio of 1.5 indicates LAHC can meet obligations as they fall due.

NSWALC used \$43.2 million of its investments to fund operations in 2015–16, exceeding the spending target of \$37.9 million.

Quality of financial reporting

Unqualified audit opinions were issued for all agencies' financial statements

Unqualified audit opinions were issued on the 30 June 2016 financial statements for all agencies in the Family and Community Services cluster.

A financial audit is designed to identify matters considered important enough to report to those charged with governance of the agency, the portfolio Minister, Treasurer and agency head. No significant matters were reported in 2015–16.

Quality of most agencies' financial statements remains high

Since Treasury introduced 'early close procedures' in 2011–12, the number of reported misstatements has fallen for Family and Community Services cluster agencies. This is largely attributed to the early resolution of accounting issues as a part of the early close procedures. These procedures help agencies meet earlier reporting deadlines and improve the quality and accuracy of financial reporting by bringing forward traditional year-end activities. These include valuation of assets and resolving financial reporting issues.

Timeliness of financial reporting

Early close procedures completed and financial statements submitted on time

The statutory deadlines for completing early close procedures and submitting financial statements were met by all agencies in the cluster. The financial audits were also completed by the statutory deadlines.

Key financial information

The Department controls Home Care Service of NSW and the John Williams Memorial Charitable Trust. The Land and Housing Corporation (LAHC) and the Aboriginal Housing Office (AHO) are the other financially significant agencies within the cluster. The key components of the financial statements are summarised below.

Family and Community Services Cluster		
Department (consolidated)	AHO	LAHC
Grants and subsidies: \$3.8 billion	Grants and subsidies: \$23.0 million	Grants and subsidies: \$63.4 million
Other expenses: \$2.4 billion	Other expenses: \$80.8 million	Other expenses: \$1.3 billion
Assets: \$1.8 billion	Assets: \$1.8 billion	Assets: \$45.7 billion
Liabilities: \$530 million	Liabilities: \$30.7 million	Liabilities: \$806 million

Grants and subsidies represent 51 per cent of expenditure

The Department provided grants and subsidies of \$3.8 billion in 2015–16 (\$3.3 billion in 2014–15), comprising \$1.7 billion for disability services, \$839 million for out-of-home-care, \$242 million for early intervention programs, \$186 million to community care programs and \$833 million in other grants.

Non-government organisations (NGOs) received \$2.8 billion in 2015–16 (\$2.5 billion) from cluster agencies including the Department, LAHC and AHO.

LAHC's deficit fell by 17 per cent to \$197 million

LAHC's deficit fell from \$239 million in 2014–15 to \$197 million in 2015–16, mainly due to a \$96.4 million gain on properties sold in Millers Point and Glebe. This gain was offset by higher depreciation of \$425 million (\$362 million) and maintenance of \$296 million (\$272 million).

Assets increased by more than \$5.8 billion

LAHC revalued its property portfolio in 2015–16 resulting in a \$6.3 billion or 14 per cent increase in value, primarily impacted by the Sydney market. Revalued land and buildings of the Department, AHO, City West Housing Pty Ltd and the NSW Aboriginal Land Council added a further \$316 million to the asset position. This was partially offset by falls in investment values and cash.

Appendix One details key financial information for the Family and Community Services agencies included in this report.

Financial sustainability

LAHC's financial sustainability is at risk due to recurring operating losses

LAHC remains a going concern however its financial sustainability is at risk because of operating losses for the past six years. The main drivers of these losses were increasing depreciation and amortisation expenses, \$425 million in 2015–16 (\$362 million in 2014–15) and increasing repairs and maintenance expenses \$296 million in 2015–16 (\$272 million). These increases are expected as the property portfolio grows in size, age and value. The liquidity ratio of 1.5, indicates LAHC can meet its obligations as they fall due.

Financial sustainability measures the ability of an agency to manage its financial resources so it can meet present and future spending commitments. It is an important performance measure in any organisation, including the public sector.

CityWest Housing remains financially sustainable

City West Housing Pty Ltd has strong financial sustainability because of on-going operating surpluses, effective expense management and lower employee provisions than most agencies.

High demand for volunteer working with children checks impacts liquidity

The Office of the Children's Guardian (OCG) made an operating loss of \$7.0 million in 2015–16 (\$1.2 million surplus in 2014–15) and has a low liquidity ratio of 0.4. This is driven by higher demand for volunteers' working with children checks, which have no charge but increase fees payable to third parties. The 2016–17 State Budget appropriation is sufficient to ensure OCG is financially sustainable in the short term.

Appendix Two summarises the performance of those agencies which are primarily self-funded, against some commonly accepted financial sustainability indicators for the year ended 30 June 2016. Agencies mostly funded through annual appropriations from the NSW Government are excluded as they are likely to be financially sustainable.

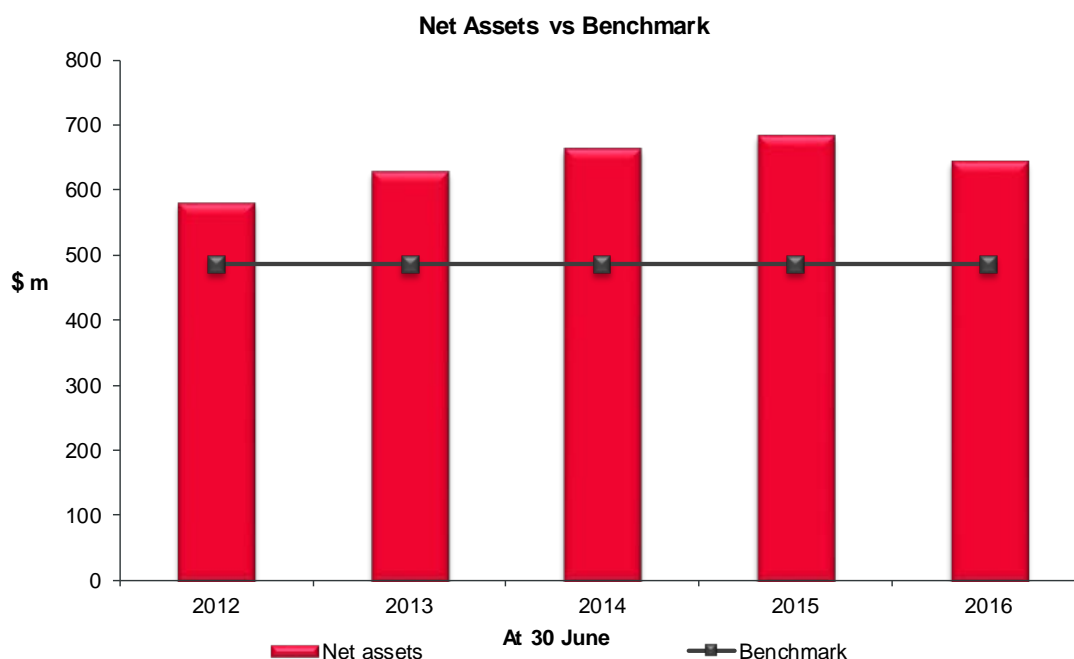
NSW Aboriginal Land Council's expenditure exceeds spending target

NSW Aboriginal Land Council (NSWALC) used \$43.2 million (\$37.4 million) of its investments to fund operations in 2015–16, exceeding the spending target of \$37.9 million. NSWALC uses financial modelling to ensure its long term sustainability. This model calculates spending targets and projects required long term investment returns.

NSWALC's long term financial sustainability is at risk if it earns lower than expected investment returns or fails to control spending. Investment income is its main source of revenue and is affected by volatility in the financial markets. Investment returns of 0.4 per cent in 2015–16 were significantly lower than the 8 per cent expected under its financial modelling.

The *Aboriginal Land Rights Act 1983* requires NSWALC to maintain a net asset balance of \$485 million (the Benchmark). NSWALC is exceeding the required benchmark having net assets of \$644 million at 30 June 2016 (\$683 million).

NSWALC's net assets compared to the balance of the Benchmark were:



Source: Financial statements (audited).

NSWALC employs the following strategies to maintain its capital base:

- an Investment Committee with independent members
- obtaining independent investment advice
- complying with policies for strategic asset allocation
- on-going monitoring of its earnings and expenditure
- recommending legislation changes to reduce or remove the non-operational cost burdens.

Performance against Budget

Financial performance varied from Budget by more than five per cent

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.

Appendix Three includes a table comparing the 2015–16 results of cluster agencies to original budgets presented to Parliament or Treasury.

