
New South Wales Auditor-General's Report
Financial Audit

Volume Eleven 2015
Education and Communities



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 Eleven of my 2015 report.

A handwritten signature in black ink, reading 'A. T. Whitfield'.

A T Whitfield PSM

Acting Auditor-General
10 December 2015

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Section One

Education and Communities



Executive Summary

This report analyses the results of the financial statement audits of the Education and Communities cluster agencies for the year ended 30 June 2015.

Financial performance and reporting

Financial performance and reporting

Unqualified audit opinions were issued for all cluster agencies. The quality and timeliness of financial reporting continues to improve. However, agencies should ensure all supporting documents for early close are ready by the due date, and all significant accounting issues are resolved early.

Financial controls

Information systems

Information technology (IT) issues were detected in the Department's financial systems due to Learning Management and Business Reform (LMBR) activities.

LMBR staff should receive more effective training to increase awareness of the Department's IT security and change management policies, and compliance should be monitored.

Agencies should address repeat IT issues from previous audits in a timely manner.

Agencies should ensure disaster recovery plans are current and fully tested.

Human resources

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

Asset management

The Department should continue to work with Treasury to determine an appropriate response to backlog maintenance and ensure service delivery in metropolitan areas is not compromised by the disposal of major assets.

Governance

Fraud and corruption

To reduce the risk of fraud, agencies should reassess their fraud controls against the Audit Office's revised Fraud Control Improvement Kit.

Ethical framework

Some smaller agencies should develop and maintain conflicts of interest and gifts and benefits registers.

Risk management

The Department should consider how risk management at an agency level is reported and monitored at the cluster level.

Service delivery

School performance

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

Student population growth

The Department needs to ensure appropriate strategies are in place to cope with the growth in the student population in Sydney.

Financial performance and reporting

The quality of financial reporting has improved

Misstatements in cluster agencies' financial statements have fallen by 50 per cent from 20 in 2010-11 to ten in 2014-15. This reflects the improved quality of financial reporting since Treasury introduced its 'early close procedures' initiative in 2011-12.

Agencies can still improve their early close procedures

Some agencies within the cluster did not provide all the supporting work papers for early close by the due date. Some agencies did not resolve all accounting issues as part of the early close procedures.

Recommendation

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

Processes can be strengthened for schools transitioned to the new School Finance System

There is no formal process to regularly review and monitor the financial performance of the 229 pilot schools transitioned to the new School Finance System.

Recommendation

The Department should formalise processes for reviewing and monitoring the financial performance of the 229 pilot schools transitioned to the new School Finance System before further LMBR deployment occurs to the remaining schools. Management reports should be prepared to identify significant variances between actual and budgeted results.

Financial controls

Change management issues were identified with the Department's financial systems

Issues were identified in the Department's financial systems because LMBR activities were not always effectively managed and documentation was not maintained in some instances.

Recommendation

The Department should strengthen its processes to ensure that there are no inappropriate changes to financial systems.

The Department's IT policies and procedures should be applied consistently

Greater emphasis should be placed on the Department's IT security and change management policies and procedures to increase the LMBR project team's awareness of the relevant requirements.

Recommendation (repeat issue)

LMBR project staff should receive more effective training to increase awareness of the Department's IT security and change management policies and procedures, and compliance should be monitored regularly.

Almost half the information system issues identified in 2014-15 were repeat issues

Of the 22 IT issues reported in 2014-15, ten issues were identified previously in 2013-14.

Recommendation (repeat issue)

Cluster agencies should address repeat issues from previous audits in a timely manner.

Disaster recovery planning remains an issue for some agencies in the cluster

Some agencies do not have current disaster recovery plans for financial systems and/or have not tested them.

Recommendation (repeat issue)

Cluster agencies should ensure their disaster recovery plans for financial systems are current and fully tested.

The LMBR program continues to face challenges and run behind schedule

Overall LMBR program costs are likely to be significantly higher than the original business case budget. The final stage of the program's implementation is expected to be deployed three years behind the original timeline.

In 2014-15, significant system limitations were identified in TAFE NSW's Student Administration and Learning Management (SALM) implementation.

Annual leave balances continue to exceed whole-of-government targets

At 30 June 2015, 1,244 (or nine per cent) of full time equivalent staff (excluding staff at schools and school administrative support staff) had annual leave balances exceeding the whole-of-government target of 30 days.

Recommendation

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

School backlog maintenance has increased significantly

Estimated backlog maintenance at 30 June 2015 was \$732 million, an increase of \$195 million from 2013-14. This is due to maintenance funding not keeping pace with the growth in school maintenance needs.

Recommendation (repeat issue)

The Department should continue to work with Treasury to determine an appropriate response to backlog maintenance.

Identifying assets for disposal without compromising service delivery will be a challenge for the Department

After 2015-16, the Department is expected to rely heavily on asset disposals to fund its capital works and maintenance program. Generating sufficient revenue from asset sales without compromising service delivery in metropolitan areas, which are expected to experience strong growth in student numbers, will be a challenge for the Department.

Recommendation

The Department should ensure service delivery in metropolitan areas is not compromised by the disposal of major assets.

A School Asset Strategic Plan is being prepared to respond to the expected growth in the student population

The Department is preparing a School Asset Strategic Plan. The plan aims to understand the challenges ahead and to better manage projected capital expenditure to 2031 by identifying new policy issues and directions. The plan is due for presentation to Government in early 2016.

Governance

Allegations of fraud in the Department have remained relatively stable

The number of allegations of fraud in the Department has remained relatively stable over the past five years.

Recommendation

To reduce the risk of fraud, agencies should reassess their fraud controls against the revised Audit Office's Fraud Control Improvement Kit, released in February 2015.

Absence of conflicts of interest and gifts and benefits registers

Some smaller agencies do not use registers to record conflicts of interest and gifts and benefits. This makes it difficult to determine if employees are complying with policies and procedures.

Recommendation

Some smaller agencies should develop and maintain centralised conflicts of interest and gifts and benefits registers.

There is no oversight of risk and risk management at the cluster level

Each agency in the cluster has its own risk profile and risk management framework. Risk management is performed at an agency level. There is no cluster-wide risk assessment or risk register.

Recommendation

The Department should consider how risk management at an agency level is reported and monitored at the cluster level.

Service Delivery

The skill level of school starters is declining

The proportion of school starters who achieved Level 1 or higher in the Best Start Kindergarten Assessment has not improved. The Department needs to reassess their early childhood strategies in order to achieve the performance targets by 2017.

Four targets in the Department's Strategic Plan 2012-2017 are at risk

Four of the 12 performance targets in the Department's Strategic Plan 2012-17 are at risk. The NAPLAN results for reading and numeracy have not improved for certain grades.

Recommendation

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

Growth in student numbers is concentrated in metropolitan Sydney

Student numbers in Sydney regions have grown by ten per cent over the last ten years. Some schools have seen increases in enrolments of over 100 per cent in the same time period. The Department projects the student population will continue to grow.

Recommendation

The Department needs to ensure appropriate strategies are in place to cope with the growth in the student population in Sydney.

Introduction

This report sets out the results of the financial statement audits of NSW Government agencies in the former Education and Communities cluster for the year ended 30 June 2015. It provides Parliament and other users of the financial statements with an analysis of the results and key observations in the following areas:

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

From 1 July 2015, the name of the Department of Education and Communities, the cluster's lead agency, changed to the Department of Education. It is referred to as the Department in this report.

A snapshot of the cluster for the year ended 30 June 2015 is shown below.



Changes to the cluster

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






- the name of the Department of Education and Communities changed to the Department of Education
- the Office of Communities (except the Office of Aboriginal Affairs) was transferred from the Department of Education to the Department of Family and Community Services
- State Training Services within the Department and the Technical and Further Education Commission (TAFE NSW) were transferred to the Industry, Skills and Regional Development cluster
- Multicultural NSW and the Office of the Advocate for Children and Young People were transferred to the Family and Community Services cluster.




Other restructures that took place during 2014-15 include:

- abolition of the NSW Commission for Children and Young People on 9 January 2015. The *Commission for Children and Young People Act 1998* was repealed by the *Advocate for Children and Young People Act 2014*. The Office of the Advocate for Children and Young People was established on 9 January 2015, and was incorporated within the Department.

Status of 2014 recommendations

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

Recommendation	Current status
Cluster agencies should:	
 Address repeat issues from previous audits in a timely manner.	A number of issues reported to management in previous years have not been addressed. Details are provided in the chapter on Financial Controls.
 Fully test the disaster recovery plans.	Some agencies do not have current disaster recovery plans for financial systems and/or have not tested them. Details are provided in the chapter on Financial Controls.
 Finalise a Service Level Agreement with the corporate service provider.	This issue was not addressed in 2014-15. The agencies concerned were transferred to the Premier and Cabinet cluster on 1 July 2014. Refer to Volume Five 2015 of the Auditor General's Report to Parliament for further details.
 Meet the 'core requirements' of TPP 09-05 'Internal Audit and Risk Management Policy for the NSW Public Sector' or obtain an exception from the Portfolio Minister.	All cluster agencies now have the required corporate governance arrangements in place. Details are provided in the chapter on Governance.
 Establish and maintain a legal compliance register.	All cluster agencies updated the compliance registers to identify relevant legislative frameworks and requirements in 2014-15. Details are provided in the chapter on Governance.

Recommendation	Current status
The Department should:	
 Provide more effective training and communications for Learning Management and Business Reform (LMBR) project staff, including contractors, to improve awareness of IT security and change management policies and procedures. Compliance with these policies should be monitored throughout the project.	<p>This matter has not been addressed. In 2014-15, further information technology issues were identified because LMBR activities were not effectively managed.</p> <p>Details are provided in the chapter on Financial Controls.</p>
 Work with Treasury to establish an appropriate response to backlog maintenance.	<p>The Department estimated backlog maintenance at 30 June 2015 of \$732 million, an increase of \$195 million from 2013-14. It is preparing a School Asset Strategic Plan which will include measures to address backlog maintenance. The plan is due for presentation to Government in early 2016.</p> <p>Details are provided in the chapter on Financial Controls.</p>
Venues NSW and Sydney Olympic Park Authority should:	
 Work with Treasury to establish a capital structure and funding arrangement that supports financial sustainability.	<p>The agencies concerned were transferred to the Premier and Cabinet cluster on 1 July 2014.</p> <p>Refer to Volume Five 2015 of the Auditor General's Report to Parliament for further details.</p>

2014 recommendation status		
 Fully addressed	 Partially addressed	 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 observations, conclusions and recommendations relating to the financial performance and reporting of agencies in the Education and Communities cluster for 2014-15.

Financial performance and reporting

Observation

Misstatements: The Audit Office issued unqualified audit opinions for all agencies in the cluster. Reported misstatements decreased from 20 in 2010-11 to ten in 2014-15.

Early close procedures: Agencies substantially complied with early close procedures and new accounting standards.

However, not all supporting work papers were provided by the due date. Some agencies did not resolve all accounting issues as part of the early close procedures.

Formal review of Pilot Schools' performance: The Department did not have a formal process to regularly review and monitor the financial performance of the 229 pilot schools transitioned to the new School Finance System.

Financial information: Cluster agencies recorded a combined deficit of \$141 million in 2014-15. Expenditure decreased by \$147 million and revenue increased by \$59.0 million.

Performance against budget: The combined deficit was five per cent or \$8.0 million less than the budgeted deficit of \$164 million.

Conclusion or recommendation

Ongoing improvements in the quality and timeliness of financial reporting helped to reduce the number of reported misstatements.

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

Recommendation: The Department should formalise processes for reviewing and monitoring the financial performance of the 229 pilot schools transitioned to the new School Finance System before further LMBR deployment occurs to the remaining schools. Management reports should be prepared to identify significant variances between actual and budgeted results.

Changes to the cluster affected the financial performance of agencies.

Various factors contributed to the agencies' performance against budget.

Quality of Financial Reporting

Unqualified audit opinions issued for all agencies' 30 June 2015 financial statements

Unqualified audit opinions were issued on the 2014-15 financial statements of all agencies in the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

The quality of financial reporting has improved

Fewer misstatements were identified in cluster agencies' 2014-15 financial statements than were identified in the previous four years. This reflects the improved quality of financial reporting since Treasury introduced its 'early close procedures' initiative in 2011-12.

The table below summarises the past five years' audit results for cluster agencies highlighting financial misstatements detected during the audit process.

Reported misstatements for the year ended 30 June					
Agency	2015	2014	2013	2012	2011
Principal department					
Department of Education and Communities	3	3	3	6	9
Education agency					
Board of Studies, Teaching and Educational Standards *	4	11	N/A	N/A	N/A
Communities agencies					
Multicultural NSW **	1	2	3	7	1
NSW Aboriginal Land Council	--	1	2	11	8
Other agency					
NSW Commission for Children and Young People ***	2	N/A	7	1	2
Total	10	17	15	25	20

N/A Not applicable.

* The Board of Studies, Teaching and Educational Standards was established on 1 January 2014.

** Previously known as the Community Relations Commission for a Multicultural NSW.

*** The NSW Commission for Children and Young People was abolished on 9 January 2015. It obtained Treasury approval for an extended reporting period from 1 July 2013 to the date of abolition. Hence no audit opinion was issued for 2013-14.

Source: Statutory Audit Reports issued by the Audit Office.

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

Number of misstatements for the year ended 30 June						
	2015		2014		2013	
	Corrected	Uncorrected	Corrected	Uncorrected	Corrected	Uncorrected
Less than \$50,000	2	--	2	2	--	1
\$50,001 - \$250,000	2	--	7	1	7	--
\$250,001 - \$1,000,000	2	--	2	--	3	--
\$1,000,001 - \$5,000,000	1	--	--	--	1	1
Greater than \$5,000,000	--	3	1	2	1	1
Total number of misstatements	7	3	12	5	12	3

Source: Audit Office of New South Wales.

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

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

Timeliness of Financial Reporting

Financial statements were submitted and audits completed by statutory deadlines

The Audit Office completed the year end audits and issued audit opinions for all cluster agencies' financial statements within statutory deadlines. The impact of early close procedures enabled the Audit Office to issue all audit opinions before the end of September. This is a significant improvement from 2010-11 when all audit opinions were issued during October.

Early close procedures contributed to improving the timeliness of financial reporting

Agencies were given less time to complete early close procedures and prepare proforma financial statements. The deadline for audit teams to report findings to agencies was also reduced. Bringing forward the deadlines generally helped to ensure a smoother year-end process as it allowed more time to resolve issues.

The table below shows the reduction in deadlines for early close procedures over the past three years.

