

Grants to non-government schools

3 MAY 2018



NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

PERFORMANCE AUDIT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

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

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

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

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

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



GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled
'Grants to non-government schools'.

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

Margaret Crawford

Auditor-General
3 May 2018

© Copyright reserved by the Audit Office of New South Wales. All rights reserved. No part of this publication may be reproduced without prior consent of the Audit Office of New South Wales. The Audit Office does not accept responsibility for loss or damage suffered by any person acting on or refraining from action as a result of any of this material.

contents

Grants to non-government schools

Section one – Grants to non-government schools

Executive summary	1
Introduction	4
Grant allocation	8
Management of grants	13

Section two – Appendices

Appendix one – Response from agencies	21
Appendix two – NESA's risk-based compliance monitoring	25
Appendix three – About the audit	27
Appendix four – Performance auditing	29

Section one

Grants to non-government
schools



Executive summary

Non-government schools educate 418,000 school children each year, representing 35 per cent of all students in NSW. The NSW Department of Education administers several grant schemes to support these schools, with the aim of improving student learning outcomes and supporting parent choice. To be eligible for NSW Government funding, non-government schools must be registered with the NSW Education Standards Authority (NESA) and not operate 'for profit' as per section 83C of the *NSW Education Act 1990* (the Act). Non-government schools can either be registered as independent or part of a System Authority.

In 2017–18, non-government schools in NSW will receive over \$1.2 billion from the NSW Government, as well as \$3.4 billion from the Australian Government. Recently, the Australian Government has changed the way it funds schools. The NSW Government is assessing how these changes will impact State funding for non-government schools.

This audit assessed how effectively and efficiently NSW Government grants to non-government schools are allocated and managed. This audit did not assess the use of NSW Government grants by individual non-government schools or System Authorities because the Auditor-General of New South Wales does not have the mandate to assess how government funds are spent by non-government entities.



Conclusion

The Department of Education effectively and efficiently allocates grants to non-government schools. Clarifying the objectives of grants, monitoring progress towards these objectives, and improving oversight, would strengthen accountability for the use of public funds by non-government schools.

We tested a sample of grants provided to non-government schools under all major schemes, and found that the Department of Education consistently allocates and distributes grants in line with its methodology. The Department has clear processes and procedures to efficiently collect data from schools, calculate the level of funding each school or System should receive, obtain appropriate approvals, and make payments.

We identified three areas where the Department could strengthen its management of grants to provide greater accountability for the use of public funds. First, the Department's objectives for providing grants to non-government schools are covered by legislation, intergovernmental agreements and grant guidelines. The Department could consolidate these objectives to allow for more consistent monitoring. Second, the Department relies on schools or System Authorities to engage a registered auditor to certify the accuracy of information on their enrolments and usage of grants. Greater scrutiny of the registration and independence of the auditors would increase confidence in the accuracy of this information. Third, the Department does not monitor how System Authorities reallocate grant funding to their member schools. Further oversight in this area would increase accountability for the use of public funds.



1. Key findings

The Department allocates grants to eligible schools in accordance with its methodology

The Department of Education (Department) has adequate processes to accurately allocate grants to eligible schools in accordance with the approved methodology. We reviewed a sample of grants paid to non-government schools under all major schemes. We checked that the level of funding aligned with the approved allocation and did not identify any significant discrepancies.

The Department advised that it has recently strengthened its approach to processing payments to non-government schools. The Department has introduced a new payment process, and additional checklists, to provide greater confidence in the accuracy of future grant allocations.

The Department does not monitor schools' progress towards meeting all grant objectives

The Department does not monitor schools' progress towards meeting objectives in a way that gives it clear oversight of the use of funds. The main objectives for the per-student grant programs are to increase the rate of students completing Year 12 (or equivalent), and to improve education outcomes for students. Non-government schools are required to publicly report on some educational measures via the MySchool website. These measures do not address all the objectives. Strengthened monitoring and reporting of progress towards objectives, at a school level, would increase accountability for public funding. This may require the Department to formalise its access to student level data from non-government schools.

The Department has stronger practices to monitor progress towards the objectives of the Building Grants Assistance and Supervisor Subsidy schemes. The quarterly reports received from the funding recipients detail how grants have been used to support the schemes' objectives.

The Department does not directly verify the information it receives from schools

The Department does not directly verify the information it receives from non-government schools to determine per capita funding or to acquit the use of grants. To determine the level of per capita funding, the Department requires schools to complete a student census. Schools are also required to acquit that they have used grants in line with five categories for acceptable use of per capita funding. Schools must have their census and acquittal certified by an external auditor registered with ASIC. The Department advised that it conducts an annual spot check of auditor registration, but this could be strengthened to ensure adequate coverage. The Department does not assess the independence of the auditors.

Conducting further checks of auditors, or verifying information directly, would provide the Department with increased confidence that enrolment data is accurate, and that grants are being used in accordance with the five categories. Any further processes should build on the work the Australian Government already does in this area to avoid duplication.

Clarifying guidance would help ensure funding is spent within accepted categories

The Department's acquittal procedures provide limited assurance that grants are being used only for intended purposes. In addition to abiding by the not-for-profit requirements detailed in the Act, schools are required to declare they spent per capita funding in line with the Department's five broad categories of acceptable use. Further clarifying these categories by providing examples of acceptable expenses under each category would help to ensure grants are not used for unintended purposes.

There are gaps in oversight of System Authorities

The Department does not monitor how System Authorities (Systems) reallocate grant funding between their member schools. The Department does not require Systems to report on how much funding each school receives, or how much funding is retained by the System for administration. Systems submit a single certified declaration that the per capita funding was used in line with the Department's categories. This means the Department does not receive enough information to verify grants are used by each school as intended. Strengthening oversight of the use of funds and how Systems reallocate funding would increase accountability for public funding.

Increased focus on school governance is required

Given its importance to the appropriate use of government funding, NESA could increase its oversight of schools' governance. NESA's approach to monitoring the compliance of non-government schools with registration requirements prioritises student learning and wellbeing. Increased oversight could be achieved through expanding its program of random inspections to include the requirements for policies and procedures for proper governance of the school.

In addition to NESA's role, the Department assists the Non-government Schools Not-For-Profit Advisory Committee to conduct a program of audits to detect breaches of the not-for-profit requirements. These audits are targeted to a small sample of higher-risk schools identified by using information from past breaches and other risk factors. Formal information-sharing arrangements would help the Department and NESA to routinely exchange information to target their monitoring to higher-risk schools.



