

Oversight of recurrent grants to non-state schools

Report 12: 2014–15



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March 2015

The Honourable P Wellington MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Oversight of recurrent grants to non-state schools* (Report 12: 2014-15).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Greaves', with a long, sweeping tail that extends to the right.

Andrew Greaves
Auditor-General

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Summary

Non-state schools receive grants from the state and Australian governments. The Department of Education, Training and Employment (DETE) administers more than \$500 million in state recurrent funding to 480 Queensland non-state schools, with 257 470 students.

To qualify for state funding, students must have attended school for at least eleven days from the start of school to the end of February.

Non-state schools submit a census of their student enrolments taken on the last Friday of February each year to the Non-State Schools Accreditation Board (the Board), which is a statutory body that reports directly to the Minister for Education.

The *Education (Accreditation of Non-State Schools) Act 2001* (the Act) establishes the role and responsibilities of the Board, and of the governing bodies of the individual non-state schools.

Annually the Board:

- collates census information for all non-state schools
- engages contractors to validate the census returns of 10 per cent of non-state schools
- provides details of student populations to DETE in May and, from this information, annual funding is determined.

A similar census is conducted by the Australian Government in August each year to determine the level of federal funding to be provided.

DETE on behalf of the Minister, is required to:

- collect financial reports from non-state schools
- calculate the funding rates for non-state schools
- pay the recurrent grant instalments.

Conclusions

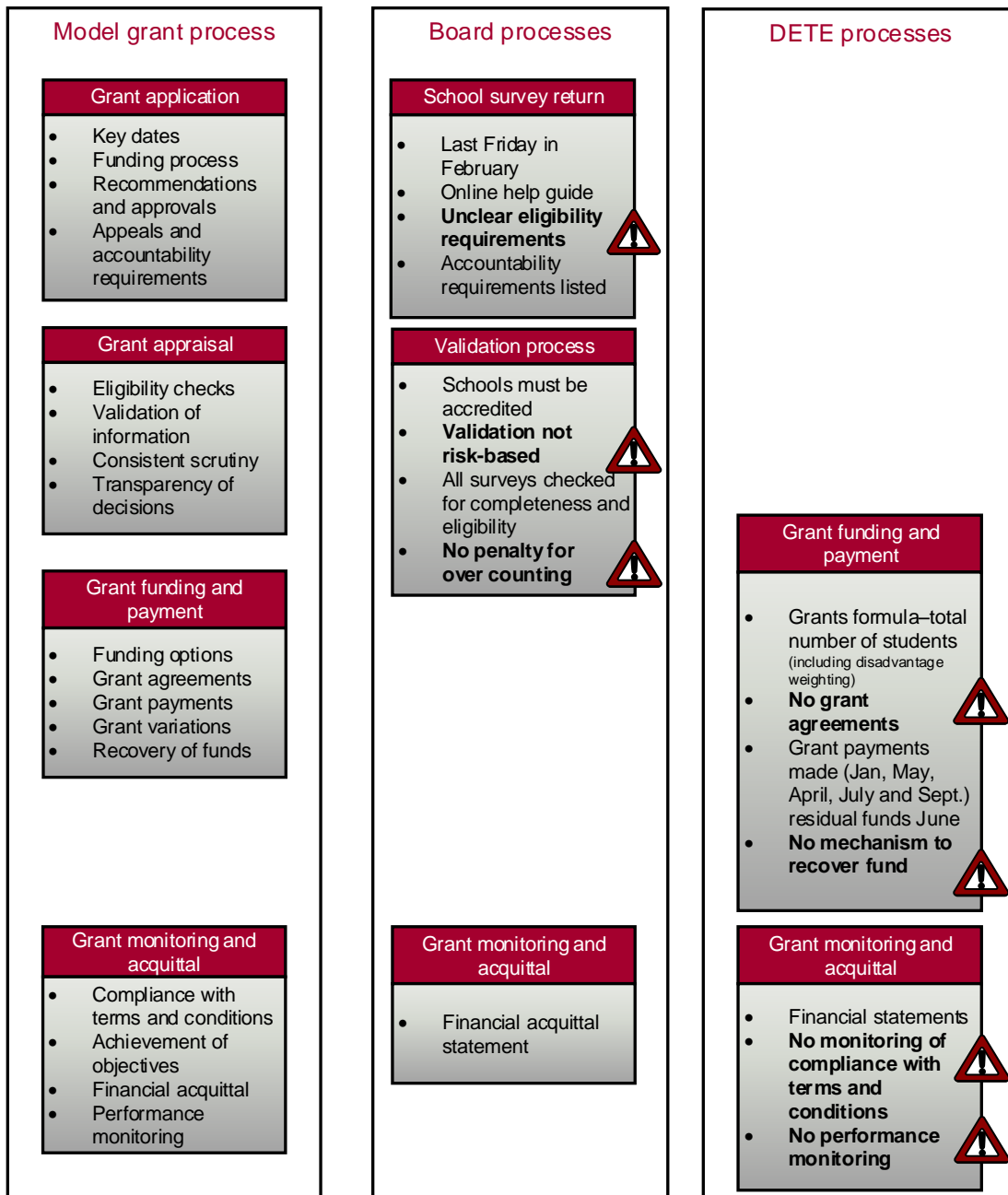
Some non-state schools are getting more state recurrent grants than they are entitled to because they overstate their student numbers and, by doing this, obtain funding for non-eligible students. This means that those non-state schools that correctly apply the eligibility rules receive less than they are entitled to.

Whether the overstatement of student numbers is intentional or not, its incidence and scale has remained undetected or, where detected, has been left unaddressed by the Board. This is largely due to weaknesses in the statutory audit regime oversighted by the Board. This governance failure we attribute in part to the misalignment of the roles of the regulator (the Board) and the funding body (DETE on behalf of the Minister).

Key findings

The *Queensland Financial Accountability Handbook* sets out the requirements for administering a grant program. Figure A shows the key stages in a grant program as outlined in the *Queensland Financial Accountability Handbook*. Gaps in the oversight of the recurrent grants to non-state schools are indicated by alert icons. We expected to find a grant program that met the requirements of the 'model grant process' in the handbook.

Figure A
Accountability for state recurrent grant program to non-state schools



Source: Queensland Audit Office, Model process from Queensland Financial Accountability Handbook

The critical gaps in the administration of the grant program are in the:

- guidance provided to schools in completing the survey
- approach taken by the Board to annually validate the schools' surveys
- level of assurance obtained by DETE from the Board to make payments
- absence of comprehensive recurrent grant agreements with schools
- lack of clear governance requirements for non-state schools.

Guidance

The *Education (Accreditation of Non-State Schools) Regulation 2001* (the Regulation), specifies that, to be eligible for funding, a student must be attending school regularly. Students have to attend school for at least 11 days by the census. However, students can still be eligible if they have been absent for reasons outside the control of the parents. Acceptable reasons are not specified but may include illness or natural disasters.

The Board maintains an online help guide for schools to use in completing their annual survey on student enrolments. The guide explains how to fill out the necessary fields on the form but does not provide practical examples of which students are eligible and which are not. The guide does not specify the documentary evidence required to be kept by schools for the students who do not have the necessary 11 days of attendance by the end of February.

This uncertainty means schools are counting students who are not eligible because they are not attending school regularly.

Validating the census data

The Board engages a team of contractors to validate 10 per cent of the school surveys before the state recurrent grants are paid. The Board has not established a robust framework, including an effective audit program, to oversight the census validation process. As a result, the Board cannot rely on the data collected in the non-state school survey as the basis for calculating the payments.