Key audit completion dates			
Year ended 30 June	2015	2014	2013
Agencies provide results of early close procedures to the Audit Office no later than	27 April	27 May	28 May
Audit Office provides feedback to agencies on early close procedures by	29 May	30 June	As agreed with agencies

Early close procedures are designed to bring forward year-end activities, such as valuing assets and resolving financial reporting issues, to reduce reporting timeframes and improve quality.

Overall, there was substantial compliance with early close requirements. All agencies submitted proforma financial statements on time, and most reconciled key account balances and performed monthly accruals and management reviews as required.

Proforma financial statements prepared by cluster agencies substantially complied with accounting standards and Treasury Policy Paper TPP 15-01 'Accounting Policy: Financial Reporting Code for NSW General Government Sector Entities'.

Agencies can still improve their early close procedures

Recommendation

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

Although there was substantial compliance with early close requirements, the Audit Office's review of early close procedures identified a number of shortcomings. Some agencies within the cluster did not provide all necessary supporting work papers by the due date, while some did not resolve all accounting issues during the early close procedures or document a path towards timely resolution before year end. Others did not fully assess or formally document the impact of new and updated accounting standards. Not all agencies reviewed matters raised by the Audit Office in prior year management letters and reports to ensure they had been addressed.

Opportunities for agencies to improve early close procedures include:

- ensuring sufficient and appropriate documentation is available to support the early close outcomes
- resolving significant accounting issues as part of the early close process or documenting a clear path towards timely resolution
- formally assessing and documenting the impact of new and updated accounting standards
- ensuring timely review and resolution of issues reported in the Audit Office's prior year management letters and client service reports.

Key Issues from Financial Audits

Processes can be strengthened for schools transitioned to the new School Finance System

Recommendation

The Department should formalise processes for reviewing and monitoring the financial performance of the 229 pilot schools transitioned to the new School Finance System before further LMBR deployment occurs to the remaining schools. Management reports should be prepared to identify significant variances between actual and budgeted results.

As a part of the LMBR program rollout, the Department implemented the School Finance System (within SAP) at 229 pilot schools on 18 November 2013. Since then, these schools record their financial transactions within this system. A high level review of these transactions identified:

- while informal review processes are undertaken, there is no formal process to regularly review and monitor the financial performance and identify significant variances between actual and budgeted results
- the pilot schools only record standard payroll costs, calculated for budget purposes, instead of actual payroll expenses. As a result, actual payroll expenses could not easily be compared to the budget at the individual school level.

Fraud risk due to outdated bank signatories and delegations manual

The *Advocate for Children and Young People Act 2014*, which became effective on 9 January 2015, created the Office of the Advocate for Children and Young People (the Office). On the same day, the NSW Commission for Children and Young People (the Commission) was abolished.

From 9 January 2015, the Office became a division within the Department. The Department has accounting control of the operating bank account used by the Commission (now the Office). At the date of the Commission's abolition, the bank account had a balance of more than \$3.8 million.

This operating bank account is under the name of the long-abolished agency, the Office for Children. The bank signatories and delegations manual are also outdated. This significantly increases the risk of fraudulent transactions occurring.

The Office was transferred to the Department of Family and Community Services on 1 July 2015 and a recommendation has been made to its management to rectify these issues.

Key Financial Information

Significant changes in the cluster impacted on the overall financial results. Cluster agencies recorded a combined deficit of \$141 million in 2014-15, an improvement of \$206 million from the prior year. Expenditure decreased by \$147 million and revenue increased by \$59.0 million.

The Department reported lower revenue and expenditure largely due to TAFE NSW becoming a separate reporting entity under the Public Finance and Audit Amendment (TAFE Commission) Regulation 2014 from 1 July 2014. Previously, TAFE NSW was reported as part of the Department.

The increase in overall cluster revenue, after allowing for the transfer of TAFE NSW, was mainly due to the Board of Studies, Teaching and Educational Standards (BOSTES) operating for a full financial year in 2014-15. BOSTES commenced operations on 1 January 2014 and therefore only operated for six months in 2013-14.

Due to the separation of TAFE NSW from the Department, total cluster assets fell from \$27.7 billion at 30 June 2014 to \$23.1 billion at 30 June 2015 and liabilities fell from \$2.2 billion to \$1.7 billion.

In 2014-15, the Department conducted a comprehensive land revaluation, which resulted in an increase to the land value of \$576 million.

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

Performance against Budget

Cluster agencies' combined result was better than budget

Cluster agencies' combined deficit was five per cent or \$8.0 million less than the budgeted deficit of \$164 million.

The 2014-15 statement of comprehensive income and financial position, as summarised in Appendix Three, shows the following performance against budgeted results for agencies in the cluster.

Combined 2015 Statement of Comprehensive Income

Total expenses were two per cent lower than budget

In 2014-15, combined actual expenses of cluster agencies were \$275 million (or two per cent) lower than budget. The Department's favourable variance against budget largely contributed to this result and included:

- a \$186 million reduction in expenditure due to the Office of Sport and Recreation being transferred out of the Department from 1 July 2014
- a \$255 million favourable result against budget due to changes in implementing various Commonwealth National Partnership programs, particularly the early childhood education and skills training program
- \$128 million higher than budget long service leave expenses due to Commonwealth bond rate movements
- \$26.0 million higher than budget depreciation expenses as the budget did not incorporate the full impact of the building revaluation that occurred in 2013.

Other comprehensive income was largely unbudgeted and mainly reflected the \$576 million increase in the Department's land values.

Combined 2015 Statement of Financial Position

Combined net assets were \$383 million, or two per cent higher than budget

Total cluster assets were \$688 million higher than budget, as the land revaluations of \$576 million were not included in the original budget and the Department deferred the repayment of a \$141 million advance from the Crown Entity.

Total cluster liabilities were \$306 million higher than budget, mainly due to the deferred repayment of the advance from the Crown Entity (\$141 million), higher than budgeted employee leave and oncost provisions (\$84.0 million) and higher than budgeted payables (\$94.0 million).

Financial Controls

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

This chapter outlines observations, conclusions and recommendations relating to the financial controls of agencies in the Education and Communities cluster for 2014-15.

Financial controls	
Observation	Conclusion or recommendation
<p>LMBR: Change management issues were identified with the Department's financial systems. There were instances of documentation not being maintained.</p> <p>The LMBR project team did not follow the Department's IT security and change management policies and procedures.</p> <p>LMBR program costs have increased significantly and deployment is well behind the original schedule.</p> <p>Internal control issues: Almost half the information system issues were repeat issues identified in the prior year.</p> <p>Disaster recovery plan: Some agencies do not have current disaster recovery plans for financial systems and/or have not tested them.</p> <p>Annual leave balances: The number of employees with excessive annual leave has increased by 39.9 per cent to 1,244 in 2014-15.</p> <p>Workforce planning: More than 47,000 applicants are seeking teaching positions. The Department appoints approximately 2,200 positions each year.</p> <p>Workplace health and safety: Workers compensation claims and costs are decreasing.</p> <p>Employee performance and conduct: Employee misconduct allegations have increased by 150 per cent and staff underperformance cases by 238 per cent since 2011.</p> <p>School building maintenance: Backlog maintenance at schools has increased by 36.3 per cent from \$537 million in 2013-14 to \$732 million in 2014-15.</p>	<p>Recommendation: The Department should strengthen its processes to ensure that there are no inappropriate changes to financial systems.</p> <p>Recommendation: LMBR project staff should receive more effective training to increase awareness of the Department's IT security and change management policies and procedures, and compliance should be monitored regularly.</p> <p>Overall LMBR program costs are likely to be significantly higher than the original business case budget. The final stage of the program's implementation is expected to be deployed three years behind the original timeline.</p> <p>Recommendation: Cluster agencies should address repeat issues from previous audits in a timely manner.</p> <p>Recommendation: Cluster agencies should ensure their disaster recovery plans for financial systems are current and fully tested.</p> <p>Recommendation: Cluster agencies should continue to reduce employees' excess annual leave balances to meet whole-of-government targets.</p> <p>There is an adequate supply of teachers, but the growth in numbers does not align with the Department's needs in certain subject areas.</p> <p>The number of work related incidents which result in claims is trending down.</p> <p>The Department has processes in place to take action against employees when required.</p> <p>Recommendation: The Department should continue to work with Treasury to determine an appropriate response to backlog maintenance.</p>

Financial controls

Observation

Disposal of major assets: The Department plans to fund its capital and maintenance program through the disposal of assets. The Sydney metropolitan area has higher value assets than regional NSW, which make them more attractive for sale.

School Asset Strategic Plan: The student population is projected to increase significantly. School facilities will need to be upgraded and maintained to meet growing demand.

Conclusion or recommendation

Recommendation: The Department should ensure service delivery in metropolitan areas is not compromised by the disposal of major assets.

The Department is preparing a School Asset Strategic Plan to respond to the expected growth in the student population.

Internal Controls

Two high risk IT related internal control deficiencies have been identified

The 2014-15 financial statement audits identified two high risk control deficiencies that were Information Technology (IT) related. Weaknesses in internal controls increase the risk of fraud and error.

Generally, cluster agencies' internal controls were designed appropriately and operated effectively to produce reliable and timely financial statements.

Forty two internal control issues were reported to agencies, including 13 repeat issues

Forty two audit findings, including 13 repeat issues, were identified and reported to management. Twenty were related to financial controls and 22 were related to IT controls. Most financial control deficiencies related to operational matters and were assessed as moderate risks to the agencies. These did not significantly impact the quality or timeliness of financial reporting.

The 13 issues which were reported in the previous year and had not been addressed include:

- completeness of the fixed asset register
- completeness of the contracts register
- the ability to generate and use revenue reports.

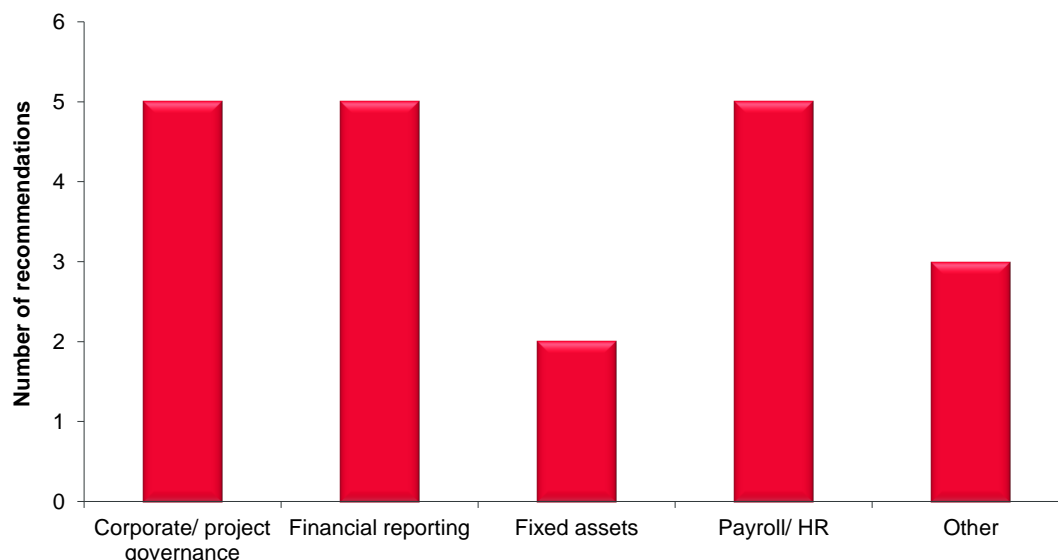
The number and associated risk of audit findings reported to management for the years ended 30 June 2015 and 2014 are analysed below.

Risk assessment	New	Repeat	Total	New	Repeat	Total
Year ended 30 June	2015			2014		
High	2	--	2	1	--	1
Moderate	18	10	28	22	7	29
Low	9	3	12	16	3	18
Total	29	13	42	39	10	48

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

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

Financial Audit Findings by Nature 2014-15



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

Information Systems audit

Change management issues were identified with the Department's financial systems

Recommendation

The Department should strengthen its processes to ensure that there are no inappropriate changes to financial systems.

Change management issues were identified in the Department's financial systems. These issues were predominantly due to LMBR activities not always being effectively managed. Weak design and execution of the control processes for projects and operational changes to systems can compromise system functionality and the integrity of financial data.

The Department's IT policies and procedures should be applied consistently

Recommendation (repeat issue)

LMBR project staff should receive more effective training to increase awareness of the Department's IT security and change management policies and procedures, and compliance should be monitored regularly.

Past system rollouts were delivered with inconsistent application of standard IT policies and procedures by the project team. For example, some project staff were given access to the system without appropriately documented management approvals to do so.

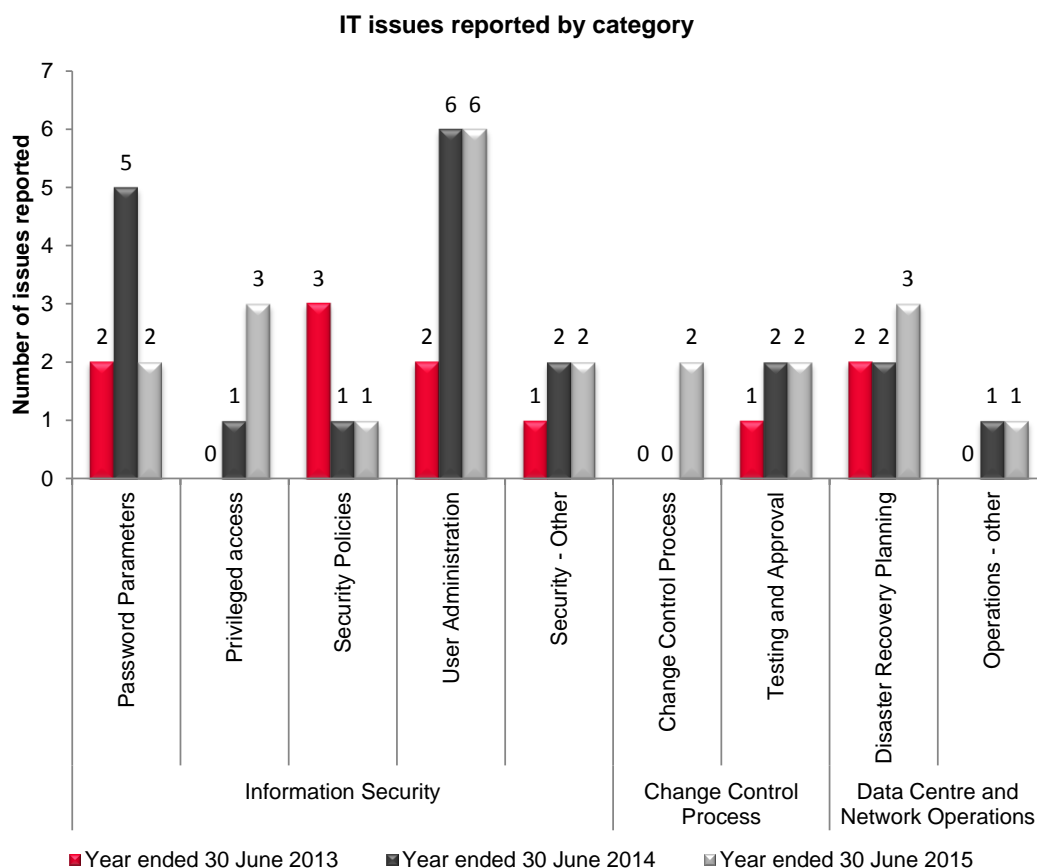
Management should ensure LMBR project processes do not bypass established IT policies and procedures. Compliance with IT policies and procedures is critical to ensuring the integrity of the system, as is monitoring compliance throughout the project.

