



## Grants to Non-Government Schools





VICTORIA

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Victorian  
Auditor-General

# Grants to Non-Government Schools

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The Hon. Bruce Atkinson MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon. Telmo Languiller MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on the audit *Grants to Non-Government Schools*.

Yours faithfully



Dr Peter Frost  
*Acting Auditor-General*

9 March 2016



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# Auditor-General's comments

In 2016, the Victorian Government will provide an estimated \$676 million in financial assistance to non-government schools which provide education to more than a third of Victorian school children. This audit assessed the use of state government grants in 2014—the most recent year which could be completely examined—when the state provided over \$640 million in grants to the non-government school sector.

State recurrent grants make up the bulk of state government grants to non-government schools, at over \$624 million in 2014, and the vast majority of these funds are ‘untagged’. Schools must use grants to meet the general recurrent costs of providing education programs and must not use funds for capital expenditure, but they determine how the funds are spent. While funding agreements outline that the state respects the independence of non-government schools and systems who determine their own priorities, taxpayers, parents of students at non-government schools and the broader community are entitled to expect that funds are used transparently and that the Department of Education & Training (DET), non-government schools and their system administrators are effectively and efficiently managing the use of grants.

The Catholic Education Commission Victoria (CECV) reallocates over \$400 million in recurrent grants to Catholic schools using its own methodology. This results in a significantly different allocation to individual schools when compared to DET's allocation—some schools receive substantially more and some substantially less. All other non-government schools receive recurrent grants as allocated by DET. The department has very limited visibility of CECV's methodology and the revised allocations provided to Catholic schools, and I have recommended it clarify any conditions and reporting associated with reallocating recurrent grants.

My audit found that there is limited assurance that grants are used for their intended purpose or are achieving intended outcomes. There are significant weaknesses in DET's funding agreements with system authorities and non-government schools, and its management of grants has been poor. There has been limited oversight of the non-government school sector by DET, and this has resulted in a lack of transparency and accountability for the use of state government grants.

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DET acknowledges and accepts the need to improve arrangements and accountability for the use of state government grants. The department has begun to address some of the identified issues through the development of interim arrangements with the non-government sector for the 2016 year, including having clearer objectives and expected outcomes from state recurrent grants and a greater focus on strengthened reporting and accountability requirements. It is critical that DET continues to work with the non-government school sector to further improve transparency and accountability as it develops arrangements for 2017 and beyond.

I have made a number of recommendations to DET focused on improving funding agreements, clarifying record keeping and reporting requirements, and strengthening its oversight and monitoring of the non-government school sector, to provide greater assurance that grants are used as intended. I am pleased that DET accepts all of my recommendations and that it has identified actions to address them.

I have made a further audit comment in relation to a number of matters raised by the CECV. Its response includes a series of assertions and inferences which comprehensively misrepresent the content of my report. The tenor of the CECV's response is also particularly troubling. In a section of the executive director's response to our proposed report, he had this to say:

'At the outset of this audit – before any substantive work had commenced – the former Auditor-General stated in the media, in relation to grants to non-government schools, that "there is quite limited accountability coming back the other way as to what the money was used for, how it was used, and whether it was effective". VAGO has now produced a report to endorse these comments. It is hard not to conclude that the scope was intentionally designed to serve this purpose, given that a broader scope would have challenged many of VAGO's findings'.

The burden of the executive director's comments is clear enough—effectively, VAGO has conducted this audit in bad faith, that the scope of the audit has been rigged to align with comments made by the former Auditor-General, and that consequently, it seems, the evidence, the findings, the conclusions and recommendations were pre-ordained. These inferences are utterly without foundation or measure and as a commentary, it is quite unworthy of the administrative head of an important system of education.