Five out of the six agencies presented in Appendix Three:

- exceeded budgeted expenses by more than five per cent
- exceeded budgeted revenue by more than five per cent
- had a net result that varied from budget by more than five per cent.

Budget accuracy was impacted by activities and transactions outside the direct control of the Department. Reasons for budget variances in the cluster included:

- the transfer date for Home Care Service of NSW (HCS) operations not being known when the budget was set
- transfer payments and redundancy expenses due to National Disability Insurance Scheme transition and transfer of HCS operations
- more working with children checks than expected

- Multicultural NSW receiving additional grants and contributions and experiencing a higher than expected take up of its voluntary redundancy program
- insurance hindsight adjustments
- differing accounting treatment in the budget compared to the financial report of the Home Purchase Assistance Fund.

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 Family and Community Services cluster for 2015–16.

Financial controls	
Observation	Conclusion or recommendation
Chief financial officers (CFOs) of cluster agencies certified internal controls over financial information for 2015–16.	The certification provides the agency head and Treasury with some assurance the financial controls are adequate for financial reporting purposes.
The 2015–16 financial audits reported 31 internal control issues to management, eleven were repeat issues, none were high risk.	Management accepted audit findings and is actioning recommendations.
User access administration is an area of weakness with information technology systems.	User access administration can be strengthened with regular reviews to ensure system access aligns with role requirements.
Two large information technology projects are on time and on budget.	The Department plans to maintain effective project governance during the final phase of the SAP implementation project. There is an opportunity to share learnings with other public sector agencies.
Implementing the ARIBA Maintenance system has gone over budget by 14 per cent.	The increased cost was mainly due to the number of contractors and level of complexity in interfacing with contractors' systems.
At 30 June 2016, the number of employees in the cluster with an excessive annual leave balance was 1,898 (2,115 at 30 June 2015), a 10 per cent improvement over the prior year.	Strategies employed to reduce annual leave balances are effective and should continue.
Future skill needs are changing as contracting with the NGO sector increases.	Employees need well-developed contract and risk management skills to ensure the optimal use of resources and achievement of service delivery outcomes. The Department is developing a workforce strategy to address this issue.
The Public Accounts Committee conducted an inquiry into the 'Management of NSW Public Housing Maintenance Contracts' in 2015–16.	The Public Accounts Committee made ten recommendations to the Department, such as requiring a progress report on the operation of the new maintenance contract.

Effectiveness of internal controls over financial information

CFOs are certifying the effectiveness of internal controls over financial information

The CFOs of cluster agencies certified internal controls over financial information for 2015–16 as required by TPP 14–05 'Certifying the Effectiveness of Internal Controls over Financial Information'. This certification provides the agency head and Treasury with some assurance

that financial controls are adequate for financial reporting purposes. The agency head receives this assurance before signing the annual financial statements.

No high risk internal control weaknesses identified

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

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

Thirty one internal control issues were reported and eleven were repeat issues

The 31 internal control weaknesses reported to management of cluster agencies were of moderate to low risk. They comprised two governance issues on risk management, five instances of non-compliance with legislation and policy, eleven information technology (IT) issues and thirteen other operational issues. Eleven findings were identified during previous audits and not fully addressed by management. More than half were IT system issues which typically take longer to address.

The table below shows the number of internal control weaknesses and repeat issues identified and reported to management over the last three years.

Agency	Number of recommendations			Number of repeat recommendations		
	2016	2015	2014	2016	2015	2014
Year ended 30 June						
Cluster lead agency						
Department of Family and Community Services	17	21	13	5	3	5
Other cluster agencies						
Aboriginal Housing Office	--	2	3	--	--	--
NSW Aboriginal Land Council	3	N/A	N/A	2	N/A	N/A
Multicultural NSW	7	N/A	N/A	3	N/A	N/A
Office of the Children's Guardian	--	2	3	--	1	--
NSW Land and Housing Corporation	4	2	2	1	--	--
Home Purchase Assistance Fund	--	--	1	--	--	--
City West Housing Pty Ltd	--	--	2	--	--	2
Total for the cluster	31	27	24	11	4	7

Note: Department of Family and Community Services and Multicultural NSW include all controlled entities.

N/A Multicultural NSW and NSW Aboriginal Land Council were part of Department of Education and Communities cluster prior to 1 July 2015.

Source: Management letters issued by the Audit Office of New South Wales.

The internal control weaknesses identified and key themes are summarised below.

Non-compliance with key legislation and policy

The 2015–16 financial audits identified breaches of the following key legislation and policy:

- *Government Information (Public Access) Act 2009* - refer to Governance chapter of this volume
- *Children and Young Persons (Care and Protection) Act 1998* – improved compliance, but not all children and young people placed in statutory out-of-home-care had their placement reviewed
- Treasury Circular TC 16–03 'Reduction of Accrued Leave Balances' – some cluster agencies had excess annual leave balances
- other non-compliance with requirements of agency policies and procedures.

Other internal control weaknesses included:

- no centralised contract registers
- inadequate review of tenant's household income used for rental subsidies

- purchasing card transactions not always submitted for review or approval
- limited use of purchase orders
- incorrect accounting treatments
- inconsistently applying policy and procedures
- control deficiencies for entering and processing journal entries
- inadequate controls over changing the bank details of service providers in one system
- differences between the property database and the financial system.

Most information technology weaknesses are with user access administration

Eleven IT internal control weaknesses were identified in general computer controls across cluster agencies in 2015–16 (seven in 2014–15). Most of these issues concerned weaknesses in user administration.

Weak user administration processes increase the risk of users having excessive or unauthorised access to critical financial systems compromising the integrity and security of financial data used to prepare agencies' financial statements.

Refer to the Governance chapter of this volume for details on risk management findings.

Information technology projects

Two large information technology projects are on time and on budget

Project description	Original budget	Costs to 30 June 2016	Original estimated completion year	Year completed
	\$'000	\$'000		
Front line system support - ChildStory	60,310	28,507	2017–18	N/A
Shared services project - One SAP	48,092	24,872	2016–17	N/A
Asset maintenance contract support - ARIBA	4,160	4,734	2015–16	2016–17
Total	112,562	58,113		

N/A Not applicable.

Source: Data provided by the Department (unaudited).

The ChildStory project is currently on time and within budget. It aims to support the NSW Government's Safe Home for Life reforms by replacing the Department's current IT systems for child protection and out-of-home-care with an integrated solution. The project commenced in July 2014 and is being delivered in stages over four years. The project also aims to reduce administration time of frontline staff so they can spend more time with families.

The One SAP project is currently on time and within budget. The Department had a complex IT environment with four distinct versions of SAP and other specialised systems used by discrete agencies and divisions. The One SAP project, to consolidate different versions of SAP, commenced in 2015. The Department engaged an external vendor to deliver its program of work. In August 2016, One SAP work was completed as planned for most of the Department. The next stage, including Land and Housing Corporation (LAHC), is planned for December 2016. The Department plans to maintain project governance through the final phases of implementation. There is an opportunity to share learnings with other public sector agencies.

The asset maintenance project is 14 per cent over Budget

The ARIBA maintenance contract system is 14 per cent over budgeted cost at 30 June 2016. The system aims to create a commercial environment based on openness and transparency between LAHC and its maintenance contractors. The budget was set prior to knowing the number of successful contractors. The increased cost was mainly due to the higher than expected number of contractors and the level of complexity interfacing with contractors' systems. Workarounds were required till October 2016 when all interfaces were in place and operating.

Human resources

Excess annual leave

Fewer employees have excessive annual leave balances

Excess leave balances can affect an organisation in the following ways:

- the associated financial liability generally increases over time as salaries increase
- workplace health and safety issues may arise
- employee fraud may remain undetected.

At 30 June 2016, the number of employees in the cluster with an excessive annual leave balance was 1,898 (2,115 at 30 June 2015), a 10 per cent improvement over the prior year. The Department accounted for 1,834 (1,956) of these employees.

The table below shows the number of staff with excess annual leave and the value in the past two years.

	Headcount > 30 days	\$ Value of annual leave > 30 days	Headcount > 30 days	\$ Value of annual leave > 30 days
At 30 June	2016	2016	2015	2015
Cluster lead agency				
Department of Family and Community Services	1,834	4,055,189	1,956	4,999,819
Other agencies				
Home Care Service Staff Agency	--	--	145	154,168
Office of the Children's Guardian	24	105,386	14	62,975
Multicultural NSW Staff Agency	9	135,206	N/A	N/A
NSW Aboriginal Land Council	31	634,044	N/A	N/A
Total	1,898	4,929,825	2,115	5,216,962

N/A NSW Aboriginal Land Council and Multicultural NSW staff agency were part of the Department of Education and Communities cluster prior to 1 July 2015.