Almost half the information system issues identified in 2014-15 were repeat issues

Recommendation (repeat issue)

Cluster agencies should address repeat issues from previous audits in a timely manner.

Twenty two IT audit findings, including ten repeat issues, were identified and reported to management.



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

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

Disaster recovery planning remains an issue for some agencies in the cluster

Recommendation (repeat issue)

Cluster agencies should ensure their disaster recovery plans for financial systems are current and fully tested.

Three agencies did not perform disaster recovery testing and two of these agencies did not have disaster recovery plans for their financial systems. This increases the risk that an agency may not be able to restore its financial processes and systems or recover financial data in the event of a disaster.

Information Technology Project

Learning Management and Business Reform program

The Learning Management and Business Reform (LMBR) program has been assessed as a significant risk to the Department since its inception in 2006.

The program aims to replace various legacy systems with a modern, integrated system to manage student administration, and introduce a single human resources, payroll and finance system across the Department, including implementation in 2,219 public schools and ten TAFE NSW Institutes.

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

When the LMBR program implemented the more complex environment of student administration and learning management for schools and TAFE NSW institutes, the Department failed to consistently meet time, budget and quality requirements.

The Audit Office completed and tabled a performance audit report in December 2014, which assessed the Department's progress in implementing the LMBR program, and assessed whether it would achieve the expected benefits.

The LMBR program costs are currently \$95.0 million more than the original budget

The LMBR program was originally planned to be delivered in two phases over eight years and was expected to incur capital costs of \$386 million. The overall cost, including capital and recurrent costs, was initially expected to total \$483 million. By 2013-14, the capital budget had increased to \$397 million and then to \$426 million in 2014-15.

The actual capital costs incurred to 30 June 2015 totalled \$405 million. The capital costs incurred in 2014-15 were small as the remaining software releases will be implemented from 2015-16 onwards.

The original business case only budgeted for capital costs of the LMBR program. While the business case acknowledged that non-capital expenses would be incurred, it could not quantify them at the time due to uncertainties associated with the service delivery model and transition of the program to 'business as usual'. The non-capital costs have now been estimated and are included in the following table as recurrent costs. The estimated recurrent costs of the program to 30 June 2015 total \$173 million bringing the total cost of the program to \$578 million at that date, \$95.0 million more than the original budget of \$483 million.

LMBR program costs	2015 \$m
Total capital costs for the year ended 30 June 2015	0.1
Total capital costs at 30 June 2015	404.8
Total recurrent costs for the year ended 30 June 2015	43.8
Total recurrent costs at 30 June 2015*	173.2
Total capital and recurrent costs at 30 June 2015*	578.0

* Excludes TAFE/Corporate Finance Upgrade and the TAFE Revenue Recognition of \$24.7 million as this was additional to the original scope and funds were allocated to the LMBR program by the Department's Executive in order to complete this work.

Source: Department of Education (unaudited).

Actual expenditure to 30 June 2015 does not include accommodation costs to house LMBR program staff or the costs of other staff from across the Department, including from public schools and the TAFE NSW institutes, who have been involved in many aspects of the program, including:

- consultation and workshops to define business requirements
- participation in governance committees
- evaluating tender responses
- reviewing functional specifications
- user acceptance testing
- preparing for the implementation of system components
- attending training sessions
- working with system components and applying manual work-arounds while waiting for defects to be fixed and other enhancements.

The Department acknowledges additional costs will be incurred to complete implementation of the program and these were not quantified in the original business case. The pilot implementation for public schools has allowed the Department to review the challenges the schools experienced in adopting the new solutions and to determine that a new approach was needed to ensure the success of future deployments.

Stage 2 was delivered well beyond the original timeframe

Component	Original timeline	Deployment date
Stage 2		
SALM student management and finance - 229 schools	By July 2013	November 2013
HR/Payroll - TAFE NSW institutes	By November 2013	January 2014
TAFE NSW finance upgrade - all ten institutes	June 2013	July 2014
Corporate finance upgrade	June 2013	July 2014
SALM TAFE NSW - all ten institutes	November 2013	October 2014

Source: Department of Education (unaudited).

Significant system limitations were identified in TAFE NSW's Student Administration and Learning Management (SALM) implementation. Refer to Volume Twelve of the 2015 Auditor-General's Report to Parliament.

Cost increases and delays in deployment are due to:

- changes in the business requirements and scope
- the high degree of uncertainty in the business cases
- weaknesses in governance
- insufficient program management and contract management controls and processes.

The Department expects to complete the LMBR program by December 2017

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

Component	Original timeline	Timeline now
Stage 3		
HR/Payroll - 229 schools	June 2013	To be fully deployed December 2017
HR/Payroll, finance and SALM - 2,000+ schools	By 2014	To be fully deployed December 2017
HR/Payroll	By 2014	To be fully deployed December 2017

Source: Department of Education (unaudited).

The Department will deploy the Schools SALM and Finance systems to the remaining public schools, after taking into consideration:

- **deployment window in a year** – schools have peak periods of activity particularly at the beginning of Term 1 and end of Term 4
- **length of deployment** - ensuring schools are not overwhelmed by transitioning too quickly to the new systems and the Department does not run different systems across the State for a lengthy period of time
- **economies of scale** - there are certain key technical activities, such as data migration and technical cutover, which require schools to be grouped appropriately
- **geography** - geographically grouped deployment groups have benefits for providing support
- **local resources for technical and business support** – pool of resources required to support groups of schools going live concurrently
- **training** – delivery, methodology and timing
- **cost of implementation** – simple and effective methodology to reduce costs where appropriate
- **resources** – limited resources with the knowledge to train and support schools.

The Department has not demonstrated how LMBR will achieve the expected benefits

The performance audit report tabled in December 2014 found the Department had not established an effective benefits realisation process and had not measured or reported on any benefits that may have been achieved or changed.

The Department advises that while it has actioned and closed nine of the ten recommendations in the performance audit report, it is still closing out the recommendation on Benefits Realisation Management.

The Benefits Validation Project was established under Stage 3 to validate the benefits to be derived from the final stage of the project and to ensure stronger management of benefits realisation activities moving forward. The LMBR team has drafted a strategy to deliver the Stage 3 benefits and the Department advises that the Benefits Realisation Management Plan will be delivered in December 2015.

Human Resources

Excess Annual Leave

Annual leave balances continue to exceed whole-of-government targets

Recommendation

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

Cluster agencies should continue efforts to reduce annual leave balances to meet whole-of-government objectives. The table below shows 1,244 staff, or nine per cent of staff (excluding staff at schools and school administrative and support staff), exceeded the whole-of-government target of 30 days at 30 June 2015. This is a 2.3 per cent increase on the previous year when 889 staff had balances above the 35 day target.

Cluster agencies	> 30 days	> 30 days	> 35 days	> 35 days
	No. of staff	%	No. of staff	%
At 30 June	2015		2014	
Department of Education and Communities*	1,158	8.7	846	6.6
Board of Studies, Teaching and Educational Standards	41	14.3	13	4.3
Multicultural NSW	14	20.0	7	7.0
NSW Aboriginal Land Council	31	28.2	23	18.9
Total	1,244	9.0	889	6.7

* Department figures exclude teaching service staff in schools and school administrative and support staff

Source: Annual leave liability report for each agency (audited).

There are several implications of excessive leave balances, including:

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

Treasury Circular TC14/11 'Reduction of Accrued Recreation Leave Balances' requires agencies to make all reasonable attempts to reduce accrued employee recreation leave balances to a maximum of 30 days or less by 30 June 2015, within the constraints of relevant industrial instruments and legislation.

Workforce Planning

Demand

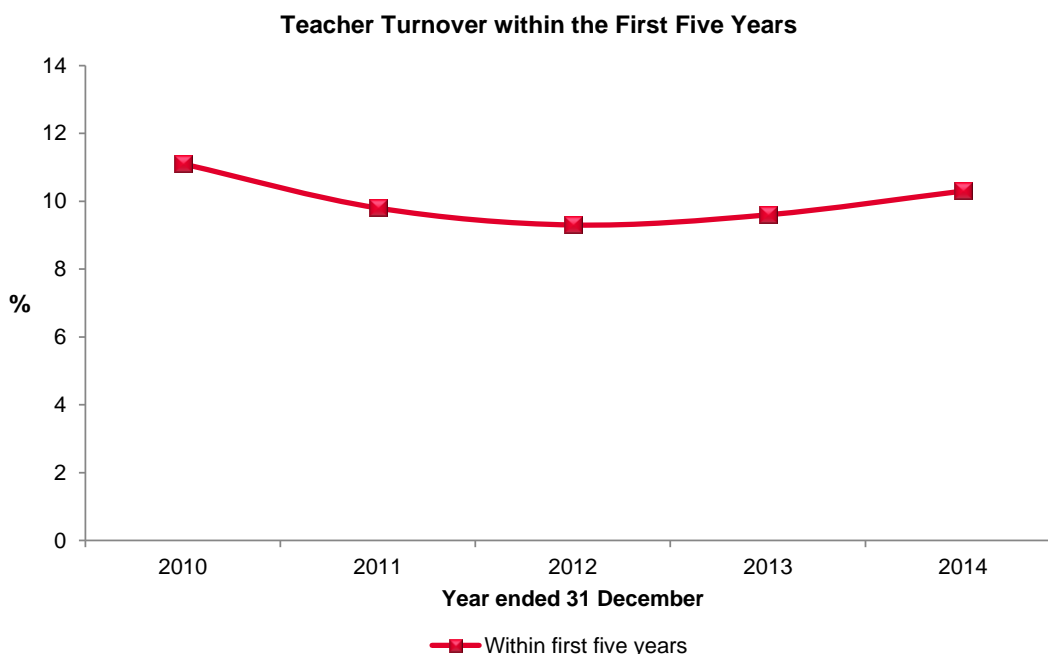
The Department appoints around 2,200 new permanent teachers each year

Appointments of new teachers are expected to increase up to 2018, when they will reach around 2,900 appointments per year, through to 2020.

The Department has a stable school teacher workforce and separation rates are generally lower than for the public sector as a whole.

Teacher retirement rates were 3.7 per cent in 2014 (3.8 per cent in 2013) while resignation rates varied between 0.8 and 1.1 per cent between 2010 and 2014.

Approximately ten per cent of new teachers left the Department within five years



Source: Department of Education personnel system (unaudited).

In 2014, 10.3 per cent of new teachers left the Department within the first five years of service, an increase from 9.6 per cent in 2013.

To assist new teachers, the Department introduced a Beginning Teacher Support Funding Policy which is part of the Great Teachers, Inspired Learning initiative.

Thousands of experienced teaching staff could be lost over the next few years

The following statistics indicate a substantial number of school teachers are approaching retirement:

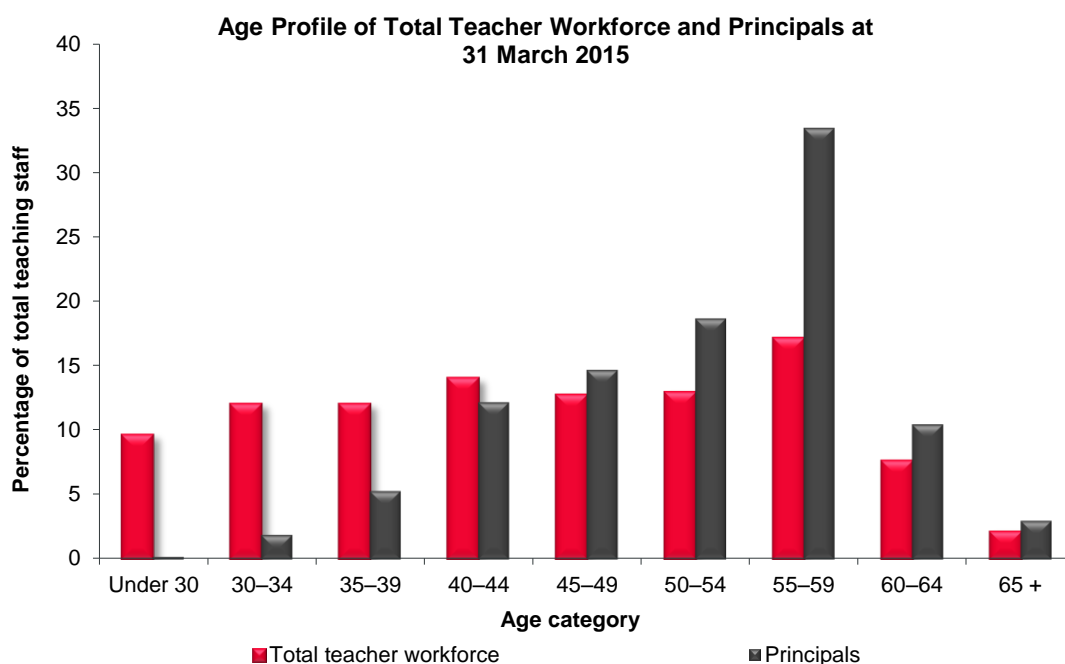
- 26.8 per cent of permanent teachers are aged 55 and older (27 per cent in 2014)
- 52.4 per cent of permanent teachers are aged 45 and older (53 per cent in 2014).

The table below shows the age profile of permanent school teachers in NSW public schools.