Aside from citing a comment made by the former Auditor-General, the executive director has proffered no evidence to support his conclusions about this audit's apparently confected purpose. In this regard, rather than raise this fundamental issue at any point during the audit, he has chosen the very conclusion of the audit to impugn the integrity of this office. All Auditors-General are bound by the *Audit Act 1994*, and the Australian Auditing and Assurance Standards, which require audit findings and conclusions to be based on sufficient and appropriate evidence. Regrettably, there is nothing sufficient or appropriate about these intemperate observations of the executive director.

While this audit may not have been the one the CECV wanted, at its core are issues of accountability and transparency. Every citizen is entitled to transparency around the use of state government funds. The response from Independent Schools Victoria notably makes that very point, stating 'government and the public have the right to know how all government funding is being used'. DET itself acknowledges it has not adequately overseen the non-government school sector, but is now working to improve transparency.

CECV's suggestion that my report will be of little use to schooling in Victoria has already been belied by DET's agreement to implement my recommendations. These should provide significant improvements in accountability and transparency, and give all Victorians confidence that government funds provided to non-government schools are used efficiently and effectively. I will be monitoring DET's progress and revisit the issues identified in this report.

Finally, I would like to thank the staff from DET, system bodies and the selection of non-government schools who participated in this audit.



Dr Peter Frost  
*Acting Auditor-General*

March 2016



# Audit summary

Non-government schools provide education to around 334 000 Victorian school children, which represents around 37 per cent of all Victorian students. These schools operate in two ways—through system authorities, that manage multiple schools, and as independent, non-systemic schools. They are diverse in nature, serving a range of different communities. They may provide religious or values-based education, or be based on educational philosophies or different interpretations of mainstream education.

There are four system authorities in Victoria. The largest of these is the Catholic Education Commission Victoria (CECV), which acts for 493 Catholic schools in the state. The other system authorities are the Lutheran system (overseeing 15 schools), the Ecumenical system (overseeing 15 schools, although this increased to 16 schools from January 2016) and the Seventh-day Adventist system (overseeing five schools). There are currently also 171 non-government schools that do not operate within one of the ‘systems’. Other relevant bodies in the non-government school sector are Independent Schools Victoria, a membership-based organisation that receives and then distributes specific-purpose funding for targeted initiatives to non-government schools outside the Catholic system, and the Victorian Independent Schools Block Grants Authority which administers some grant programs.

Non-government schools receive funds from a range of sources, including the Australian and Victorian governments and student fees. The Victorian Government funds non-government schools through a range of non-competitive grants. In 2014, the state provided over \$640 million in grants to the non-government school sector. Grants are provided for both general and specific purposes. The bulk of state government grants (over \$624 million in 2014) are provided as state recurrent grants (SRG). This is a relatively minor share of government funding for non-government schools, since recurrent Australian Government grants are more than three times greater than state government grants.

Other Victorian Government grants to non-government schools—amounting to over \$15 million in 2014—have specific purposes and limitations on how they may be used. These include grants to support students with disabilities, targeted or other special purpose grants, and facilitation and reward funding.

This audit examined whether the Department of Education & Training (DET), non-government schools and their system administrators are effectively and efficiently managing and using grants.

We examined DET's administration of state recurrent and other grants and examined compliance with funding agreements and the use of funds by grant recipients, including the four system authorities, and a selection of non-government schools. We did not examine other activities not related to state government grants, such as the use of Australian government grants to non-government schools or the activities of the Victorian Registration and Qualifications Authority.

## Conclusions

There is limited assurance that grants to non-government schools are used for their intended purpose or are achieving intended outcomes. This is primarily due to weaknesses in funding agreements and DET's ineffective grants management, including limited oversight of grant recipients and their use of grants, and inadequate monitoring and reporting. While the funding agreements and associated guidelines set out the goals of the grants and conditions on the use of grant funds, there are no performance measures or targets, and limited reporting requirements for the non-government sector, beyond financial reporting.

It is encouraging that DET has recently developed interim memorandums of understanding, funding agreements and guidelines for the major state recurrent grant funding, which have strengthened reporting and accountability requirements. It is important that DET continues to work with the non-government sector to further improve accountability and transparency for the use of state government grants as it develops arrangements for 2017 and beyond. DET must also improve its oversight, monitoring and reporting of grant recipients.