The contractors check the attendance records of the selected schools to confirm the accuracy of the numbers submitted to the Board. The selection of the schools is informed by some risk factors but there is no explicit risk assessment of the likelihood that students might be over-counted. This reduces the ability of the Board to target and reduce the risk of potential fraud.

The Act refers to the verification process as an audit and to the contractors employed by the Board as auditors. However, the contractors do not possess the qualifications, skills or experience required of a professional auditor; nor do their approaches, including their documentation standards, conform to the professional standards that apply to the audit profession. The statutory intent in this respect is unclear, but the use of the terminology audit in a legislative context usually connotes the expectation of a higher standard of skill and evidence than otherwise.

The Board's contractors consistently find errors in the school surveys at the schools they visit. The percentage of schools that make errors on the school survey has varied from 34 to 59 per cent. The contractors' reports to the Board show that, from 2009 to 2014, the non-state schools visited over-counted students on average by 0.30 per cent. Based on this rate, we estimated \$1.5 million in grants were misallocated in 2014. In these cases, the Board did not take any action to investigate whether past returns from these schools were also overstated.

Because the contractors do not apply an audit discipline to their work, we undertook our own validation exercise on the 2014 school survey, and applied the professional auditing standards. This involved:

- developing and applying a risk assessment to determine the risk of over-counting
- auditing the 2014 school survey at four non-state schools: one low risk and three high risk.

The three schools we rated as high risk had over-counted their students by 14 per cent on average on the 2014 school surveys. The school we rated as a low risk had completed the 2014 school survey accurately with no over-counting.

The high error rates we detected at the high risk schools validates our hypothesis that a risk-based audit approach is more efficient than the unstratified 10 per cent sample approach used by the Board. They also call into question the efficacy of the current audit regime. For example, a contractor admitted, when challenged by us, that he allowed certain students to be counted in school surveys, although he knew the students were not eligible under the Regulation.

Payment of grants

DETE pays the instalments for state recurrent grants to the non-state schools throughout the year. The payments are based on the February school survey figures that the Board provides to DETE annually. The acquittal for the state recurrent grant is provided to the Board.

DETE has not sought an assurance from the Board of the accuracy of the student numbers before paying the grants to non-state schools. DETE also has none of its own assurance mechanisms in place to confirm that it can rely on the census data provided by the Board. This gap in assurance we attribute in part to the split of responsibilities between the Board and DETE. As a result, DETE is making payments without understanding if the Board's controls are operating efficiently and effectively.

There also is no grant agreement in place between the governing bodies of the non-state schools and DETE. This prevents DETE from recovering the grants if there are overpayments or breaches of the terms and conditions of the grant.

Acquittal of grants paid

The acquittals for the state recurrent grants are provided annually to the Board. The governing body or nominee declares that the funds provided were spent or disbursed or committed to be spent for one or more of the following educational purposes:

- teaching
- general staff salaries
- professional development
- curriculum development and implementation
- maintenance and general operations.

The current acquittal process meets the requirements of the *Queensland Financial Accountability Handbook*. A tailored approach to the acquittals based on the amount of the grant would strengthen the process. The administrative burden for smaller schools to have the acquittals audited could be excessive. However, larger schools receiving grants above a threshold set by the Board could provide audited acquittals that the funds were used as indicated.

Governance requirements on non-state schools

The Regulation specifies a number of governance processes and policies that the governing bodies of non-state schools must have in place to maintain accreditation. Non-state schools must have a statement of philosophy and aims, a written educational program and plans for students who have a disability.

The Regulation does not require non-state schools to have policies and procedures about how student attendance is recorded or reported, or how the security of student databases is managed. This reduces confidence in the reliability and accuracy of the reports being used to complete the school survey.

The four schools we audited were not able to readily produce all documentation used to complete the 2014 return. The reports from school databases on student attendance as at February 2014 were incomplete or inaccurate. This made it difficult for the schools to substantiate the numbers of students included on the 2014 school survey.

Recommendations

It is recommended that the Non-State Schools Accreditation Board:

1. provides clearer guidance (including examples) to non-state schools to ensure that the student census is completed consistently, and so that they maintain appropriate records.
2. implements a more robust, risk-based audit verification framework to improve the level of assurance it obtains over the accuracy of the school survey.

It is recommended that the Department of Education, Training and Employment:

3. establishes appropriate ongoing assurance mechanisms between itself and the Non-State Schools Accreditation Board about the operational effectiveness of the controls and processes the Board has in place over the accuracy of the student numbers at non-state schools.

Reference to comments

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of Education, Training and Employment and the Non-State School Accreditation Board with a request for comments.

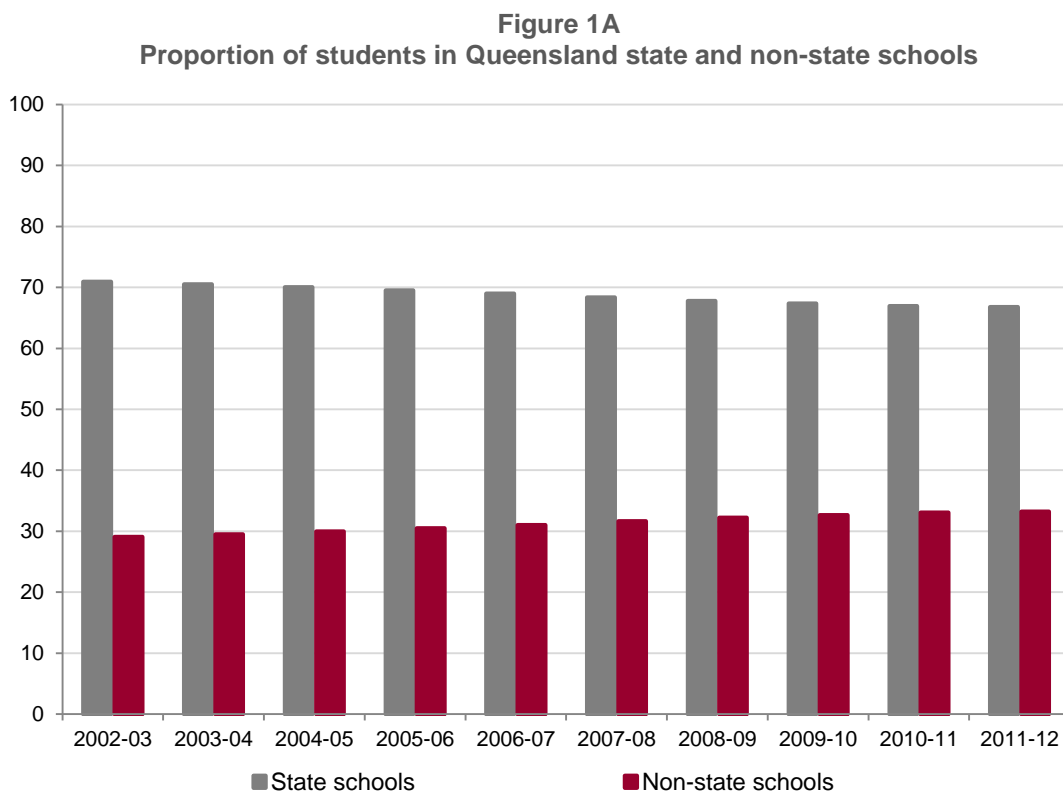
Their views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report.

The comments received are included in Appendix A of this report.

