Mr David de Carvalho
Chief Executive Officer
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11 March 2021

Dear David

Comparability Review of Key Principles and Methodology for reporting financial data on the My School website

In accordance with our Engagement letter dated 11 November 2020, we set out below our assessment regarding your agreed methodology, the My School Financial Reporting - Key Principles and Methodology (the 'Methodology') for collecting school financial data ('the financial data') for the purpose of disclosing such data on the My School website.

1. Background

The Australian Curriculum, Assessment and Reporting Authority is responsible for the development of a rigorous, world-class national curriculum from Foundation to Year 12, beginning with the learning areas of English, Mathematics, Science and History; followed by Geography, Languages and the Arts; and then the other learning areas defined in the Melbourne Declaration.

To complement the development of a national curriculum, ACARA is also responsible for developing and administering a national assessment program, aligned to the national curriculum, which measures students' progress, and the provision of information, resources, support and guidance to the teaching profession. ACARA is also charged with the collection, management and analysis of data on a national scale, which relates to broader achievements in student assessment, resource allocation, and accountability and reporting on school performance.

The My School website provides profiles of around 9,500 Australian schools that can be searched by school name, location, sector or type. The website provides statistical and contextual information about each school, as well as results from the National Assessment Program—Literacy and Numeracy (NAPLAN) that can be compared with results for students with a similar background across Australia. Information about the National Assessment Program can be found on the NAP website.

The following entities (the "Reporting Entities") are expected to report their 2019 financial data to ACARA in relation to Australian schools, for the purpose of disclosure on the My School website:

Government Sector:

- NSW Department of Education
- Victoria Department of Education and Training
- Qld Department of Education
- SA Department for Education

- WA Department of Education
- Tasmania Department of Education
- Northern Territory Department of Education
- ACT Education Directorate

Non-Government Sector via the Australian Government Department of Education, Skills and Employment:

- Independent schools
- Catholic Schools NSW
- Catholic Education Commission of Victoria
- Queensland Catholic Education Commission
- Catholic Education South Australia
- Catholic Education Western Australia
- Catholic Education Tasmania
- Catholic Education Northern Territory
- Catholic Education Archdiocese of Canberra and Goulburn

ACARA engaged PwC to provide an independent assessment regarding the collection and reporting of My School financial data. This includes consideration of the appropriateness of the My Schools Methodology and if it aligns with existing accounting standards in relation to the 2019 calendar year data.

The Methodology currently in place is publicly available via ACARA's website and is reviewed by the Financial Data Working Group ("FDWG") in order to align approaches between the various jurisdictions and to reduce the limitations in place (in order to enhance comparability of data).

The Methodology is set out in Appendix A.

The following are represented on the ACARA FDWG based on the terms of reference effective from 14 May 2012 and revised on 14 July 2020:

- ACARA
- Each state and territory education department
- National Catholic Education Commission (NCEC)
- Independent Schools Australia (ISA)
- the Australian Government Department of Education, Skills and Employment (AGDESE)

2. Our responsibilities

We assessed the Methodology and identified in our report areas that may limit the comparability of data reported by schools.

This report is prepared for ACARA for its sole purpose in the context of assisting the respective State Departments of Education and the AGDESE in formulating the accounting treatment for the purposes of disclosing the Schools financial data information on the My School website. It should not be used for any other purpose or without the express written permission of PricewaterhouseCoopers. We do not accept any responsibility to any party other than ACARA for our work.

3. Our conclusion

In our opinion, except for certain comparability limitations outlined in Section 5, the Methodology summarised in Appendix A provides a reasonable basis for the collection of materially comparable financial data by school on a national basis.

4. Relevant accounting pronouncements

We have summarised in Appendix B, the accounting pronouncements effective in 2019 or available for early adoption in 2019. Relevant accounting pronouncements were referred to in assessing whether the Methodology provides a reasonable basis for collecting comparable data. There were no changes to the My School Financial Reporting - Key Principles and Methodology during the review period except for matters discussed under section 7, Assessment of Disclosure Format.

Based on the information supplied by the respective State Departments of Education and the AGDESE, AASB 16 Leases is applicable but with minimal impact for most jurisdictions.

All other pronouncements have no or minimal relevance for the purposes of the 2019 My School Reporting in all government jurisdictions. We did not perform any verification procedures and therefore do not give any assurance on the underlying transactions or balances. We did not otherwise audit, review, check or verify this information.

In the event that new or revised Australian Accounting Standards or Interpretations or other applicable pronouncements are issued in the future, the Methodology should be reconsidered in light of such changes and/or new requirements. We are under no obligation to update our evaluation of the Methodology for information provided further to the date of this report, or for other future events.

