

**Consideration of Auditor-General's
Report 12: 2014-15**

***Oversight of recurrent grants to
non-state schools***

Report No. 21, 55th Parliament

Education, Tourism, Innovation and Small Business Committee

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Chair's foreword

This report summarises the committee's consideration of the Auditor-General's Report 12: 2014-15 *Oversight of recurrent grants to non-state schools*.

On behalf of the committee I thank the Auditor-General and staff of the Queensland Audit Office, the Department of Education and Training, and the Non-State Schools Accreditation Board for their assistance in the committee's deliberations.

I commend the report to the House.

A handwritten signature in black ink, appearing to read 'Scott Stewart', is positioned above the printed name.

Scott Stewart MP
Chair

1 Introduction

1.1 Role of the committee

The Education, Tourism, Innovation and Small Business Committee (the committee) was established by resolution of the Legislative Assembly on 27 March 2015. The committee consists of three government and three non-government members.

A portfolio committee's responsibilities include assessment of the integrity, economy, efficiency and effectiveness of government financial management. In this role, a committee may examine government financial documents, and consider the annual and other reports of the Auditor-General.¹

1.2 Role of the Auditor-General and Queensland Audit Office

The Auditor-General is an independent statutory officer appointed under the *Auditor-General Act 2009*. The Auditor-General is supported by the Queensland Audit Office.² The Auditor-General undertakes financial audits and performance audits of public sector entities. The Auditor-General must report to the Legislative Assembly on each audit of a public sector entity.³

1.3 Referral and committee's examination

The Auditor-General's Report 12 : 2014-15, *Oversight of recurrent grants to non-state schools* (the report) was tabled in the Legislative Assembly in March 2015. The Committee of the Legislative Assembly referred the report to the committee for consideration under Standing Order 194B.

Under the *Auditor General Act 2009* draft reports by the Auditor-General are provided to the relevant government agencies for comment; those responses include the proposed timing of implementation of recommendations and are appended to the Auditor-General's report.

The committee decided to examine the implementation of the Auditor-General's recommendations by the Non-State Schools Accreditation Board (NSSAB) and the Department of Education and Training (the department). The committee was briefed by the Queensland Audit Office on two occasions and commenced its examination of the implementation of the Auditor-General's recommendations in May 2015.

The department was asked to provide information to the committee about its implementation of one recommendation by the Auditor-General. The NSSAB was asked to report on a range of matters in August 2015, and to provide a public briefing to the committee in May 2016 about the impact of changes to the annual student census and the independent verification audit of student census results.

Section 2 of this report summarises the information obtained by the committee about implementation of the Auditor-General's recommendations by the NSSAB and the department.

¹ Section 94, *Parliament of Queensland Act 2001*

² *Auditor-General Act 2009*, ss 6, 9.

³ *Auditor-General Act 2009*, s 60.

2 Consideration of the report – *Oversight of recurrent grants to non-state schools*

2.1 Recurrent grants to non-state schools

Non-State Schools Accreditation Board

The *Education (Accreditation of Non-State Schools) Act 2001* (the Act) established the Non-State Schools Accreditation Board (NSSAB) as a statutory body. Its role includes accreditation of non-state schools, monitoring accredited non-state schools and their governing bodies, receiving applications for government funding from the governing bodies of accredited non-state schools and providing applications to the Non-State Schools Eligibility for Government Funding Committee (established under section 133 of the Act), and receiving annual school survey data from accredited non-government schools about student enrolments.⁴

Annual school survey (student census) and recurrent grants

Non-state schools submit a survey or census of their student enrolments to the NSSAB. The census is taken on the last Friday of February each year. The *Education (Accreditation of Non-State Schools) Regulation 2001* (the Regulation) sets out the school survey data that forms part of the annual school survey (student census) which is conducted by the NSSAB.

The NSSAB compiles the census information for all non-state schools and engages auditors under section 144 of the Act to verify student enrolments as reported by schools in the annual census. Data on student populations is then provided to the department in May and this data informs decisions about recurrent funding of non-state schools. A similar census is undertaken by the Commonwealth in August each year to determine the level of Commonwealth funding.

