

# Education 2018

19 DECEMBER 2018



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

FINANCIAL AUDIT

# 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* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the 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 entities to ensure sound financial management.

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

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

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

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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In accordance with section 52A of the *Public Finance and Audit Act 1983*, I present a report titled '**Education 2018**'.

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

**Margaret Crawford**  
Auditor-General  
19 December 2018

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# **Section one**

## **Education 2018**

This report analyses the results of our audits of the Education cluster agencies for the year ended 30 June 2018.



# Executive summary

This report analyses the results of our audits of financial statements of the Education cluster for the year ended 30 June 2018. The table below summarises our key observations.



## 1. Financial reporting

### Financial reporting

Unqualified audit opinions were issued on the financial statements of both cluster agencies.

Both cluster agencies met the statutory deadlines for completing early close procedures and submitting financial statements.

### Leave management

Inconsistencies in the Department's annual leave and long service leave data, identified over the past three audits, remain unresolved. This issue impacts the Department's liability estimates for annual leave and long service leave, including associated on-costs. It also on-flows to the Crown Entity, which assumes the Department's liability for long service leave.

**Recommendation:** The Department should confirm leave data and review assumptions following deployment of the new HR/Payroll system to better estimate the liability for employee benefits and the amount to be assumed by the Crown Entity.



## 2. Audit observations

### Internal controls

Twenty internal control deficiencies were identified during our audits of cluster agencies. Of these, we assessed one as a high risk finding. Eight were repeat issues from previous financial audits.

**Recommendation:** Management should prioritise and action recommendations to address internal control weaknesses.

### Information technology

Delivery of the Learning Management and Business Reform (LMBR) program, including the Department's new HR/Payroll system, is now complete.

A Program Closure Report is due in January 2019 and business benefits achieved from the LMBR program will be tracked until 2024–25.

### Valuation of the Department's land and buildings

The Department completed a revaluation of land and building assets during 2017–18.

A market approach was used to revalue the Department's land, resulting in a revaluation increment of \$2.3 billion.

A current replacement cost approach was used to revalue the Department's school buildings, resulting in an increment of \$6.2 billion.

### Maintenance of school facilities

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

### School asset delivery

The Department created a new division, School Infrastructure NSW, to oversee the planning, supply and maintenance of schools and implement major school infrastructure projects.



# 1. Introduction

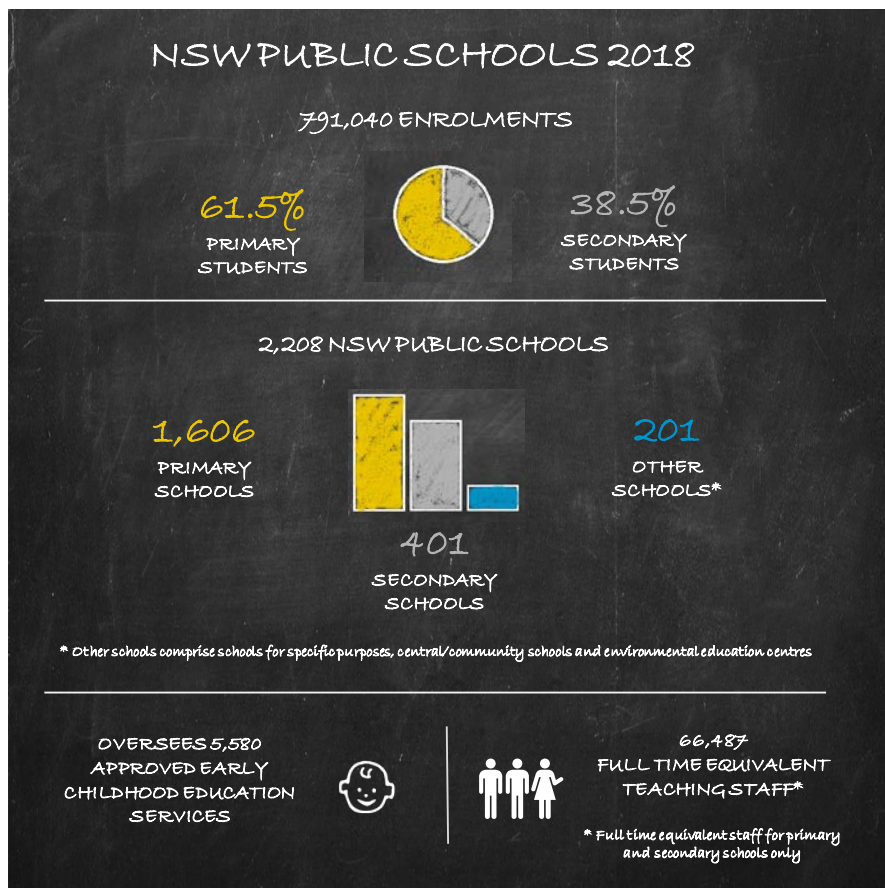
This report provides parliament and other users of the Education cluster's financial statements with the results of our audits, our observations, analysis, conclusions and recommendations in the following areas:

- financial reporting
- audit observations
- service delivery.