There is significant variation in the management practices of the selection of non-government schools tested as part of this audit—overall, they lacked policies and procedures to demonstrate the effective use of state government grants. With some exceptions, they cannot adequately track and demonstrate how grant funds have been spent.

We were able to reconcile state recurrent grant funds received by a sample of independent schools against DET's allocation. The recurrent grant funds to Catholic schools are reallocated to individual schools by the CECV using its own methodology. This results in a significantly different allocation to Catholic schools, compared to DET's allocation. However, we were able to reconcile SRG funds received by Catholic schools in the audit against allocation data provided by CECV.

Most schools that received targeted funding for students with disabilities (SWD) or grants under the support services program could not demonstrate that funds were used for their intended purpose.

There is a need to strengthen guidelines and funding agreements, and the associated accountability for the use of all grants to non-government schools. Both school-level accountability and controls, and DET's oversight and monitoring need strengthening.

## Findings

### Departmental oversight of grants

The absence of clear, appropriate governance by DET has led to poor grant administration, including inadequate monitoring and oversight of whether grants are used as intended.

The purpose and goals of the state recurrent grants are set out in the funding agreements between DET and grant recipients. The funding agreements have specific goals—however, there are no performance measures or monitoring and reporting requirements associated with these goals. Therefore DET is unable to determine if the grants are contributing to the achievement of its goals.

There are limited conditions within the funding agreements to adequately monitor the use of grants, and reporting requirements relate to financial information and some output data. Other controls that do exist are not actively used by DET to test or validate how grants are used by non-government schools. The limited reporting that does occur is not sufficiently used by DET to determine whether grants are being used as intended.

DET does not oversee or monitor the use of state recurrent grants beyond receiving financial acquittals, nor does it utilise other sources of performance information, to assure itself that the intended goals are being achieved. As monitoring and reporting are limited to financial acquittals, there has been a lack of accountability for achieving the government's goals through the use of state recurrent grant funding. The interim 2016 funding agreement includes some improved reporting requirements and performance measures, which will partially address these issues, provided DET improves its monitoring and oversight activities.

In some cases, DET relies on system authorities to administer and oversee grants made to schools. In effect, this means that the system authorities oversee themselves, because they receive the grant funding from DET, manage the allocation of grants to schools, and provide acquittals to DET on expenditure. DET has only assessed these acquittals from system authorities to ensure that expenditure matched the payments provided. DET does not oversee or monitor system authorities to assure itself that grants are used for their intended purpose or achieving the intended outcomes.

DET has acknowledged there is a need for improvement in this area and has advised that it is introducing performance measures and other improvements. In addition to commissioning the recent review of reporting and accountability arrangements, DET has developed interim funding agreements, memorandums of understanding and guidelines for 2016, which strengthen performance outcome measures and reporting requirements.

## Allocation of grants to non-government schools

### State recurrent grants

The Lutheran, Ecumenical and Seventh-day Adventist system authorities pass on in full the SRGs to schools allocated by DET, and independent, non-systemic schools receive their SRGs directly from DET. We verified SRG funding received by each school in our sample against their allocations from information provided by either system authorities or DET and the amounts received for all schools were fully reconciled.

CECV reallocates the SRG to Catholic schools using its own methodology. The overall effect of the CECV distribution methodology is that some Catholic schools receive substantially more than they would receive under DET's allocation and some substantially less. While student-family background is only one of a number of elements in the model DET use to determine grant allocations, the overall effect of the CECV methodology is to reduce the importance of that element in providing funds to individual schools. CECV's position is that its reallocation of SRGs is required because DET's Financial Assistance Model—used by the department to determine grant allocations—does not accurately estimate the need for government grants in Catholic schools, with a disproportionate share of funding being allocated on an equity/needs basis.

As part of this audit, we tested the SRG amounts received by six Catholic schools against allocations from CECV, and were able to reconcile these amounts.