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.⁵

2.2 The audit objective

The Auditor-General's report *Oversight of recurrent grants to non-state schools*, (Report 12 : 2014-15 (the Report)) was a 'by arrangement' audit report following the identification of significant fraud at an individual school.

The report described the context of the audit:

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 [the department] 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.⁶

⁴ Sections 73, 106, 166, *Education (Accreditation of Non-State Schools) Act 2001*

⁵ *Oversight of recurrent grants to non-state schools*, p 1

⁶ *Oversight of recurrent grants to non-state schools*, p 9

2.3 Auditor-General's conclusions and recommendations

In summary, the Auditor-General's report concluded that:

- some non-state schools were over-counting student numbers in the annual NSSAB census
- based on student numbers, recurrent grants to non-state schools may have been misallocated by an estimated \$1.5 million in 2014, and
- the department obtained no assurance from the board about the accuracy of the non-state school student numbers which it uses to make payments.⁷

As a result of those findings, the Auditor-General 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.

The Auditor-General also recommended that the Department of Education and Training:

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.

2.4 Implementation of Auditor-General's recommendations

Recommendation 1: NSSAB to provide clearer guidance to schools about completion of the annual student census

The NSSAB response to the Auditor-General's draft report in February 2015 stated that the recommendation to provide clearer guidance to non-state schools to ensure consistent completion of the annual student census had been implemented. Enhanced guidance had been provided to non-state school governing bodies for implementation during the 2015 student census.⁸

The NSSAB provided the committee with information about the operation of the school census, including the processes adopted in schools, and the guidance and support that was available to schools to complete the school survey, including changes made in response to issues raised by the audit.

The committee noted the NSSAB's advice that schools' processes to complete the census collection instrument are diverse. In this context the committee considered that advice and training for relevant school staff was important in reducing errors in the student census. At a public briefing in May 2016 the NSSAB chair advised:

In 2015, this explanatory material was reviewed and further improved for the 2016 census collection. More specific examples in the form of 10 vignettes were provided to assist in clarifying the census requirements and, as well, three short vodcasts were embedded as pop-ups in the online census material.⁹

There was a significant reduction in over-counting the number of students in 2016 compared to 2015, which the committee explored at the public briefing. The NSSAB chair considered the improved information about how to complete the annual school survey was likely to be responsible for the improvement, but noted that other factors may have contributed, including the new auditors who

⁷ *Oversight of recurrent grants to non-state schools*, p 14

⁸ *Oversight of recurrent grants to non-state schools*, Appendix A, p 27

⁹ Public briefing transcript, Brisbane, 25 May 2016, p 3

were appointed in 2015. 'There were just too many factors that were different in 2015 and again in 2016, but it is a positive trend...' ¹⁰

Recommendation 2: NSSAB to implement a more robust, risk based audit verification framework to improve the level of assurance it obtains over the accuracy of the annual school census

The NSSAB advised the Auditor General in early 2015 that the recommendation to implement a more robust risk based audit verification framework would be implemented for the 2016 school survey data. It also advised that while it seeks to maintain an operational target of including all schools in an audit process over an extended period:

- the existing risk-based approach to identifying schools for enrolment audits would be strengthened, by making it more systematic and better codified, and
- it would seek to determine other sources of information that could assist in identifying high-risk schools and selecting focus areas. ¹¹

The committee sought information from the NSSAB at a public briefing after the 2016 student survey and the audit verification of the 2016 survey.

At the time of the Auditor-General's audit report, the NSSAB sampled approximately 10 per cent of schools for audit verification of the school census results. The NSSAB increased its sample size to approximately 15 per cent of all schools in 2016. It also implemented a 'strengthened sample methodology' based on risk factors included factors such as:

.. the time since the school's last enrolment audit, a history of the school's errors in past audits, complaints received about the school's operations and any compliance or show-cause notices that the board had issued to the school's governing body. The selective factors that we considered this year included the school's location, and this is in order to concentrate the auditor's field work in particular areas of the state each year to control the costs of auditor travel and accommodation. ¹²

In response to the committee's request, the NSSAB provided information about the independent audit of the results of the 2016 census compared to the previous two years. The over-counting of enrolments over three years is shown in Table 1. The results in 2015 were worse than 2014, and improved in 2016. The NSSAB cautioned that 'because of the more robust risk-sampling methodology used in 2016, the data cannot be considered representative of Queensland's non-state schools as a whole, so the trends should be viewed cautiously.' ¹³