## 1.1 Snapshot of the cluster



## 1.2 Operational snapshot



Source: Department of Education (unaudited).



## 2. Financial reporting

Financial reporting is an important element of good governance. Confidence and transparency in public sector decision making are enhanced when financial reporting is accurate and timely.

This chapter outlines our audit observations related to the financial reporting of agencies in the Education cluster for 2017–18.

Observation	Conclusions and recommendations
<b>2.1 Quality of financial reporting</b>	
Unqualified audit opinions were issued on the financial statements of both cluster agencies.	Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.
<b>2.2 Timeliness of financial reporting</b>	
Both cluster agencies met the statutory deadlines for completing early close procedures and submitting financial statements.	Early close procedures continue to facilitate the timely preparation of cluster agencies' financial statements and completion of audits, but scope exists to improve outcomes by resolving issues and supplying supporting documentation earlier.
<b>2.3 Key issues from financial audits</b>	
Inconsistencies in the Department's annual leave and long service leave data, identified over the past three audits, remain unresolved. This issue impacts the Department's liability estimates for annual leave and long service leave, including associated on-costs. It also on-flows to the Crown Entity, which assumes the Department's liability for long service leave.	<b>Recommendation:</b> The Department should confirm leave data and review assumptions following deployment of the new HR/Payroll system to better estimate the liability for employee benefits and the amount to be assumed by the Crown Entity.
<b>2.4 Key financial information</b>	
Cluster agencies recorded net deficits in 2017–18.	The Department recorded a net deficit of \$30.7 million in 2017–18 against a budgeted surplus of \$122 million. The NSW Education Standards Authority recorded a net deficit of \$4.1 million against a budgeted deficit of \$4.7 million.

### 2.1 Quality of financial reporting

#### **Unqualified audit opinions were issued on cluster agencies' financial statements**

Unqualified audit opinions were issued on the 30 June 2018 financial statements for both agencies in the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

## 2.2 Timeliness of financial reporting

### Financial statements were submitted on time

In 2017–18, both cluster agencies met the statutory deadlines for completing early close procedures and submitting financial statements. Audit opinions were also issued within the statutory dates.

The table below shows the timeliness of financial reporting for cluster agencies.

Cluster agencies		Timeliness of financial reporting		
Principal Department		Early close procedures	Financial statements	Audit report
Department of Education		✓	✓	✓
Other Agencies				
NSW Education Standards Authority		✓	✓	✓
<b>Key</b>	✓ Statutory reporting deadline was met	! Statutory reporting deadline was not met		

### Agencies can still improve their early close procedures

Cluster agencies were successful in performing early close procedures in 2017–18. However, we did identify opportunities for agencies to further improve early close procedures including:

- providing all necessary supporting work papers by the agreed date
- ensuring sufficient and appropriate documentation is available to support the results
- resolving significant accounting issues early or documenting a clear path towards timely resolution.

## 2.3 Key issues from financial audits

### Inconsistencies in leave data remain unresolved

During this year's audit, inconsistencies were again noted in the annual leave and long service leave balances reported from the Department's payroll systems. This issue was previously identified as part of the 2015–16 and 2016–17 audits and currently remains unresolved.

This issue impacts the Department's liability estimates for annual leave and long service leave, including associated on-costs. It also on-flows to the Crown Entity which assumes the Department's liability for long service leave. The Department has controls in place to ensure that leave entitlements paid to employees are correct as individual requests for leave are verified and approved on payment.

A new HR/Payroll system for schools and the Department's corporate offices was a deliverable of Stage 3 of the Learning Management and Business Reform program. Details are provided in the Audit observations chapter.

Deployment of the new HR/Payroll system commenced in March 2018 and was complete by November 2018. While the Department made some attempt to cleanse data before migration to the new system, further efforts are required to review the validity of both data migrated and data that was not migrated.



## 2.4 Key financial information

### Cluster agencies recorded net deficits in 2017–18

The Department recorded a net deficit of \$30.7 million in 2017–18, an improvement of \$215 million from the net deficit of \$246 million recorded in the prior year. This result was less favourable compared to the budgeted net surplus of \$122 million.

The improvement in the net result was primarily due to the growth of revenues exceeding the growth of expenses. Revenue and expenses increased by \$1.2 billion and \$954 million respectively over the same period.