1 Context

Non-state schools are a large and growing part of Queensland's education system. In 2014, 257 470 students were enrolled at 483 non-state schools, an increase of 1.3 per cent from 2013.

Figure 1A shows that the share of students at non-state schools has grown by 4 per cent since 2002–03.



Source: Queensland Audit Office, from Report on Government Services 2014

In the 2014–15 financial year, the Queensland Government allocated a total of \$693.1 million in recurrent and capital grants to the governing bodies of the non-state schools and the Australian Government provided \$2.1 billion.

The amount of the state's recurrent grants allocated to individual non-state schools is calculated using the number of eligible students that regularly attend each school. Student numbers are obtained from an annual survey conducted by the Non-State Schools Accreditation Board (the Board) on the last Friday of February.

1.1 Legislative framework

The *Education (Accreditation of Non-State Schools) Act 2001* (the Act) is the principal Act that governs non-state schools. The objectives of the Act are to:

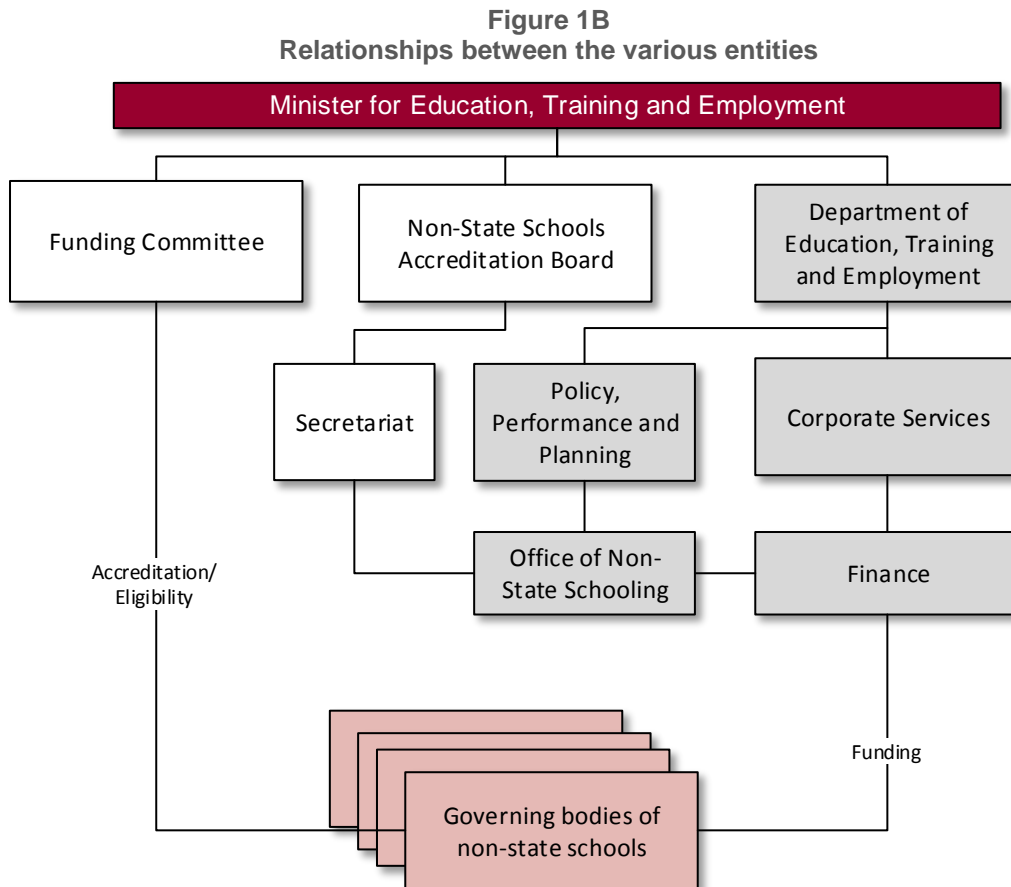
- uphold the standards of education at non-state schools
- maintain public confidence in the operation of non-state schools
- foster educational choices in the state
- provide the basis for the efficient allocation of government funding for non-state schools.

The Act provides for the statutory and administrative mechanisms to accredit a non-state school—the governing body of which must be a corporation—to provide primary, secondary or special education. An accredited school may apply for government funding. Its eligibility for funding is decided by the Minister responsible for education.

1.2 Roles and responsibilities

The Department of Education, Training and Employment (DETE) operates state schools. Non-state schools are operated by their own accredited governing bodies.

The Act establishes the Board. The relationships between DETE, the Board and non-state schools are depicted in Figure 1B.



Source: Queensland Audit Office

The Department of Education, Training and Employment

DETE administers recurrent and capital funding to non-state schools and provides secretariat support to:

- the Board in accrediting and monitoring non-state schools
- the Non-State Schools Eligibility for Government Funding Committee to enable the committee to perform its statutory functions.

The total available funds for non-state schools in any given year is based on projected total student enrolments in the sector. The source of projected enrolments is population data provided by the Australian Bureau of Statistics (ABS). Non-state schools receive an annual per student allocation of the recurrent grant (paid in four instalments) based on their actual enrolments, as reported through the census.

DETE reserves a proportion of the total funding pool to provide a buffer amount in the event that actual enrolments based on census data are higher than the ABS forecast. If the ABS forecast is higher than actual enrolments, there may be another amount of funding left over from the per student allocation process. The total of both these amounts is known as 'residual funding'. Residual funding is returned to schools based on census data.

The Non-State Schools Accreditation Board

The Board is a statutory body. Its role is to uphold the standards of education at non-state schools and to maintain public confidence in the operation of non-state schools.

It reports to the Queensland Minister for Education, Training and Employment and is independent of DETE.

The Board regulates non-state schools through its accreditation processes. It ensures that a government-funded school is a school not being operated for profit and whether the governing body of a government-funded school deals with a for-profit entity on an arm's length basis. It also assesses whether there is a direct or indirect connection between the governing body of a government-funded school and a for-profit entity that could reasonably be expected to compromise the independence of the governing body when making financial decisions. To do this the Board:

- assesses applications and accredits non-state schools
- monitors compliance by non-state schools with the requirements of legislation
- provides advice and information to the Minister and other stakeholders.

The Act and the Education (Accreditation of Non-State Schools) Regulation 2001 set out the criteria the Board consider in deciding whether or not to accredit a school.

The Funding Committee is established as an entity under legislation; the legislation specifies its functions and powers, and its members are appointed by the Governor in Council. Its functions set out in the Act are to:

- assess or reassess, the eligibility of a school's governing body for government funding for the school
- make recommendations, for the Minister's consideration, about the eligibility of a school's governing body for government funding for the school.

Governing bodies of non-state schools

Non-state schools are set up and governed independently on a school by school basis. Their governing bodies are the key decision-makers for most independent schools and are responsible for issues such as:

- provision of education within the school
- current and future development
- financial management
- staffing.

Membership of these governing bodies is determined by election, direct appointment and/or nomination. The members generally serve a fixed term—commonly for a period of three years. Positions on the governing bodies are generally unpaid.

Non-state schools can be part of a larger systemic religious structure, such as the Catholic, Anglican and Lutheran systems or they can be independent schools that take a particular educational philosophy, such as Steiner or Montessori schools.

1.3 Audit objective, method and cost

A recent, highly publicised fraud case established that a non-state school received approximately \$5 million (Commonwealth) and \$3.5 million (state) more in grant payments than it was eligible to receive.