Source: Data provided by the respective agencies (unaudited).

The Department continues to monitor excess annual leave balances and undertake activities to reduce them. Reminders are issued to employees and their managers when leave balances exceed six weeks and eight weeks. Reporting is undertaken by location and included in quarterly reports to the Executive Board.

The transfer of Home Care Service of NSW employees to Australian Unity reduced its balance to nil. Over the next few years, more staff will be transferred and made redundant due to the full rollout of the National Disability Insurance Scheme (NDIS) and other efficiency savings. This will further reduce excess leave balances.

Workforce planning

Future skill needs are changing as contracting with the NGO sector increases

The Department contracts with non-government organisations (NGOs) to provide social housing, disability care and out-of-home care to children and young people. While arrangements with NGOs for social housing and out-of-home care services are increasing, contracting for disability care is expected to reduce under the NDIS. The Australian Government will be contracting with the NGO sector to provide disability services under the NDIS.

Given the significant changes in the service delivery model, the Department needs employees with different skill sets. Employees need well-developed contract and risk management skills to ensure the optimal use of resources and service delivery outcomes are achieved. The Department is developing a workforce strategy to address this issue.

The Department has over 8,000 employees in its disability services division. It estimates over 3,000 employees will transfer to NGOs and almost 2,000 will be made redundant. A redundancy provision of \$181 million has been recognised in 2015–16 financial statements.

Refer to the Service Delivery chapter of this volume for details on contracting with NGOs.

Asset management

Cluster agencies manage and maintain \$50 billion in assets

Family and Community Services cluster agencies manage \$50.9 billion in assets with 97 per cent comprising property, plant and equipment.

The average age of a public housing property is 37 years with 20 per cent being at least 50 years old. Older properties require higher maintenance costs than new properties. The Land and Housing Corporation (LAHC) entered into new maintenance contracts with service providers late in 2015–16. The Department advised new maintenance contracts will provide efficiencies in delivering responsive maintenance, reduce administration costs and provide increased value for money.

Department required to issue a progress report on new maintenance contract

The Public Accounts Committee conducted an inquiry into the 'Management of NSW Public Housing Maintenance Contracts' in 2015–16, considering the:

- current repair status and physical condition of public housing stock
- costs of maintenance of current public housing stock, variations in expenditure trends over the previous five years and projected expenditure for the next five years
- nature and administration of maintenance contracts, including private sector arrangements
- methodologies and processes for ensuring consistent public housing maintenance standards across NSW, including quality assurance, effectiveness, efficiency and contract supervision
- statutory obligations on tenants to take care of properties and report maintenance needs in a timely fashion
- measures to meet the special maintenance requirements of aged and disabled tenants.

The [Report](#) included ten recommendations, including the Department:

- issue a progress report on the new maintenance contract by October 2017 covering performance against agreed targets and client satisfaction ratings
- review communication protocols and to better inform tenants about how to seek repairs
- review the complaints handling process
- ensure there is consistent and mandatory codes of conduct for contractors across the public housing and community housing sectors
- monitor and report on the success of the new system in addressing maintenance difficulties experienced by tenants with disability
- provide an update on the transfer of property management to community housing providers.

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 Family and Community Services cluster for 2015–16.

Governance	
Observation	Conclusion or recommendation
The Audit Office's 'Governance Lighthouse - Strategic Early Warning System' can help agencies improve governance.	Recommendation: Cluster agencies should use the Audit Office's 'Governance Lighthouse - Strategic Early Warning System' to assess their governance frameworks.
We assessed the risk management maturity of two agencies using the Audit Office's 'Risk Management Maturity Toolkit'. Enterprise wide risk management is improving.	The 2016–17 audits will continue to focus on governance matters including the maturity of risk management.
The Department did not fully comply with the <i>Government Information (Public Access) Act 2009</i> (GIPA Act).	Recommendation: Cluster agencies should review compliance with the <i>Government Information (Public Access) Act 2009</i> and report results to their Audit and Risk Committee.
Key cluster agencies report over 90 per cent compliance with legislation and policies. The Department's compliance program is a good example of better practice.	The Department's compliance management processes cover the key components of an effective system.
Contracting with non-government organisations increases potential conflicts of interest and the need to effectively manage them.	The Department improved its processes in 2015–16 and plans to address remaining risks by March 2017.

Governance Lighthouse – Strategic Early Warning System

Recommendation

Cluster agencies should use the Audit Office's 'Governance Lighthouse - Strategic Early Warning System' to assess their governance frameworks.

During 2015–16, the New South Wales Aboriginal Land Council self-assessed its governance framework using the Audit Office's better practice governance checklist. They developed a plan to address identified improvement opportunities.

The Department will perform the same governance health check in 2016–17. Other cluster agencies should assess their governance frameworks.

Good governance promotes public confidence in government and its agencies. Well governed agencies deliver improved services using resources efficiently.

The Audit Office published its updated '[Governance Lighthouse - Strategic Early Warning System](#)' in 2015. The Guide includes a checklist which enables agencies to self-assess and identify governance areas which need attention.

Structure and key committees

Shared audit and risk committees can increase efficiency and reduce costs

Strong governance requires a well-defined set of key committees responsible for high-level direction and control.

The Family and Community Services cluster has a shared audit and risk committee which covers the Department, Home Care Service of NSW, the Aboriginal Housing Office and other smaller agencies. Treasury Policy Paper TPP 16–2 ‘Guidance on Shared Arrangements and Subcommittees for Audit and Risk Committees’ encourages shared arrangements, where appropriate, to increase efficiency and reduce compliance costs. The Land and Housing Corporation has its own audit and risk committee due to its size and different risk profile.

Other cluster agencies have their own audit and risk committees as they don’t report to the Secretary of the Department.

OneFACS reform is progressing well

In 2013–14, the Department commenced OneFACS reform to centralise functions, streamline processes and change systems to improve service delivery. This project commenced when a number of different agencies were transferred to the Department merging multiple arms of service delivery. Deputy Secretaries lead each Division and report to the Secretary of the Department.

OneFACS reform aims to:

- better support localisation of service delivery
- align executive structures with the *Government Sector Employment Act 2013*
- improve cost effectiveness and responsiveness of Divisions
- improve community access to information and services
- meet savings targets and remain financially sustainable
- provide flexibility to facilitate the National Disability Insurance Scheme (NDIS).

The first two phases, completed in August 2015, focused on corporate services functions and executive structures. Phase Three, completed in March 2016, moved non-executives into the new structure. Phases Four and Five, due to be completed in June 2018, redesign frontline service delivery and manage disability reforms.

Risk management

Enterprise-wide risk management is improving

We assessed the risk management maturity of two agencies using the Audit Office’s Risk Management Maturity Toolkit covering the following key areas of risk management:

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

More work is required to embed enterprise-wide risk management frameworks in cluster agencies.

Agencies need to evaluate the cost and benefit 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.

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.

In 2016–17, the Department plans to:

- update its strategic risk register
- conduct a risk workshop in Districts (a location of the Department)
- develop an operational risk register for Districts which can be tailored for local risks
- continue embedding its risk management framework.

Ethics

Fraud control

Fewer fraud allegations during the year

There were 88 allegations and 27 incidents of fraud reported to external bodies in 2015–16, such as the NSW Independent Commission Against Corruption and NSW Police. This compares to 197 allegations and 86 external reports in 2014–15. The decrease was mainly due to the transfer of Home Care Services of NSW employees to the NGO sector.

Many allegations of fraud and corruption are low value and relate to:

- misuse of agency resources, including petty cash
- inappropriate timesheet entries
- invalid travel and overtime claims
- theft from clients.

During the year, the Department established the 'Fraud and Corruption Prevention Control Policy and Framework' outlining how it prevents, detects and investigates fraud and corruption. The policy and framework was based on the Audit Office's '[Fraud Control Improvement Kit](#)' and the 'Standards Australia AS8001–2008 Fraud and Corruption Control'.

The Audit Office '[Fraud Control Improvement Kit](#)' (released in February 2015), consolidates previously issued Audit Office resources into one document and places additional focus on the cultural elements of an effective fraud control framework.