The value of the Department's assets was \$32.5 billion at 30 June 2018 (\$23.9 billion at 30 June 2017). The increase in assets was primarily due to a revaluation increment on land and buildings of \$8.5 billion. Total liabilities increased to \$2.0 billion at 30 June 2018 from \$1.8 billion in the previous year.

The NSW Education Standards Authority recorded a net deficit of \$4.1 million in 2017–18 against a budgeted net deficit of \$4.7 million. This result is an improvement of \$1.6 million from the net deficit of \$5.7 million recorded in the prior year. Revenue and expenditure increased by \$10.4 million and \$8.8 million respectively over the same period.

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



## 3. Audit observations

Appropriate financial controls help ensure the efficient and effective use of resources and administration of agency policies. They are essential for quality and timely decision making.

This chapter outlines our observations and insights from:

- our financial statement audits of agencies in the Education cluster for 2018
- the areas of focus identified in the Audit Office [Annual Work Program](#).

The Audit Office Annual Work Program provides a summary of all audits to be conducted within the proposed time period as well as detailed information on the areas of focus for each of the NSW Government clusters.

Observation	Conclusions and recommendations
<b>3.1 Internal controls</b>	
Twenty internal control deficiencies were identified during our audits of cluster agencies. We assessed one as a high risk finding.	
Eight internal control weaknesses were repeat issues from previous financial audits that had not been fully addressed by management.	<b>Recommendation:</b> Management should prioritise and action recommendations to address internal control weaknesses.
<b>3.2 Information technology</b>	
Delivery of the Learning Management and Business Reform (LMBR) program is complete.	The LMBR program has been a major project for the Department since it was established in 2006. A staged approach was adopted for implementing the Department's new HR/Payroll system to manage the risks associated with this large-scale roll-out.
<b>3.3 Valuation of the Department's land and buildings</b>	
The Department completed a revaluation of land and building assets during 2017–18.	A market approach was used to revalue the Department's land, resulting in a revaluation increment of \$2.3 billion. A current replacement cost approach was used to revalue the Department's school buildings, resulting in an increment of \$6.2 billion.
<b>3.4 Maintenance of school facilities</b>	
The Department regularly assesses the condition of school buildings and uses Life Cycle Costing to predict maintenance and capital renewal, and to prioritise maintenance activities.	The Life Cycle Costing assessment conducted by the Department in 2017–18 rated 70 per cent of school buildings as being in either as new or good condition. No school buildings were rated as being in end-of-life condition.
<b>3.4 School asset delivery</b>	
The Department's School Assets Strategic Plan is designed to ensure that there are sufficient fit-for-purpose places for students up to 2031.	The Department created a new division, School Infrastructure NSW, to oversee the planning, supply and maintenance of schools and implement major school infrastructure projects.

## 3.1 Internal controls

### Management letter findings

Breakdowns and weaknesses in internal controls increase the risk of fraud and error. We report deficiencies in internal controls, matters of governance interest and unresolved issues identified during our audits to management and those charged with governance of the agencies. We do this through Management Letters, which include our observations, related implications, recommendations and risk ratings.

The table below summarises management letter issues across the Education cluster by agency and risk rating.

Management letter findings					
Principal Department	Extreme	High	Moderate	Low	Repeat
Department of Education	--	1	5	10	7
Other Agencies					
NSW Education Standards Authority	--	--	1	3	1

#### One high risk internal control deficiency was identified in 2018

The financial audits of cluster agencies for 2017–18 identified one high risk internal control weakness. This issue was a repeat matter relating to inconsistencies in leave data at the Department of Education. More information on this issue is provided earlier in this report under the section 'Key issues from financial audits' in the Financial reporting chapter.

#### Eight internal control weaknesses reported were repeat issues

The 2017–18 financial audits of cluster agencies identified 20 internal control weaknesses. These were reported to management with recommendations to address them. Eight of these were repeat issues from previous financial audits that had not been fully addressed by management. Management of the relevant agencies responded to these findings and have agreed to implement additional controls to address the deficiencies identified.

A delay in implementing audit recommendations can prolong the risk of fraud and error. It can also decrease the quality of financial information and the effectiveness of decision making and expose an agency to the risk of financial loss.

## 3.2 Audit Office annual work program

Each year our financial audits examine a small number of specific topics across agencies. We determine which topics to consider by looking for opportunities to improve public-sector accountability, governance and administration. We also consider the risks and challenges to reporting the true financial position and performance of the state and how these may be addressed during our audits.

Risks and challenges that may impact on financial reporting of the Education cluster agencies this year include:

- information technology
- valuation of the Department's land and buildings
- maintenance of school facilities
- school asset delivery.