5. Comparability Limitations

Listed below are comparability limitations i.e. data collection or reporting differences that still exist to achieve nationally comparable data on both government and non-government schools.

Item	Reporting component	Basis of exception	Implication	ACARA FDWG Comment
1.	Capital expenditure	QLD, WA and TAS government jurisdictions will report capital expenditure based on a completed project basis. In these jurisdictions incomplete project costs have not been included in capital expenditure. Other jurisdictions have been able to identify the asset component of incomplete project costs and have reported these costs within capital expenditure.	Where there is an inconsistency in the level of incomplete projects at the beginning and end of a particular year, it is likely that a material inconsistency will exist within capital expenditure between jurisdictions that have reported on these different approaches.	The identification of the asset component of incomplete projects is only performed at the end of a financial year for certain jurisdictions. It was deemed by the jurisdictions affected to be impractical to perform such an analysis at this stage.
2.	Net Recurrent Income & Capital expenditure	Government jurisdictions operate on a financial year basis and therefore at the time of preparing their working papers the audit of the financial data at department level for the year ended 30 June 2020 may not have been completed. Independent and Catholic systemic schools and system authorities report on a calendar year basis and are subject to audit annually.	Data will be subject to jurisdictions' routine systems checks and balances, however, there remains a risk that unaudited financial data may be misstated.	Use of financial year data in the government sector to derive calendar year data is unavoidable given the time frame for initial reporting. Prior to the financial data being disclosed on the website, jurisdictions are able to revise their reported data subsequent to completion of department level financial year end audits. Government sector financial data accounts are audited on a financial year basis.
3.	Net Recurrent Income & Capital expenditure	Government jurisdictions will use actual expenditure data on a monthly basis where possible in order to derive data on a calendar year basis. Calendar year opening and closing positions will not have been subject to audit as government jurisdictions are subject to audit on a financial year basis, not a calendar year basis.	There is a risk that the opening and closing positions may not be as accurate as they would be had they been subject to audit.	Government sectors do not consider this to be a significant risk due to the application of routine jurisdiction systems checks and balances.

Item	Reporting component	Basis of exception	Implication	ACARA FDWG Comment
4.	Net Recurrent Income	In all government jurisdictions and Catholic school systems there will be an element of expenditure which cannot be sourced on an actual by school basis (e.g. indirect department overheads) and instead needs to be allocated to schools on a notional basis (e.g. using FTE enrolment numbers). The proportion of expenditure allocated on a notional basis will differ between jurisdictions due to the differing information available within each jurisdiction's ledger or source system. The ACT government jurisdiction will allocate actual costs by applying their "points-based allocation model".	The existence of different accounting systems and allocation methodologies between jurisdictions will mean that there will be variability between jurisdictions in relation to the relative proportion of expenditure that will need to be allocated notionally. Notional allocation is inherently less accurate than being able to report actual expenditure maintained by school.	Systems in certain jurisdictions do not easily enable reporting of financial data by school. Allocation of expenditure is the only viable option at this stage due to government systems having significant amounts of centrally incurred expenditure that is not accounted for on a by school basis within the system.

Item	Reporting component	Basis of exception	Implication	ACARA FDWG Comment
5.	Capital expenditure	Asset recognition thresholds differ between jurisdictions. Government Schools: ACT $5,000 NSW $10,000 for property, plant and equipment or assets forming part of a network costing more than $1,000 ($50,000 for intangibles) NT $10,000 QLD $5,000 ($100,000 for major software developments, $10,000 for buildings) SA $5,000 TAS $10,000 for plant and equipment ($150,000 for buildings) VIC $5,000 WA $5,000 ($50,000 for software development) Catholic Schools: ACT $1,000 to $5,000 NSW $5,000 for equipment, furniture and other non-construction related expenditure ($5,000 to $100,000 for building projects) NT $1,000 QLD $1,000 to $5,000 SA $1,000 TAS $1,000 to $5,000 VIC $5,000 (System intangibles such as software development $200,000) WA $1,000 Independent Schools: 5,000	A limitation to full comparability may exist between jurisdictions.	The ACARA FDWG concluded that, for practicality and consistency purposes, capital thresholds are to reflect current jurisdictional departmental policy for the purpose of annual capital expenditure determinations. Thresholds are shown in the Potential limitation column to the left.
6.	Net Recurrent Income & Capital expenditure	VIC, TAS, SA, NT, QLD and ACT government jurisdictions partly self-insure for certain forms of insurance. Rather than incurring a policy cost, these jurisdictions choose to incur asset replacement costs and/or legal and associated costs in the event of claims.	There may be a difference in the amount of expenditure allocated as recurrent income and capital expenditure between jurisdictions and systems that self-insure and those that do not. The potential difference has not been quantified.	This limitation remains on the basis that not all jurisdictions have autonomy over whether they insure or self-insure, making this matter distinct from other management determined operating decisions which may differ between jurisdictions. Policy costs vary across sectors but are understood to be less than 2% of total costs.