Age group	No. of teachers	%	No. of teachers	%
At 31 March	2015		2014	
20–24	783	1.6	768	1.6
25–29	3,850	8.0	3,849	8.0
30–34	5,824	12.0	5,718	11.8
35–39	5,800	12.0	5,687	11.7
40–44	6,787	14.0	6,748	13.9
45–49	6,147	12.7	5,842	12.1
50–54	6,253	12.9	6,723	13.9
55–59	8,303	17.1	8,757	18.1
60–64	3,658	7.6	3,439	7.1
65+	1,012	2.1	880	1.8
Total	48,417	100	48,411	100

Source: Department of Education (unaudited).

Almost two-thirds of school principals are over 50 years old



Source: Department of Education personnel system (unaudited).

The age profile of school principals shows:

- 65.7 per cent are aged 50 and older
- 47.0 per cent are aged 55 and older
- 13.5 per cent are aged 60 and older.

Strategies are being implemented to address the transition of the workforce, including:

- the introduction of a NSW public school Leadership and Management Credential for first time principals and the availability of a coach who is an experienced principal in the NSW public school system
- new Teacher Support funding provided to eligible schools to develop a structured program of mentoring and professional learning to assist the new teacher.

Supply

Nearly 47,000 applicants are seeking permanent teaching positions

At March 2015, there were nearly 47,000 applicants seeking permanent teaching positions. The Department reviews the employment list periodically by contacting applicants and liaising with the Board of Studies, Teaching and Education Standards, and civil registries.

The growth in teacher supply is not aligned with the Department's needs

The NSW Government is pursuing closer collaboration with the Australian Government and universities to better manage teacher graduate supply so it more effectively aligns with areas of teacher need.

For example, between 2006 and 2012, Creative Arts had more than twice as many graduates as Mathematics, an area of potential shortage in most years.

There is a decreasing supply of secondary teachers for some subjects

The Department's workforce planning for the period to 2022 indicates:

- a more than adequate supply of primary teachers across the State, except for a small number of positions in specific geographical locations
- an adequate supply of secondary teachers, except in mathematics, science with physics, some subjects in technology and applied studies, some specialist teachers, and some specific subjects in particular geographical locations.

The supply of secondary teachers is more than adequate in the curriculum areas of Creative Arts and Personal Development, Health and Physical Education. The supply of English and Human Society and its Environment teachers is adequate and the overall supply of Science teachers is relatively stable.

Workforce Strategies

Great Teaching, Inspired Learning reform to improve teacher quality

The Department has the following initiatives to enhance teacher quality and minimise the impact of an ageing teaching population:

- teacher education scholarships
- incentive scholarships
- sponsored training
- promotion of teaching as a career
- incentive schemes for rural New South Wales
- teach.Rural scholarships
- cadetships for high achieving school leavers
- internships for high achieving final year teacher education students.

The Department undertakes workforce planning each year to develop projections for public school teacher supply and demand over a seven year period.

Workplace Health and Safety

Total workers compensation claims continue to fall

The Department's safety strategies are proving effective in reducing workplace health and safety related claims.

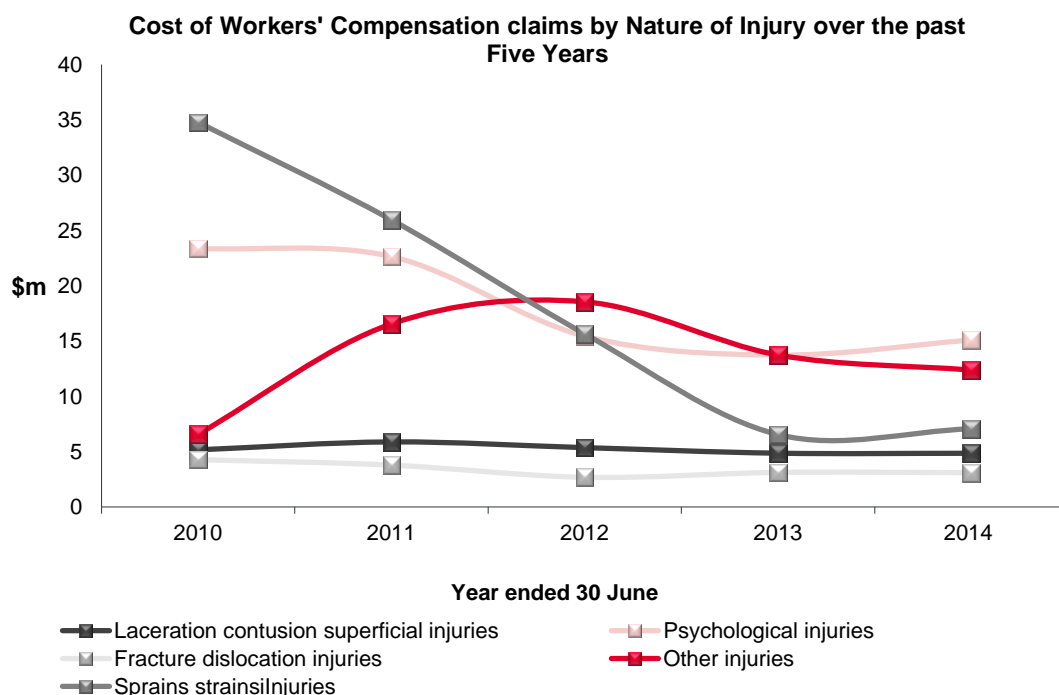
Total workers' compensation claims have decreased by 36.7 per cent, from 6,359 in 2010 to 4,028 in 2014.

Sprain and strain injury related claims had the most significant drop, from 3,245 in 2010 to 815 in 2014, or 74.9 per cent. This is partly offset by the increase in the laceration and contusion superficial injuries and other injury claims.

Nature of injury					
Year ended 30 June	2014	2013	2012	2011	2010
Sprains strains injuries	815	1,218	2,415	2,731	3,245
Laceration contusion superficial injuries	1,023	1,200	1,218	1,181	720
Psychological injuries	467	551	696	810	842
Fracture dislocation injuries	195	275	227	248	259
Other injuries	1,528	1,607	1,401	1,370	1,293
Total	4,028	4,851	5,957	6,340	6,359

Source: Department of Education (unaudited).

The graph below shows the general downward trend in the cost of workers' compensation claims for each type of injury over the past five years.



Source: Department of Education (unaudited).

The Department's continued focus on employee's health and safety has led to an improved workers' compensation premium cost. In 2014, 4,028 claims were submitted at a cost of \$42.5 million, a reduction of 42.7 per cent from 2010.

Employee Performance and Conduct

Instances of employee misconduct and underperformance have increased significantly

Since 2011, cases of reported employee misconduct have increased by 170, or 150 per cent. Over the same period, sustained misconduct allegations have gone up by more than 70 per cent.

Reported staff underperformance cases increased by 238 per cent from 2011 to 2015, with a 65.5 per cent increase in the sustained allegations.

Child protection continues to have the most notifications and sustained cases in 2015. However, sustained allegations have dropped by 15.4 per cent since 2011.

Year ended 30 June	2015	2011	Variance	%
Child protection				
Notifications*	1,249	1,353	(104)	(7.7)
Sustained**	335	396	(61)	(15.4)
Unsustained***	210	255	(45)	(17.7)
Misconduct				
Notifications*	283	113	170	150.4
Sustained**	84	49	35	71.4
Unsustained***	58	49	9	18.4
Performance				
Notifications*	115	34	81	238.2
Sustained**	48	29	19	65.5
Unsustained***	24	10	14	140.0

* Notification: includes sustained and unsustained allegations, enquiries and ongoing matters.

** Sustained: when the investigation supports the allegation. The numbers include teachers who separate (retirement, medical retirement, and resignation) before a decision is made on whether they have passed or failed an improvement program.

*** Unsustained: when an investigation does not support an allegation.

Source: 2015 Employee performance and conduct (unaudited).

Employee underperformance and misconduct allegations are referred to the Department's Employee Performance and Conduct Directorate (EPAC) for assessment, investigation and where required, external reporting. EPAC investigates all allegations of teacher misconduct relating to child protection, employee misconduct and staff performance.

Where an investigation sustains an allegation, disciplinary or remedial action may be taken against the employee. In serious cases, this may include dismissal.

Asset Management

Major Investments in the Department

Some of the Department's major projects are delayed

Project description	2014-15 budget allocation	2014-15 expenditure	Current status	Delays?	Estimated completion date
	\$m	\$m			
Major works – 16 new projects	17	18	In progress	No	2016 to 2018
Work-in-progress (exclude LMBR project) – 23 projects	122	94	In progress	Some projects were delayed	2016 to 2017
Trade training centres	35	3	In progress	Yes	June 2016
School infrastructure upgrades	155	170	In progress	No	June 2016
Technology for Learning and ICT	62	64	In progress	No	June 2016
Other minor works	6	2	In progress	No	June 2016

Source: Department of Education (unaudited).

Work-in-progress expenditure was lower than anticipated due to delays in delivering several projects, namely Cairnsfoot School and Wentworth Point Public School.

The underspend in the trade training centres project in 2014-15 was due to delays in obtaining funding approval from the Australian Government.

School Facilities and Building Maintenance

School backlog maintenance has increased by 36.3 per cent to \$732 million

Recommendation (repeat issue)

The Department should continue to work with Treasury to determine an appropriate response to backlog maintenance.

Estimated backlog maintenance at 30 June 2015 was \$732 million, an increase of \$195 million from 2013-14. This is due to maintenance funding not keeping pace with the growth in school maintenance needs. Total school maintenance funding increased from \$321 million in 2013-14 to \$347 million in 2014-15.

The Department uses Life Cycle Costing to measure and predict maintenance and capital renewal liabilities now and into the future, and to prioritise maintenance and renewal activities. The Department completed initial Life Cycle Costing assessments for all schools in September 2013. The next assessment will occur in 2017-18.

Less than half the school maintenance budget was used to address backlog maintenance

In 2014-15, \$158 million of the total school maintenance budget was used to address backlog maintenance:

- \$80.0 million was used for 'planned maintenance' covering all work identified as part of Life Cycle Costing
- \$55.0 million was used for 'preventative and statutory maintenance', such as cleaning roofs and gutters and clearing stormwater drains
- \$23.0 million was used for 'essential urgent repairs' resulting from breakdowns and unforeseen items.

The Department is recommending to Treasury that maintenance be funded at a level that keeps the yearly backlog maintenance liability at 1.5 per cent of asset replacement values. Maintenance work at school sites will return the assets identified to an 'as new' condition.

The Department has the following strategies to respond to the increasing backlog maintenance:

- the annual Total Asset Management (TAM) submission to Treasury highlights the increasing funding gap associated with maintenance
- the Secondary Schools Renewal Program, which is a capital funded program targeted at high schools, is designed to ensure the current maintenance backlog is a key indicator in determining those schools that will receive funding
- the revenue generated from the Department's asset disposal program is allocated to schools with the highest maintenance liability.

Disposal of Major Assets

Assets disposals will contribute significantly to capital works and maintenance programs

The Department's budget for proceeds from the sale of major assets in 2015-16 is \$29.5 million. After 2015-16, capital funding from the NSW Government is expected to decrease significantly. The revenue raised from the disposal of assets will be reinvested in capital works and maintenance programs in schools.

The acquisition and disposal of land forms a part of the Department's TAM Plan. The Department maintains a register of property assets and annually identifies properties surplus to service delivery requirements that can be sold with ministerial approval. Most asset disposals are closed school sites and parts of large school sites, which do not jeopardise the potential expansion of schools in high growth areas.

Identifying assets for disposal without compromising service delivery will be a challenge for the Department

Recommendation

The Department should ensure service delivery in metropolitan areas is not compromised by the disposal of major assets.

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

While student numbers in all Sydney regions have grown by ten per cent over the last ten years, the Northern Sydney region has experienced the most significant ten year growth rate of 20 per cent. Some schools have also seen increases in enrolments of over 100 per cent in the same period. Further details on school demographics are provided in the chapter on Service Delivery.

Management of School Demountable Buildings

Demountable buildings are cost effective in managing school accommodation needs

	Demountable \$	Permanent \$
Cost to maintain over a 50 year period	195,000	266,000
Cost to build a new classroom	116,000	200,000

Source: Department of Education (unaudited)

Demountable buildings allow a quick response at short notice and lower cost to school accommodation needs. They provide the Department with the flexibility to manage fluctuating accommodation demands by:

- providing accommodation for peak enrolments
- meeting accommodation needs in schools with increased enrolments
- meeting emergency needs resulting from fires or natural disasters
- meeting needs arising from capital works or maintenance projects in schools.

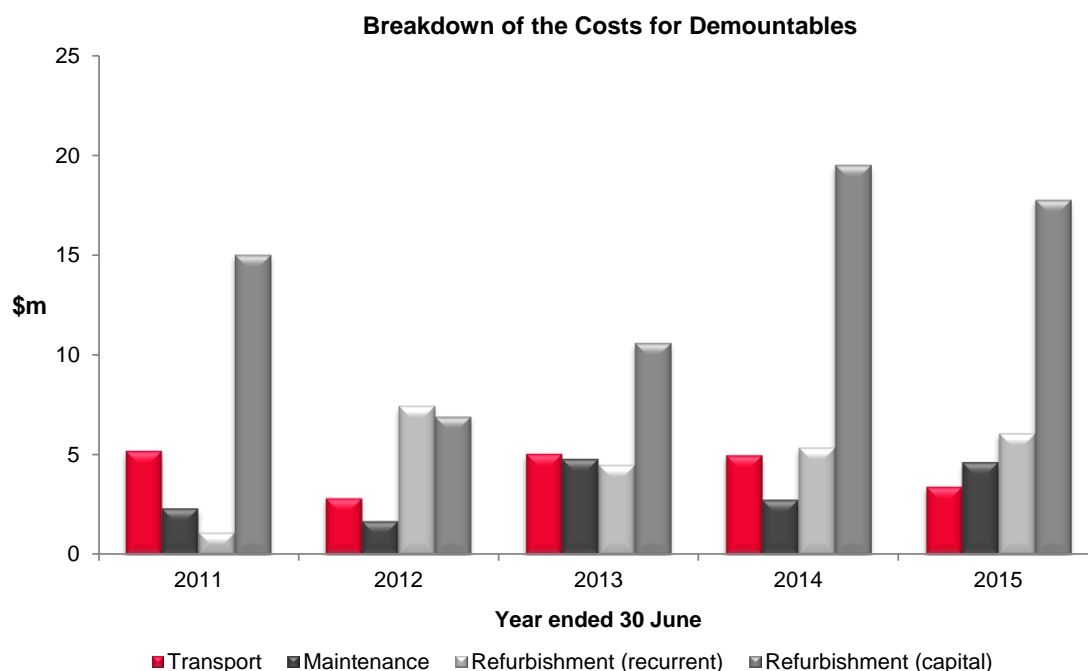
Demountable buildings are air conditioned, regularly maintained and provide fit for purpose learning spaces. However, they can impact the available play space on a school site and are designed for specific purposes.