Compliance management

The Department did not fully comply with the GIPA Act

This year, the Audit Office reviewed the compliance of 13 agencies with Part 3 Division 5 of the *Government Information (Public Access) Act 2009* (GIPA Act). The Department was selected for the review and the following areas of non-compliance were identified:

- no centralised contract register
- incomplete government tenders register
- government tenders website not updated within legislative timeframes and contained expired contracts
- no monitoring to ensure complete and accurate registering of contracts.

The Department has commenced a project plan to address non-compliance with the GIPA Act and improve overall contract management.

Cluster agencies need to review compliance with the GIPA Act

Recommendation

Cluster agencies should review compliance with the *Government Information (Public Access) Act 2009* and report results to their Audit and Risk Committee.

The GIPA Act requires disclosure of government contracts with the private sector. It is the responsibility of individual agencies to ensure they comply with the GIPA Act.

Compliance with legislation and policies remained high

The Department monitors and reports on its compliance with legislation and central agency policies. The reported compliance results for 2015–16 were:

- NSW Land and Housing Corporation, 98 per cent (100 per cent in 2014–15)
- Department (including its controlled entities), 93 per cent (94 per cent)
- Aboriginal Housing Office, 100 per cent (96 per cent).

Breaching laws and regulations can be costly, impact service delivery and may result in negative publicity.

The Department's compliance management process is mature and covers the key components of effective compliance management. It includes independent review of the self-assessed results for accuracy. It is a good example of better practice.

Effective compliance management 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.

Managing conflicts of interest has improved

Commissioning with the NGO sector has grown, increasing the need to effectively identify and manage any conflicts of interest.

The Department's 'Code of Ethical Conduct' sets out responsibilities for all employees including what to do when conflicts of interest arise. The Department has recently updated its policies and procedures and introduced an on-line portal for staff to disclose conflicts of interest for approval.

Last year's Auditor-General's Report to Parliament recommended the Department benchmark its model for managing conflicts of interest against the Independent Commission Against Corruption publication 'Identifying and managing conflicts of interest in the public sector'. The Department has agreed to address this recommendation by March 2017.

Oversight of Local Aboriginal Land Councils

Some Local Aboriginal Land Councils are assessed as high risk

At 30 June 2016, the New South Wales Aboriginal Land Council (NSWALC) is funding 105 (87 per cent) Local Aboriginal Land Councils (LALCs). Of the remaining 15 LALCs, four are not operating and 11 breached the Aboriginal Land Rights Regulation 2014 or NSWALC's funding policy.

NSWALC funds LALCs and has a statutory role to assist and oversee their performance. It uses the 'Compliance and Funding Database' to measure performance against five criteria:

- financial management

- administration management
- housing management
- staffing
- Board and members.

The calculated performance score determines the risk category of the LALC.

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 Family and Community Services cluster for 2015–16.

Service Delivery

Observation

The Department regularly publishes performance statistics for each strategic objective, but use of targets or benchmarks is limited.

The Department has the power to audit how well NGOs used funding, but limited audits have been performed in the last two years.

Some agencies have no centralised contracts register or monitoring of contract performance.

Non-government organisations (NGOs) received funding of \$2.8 billion from the cluster in 2015–16 to deliver services.

Other jurisdiction's legislation allows Auditors-General to provide independent assurance about service delivery outcomes and financial accountability in these types of arrangements.

Three of the Department's 15 Community Service Centres (CSCs) are not meeting out-of-home-care (OOHC) service standards.

Children and young people in statutory care with a documented case plan improved from 80 to 95 per cent at 30 June 2016, with priority given to high risk cases.

The face-to-face response rate for children and young people at risk of significant harm improved slightly.

A Bilateral Agreement between the Australian and NSW Governments was signed, setting out how all eligible persons will access the National Disability Insurance Scheme (NDIS) between 1 July 2016 and 30 June 2018.

Conclusion or recommendation

Recommendation (repeat issue): The Department should include targets and benchmarks in its performance reporting, where appropriate.

Recommendation: The Department should develop a consistent process for auditing NGO performance and report audit results to the Audit and Risk Committee.

Recommendation: Cluster agencies should:

- develop and regularly update a centralised contracts register
- centrally monitor and report on contract compliance and performance.

The amount of funding flowing from taxpayers to the NGO sector is substantial and will continue to increase.

Public confidence in government and its agencies would be enhanced if the New South Wales Auditor-General had the mandate to 'follow the dollar' into NGO's.

The Department will need to stop providing statutory OOHC in non-accredited CSCs.

Recommendation (repeat issue): The Department should continue with strategies to comply with its requirement to review placements of children and young people in statutory care.

The Department is improving its response rate.

If the Australian Government timetable for NDIS is met, the Department will not directly fund disability services after 30 June 2018.

Performance reporting

The Department regularly publishes performance statistics

The Department regularly publishes statistics on performance across each strategic objective:

- children and young people
- people with disability
- social housing
- participation in social and economic life
- reducing domestic and family violence
- working with aboriginal people and communities.

The Department publishes a 'Performance and activities report', a separate volume of its annual report, covering both financial and operational performance. This Report has an external focus for operational performance and data is presented over a number of years.

Limited use of targets or benchmarks when reporting performance

Recommendation

The Department should include targets and benchmarks in its performance reporting, where appropriate.

The Department has transparent performance reporting which is regularly published. While its reporting culture promotes accountability, there is limited use and reporting of targets and benchmarks to enable users to measure success. Targets and benchmarks to publish could include those in areas of the 'Premier's Priorities':

- protecting our kids
- reducing domestic violence
- reducing youth homelessness.

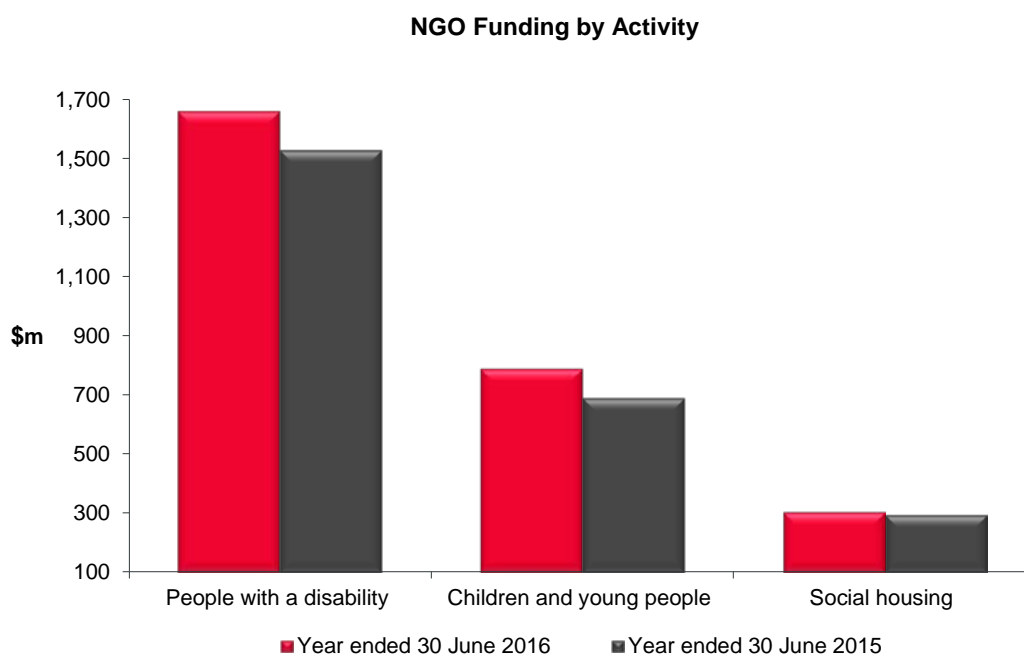
Internally there are a wide range of targets and benchmarks used to drive improved service delivery and client outcomes. An 'Integrated Dashboard' was introduced during the year for reporting to the Department's Executive Board, covering progress against strategic objectives, corporate plan initiatives and other key outcome areas.

Commissioning

To deliver increasingly complex services and projects and to achieve the best possible outcomes, agencies need to develop innovative approaches to service delivery. Commissioning is designed to promote a more competitive and accountable environment leading to lower costs and improved services.

NGOs received \$2.8 billion in government funding in 2015–16 to deliver services

The \$2.8 billion provided to NGOs in 2015–16 represented 34 per cent of total cluster expenses (\$2.5 billion and 34 per cent in 2014–15). The chart below shows the funding by activity over the past two years.



Source: Department (unaudited).