2. Recommendations

By December 2018, the NSW Department of Education should:

1. Establish and communicate funding conditions that require funded schools to:
 - adhere to conditions of funding, such as the acceptable use of grants, and accounting requirements to demonstrate compliance
 - report their progress towards the objectives of the scheme or wider Government initiatives
 - allow the Department to conduct investigations to verify enrolment and expenditure of funds
 - provide the Department with access to existing student level data to inform policy development and analysis.
2. Strengthen its processes to provide greater assurance that the enrolment and expenditure information it collects from non-government schools is accurate. This should build on the work the Australian Government already does in this area.
3. Establish formal information-sharing arrangements with the NSW Education Standards Authority to more effectively monitor schools' eligibility to receive funding.
4. Increase its oversight of System Authorities by requiring them to:
 - re-allocate funds across their system on a needs basis, and report to the Department on this
 - provide a yearly submission with enough detail to demonstrate that each System school has spent their State funding in line with the Department's requirements.

By December 2018, the NSW Education Standards Authority should:

5. Extend its inspection practices to increase coverage of the registration requirement for policies and procedures for the proper governance of schools.
6. Establish formal information-sharing arrangements with the NSW Department of Education to more effectively monitor schools' continued compliance with the registration requirements.



1. Introduction

1.1 Funding non-government schools

Education in Australia is delivered by government and non-government schools. Non-government schools operate under conditions set out by State and Territory Governments through their registration authorities and are funded through a mix of Australian Government and State grants, tuition fees and other private contributions.

In 2017–18 there are around 418,000 students attending 944 non-government schools in NSW (35 per cent of students). The NSW Department of Education is responsible for allocating, distributing and managing State grants to non-government schools. The Department administers several grant schemes, under the *Education Act 1990*, to support schooling choices by parents and improve student learning outcomes.

Australian Government and State Government grants apply

In 2017–18, non-government schools in NSW will receive \$4.6 billion in government funding. The Australian Government is the main public funding source for non-government schools, allocating \$3.4 billion or 74 per cent of total government funding. The NSW Government allocated \$1.2 billion to non-government schools, representing 26 per cent of total government funding.

The Department distributes and manages NSW Government grants programs to non-government schools. The bulk of grants (85 per cent) are provided as per capita payments. Other grant programs are provided for specific purposes with greater limitations on how they can be used (Exhibit 1).

Exhibit 1: NSW Government grant programs 2014–2017

Grant program	Description
Per capita	Per capita funding based on an Education Resource Index (ERI). The ERI determines the per-student funding based on a school or System's ability to contribute to its own resourcing levels.
National Education Reform Agreement (NERA) Additionality	Additional recurrent funding, provided by the NSW Government, that moves closer to the Australian Government's Schooling Resource Standard (SRS).
Supervisor Subsidy Scheme	Scheme subsidises the cost of teachers and supervisors in non-government special schools catering for students with moderate to severe intellectual disabilities, including children with autism.
Capital grants	<p>Building Grants Assistance Scheme (BGAS) – Competitive grant program introduced in 2010–11 to replace the Interest Subsidy Scheme (below). BGAS provides grants to assist with the construction of new capital developments that support student learning. The scheme is administered by the Catholic Block Grant Authority and the NSW Association of Independent Schools Block Grant Authority.</p> <p>Interest subsidy scheme (ISS) – Scheme was closed to new applicants in 2012. The scheme provided an interest subsidy on approved loans used for the construction and refurbishment of education facilities. Existing approved loans are being honoured for the life of the subsidised portion of the loan.</p>
Other programs	Comprises other minor grant programs that are allocated for specific purposes.

Source: NSW Department of Education.

In June 2017, the Australian Government changed the way it funds schools. Funding for non-government schools in NSW was previously tied to the National Education Reform Agreement (NERA). The Australian Government ended the NERA and introduced a new school funding model. The NSW Government is assessing how these changes will impact State funding for non-government schools.

1.2 Determining per capita grants

Education Act outlines not-for-profit requirements

Section 83C of the *Education Act 1990* (the Act) prohibits the Minister from providing financial assistance to a school that operates for-profit. Under the Act, a school has operated for-profit if:

- school assets or income are used for any purpose other than for the operation of the school
- a payment is made by the school for property, goods or services that is:
 - at more than reasonable market value, or
 - not required for the operation of the school, or
 - in any way unreasonable in the circumstances, or
- a payment is made by the school to a person in connection with the person's activities as a member of the governing body of the school.

The Minister can declare a school as for-profit or non-compliant if the school breaches these requirements. The Department can suspend or reduce funding of, or impose additional conditions on, a school that has been declared for-profit. A school may also have to repay funding received while it was operating for-profit.

The Department and NESA share responsibility

Non-government schools must be registered with the NSW Education Standards Authority (NESA) to receive funding from the NSW Government. NESA is the regulatory body which oversees school compliance with the registration requirements in the Education Act. Under the Act, NESA makes recommendations to its Minister on whether to approve, renew or withdraw a school's registration. There are fourteen registration requirements, that spread across six broad categories: corporate governance, teaching standards, student welfare, educational programs, boarding facilities and public reporting.

The Non-government Schools Not-For-Profit Advisory Committee (the Advisory Committee) is established under the Act to provide advice to the Minister on schools' compliance with the not-for-profit requirements of the Act. The Department assists the Advisory Committee to conduct a program of school audits to monitor compliance. The Advisory Committee and NESA both inspect school policies and procedures that relate to school governance. These include the management of conflicts of interest and related party transactions. The Advisory Committee has advised schools that they should view the not-for-profit requirements as complementing the registration requirements relating to governance.

National funding arrangements are changing

The NSW Government supports the Australian Government's efforts to improve the quality of education across Australia and its commitment to needs-based funding. The National Education Reform Agreement (NERA), effective from 1 January 2014, saw a combined effort between the Australian Government and the State to provide additional funding to schools below their Schooling Resource Standard (SRS). The SRS was introduced by the Australian Government after the Review of Funding for Schooling (the Gonski review) in 2011. It estimates how much public funding a school needs to meet the education needs of its students. The SRS is made up of a base amount for every student with six 'loadings' to provide extra funding for disadvantaged students.