While demountable buildings have a place at schools, they are often not as space efficient as permanent buildings. This is especially important on restricted sites with high land values such as inner city school sites. The Department continues to monitor enrolment growth across New South Wales and provides new schools and additional permanent accommodation where there is long term need.

\$31.8 million was spent to maintain, transport and refurbish demountables

In 2015, \$23.8 million was spent on refurbishing, \$4.6 million on maintaining and \$3.4 million on transporting demountable buildings, increasing total expenditure on these activities from \$23.5 million in 2011 to \$31.8 million in 2015.

The following graph shows the amount spent on maintaining, upgrading and transporting demountables over the past five years.

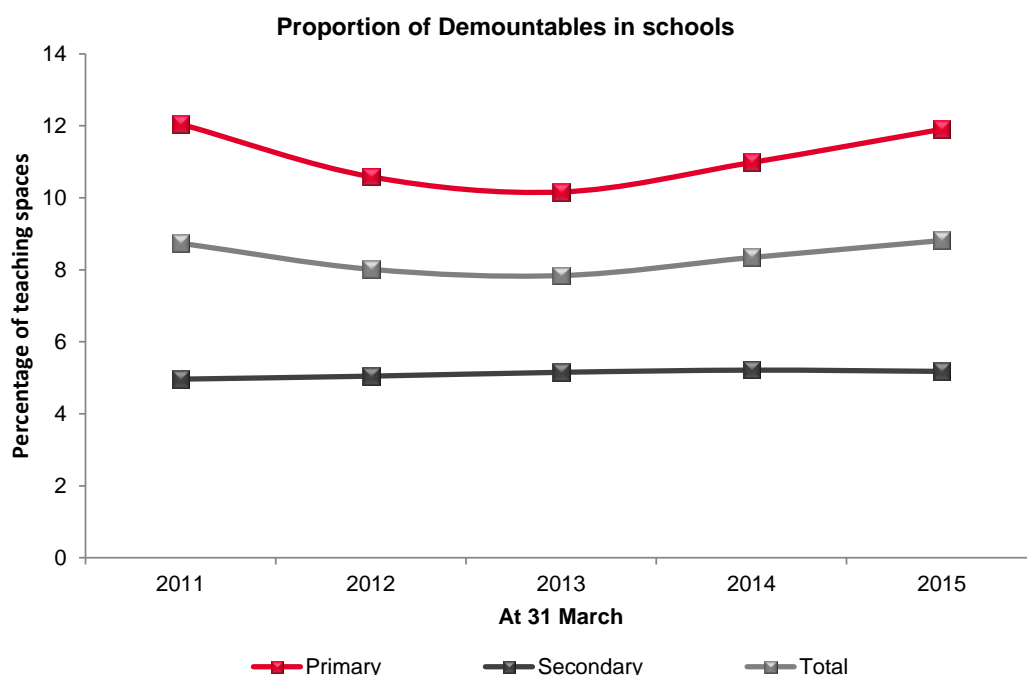


Source: Department of Education (unaudited).

To meet changing school accommodation needs, demountable buildings are moved throughout New South Wales. When they are not at the schools, they are in storage. The Department has a fleet of 6,103 demountable buildings. At September 2015, 1,149 were in storage, with 190 being refurbished before they are dispatched to schools.

The Department's annual demountable refurbishment program is funded from its capital and recurrent budget depending on the nature of the work undertaken. A complete rebuild of a demountable is generally funded from the capital budget, whereas general maintenance work is funded from the recurrent budget.

In 2015, 8.8 per cent of all teaching spaces are provided by demountable buildings compared to 8.7 per cent in 2011.



Source: Department of Education (unaudited).

In March 2015, primary schools had 2,685 demountable teaching spaces (2,442 in March 2014), which represented 11.9 per cent (11.0 per cent) of all primary teaching spaces. Secondary schools had 993 demountable teaching spaces (978), which represented 5.2 per cent (5.2 per cent) of all secondary teaching spaces.

School Asset Strategic Plan

An additional 305,800 students are projected to attend New South Wales schools by 2031

Demographic projections over the next 20 years indicate a growing and changing population. The number of students attending government and non-government schools in New South Wales is estimated to grow 26 per cent to approximately 1.5 million by 2031.

Keeping pace with the public school population growth will require an additional 174 primary and secondary schools by 2031.

Existing school infrastructure needs to be upgraded to keep New South Wales competitive

Keeping the State competitive requires the school education system to keep pace with international methods and practices, such as Future Focussed Learning spaces and technology rich environments for students and teachers.

The Department estimates there will be a significant maintenance backlog by 2031

Significant expenditure will be required to maintain existing assets at internationally recognised condition levels for educational infrastructure.

The Department is preparing a School Asset Strategic Plan to understand future challenges and to better manage projected capital expenditure requirements up to 2031. The plan includes identifying new policy directions across government to help reduce business-as-usual costs. The plan is due for presentation to Government in early 2016.

The key drivers for a renewed approach to public education infrastructure delivery and funding include demographic projections, international teaching methods and practices and backlog maintenance.

Governance

Governance refers to the framework of rules, relationships, systems and processes within, and by which, authority is exercised and controlled. It includes the systems agencies, and those charged with governance, use and are held to account by others.

This chapter outlines observations, conclusions and recommendations relating to the governance of agencies in the Education and Communities cluster for 2014-15.

Governance	
Observation	Conclusion or recommendation
Governance framework: All cluster agencies have established and maintained a risk management framework, an internal audit function, and an independent Audit and Risk Committee.	Cluster agencies have core corporate governance arrangements in place.
Fraud and corruption control: Incidents of fraud allegations in the Department have remained relatively stable.	Recommendation: To reduce the risk of fraud, agencies should reassess their fraud controls against the revised Audit Office's Fraud Control Improvement Kit, released in February 2015.
Ethical framework: Some smaller agencies did not maintain conflicts of interest and gifts and benefits registers.	Recommendation: Some smaller agencies should develop and maintain conflicts of interest and gifts and benefits registers.
Risk management: There is no oversight of risks or risk management at a cluster level.	Recommendation: The Department should consider how risk management at an agency level is reported and monitored at the cluster level.

Governance Framework

All cluster agencies have corporate governance arrangements in place

In 2014-15, all cluster agencies could demonstrate they had established and maintained a risk management framework, an internal audit function, and an independent Audit and Risk Committee.

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

Treasury Policy Paper TPP15-03 'Internal Audit and Risk Management Policy for the NSW Public Sector' aims to ensure agencies maintain organisational arrangements that provide additional assurance, independent from operational management, on internal audit and risk management. TPP15-03 came into effect in July 2015 and superseded TPP09-05.

Governance lighthouse – Strategic Early Warning System

The Audit Office published its updated Best Practice Guide 'Governance Lighthouse - Strategic Early Warning System' (Guide) in 'Volume One 2015 Areas of focus from 2014' (Volume One). The updated lighthouse takes into account the 2014 Ethical Framework for the NSW Government sector released by the Public Service Commission.

Volume One of the 2015 Auditor-General's Report to Parliament suggested larger agencies would benefit from performing a self-assessment against the Guide to identify areas which need attention. During the 2014-15 audits, observations were made in the following areas covered by the Guide:

- compliance framework
- fraud and corruption control framework
- ethical framework.

Compliance Framework

All agencies have a compliance framework in place

Effective compliance management helps to prevent agencies from breaching laws and regulations. All cluster agencies have maintained or updated their compliance registers and policies and procedures to help ensure they comply with relevant legislative frameworks and requirements in 2014-15.

An effective compliance framework requires agencies to:

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

Fraud and Corruption Control Framework

Allegations of fraud in the Department have remained relatively stable

Recommendation

To reduce the risk of fraud, agencies should reassess their fraud controls against the revised Audit Office's Fraud Control Improvement Kit, released in February 2015.

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

Year ended 30 June	2015	2014	2013	2012	2011
Sustained	4	3	2	4	6
Unsustained	4	4	1	4	2
Current	1	--	--	--	--
Total	9	7	3	8	8

Source: Department of Education (unaudited)

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

All cluster agencies had fraud policies in place during 2014-15. To strengthen the policies and approach to dealing with fraud, agencies should refer to the 2015 Audit Office Fraud Control Improvement Kit, released in February 2015. This consolidates previously issued Audit Office resources into one document and places additional focus on the cultural elements that need to be present to implement an effective fraud control framework.

Ethical Framework

Absence of conflicts of interest and gifts and benefits registers

Recommendation

Some smaller agencies should develop and maintain conflicts of interest and gifts and benefits registers.

Some agencies do not use centralised registers to record conflicts of interest and gifts and benefits. Some simply rely on minutes of meetings to document such matters, making it difficult to determine if employees are complying with policies and procedures.

The Public Service Commission has outlined requirements for managing gifts and benefits, and each agency must have:

- a policy for management of gifts and benefits that includes a definition, establishes thresholds, outlines an approval process and addresses risk
- maintain a register that is transparent, auditable and kept secure
- provide training to employees and ensure advice is readily available.

Risk Management

There is no oversight of risk and risk management at the cluster level

Recommendation

The Department should consider how risk management at an agency level is reported and monitored at the cluster level.

Each agency in the cluster has its own risk profile and risk management framework. Risk management is performed at an agency level with oversight by Audit and Risk Committees.

The Department should consider how risks at an agency level are captured and escalated to a cluster level so they can be managed, treated and reported.

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

Treasury Policy Paper TPP15-03: 'Internal Audit and Risk Management Policy for the NSW Public Sector' requires an agency to establish and maintain an appropriate risk management framework and related processes.

A mature risk management process should:

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

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

Service Delivery

This chapter outlines observations, conclusions and recommendations relating to the service delivery of agencies in the Education and Communities cluster for 2014-15.

Service Delivery	
Observation	Conclusion or recommendation
Key reforms: The Australian Government has indicated their intention to cease the National Education Reform Agreement (NERA) two years early resulting in a reduction of \$1.3 billion in funding for New South Wales.	To maintain growth in funding levels in line with the NERA, the Department will need to find alternate funding sources to make up for the reduction in Australian Government funding.
Early childhood outcomes: The skill level of school starters has not improved.	The Department needs to reassess their early childhood strategies in order to achieve the performance targets by 2017.
School outcomes: The Department's performance targets in its Strategic Plan 2012-17 for students' NAPLAN performance and attainment of Year 12 or equivalent certificates are at risk.	Recommendation: The Department should reassess current strategies for achieving performance targets in reading and numeracy and consider the effectiveness of strategies in the other domains.
Growth in student numbers: Student enrolments are increasing at a significant rate. Growth in student numbers is concentrated in metropolitan Sydney.	Recommendation: The Department needs to ensure appropriate strategies are in place to cope with the growth in the student population in Sydney.
Aboriginal community outcomes: The NSW Aboriginal Land Council has only achieved half its 2013-2017 strategic plan targets.	The NSW Aboriginal Land Council needs to do more to achieve all its performance targets by 2017.
Procurement reforms and contract management: The Department has level 3B accreditation from the NSW Procurement Board, allowing it to perform its own procurement up to \$210 million.	The Department's Procurement Solutions Directorate has proper policies and procedures in place to ensure the Department maintains its accreditation status.

Key Reform

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

National Education Reform Agreement

The Department will receive \$1.3 billion less in funding from the Australian Government

The initial NERA provided for \$3.3 billion in funding from the Australian Government over the 2014-2019 period. However, the Australian Government has indicated its intention to cease the NERA after 2017. This, together with lower indexation, will reduce funding by \$1.3 billion over the final two years. Treasury's Budget Estimates indicate the Department will receive \$507 million of additional State and Australian Government funding in 2015-16.

The NERA commenced in New South Wales in 2014. Funding under the agreement supports reforms in the five key areas of quality teaching, quality learning, empowered school leadership, meeting student needs and transparency and accountability.

Implementation of NERA within New South Wales to date includes:

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

Local Schools, Local Decisions

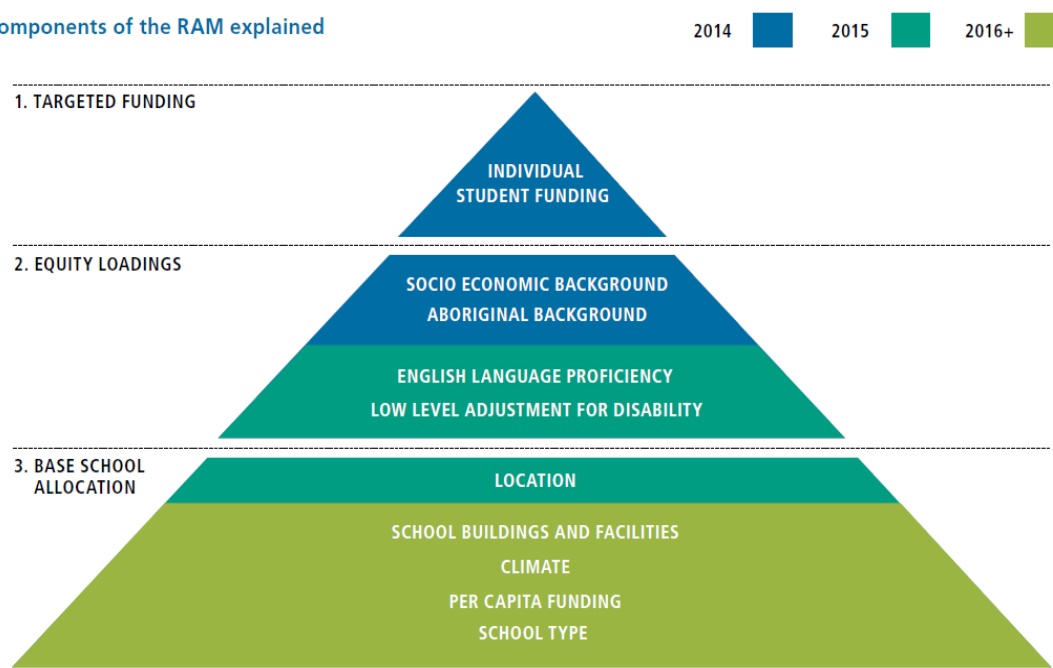
The second phase of the Resource Allocation Model was implemented in 2015

The Local Schools, Local Decisions (LSLD) education reform agenda commenced in 2012. The reform intends to give schools local authority to manage budgets and human resources more effectively.