## Information technology

### Delivery of the Learning Management and Business Reform program is complete

The Department's Learning Management and Business Reform (LMBR) program has been fully delivered. The new HR/Payroll system, the final phase of the LMBR program, was rolled out to staff progressively during 2018 to replace the Department's 30-year-old legacy applications. The new system is based on the New South Wales Government's standard SAP system, customised to meet the specific needs of the Department's corporate and school staff.

The Department engaged a consultant to provide a Program Closure Report, which is due in January 2019. This report will examine how the benefits of the LMBR program are being tracked by business owners as well as the status of benefits realisation. The Department's Enterprise Program Management Office is responsible for tracking the value of business benefits achieved from delivery of the LMBR program until 2024–25.

The LMBR program was established in 2006, and aimed to modernise how the Department manages and delivers student enrolment and administration, learning management, support services, finance, human resources and technology services to approximately 2,200 public schools and the Department's corporate offices.

### Revised program costs have been released

The Department has advised that the cumulative cost of the LMBR program to 30 June 2018 was \$737 million. The 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.

LMBR program costs 2018	\$m
Total capital cost for the year ended 30 June 2018	35
Total capital cost at 30 June 2018	470
Total recurrent cost for the year ended 30 June 2018	25
Total recurrent cost at 30 June 2018	267
Total capital and recurrent costs at 30 June 2018	737

Source: Department of Education (unaudited).

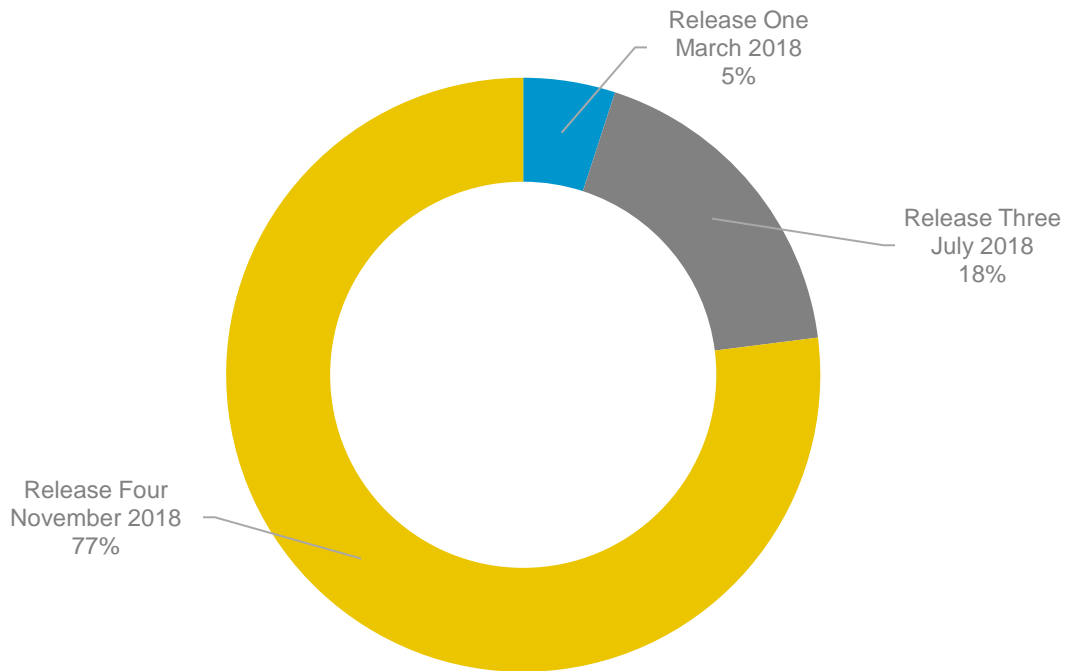
The Department expects the cost of the program, from its start in 2006 until completion, to total up to \$755 million. This comprises forecast capital costs of \$470 million and recurrent costs of \$285 million.

### A staged approach was used for the implementation of the new HR/Payroll system

To manage the scale of the LMBR program, the Department segmented major components of work and used a staged implementation approach for key components.

The new HR/Payroll system was rolled out to the Department's school and corporate staff in a staged release process. Release One was deployed to all corporate staff and staff from 32 schools. Release Two enhanced system functionality and did not involve deployment to additional end-users. Releases Three and Four involved deployment to school staff only. The proportion of staff moving to the new system increased significantly with each release.

### Proportion of staff included in each release of the new HR/payroll system



Source: Department of Education (unaudited).

The staged approach used for the implementation of the new HR/Payroll system was adopted to manage risk. This approach allowed the Department to learn lessons from each release and resolve any issues before subsequent releases. It also allowed the Department to engage more effectively with stakeholders.