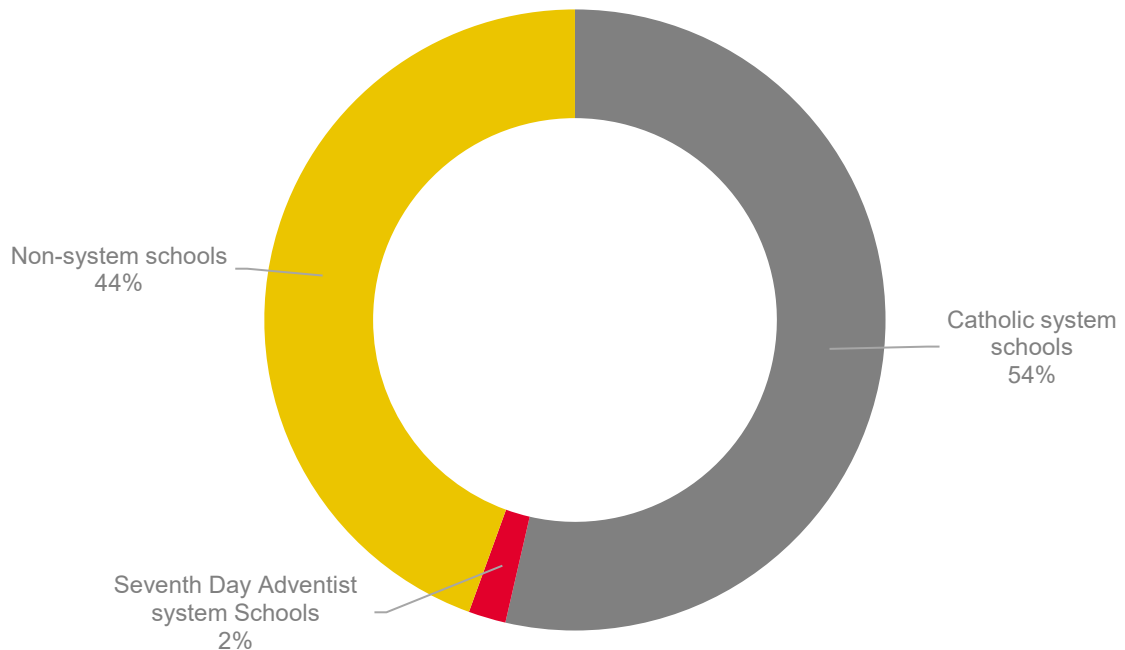
Recently, the Australian Government ended the NERA and introduced a new school funding model. The *Australian Education Amendment Act 2017* brought in a requirement for the NSW Government to fund at least 20 per cent of the Schooling Resource Standard (SRS) for all non-government schools in NSW by 2027. The Department is required to 'top up' schools per capita funding to ensure it fulfils its minimum funding requirements under the transitioning arrangements of the Act.

Currently, the Australian and State governments are negotiating a new national agreement for school funding, which may impact on NSW's funding of non-government schools.

Mechanisms to fund System and non-system schools

In NSW, non-government schools are funded as either a System or a non-system school. The Systems for funding purposes in NSW are the Catholic System and the Seventh Day Adventist Systems (see Exhibit 2). These schools account for 56 per cent of non-government students in NSW. A non-system school is a non-government school that is not a member of an approved school System. These schools account for 44 per cent of non-government students in NSW.

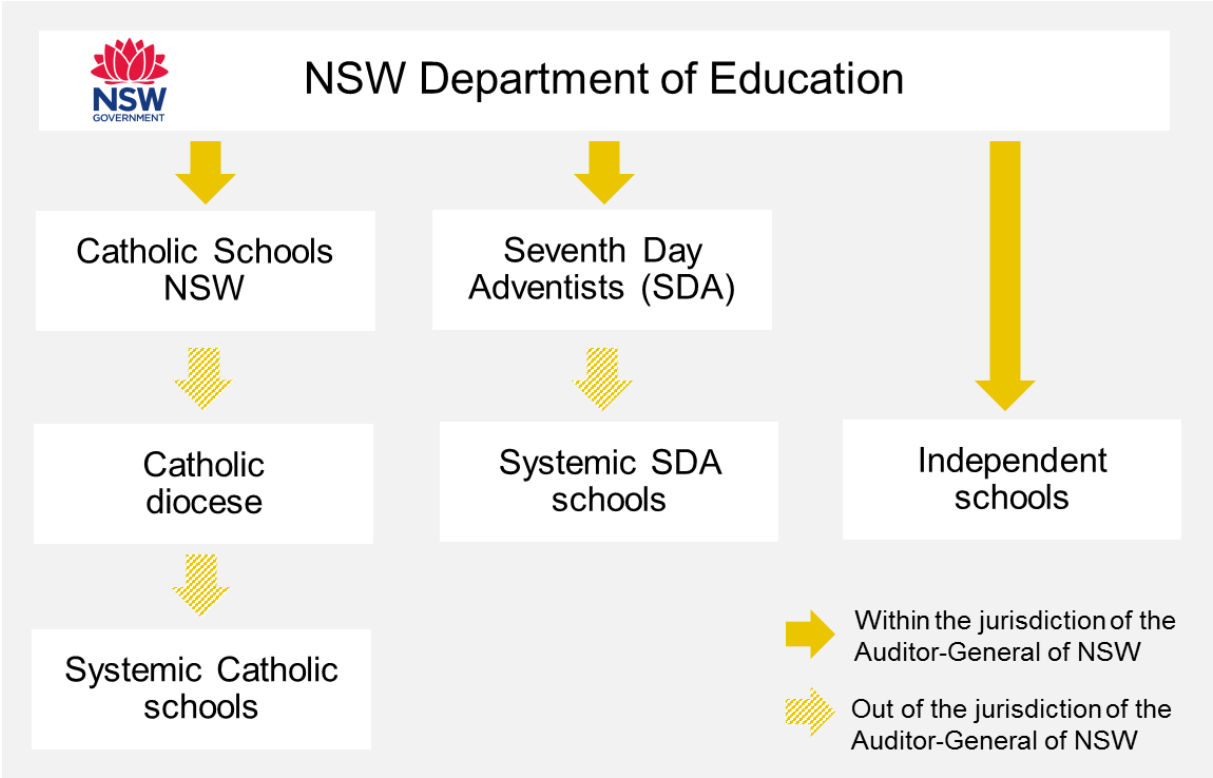
Exhibit 2: Structure of the non-government sector in 2016



Source: NSW Education Data Hub 2018.

For Catholic and Seventh Day Adventist System schools, the Department provides per capita funding through System Authorities (Systems). The Systems can re-allocate and distribute funds to their member schools according to their own methodology. Systems can reallocate funding from existing schools to support developing schools. For non-system schools, the Department provides per capita funding directly to the school. The mechanisms for funding non-government schools are shown in Exhibit 3. This audit only directly assesses the State grants paid by the Department of Education. Assessment of the subsequent distribution of grants by Systems is currently outside of jurisdiction of the Auditor-General of NSW and so is outside the scope of this audit.

Exhibit 3: Funding mechanisms for per capita grants



Source: Audit Office analysis.



2. Grant allocation



The Department effectively and efficiently allocates grants to non-government schools. Strengthening its processes would provide greater assurance that the information it collects is accurate.

The Department provides clear guidelines to assist schools to provide the necessary census information to calculate per capita grants. Schools must get an independent external auditor, registered with ASIC, to certify their enrolment figures. The Department checks a sample of the auditors to ensure that they are registered with ASIC. Some other jurisdictions perform additional procedures to increase confidence in the accuracy of the census (for example, independently checking a sample of schools' census data).

The Department accurately calculates and distributes per capita grants in accordance with its methodology. The previous methodology, used prior to 2018, was not updated frequently enough to reflect changes in schools' circumstances. Over 2014 to 2017, the Department provided additional grants to non-government schools under the National Education Reform Agreement (NERA), to bring funding more closely in line with the Australian Department of Education and Training's Schooling Resource Standard (SRS). From 2018, the Department has changed the way it calculates per capita grants to more closely align with the Australian Department of Education and Training's approach.