The reform is changing the way funds are managed and how decisions are made in public schools. Public schools have more flexibility to respond to local student needs through varying the mix of staff and allocation of resources. They will manage a single budget and be funded directly through a new resource allocation model (RAM).

The phased implementation of the RAM commenced in 2014. RAM ensures allocation of funding for all schools is based on student's needs. The diagram below illustrates the funding components and timing of the model.

Components of the RAM explained



Source: Department of Education- The Resource Allocation Model (RAM) in 2016 (unaudited).

Great Teaching, Inspired Learning

Great Teaching, Inspired Learning reform aims to improve teaching and learning quality

In 2014-15, Great Teaching, Inspired Learning (GTIL) provided funding for 2,100 new teachers in over 1,000 public schools. This is a significant increase from 2013-14 when funding was provided for 1,500 new teachers in 850 schools.

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

From 1 January 2018, all teachers will need accreditation to work at a NSW school

The *Teacher Accreditation Act 2004* was amended to require the accreditation of all school teachers and early childhood teachers in New South Wales. The Government plans to have all teachers working in NSW schools accredited by 31 December 2017.

Key initiatives for 2015-16 will focus on improving the effectiveness of teaching by lifting the quality of entrants into teacher education, strengthening the standard of teacher training and providing better support for beginning teachers in their early years.

Connected Communities

Connected Communities is an approach to address the educational and social aspirations of Aboriginal children and young people living in complex and diverse communities in New South Wales. The strategy aims to position schools as community hubs to facilitate a range of services from birth, through school, to further training and employment.

Performance Reporting

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

State Priorities

The NSW Government has announced a new set of priorities

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

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

The State Priority directly relevant to the agencies in 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.

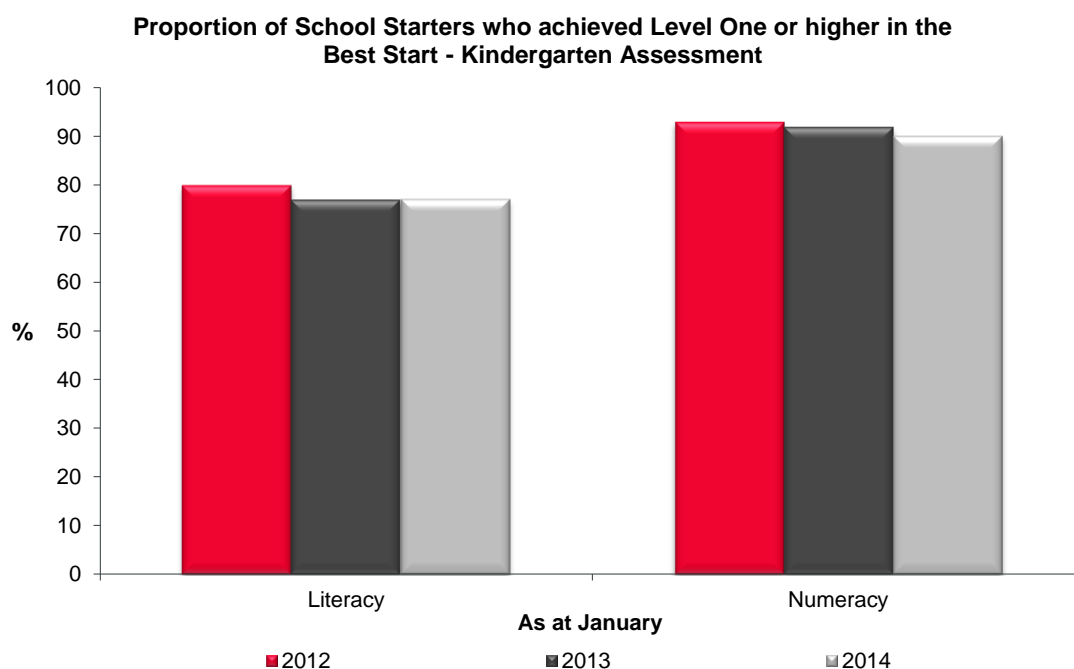
Early Childhood Outcomes

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

The skill level of school starters is declining

The performance target to increase the proportion of children with the literacy and numeracy skills they need for the best start at school has not been achieved. The Department undertakes a literacy and numeracy assessment in January each year.

The results for the last three years are shown below.



Source: Department of Education (unaudited).

In 2014, 90 per cent of students achieved level 1 or higher on at least one aspect of the numeracy assessment and 77 per cent achieved the same level in the literacy assessment. The results for numeracy deteriorated by two percentage points compared to 2013 while those for literacy remained constant.

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

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

Universal Access to Early Childhood Education

Over \$100 million will be allocated to early childhood education programs in 2015-16

The National Partnership Agreement on Universal Access to Early Childhood Education was endorsed by the Council of Australian Governments on 19 April 2013. Under the agreement, New South Wales received \$4.8 million in 2012-13, \$131 million in 2013-14, \$50.9 million in 2014-15 and is expecting to receive \$109 million in 2015-16 to provide access to quality early childhood education programs. The Australian Government has announced that funding will end in December 2017.

A key change under the National Partnership Agreement is that the funding must be directed to support participation of all children in preschool programs. To receive this funding all States and Territories must extend funding to early childhood settings that deliver preschool programs. This includes long day care and other regulated preschools.

Regulation of Early Childhood Education and Care and Results for New South Wales

Education and care provided at 1,428 services did not meet National Quality Standards

In August 2015, the Australian Children's Education and Care Quality Authority released the 'NQF Snapshot Q2 2015' which provided an analysis and information on the state of the sector, progression of assessment and rating, and quality ratings of services.

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

At 30 June	2015	2014
Services rated Significant Improvement Required	7	1
Services rated Working Towards NQS	1,421	1,106
Services rated Meeting NQS	1,209	815
Services rated Exceeding NQS	695	445
Services rated Excellent by ACECQA	9	3
Total	3,341	2,370

Source: Australian Children's Education and Care Quality Authority – NQF Snapshot Q2 2015 (unaudited).

At 30 June 2015, 1,913 services met or exceeded the NQS and 1,428 services did not fully meet the NQS.

Funding to Early Childhood Education and Care

Sixty seven per cent of preschools have received an increase in overall funding

Since the introduction of the Preschool Funding Model in 2014, preschool (four and five year old) and low income and Aboriginal enrolments have increased by two per cent and a five per cent respectively. As a result, 67 per cent of preschools have received an increase in overall funding.

The Preschool Funding Model was introduced to support universal access to quality early childhood education. From 2014, \$150 million was made available annually to community preschools across the State to better target four and five year old children and children from Aboriginal and low-income families.

School Outcomes

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

Four targets in the Department's Strategic Plan 2012-2017 are at risk

Recommendation

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

The Department's strategic plan focuses on Reading and Numeracy as key targets. The other domains are not key performance targets.

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

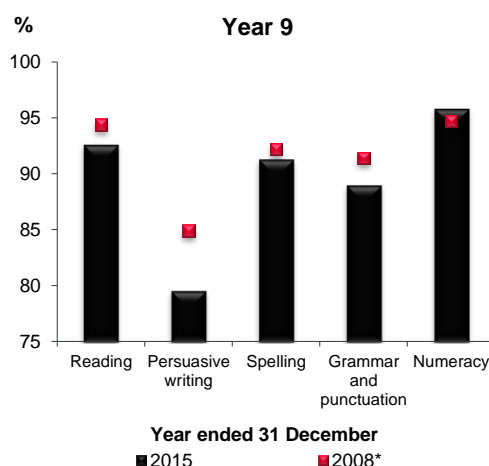
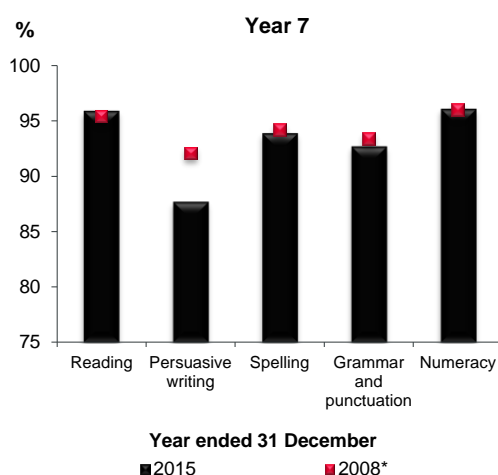
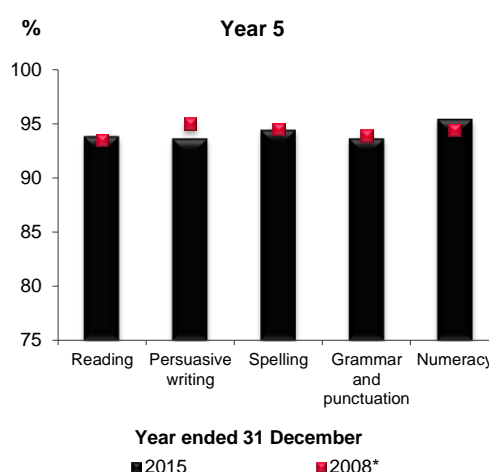
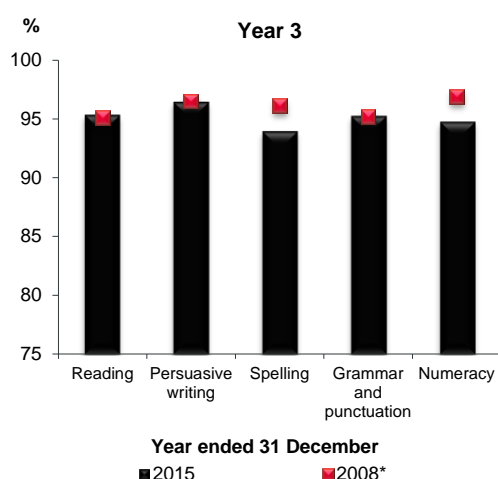
NAPLAN is an annual assessment for all students in Years 3, 5, 7 and 9 and has been part of the school calendar since 2008. NAPLAN comprises tests in five areas (or 'domains'), including Reading, Persuasive Writing, Spelling, Numeracy, Grammar and punctuation.

Persuasive writing commenced in 2011 and replaced Narrative Writing, which was used from 2008 to 2010.

Target to increase students achieving at and above national minimum standards in reading and numeracy at risk

The tables below show the proportion of NSW students performing at or above the national minimum standard for each grade assessed.

Proportion of NSW students at or above national minimum standards



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

* 2011 NAPLAN results used as a comparative year for Persuasive Writing.

Source: Australian Curriculum, Assessment and Reporting Authority 2008, 2011 and 2015 NAPLAN summary report (unaudited).

Year 9 students meeting national minimum standards for Reading has decreased

The Department aims to increase the proportion of students achieving at or above national minimum standards. Between 2008 (the first year of NAPLAN) and 2015, the following trends were identified.

The proportion of Years 3, 5 and 7 students above the national minimum standard for reading has not changed much since 2008, while the proportion of Year 9 students has fallen by 1.8 percentage points.

Year 3 students meeting the national minimum standards for Numeracy has decreased

Since 2008, the proportion of Year 5, Year 7 and Year 9 students above the national minimum standard has slightly improved by 1.0, 0.1 and 1.1 percentage points respectively. However, the proportion of Year 3 has fallen 2.2 percentage points.

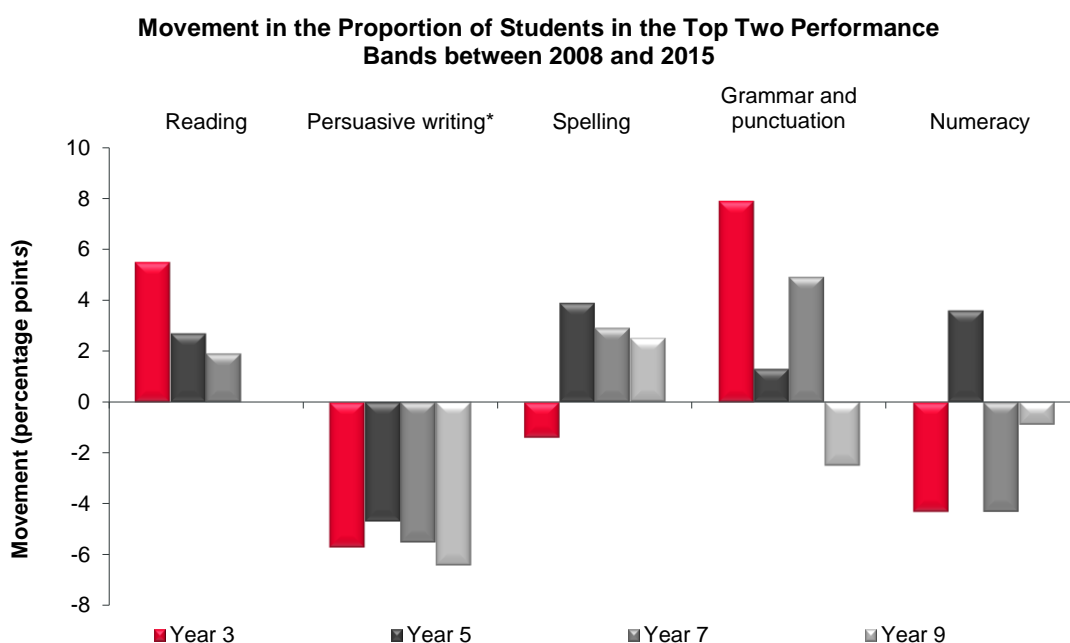
The results for other domains have not improved

Analysis of the other NAPLAN domains indicates:

- **Persuasive writing:** Year 9 had the largest decline of 5.3 percentage points, followed by Year 7 which fell by 4.4 percentage points and Year 5 fell by 1.4 percentage points.
- **Spelling:** Year 3 had a 2.2 percentage point decline.
- **Grammar and punctuation:** Year 9 had the largest decline of 2.4 percentage points.

Target to increase students in top two performance bands for Reading and Numeracy is at risk

The graph below shows NAPLAN results in the top two performance bands for each grade.



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

* 2011 NAPLAN results used as a comparative year for Persuasive Writing

Source: Australian Curriculum, Assessment and Reporting Authority 2008, 2011 and 2015 NAPLAN summary report (unaudited).

Results for Reading are improving

An analysis of these results between 2008 and 2015 indicates the proportion of students in the top two performance bands for Reading has increased for Years 3, 5 and 7. Year 3 shows a significant increase of 5.5 percentage points from the baseline year, followed by Year 5 with a 2.7 percentage point increase.