Our objective for this audit was to establish whether this incident was a one-off circumstance or whether it pointed to systemic weaknesses in controls established by the Board and DETE in the recurrent grants it pays to non-state schools.

We examined the effectiveness of the recurrent grant funding, payment and acquittal processes against the requirements of the *Queensland Financial Accountability Handbook*.

The cost of the audit was \$120 000.

Entities subject to this audit

- the Non-State Schools Accreditation Board
- the Department of Education, Training and Employment. The audit was concluded prior to the administrative arrangements order, 16 February 2015.
- our risk-based selection of four non-state schools.

2 Grants to non-state schools

In brief

Background

In 2014, the state government allocated \$511 million in recurrent grants to the governing bodies of the 483 non-state schools in Queensland.

The grant amounts are calculated based on a survey of the number of students regularly attending non-state schools. The school survey is conducted by the Non-State Schools Accreditation Board (the Board) every year on the last Friday of February. The Department of Education, Training and Employment (DETE) pays the state recurrent grants based on the data provided by the Board.

Conclusions

Some non-state schools are funded for non-eligible students because they submit incorrect surveys to the Board. These schools are receiving more than their entitled share of the state recurrent grant funding.

The Board has not met its obligation to properly audit the school surveys. It has not determined the level of assurance required, the skills of its auditors or the standards to be applied. The audits of the school surveys do not meet industry standards.

As a result, DETE is paying the recurrent grants to non-state schools based on unreliable estimates of student numbers. DETE has not sought assurances from the Board over the accuracy and reliability of the data from non-state schools.

Key findings

- There are no grant agreements in place with non-state schools. This reduces the ability of DETE to recoup unspent funds or over payments.
- The guidance on how to determine if a student is eligible for funding is not clear.
- The Board's contractors are not qualified auditors and do not conduct the work in accordance with the Australian auditing standards.
- Three schools we visited, rated by us as being high risk, had over-counted the students on the 2014 school survey by an average of 14 per cent.
- Based on the rate of over-counting detected from previous years, the recurrent grants to non-state schools may have been misallocated by an estimated \$1.5 million in 2014. This is a conservative estimate, as it is not risk-based, nor subject to rigorous auditing.
- DETE obtains no assurance from the Board about the accuracy of the non-state school student numbers which DETE uses to make payments.
- The security over the student databases at the four schools audited was weak.

Recommendations

It is recommended that the Non-State Schools Accreditation Board:

1. **provides clearer guidance (including examples) to non-state schools to ensure that the student census is completed consistently, and so that they maintain appropriate records.**
2. **implements a more robust, risk-based audit verification framework to improve the level of assurance it obtains over the accuracy of the school survey.**

It is recommended that the Department of Education, Training and Employment:

3. **establishes appropriate ongoing assurance mechanisms between itself and the Non-State Schools Accreditation Board about the operational effectiveness of the controls and processes the Board has in place over the accuracy of the student numbers at non-state schools.**

2.1 Background

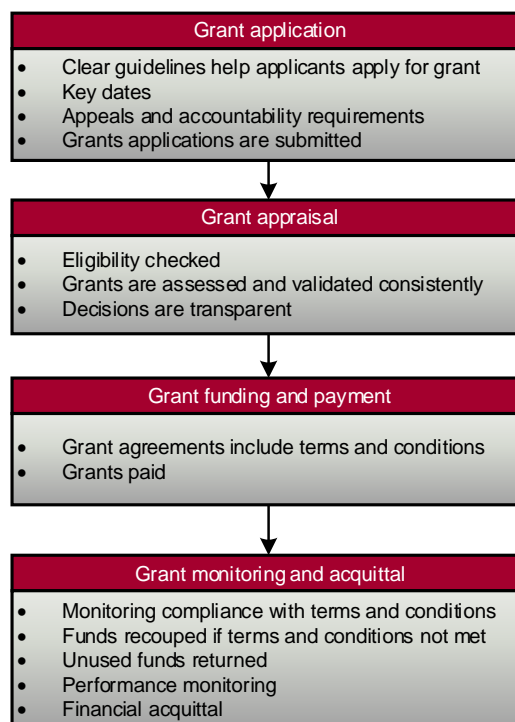
The Department of Education, Training and Employment (DETE) and the Non-State Schools Accreditation Board (the Board) both have roles in the funding of non-state schools. Both are required to have regard to the *Queensland Financial Accountability Handbook*.

The handbook defines a grant as a generic term applied to funding or other incentives provided to individuals or bodies (including community groups, statutory bodies or commercial enterprises) that exhibit some, or all, of the following characteristics:

- a transfer to a recipient which may be in return for compliance with certain terms and conditions
- a transfer which may not directly give approximately equal value in return to the government (that is, there is a non-exchange transaction or subsidisation)
- a recipient may have been selected on merit against a set of program-specific criteria.

Grants can be in the nature of incentives, donations, contributions, debts forgiven, rebates, tax relief and other similar funding arrangements. They may be in the form of cash or other property. Figure 2A depicts the model process for the administration of grants. The key stages of the process are the application for the funding, the appraisal of the funding, payment and acquittal.

Figure 2A
Model grant administration



Source: Administration Model adapted from *Queensland Financial Accountability Handbook*

The purpose of the model grant process is to ensure that cost-effective internal controls are developed and applied to the administration of a department's and/or statutory body's financial resources.

As all Queensland government grant programs involve the use of public money, grant providers are accountable for funds allocated under various grant programs. Providers are required to meet various regulatory obligations contained in the Financial Accountability Act 2009 (the Act), the Financial and Performance Management Standard 2009 (the Standard) and other applicable legislation.

Source: *Queensland Financial Accountability Handbook, Volume 6*

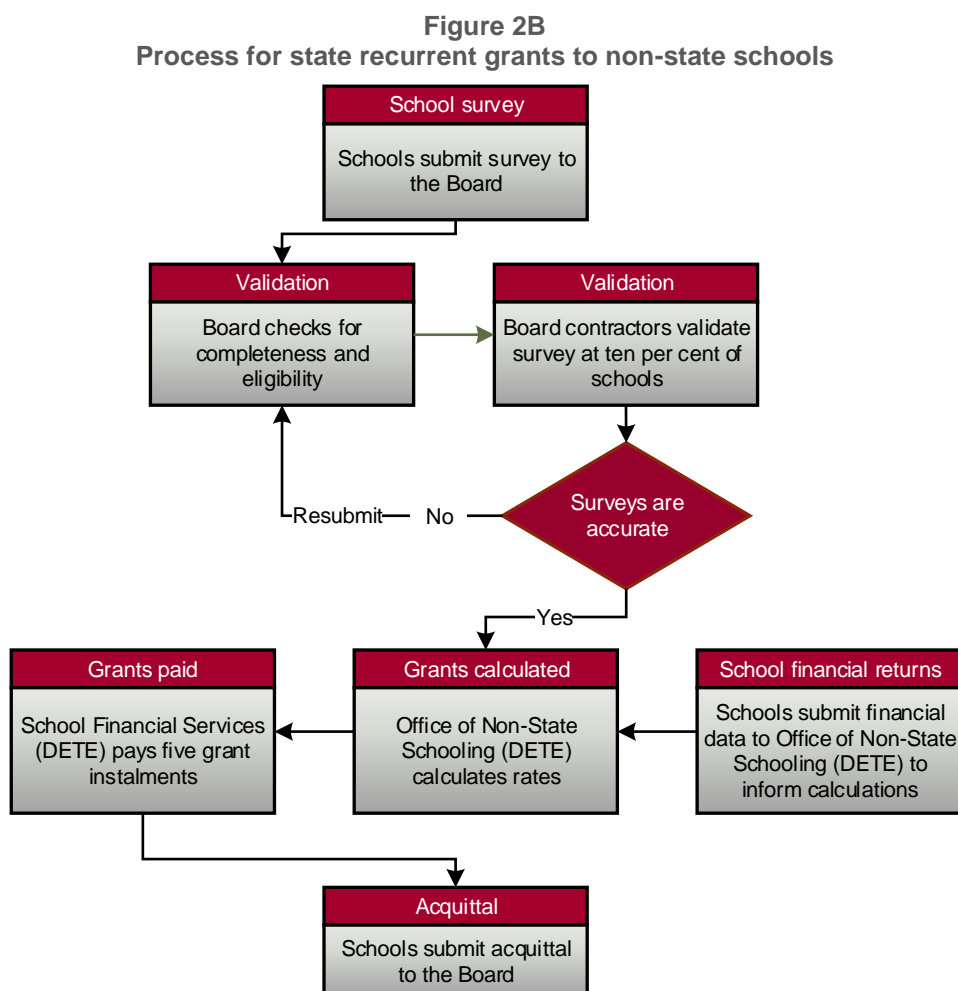
If approved by the Minister, schools become entitled to recurrent funding based on their annual student numbers, subject to each school maintaining its eligibility for accreditation.