### Students with disabilities grants

We tested the financial records for SWD grants received in 2014, and were able to reconcile all allocations for all the schools we tested.

## Use of grants by non-government schools

Non-government schools do not have adequate procedures and systems in place to ensure that Victorian Government grants are used for their intended purpose. A sample of 22 non-government schools were generally unable to provide evidence that grants had been used as allowed under the funding agreements.

### Policies and procedures

None of the sampled schools had adequately documented policies and procedures in place to support the sound administration of SRGs. Five schools had appropriate documentation of staff responsibilities, but no schools had clearly documented business rules for grants administration. Six schools relied on what they described as 'verbal' policies.

## Systems and processes

None of the sampled schools provided evidence that adequate systems and processes were in place to ensure that grants were used for their intended purpose. One school had a series of controls for the approval of expenditure. Four schools relied on ‘verbal’ processes.

## Ability to demonstrate use of grant funds

### *State recurrent grants*

Nearly all of the sampled schools (21 of 22) had budgets in place to ensure grants were spent or committed in the relevant year. While the majority of sampled schools were able to demonstrate that grant money was spent or committed in the financial year for which they were received, they were unable to provide sufficient supporting evidence, through detailed general ledgers and invoices, that grant money had been spent as budgeted. While all individual schools we tested had an auditor’s report stating SRG funds were expended for the purposes for which they were provided, no school was able to demonstrate to VAGO that SRG funds were spent in full accordance with the agreement.

DET’s 2016 funding agreement includes reporting requirements that specify how funding is to be spent, with a requirement for a strengthened acquittal certificate to be issued by the school head and an independent auditor. This includes assurance that funds have not been used for capital purposes. However, without schools separately identifying expenditure of SRG funding it is not clear how a school, and consequently DET, can be assured that grant recipients and non-government schools are using funds as intended.

### *Students with disabilities grants*

Of the 20 schools in the sample that received SWD funding, only four schools (20 per cent) were able to provide sufficient evidence that SWD funds were used for their intended purpose. A further three schools were able to provide some evidence of expenditure, but were unable to either link the expenditure to the source of funds or substantiate the expenditure shown in the general ledger. Thirteen schools could not demonstrate that their SWD grants were used for the intended purpose.

### *Support Services Program*

Of the 13 schools that received support services program grants, only two schools (15.4 per cent) provided sufficient evidence that grant funds were spent on their intended purpose. Four schools were able to provide a sufficiently detailed general ledger, but were not able to provide documentation to verify the expenditure.

## Recommendations

Number	Recommendation	Page
	That the Department of Education & Training:	
1.	continues to improve the state recurrent grant funding agreement so that all relevant Education State targets for non-government schools are explicit and supported by relevant and appropriate performance measures and reporting requirements that enable the department to monitor the achievement of intended outcomes	26
2.	in conjunction with the non-government schools sector, clarifies and strengthens record keeping and reporting requirements for the expenditure of all state government grants so that requirements are explicit and well understood by grant recipients and all non-government schools	26
3.	improves special purpose grant funding agreements to ensure they have explicit and measurable outcomes, supported by relevant and appropriate performance measures and reporting requirements, that enable the department to monitor the achievement of intended outcomes	26
4.	develops a program of audits of grant recipients and non-government schools to provide assurance grants are used as intended	26
5.	clarifies any conditions and reporting requirements for system authorities when their distribution of state recurrent grants varies from the department's allocation to individual schools.	36

## Submissions and comments received

Throughout the course of the audit, we have professionally engaged with:

- the Department of Education & Training
- Adventist Schools Victoria
- Catholic Education Commission of Victoria Ltd
- Independent Schools Victoria
- Lutheran Education Vic, NSW & Tas
- Victorian Ecumenical System of Schools.

In accordance with section 16(3) of the *Audit Act 1994* we provided a copy of this report to those agencies and requested their submissions or comments. We have considered those views in reaching our audit conclusions and have represented them to the extent relevant and warranted. Their full section 16(3) submissions and comments are included in Appendix B.