The Department determines eligibility for grants by checking a school's registration status with NESA. However, NESA's approach to monitoring compliance with the registration requirements prioritises student learning and wellbeing requirements over the requirement for policies and procedures for proper governance. Given their importance to the appropriate use of government funding, NESA could increase its monitoring of policies and procedures for proper governance through its program of random inspections. Further, the Department and NESA should enter into a formal agreement to share information to more accurately determine the level of risk of non-compliance at each school. This may help both agencies more effectively target their monitoring to higher-risk schools.

By December 2018, the NSW Department of Education should:

2. Strengthen its processes to provide greater assurance that the enrolment and expenditure information it collects from non-government schools is accurate. This should build on the work the Australian Government already does in this area.
3. Establish formal information-sharing arrangements with the NSW Education Standards Authority to more effectively monitor schools' eligibility to receive funding.

By December 2018, the NSW Education Standards Authority should:

5. Extend its inspection practices to increase coverage of the registration requirement for policies and procedures for the proper governance of schools.
6. Establish formal information-sharing arrangements with the NSW Department of Education to more effectively monitor schools' continued compliance with the registration requirements.

2.1 Monitoring schools' compliance with eligibility requirements

The Department consistently assesses non-government schools' eligibility for grants

The Department checks the registration status of non-government schools to determine eligibility for grants. Non-government schools must be registered with the NSW Education Standards Authority (NESA) to be eligible for any government funding. NESA annually updates a list of registered schools on its website, which the Department uses to check the registration status of non-government schools.

Non-government schools must not operate for-profit, as detailed in the *Education Act 1990* (the Act) to be eligible for government funding. The government established the Non-government Schools Not-For-Profit Advisory Committee (the Advisory Committee) to monitor non-government schools' compliance with these requirements (Exhibit 4).

Exhibit 4: Not-For-Profit Advisory Committee

In 2014, the *Education Act 1990* was amended to tighten the not-for-profit requirements for non-government schools. The amendments also established the Non-government Schools Not-For-Profit Advisory Committee. This Committee advises the Minister for Education on the compliance of schools with the not-for-profit requirements.

The Advisory Committee has an independent chair and consists of senior representatives from the Department of Education, NESA, Catholic Schools NSW and the Association of Independent Schools of NSW.

The Advisory Committee oversees a risk-based audit program that assesses non-government schools' compliance with the not-for-profit requirements of the Act. If the Advisory Committee finds that a school has breached the not-for-profit requirements, it can advise the Minister to make a for-profit declaration. If the Minister declares a school as for-profit, the school will be ineligible for government funding.

Source: Department of Education.

The Advisory Committee's monitoring of not-for-profit compliance is improving

The Advisory Committee targets audits to areas of highest risk by using common areas of concern identified during past audits. For example, audit selection for 2018 will focus on related party transactions and other compliance issues identified by the 2017 audit program. The Committee has engaged an external auditor to monitor compliance with the not-for-profit requirements through this risk-based audit program.

A more systematic approach to monitor ongoing compliance after concerns have been identified at a school would strengthen the Advisory Committee's ability to provide adequate coverage of the sector. In the four years of operation to date, the Advisory Committee has audited several schools twice. As the Advisory Committee oversees a finite number of audits, this lessens the coverage of the sector. The Department advised that the decision to re-audit schools was based on new information received after the initial audits were completed.

There are gaps in NESA's oversight of school governance

NESA takes a risk based approach to monitoring compliance with registration requirements. This approach prioritises student learning and welfare over the requirement for policies and procedures for the proper governance of a school. 'Proper governance' requirements and NESA's risk based approach to monitoring compliance are detailed in Appendix two. The relatively recent introduction of these proper governance requirements in 2015 creates a risk that some schools may not be complying. It is important that schools have compliant policies and procedures to provide confidence that public funds are used appropriately.

In 2017, 70 per cent of schools that were re-registered were not assessed against the proper governance requirement. Schools are typically re-registered every five years. NESA's risk factor assessment tool is weighted towards student learning and welfare rather than the management of the school, which may result in poor governance going undetected. Since 2015, NESA has placed seventeen non-government schools under monitoring arrangements due to areas for improvement or concerns about compliance with these requirements.

NESA's program of random audits could be used more effectively to encourage compliance with all registration requirements, particularly within schools classed as lower-risk of non-compliance with the registration requirements.

NESA's program of random inspections has not focused on governance requirements

The requirement for policies and procedures for the proper governance of a school has never been assessed as part of the random program. NESA's program of random inspections involves eight non-government schools each year. The random inspections assess only a subset of registration requirements. NESA also conducts 'with-cause' inspections where it suspects non-compliance. In 2017, it conducted five of these inspections.

The number of random audits of non-government schools has not increased in recent years. An independent review into the activities of NESA (formerly Board of Studies, Teaching and Educational Standards NSW) in 2016 recommended it 'increase the number of random and risk-based audits in non-government schools'. In 2017, NESA expanded its random inspections to cover the government school sector for the first time, conducting 18 random inspections of government schools.

Systems monitor their schools' compliance with the registration requirements

System Authorities (Systems) of non-government schools monitor their schools' compliance with registration requirements. Systems agree on a five-year plan with NESA that details the System's monitoring procedures to be observed over the next five years. The plan identifies the registration requirements that will be inspected at the schools each year. NESA inspectors monitor the System's processes over a five-year cycle against this plan.

Maintaining discretion over the selection of schools, and providing less notice of inspections, would strengthen NESA's monitoring of Systems. NESA attends an inspection conducted by each System, each year, to observe the System's monitoring of school compliance with the registration requirements. NESA typically selects the school, in liaison with the System, one year in advance. As NESA selects schools in advance, the System can work with the schools selected for inspection to ensure that they are compliant prior to NESA's attendance. NESA informed us that, since 2014, no System had identified concerns over any of their schools which required them to extend, or cancel, registration.

Expanding the random inspection program would provide NESA with greater confidence that Systems are adequately monitoring compliance with all registration requirements, including proper governance.

There is no formal information sharing arrangement between the Department and NESA

Formal information-sharing arrangements would help the Department and NESA to routinely exchange information to target their monitoring to higher-risk schools. Information sharing is important given the overlap in the remit of both agencies. That is, both agencies will consider how a school is governed or managed as part of their inspection or audit. We observed that while the Department and NESA often share information, arrangements are not detailed in a formal information sharing agreement.

2.2 Collecting data from schools

The Department clearly explains its information needs to schools

The Department issues guidance to assist schools to provide accurate information in their census. The Department conducts a census of non-system non-government schools, and Systems, to collect student enrolment data twice per year. The Department uses the information collected to calculate the per capita funding each school receives. The Australian Government also conducts a separate census to calculate its grants to non-government schools. The Department's guidance also specifies differences in data definitions between the two censuses.