Many services traditionally delivered by the Department are being transferred in varying degrees to NGOs, along with substantial funding. As commissioning arrangements increase so will the level of funding. Maintaining accountability in this changed service delivery model poses additional risks.

The Audit Office's Better Practice Guide on Commissioning will be released in the third quarter of 2016–17. Cluster agencies should refer to this guide in the future to support their commissioning activities.

Limited independent assurance on how well NGOs use the funding provided

Recommendation

The Department should develop a consistent process for auditing NGO performance and report audit results to the Audit and Risk Committee.

NGOs are heavily dependent on government funding without being directly accountable to the NSW Parliament for how these funds are spent. The Department has the power to audit how well NGOs use the funding.

In other jurisdictions, Auditors-General are able to provide independent assurance about service delivery outcomes and financial accountability of arrangements with NGOs. This is often referred to as 'follow the dollar' powers. New South Wales legislation does not currently provide the Auditor-General with such powers.

The current process requires the service provider to self-assess its own performance and provide financial acquittals annually. The Department's contract managers review these submissions, along with considering other information obtained during the year. A risk assessment is made for each service provider covering governance, financial management and service delivery. Plans are implemented to address high and very high risks and may

include undertaking a detailed audit. Limited audits have been undertaken and inconsistencies can exist between different Districts and different funding activities.

In 2015–16, the Department referred two matters for external investigation and at least six matters were referred to the Independent Commission Against Corruption for further investigation.

Opportunities to better manage relationships with NGOs

Around 1,969 NGOs provide services traditionally delivered by the Department. Many providers have agreements covering more than one District location and crossing different strategic funding objectives. This may be inefficient when there are:

- no formal communication protocols
- divergent processes
- no connected systems for managing relationships with providers.

The Department is improving how it manages relationships with NGOs through:

- the Enterprise Program Management Office, a central office to coordinate the major reforms and ensure sound governance, project management and reporting
- a working group to support the continuing development of the NGO sector
- a working group to lead strategies to respond to sector gaps in service system design with a particular focus on Aboriginal service capacity building
- including service provider information on the internet
- guidelines for the lead District to manage the overall contract.

Some issues with NGO contracting identified

A recent internal audit on whether the Department is effectively managing funding and performance of service providers for selected early intervention and community programs identified the following:

- the program level agreements (PLA) outlining services NGOs agree to provide, significantly varied for the same programs in the same district
- most measures and unit costs defined in the PLAs are irrelevant and not meaningful resulting in the actual service provided not being comparable with the service levels in the PLAs
- weak correlation between payments and the contracted service levels
- some PLAs had incomplete and missing service delivery schedules, which are supposed to provide details about the services, activities, client groups and geographic location
- the Department relies on NGOs to collect reliable data on service delivery to self-assess performance
- data collected is not timely, reliable and is not reviewed before finance acquittal.

Inconsistencies in contractual and oversight arrangements weaken the Department's ability to efficiently and effectively monitor service provider performance.

In February 2016, to address the internal audit and other findings, the Department revised the acquittal process for service providers as follows:

- a common risk assessment approach
- a new on-line risk assessment tool and reports added to the 'Contracting Portal'
- 'District Guidelines' to improve State-wide coordination of contract issues, disputes, complaints and acquittals
- inclusion of managing disability contract performance in the 'Contract Governance Framework'

- plans to develop an NGO dashboard for out-of-home care (OOHC) providers to monitor and manage performance against a range of indicators.

Contract management

No centralised contract register or monitoring of contract performance

Recommendation

Cluster agencies should:

- **develop and regularly update a centralised contracts register**
- **centrally monitor and report on contract compliance and performance.**

A rigorous contract management framework helps ensure all parties meet their obligations, contractual relationships are well managed, value for money is achieved and deliverables meet the required standards and agreed timeframes.

The following findings, for the Department, were reported in our 2014–15 Auditor–General's Financial and Performance audit reports:

- no centralised contract register for procurement contracts and contracts with NGOs
- contract performance plans, to effectively monitor and manage contract performance, were not in place for all eligible contracts
- contracts with community housing providers are monitored for compliance and a framework is in place to address underperformance
- contracts with community housing providers are not clearly linked to outcomes.

During 2015–16 we identified other cluster agencies with no centralised contracts register, incomplete contract registers and ineffective contract management.

The Department:

- has a three year 'Performance Framework and Procurement Plan 2015–2018', which includes establishing a centralised contracts register and contract management system
- advises it's updated 'Procurement Compliance and Performance Framework' addresses most elements of the Audit Office's 'Better Practice Contract Management Framework'
- is implementing a Contracts Lifecycle Management System
- is ensuring future compliance with the GIPA Act - see Governance chapter in this Volume.

Children and young people

The Department is yet to be fully accredited

Three out of the Department's 15 Community Service Centres (CSCs) are not meeting all required out-of-home care (OOHC) service standards. While this is a significant improvement on previous years, it impacts the Department's reputation, and may increase risk to children in its care.

Twelve Community Service Centres received accreditation from the Children's Guardian on 1 September 2016. Interim accreditation for the three remaining centres was extended until 1 December 2016. The rising number of children entering and remaining in OOHC over the past 10 years, including Aboriginal children, has placed the system under stress. This affected the Department's ability to meet required standards. The Department has ongoing plans to improve its current OOHC practices to meet the standards of the Children's Guardian.

If the remaining CSCs are not accredited by the 1 December 2016, they will need to stop providing statutory OOHC. Case management of the children and young people for these CSCs will need to transfer to an accredited NGO or an accredited CSC of the Department. Also the placement needs of all new children and young people entering statutory OOHC in those communities would need to be met by an accredited provider.

At 30 June 2016, the Children’s Guardian had accredited 72 NGOs contracted to provide statutory OOHC and was considering 36 other applications.

The Children’s Guardian promotes and safeguards the best interests and rights of all children and young people in OOHC, and has the following responsibilities:

- developing criteria for accrediting designated agencies and other providers of OOHC services
- maintaining a quality improvement program to assist providers in becoming accredited
- monitoring the responsibilities of designated agencies and providers under care and protection legislation.

The Department is a designated agency as it has the statutory power to provide OOHC services.

Costs rise as more children enter out-of-home-care

Higher demand puts more pressure on keeping costs within budget.

The Department currently supports 21,145 children in care, an 6 per cent increase over the past year. OOHC for vulnerable children and young people cost \$1.0 billion in 2015–16 (\$910 million in 2014–15), a 15.0 per cent increase. Many children in OOHC live with relatives or foster parents.

The table below details the care arrangements for children and young people over the last three years.

Care arrangements			
Year ended 30 June	2016	2015	2014
Children in statutory OOHC with the Department	6,267	5,811	5,899
Children in statutory OOHC with NGOs	8,078	7,525	6,662
Children in statutory OOHC with others	740	599	521
Children in supported care	3,560	3,612	5,818
Children on guardianship orders	2,486	2,418	N/A
Other/not specified	14	38	50
Total number of children and young people in care	21,145	20,003	18,950

Note: 2014 and 2015 numbers for 'Other/not specified' and 'Children in statutory OOHC with the department' have changed to reflect the most updated information.

N/A Guardianship orders commenced in October 2014.

Source: Department of Family and Community Services (unaudited).

Out-of-home-care (OOHC) refers to care of a child or young person by someone other than their parent. There are two types of OOHC overseen by the Department:

- statutory care, where a court has ordered that the Minister has parental responsibility of a child
- supported care, where the Department provides care for a child, but the Minister does not have parental responsibility.

More children entering care than transferring to NGOs

At 30 June 2016, NGOs are managing 54 per cent (54 per cent at 30 June 2015) of the 15,085 children and young people in statutory care. The number of children entering statutory care increased by 8 per cent.

More children are entering care due to several factors associated with child abuse and neglect. Drug and alcohol abuse and domestic and family violence have worsened in the past few years, coupled with increased community awareness of child protection and domestic violence issues. Children have also been staying in OOHC longer with fewer being returned to families. Aboriginal children and young people make up nearly half the increase in the OOHC population. There are a smaller number of NGOs able to manage this disadvantaged group.

The 2008 Wood Special Commission of Inquiry into child protection recommended statutory OOHC services be transferred to NGOs. Since 1 March 2012, the Department has been transferring children and young people who enter statutory care and those currently in statutory placements to NGOs.

The 2015 performance audit '[Contracting out-of-home-care](#)' reported new children entering care continues to increase above expectations and the June 2017 targets may be difficult to meet.