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# 1

# Background

## 1.1 Introduction

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Non-government schools are diverse in nature, serving a range of different communities. They may provide religious or values-based education, or be based on educational philosophies or different interpretations of mainstream education.

They provide education to around 334 000 Victorian children, which represents around 37 per cent of all Victorian students. Non-government schools operate in two ways—through system authorities that manage multiple schools, and as independent, non-systemic schools.

There are four system authorities in Victoria. The largest of these is the Catholic Education Commission Victoria (CECV), which acts for 493 Catholic schools in the state. The other system authorities are Lutheran Education Vic, NSW & Tas (LEVNT, overseeing 15 schools), Victorian Ecumenical System of Schools (VESS, overseeing 15 schools, although this increased to 16 schools from January 2016) and Adventist Schools Victoria (ASV, overseeing five schools). There are also currently 171 non-government schools that do not operate within one of the ‘systems’. In the non-government school sector, and throughout this report, the schools are often described as being in one of two categories—‘Catholic’ and ‘independent’, where Lutheran, Ecumenical and Adventist schools are included in the ‘independent’ category along with independent, non-systemic schools.

There are two further organisations involved in distributing funding to schools. Independent Schools Victoria (ISV) is a membership-based organisation that receives and then distributes specific-purpose funding for targeted initiatives. The Victorian Independent Schools Block Grant Authority (VIS BGA) also receives and reallocates funding to schools for specific initiatives.

Non-government schools receive funds from a range of sources including the Australian and Victorian governments and student fees. The Victorian Government funds non-government schools through a range of non-competitive grants. In 2014, the state provided over \$640 million in grants to the non-government school sector. This is a relatively minor share of government funding for non-government schools, with recurrent Australian Government grants over three times greater than state government grants.

## 1.2 Victorian non-government schools

In 2015, there were 700 non-government schools in Victoria (31.4 per cent of all schools in Victoria). Figure 1A shows the number of schools by type and sector as at February 2015.

**Figure 1A**  
**Size and structure of the Victorian school system, February 2015**

School type	Government		Catholic		Independent		Total number of schools
	Number of schools	Per cent	Number of schools	Per cent	Number of schools	Per cent	
Primary	1 128	72.7	387	25.0	36	2.3	1 551
Primary and secondary	78	33.2	13	5.5	144	61.2	235
Secondary	238	70.0	86	25.3	15	4.7	340
Special	80	80.8	7	7.1	12	12.1	99
Language	4	100.0	0	0.0	0	0.0	4
<b>Total</b>	<b>1 528</b>	<b>68.6</b>	<b>493</b>	<b>22.1</b>	<b>207</b>	<b>9.3</b>	<b>2 229</b>

Source: Victorian Auditor-General's Office from the Department of Education & Training's February 2015 School Census.

In February 2015, there were 339 152 students enrolled at non-government schools (37.1 per cent of all Victorian school students)—207 186 at Catholic schools and 131 966 at independent schools.

**Figure 1B**  
**Number of Victorian students by enrolment type, February 2015**

School type	Government		Catholic		Independent		Total number of students
	Number of students	Per cent	Number of students	Per cent	Number of students	Per cent	
Primary	340 844	67.3	111 233	22.0	54 661	10.8	506 738
Secondary	221 458	56.3	95 394	24.2	76 738	19.5	393 591
Special	12 076	91.5	559	4.2	566	4.3	13 201
Language	1 629	100.0	0	0.0	0	0.0	1 629
<b>Total</b>	<b>576 007</b>	<b>62.9</b>	<b>207 186</b>	<b>22.6</b>	<b>131 965</b>	<b>14.4</b>	<b>915 159</b>

Note: Total figures do not add due to rounding.

Source: Victorian Auditor-General's Office from the Department of Education & Training's February 2015 School Census.