The Department requires schools to provide reasons for any significant changes in student numbers since their last submission. This is used to detect a potentially inaccurate submission. The Department has no formal procedures to verify the reasons provided by schools to explain the variance in student numbers.

The Department does not directly validate the enrolment data it receives from schools

Validating the enrolment information in a sample of schools would provide greater confidence in the accuracy of the information used to determine the allocation of funding. The Department does not directly validate the information provided by schools via the census process. The Department relies on the requirement for schools to engage an independent external auditor, registered with ASIC, to verify their enrolment figures. The Department advised that it conducts an annual spot check of auditor registration, but this could be strengthened to ensure adequate coverage.

In addition, the Department does not have a process to verify the independence of the auditor. The Department could strengthen its controls over the declarations by requiring the auditor to record their ASIC registration number and sign-off their independence, according to the standards set in code of ethics for professional accountants.

Some other jurisdictions conduct additional procedures to obtain increased confidence in the accuracy of the census figures. For example, the Queensland Non-State Schools Accreditation Board conducts enrolment verifications in around 15 per cent of non-government schools. These procedures are performed in addition to obtaining certification of enrolment figures and checking the data for 'reasonableness' against the previous year's census and any known changes to the size of the school.

The Department advised that as the minority funder of non-government schools, it relies on the Australian Government to validate enrolment information. The Australian Government conducts a nationwide census of non-government schools in August to determine funding.

2.3 Determining and allocating grants

Method to assess the amount of per capita funding was not publicly available

Up to 2017, there was no publicly available information detailing the method for allocating per capita funding. The per capita scheme makes up the bulk of the Department's funding to non-government schools (85 per cent, or \$960.7 million in 2016). Up to 2017, per capita funding was calculated based on the Education Resource Index (ERI). The ERI is a needs-based model that allocates schools across 12 categories based on the schools' ability to generate income through fees and charges.

Under the previous method, the Department applied a common ERI for all Catholic System schools of ten. This classification represented high needs funding, regardless of the school's ability to self-fund. The Department advised that this was a historical arrangement based on overall or average System level needs.

Under the previous arrangements, the Department also did not regularly reassess the ERI of each non-system school. The ERI was determined at the opening of the school, and was re-evaluated after three and six years of operation. After six years, the ERI was not re-evaluated. Since 2014, the Department has allocated additional funding to non-government schools that received less funding than the School Resourcing Standard to move them closer to that Standard over time. This was done to fulfil the obligations of the National Education Reform Agreement.

From 2018, the Department is using a new method to determine per capita funding. This method is more closely aligned to the model used by the Australian Department of Education and Training, and is made available on its website. A new national schools reform agreement is being negotiated with the Australian Government, which may influence the State's funding arrangements for non-government schools.

The Department allocates grants to eligible schools in accordance with its methodology

The Department accurately allocates grants to eligible schools in accordance with the approved methodology. We reviewed a sample of grants paid to non-government schools under all major schemes. We checked that the level of funding aligned with the approved allocation and did not identify any discrepancies. The Department is responsible for assessing the eligibility of schools, and calculating the level of funding to be provided to the school. This calculation is approved by the Minister prior to payments being made to the non-government school.

The Department advised that it has strengthened its approach to processing payments to non-government schools. This was in response to an administrative error, in 2016, where a small number of funding recipients received incorrect payments. The Department advised that it has implemented an improved bulk payment process, and additional checklists, to minimise the likelihood of a similar error occurring in the future.

The Department has improved guidance for assessing Building Grants Assistance Scheme applications

In 2017 the Department strengthened its guidelines for determining funding to assist non-government schools to finance capital projects. The changes provide increased confidence in the consistent assessment of projects in line with the objectives of the scheme (Exhibit 5).

Exhibit 5: Building Grants Assistance Scheme

The Building Grant Assistance Scheme is administered by two Block Grant Authorities; the Catholic Block Grant Authority and the NSW Association of Independent Schools Block Grant Authority. The Block Grant Authorities assess applications against defined criteria, and provide the Department with details of supported applications. The Department forwards the applications to the Minister for approval.

Objectives

Under the Building Grants Assistance Scheme:

- capital projects must be for providing education and learning spaces
- funding is to be directed towards areas of greatest need
- priority should be given to new schools and new capital developments to provide educational facilities for increased student enrolments
- new projects should encourage joint planning for growth, and opportunities for shared procurement and community use of facilities.

Source: Department of Education, 2017.



3. Management of grants



The Department's current approach to managing grants to non-government schools could be improved to provide greater confidence that funds are being spent in line with the objectives of the grant schemes.

The NSW Government provides funding to non-government schools to improve student learning outcomes, and to support schooling choices by parents, but does not monitor whether these grants are achieving this. In addition, each grant program has specific objectives. The main objectives for the per capita grant program is to increase the rate of students completing Year 12 (or equivalent), and to improve education outcomes for students. While non-government schools publicly report on some educational measures via the MySchool website, these measures do not address all the objectives. Strengthened monitoring and reporting of progress towards objectives, at a school level, would increase accountability for public funding. This may require the Department to formalise its access to student level information.

The Department has listed five broad categories of acceptable use for per capita grants, however, provides no further guidance on what expenditure would fit into these categories. Clarifying the appropriate use of grants would increase confidence that funding is being used as intended. Schools must engage an independent auditor, registered with ASIC, to certify that the funding has been spent. The Department could strengthen this approach by improving its processes to check the registration of the auditor, and to verify their independence.

The Department has limited oversight of funding provided to System Authorities (Systems). The Department provides grants to Systems for all their member schools. The Systems can distribute the grants to their schools according to their own methodology. Systems are not required to report to the Department how much of their grant was retained for administrative or centralised expenses. Increased oversight over how the Systems distribute this grant could provide increased transparency for the use of public funds by systems.

By December 2018, the NSW Department of Education should:

1. Establish and communicate funding conditions that require funded schools to:
 - adhere to conditions of funding, such as the acceptable use of grants, and accounting requirements to demonstrate compliance
 - report their progress towards the objectives of the scheme or wider Government initiatives
 - allow the Department to conduct investigations to verify enrolment and expenditure of funds
 - provide the Department with access to existing student level data to inform policy development and analysis.
4. Increase its oversight of System Authorities by requiring them to:
 - re-allocate funds across their system on a needs basis, and report to the Department on this
 - provide a yearly submission with enough detail to demonstrate that each System school has spent their State funding in line with the Department's requirements.

3.1 Communicating appropriate grant use

The NSW Government has defined the overall purpose for funding

The NSW Government (the Government) funds non-government schools as part of its responsibility to provide sufficient teaching spaces for NSW students. The *Education Act 1990* (the Act) requires the Department to ensure that there are sufficient schooling opportunities to cater for all NSW students. The Department fulfils this obligation through operating government schools and providing funds to subsidise the cost of non-government schooling.