Placement reviews of children and young people increased by 9 per cent

Recommendation

The Department should continue with strategies to improve compliance with its requirement to review placements of children and young people in statutory care.

Placements of children and young people in OOHC are reviewed to ensure the child's requirements are being met per the case plan. Caseworkers assess areas such as the health, wellbeing, education and social life of the child during placement reviews.

Under the *Children and Young Persons (Care and Protection) Act 1998*, the Department must review placements at least every 12 months. The Department is not fully complying with this requirement.

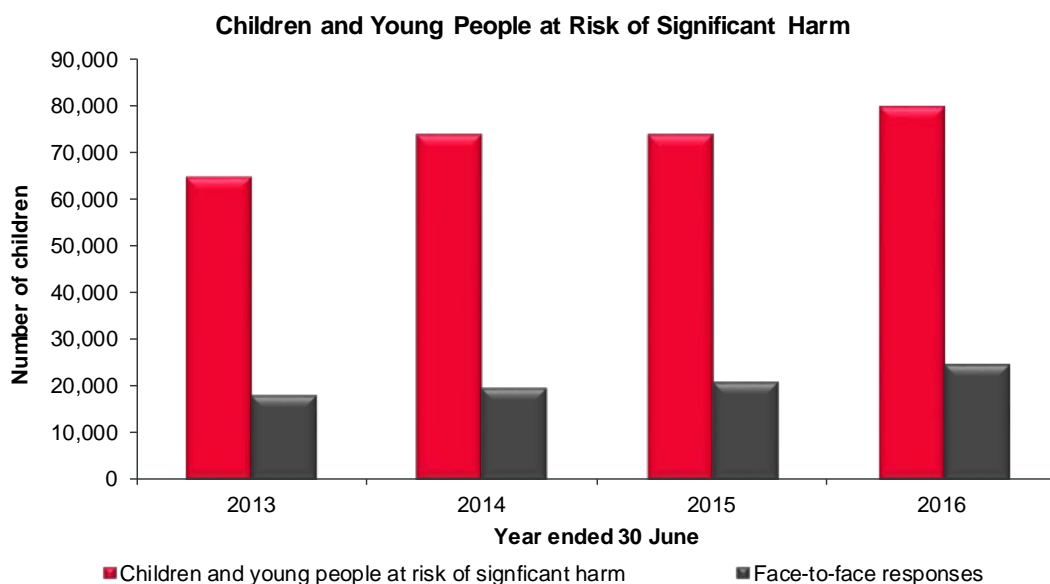
The Department has progressively improved results in 2015–16 with more children and young people in statutory care having documented case plans, 95 per cent at 30 June 2016 (80 per cent at 30 June 2015).

More children at risk of significant harm received face to face responses

A child or young person is at risk of significant harm if the circumstances causing concern for the safety, welfare or well-being of the child or young person are present to a significant extent.

The Department's objective is to provide more children at risk of significant harm with a face-to-face child protection response from a caseworker. The response rate improved to 31 per cent in 2015–16 from 28 per cent in 2014–15, despite the number of children reported to be at risk increasing by 23 per cent over the past four years. The Department advises the increased media attention associated with the Royal Commission inquiry may have contributed to higher reporting.

The chart below shows the number of children and young people reported to be at risk of significant harm and the number who received face-to-face responses over the past four years.



Source: Department (unaudited).

One of the Premier's priorities is to decrease the percentage of children and young people re-reported at risk of significant harm by 15 per cent. At 31 March 2016, 40 per cent of 10,839 children and young people with closed case plans for the 12 months ended 31 March 2015 were re-reported at risk of significant harm. This was a similar result to 2013–14.

Targeted early intervention to reduce risk to children

The Department is reforming targeted earlier intervention programs to reduce the number of children reported at risk of significant harm. The Department spent \$319 million in 2015–16 (\$251 million in 2014–15) under its 'Targeted Early Intervention Program'. The '2016–17 State Budget' allocated a further \$319 million for this program.

The 'Targeted Earlier Intervention Program' aims to provide help before the crisis point. Children aged zero to three, young parents and Aboriginal children and families will be prioritised. A separate 'Aboriginal Services Strategy' is planned to ensure Aboriginal people have access to a system better suited to their needs.

Social housing

The Department is responsible for developing social housing policy and manages the contracts with community housing providers. The NSW Land and Housing Corporation (LAHC) owns the government's social housing assets. The Aboriginal Housing Office (AHO) was established to ensure Aboriginal and Torres Strait Islander people have access to affordable, quality housing. Both agencies report to the Secretary of the Department. Social housing covers public housing, aboriginal housing and community housing.

Government launched 'Future directions for social housing in NSW'

In January 2016, the NSW Government launched 'Future directions for social housing in NSW' to drive better outcomes for tenants, including helping those who are able to transition out of social housing. At the same time, it recognises the important role of stable housing for people who are not able to live elsewhere. It focuses on three strategic priorities:

- more social housing
- more opportunities, support and incentives to avoid and/or leave social housing
- a better social housing experience.

It has four program areas:

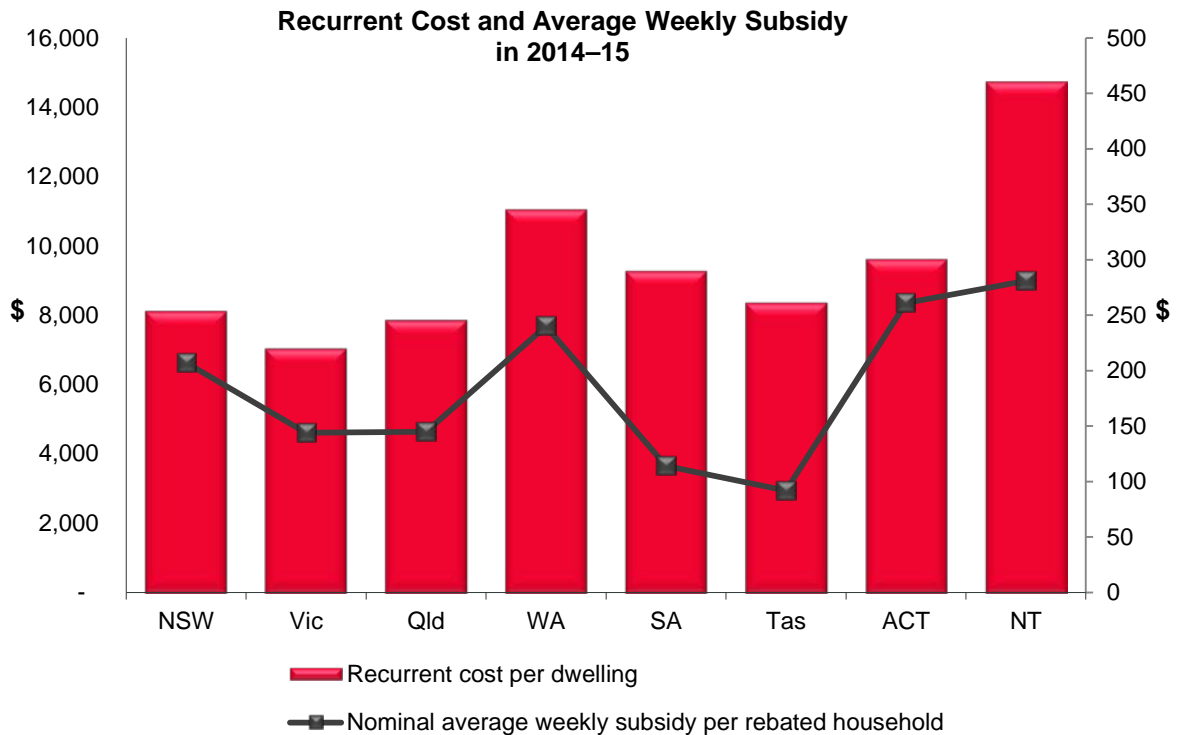
- **Social and affordable housing (SAHF):**
 - phase one: deliver up to 3,000 new social and affordable housing dwellings. Nine parties have been shortlisted to develop proposals for SAHF. The NSW Government will provide about \$1.1 billion to set up SAHF. New South Wales Treasury Corporation will invest the money to provide a stable income stream for up to 25 years to boost social and affordable housing.
- **Communities Plus:**
 - deliver up to 23,000 social housing dwellings and up to 40,000 private dwellings in partnership with the private and community housing sector. Four large-scale projects have been announced in Macquarie Park, Waterloo, Telopea and Riverwood.
- **Management transfers:**
 - transfer management of up to 18,000 properties, 35 per cent of public housing stock, to NGOs from mid-2017.
- **Service Improvement Initiatives:**
 - provide more opportunities, support services and incentives to improve the social housing experience and assist people to avoid or exit social housing.