Item	Reporting component	Basis of exception	Implication	ACARA FDWG Comment
7.	Net Recurrent Income & Capital expenditure	TAS and WA Government jurisdictions are permitted to include “Year 1 minus 2” (i.e. Preschool) costs. (refer definition section of the Methodology for precise definition of Year 1 minus 2 which is referred to differently in each state and territory)	To the extent that financial data is disclosed in total by school, data reported by schools affected in the aforementioned jurisdictions compared to other jurisdictions will not be fully comparable. The extent of the limitation in comparability will be impacted by the size of the school and enrolment levels.	Year 1 minus 2 cannot be separated from the financial data in a minority of jurisdictions.
8.	Net Recurrent Income	Methods of allocation of recurrent income to schools (where actuals are unavailable) will differ between jurisdictions/systems. This primarily affects government school systems.	Methods of allocation (e.g. on FTE enrolment, floor area or other appropriate cost driver basis) appear to be appropriate given the nature of expenditure being allocated as recurrent income. The basis of allocation proposed is expected to approximate actual expenditure by school, however no verification has been performed.	Systems in certain jurisdictions do not enable reporting of system recurrent income by school. Allocating recurrent income on an apportionment basis is the only viable option.
9.	Net Recurrent Income & Capital expenditure	Total School Sourced Income reported by schools in the following jurisdictions are required/permitted to “cash account”: • WA Government schools; • Some Victorian Catholic primary schools who will be reporting on accrual accounting from the 2021 financial reporting year. Schools in other jurisdictions apply accrual accounting.	A limitation to full comparability may exist between jurisdictions. All non-government schools are however required to report Government grants on an accruals basis and so in relation to non-government schools this risk would be limited to private income sources.	Impracticable to adjust each school to ensure all are fully accrual accounting. Total school sourced income and capital expenditure generally represents <15% of total income and capital expenditure reported. The impact of this minority of schools applying cash accounting is unlikely to be material as the affected income and expenditure is a small subset of total income.

Item	Reporting component	Basis of exception	Implication	ACARA FDWG Comment
10.	Net Recurrent Income & Capital expenditure	The ACT government jurisdiction will allocate actual costs by applying their “points-based allocation model”. Points are allocated to each school depending on the types of education services provided and on the ranges of teaching staff on payroll at each school. All other government jurisdictions will source data by school from sub systems or the general ledger and allocate overhead costs on a notional basis.	The allocation of costs for ACT government schools is dependent on the accuracy of the “points-based allocation model”. The allocation of the majority of costs for other government jurisdictions is dependent on the accuracy of the “by school” data that is obtained from source systems (e.g. Payroll ledger, general ledger etc.).	The ACT use this model to manage school level expenditure and believe it is the most accurate method of allocation in their jurisdiction, as such a different method of allocation from other jurisdictions was agreed by the ACARA FDWG. It is the intention of the ACT to change their method of collating and reporting on a by school basis at some point in the future, therefore removing this limitation for future periods.
11.	Net Recurrent Income & Capital expenditure	Some government jurisdictions (NSW, VIC, QLD, SA, TAS and ACT) do not have full visibility as to how much locally generated income and/or surplus operational funding has been used to fund capital expenditure at the school level. In this case income reported would include an element of capital income.	There may be a limitation in comparability of reported income before deductions to the extent that capital income is included in the data reported.	A practical resolution to this limitation was not able to be found retrospectively. School level income is generally expected to represent less than 15% of total income and as such the impact of this limitation (which affects a subset of that school generated income) is unlikely to be material to the reported data.
12.	Net Recurrent Income	NSW government jurisdiction will, for a relatively small component of costs, use budgeted amounts instead of actual amounts to identify certain components of cost by school.	Budgeted amounts may differ from actual amounts.	The costs reported using budgeted amounts are immaterial.
13.	Net Recurrent Income	Some Government jurisdictions do not have control of income earned on Long Service Leave (LSL) funds. The Methodology therefore excludes such income from recurrent income. Catholic systemic schools that participate in centralised LSL schemes have excluded such income from their reported data. Independent schools (other than Catholic systemic schools) are unable to identify such funds and hence have included any such income within income reported.	Independent schools’ (other than Catholic systemic schools) income may be proportionately higher to this extent.	A practical solution to this inconsistency was not able to be identified.