The Government has broad overall purposes for funding non-government schools. Funding is provided to support schooling choices by parents and to improve student learning outcomes.

The Department does not monitor schools' progress towards meeting objectives

The Department does not monitor schools progress towards meeting the objectives of the per capita grant scheme. The Department, through the NERA, has identified objectives for the per capita payments made to non-government schools. The Department provides per capita payments in the aim of:

- increasing student completion of Year 12 (or equivalent)
- halving the gap for Aboriginal and Torres Strait Islander students in Year 12 (or equivalent) attainment rates by 2020
- halving the gap for Aboriginal and Torres Strait Islander students in reading, writing and numeracy by 2018.

Tracking the progress made towards these objectives at a school level would allow the Department to better plan and monitor activities to improve student learning outcomes. Across Australia, all schools are required to publicly report on student performance measures through the MySchool website. However, these measures do not cover all objectives of the per capita grants scheme.

The Department has stronger practices to monitor schools' progress towards meeting the objectives of the Building Grants Assistance Scheme. The Building Grants Assistance Scheme aims to assist schools to provide new, or refurbished, facilities to schools with the highest needs in areas of sustainable growth. The Department, through the Block Grant Authorities, use these objectives to assess applications for capital funding. In addition, the Department receives regular reports which demonstrate how funding has been used to provide additional teaching spaces.

The Supervisor Subsidy Scheme exists to partially fund the salary of supervisors or teachers of children with moderate to severe intellectual disabilities, including children with autism. The Department approves payments under this scheme based on the number of hours that skilled staff spend providing services to eligible children.

Guidance on appropriate use of funding is too broad

The Department requires schools to use per capita grants for education purposes under five broad categories (Exhibit 6). Per capita grants must not be used for capital expenses. Further clarification of these five categories, by providing examples of acceptable expenses under each category, would assist in preventing grants being used for unintended purposes. For example, under the per capita grant guidelines some schools may classify improvements on facilities as maintenance, whereas other schools may classify similar works as renovations, therefore requiring capital funding. Further clarification would help schools avoid unintentionally using the grants for capital purposes.

There are minor differences in the acceptable usage of State and Australian Government grants as shown in Exhibit 6. The differences in guidance for the appropriate usage of grants makes it difficult for the Department to be assured that State grants are not being used to purchase capital equipment. Non-government schools receive most of their total funding from the Australian Government (74 per cent of total government funding) and pool this together with State Government funding. Unlike State grants, Australian Government grants can be used for purchasing capital equipment for the school beyond what is categorised as 'general operating expenses'.

Exhibit 6: Guidance on acceptable usage of recurrent funding 2017

NSW Government	Australian Government
<p>Funds must be used for one or more of the following purposes:</p> <ul style="list-style-type: none">• teaching and ancillary salaries• professional development• curriculum development• maintenance• general operations.	<p>Funding must be spent for the purposes of school education. Including but not limited to:</p> <ul style="list-style-type: none">• salaries and other expenses related to the professional development of the staff• developing materials related to the school's curriculum• general operating expenses of the school• maintaining the school's land and buildings• purchasing capital equipment for the school• for a school whose capacity to contribute percentage is 0 per cent - purchasing land and buildings• administrative costs associated with the authority's compliance with the Act and Regulation.

Source: Audit Office analysis.

3.2 Overseeing use of grants

Procedural gaps weaken oversight on how funding is spent

The Department's reporting requirements for per capita funding are minimal. Grant recipients, either individual schools or Systems, must declare they spent per capita funding in line with the Department's five broad categories of acceptable spending. There is no requirement to detail how much of the grant was spent in each of these categories.

The Department relies on the schools to engage an independent external auditor registered with ASIC to certify the declaration. The Department advised that it conducts spot checks on whether auditors are registered, but this could be strengthened to ensure adequate coverage. Requiring auditors to record their registration number, and checking a sample of auditors' registration with ASIC, would provide the Department with increased confidence of the quality of certification. The Department could also adapt its controls to verify the independence of the external auditor. Requiring external auditors to sign-off their independence, according to the standards set in code of ethics for professional accountants, in any certification will provide further confidence of the objectivity of the auditor.

Increased oversight of the Supervisor Subsidy Scheme would provide greater confidence that funding is being used to assist in providing educational opportunities for students with disability. The Department requires information contained in all submissions for funding to be signed off by the school principal (see Exhibit 7). However, a recent internal review highlighted that the Department has no mechanism to verify the accuracy of the school's submission detailing the hours staff spent providing services to eligible children with disability. This leads to a risk that schools could be receiving funding for services that were not provided.

Exhibit 7: Supervisor Subsidy Scheme

The Supervisor Subsidy Scheme partially funds the cost of teachers and supervisors in non-government special schools catering for students with moderate to severe intellectual disabilities, including children with autism. As payments are made to subsidise costs of teachers and supervisors, the school must provide the Department with information detailing the number of students with an eligible disability enrolled in the school, and a log of all hours worked by each teacher or supervisor.

Source: Department of Education.

Strengthened oversight would provide greater assurance that grants are being used for their intended purposes. The Department requires schools to have an auditor's certification that funds have been spent in line with the Department's requirements. Other States have additional practices to increase confidence that grants have been spent accordingly. The Victorian Department of Education and Training has recently clarified the standards of evidence that schools are required to meet to demonstrate that grants have been used for their intended purposes (see Exhibit 8).

Exhibit 8: Victorian Department of Education and Training's guidance on appropriate use of funds

A review on grants to non-government schools was recently completed in Victoria. The Victorian Department of Education and Training has a similar system to NSW whereby schools are required to have an annual certification that they have used their funding in accordance with the guidelines. Despite having a signed certification, most sample schools were unable to demonstrate that they had spent their funding in accordance with the requirements. To increase accountability, the Department of Education and Training Victoria strengthened its guidance to non-government schools to require them to keep a higher standard of evidence to acquit their usage of grants.

Source: Victorian Department of Education and Training.

The Department has taken steps to improve its monitoring of the Building Grants Assistance Scheme. Previously, the Department only received yearly high-level summaries of capital projects from each Block Grant Authority (BGA). The reports provided high-level status updates of projects, but did not specifically detail the works the capital grant was contributing to. Since then, the Department has strengthened its reporting requirements. BGAs are now required to provide more regular, detailed progress reports to the Department.

There are gaps in oversight of System Authorities reallocation of State grants

The Department has limited oversight of how Systems reallocate recurrent funds to their member schools. It is important for the Department to know how funding is reallocated to ensure adequate accountability of the use of public funds. The Department provides Systems with the total amount of per capita grants for each of their member schools. The Systems can reallocate funding to their member schools according to their own methodology. The Department does not require Systems to report on how much funding each school receives, or how much funding is retained by the System for administrative costs.

