



FINANCIAL AUDIT

26 NOVEMBER 2020

# Education 2020

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

# THE ROLE OF THE AUDITOR-GENERAL

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

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

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

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

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

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

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



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In accordance with section 52B of the *Public Finance and Audit Act 1983*, I present a report titled '**Education 2020**'.

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

**Margaret Crawford**

Auditor-General  
26 November 2020

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# **Section one**

## **Education 2020**

This report analyses the results of our audits of the Education cluster agencies for the year ended 30 June 2020.

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# Executive summary

This report analyses the results of our audits of financial statements of entities within the Education cluster for the year ended 30 June 2020. The table below summarises our key observations and recommendations.

## 1. Financial reporting

### Audit opinions

Unqualified audit opinions were issued for all cluster agencies' 30 June 2020 financial statements audits.

### New accounting standards

Agencies implemented three new accounting standards during the year.

Our financial statement audits of the Department of Education (the Department) and NSW Education Standards Authority (NESA) identified issues with the leasing information provided by Property NSW (PNSW). Despite the outsourcing arrangement, both the Department and NESA remain ultimately responsible for the completeness and accuracy of this information, which would have benefited from a more thorough quality assurance, validation and review process before they placed reliance upon it.

#### Recommendation:

We recommend the Department and NESA:

- quality assure and validate the information provided by PNSW
- ensure changes made by PNSW to lease data are supported and that assumptions and judgements applied are appropriate
- document their review of the data supplied.

### Changes were made to the financial reporting requirements this year to account for the impact of the pandemic

Emergency legislation was enacted during the year in response to the COVID-19 pandemic. The legislation revised the statutory reporting deadlines for agencies to submit their financial statements and allowed the Treasurer to continue authorising payments from the consolidated fund until the enactment of the 2020–21 budget.

All cluster agencies prepared their financial statements on a going concern basis and submitted their financial statements within the revised statutory deadlines.

The State provided \$159.0 million in stimulus funding to support the operations of cluster agencies during emergency events. Nearly half of this funding was to support cleaning activities by the Department and the Technical and Further Education Commission (the TAFE Commission) during the COVID-19 pandemic.

### Quality and timeliness of financial reporting

The number of monetary misstatements identified in agencies' financial statements decreased to 14 (23 in 2018–19).

While the number of corrections made to the financial statements after the submission date increased to eight (two in 2018–19), it is important to note these corrections provide parliament and other users of the financial statements increased confidence in the accuracy and presentation of agencies' performance and financial position.

### Sustainability of cluster agencies

The TAFE Commission's enrolments declined, and operating margins reduced, both being impacted by the COVID-19 pandemic.

## 2. Audit observations

### Internal control deficiencies

We identified 33 internal control issues, including 15 findings that were repeated from previous years.

A high-risk issue was reported at the Department relating to the inadequate monitoring and follow up of privileged user activity in its enterprise resource planning system – SAP.

Repeat findings relate to ongoing deficiencies in information technology controls and management policies, practices and procedures.

#### **Recommendation:**

Cluster agencies should:

- prioritise and action recommendations to address internal control deficiencies
- review and confirm the appropriateness of existing privileged user access accounts
- implement a rigorous monitoring regime to ensure that any improper use of privileged user accounts can be detected in a timely manner.

### Agency responses to emergency events

The Department established a separate bushfire relief directorate and COVID-19 Taskforce to assist and support school communities in response to recent emergencies.

Other cluster agencies have established committees or response teams to oversee and address all aspects of the impact of COVID-19.

### Schools review 2019

We continue to identify instances of non-compliance in relation to cash management and procurement at schools.

### Use of purchasing cards at the Department of Education

Since 2015, the NSW Government has encouraged the use of purchasing cards by public sector agencies. Purchasing cards are efficient to transact low value, high volume procurement of goods and services, but the use must be effectively monitored.

Our review of the Department's purchasing cards identified weaknesses in its oversight and monitoring controls, including the issue and cancellation of purchasing cards

Opportunities exist for the Department to better monitor card use. Tools such as data analytics are an efficient and effective detective control to identify irregular activity or misuse by cardholders.

#### **Recommendation:**

The Department should:

- improve the accuracy and completeness of exit procedures for terminated employees to ensure cards are returned and cancelled
- perform periodic reviews to ensure active cards are held only by current employees
- set transaction limits that do not exceed the limits of the user's financial delegation
- establish a data analytics regime to help analyse and identify high risk patterns and anomalies in their purchasing card usage, augmenting their existing monitoring and detective controls.