Only Year 5 has improved performance in Numeracy

Year 5 increased by 3.6 percentage points while Years 3, 7 and 9 Numeracy results fell by 4.3, 4.3 and 0.9 percentage points respectively.

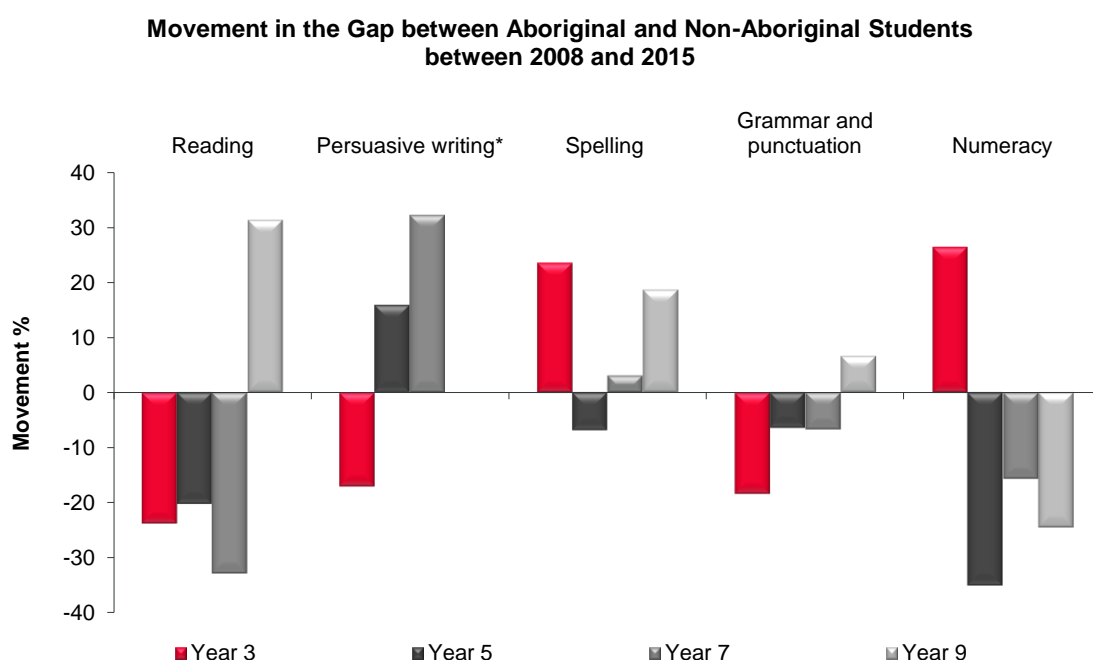
Students have achieved mixed results in other domains

Analysis of the results in the other domains identified the following:

- **Persuasive writing:** Years 3, 5, 7 and 9 fell by 5.7, 4.7, 5.5 and 6.4 percentage points respectively.
- **Spelling:** Year 5 had the highest increase of 3.9 percentage points.
- **Grammar and Punctuation:** Year 3 students increased by 7.9 percentage points, followed by Year 7 with a 4.9 percentage point increase.

Target to halve Reading and Numeracy gaps between Aboriginal and non-Aboriginal students by 2018 is at risk

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



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

* 2011 NAPLAN results used as a comparative year for Persuasive Writing.

Source: Australian Curriculum, Assessment and Reporting Authority 2008, 2011 and 2015 NAPLAN summary report (unaudited).

A decrease in the Reading and Numeracy gap between Aboriginal and non-Aboriginal students indicates the Department is performing favourably. An analysis of the key performance targets between 2008 and 2015 indicates:

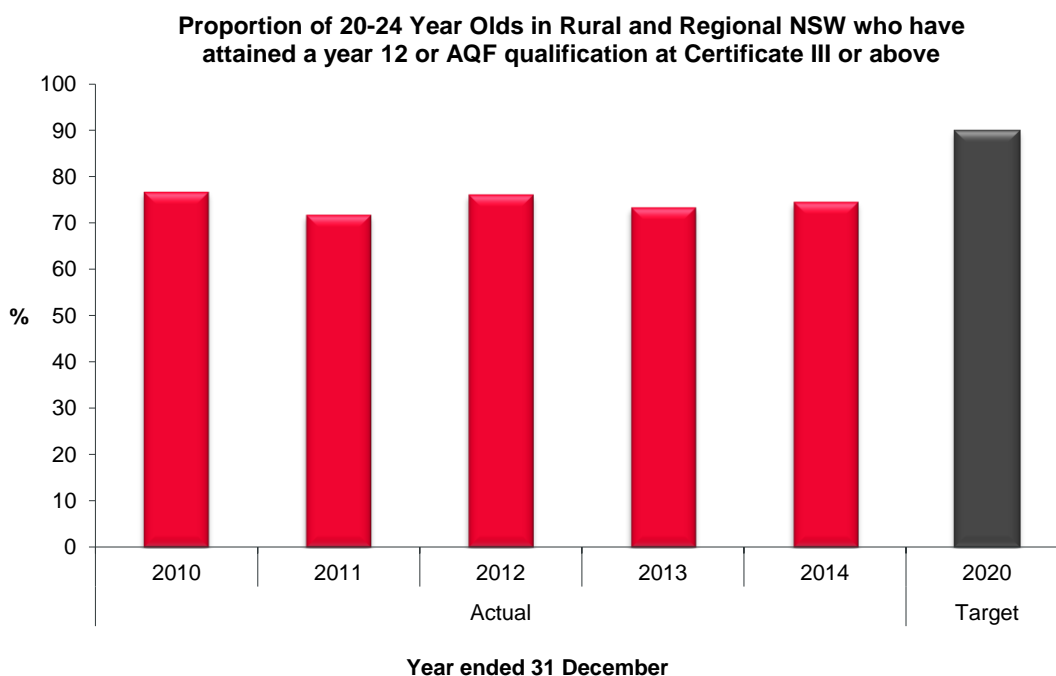
- **Reading:** Year 9 gap increased by 31.3 per cent.
- **Numeracy:** Year 3 gap increased by 26.4 per cent.

Analysis of other domains identifies the following significant gaps between Aboriginal and non-Aboriginal students:

- **Persuasive Writing:** Year 3 gap decreased.
- **Spelling:** Year 5 gap decreased.
- **Grammar and Punctuation:** Gap for all grades except Year 9 decreased.

Target to increase the proportion of 20-24 year olds in rural and regional New South Wales who attained a Year 12 or AQF III qualification or above by 2020 is at risk

The proportion of 20-24 year olds who attained a Year 12 or AQF qualification at Certificate III or above has fluctuated between 2010 and 2014. At 31 December 2014, the attainment rate for students in rural and regional New South Wales was still 15.6 percentage points below the 2020 target of 90 percent.



Source: Department of Education (unaudited).

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

Some of the key strategies the Department are implementing to improve performance against the targets at risk, include:

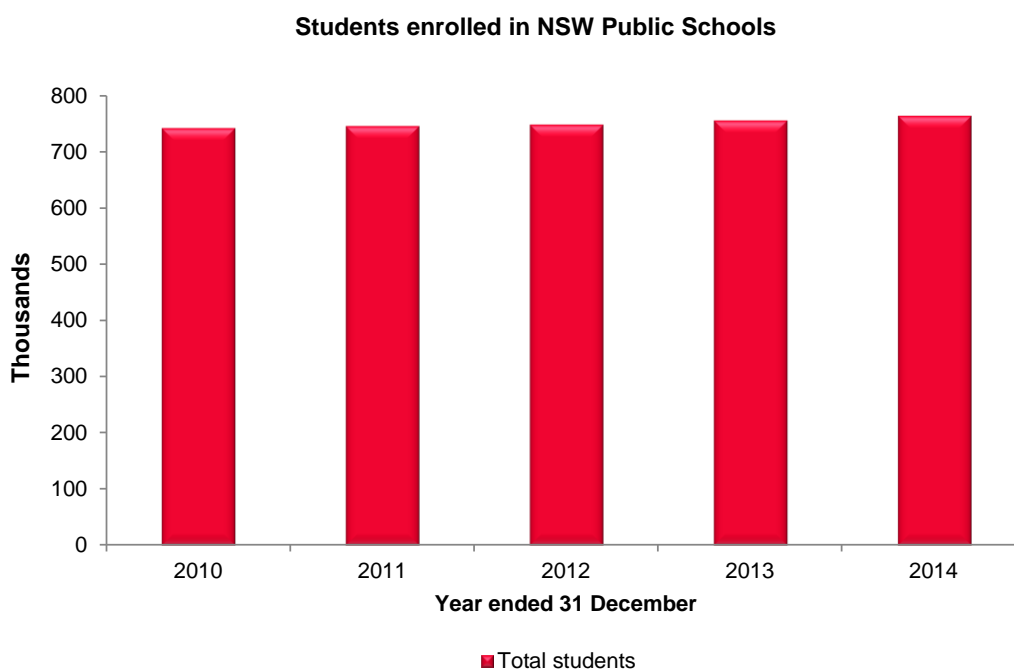
- the allocation of approximately \$16.0 million to schools under Norta Norta, which provides learning assistance to Aboriginal students below the national minimum standard
- the Early Action for Success strategy, which aims to improve students' performance in the early years (Kindergarten to Year 2)
- the Rural and Remote Education – a Blueprint for action, which aims to improve student learning in all rural and remote public schools across New South Wales, and bridge the achievement gap between rural and remote, and metropolitan schools.

School Demographic Information

Growth in the Student Population

School enrolments are projected to increase at a significant rate

There were 763,698 students enrolled at NSW public schools in 2014. This represents a growth of 21,557 students from the 742,141 students enrolled in 2010. The Department projects that enrolments will continue to increase in the future.



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

The Department is developing a School Asset Strategic Plan, which will provide a road map to address projected changes to government school enrolments across the State for the next 15 years.

The Department monitors demographic and projected student enrolment changes, and assesses and prioritises the need for additional school education facilities. It considers education infrastructure options to meet the future needs of public school education, including the provision of new schools, upgrading existing schools to increase capacity, using demountable classrooms and reviewing and changing school catchment boundaries.

Growth in student numbers is concentrated in metropolitan Sydney

Recommendation

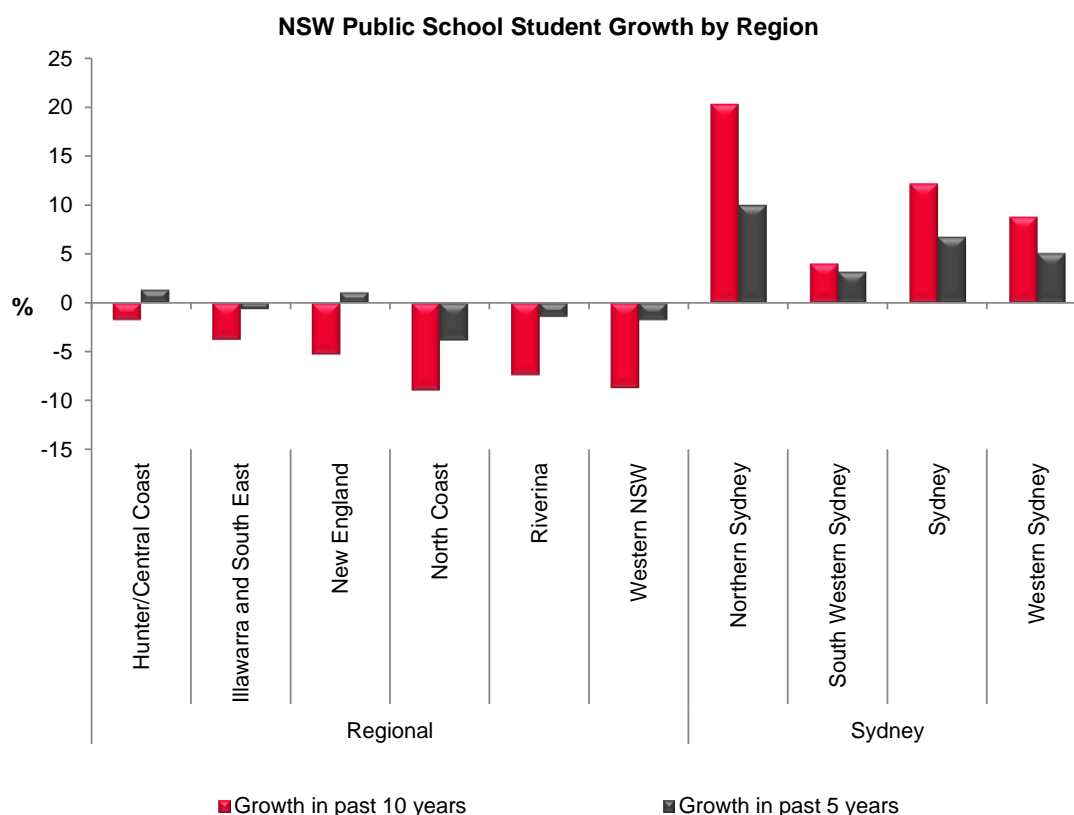
The Department needs to ensure appropriate strategies are in place to cope with the growth in the student population in Sydney.

Enrolments by region	2014	Growth in past 10 years	Growth in past 5 years
	Number	%	%
Regional NSW	332,184	(5.2)	(0.7)
Sydney	431,514	10.3	5.9

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

Student enrolments have grown significantly in Sydney over the past ten years. New South Wales is expected to experience strong population growth and the Department needs to put appropriate strategies in place to cope with the additional demand.

The Northern Sydney region has experienced a ten year growth rate of 20 per cent



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

The graph shows:

- all Sydney regions have seen ten year and five year growth in student enrolments
- regional New South Wales has seen a ten year decline in student enrolments
- Northern Sydney has experienced the most significant ten year growth (20.3 per cent) and five year growth (ten per cent)
- the North Coast has had the most significant decline in students over ten years (nine per cent) and five years (four per cent)
- only Hunter/Central Coast and New England have seen a five year growth, which is reversing the ten year trend.