We did not examine the initial accreditation process, including the initial application for funding, as part of this audit. Our focus was on the recurrent annual grant funding after the first stage, as this is where problems were identified.

2.1.1 Recurrent funding of non-state schools

The Board does not require schools to submit a new application each year for funding; accredited schools are entitled to funding. Instead it requires each school to submit survey data each year about the number of students enrolled and regularly attending school on the last Friday of February. Information derived from the annual survey is used to allocate funds (recurrent grants) to non-state schools and governing bodies.

Figure 2B shows the process for the payment of state recurrent grants to non-state schools. The process generally follows the steps of a model grant process. Some parts of the process are administered by the Board and some by DETE; the Office of Non-State Schooling and School Financial Services.



Source: Queensland Audit Office

We expected the recurrent grant program to non-state schools to be well governed and meet the requirements of the *Queensland Financial Accountability Handbook*, including:

- clear grant applications providing all necessary information for their completion
- cost-effective appraisal of eligibility and accuracy of survey
- accurate grant payments based on survey data
- effective grant monitoring and acquittal.

As well as examining the Board's and department's control processes, we visited four schools and examined their underlying records to establish directly whether their survey returns were accurate. As we were re-performing checks undertaken by the Board's contractors, this meant we also tested the effectiveness of this audit process.

2.2 Conclusions

The Board and DETE are not ensuring that recurrent grants to non-state schools are being allocated accurately. The Board's verification processes do not ensure that the data used to apportion recurrent grants is reliable. This means that some non-state schools are receiving more recurrent grants than they are entitled to at the expense of other non-state schools. We estimate \$1.5 million has been misallocated in 2014.

We developed a risk framework and identified over-counting at three of the four non-state schools we examined. Based on previous estimates of over-counting, the recurrent grants to non-state schools were overpaid by an estimated \$1.5 million in 2014.

None of the four non-state schools were able to readily substantiate the 2014 school survey numbers with complete documentation or accurate reports from their student databases. Governing bodies rely on the information from these databases for the school survey and also for their own forecasting and budgeting. However, the reliability and security of these systems is not assured or externally validated.

The lack of a grant agreement between DETE and the governing bodies of the non-state schools reduces the accountability for the grant program. It diminishes DETE's ability to recover monies paid for non-eligible students.

2.3 Completing the survey

The annual school survey requires data on the number of eligible students enrolled and also on certain student characteristics which allow for additional funding, such as Indigenous status or English as a second language.

The Education (Accreditation of Non-State Schools) Regulation 2001 (the Regulation), specifies that students can only be included if they are enrolled at the school and have attended school for at least 11 days over the collection period (generally 20 days). Students who have not attended regularly can be included if the reason for their absence is outside their parents'/guardians' control—for example flood, illness, or the death of a family member.

The governing body of each school relies on student databases to produce reports on the numbers of students eligible for funding both from the state and the Commonwealth. These numbers are used to complete the school survey submitted to the Board and to calculate the grant payments.

2.3.1 Grant agreement

There is no grant agreement in place between the non-state schools and either the Board or DETE. This reduces the ability of DETE on the Minister's behalf to recover money if the grant terms and conditions are breached, or if moneys are overpaid, based on incorrect data. We found that DETE has informal practices to recover overpayments only when the non-state schools advise DETE that they identified the overpayments themselves, based on errors. DETE determines the repayments on a case by case basis. The repayment may include a single transaction or instalments over a number of years. DETE has no documented policies or procedures for the recovery of overpayments to non-state schools.

A well-drafted agreement provides the funding agency and the recipient with a written record of the terms agreed and executed between both parties. It includes roles and responsibilities, funding provided, required milestones, key performance indicators, monitoring and acquittal requirements and dispute resolution.

2.3.2 Guidance

An online help guide helps schools to complete the survey and fill in the form.

The guidance notes refer to the eligibility criteria from the Regulation:

For the purpose of PART A, a full-time student can be included if the student:

- *is formally enrolled at the school; and*
- *is acknowledged by the school as having attended the school for at least 11 days of the program or course of study for which the student is enrolled between the commencement of the school year and the Census day (the 'relevant period').*

However, a full-time student is also taken to have attended the school during the relevant period if:

- *the student attended the school for less than 11 days because of the student's absence from the school; and*
- *the student's absence was for a reason that was beyond the control of the student's parent or guardian, or, if the student is living independently, beyond the control of the student.*

There are two main areas where the online help guide could be improved:

- It does not provide specific advice on how to apply the eligibility criteria.
- The notes do not explain or give examples of reasons for absences that would be considered outside the parent's control.

This makes it difficult for schools to be confident they are interpreting the eligibility criteria consistently. Other jurisdictions, such as Victoria, provide examples to schools of the types of absences that can be considered reasons outside the parent's control.

2.3.3 School documentation

The online help guide does not specify the documentary evidence needed to substantiate the survey and students' eligibility.

The four schools we visited all had difficulties providing complete records to substantiate the number and eligibility of students reported in the February 2014 survey. The issues related to retrieval of archived records, parents not supplying birth certificates, and poor record keeping.

Figure 2C
Completeness of school records, four non-state schools

	School A	School B	School C	School D
February attendance records	Complete	Incomplete	Incomplete	Incomplete
Enrolment records	Incomplete	Incomplete	Incomplete	Complete
Reports used to complete the school survey	Complete	Incomplete	Incomplete	Incomplete

Source: Queensland Audit Office

At three schools, teachers marked the rolls electronically. These schools could not readily run complete reports from the school database because records for students who had been enrolled in February 2014, but had since left the school, had been archived.

Proof of age and citizenship records were incomplete at three schools. The parents/guardians did not provide a copy of the student's birth certificate at the time of enrolling the student.

One of the four schools had kept complete working papers of all the reports used to fill in the school survey. This listed which students had been included and why or why not.

2.4 Checking the survey data

The Board undertakes two checks on the accuracy of student numbers in school surveys. They are first checked for completeness and eligibility by the Board secretariat when submitted. A team of contract auditors subsequently validates the student numbers at 10 per cent of schools annually.