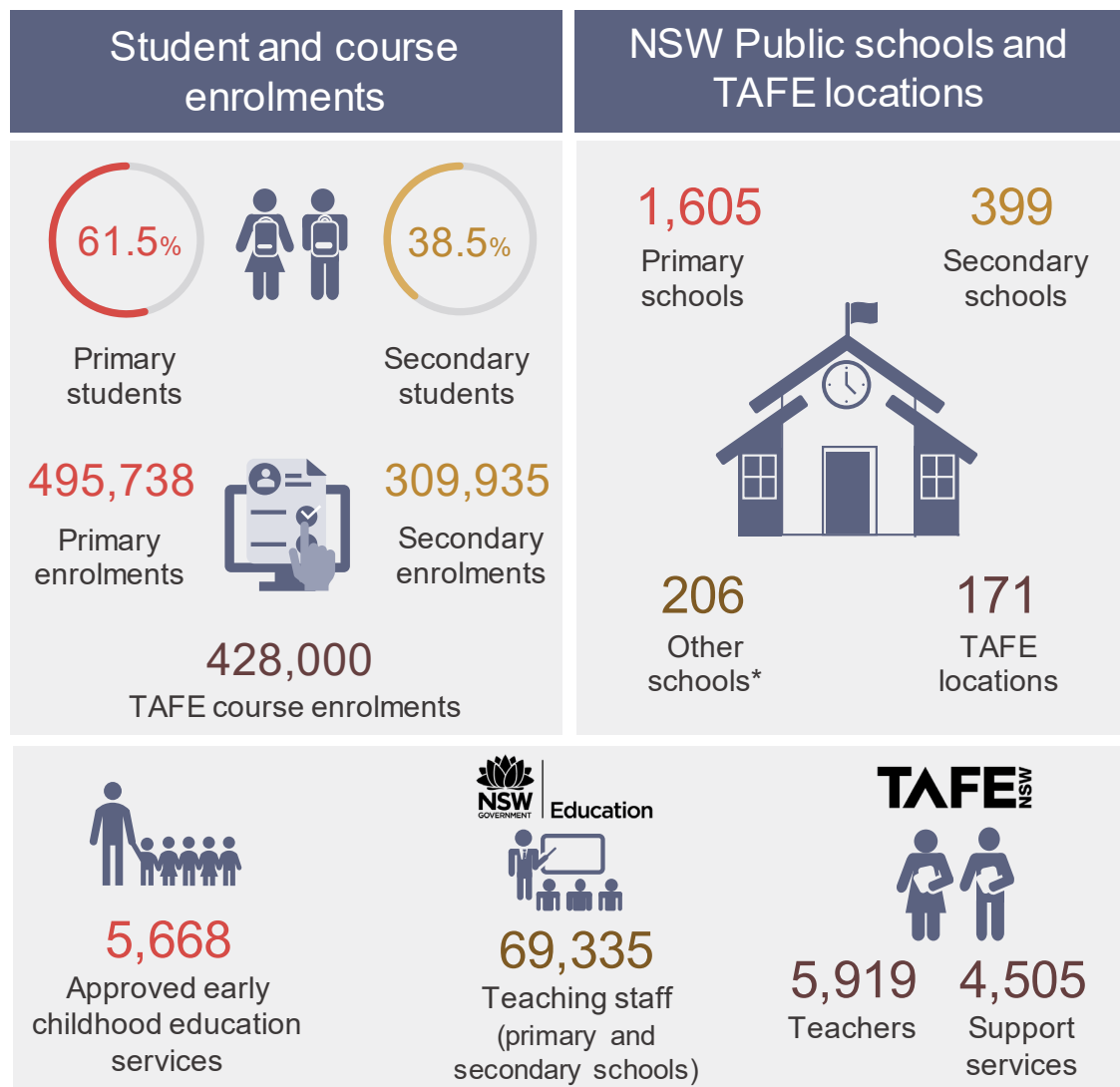
# 1. Introduction

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

- financial reporting
- audit observations
- the impact of emergencies and the COVID-19 pandemic.

## 1.1 Snapshot of the cluster

The Education cluster delivers and regulates education and training services for NSW students, workers and industry. This includes the early childhood education and care sector, government and non-government schools, and the vocational education and training sector.



\* Other schools comprise schools for specific purposes, central/community schools and environmental education centres.

Source: Department of Education and the TAFE Commission.

## 1.2 Service delivery

According to the 2019–20 NSW Budget Papers, the Education cluster's aim is to deliver and regulate education and training services for students, workers and industry in NSW. The cluster comprises four entities - the Department of Education (the Department), the NSW Education Standards Authority (NESA), the NSW Skills Board and the Technical and Further Education Commission (the TAFE Commission).

The State Outcomes delivered by the Education cluster are shown below.

State outcome	Description
<b>Educational foundations</b>	Provide education for children and young people via the public-school system and providing support to non-government schools.
<b>Early childhood</b>	Regulate and oversee the delivery of early childhood education services.
<b>Support teaching</b>	Improve teacher quality through accrediting and regulating school and early childhood teachers via NESA.
<b>Skilled and employable workforce</b>	Support job growth by fostering a skilled workforce to meet the current and future requirements of business and industry, including the TAFE Commission.

Source: 2019–20 NSW Budget Papers.

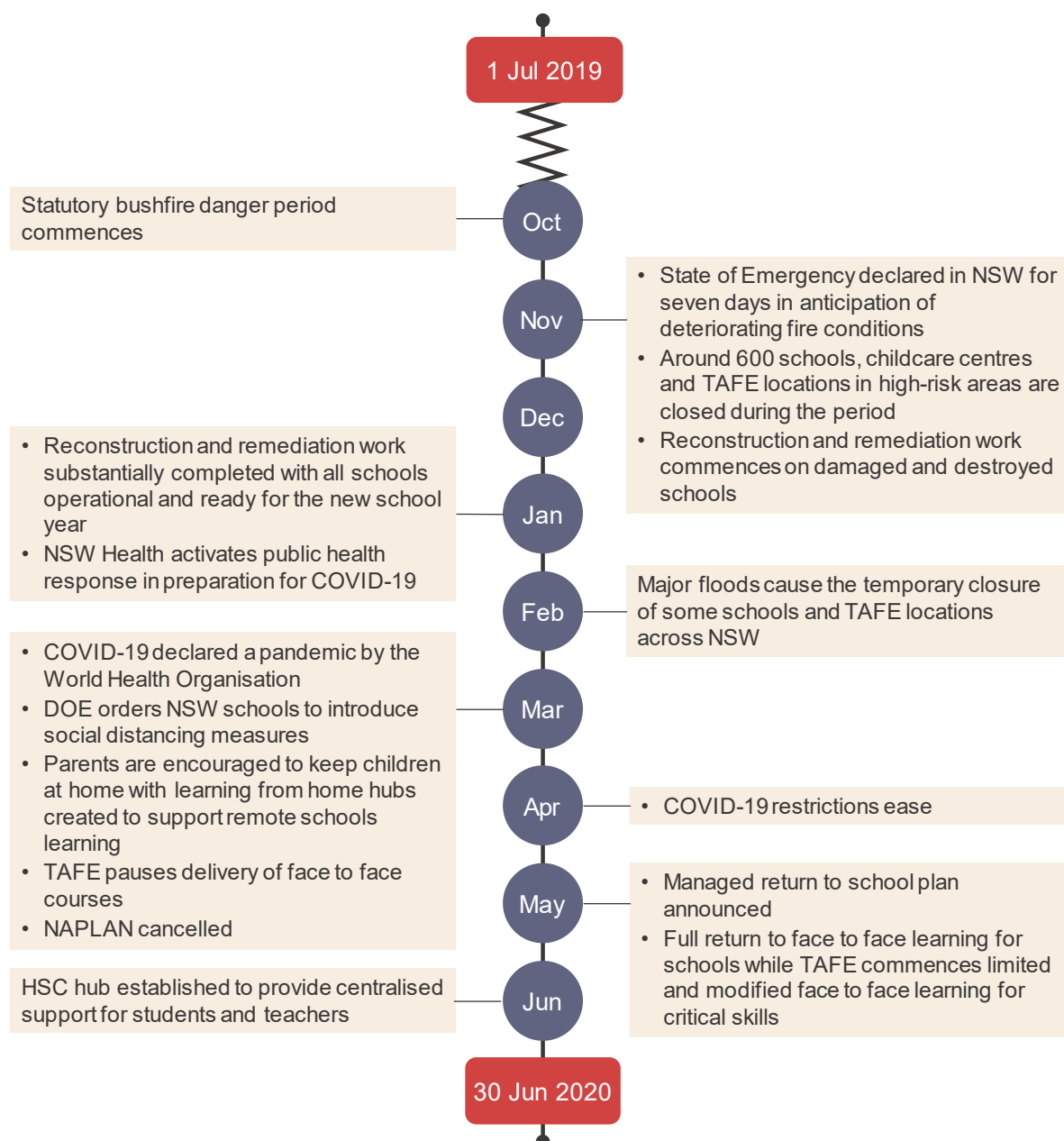
### The cluster was impacted by natural disasters and the COVID-19 pandemic

The 2019–20 bushfires in New South Wales were unprecedented in their extent and intensity, causing widespread damage in both Northern and Southern NSW. Around 192 schools and 17 TAFE locations in affected regions suffered varying degrees of damage including lost fencing, outdoor play equipment and contamination from ash and fire retardant. Three schools valued at \$2.3 million were destroyed. The February 2020 flood events caused the temporary closure of 60 schools and four TAFE locations in parts of NSW – disrupting service delivery during the period.