Release Four was delayed as a result of discussions with key stakeholders who expressed concern about the challenges schools were facing performing old processes in a new way in an already busy environment. Postponing the go-live date of Release Four also enabled the Department to refine its training approach to include opportunities for face-to-face training for key school administrative staff, in addition to the e-learning approach employed for Releases One and Three.

## Valuation of the Department's land and buildings

### The Department's land and buildings were revalued in 2017–18

The Department completed a revaluation of land and building assets during 2017–18. The last comprehensive valuations of land and buildings were conducted at 31 March 2015 and 31 December 2012 respectively.

The Department generally conducts a comprehensive revaluation at least every three years for land and at least every five years for school buildings. Interim revaluations and managerial revaluations are conducted between comprehensive revaluations where annual fair value assessments suggest fair value may differ materially from carrying value.

A market approach was used to revalue the Department's land at 31 March 2018. This resulted in a revaluation increment of \$2.3 billion, taking the fair value of land at 30 June 2018 to \$9.9 billion. The increase recognised market movements, particularly for land in the Sydney metropolitan areas and in coastal areas of New South Wales.

A current replacement cost approach was used to revalue the Department's school buildings at 31 March 2018. School buildings are generally considered specialised in nature as they are designed for a specific limited purpose. The Department determines the fair value of its building assets using the current replacement cost method, as there is no market-based evidence of fair value. The revaluation resulted in an increment of \$6.2 billion, taking the fair value of buildings at 30 June 2018 to \$20.2 billion. The increase in the fair value of buildings reflected improved information on the condition of building shells, room fit-outs, landscaping and fencing assets due to the adoption of Life Cycle Costing.

### **The Department developed an internal model to value school buildings**

The Department has a large, geographically dispersed asset base, which makes a revaluation inherently complicated. Given the size and complexity of the portfolio, the Department developed an internal model leveraging mass appraisal techniques to value school buildings. The similarities within the buildings in the portfolio allowed this approach to be used.

The Department's revaluation model breaks school buildings into the following elements:

- building shell
- fit-out
- external services infrastructure
- hard landscaping
- soft landscaping
- fencing.

Each element is then broken down into multiple components, which are costed, accounted for and depreciated separately. The Department determined the assumed gross cost of each component using a sample of recent actual construction projects. It also engaged an external quantity surveyor to assist with this process.

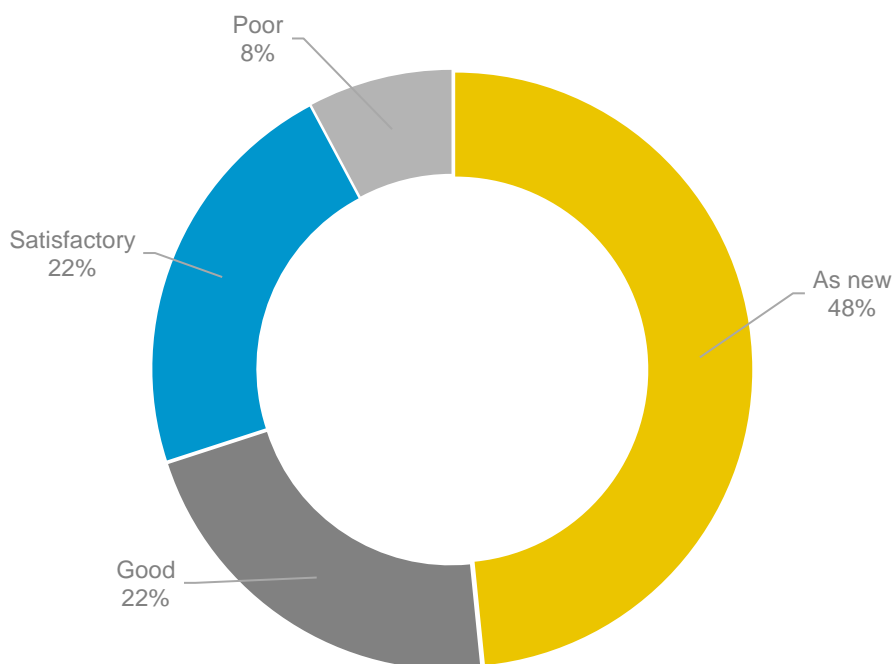
### **The remaining service potential of school buildings is based on assessed condition**

The Department determined the consumed service potential of buildings (accumulated depreciation) and the remaining service potential (written down value) using evidence-based data on the condition and functionality of school facilities.

The Department completed an initial Life Cycle Costing assessment for schools in September 2013. An expert was engaged to complete another assessment in 2017–18. This involved assessing, to industry standards, the condition of all visible components of school buildings in New South Wales. A quantity surveyor was used to provide useful lives for non-visible sub-components of the building shell, such as services and building foundations. The assessment also involved reviewing functionality against internationally recognised factors impacting education outcomes.