2.4.1 Initial checks for accuracy and eligibility

The secretariat for the Board conducts 'reasonableness' checks of all surveys for accuracy and eligibility for the type of funding claimed. For example, if the school is claiming for boarding students the Board Secretariat confirms that the school's governing body is eligible for government funding for the 'operational aspect' of boarding for the specific years of schooling involved and for the gender of students in question.

It does this by checking that:

- an impairment category is recorded for students recorded as having a disability
- schools with boarding flag selected are approved to offer boarding
- schools with needs flags selected have provided relevant data
- census data has been resubmitted
- boarding schools are accredited to offer boarding against enrolment data
- there are no outstanding census returns
- school codes in database of census are consistent with enrolment data
- school codes in database of census are consistent with students with disabilities data
- Education Adjustment Programs for students with disabilities were completed by census day
- enrolment data is consistent with enrolment data from the previous five years.

If errors or omissions are identified at this stage, these are followed up with the schools, resulting in an explanation being documented or a new survey form being submitted.

We found no issues with this process. However, as a desktop exercise, this process is inherently limited in its ability to detect intentional manipulation or falsification. This is why it is important for the Board to also undertake an annual audit process to verify the student numbers at the school.

2.4.2 Subsequent verification of student numbers

The Board engages contractors to verify the enrolment data for 10 per cent of enrolments and schools each year. This is generally around 50 to 55 schools, or 25 000 to 26 000 enrolments each year. The cost of the verification is about \$70 000 per year.

Whether this process is effective depends critically on the sample method, and on the efficacy of the contractors. How well the audits are conducted depends on the quality of the appointed auditors and the approach they adopt to verification.

Sample method

There is no clear rationale for why a sample frame of 10 per cent is used. By implication, assuming a random sample without replacement, each school's survey data would be audited once every ten years. By comparison, the cycle for re-assessing school eligibility is every five years.

The schools visited are determined at the beginning of a three year cycle. The Board considers elapsed time since the last verification, geographic location, the split between Catholic and Independent Schools, school size, type and affiliation, previous history of over-counting and recent governance issues.

The use of such population characteristics helps the Board to select its sample, and some risk factors are considered informally. However, there is no explicit assessment of the inherent risk of a school over-counting its students as part of this selection process. The Board is not able to fully assess the risks, as it does not receive and therefore cannot analyse the financial reports of the schools. At present this information is only provided to DETE to inform the calculation of the payment rates.

We developed and applied the following risk criteria as part of our selection process:

- the financial position of the school—For schools operating at a loss or on very small margins, overstating student numbers will increase state and Australian Government grant revenues
- previous history of over-counting—Past experience is often a good indicator of future performance
- system affiliations and support—Schools that are part of a broader education system, such as Catholic schools, have other quality assurance checks on their school surveys before they are submitted to the Board
- data from the Commonwealth on school financial sustainability
- assessments of the maturity of school's control systems—Assumptions were made about the maturity of the school's control environment based on the length of time the school and/or governing body had been operating.

A risk-based approach to school selection, using appropriate risk criteria, will provide a more efficient sampling approach, by allowing the Board to target its validation where it is most needed.

Contract auditors

The contractors engaged by the Board are referred to as 'auditors' under section 142 of the Act, and their role is to verify school survey data. The *Education (Accreditation of Non-State Schools) Act 2001* (the Act) provides that the Board may, in writing, appoint a person as an auditor if the Board considers the person:

- has the necessary expertise or experience to be an auditor
- is a suitable person to perform the function of an auditor.

The Act distinguishes the role of an auditor from that of an assessor, although the same person may undertake both roles. An assessor's role is to establish whether an accredited school continues to satisfy the eligibility criteria; an auditor's sole responsibility is to verify school survey data provided by each non-state school to the Board, in accordance with section 166 of the Act.

The Act is silent on the expertise and experience required of an auditor, and the Board has not defined these. In practice the Board has appointed education experts with experience in the sector and working with non-state schools. In comparison, such attributes are significantly less than those required of an auditor for the purposes of corporations law.

Audit approach adopted

The verification procedures performed by the Board's contractors do not compare favourably with the requirements of an assurance engagement under Australian Auditing and Assurance Standards.

For example, the audits undertaken at schools do not include:

- an approved audit program specifying the criteria to be used consistently to assess eligibility
- a clear definition of what constitutes an 'error' or exception condition, and how this is to be investigated and treated
- a requirement to make relevant enquiries and obtain written representations from the entity being audited
- a requirement to form an overall conclusion/opinion against a prescribed level of assurance that the subject matter is free from material misstatement
- a requirement to maintain sufficient documentation of the audit work and findings.

As there is no approved audit program, judgements about student eligibility are made by the individual auditors. We identified a case where one of the contracted auditors, using his own judgement, allowed schools to include students on their survey returns who were not eligible for funding under the Regulation.

2.5 Results of our audit of student numbers

Given the weaknesses we identified in the Board's validation process, we used our own risk criteria to select four schools to check if over-counting was occurring. We selected one school that we assessed as having a low risk of over-counting, and three schools we assessed as having a high risk.

We examined the accuracy of their 2014 school survey, the reliability and security of their student databases, and the supporting documentation these schools had on record.

To confirm the accuracy of the 2014 school surveys we:

- compared the numbers on the form with school paper rolls and/or attendance reports from school databases from January and February 2014
- checked a sample of the enrolment forms and birth certificates to confirm that students were eligible for funding
- reviewed the documents used to complete the 2014 school survey
- undertook limited testing on the security of the databases.

We compared our results to the results from the Board's verification processes.

2.5.1 Error rates detected

Figure 2D summarises the errors detected by the Board's contractors between 2009 and 2014. The reports consistently identify over-counting of students by non-state schools. Of the 10 per cent of schools visited each year, between 34 and 59 per cent made errors on their survey form. The errors can be simple arithmetical errors or over-counting by including non-eligible students.

However, the reports also show that from 2009 to 2014 the over-counting of students ranged from as little as 0.10 per cent to 0.93 per cent of the sample population. The average over-count rate since 2009 is 0.30 per cent.

Figure 2D
Validation of the school survey, 2009–2014

Year	Schools visited	Schools who made errors (per cent)	Number of students over-counted	Number of students at validated schools	Error rate (per cent)
2009	36	49	76	12 044	0.63
2010	43	55	155	16 640	0.93
2011	43	46	22	21 620	0.10
2012	47	48	26	23 552	0.11
2013	50	34	56	26 619	0.21
2014	50	59	60	31 354	0.19

Source: Queensland Audit Office, from the Board reports

In comparison, the three high risk schools we visited (A, B and C) over-counted students in the 2014 school survey by between 5 and 22 per cent. The 2014 school survey for the low risk school (D) was accurate, with no over-counting.

Figure 2E contains a summary of the results of our audit for the four schools visited.

Figure 2E
Results of audit of 2014 school surveys

	School A	School B	School C	School D
Number of students claimed on the 2014 school survey	315	289	81	490
Number of students we assessed as eligible	258	274	69	490
Over-count — number	57	15	12	0
Over-count — per cent	22	5	17	0
Over allocation	\$195 651	\$44 703	\$39 192	0

Source: Queensland Audit Office

These results validate our risk-based approach, as we found significantly higher error rates in the high risk schools than those found in the 10 per cent sample method used by the Board. As expected, we found no errors at the low risk school.

2.5.2 Extrapolation of sample results

When the audit contractors find that a school has over-counted the number of eligible students in their current survey, the school is asked to re-submit the survey.