The COVID-19 pandemic further challenged agencies in the Education cluster. Social distancing and other infection control measures disrupted the traditional means of teaching students and impacted other aspects of service delivery including cancellation of the annual NAPLAN assessments.



## Timeline of events impacting the Education cluster during 2019–20



Source: NSW Audit Office, based on information provided by the Department of Education and the TAFE Commission.

As a part of this year's audits, we have considered:

- the financial implications of these emergencies at the agency and cluster level
- changes to agencies' operating models and internal control environments
- delivery of new or expanded projects, programs or services at short notice.

We have included our findings on cluster agencies' responses to recent emergencies throughout the report.

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## 2. Financial reporting

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

The *COVID-19 Legislation Amendment (Emergency Measures–Treasurer) Act 2020* amended legislation administered by the Treasurer to implement further emergency measures as a result of the COVID-19 pandemic. These amendments:

- allowed the Treasurer to authorise payments from the consolidated fund until the enactment of the 2020–21 budget – supporting the going concern assessments of cluster agencies
- revised budgetary, financial and annual reporting time frames – impacting the timeliness of financial reporting
- exempted certain statutory bodies and departments from preparing financial statements.

This chapter outlines our audit observations related to the financial reporting of agencies in the Education cluster for 2020, including any financial implications from the recent emergency events.

### Section highlights

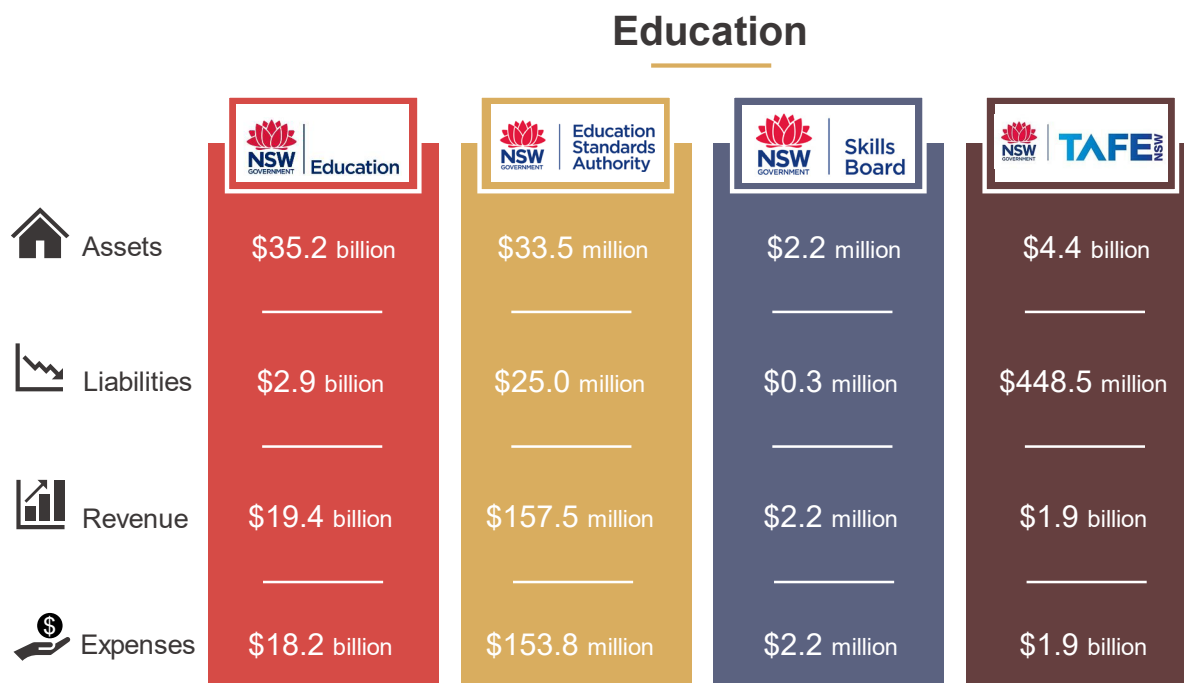
Unqualified audit opinions were issued on the financial statements of cluster agencies.

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

Emergency legislation allowing the Treasurer to continue authorising payments from the consolidated fund under the existing Appropriations Act enabled cluster agencies to prepare financial statements on a going concern basis.

## 2.1 Financial snapshot

The snapshot below shows the financial positions at 30 June 2020 and the financial results for the year then ended for all agencies comprising the Education cluster.



Source: Audited financial statements 2019–20.

### Cluster agencies received stimulus funding to help with the impact of the natural disasters and the COVID-19 pandemic

In response to the natural disasters and the COVID-19 pandemic, the Department of Education (the Department) received stimulus funding through additional appropriations granted by the Treasurer. This support included:

- \$5.0 million for school counselling services in bushfire affected areas
- \$28.4 million in urgent financial relief for the Department
- \$70.0 million in funding for additional cleaning of public schools and TAFE buildings to limit the spread of COVID-19.

The Department also received \$47.0 million in grants to support community pre-schools and local government-operated childcare services, and a further \$8.6 million to fund additional cleaning of schools during the pandemic.

## 2.2 Quality of financial reporting

### Audit opinions

Unqualified audit opinions were issued on the 30 June 2020 financial statements for all agencies in the cluster. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement.

#### The number of misstatements identified in agencies' financial statements decreased from the prior year

A misstatement is an error in amount, classification, presentation or disclosure in the financial statements initially submitted for audit.

In 2019–20, the number of monetary misstatements we identified through our audits of cluster agencies' financial statements decreased to 14 (23 in 2018–19). We also observed a reduction in the number of corrections made to disclosures in the financial statements submitted for audit – from 19 in the prior year to 12.

The table below shows the number and quantum of monetary misstatements.

Year ended 30 June	2020		2019	
	✓	!	✓	!
Less than \$50,000	--	1	--	--
\$50,000 to \$249,999	1	--	1	1
\$250,000 to \$999,999	2	3	1	6
\$1 million to \$4,999,999	--	2	--	10
\$5 million and greater	5	--	--	4
<b>Total number of monetary misstatements</b>	<b>8</b>	<b>6</b>	<b>2</b>	<b>21</b>

✓ Corrected monetary misstatements. ! Uncorrected monetary misstatements.