The Life Cycle Costing assessment conducted by the Department in 2017–18 rated 70 per cent of school buildings as being in either as new or good condition. No school buildings were rated as being in end-of-life condition, with eight per cent rated as being in poor condition.

### Condition rating of school buildings, 2017–18



Source: Department of Education (unaudited).

The Department enhanced and refined data collected during the 2017–18 Life Cycle Costing Assessment and ensured appropriate evidence was available to support critical assumptions made during the revaluation process. For example, better evidence was obtained using drones (see Exhibit 1).

#### Exhibit 1: Drone assessment



Assessors were unable to assess the condition of roofs on buildings with more than two stories during the 2013 Life Cycle Costing assessment. Instead, the condition of these assets relied on the valuer's experience and professional judgement.

As part of the 2017–18 Life Cycle Costing assessment, assessors used drones with high resolution cameras to survey the condition of roofs for 136 schools with buildings of more than two stories. These assessments were carried out during school holidays and did not require internal access to school buildings.

Using drones enhanced the Department's revaluation process and the condition assessment of their building assets is now based on well documented photographic evidence, which will also be used to inform the Department's asset management and maintenance programs.

## Maintenance of school facilities

### The Department has robust and timely data on school assets

The Department's asset management system is a primary repository for all school infrastructure data. The system holds data and spatial information on sites, facilities, programs of capital and maintenance works, facilities management data and compliance, and demountable accommodation.

This system allows assets to be viewed spatially at a local level with site and building plans, and at a strategic level in relation to other features including school transport networks, school catchment areas and demographic data on population, housing development and education. It provides support for the planning, funding and prioritisation of decisions across all asset categories.

The Department regularly assesses the condition of school buildings in New South Wales. This information is stored in the Department's asset management system and is used for life cycle costing.

The asset management system is regularly updated and enhanced to improve the depth and accessibility of asset information.

### **The Department plans the nature and extent of maintenance required on school facilities**

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

The Department uses Life Cycle Costing to measure and predict maintenance and capital renewal and to prioritise maintenance activities. The Department completed an initial Life Cycle Costing assessment for schools in September 2013. An expert was engaged to complete another assessment 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 generally delivered during school holidays and out of school hours to minimise the impact on school operations.

### **The Department is working with the NSW Treasury to address maintenance needs**

The Department is working with the NSW Treasury to develop various strategies to respond to maintenance issues in school facilities. Commencing in 2017–18, the government agreed that the maintenance obligation of the Department's schools at the end of any given year should not exceed three per cent of the asset replacement value. The NSW Treasury has agreed to this benchmark and will fund the Department into the future accordingly.

At 30 June 2018, the Department estimated the maintenance obligation for school facilities at \$679 million. This is well below the benchmark set of three per cent of the asset replacement value which equated to \$1.0 billion.

## **School asset delivery**

### **Project planning**

#### **The Department has a plan to address future needs**

The Department developed a School Assets Strategic Plan in 2016. The Strategic Plan, designed to ensure that there are sufficient fit-for-purpose places for students where and when required up to 2031, outlines the:

- predicted demand for future learning spaces
- condition of existing infrastructure and additional infrastructure and maintenance required
- proposed new initiatives to deliver the required infrastructure economically
- proposed new cluster planning model to determine priorities and initiatives to be implemented at the school level
- funding needed to provide appropriate learning spaces where and when needed.

The Strategic Plan was developed with the benefit of expert advice and has been reviewed extensively within the Department, by other key government agencies and experts. The review process examined the Strategic Plan's assumptions, data quality, proposals and cost estimation approach.

#### **A change in approach to delivering school facilities**

The Strategic Plan proposes a new and more economical approach to reduce the need for additional schools and address the need for functional upgrades, maintenance and renewals. Under the new approach, a significant proportion of enrolment growth will be absorbed by replanning and redeveloping existing sites.



## Exhibit 2: The Department's approach to managing demand for additional teaching spaces



\* Minor intervention includes installing demountables and modular buildings.

Source: Department of Education.

The approach also includes a suite of other initiatives designed to better manage changes in student population, including:

- improving classroom utilisation
- increasing the use of modular classroom buildings
- increasing the maximum number of students that can be enrolled in each new and redeveloped school
- building larger schools on smaller sites
- consolidating existing assets
- increasing partnerships with the private sector on a site-specific basis where mutual benefit can be achieved
- increasing joint and shared use of facilities.

### A performance audit on Planning for School Infrastructure was tabled in 2017

The Acting Auditor-General released a performance audit report on [Planning for School Infrastructure](#) in May 2017.