Item	Reporting component	Basis of exception	Implication	ACARA FDWG Comment
14.	Capital Expenditure	The method of notional allocation of a portion of government sector and independent system level capital expenditure based on enrolment may not be an appropriate basis of allocation.	Actual capital expenditure is not driven by enrolments, such expenditure may be driven by other factors that differ between schools.	Where systems do not enable reporting by school, identification of a notional method that more accurately approximates actual expenditure was not possible given the range of factors that drive capital expenditure decisions.
15.	Net Recurrent Income	Certain Government jurisdictions (NSW, VIC, QLD, SA and ACT) include on costs in their My School data that have been calculated using a fixed percentage rather than the actual on costs included in the G/L, for workers comp, Annual Leave, LSL and Super.	Departures from using actual expenditure within the government jurisdictions may limit comparability with other systems, jurisdictions and non government schools.	This method of allocation was agreed in order to maximize comparability between government jurisdictions. Affected jurisdictions believe that the resulting notional income allocation would eliminate fluctuations in the year and better reflect the funds available to each school to deliver educational outcomes.
16.	Net Recurrent Income	Transport to and from school and allowances paid to parents are excluded from government departmental expenditure allocated as notional income to schools.	Some transport costs need to be funded by independent schools from recurrent income, no similar deduction from fee income is permitted under the Methodology. This may create a limitation in comparability between government and independent schools.	It was considered impracticable to adjust independent data for such components within the timeframe and the proportion of income affected is likely to be well below 5% of total income. Furthermore, the limitation only relates to privately funded transport.
17.	Net Recurrent Income & Capital expenditure	All government jurisdictions, except NSW, WA, and some Catholic school systems do not account for non-cash benefits received. Schools which account in accordance with accounting standards are required to record benefits in kind at fair value.	Those schools that do not account for non-cash benefits will be reporting lower Net Recurrent Income and/or capital expenditure compared to schools that do.	Impact of this variation in treatment between schools was considered unlikely to be material.
18.	Net Recurrent Income & Capital expenditure	Government departments may not have full visibility of Commonwealth sourced income paid directly to schools by departments other than the Department of Education and Training.	An element of Commonwealth funding may not be identified as Commonwealth sourced funding.	The impact of this is expected to be minimal given that school sourced income generally makes up no more than 15% of Net Recurrent Income and this limitation relates to a small subset of that percentage.

Item	Reporting component	Basis of exception	Implication	ACARA FDWG Comment
19.	Capital Expenditure	The Methodology requires jurisdictions to report capital expenditure on an accrual basis of accounting. The NT government has included capital expenditure on a cash basis. Catholic school systems still on modified cash method have included capital expenditure on a cash basis.	There may be timing differences between capital expenditure reported in schools on cash basis compared to schools on an accrual basis of accounting.	The impact year on year is unlikely to be material.
20.	Australian Government Capital Expenditure	The methodology permits two approaches to determining the Australian Government funded component of capital expenditure: (a) based on known targeted amounts only or (b) using autonomy to allocate funding between capital and recurrent as needed. Under the National Education Agreement (NEA), the allocation of such funds is a matter for the jurisdiction.	Differences may arise, between jurisdictions, in relation to the Australian Government funded component of capital expenditure depending on which option is applied, therefore reducing comparability.	Jurisdictions are permitted to use their discretion as to how much Australian Government funding is used for capital versus recurrent purposes.
21.	Net Recurrent Income	VIC government jurisdiction is not showing deductions to recurrent income separately but netting these in the recurrent income reporting items. The methodology requires that where possible, deductions from gross income should be shown separately under the deductions section and not netted off to recurrent income. However, it is also permissible if that is not possible, then the amount is netted off from gross income, and no amount should be shown in the deductions.	Inconsistent presentation of financial data preventing comparability. However, there is no implication on the net recurrent income.	

6. Assessment of Apportionment methodologies

The apportionment methodologies used appear to represent a reasonable basis of apportionment, given the nature of the individual type of expenditure being allocated. These include among others:

- FTE enrolment numbers (most government jurisdictions, the Catholic system and the other non-government systems);
- Floor space (NSW government: Cleaning & Maintenance);
- Points allocation matrix (percentage points are allocated to each school depending on the types of education services provided and on the number and range of teaching staff on payroll at each school) (ACT government);
- Actual Schools Salaries (VIC government); and
- Specialised schools/programs/types (aboriginal, agricultural, Indian Ocean Territories schools, Public Private Partnership schools) (WA government).