Source: Engagement Closing Reports issued by the Audit Office.

Reported corrected monetary misstatements increased from two in the previous year to eight in 2019–20 with an impact to the cluster agencies' collective net worth of \$62.4 million. Conversely, reportable uncorrected monetary misstatements decreased from 21 in 2018–19 to six with an impact to the cluster agencies' collective net worth of \$2.0 million.

While the number of corrected monetary misstatements has increased, it is important to note these corrections provide parliament and other users of the financial statements increased confidence in the accuracy and presentation of an agency's performance and financial position.

#### Emergency measures ensured funds continued to flow to cluster agencies

The financial statements of cluster agencies are prepared on a going concern basis. This means that an agency is expected to continue its operations 12 months from when they sign their financial statements.

The *COVID-19 Legislation Amendment (Emergency Measures–Treasurer) Act 2020* allowed the NSW Treasurer to authorise payments from the consolidated fund until the enactment of the 2020–21 state budget, which was tabled 18 November 2020. This enabled the financial statements of the Department, and by extension, cluster agencies to be prepared on a going concern basis.

## 2.3 Timeliness of financial reporting

### Financial statements were submitted by the revised statutory timelines

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

Timeliness of financial reporting			
Cluster agencies	Early close procedures	Financial statements	Audit report
<b>Principal department</b>			
Department of Education	✓	✓	✓
<b>Agencies related to the Department</b>			
NSW Education Standards Authority	✓	✓	! <sup>1</sup>
NSW Skills Board	N/A	✓	✓
Technical and Further Education Commission	✓	✓	✓
<b>Key</b>	✓ <b>Statutory reporting deadline was met</b>	! <b>Statutory reporting deadline was not met</b>	

N/A Agency not required to complete early close procedures per TD19-02 Mandatory Early Close as at 31 March each year.

<sup>1</sup> Issuance of audit report was delayed while the agency provided information necessary to conclude the audit.

## 2.4 New accounting standards

### AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' changed how the Department and cluster agencies report income in 2019–20

AASB 15 and AASB 1058 became effective for all NSW public sector agencies from 1 July 2019.

The introduction of AASB 15 and AASB 1058 required the Department and cluster agencies to reassess the way they accounted for revenue, depending on whether it arises from contracts for sales of goods and services, grants and other contributions. Revenue from contracts for services is now recognised only when performance obligations have been satisfied.

The adoption of these new standards meant the Department and cluster agencies had to review their revenue contracts and adjust how they had previously been accounted for. The Department and cluster agencies were not required to restate their prior period financial statement figures. The cumulative effect of applying the standards on prior periods is presented as an adjustment to opening retained earnings at 1 July 2019.

The new revenue standard mainly impacted the TAFE Commission – accounting for a \$3.1 million impact on its opening retained earnings.

## **AASB 16 'Leases' changed how the Department and cluster agencies treat operating leases in 2019–20**

AASB 16 became effective for all NSW public sector agencies from 1 July 2019. AASB 16 changes how lessees treat operating leases for financial reporting. Previously, leased assets and lease liabilities under operating leases were not recognised in the statement of financial position, even though the entity had control over the asset and was committed to making those future lease payments. Lease obligations were merely recorded as a commitment in the notes to the entity's financial statements. Under AASB 16, operating leases are now recorded, with a few exceptions, in an entity's Statement of Financial Position through the recognition of a right of use (ROU) asset and a corresponding lease liability. It also changes the timing and pattern of expenses recorded in the Statement of Comprehensive Income by recognising depreciation on the ROU asset and the financing cost of the lease.

AASB 16 requires different and more extensive disclosures about an entity's leasing activities. The objective of the disclosures is to provide users of financial statements with a basis to assess the effect of leasing activities on an entity's financial position, performance and cash flows.

On 1 July 2019, the Department and cluster agencies collectively recognised ROU assets of \$487.7 million and lease liabilities of \$490.0 million on adoption of AASB 16 with the Department accounting for 94 per cent of ROU assets and 95 per cent of lease liabilities.

### **Oversight of information provided by third parties can be improved**

Property NSW (PNSW) is the lead agency responsible for managing most of the Department's and NSW Education Standards Authority's (NESA) leased real estate property portfolio. Under this arrangement, PNSW provides leasing information back to these agencies to report in their financial statements.

Our financial audits found issues with the leasing information reported in the financial statements of the Department and NESA. Both agencies remain responsible for the completeness and accuracy of this information, despite the outsourcing arrangement and would have benefited from a more thorough quality assurance, validation and review process over the information provided by PNSW before they placed reliance on it. Inadequate scrutiny of the accuracy of the underlying data and the resultant balances can elevate the risk of error leading to misstatement or omissions of material disclosures in the financial statements.

### **Recommendation**

**We recommend the Department and NESA:**

- **quality assure and validate the information provided by PNSW**
- **ensure changes made by PNSW to lease data are supported and that assumptions and judgements applied are appropriate**
- **document their review of the data supplied.**



## 2.5 Key accounting issues

### **The Department and the TAFE Commission will undertake a fair valuation of their land and buildings in 2020–21**

In 2019–20 the Education cluster collectively reported \$36.9 billion in property, plant and equipment used to provide education-based services to the citizens of NSW. The Department and the TAFE Commission account for nearly all the property, plant and equipment reported in the cluster. These assets are measured at fair value in accordance with Australian Accounting Standards and NSW Treasury financial reporting requirements. Carrying amounts are reviewed annually using publicly available indicators from the Australian Bureau of Statistics or by engaging a valuation specialist.

In 2019–20, the fair value assessments conducted by the Department and the TAFE Commission indicated cumulative increases of around four per cent or \$1.3 billion in the value of land and buildings since the last comprehensive valuation in 2017–18. The Department and the TAFE Commission did not adjust the carrying values of their land and buildings at 30 June 2020. The pandemic added significant volatility to the key indicators used in assessing fair value.

In line with Treasury directives, both the Department and the TAFE Commission will perform a full valuation of their land assets in 2020–21 and have committed to performing a desktop valuation of their buildings.

### **Shared locations between the TAFE Commission, the Department and external parties**

Our review of land and buildings held by both the Department and the TAFE Commission, as well as the first-time implementation of the new leasing standard, identified several instances where land and buildings are shared between the TAFE Commission, the Department and, in some cases entities outside of the NSW public sector. Occupancy arrangements or agreements are not formally in place for many of these sites and as a result, the basis for recording these assets in the financial statements of either the Department or the TAFE Commission is unclear.

The Department and the TAFE Commission have been working closely and are committed to reviewing the basis of recognition and measurement of these sites in each entity's respective financial statements. The outcomes of their work will form part of the comprehensive revaluation exercise on land scheduled for 30 June 2021.