The performance audit found that the Department's Strategic Plan is a good plan. The Department's Strategic Plan covered the expected issues and benefited from expert input and independent validation of assumptions, proposed solutions, and the likely costs. It also found that the Department's assessment of future needs was robust.

The report recommended that the Department seek a ten-year capital planning limit from the NSW Treasury for school infrastructure. This was approved from 2017–18. Previously, the Department had a four-year capital planning limit which did not provide the flexibility needed for the Department to manage its allocations and respond to changes in priorities or emerging challenges.

The report also recommended that the Department publish detailed information on the status of assets, current and projected enrolments, and planned school projects to support effective consultation and collaboration. While the Department undertook to do this, information on the status of school assets and enrolment information has not yet been made available online.

## Project management

### New delivery unit to oversee the planning, supply and maintenance of school assets

The Department's new division, School Infrastructure NSW, commenced operations in August 2017. It was created by moving the Asset Management directorate, within the Department's Corporate Service's division, to a new division with the single focus on infrastructure delivery. The new division will oversee the planning, supply and maintenance of schools and implement all major school infrastructure projects across New South Wales.

### Higher spending on school-funded works led to capital overspend against budget

The Department spent \$850 million on capital projects in 2017–18, which was \$23.0 million more than budgeted. The Department advised that the capital overspend was mainly due to higher spending on school funded capital works. School funded capital works encourage schools and their communities to fund the provision of school facilities, thereby enhancing the standard of facilities provided in schools for use by the wider community.

## Schools are being redeveloped in Parramatta to accommodate more students

The largest project currently being managed by School Infrastructure NSW is the redevelopment of the neighbouring Parramatta Public School and Arthur Phillip High School sites. This project is designed to meet growth in primary and secondary school populations in and around Parramatta in Sydney's west. It adopts key initiatives proposed by the School Asset Strategic Plan including maximising the number of students in the redeveloped school and maximising the size of the school being built on the site. On completion, the new multi-storey primary school will have the capacity to accommodate 1,000 students. The redeveloped high school, the first public high-rise school in New South Wales, will have the capacity to accommodate 2,000 secondary students.

### Exhibit 3: Parramatta Public School and Arthur Phillip High School redevelopment



#### Status

Construction phase

#### Commencement

Mid 2017

#### Forecast completion

Late 2020

#### Budget

\$325 million

**Address**  
Smith Street and Macquarie Street  
Parramatta NSW 2150



Source: Department of Education (unaudited), <https://www.schoolinfrastructure.nsw.gov.au/projects/a/arthur-phillip-high-school.html> and <https://www.schoolinfrastructure.nsw.gov.au/projects/p/parramatta-public-school.html>

Future learning requires new and innovative school and classroom design. The new facilities at Parramatta Public School and Arthur Phillip High School will incorporate future-focused, flexible teaching spaces with adaptable/moveable furniture and room configurations. The learning spaces will be technology-rich to serve multiple learning contexts from large class groups to small clusters, providing better opportunities for collaboration and personalised learning.

### The Department manages construction projects using an in-house designed system

The Department uses an in-house designed project management system, 'TReign', to manage its construction projects. The web-based system's functionality was tailored to meet the Department's needs and is designed to monitor and forecast costs, track compliance and assurance processes, manage project risks and enhance visibility over the Department's large capital works program. 'TReign' also includes a document register where project related documentation can be saved.

In 2017–18, the Department’s internal auditors found the Department has effective monitoring systems in place to manage the construction of major projects. The review found:

- random project visits are conducted by a quality assurance team with outcomes reported on a bi-monthly basis
- independent probity audits are conducted by external agencies to provide assurance that projects are being managed in accordance with procedures
- monthly project coordination meetings are held to track and monitor projects
- a project control group examines safety, quality and budgetary considerations for all major projects.

The review also made three recommendations related to improving documentation retained within the ‘TReign’ system, which management accepted.



## 4. Service delivery

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This chapter provides service delivery outcomes for the Education cluster for 2017–18. It provides important contextual information about the cluster's operation, but the data on achievement of these outcomes is not audited. The Audit Office does not have a specific mandate to audit performance information.

### 4.1 School performance

#### **There are two State and Premier's Priorities relating to the Education cluster**

The 'NSW Making It Happen' State Plan, announced in September 2015, 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.

The Premier's Priority for the Education cluster is to increase the proportion of New South Wales students in the top two NAPLAN bands by eight per cent by 2019. This corresponds to a target of 35.2 per cent of students in the top two NAPLAN bands in reading and numeracy by 2019.

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. This corresponds to a target of 11.6 per cent of Aboriginal and Torres Strait Islander students in the top two performance bands in reading and numeracy by 2019.