7. Assessment of Disclosure Format

Gross v Net disclosure of Income

The guidance on the presentation of deductions under section 2 of the My School Financial Reporting Key Principles and Methodology has been amended to provide clarity. Section 2, My School Finance Data Reporting Guidelines, provides guidance to reporting and describes the components of recurrent income, accounting inclusions and exclusions, deductions from gross income, capital expenditures and Block Grant Authority (BGA) administration costs attributable to non-government schools.

Government schools and non-government schools Deductions from Gross Income subsections of Section 2 My School Finance Data Reporting Guidelines previously stated that "Deductions from gross income are not to be shown under net income". This note may create confusion and misinterpretation. Therefore, based on our proposal, the wording in the My School Financial Reporting Key Principles and Methodology has been amended to facilitate comparability and consistent presentation of financial data. The revised My School Financial Reporting Key Principles and Methodology Deductions from Gross Income subsections of Section 2 My School Finance Data Reporting Guidelines for both government and non-government schools has the following note:

Deductions should not be double counted (i.e. by netting it to recurrent income and still showing the itemised deductions under the deductions section).

Where possible, deductions from gross income should be shown separately under the deductions section and not netted off to recurrent income. If that is not possible, then the amount is netted off from gross income, and no amount should be shown in the deductions.

8. **Disclaimer**

PricewaterhouseCoopers (PwC) has prepared this report solely for ACARA's use and benefit in accordance with and for the purpose set out in PwC's engagement letter with ACARA dated 11 November 2020 and Our responsibilities, section 2 of the report. In doing so, PwC has acted exclusively for ACARA and considered no-one else's interests.

Our work did not constitute an audit in accordance with Australian Auditing Standards or a review in accordance with Australian Auditing Standards applicable to review engagements and accordingly no assurance is provided in this report.

The respective State Departments of Education and the Australian Government Department of Education, Skills and Employment are responsible for determining any accounting treatments. Any recommendations that we made under the scope of services have been assessed by ACARA FDWG, the respective State Departments of Education and the Department of Education, Skills and Employment. The guidance/recommendations we provided do not preclude the auditor from assessing the policies adopted in the context of the audit of the AIFRS financial report as a whole. In the context of the service we provided under the terms of this engagement we did not perform any verification procedures and therefore do not give any assurance on the underlying transactions or balances.

We are not commenting on the commercial or other desirability of the transactions or accounting treatment addressed as above and we are not reviewing any of the relevant documentation from a taxation or legal viewpoint as we consider that such a review would be more appropriately performed by your taxation and legal advisers. Our work does not constitute an audit conducted in accordance with generally accepted auditing standards, or other attestation or review services. Accordingly, we do not express an opinion or provide any other form of assurance under the terms of this engagement.

We have been separately engaged by ACARA to perform assurance procedures to determine whether the financial data in 2019 My School submissions has been prepared in accordance with the My Schools Financial Reporting Methodology for each jurisdiction. We will issue an opinion letter in relation to that assurance engagement and make no reference to those procedures in this report.

The interpretation of Australian Accounting Standards involves the exercise of professional judgement. The facts, circumstances, assumptions and conclusions described in this report may be viewed differently by others. Due to the evolution of professional interpretation of Australian Accounting Standards, the facts, circumstances, assumptions and conclusions described in this report may subsequently be viewed differently by us and/or others. We are under no obligation to update our evaluation of the accounting treatment proposed by the ACARA FDWG for changes in our interpretation of Australian Accounting Standards.

PwC accepts no responsibility, duty or liability:

- to anyone other than ACARA in connection with this report
- to ACARA for the consequences of using or relying on it for a purpose other than that referred to above.

PwC makes no representation concerning the appropriateness of this report for anyone other than ACARA . If anyone other than ACARA chooses to use or rely on it they do so at their own risk.

PwC is not obliged to provide any additional information or update anything in this report, even if matters come to our attention which are inconsistent with its contents.

PwC's liability is limited by a scheme approved under Professional Standards Legislation.

This disclaimer applies:

- to the maximum extent permitted by law and, without limitation, to liability arising in negligence or under statute; and
- even if PwC consents to anyone other than ACARA receiving or using this report.

Please do not hesitate to contact us if you require any further assistance.

PricewaterhouseCoopers

PricewaterhouseCoopers
11 March 2021
Perth WA