Recurrent cost per dwelling is lower than the national average

The Productivity Commission reported in 2014–15 that NSW social housing:

- had the third lowest recurrent cost per dwelling
- had a recurrent cost below the national average of \$8,486
- provided a higher weekly subsidy per rebated household than the national average.

The chart below shows the net recurrent cost per dwelling for public housing and the average weekly subsidy per rebated household across the states in 2014–15.



Source: Productivity Commission's Report on Government Services 2016 (unaudited).

Number of households in social housing is stable

Social housing tenants in New South Wales and the supply of social housing remained relatively stable in 2015–16. The table below shows the number of households living in and the supply of social housing.

Social housing at 30 June				
Year ended 30 June	2016	2015	2014	2013
Households living in public housing	108,637	108,732	109,371	110,059
Households living in community housing*	26,218	26,107	25,624	25,973
Households living in aboriginal housing	4,518	4,550	4,528	4,469
Total	139,373	139,389	139,523	140,501
No. of public housing properties	116,278	116,249	116,436	117,802
No. of community housing properties**	28,679	28,577	27,773	27,450
No. of aboriginal housing properties	5,619	5,600	5,479	5,291
Total	150,576	150,426	149,688	150,543

* The 2015 data was updated to exclude tenancies in transitional housing.

** Includes properties owned by LAHC and managed by community housing providers.

Source: Department (unaudited).

Proceeds from sale of Millers Point properties spent on new dwellings

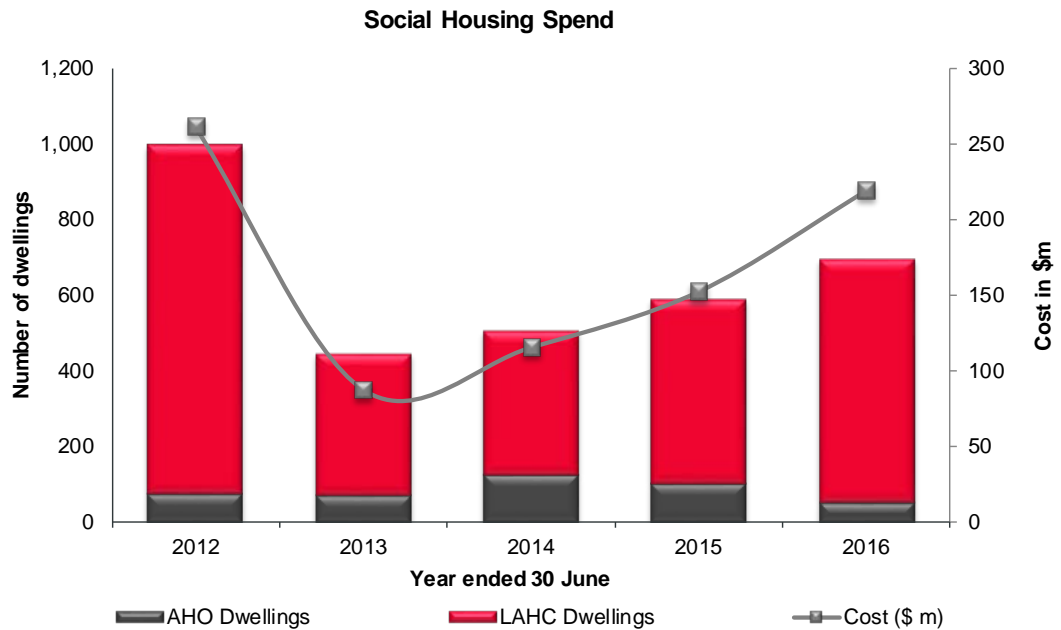
LAHC expects over 1,500 new dwellings will be funded from the sale of Millers Point properties.

During 2015–16, the Millers Point Accommodation Plan resulted in net proceeds from the sale of properties of \$160 million (\$40.9 million till 30 June 2015). These proceeds have been reinvested in constructing new dwellings. Over the life of the Plan, \$155 million (\$46.0 million) has been spent on new dwellings. Millers Point properties continue to enter the market.

Almost 640 new social housing properties acquired or constructed

LAHC acquired or completed constructing 639 properties in 2015–16 (486 properties in 2014–15). New Aboriginal housing declined 47 per cent in 2015–16 (18 per cent), from 102 properties to 54 properties. The decline is due to the National Partnership Agreement Remote Indigenous Housing (NPARIH) program being on hold until negotiations between the Australian Government, NSW Treasury and the Aboriginal Housing Office are completed.

The chart below shows the cost and number of dwellings acquired and constructed over the past five years.

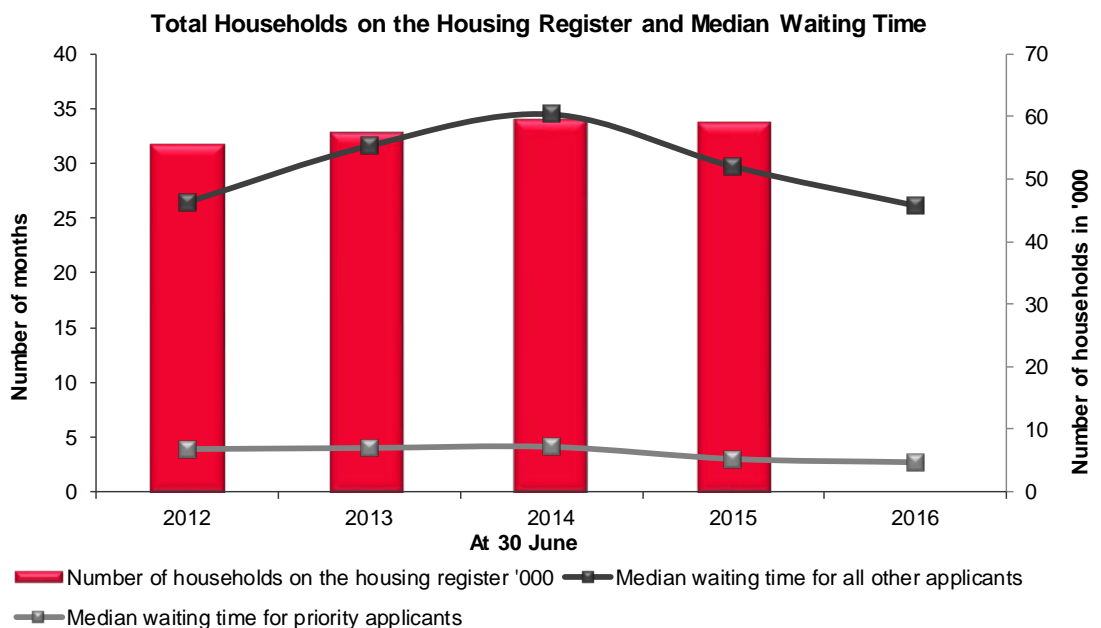


Note: 2012 data included dwellings constructed under the Nation Building Stimulus Plan.
 Source: Department (unaudited).

Waiting time for social housing applicants continues to improve

The median waiting time for non-priority applicants improved by 12 per cent to 26.1 months at 30 June 2016 compared to 29.7 months at 30 June 2015. Applicants on the priority list have a relatively shorter median waiting time, 2.7 months in 2015–16 compared to three months in 2014–15.

The chart below shows waiting time and the number of households on the housing register since 2012.



Note: 2016 data on number of households on the housing register was not available at the time of this report.

One of the State Priorities is to increase the number of households successfully transitioning out of social housing by five per cent by 2019. In 2015–16, 2,073 people or 1.5 per cent transitioned out of social housing.

People with disability

On 16 September 2015, a Bilateral Agreement between the Australian and NSW Governments was signed, which sets out how all eligible persons will access the National Disability Insurance Scheme (NDIS) between 1 July 2016 and 30 June 2018. The NSW Government will contribute \$1.3 billion to the NDIS in 2016–17, while the Commonwealth will contribute \$740 million.

The NDIS is a national social insurance framework to support people with disability. NDIS aims to provide long-term, high quality support for almost half a million people across Australia with permanent disability affecting their communication, mobility, self-care and/or self-management.

According to data published on the NDIS website, from 1 July 2013 to 30 June 2015, New South Wales had 4,946 people participating in the trial. This participation increased to about 9,000 children, young people and adults with disability with the early rollout to Nepean Blue Mountains Region. Around 37,000 existing clients and 7,000 new participants plan to enter the scheme in 2016–17.