The Department can access this data from the Australian Department of Education and Training on request, but has not used this data to monitor the redistribution of State grants among Systems. The Australian Department of Education and Training requires System Authorities to have a publicly available needs-based funding model to redistribute Australian Government funding. Systems are also required to report yearly on the redistribution of Australian Government funding. Some other States have formal arrangements to receive the information from the Australian Department of Education and Training automatically.

Current arrangements limit the Department's ability to monitor grant usage

The Department's practices for monitoring grant usage provide limited assurance that the grant funding is achieving intended benefits for schools and for the State. Currently, non-government schools do not have agreements with the Department for the funding they receive. Funding agreements can provide greater transparency of, and accountability for, the use of public funds, and are currently used in four other states/territories. Formalising funding conditions would strengthen the Department's monitoring of grant usage by non-government schools.

The Department could establish conditions on funding that require non-government schools to:

- adhere to conditions of funding, such as the acceptable use of grants, and accounting requirements to demonstrate compliance
- report their progress towards the objectives of the scheme or wider Government initiatives
- allow the Department to conduct investigations to verify enrolment and expenditure of funds
- provide the Department of Education with access to existing student level data to inform policy development and analysis.

3.3 Recouping grant funds

Processes have identified and corrected grant overpayments

The Department has processes to correct overpayments of grants due to inaccurate information. In a selection of grants we examined most errors reported by schools were due to differences in the eligibility requirements between the Australian Government and State censuses, or from students transferring schools close to the census date. If the school reports the error prior to the funding being provided, the Department can modify the calculation. If the Department is not notified until after the funds have been distributed, it will modify future funding to compensate for any difference.

The Department recovers funds if a school is found to be operating for-profit

State funding can be reclaimed from schools deemed to have operated for-profit. According to the Act, schools must not operate for-profit to be eligible for government funding. The Non-government Schools Not-For-Profit Advisory Committee monitors the compliance of non-government schools with the not-for-profit requirements through an annual audit program. If the Advisory Committee has sufficient evidence that a school has breached the not-for-profit requirements, it can recommend the Minister make a for-profit declaration against the school. The Department can then act to reclaim any funding provided during the period that the school was operating for-profit. This action has only been taken against two schools since the Advisory Committee commenced its audit program in 2014.

Section two

Appendices



Appendix one – Response from agencies

Response from Department of Education



Mr Ian Goodwin
Acting Auditor-General of NSW
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001

DGL18/250

Dear Mr Goodwin

Thank you for your letter of 5 April 2018 inviting a response from the Department of Education to the final NSW Auditor-General's Report, Performance Audit – Grants to non-government schools (your reference: PA6609).

The department welcomes the report as an opportunity to review and ensure there is appropriate accountability and transparency over State funding invested in non-government school education, and supports its recommendations.

I note the constructive suggestions made in the recommendations of the report and attach a formal response from the department to be incorporated into the published report.

I would like to thank the review team of the Audit Office for working with officers from the department to make this audit a worthwhile and constructive exercise.

Yours sincerely

Mark Scott AO
SECRETARY
DEPARTMENT OF EDUCATION
19 April 2018

The NSW Department of Education welcomes the NSW Auditor-General's report *Performance Audit – Grants to non-government schools* and supports its recommendations.

The Department recognises the importance of non-government schools, which educate around one third of students in NSW.

The Department welcomes the report as an opportunity to review and ensure there is appropriate accountability and transparency over the more than \$1.2 billion State funding invested in non-government school education.

The Department is committed to working with the non-government school sector to support parent choice, continue to improve educational outcomes for students and implement the recommendations of the report.

Recommendation 1: Establish and communicate funding conditions that require funded schools to:

- **adhere to conditions of funding, such as the acceptable use of grants, and accounting requirements to demonstrate compliance**
- **report their progress towards the objectives of the scheme or wider Government initiatives**
- **allow the Department to conduct investigations to verify enrolment and expenditure of funds**
- **provide the Department with access to existing student level data to inform policy development and analysis.**

The Department will develop options for enhanced accountability, including the establishment of funding conditions. The Department will align Australian Government and State requirements to minimise administrative burden on schools.

The Australian Government has historically been the majority public funder for non-government schools and shares responsibility for school funding with the state. The Australian Government has commissioned the Review to Achieve Educational Excellence in Australian Schools, which will inform the development of a new national reform agreement in 2018. The Department will consider potential implications that any new national agreement may have for State funding accountability requirements.

Recommendation 2: Strengthen its processes to provide greater assurance that the enrolment and expenditure information it collects from non-government schools is accurate. This should build on the work the Australian Government already does in this area.

The Department will develop and implement appropriate processes to increase assurance over enrolment and expenditure information, in consultation with the non-government school sector. This will take into account the level of assurance that may be obtained from existing compliance activities undertaken by the Department, NSW Education Standards Authority and the Australian Government. The Department will also assess the impact of any additional requirements arising from any new national agreement.

Recommendation 3: Establish formal information-sharing arrangements with the NSW Education Standards Authority to more effectively monitor schools' eligibility to receive funding.

The Department and the NSW Education Standards Authority have commenced developing a formal information sharing agreement.

Recommendation 4: Increase its oversight of System Authorities by requiring them to:

- re-allocate funds across their system on a needs basis, and report to the Department on this
- provide a yearly submission with enough detail to demonstrate that each System school has spent their State funding in line with the Department's requirements.

The Department will develop principles and an approach to reporting requirements for the distribution of State funding for System Authorities. This will align with Australian Government requirements.


The Australian Government is the majority public funder for non-government schools and System Authorities. It established the National School Resourcing Board to provide greater independent oversight over Commonwealth school funding and to help ensure that funding recipients are meeting their obligations under the *Australian Education Act 2013*. Under the Act, System Authorities are required to distribute funding in accordance with a needs-based funding model. The Australian Government is conducting a review of compliance with this requirement. The Department will consider possible implications from this review and any new national agreement.

Response from NSW Education Standards Authority



117 Clarence St, Sydney NSW 2000
GPO Box 5300, Sydney NSW 2001, Australia
T +61 2 9367 8111 F +61 2 9367 8484
educationstandards.nsw.edu.au

Ms Margaret Crawford
Auditor-General
Audit Office of NSW
GPO Box 12
SYDNEY NSW 2001


Dear Ms ~~Crawford~~

Thank you for the letter dated 5 April 2018 from the then Acting Auditor-General, Ian Goodwin inviting a formal response from the NSW Education Standards Authority ('NESA') to the final report on the Performance Audit - Grants to non-government schools ('the Report').