### **Ongoing issues with the implementation of the TAFE Commission's Student Management System**

In 2017–18 the TAFE Commission started implementing a new student management system. This system was originally planned to be completed by May 2019. Significant delays have occurred in implementing this system, mainly due to the complexity of the requirements of the TAFE Commission. This resulted in additional processes to verify the accuracy and completeness of revenue they report from student fees.

The TAFE Commission has since refocussed and reset the strategy for implementing the student management system, including:

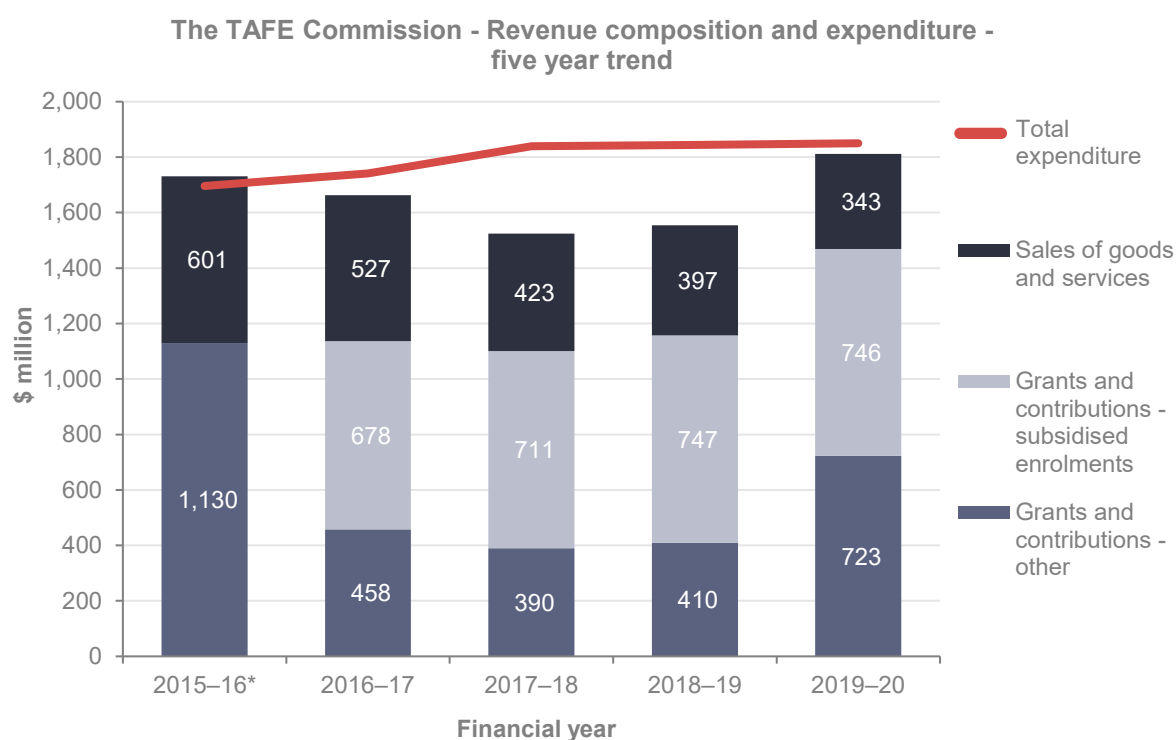
- revising the estimated budget from \$89.0 million to \$110.9 million
- revising the implementation and roll out dates, with completion anticipated by 30 June 2022
- continuing to design business processes, internal controls and user security setup
- integrating the system with the users in the reorganised TAFE Commission structure.

## 2.6 Sustainability of cluster agencies

### The TAFE Commission is increasingly reliant on grants and contributions to support its operations

Since 2015–16 the amount of income generated from the sales of goods and services (predominately course fees) has declined by 43 per cent. As sales of goods and services fall, the TAFE Commission is relying on government funding in the form of subsidised enrolments and grants to sustain its operations. The proportion of income the TAFE Commission generated from the sale of goods and services reduced from 32 per cent in 2016–17 to 19 per cent in 2019–20. Over the same period, the proportion of grants and contributions increased from 68 per cent to 81 per cent.

This year, the TAFE Commission received an additional \$313.0 million in other grants and contributions largely driven by higher operational based funding for the modernisation and product initiatives, capital investments for new facilities, enhancement of education programs and the additional operating cost of providing a comprehensive training program across the State.



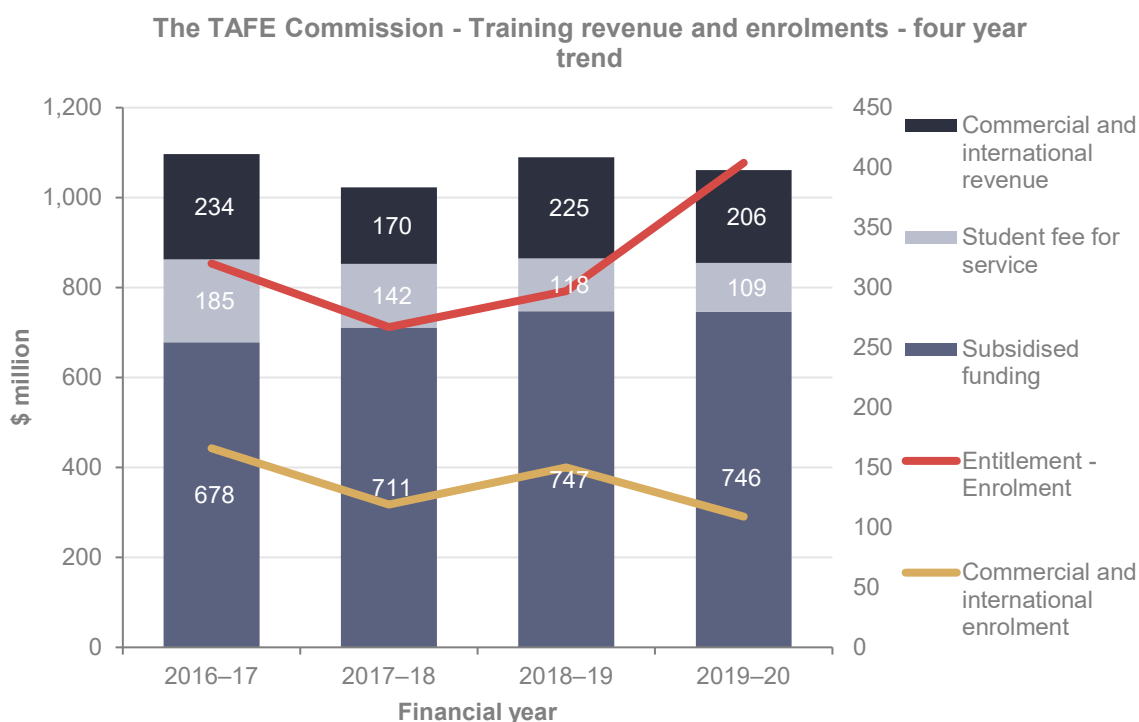
Source: Audited financial statements. Note in 2015–16 the TAFE Commission did not disaggregate grants and contributions - other and grants and contributions - subsidised enrolments.