The contractors do not examine the surveys from previous years to find out whether the school received funding for non-eligible students in previous years. As a result, there is no consequence for schools for including non-eligible students from previous years, and there is no systemic approach to the investigation of suspected fraud. Fraud is discouraged when the perception of detection is present and potential perpetrators recognise that they will be punished when caught.

The Board has not analysed the results of the previous audit reports. We used the results to estimate the impact of the consistent errors and over-counting in the school surveys on the efficiency of the grant programs. Given the total population of non-state school students of 257 470 in 2014 and the average rate of over-counting from previous years of 0.30 per cent, it is likely that an estimated \$1.5 million may have been allocated in 2014 for non-eligible students.

Figure 2F
Estimated 2014 overpayments

Average over-counting rate 2009–2014	Number of students	Estimated over-counting	Average recurrent funding per student	Estimated over-payments 2014
0.30	257 470	771	\$1 986	\$1 532 117

Source: Queensland Audit Office

2.6 Payment of grants

For each calendar year, eligible non-state schools are apportioned a recurrent per capita rate for their primary and secondary students. These rates are multiplied by the number of eligible enrolments for that year, based on the February census, to give each school's overall allocation of recurrent funding.

The recurrent grants include two components—a base component common to all schools and a needs-based component based on the specific needs profile of each school.

The needs-based funding is based on a number of factors as follows:

- the socioeconomic status of the school community (37.5 per cent)
- the School's Resource Index, which is a measure of a school's private income (37.5 per cent). This information is collected as part of the annual financial data collection
- school isolation (5 per cent)
- student needs profile (20 per cent), with weightings applied as follows
 - a weighting of 5 for students with disability
 - a weighting of 3 for notional boarding fee concession students
 - a weighting of 1 for isolated students, students with English as a second language, and Aboriginal and Torres Strait Islander students.

Under the present arrangement the Board, as the regulator, establishes that non-state schools can be funded, and collects the data on how many eligible students are to be funded.

On behalf of the Minister, as funder, DETE calculates and pays the recurrent grants to non-state schools. These payments are based on eligible student numbers which are ostensibly checked by the Board. DETE, in making these payments, is relying on the Board, but it does not itself undertake either any direct assurance activity over the student numbers or seek to obtain comfort from the Board about the effectiveness of the Board's own assurance mechanisms.

This statutory separation of the roles of the funder between the department and the Board is not common, and creates the risk of oversight deficit.

2.7 Acquittal of grants paid

The acquittals for the state recurrent grants are provided annually to the Board. The governing body or nominee declares that the funds provided were spent or disbursed or committed to be spent for one or more of the following educational purposes:

- teaching
- general staff salaries
- professional development
- curriculum development and implementation
- maintenance and general operations.

The current acquittal process meets the requirements of the *Queensland Financial Accountability Handbook*. The handbook recommends that the acquittal requirements should be risk-based, considering the funding risks and the compliance costs to both the funder and the grant recipient.

There is no consideration of a tailored approach to the acquittals based on the amount of the grant. The administrative burden for smaller schools to have the acquittals audited could be excessive. However, larger schools receiving grants above a threshold set by the Board could provide audited acquittals that the funds were used as indicated.

2.8 Controls over student data at schools

The Regulation requires non-state schools to have a number of governance mechanisms, policies and procedures in place to be accredited. These include a statement of philosophy and aims, a written educational program, and plans for students who have a disability. However, it does not require non-state schools to have policies and procedures about how student attendance is recorded or reported, or how student databases are managed.

The verification of the student data includes checking the census data against school records such as computer databases, enrolment registers, attendance rolls and individual student files. However:

- no consideration is given to, or testing undertaken of, the school's control environment
- no fraud-risk assessment is undertaken to focus attention on high risk areas
- the databases producing the attendance reports are not assessed for security or reliability and, as such, no assurance is obtained that changes to databases are authorised. This reduces the reliability of the reports from the databases.

The four schools we visited were at various stages of moving from paper-based student rolls and records to electronic roll marking and electronic student databases. We performed limited testing of the security and reliability of the reports generated by the school databases. Good security measures and tight controls on the number and type of staff with access to the database could reduce the risk of 'phantom' students being enrolled and attendance records being manipulated.

We found that these schools restricted the access to their databases. However, there were control deficiencies over the databases at all four schools. The function of logging changes to student enrolments and attendance was available at one school but was not being used by the management team. The other three schools had not enabled or requested the functionality to be able to track changes to the database. This reduces management's ability to identify and investigate any unauthorised access or manipulation of the student data.

The Board has no authority to require that non-state schools put the necessary controls in place to ensure the integrity or security of the student data and that reports on student eligibility for funding are reliable and accurate.

2.9 Recommendations

It is recommended that the Non-State Schools Accreditation Board:

- 1. provides clearer guidance (including examples) to non-state schools to ensure that the student census is completed consistently, and so that they maintain appropriate records.**
- 2. implements a more robust, risk-based audit verification framework to improve the level of assurance it obtains over the accuracy of the school survey.**

It is recommended that the Department of Education, Training and Employment:

- 3. establishes appropriate ongoing assurance mechanisms between itself and the Non-State Schools Accreditation Board about the operational effectiveness of the controls and processes the Board has in place over the accuracy of the student numbers at non-state schools.**

Appendix

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Appendix A—Comments

In accordance with section 64 of the *Auditor-General Act 2009*, a copy of this report was provided to Non-State Schools Accreditation Board and Department of Education, Training and Employment with a request for comment.

Responsibility for the accuracy, fairness and balance of the comments rests with the head of these agencies.

Comments received from Chairperson, Non-State Schools Accreditation Board



Non-State Schools
Accreditation Board

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Greaves

I refer to your letter of 17 December 2014 enclosing a copy of the proposed report: *Performance audit on the oversight of recurrent grants to non-state schools* for attention of the Non-State Schools Accreditation Board.

The Board was required to examine the proposed report and indicate its extent of support for the two Board-related recommendations, and it was open to the Board to provide general comments.

By email of 14 January 2015, the Assistant Auditor-General advised the Board that, given the shortened process adopted for reporting on the audit, you would be happy to accept officer level feedback in the first instance, which would allow the provision of any amendments for the Board to consider prior to providing formal responses for inclusion in the final report.

With the Board's agreement, feedback on its behalf was provided on 15 January 2015 by officers of the Board Secretariat, Dr Pat Parsons and Mrs Tracey Jarrett, to your officers, Mr John Hanwright and Mr Darren Brown.

A copy of the amended proposed report was delivered by hand to the Board on 20 January 2015.

By letter of 5 February 2015 the Board provided its submission on the amended proposed report. On 13 February 2015, the Board received for its consideration an acquittal of the QAO's considerations of the Board's comments, and amended pages of the report. A revised response, if any, was to be received by you by cob on 20 February 2015.

The Board believes the two Board-related recommendations in the proposed report are valuable and will be pleased to implement them.

With regard to the first recommendation, for this year's school survey data collection, enhanced guidance has been provided to governing bodies in providing school data. This guidance is given within the body of the 'data collection instrument', and the annexed 'instructions for completion' (previously called the 'online help'). These enhancements include incorporating examples of the practical application of the prescribed expression "beyond the control of" in determining whether a full-time or part-time enrolled student is taken to have attended the school for the purposes of school survey data.

On the second recommendation, while seeking to maintain an operational target of including all schools over an extended period of time, the Board's existing risk-based approach to identifying schools for enrolment audits will be strengthened in 2016 by making it more systematic and better codified. The Board also will seek to determine other

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Response to recommendations

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sources of information that could assist in identifying high-risk schools.