One school's enrolments increased by over 600 per cent

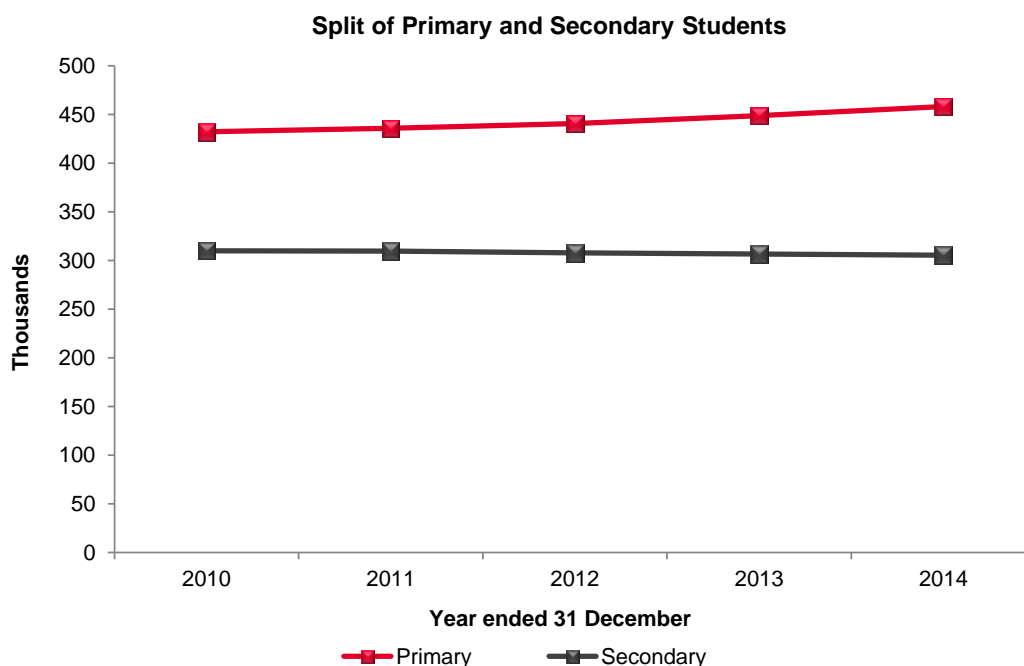
Many schools have seen significant increases or decreases in enrolments in the past five years. The top five increases and decreases are listed in the following table.

Enrolment growth by school			
Public school	Region	Five years to 2014 %	Ten years to 2014 %
Top five			
Bourke Street Public School	Sydney	255.2	235.2
Vaucluse Public School	Sydney	102.0	10.9
Maroubra Bay Public School	Sydney	96.3	171.1
Bondi Public School	Sydney	89.3	615.3
Orange Grove Public School	Sydney	88.0	177.9
Bottom five			
Cooranbong Public School	Hunter/Central Coast	(37.3)	(40.7)
Menai Public School	Sydney	(40.3)	(65.0)
James Cook Boys High School	Sydney	(44.3)	(46.0)
Lismore High School	North Coast	(44.5)	(62.0)
Dubbo College Senior Campus	Western NSW	(47.2)	(40.5)

Note: Only schools that were opened prior to 2005 and have more than 100 enrolments in 2014 are included in this analysis. This is because new schools are expected to have a settling period and would therefore skew growth rates.

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

Enrolments growth is concentrated in primary schools



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

Since 2010, the number of primary students has increased by six per cent, while the number of secondary students has decreased by 1.5 per cent.

Only 0.63 per cent of the NSW student population are full fee paying overseas students

Full fee paying overseas students totalled 4,817 or 0.63 per cent of total students in 2014 (4,400 or 0.58 per cent in 2013). These students pay an annual tuition fee of \$10,000 for primary schools, \$12,000 for Year 7 to 10 and \$13,500 for Year 11 and 12. In 2014-15, overseas student fees contributed \$68.8 million in revenue (\$58.3 million in 2013-14).

School Class Sizes

The Department sets the policy for average class sizes at NSW primary public schools

Class sizes are organised on the following basis and have regard to the needs of the school.

At primary public schools:

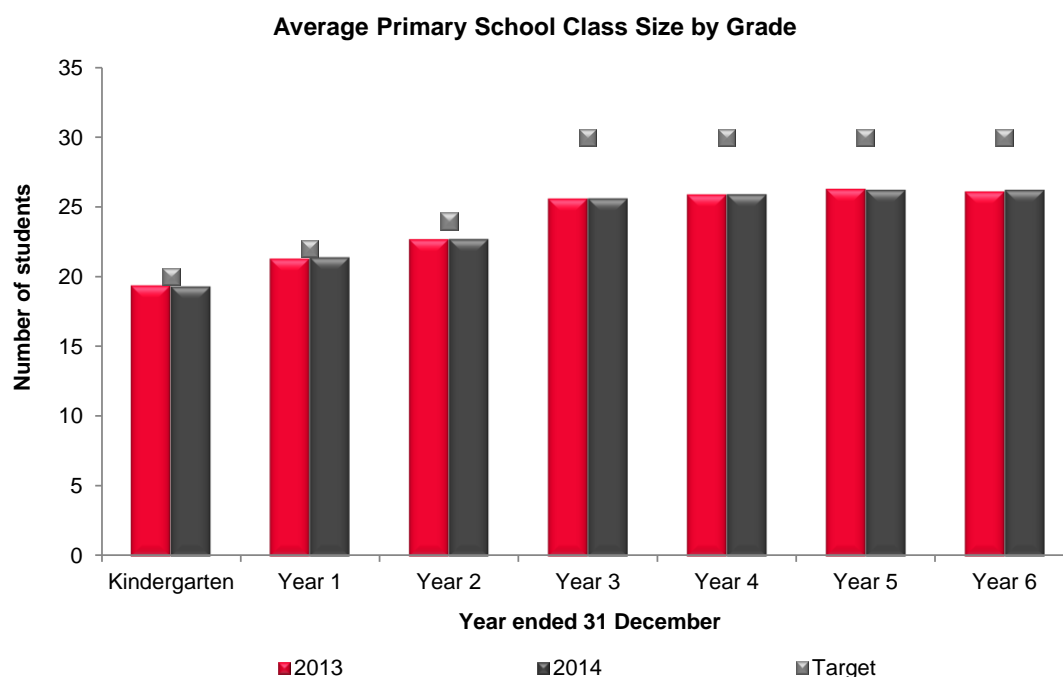
- **Kindergarten - Year 2:** average class sizes are 20 in Kindergarten, 22 in Year 1, and 24 in Year 2.
- **Years 3 – 6:** no class need exceed 30 students.

Secondary public schools are not analysed below as the classes are based on subjects and class sizes vary depending on the subject.

All principals, in consultation with their staff, are responsible for determining actual class sizes on the basis of curriculum needs, student needs, community expectations and the expertise of teachers.

School principals are responsible for monitoring and ensuring stipulated class sizes are reflected in school planning and organisation. Any concern about the number of students assigned to a class is managed at the local level between the principal and the relevant Director Public Schools NSW.

The graph below shows average primary public school class sizes for all grades are consistent with the policy set by the Department.



Source: Department of Education (unaudited).

Aboriginal Community Outcomes

Some communities related performance highlights across the cluster are discussed below.

Increased access for people to learn Aboriginal languages

In 2014, 13 Aboriginal languages were taught in NSW public schools, an increase of three from the number taught in 2013. The Aboriginal Languages in Schools program was supported by 50 Aboriginal language tutors in 2014 (35 teachers in 2013). These provided better access for people to learn Aboriginal languages.

Improved educational outcomes for Aboriginal students and all students

The Connected Communities reform positions schools as the heart of the community, facilitating support from birth into early childhood, across school years and beyond into further training and employment. The reform focuses on improving education outcomes for the Connected Communities schools. Primary attendance rates in Connected Communities schools have increased by 1.8 per cent from 2012 to 2014. Attendance rates for Aboriginal students in Year 7 to 10 have improved by 2.3 per cent from 2012 to 2014 at the Connected Communities schools.

NSW Aboriginal Land Council has achieved half its performance targets

The NSW Aboriginal Land Council (NSWALC) created a 2013-2017 Strategic Plan with goals and actions to pursue over the five year period.



Source: NSW Aboriginal Land Council (unaudited).

The 2013-2017 strategic plan developed by NSWALC includes 70 actions spread across the goals illustrated in the graph above. Twenty per cent of the actions had made little or no progress at 30 June 2015.

Procurement and Contract Management

The Department has been accredited by the NSW Procurement Board

On 24 June 2013, the Department was awarded a level 3B accreditation to conduct goods and services procurement up to a value of \$210 million. The accreditation is for three years commencing 1 July 2013 and is subject to the Department's compliance with the scheme's guidelines. To maintain the accreditation status, the Department needs to submit a confirmation of compliance with obligations form each year. The Department has met the criteria required to maintain its accreditation in 2014-15.

The NSW Procurement Board has established an Agency Accreditation Scheme which allows agencies to conduct procurement activities within the terms of the accreditation. Board Direction 2013-03 stipulates the procurement activities agencies may undertake given their accreditation.

All agencies have obligations under Board Direction 2013-01 to test compliance with procurement laws and policies. This requires an accreditation review and the submission of reports to the NSW Procurement Board.

Schools given authority to manage procurement up to \$5,000

Under the Local School, Local Decision (LSLD) reform, schools are authorised to manage procurement activities up to a value of \$5,000. The Department has provided training to principals and schools in various forms.

The Department plans to provide further training to school staff, particularly principals, to ensure they understand their roles and responsibilities under the LSLD reform. This includes:

- an online learning program for all Department buyers, including at the school level
- a series of learning modules for aspiring school principals
- maintaining current training and awareness programs.

The Department has implemented a new contract management system in 2014-15

The Department has implemented a new contract management system, ContractReSource. The system aims to ensure contracts over \$150,000 include a contract management plan, which sets out the requirements for managing contracts, including reporting schedules, key performance indicators, milestones and risk.

A benefits realisation plan is developed on completion of a sourcing activity to establish a process to monitor and report on whether the contract has achieved its objectives. This makes contract managers accountable for monitoring and reporting on the performance of the contracts.

Construction contracts are managed by the Asset Management Directorate through its Project Management System, which records and manages projects from initiation to completion.

The Department has completed a self-assessment on contract management

The Department performed a self-assessment against the 'Better Practice Contract Management Framework – Better Practice Guide' published by the Audit Office in November 2014. The Department advises all 'better practice' elements have been met and there are plans and strategies to bring areas requiring attention up to the appropriate standard. The main area requiring attention is to ensure all contract managers for high value contracts complete formal contract management training. The Department advises this is 90 per cent complete.

Section Two

Appendices



Appendix One - Recommendations

Financial performance and reporting

Early close procedures

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

Review of LMBR pilot schools

The Department should formalise processes for reviewing and monitoring the financial performance of the 229 pilot schools transitioned to the new School Finance System before further LMBR deployment occurs to the remaining schools. Management reports should be prepared to identify significant variances between actual and budgeted results.

Financial controls

Management of LMBR activities

The Department should strengthen its processes to ensure that there are no inappropriate changes to financial systems.

LMBR team compliance with Department policies

LMBR project staff should receive more effective training to increase awareness of the Department's IT security and change management policies and procedures, and compliance should be monitored regularly.

Information systems

Cluster agencies should address repeat issues from previous audits in a timely manner.

Disaster recovery planning

Cluster agencies should ensure their disaster recovery plans for financial systems are current and fully tested.

Human resources

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

Backlog maintenance

The Department should continue to work with Treasury to determine an appropriate response to backlog maintenance.

Asset disposals

The Department should ensure service delivery in metropolitan areas is not compromised by the disposal of major assets.

Governance

Fraud and corruption

To reduce the risk of fraud, agencies should reassess their fraud controls against the Audit Office's revised Fraud Control Improvement Kit, released in February 2015.

Ethical framework

Some smaller agencies should develop and maintain conflicts of interest and gifts and benefits registers.

Risk management

The Department should consider how risk management at an agency level is reported and monitored at the cluster level.

Service delivery

School performance

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

Student population growth

The Department needs to ensure appropriate strategies are in place to cope with the growth in the student population in Sydney.

Appendix Two – Financial Information

	Total assets		Total liabilities		Total revenue		Total expense		Net result	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Principal department										
Department of Education and Communities	22,226	26,981	1,609	2,125	13,790	13,820	13,936	14,198	(146)	(378)
Education agency										
Board of Studies, Teaching and Educational Standards	30	39	16	16	122	40	131	39	(9)	1
Communities agencies										
Multicultural NSW	9	11	2	3	20	21	21	20	(1)	1
NSW Aboriginal Land Council	794	719	111	55	44	39	29	10	15	29
Other agency										
NSW Commission for Children and Young People*	--	--	--	--	3	--	3	--	--	--
Total	23,060	27,750	1,739	2,199	13,979	13,920	14,120	14,267	(141)	(347)

* The NSW Commission for Children and Young People (the Commission) was abolished on 9 January 2015. Hence year ended 30 June 2014 results were not available.

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

Appendix Three – Performance Against Budget

	Department of Education and Communities		Board of Studies, Teaching and Educational Standards		Multicultural NSW	
	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m	2015 actual \$m	2015 budget \$m
Abridged statement of comprehensive income - year ended 30 June						
Employee expenses	8,393	8,314	91	94	15	14
All other expenses and losses	5,543	5,896	40	39	6	6
Total expenses	13,936	14,210	131	133	21	20
Government contributions	13,000	13,260	101	110	14	13
Other revenue	790	792	21	18	6	6
Total revenue	13,790	14,052	122	128	20	19
Net result - (deficit)	(146)	(158)	(9)	(5)	(1)	(1)
Total other comprehensive income/(expense)*	576	--	--	--	--	--
Total comprehensive income/(expense)	430	(158)	(9)	(5)	(1)	(1)
Abridged statement of financial position - at 30 June						
Current assets	865	600	24	17	8	7
Non-current assets	21,361	20,945	6	8	1	--
Total assets	22,226	21,545	30	25	9	7
Current liabilities	1,262	835	16	14	2	2
Non-current liabilities	347	470	--	1	--	--
Total liabilities	1,609	1,305	16	15	2	2
Net assets	20,617	20,240	14	10	7	5
Abridged statement of cash flows - year ended 30 June						
Purchases of property, plant and equipment and intangibles assets	339	390	1	2	--	--

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

● Variance below 2 per cent of budget

● Variance between 2 and 5 per cent of budget

● Variance greater than 5 per cent of budget

Appendix Four – Cluster Information

Agency	Website
Principal department	
Department of Education and Communities	http://www.dec.nsw.gov.au/
Education agency	
Board of Studies, Teaching and Educational Standards	http://www.bostes.nsw.edu.au/
Communities agencies	
Multicultural NSW	http://www.crc.nsw.gov.au/
NSW Aboriginal Land Council	http://www.alc.org.au/

Our vision

Making a difference through audit excellence.

Our mission

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

Our values

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

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

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

Professional people with purpose

Making a difference through audit excellence.

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