## The TAFE Commission's enrolments and revenue were impacted by the pandemic

The primary source of training revenue generated by the TAFE Commission comes from the Smart and Skilled government assistance program – the successor to the NSW Vocational Education and Training System. The TAFE Commission is contracted by Training Services NSW to provide government subsidised training towards students obtaining qualifications designated on the NSW Skills List and for higher-level courses in targeted priority areas. Additionally, the TAFE Commission generates revenue from commercial and international activities as well as other government programs outside of those provided by Training Services NSW. This revenue typically comprises course revenue from students who are not eligible for government subsidies or courses provided under a sales contract.

In 2019–20, the TAFE Commission reported \$746 million in net revenue from government subsidised funding and \$109 million in student fees for service (\$747 million and \$118 million respectively in 2018–19). The decline in these revenues is attributed to the impacts of COVID-19 as the dates for continuing students to complete courses were extended and new enrolments fell. On the other hand, the fee-free short course initiative, which was expanded in 2019–20 during the COVID-19 pandemic, boosted enrolment numbers, which increased from around 297,000 to 404,000.

Revenue from commercial and international sources fell by eight per cent from \$224.9 million in 2018–19 to \$206.3 million in 2019–20, as contracts were either paused or cancelled because of the pandemic. Enrolment numbers fell by 27 per cent, from 150,000 in 2018–19 to 109,000 in 2019–20.



Source: Audited financial statements and the TAFE Commission management accounts.

### **The pandemic has impacted operating margins at TAFE Commission's campuses**

Since its restructure in 2016 as a government-owned business the TAFE Commission has operated across three regional and two metropolitan business units and one state-wide digital business unit.

All metropolitan and regional business units have, on average, reported lower operating results year on year. However, the pandemic has exacerbated existing issues of declining margins within the business units. Declining revenues and increasing employee expenses are the main drivers of the operating results, with the regional business units performing less well than the metropolitan business units. This is because metropolitan business units service a larger population, which helps maintain higher course enrolment numbers.

Regional and metropolitan business units provide face to face teaching. Revenues have been impacted by the withdrawal of students from courses, and deferrals of subjects. Costs have increased as class sizes decreased in order to observe social distancing requirements.

TAFE Commission Digital's operations are not geographically bound as classes are delivered online. TAFE Commission Digital's strong result was driven by its COVID-19 short course initiative, which delivered fee-free short courses. Employee expenditure is a less significant contributor to the overall costs of course delivery in the digital format.

The Audit Office of NSW is conducting a performance audit report on 'One TAFE'. This audit will assess whether the TAFE Commission is effectively managing the One TAFE Commission modernisation program to deliver on the government's vision for the TAFE Commission. The report is expected to be tabled in parliament in December 2020.

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## 3. Audit observations

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

This chapter outlines our:

- observations and insights from our financial statement audits of agencies in the Education cluster. It also comments on our review of elements of the financial control framework applied by schools in NSW whose financial results form part of the Department of Education's (the Department) financial statements.
- assessment of how well cluster agencies adapted their systems, policies and procedures, and governance arrangements in response to recent emergencies.

### Section highlights

- A high-risk issue regarding inadequate monitoring of privileged user access was identified at the Department.
- We continue to observe issues by schools in relation to cash management and non-compliance with procurement guidelines and purchasing card use.
- Opportunities exist for the Department and cluster agencies to enhance their monitoring and review of purchasing card activities. Tools such as data analytics procedures provide an efficient and effective detective control, particularly when used in conjunction with independent spot-checks.

### 3.1 Internal control deficiencies

#### Management letter findings

Effective internal controls reduce the risk of fraud and error and help agencies operate efficiently and effectively and to comply with relevant laws, standards and policies. Our audits do not review every control every year. We select a range of measures, and report on those that present the most significant risks that agencies should mitigate. We report on deficiencies in internal controls, matters of governance interest and unresolved issues to management and those charged with governance. We do this through our management letters, which include our observations, related implications, recommendations and risk ratings.

The table below presents the number of management letter findings for each agency within the cluster.

Management letter findings					
	Extreme	High	Moderate	Low	Repeat
<b>Principal department</b>					
Department of Education	--	1	3	3	1
<b>Agencies related to the Department</b>					
NSW Education Standards Authority	--	--	1	3	3
NSW Skills Board	--	--	--	--	--
Technical and Further Education Commission	--	--	6	1	11
<b>Total</b>	<b>--</b>	<b>1</b>	<b>10</b>	<b>7</b>	<b>15</b>



In 2019–20 we identified a total of 33 issues for cluster agencies, including 18 new issues and 15 issues repeated from previous years. We have classified these issues into common categories as follows:

- financial operational deficiencies
- IT operational deficiencies
- reporting deficiencies.

A delay in implementing audit recommendations increases the risk of intentional and accidental errors in processing information, producing management reports and generating financial statements. This can impair decision-making, affect service delivery and expose agencies to fraud, financial loss and reputational damage. Poor controls may also mean agency staff are less likely to follow internal policies, inadvertently causing the agency not to comply with legislation, regulation and central agency policies.




The table below describes the common issues identified across the cluster by category, risk ratings and implications.

**Table: Common issues reported in cluster agencies' management letters**

Operational - Financial			
	<b>Moderate:</b>	5 new	6 repeat
	<b>Low:</b>	3 new	2 repeat
Common issue	Findings	Implications	
<b>Policies, processes and procedures</b>	Agencies have not established policies, have gaps in processes or have policies that are past their scheduled review date.	There is heightened risk that outdated policies and procedures may be followed, that policies, processes and procedures do not reflect better practice, or where processes are not documented, an agency is at risk from the loss of corporate knowledge when responsible staff leave the agency.	
<b>Review and update of delegations</b>	Management practices have not kept in step with changes to recent legislation.	Potential non-compliance with the requirements of the <i>Government Sector Finance Act 2018</i> .	



## Operational - IT

	<b>High:</b>	1 new	
	<b>Moderate:</b>	3 new	4 repeat
	<b>Low:</b>	2 new	1 repeat

Common issue	Findings	Implications
<b>General controls</b>	IT control deficiencies are related to IT governance, user access administration, program change and computer operations.	Inadequate controls over the IT environment could create opportunities for fraud and error.
<b>Application controls</b>	Application controls are procedures that operate at a business process level designed to ensure the integrity of accounting records.	Inadequate segregation of duties increases the risk of recording unauthorised or non-existent transactions.