In relation to the Report's first recommendation relevant to NESA that NESA increase the inspections of policies and procedures for the proper governance of schools, the NSW Government's 2016 *Review of the Board of Studies, Teaching and Educational Standards* provided that NESA allocate its limited inspection resources on the basis of a risk assessment. Accordingly, the mix of registration requirements subject to close inspection in any given year are reviewed in light of recurring higher risk indicators, such as child protection, and any emerging risks identified in the preceding year's inspection program, such as the delivery of HSC courses identified in 2017 and included in the 2018 inspection program. The inclusion of a greater focus on proper governance in the school inspection program will be considered as part of the 2018 review of the risk assessment process.

In relation to the Report's second recommendation relevant to NESA that NESA formalise the current exchange of information arrangements between NESA and the Department of Education, the Department and NESA have commenced developing a formal information sharing agreement.

If your officers require any further information, NESA's Executive Director, Corporate Governance and School Standards, David Murphy can be contacted on 9367 8171 and email david.murphy@nesa.nsw.edu.au.

Yours sincerely



David de Carvalho
Chief Executive Officer
27 April 2018



Appendix two – NESA's risk-based compliance monitoring

NESA's risk-based approach to monitoring compliance

To be eligible for NSW Government funding, a school must be registered with NESA. For new schools, NESA may grant initial registration for up to 12 months. NESA will then inspect schools on re-registration (typically every 5 years). Where there are concerns, NESA may conduct inspections more frequently. The Minister may cancel a school's registration or impose conditions on or extend its registration if there are concerns about compliance. Imposing conditions requires the school to do or not do certain things to comply with the registration requirements. Extension requires a school to address any areas of concern before its registration is renewed.

In 2017, NESA revised its risk-based approach to monitoring compliance on re-registration. NESA uses its 26-item risk factor assessment tool to assess the risk associated with each non-government school prior to assessing re-registration. The tool is weighted towards detecting issues with student learning and welfare. For lower risk schools, NESA will inspect a subset of the registration requirements, which does not include the requirement for schools to have policies and procedures for proper governance (Exhibit 9). NESA relies on the school principal to certify compliance with the registration requirements it does not inspect. If NESA identifies concerns during a review, it can expand the scope of the review accordingly.

Exhibit 9: Governance requirements for registered individual non-government schools

Persons responsible for school governance

The Education Act defines a 'responsible person' as:

- the proprietor of the school and, if the proprietor is a corporation, each director or person concerned in the management of the school, or
- a member of the governing body of the school, or
- the principal of the school.

Each person defined under the Education Act as a 'responsible person', and any other person or body exercising similar functions in relation to the school as those of a 'responsible person', is a fit and proper person or body.

Proper governance

A registered non-government school must have policies and procedures for the proper governance of the school in place. These include:

- Policies and procedures
 - The 'responsible persons' for a non-government school, are responsible for developing and implementing policies and procedures to govern and operate the school in order to satisfy its legal obligations, manage risk, provide strategic guidance and monitor performance.
- Conflict of interest
 - Each 'responsible person' for a non-government school must avoid situations in which his or her personal interests or the interests of a relative or close associate may conflict either directly or indirectly with decisions made by the governing body, whether the conflict is actual, perceived or potential.
- Related party transactions register
 - A non-government school must have policies and procedures for financial management including a register of all related party transactions which is validated by an external independent auditor.
- Professional learning for 'responsible persons'
 - Proper governance of a non-government school requires policies and procedures for the ongoing professional development of 'responsible persons' for the school to ensure that the school's 'responsible persons' have relevant qualifications, skills and experience for governing the school properly.
- Induction process for new 'responsible persons'
 - Proper governance of a non-government school requires policies and procedures for the induction of new 'responsible persons' for the school.
- External independent attestation audit of annual financial statements
 - The school's annual financial statements are to be audited and certified by an external independent auditor.

Financial viability

- A registered non-government school must be financially viable.

Source: NSW Education Standards Authority Registered and Accredited Individual Non-government schools (NSW) Manual December 2017.



Appendix three – About the audit

Audit objective

This audit assessed how effectively and efficiently grants to non-government schools are allocated and managed.

Audit criteria

We addressed the audit objective through the following criteria:

1. Does the Department effectively determine eligibility for, calculate and distribute grants to non-government schools/System Authorities?
 - The Department has a clear methodology to allocate grants to non-government schools/System Authorities
 - The Department has a robust process to ensure the accuracy of information used to determine eligibility for and calculate the level of grants to non-government schools / System Authorities
 - The Department properly approves and pays the correct amounts of grants to non-government schools/System Authorities.
2. Are grants being used for their intended purpose?
 - The Department has clear objectives for all grant schemes to non-government schools/System Authorities
 - There is a robust accountability framework to obtain reasonable assurance that grant funding is not being used for unintended purposes
 - The Department takes action in the case of overpayment or when grants are not used for the purpose in which they were allocated.

Audit scope and focus

The audit scope included:

1. NESA's processes to register, and monitor, non-government schools' compliance with the governance and public reporting registration requirements
2. All NSW Government recurrent and capital programs to non-government schools
3. Department processes to collect information, calculate, allocate, approve and/or monitor NSW grants to non-government schools
4. The audit focused on, but was not limited to, the following NSW grant schemes:
 - a) Non-government school per capita payments
 - b) Supervisor subsidy scheme
 - c) NERA non-government school top-up payments
 - d) Building grants assistance scheme
 - e) Interest subsidy scheme.

Audit exclusions

The audit did not:

- examine any Australian Government grants including any National Partnership Programs
- assess the sufficiency of NSW grants allocated to non-government schools
- question the merits of government policies.

Audit approach

Our procedures included:

1. Interviewing relevant staff from the Department of Education involved in managing grants to non-government schools and relevant staff from the NSW Education Standards Authority involved in monitoring compliance with school registration requirements.
2. Examining
 - policies and procedures for determining and allocating grant funding
 - the Department's methods to validate information received from schools and System Authorities
 - information on the objectives for each grant scheme and reporting arrangements
 - outcomes of audits to verify the not-for-profit status of non-government schools
 - policies and procedures for inspecting compliance with registration requirements
 - outcomes of inspections of non-government schools' compliance with registration requirements.

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

Audit methodology

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

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the staff at the Department of Education and the NSW Education Standards Authority.

Audit cost

Including staff costs, travel and overheads, the estimated cost of the audit is \$305,000.



Appendix four – Performance auditing

What are performance audits?

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

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

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Public Finance and Audit Act 1983*.

Why do we conduct performance audits?

Performance audits provide independent assurance to parliament and the public.

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

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

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

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

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

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

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

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

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

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

Do we check to see if recommendations have been implemented?

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

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

Who audits the auditors?

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

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

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

Who pays for performance audits?

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

Further information and copies of reports

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

OUR VISION

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

OUR PURPOSE

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

OUR VALUES

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

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

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

Level 15, 1 Margaret Street
Sydney NSW 2000 Australia

PHONE +61 2 9275 7100

FAX +61 2 9275 7200

mail@audit.nsw.gov.au

Office hours: 8.30am-5.00pm,
Monday to Friday.