The Audit Office has commenced a performance audit on NDIS 'Ensuring readiness and capability of non-government sector'. This audit will review the effectiveness of the Department's work to manage the risks of transition to the NDIS in New South Wales by building the readiness of the non-government sector. The audit will also consider broader lessons that can be learned about government's use of the non-government sector to deliver services.

Disability support costs continue to grow

Disability support is provided in the form of community support, short term intervention and supported accommodation. Funding for the three disability support categories has increased to match increased demand and cost of these services.

The table below shows the number of people being supported and the cost of disability support over the past four years.

Disability support				
Year ended 30 June	2016	2015	2014	2013
Community support				
No. accessing skill development and day programs	17,000	16,000	15,000	13,000
No. receiving respite services	24,000	25,000	25,000	25,000
No. receiving personal assistance	32,000	35,000	35,000	35,000
Community support cost (\$'000)	891,721	850,161	709,318	662,012
Target spending - budget (\$'000)	947,839	853,407	781,362	743,327
Short-term interventions				
No. of families and children receiving support	17,000	16,000	15,000	14,000
No. accessing transition to work	2,700	2,500	2,300	2,100
No. receiving therapy and interventions	35,000	36,000	35,000	35,000
Short-term intervention cost (\$'000)	423,540	319,981	387,517	404,102
Target spending - budget (\$'000)	431,166	408,420	392,598	399,103
Supported accommodation				
No. accessing supported accommodation services	10,200	10,600	10,300	9,900
Clients managed by the department	2,448	2,545	2,575	2,475
Clients managed by NGOs	7,752	8,056	7,725	7,425
Supported accommodation cost (\$'000)	2,021,639	1,610,440	1,506,453	1,410,568
Target spending - budget (\$'000)	1,728,085	1,630,570	1,506,763	1,390,613

Source: Department (unaudited).

The actual costs were lower than the budgeted costs for community support and short term interventions in 2015–16 due to lower client demand in grant funded support services. Supported accommodation cost in 2015–16 were 17 per cent higher than the budget due to

additional payments to the Commonwealth, provision for voluntary redundancy and costs associated with transferring disability support to NDIS.

A portion of the annual budget allocated to the Department includes the National Disability Specific Purpose Payment (SPP) from the Australian Government. This payment was \$462 million for 2015–16 (\$446 million for 2014–15).

Section Two

Appendices



Appendix One – Summary Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Surplus/(Deficit)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cluster lead agency										
Department of Family and Community Services	1,753	2,052	527	644	5,912	5,465	6,187	5,368	(275)	97
Controlled agencies of FACS										
Home Care Service of New South Wales	34	95	1	49	138	238	155	234	(17)	4
Home Care Service Staff Agency	2	45	2	45	125	174	129	174	(4)	--
John Williams Memorial Charitable Trust	11	10	--	--	1	--	--	--	1	--
Other related agencies										
Aboriginal Housing Office	1,823	1,618	31	27	113	157	104	108	9	49
Office of the Children's Guardian	4	9	5	3	21	26	28	27	(7)	(1)
NSW Land and Housing Corporation	45,715	39,658	806	903	1,200	1,120	1,397	1,359	(197)	(239)
Home Purchase Assistance Fund	270	285	--	1	8	10	3	1	5	9
City West Housing Pty Ltd	597	526	1	2	56	41	13	10	43	31
Multicultural NSW	6	9	6	2	20	20	26	21	(6)	(1)
Multicultural NSW Staff Agency	1	2	1	2	17	15	17	15	--	--
NSW Aboriginal Land Council	737	794	93	111	34	69	76*	54	(42)	15
NSW ALC Resources Pty Ltd	--	--	--	--	--	--	--	--	--	--

* Includes unrealised losses on financial instruments.

Source: Financial statements (audited).

Appendix Two – Financial and Performance Analysis

Cluster agencies	Underlying result %	Liquidity ratio	Self-financing %	Expense growth rate %	Capital replacement ratio
Self Funded cluster agencies					
NSW Land and Housing Corporation	(14)	1.5	17	6	2.7
City West Housing Pty Ltd	57	101.1	55	34	5.4
NSW Aboriginal Land Council	(124)	7.6	(115)	(11)	--
Aboriginal Housing Office	8	1.2	26	(5)	4.4
Office of the Children's Guardian	(33)	0.4	(23)	3	--

Appendix Three – Performance Against Budget

	Department (parent)		Home Care Service of NSW*		Aboriginal Housing Office		Office of Children's Guardian		Multicultural NSW		Home Purchase Assistance Fund	
	Actual \$m	Budget \$m	Actual \$m	Budget \$m	Actual \$m	Budget \$m	Actual \$m	Budget \$m	Actual \$m	Budget \$m	Actual \$m	Budget \$m
Abridged statement of comprehensive income - year ended 30 June												
Total expenses	● 6,187	5,930	● 165	229	● 104	121	● 28	25	● 26	22	● 8	20
Total revenue	● 5,912	5,843	● 144	230	● 113	143	● 21	18	● 20	17	● 3	12
Surplus/(Deficit)	● (275)	(87)	● (21)	1	● 9	22	● (7)	(7)	● (6)	(5)	● 5	(8)
Total other comprehensive income/(expense)**	92	--	(13)	--	191	--	--	--	--	--	--	--
Total comprehensive income/(expense)	● (183)	(87)	● (34)	1	● 200	22	● (7)	(7)	● (6)	(5)	● 5	(8)
Abridged statement of financial position - at 30 June												
Total assets	● 1,753	1,605	● 35	93	● 1,823	1,688	● 4	4	● 6	2	● 270	270
Total liabilities	● 527	294	● 3	45	● 31	41	● 5	3	● 6	2	● --	121
Net assets	● 1,226	1,311	● 32	48	● 1,792	1,647	● (1)	1	● --	--	● 270	149
Abridged statement of cash flows - year ended 30 June												
Purchases of property, plant and equipment	● 129	138	● 0	3	● 29	45	● --	--	● --	--	● --	--

* Results are due to the transfer of operations and employees to Australian Unity on 19 February 2016.

** 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 – Financial Indicators

Indicator	Formula	Description
Underlying result (%)	Adjusted net surplus / total underlying revenue	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Net result and total underlying revenue is obtained from the comprehensive income statement and is adjusted to take into account large one-off (non-recurring) transactions.
Liquidity (ratio)	Current assets / adjusted current liabilities	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities. Current liabilities exclude long-term employee provisions and revenue in advance.
Self-funding (%)	Current assets / adjusted current liabilities	Measures the ability of an agency to fund its operations using cash generated by its own operations, rather than cash granted from the NSW Government. The higher the percentage, the lower the agency's reliance on NSW Government funding. Underlying revenue is adjusted for large one-off (non-recurring) transactions. Net operating cash flows are from the cash flow statement.
Expense growth rate (%)	(Total expenditure 2015–16/ (Total expenditure 2014–15))	This demonstrates the rate at which total expenditure for an agency has increased or decreased in the financial year, compared to the previous financial year. A positive growth rate indicates that expenses have increased compared to prior year, while a negative growth rate indicates that expenses have decreased compared to prior year.
Capital replacement (ratio)	Cash outflows for property, plant and equipment and intangibles / depreciation and amortisation	Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with their depreciation and amortisation. Ratios greater than one indicate that spending is greater than the depreciating rate. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure, property, plant and equipment and intangibles are taken from the cash flow statement. Depreciation and amortisation are taken from the comprehensive income statement.

Appendix Five – Cluster Information

Agency	Website
Principal Department	
Family and Community Services	http://www.facs.nsw.gov.au/
Executive agencies related to the Department	
Home Care Service Staff Agency	*
Multicultural NSW Staff Agency	*
Separate agencies	
Office of the Children's Guardian	http://www.kidsguardian.nsw.gov.au
Other Agencies	
Home Care Service of NSW	http://www.facs.nsw.gov.au/
John Williams Memorial Charitable Trust	*
NSW Land and Housing Corporation	http://www.facs.nsw.gov.au/
City West Housing Pty Ltd	http://www.citywesthousing.com.au/
Multicultural NSW	http://www.multicultural.nsw.gov.au/
Aboriginal Housing Office	http://www.aho.nsw.gov.au/
NSW Aboriginal Land Council	http://www.alc.org.au/
NSW ALC Resources Pty Ltd	*
Home Purchase Assistance Fund	*

* 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.

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