### The Department's monitoring of privileged user activity requires improvement

Privileged users have higher levels of access to systems, and in some instances, may include conflicting access which, if reviews of access logs are not fully embedded in the control environment, elevates the risk of unauthorised transactions occurring and not being detected in a timely manner.

A high-risk issue was reported at the Department relating to the inadequate monitoring and follow up of privileged user activity in its enterprise resource planning system – SAP.



In response, the Department initiated a review of the identified instances of privileged user activity. This was completed prior to the certification of the financial statements. We also extended our audit procedures and concluded the control deficiency did not present a risk of material misstatement to the Department's financial statements.

## Recommendation

### Cluster agencies should:

- **prioritise and action recommendations to address internal control deficiencies**
- **review and confirm the appropriateness of existing privileged user access accounts**
- **implement a rigorous monitoring regime to ensure that any improper use of privileged user accounts can be detected in a timely manner.**

## Reporting

	<b>Moderate:</b>	2 new	2 repeat
	<b>Low:</b>	2 new	

Common issue	Findings	Implications
<b>Asset management</b>	Lack of oversight over externally provided data and documentation to support arrangements between cluster agencies.	Misstatement of assets carried by agencies.

Note: Management letter findings are based either on final management letters issued to agencies, or draft letters where findings have been agreed with management.

Our Internal controls and governance 2020 report (tabled November 2020) expands on the matters identified and also covers the findings and recommendations from our 2019–20 financial audits at 40 of the largest agencies in the NSW public sector. These 40 agencies included the Department, the Technical and Further Education Commission and the NSW Education Standards Authority.

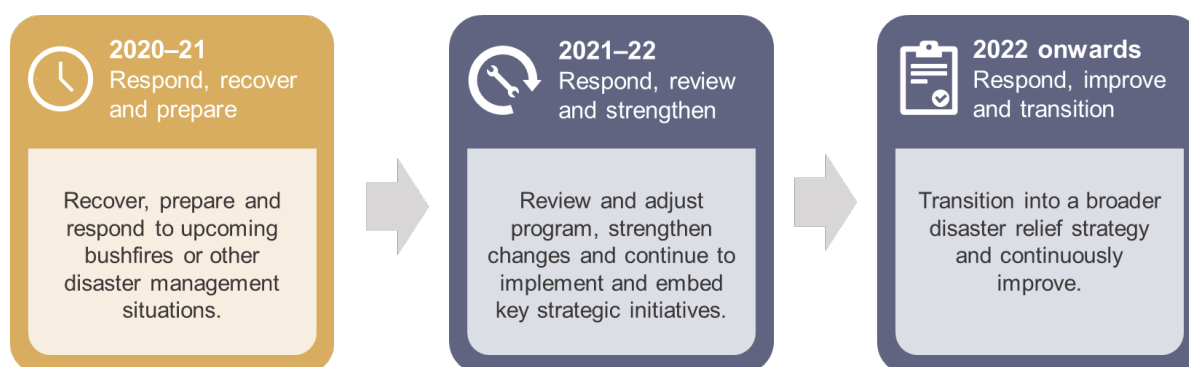
## 3.2 Agency response to recent emergencies

### The Department established a separate bushfire relief directorate and a COVID-19 Taskforce

The 2019–20 natural disasters and COVID-19 pandemic continue to have a significant impact on the people of New South Wales.

While these emergencies are having a significant impact today, they are also likely to continue to have an impact into the future.

In February 2020, the Department established a separate directorate to assist and support school communities affected by the 2019–20 fires. The directorate was also responsible for developing the Department's Bushfire Relief Strategy Framework that would enhance the preparedness for future bushfire seasons and other disaster events that may occur.



Source: Department of Education.

In April 2020, the Secretary of the Department approved the establishment of a COVID-19 Taskforce after the World Health Organisation's declaration that transmissions had reached pandemic status. The taskforce was responsible for ensuring the Department met its responsibilities set out in the NSW State Emergency Management Plan.

### Cluster agencies have responded to the challenges presented by COVID-19

Cluster agencies have established committees or response teams to oversee and address the impact of COVID-19. Key actions taken by the cluster agencies in response to the outbreak of COVID-19 include:

- establishing information channels for guidance and direction to internal and external audiences
- developing alternative course delivery options including on-line and digital learning and provision of printed packages
- providing professional learning to develop new skills and support teachers delivering an online or digital lesson, and procurement of online learning tools
- putting in place infection control procedures and cleaning and hygiene measures
- implementing procedures for identifying and responding to suspected and actual COVID-19 cases
- moving some administration activities to remote delivery and closing some buildings and facilities
- reconfiguring student accommodation to enable students to quarantine or socially distance, and where necessary, closing campuses and schools
- implementing programs and financial support for students who may be at risk of educational disadvantage and staff who are adversely impacted
- limiting and cancelling large non-essential gatherings including student placements, school activities and events such as excursions and P&C meetings
- addressing arising issues and responding to students, staff and community concerns.

### 3.3 Schools Review 2019

The Department is the largest provider of education in Australia, with responsibility for delivering public education to two-thirds of the NSW student population. The State's 2,210 public schools are spread across NSW, servicing around 806,000 students and employing around 69,000 teachers.

The financial results of NSW public schools are included in the Department's financial statements each year and as such follow the financial and internal control framework set out by the Department.

The table below describes common findings observed through our review of the internal controls at these schools.

Observations	Findings	Implications
<b>Cash management practices and receipting</b>	<p>Our review of cash management processes and procedures found instances where schools:</p> <ul style="list-style-type: none"> <li>• did not review or reconcile bank queries on a weekly basis</li> <li>• did not bank cash on hand when balances exceeded \$500.</li> </ul>	<p>Deficiencies in cash management practices inhibit the Department's ability to manage and mitigate fraud risk, error and compromises the accuracy of data transposed in internal and annual financial reporting.</p>
<b>Purchasing and procurement</b>	<p>Our review of procurement and purchasing practices at the schools found instances where:</p> <ul style="list-style-type: none"> <li>• schools did not obtain the appropriate number of quotes for the purchase of goods and services</li> <li>• purchase orders were raised after goods and services had been delivered</li> <li>• schools were not fully aware of the emergency provisions in the handbook that enabled them to procure necessary items during the pandemic</li> <li>• schools did not set a maximum amount for staff reimbursements.</li> </ul>	<p>The decentralised nature of the Department's procurement and purchasing lends itself to elevated risks of:</p> <ul style="list-style-type: none"> <li>• non-compliance with the Department's procurement guidelines</li> <li>• unauthorised or illegitimate purchases, exposing the Department to fraud risk or reputational damage.</li> </ul>
<b>Asset and equipment management</b>	<p>Our review of asset management processes and procedures conducted by schools found stocktakes of assets were not performed by schools to identify items lost in the bushfires. This follows on from our previous findings identifying inconsistencies in performing or reviewing the outcomes of annual stocktakes of assets and equipment.</p> <p>Notwithstanding, we found selected schools had adequate record keeping processes to track IT equipment lent out to students during the pandemic.</p>	<p>A failure to conduct appropriate stocktake procedures over assets and equipment:</p> <ul style="list-style-type: none"> <li>• increases the risk that assets may not be recorded correctly leading to potential over or understatement of assets in the Department's financial records and statements</li> <li>• increases the opportunity for staff and other on-site officers to misappropriate assets.</li> </ul>

### 3.4 Use of purchasing cards at the Department of Education

Purchasing cards are an efficient means of payment, especially for low-value and routine purchases. They provide better transparency and accountability for expenditure and can realise significant efficiencies over traditional high cost purchase-to-pay processes.