The NSSAB also highlighted the impact of a simple clerical error by one school on the net over-count figure:

Fifteen enrolled students were inadvertently entered in the wrong box on the return census form. If we could omit that single clerical error from the 2016 data, the error rate would have been one net student over-count in every 871 enrolments. ¹⁴

¹⁰ Transcript, p 4

¹¹ *Oversight of recurrent grants to non-state schools*, Appendix A, p 27

¹² Transcript p 2

¹³ Transcript p 2

¹⁴ *ibid*

Table 1: Over-counts of student enrolment

Year	Over-counts
2014	1 for every 524 enrolments
2015	1 for every 311 enrolments
2016	1 for every 679 enrolments

The 2016 audit verification also revealed a small under-count of student enrolments, and under-counting of 16 Indigenous students. In 2015 Indigenous students were over-counted, and the NSSAB advised that the reasons for this change in data will be examined as part of an annual review of the census.

The committee notes that the NSSAB implemented its annual review of the student census in 2015.

The NSSAB chair considered the audit verification data:

.. that we are getting out of the verification process of the sample of schools gives us no cause for concern that fraud is taking place. The errors are generally simple clerical errors or some misunderstanding of the requirements, particularly around the exceptions for the attendance requirement. We have seen nothing that has suggested to us that there are schools out there defrauding on the basis of student enrolments.¹⁵

Recommendation 3: the department establish appropriate ongoing assurance mechanisms about accuracy of student numbers at non-state schools

The department advised the Auditor-General in February 2015 that it intended to implement appropriate and on-going formal assurance mechanisms between itself and the NSSAB. It also advised that it was reviewing the *Education (Accreditation of Non-State Schools) Act 2001* and that some of the audit concerns about improvement of controls and oversight of payment of grant funding would be taken into account in the review of that Act.

The department also noted, in its response to the Auditor-General's draft report, that while schools are not required to provide specific services in return for funding, they are required to report annually on performance measures including attendance and retention rates, NAPLAN, year 12 outcomes and post-school destinations. The department also advised the Auditor-General that it proposed to work with Queensland Treasury to develop a financial policy regarding the disbursement of recurrent payments to non-state schools.¹⁶

In May 2015 the committee sought information from the department about the assurance mechanisms it had implemented that would enable it to be confident about the accuracy of student numbers at non-state schools as a basis for grant allocations.

The department advised the committee that it had a letter of assurance from the NSSAB. The committee sought further information to satisfy itself that the processes and controls around the student survey that determine the ongoing allocation of funds to non-state schools are sufficiently robust. In response the department provided further information about a range of matters including: collaboration between the department and the NSSAB in the development of the NSSAB census instruction booklet, validation of the census data and auditing of non-state schools; the department's own validation process on interim census data from the NSSAB secretariat; and the department's internal controls to ensure accurate calculation of recurrent rates and payments to non-state schools.

¹⁵ Transcript, p 5

¹⁶ *Oversight of recurrent grants to non-state schools*, Appendix A, p 29

As foreshadowed by the department's February 2015 response to the Auditor-General's draft report, amendments to the *Education (Accreditation of Non-State Schools) Act 2001* were made, and came into effect in September 2016. One amendment enables the NSSAB or its auditors to report otherwise confidential information to a law enforcement agency. The amendment removed a former barrier to reporting suspicions of fraud.

2.5 Committee comment

The committee was reassured by the improvements made by the NSSAB and the department in response to the Auditor-General's report. The committee notes in particular that in 2015 the NSSAB introduced an annual review of the census; the committee commends the NSSAB for its focus on ongoing quality improvement.

The committee was satisfied that the Non-State Schools Accreditation Board and the Department of Education and Training have effectively implemented the recommendations in the Auditor-General's Report 12 : 2014-5 *Oversight of recurrent grants to non-state schools*. The steps taken to date, the plans for ongoing review of the student survey by the NSSAB, and the recent amendments to the *Education (Accreditation of Non-State Schools) Act 2001* are appropriate measures to reduce the risks that prompted the audit in 2014.

Recommendation 1

The committee recommends that the House note this report