The Board responses to the recommendations are attached.

In respect of its general comments, the Board is pleased that many of the inaccuracies it identified in the initial proposed report and the amended proposed report have been addressed by the QAO.

Members of the Board considered these to be important to a full and complete understanding of the processes of overlooking allowances in respect of non-state schools.

Members appreciate the opportunity to review the report.

Yours sincerely



Emeritus Professor S Vianne (Vi) McLean AM
Chairperson

Enc

15/59516

Response to recommendations

Attachment

Response to recommendations in the Auditor-General's proposed report: *Performance audit on the oversight of recurrent grants to non-state schools*

Recommendation	Agree / disagree	Timeframe for implementation	Additional comments
It is recommended that the Non-State Schools Accreditation Board:			
1. provides clearer guidance (including examples) to non-state schools to ensure that the student census is completed consistently, and so that they maintain appropriate records.	Agree	2015 school survey data collection	<p>Enhanced guidance has been provided to governing bodies in providing school data. This guidance is given within the body of the 'data collection instrument', and the annexed 'instructions for completion'.</p> <p>These enhancements include incorporating examples of the practical application of the prescribed expression "beyond the control of" in determining whether a full-time or part-time enrolled student is taken to have attended the school for the purposes of school survey data.</p>
2. implements a more robust, risk-based audit verification framework to improve the level of assurance it obtains over the accuracy of the school survey.	Agree	2016 school survey data verification	<p>While seeking to maintain an operational target of including all schools over an extended period of time:</p> <ul style="list-style-type: none"> the Board's existing risk-based approach to identifying schools for enrolment audits will be strengthened by making it more systematic and better codified; and the Board also will seek to determine other sources of information that could assist in identifying high-risk schools and selecting focus areas.

Comments received from Director-General, Department of Education, Training and Employment

23 FEB 2015



Department of
Education, Training and Employment

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Greaves

Andrew

Thank you for your letter dated 17 December 2014 regarding the proposed report for the performance audit on the oversight of recurrent funding to non-state schools. The Department of Education and Training (DET) welcomes the review of the recurrent funding program for non-state schools and appreciates this opportunity to make further improvements to the program.

The report contains three formal recommendations:

- that the Non-State Schools Accreditation Board (the Board):
 - provides clearer guidance (including examples) to non-state schools to ensure that the student census is completed consistently, and so that schools maintain appropriate records;
 - implements a more robust, risk-based audit verification framework to improve the level of assurance it obtains over the accuracy of the school survey; and
- that DET:
 - establishes appropriate ongoing assurance mechanisms between itself and the Board about the operational effectiveness of the controls and processes the Board has in place over the accuracy of the student numbers at non-state schools.

Although the first two recommendations are addressed to the Board, DET supports all three recommendations and has commenced work to instigate appropriate assurance mechanisms, as per Recommendation 3.

DET highly values its relationship with non-state schools and the Board and works closely with them to ensure the non-state school system is operating as effectively as possible. DET will continue to work with its non-state education partners and stakeholders to implement necessary changes. DET aims to ensure that changes are implemented which address appropriately assessed risks to achieve an accurate allocation of resources to non-state schools.

DET is currently undertaking a review of the *Education (Accreditation of Non-State Schools) Act 2001*. Some of the concerns raised by the Queensland Audit Office (QAO) report, regarding improvement of the controls around and oversight of the payment of recurrent funding to schools, will be taken into account as part of this review.

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In addition to the recommendations, the report highlighted aspects of the administration of the State recurrent funding program which could be strengthened. In particular, I refer to the possible use of a formal mechanism to recover funds in cases of dispute between DET and a governing body. DET recognises the value of accountability and transparency and will work in collaboration with the Board and its strategic partners to improve current processes.

I note the QAO's view that the recurrent funding program does not meet the requirements of the Queensland Financial Accountability Handbook. The objective of Volume 6 of the Handbook concerning Grant Management is to achieve a whole-of-Government approach to grant program development and administration while maintaining some flexibility to suit an individual agency's specific program requirements.

Therefore, I wish to advise of the requirements regarding the non-state school funding program.

Recurrent funding is paid as an allowance to the governing body of an eligible non-state school, under section 368 of the *Education (General Provisions) Act 2006*, for its use in the operation of the school. To be eligible for State Government funding, non-state schools must:

- be accredited or provisionally accredited by the Board in line with the criteria outlined in the *Education (Accreditation of Non-State Schools) Act 2001*;
- be not for profit and approved by the State Education Minister as eligible to receive funding; and
- complete and submit survey data each year to the Board prior to funding being allocated to the school.

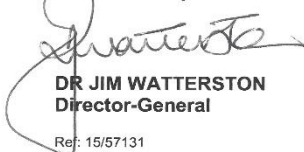
Further, while schools are not required to provide specific services in return for the funding, they are required, under State and Commonwealth legislation, to report annually on a number of performance measures, including attendance and retention rates, National Assessment Program - Literacy and Numeracy, Year 12 outcomes and post-school destinations.

In response to the QAO's expectation that the recurrent grant program to non-state schools would meet the requirements of the Handbook, DET proposes to develop a financial policy position in relation to the disbursement of recurrent payments to non-state schools. To do this DET will work with Queensland Treasury to clearly document the differences between the administered funding arrangements for non-state schools and the grants management process as detailed in the Queensland Financial Accountability Handbook.

I appreciate the work conducted by your office to review the recurrent funding program for non-state schools, and I confirm that DET has and will continue to adhere to the confidentiality requirements of section 65 of the *Auditor-General Act 2009*.

Should you require any further information, I invite your officers to contact Ms Amanda Dulvarie, Executive Director, Portfolio Services and External Relations, by telephone on 30344763 or by email at amanda.dulvarie@dete.qld.gov.au.

Yours sincerely



DR JIM WATTERSTON
Director-General

Ref: 15/57131

Response to recommendations

**Attachment 1: DETE analysis of the QAO proposed report - Oversight of recurrent funding to non-state schools
DETE response to recommendation**

Recommendation	Agree/ Disagree	Timeframe for implementation	Additional comments
<p>It is recommended that the Department of Education, Training and Employment:</p> <p>3. establishes appropriate ongoing assurance mechanisms between itself and the Non-State Schools Accreditation Board about the operational effectiveness of the controls and processes the Board has in place over the accuracy of the student numbers at non-state schools.</p>	<p>Agree</p>	<p>By May 2015, in line with the provision of the census data from the Non-State Schools Accreditation Board to DETE</p>	<p>DETE supports this recommendation and intends to establish and implement appropriate and on-going formal assurance mechanisms between itself and the Board.</p>

Auditor-General Reports to Parliament

Reports tabled in 2014–15

Number	Title	Date tabled in Legislative Assembly
1.	Results of audit: Internal control systems 2013-14	July 2014
2.	Hospital infrastructure projects	October 2014
3.	Emergency department performance reporting	October 2014
4.	Results of audit: State public sector entities for 2013-14	November 2014
5.	Results of audit: Hospital and Health Service entities 2013-14	November 2014
6.	Results of audit: Public non-financial corporations	November 2014
7.	Results of audit: Queensland state government financial statements 2013-14	December 2014
8.	Traveltrain renewal: Sunlander 14	December 2014
9.	2018 Commonwealth Games progress	December 2014
10.	Bushfire prevention and preparedness	December 2014
11.	Maintenance of public schools	March 2015
12.	Oversight of recurrent grants to non-state schools	March 2015

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