Performance against these priorities is measured using data independently published by the Australian Curriculum, Assessment and Reporting Authority (ACARA). ACARA is an Australian government agency responsible for the development of national curriculum and the administration of the NAPLAN assessments and associated reporting on schooling in Australia.

#### **School outcomes against the State and Premier's Priorities cannot be reported this year**

Our service delivery chapter normally provides analysis on the Department's progress against the State and Premier's Priority targets using final NAPLAN data released by ACARA. We are unable to provide an analysis this year as the final release of NAPLAN data has been delayed. The deferment is due to concerns that this year's results may not be directly comparable to prior year results because of the move to online testing.

Australian government, state and territory education ministers agreed to move the annual NAPLAN assessments from pencil and paper to online testing by 2020. A school readiness test conducted in August and September 2017 helped inform the technical readiness of New South Wales schools for the move to online testing. In 2018, 544 New South Wales schools transitioned to NAPLAN online.

NAPLAN online differs from the pencil and paper assessments because the questions asked adapt to the student's ability. If a student answers the first few questions correctly, NAPLAN online increases the difficulty of subsequent questions. Consequently, the results between those who sat pencil and paper testing and those who sat online assessments may not be directly comparable.

#### **Limitations identified on performance measurement and performance data**

In our recent performance audit, [Progress and measurement of Premier's Priorities](#), we identified 12 limitations of performance measurement and performance data. We recommended that the Department of Premier and Cabinet ensure that processes to check and verify data are in place for all agency data sources. In particular, the priority of increasing the proportion of NSW students in the top two NAPLAN bands by eight per cent was communicated as "improving education results". Our audit found there was limited explanation about why only these two bands of these two tests was an appropriate focus.

The Auditor-General recommended that the Department of Premier and Cabinet clarify the relationship between the Premier's Priorities performance targets and broader government objectives.

### **The Department has developed strategies to deliver the State and Premiers' Priorities**

The Literacy and Numeracy Strategy 2017–2020 and the NSW Stronger HSC reforms have been developed with the objective of ensuring students leave school with the literacy and numeracy skills required for life beyond school. It is a plan to work with teachers, students and parents to improve literacy and numeracy outcomes.

The Strategy seeks to enhance literacy and numeracy for all students by:

- expanding the K-2 Action Plan and evaluating its impact
- introducing evidence-based National Literacy and Numeracy Learning Progressions, which will help schools to accurately and consistently identify and address student need
- providing diagnostic assessments that map student learning to the learning progressions
- extending the focus on literacy and numeracy to secondary school with the introduction of Best Start Year 7
- strengthening the literacy and numeracy education components of initial teacher education programs.

### **\$340 million has been allocated to improve literacy and numeracy in New South Wales**

As part of the Literacy and Numeracy Strategy 2017–2020, an additional \$340 million has been committed to support literacy and numeracy in the early years of schooling. The funding will provide \$69.3 million to New South Wales public schools, \$10.6 million to Catholic Education Commission schools and \$5.1 million to the Association of Independent Schools NSW per annum over four years.

## **Section two**

### Appendices



# Appendix one – List of 2018 recommendations

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The table below lists the recommendations made in this report.



## 1. Financial reporting

### 1.1 Inconsistencies in leave data

**Recommendation:** The Department should confirm leave data and review assumptions following deployment of the new HR/Payroll system to better estimate the liability for employee benefits and the amount to be assumed by the Crown Entity.



## 2. Audit observations

### 2.1 Internal controls

**Recommendation:** Management should prioritise and action recommendations to address internal control weaknesses.



Key



Low risk



Medium risk







High risk

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# Appendix two – Status of 2017 recommendations

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Recommendation	Current status	
<b>The Department should:</b>		
The Department should confirm leave data and review assumptions as part of the transfer and migration of data to the new HR/Payroll system.	The Department undertook a significant amount of work in 2016–17 to cleanse the data in the Leave Management System. However, inconsistencies were still noted that are yet to be resolved. Details are provided in the chapter on Financial Reporting. 	
 <b>Fully addressed</b>	 <b>Partially addressed</b>	 <b>Not addressed</b>

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# Appendix three – Cluster agencies

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## Agency

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### Principal department

Department of Education

### Other agency

NSW Education Standards Authority

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## Appendix four – Financial data

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	Total assets		Total liabilities		Total revenue		Total expense	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m	2018 \$m	2017 \$m
<b>Principal department</b>								
Department of Education	32,458	23,854	1,952	1,819	14,339	13,127	14,313	13,360
<b>Other agency</b>								
NSW Education Standards Authority	25	26	27	24	150	139	154	145

## OUR VISION

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

## OUR PURPOSE

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

## OUR VALUES

**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.

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