When effectively controlled, purchasing cards are a cost-effective payment method and efficient tool for low value, high volume procurement of goods and services.

#### The Department's use of purchasing cards has steadily grown

Since 2015 the NSW Government was committed to increasing the use of purchasing cards by public sector agencies for low value, high volume procurement of goods and services. This includes delegated staff working at the Department and across the State's 2,210 schools.

In 2019–20 the Department incurred expenditure totalling \$152.9 million from the use of purchasing cards. This has increased from \$96.9 million or 58 per cent in 2018–19. The use of purchasing cards allows delegated staff to make timely and appropriate procurement decisions and to make sure they have the equipment and stores they need to deliver services.



The use of purchasing cards carries with it risks that need to be mitigated. Agencies should have a robust internal control framework encompassing policies and procedures, system controls and effective monitoring and oversight mechanisms to deter and detect fraud.

## Managing and monitoring of the use of purchasing cards can be improved

Our analysis over purchasing card data supplied by the Department for the period September 2019 to May 2020 found deficiencies in the provisioning and cancellation of purchasing cards. This included:

- 1 employee who had two active purchasing cards at the same time
- 1 contractor who was issued with a purchasing card and one former employee who retained a purchasing card when their employment status changed to that of a contractor. In both cases, transactions were entered into in their capacity as contractors - in contravention of Department policies
- 25 active cards not cancelled at the time employees ceased employment with the Department
- 25 cardholders have limits for single transactions exceeding their financial delegations
- 16 cardholders with current access to cash advance facilities for international travel purposes despite current restrictions on international travel by Australian citizens.

Opportunities exist for the Department to enhance their monitoring and review activities. Tools such as data analytics procedures provide an efficient and effective detective control, particularly when used in conjunction with independent spot-checks. Data analytics allows agencies to analyse and identify high risk usage patterns and anomalies in the volume, or types of transactions for further investigation.

### Recommendation

The Department should:

- **improve the accuracy and completeness of exit procedures for terminated employees to ensure cards are returned and cancelled**
- **perform periodic reviews to ensure active cards are held only by current employees**
- **set transaction limits that do not exceed the limits of the user's financial delegation**
- **establish a data analytics regime to help analyse and identify high risk patterns and anomalies in their purchasing card usage, augmenting their existing monitoring and detective controls.**



## **Section two**

### Appendices

# Appendix one – List of 2020 recommendations

The table below lists the recommendations made in this report.

## 1. Financial reporting

### 1.1 New accounting standards

We recommend the Department and NESA:

- quality assure and validate the information provided by PNSW
- ensure changes made by PNSW to lease data are supported and that assumptions and judgements applied are appropriate
- document their review of the data supplied.



## 2. Audit observations

### 2.1 Internal control deficiencies

Cluster agencies should:

- prioritise and action recommendations to address internal control deficiencies
- review and confirm the appropriateness of existing privileged user access accounts
- implement a rigorous monitoring regime to ensure that any improper use of privileged user accounts can be detected in a timely manner.



### 2.2 Use of purchasing cards at the Department of Education

The Department should:

- improve the accuracy and completeness of exit procedures for terminated employees to ensure cards are returned and cancelled
- perform periodic reviews to ensure active cards are held only by current employees
- set transaction limits that do not exceed the limits of the user's financial delegation
- establish a data analytics regime to help analyse and identify high risk patterns and anomalies in their purchasing card usage, augmenting their existing monitoring and detective controls.



Key



Low risks











Medium risks







High risks

# Appendix two – Status of 2019 and 2018 recommendations

## Status of 2019 recommendations

Recommendation	Current status
<b>The Department should:</b>	
Table its financial statements in parliament earlier, in line with other NSW Government agencies.	The Department delays tabling its financial statements in parliament so it can report its operational outcomes, which are aligned to the calendar year, in a single report. This reduces transparency over the Department's financial statements as they are tabled more than ten months after the end of the financial year.  The Department plans to publish its financial statements in December 2020 and table its annual report in parliament in May 2021. 
Ensure all schools apply the Department's 'Finance in Schools Handbook' as it is a key internal control.	The Department should continuously update its 'Finance in Schools Handbook' for relevance and ensure all schools comply with it. 
<b>Cluster agencies should:</b>	
Improve their quality assurance processes for financial reporting to improve the accuracy of financial statements presented for audit.	The number of misstatements in the financial statements has been reduced by more thorough quality assurance over the information underpinning the financial statements. 
Finalise their plans to implement the new accounting standards as soon as possible.	Cluster agencies implemented three new accounting standards during 2019–20. We recommend the Department and NESA review and validate lease data and information supplied by third parties. 
Prioritise and action recommendations to address internal control weaknesses.	All agencies are assigning ownership of recommendations and timeframes for completion. All agencies are also reporting on the status of outstanding recommendations to their audit and risk committee. Of the 55 recommendations raised in our management letters, 40 have been implemented. 
<b>Key</b>	 <b>Fully addressed</b>  <b>Partially addressed</b>  <b>Not addressed</b>

## Status of 2018 recommendations

Recommendation	Current status
<b>The Department should:</b>	
Confirm leave data and review assumptions following deployment of the new HR/Payroll system to better estimate the liability for employee benefits and the amount to be assumed by the Crown Entity.	The long-standing issues with the Department's leave data have been rectified. 
<b>Key</b>	 <b>Fully addressed</b>  <b>Partially addressed</b>  <b>Not addressed</b>

## Appendix three – Financial data

	Total assets		Total liabilities		Total revenue		Total expense	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Principal department</b>								
Department of Education	35,189	33,304	2,852	2,196	19,429	16,388	18,157	15,820
<b>Agencies related to the Department</b>								
NSW Education Standards Authority	34	27	25	22	158	177	154	170
NSW Skills Board	2	2	0.3	0.5	2	2	2	3
TAFE Commission	4,373	4,317	449	396	1,863	1,650	1,862	1,877

## 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

Pride in purpose  
Curious and open-minded  
Valuing people  
Contagious integrity  
Courage (even when it's uncomfortable)

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