## 1.3 Grants to non-government schools

### 1.3.1 State government funding for non-government schools

Figure 1C shows government recurrent funding to Victorian schools in 2012–13, by sector and funding source, from the most recent Productivity Commission report. The Victorian Government accounted for 86.7 per cent of total government funding to Victorian government schools, and 23.3 per cent of government funding to non-government schools.

**Figure 1C**  
**Government recurrent funding to Victorian schools 2012–13 (\$'000)**

	Australian Government	Victorian Government	Total
Government schools	1 011	6 580	7 590
Non-government schools	2 073	631	2 704

Source: Victorian Auditor-General's Office from the Productivity Commission's, *Report on Government Services 2015*.

Combined Victorian and Australian government funding for non-government schools has increased by around \$732 million (37.1 per cent) in real terms between 2003–04 and 2012–13. Victorian Government funding increased by 53.4 per cent while Australian Government funding increased by 32.8 per cent.

Types of Victorian Government grants to non-government schools are summarised in Figure 1D.

**Figure 1D**  
**Victorian Government grants to non-government schools**

Type of grant	Description
State recurrent grants (SRG)	The main form of grant that the Victorian Government provides non-government schools is the SRG. It is intended to provide funding for schools to meet the recurrent costs of providing education programs consistent with Victoria's education policies and goals. With the exception of money provided to support students with disabilities, the money is 'untagged' and schools must use it to meet the general recurrent costs of providing education programs, and not use it for capital expenditure. Payment of SRGs is based on annual enrolment data that schools provide to the Australian Government Department of Education & Training. It makes up the vast majority of state funding to non-government schools.
Students with disabilities grants	Students with disabilities grants are paid to non-government schools based on the proportion of students with disabilities. While this funding must be used to support students with disabilities, it does not need to be linked or allocated to individual students.

**Figure 1D**  
**Victorian Government grants to non-government schools – *continued***

Type of grant	Description
Special purpose or targeted grants	Special purpose or targeted grants are provided to schools to meet the additional costs of assisting groups of students with particular needs or to implement specific initiatives—for example, support services (visiting teachers, psychology or speech pathology services), suicide prevention, or interest subsidies. CECV distributes these grants to Catholic schools, and ISV and VIS BGA distribute them to all other non-government schools. Schools usually have to apply to receive special purpose grants. Some support programs are also delivered by CECV and ISV.
Facilitation and reward funding	The Facilitation and Reward Program for School Improvement was introduced in 2010 as part of the 2010–13 funding arrangements. The program was designed to widen and deepen the implementation of three National Partnership programs: Smarter Schools National Partnerships on Literacy and Numeracy, Improving Teacher Quality, and Low Socioeconomic School Communities. While Australian Government funding under the Facilitation and Reward Program was not recurrent, the Victorian Government has committed these funds for ongoing non-government school expenditure.
Capital funding	The Victorian Government has not provided capital funding for non-government schools in recent years. However, in the 2015–16 State Budget, the government allocated \$120 million over four years for capital projects at non-government schools. This has not been assessed as part of this audit.

Source: Victorian Auditor-General's Office based on information from the Department of Education & Training.

### 1.3.2 Grant allocations to non-government schools

The total amount of SRGs paid by the Victorian Government to non-government schools between 2009 and 2014 is shown in Figure 1E. The Department of Education & Training (DET) determines these allocations using its Financial Assistance Model (FAM), which comprises core funding and equity funding. See Appendix A for further detail on FAM.

Nearly 60 per cent of SRG funding is equity funding. FAM recognises that SRG funding is not the major contributor of funds to non-government schools, and is therefore intended to target particular needs, based on the students at each school.

**Figure 1E**  
**State recurrent grants paid to each system authority and independent schools, 2009 to 2014**

	2009 (\$)	2010 (\$)	2011 (\$)	2012 (\$)	2013 (\$)	2014 (\$)
CECV	287 522 003	308 198 282	399 113 914	412 676 650	419 050 026	430 813 271
Ecumenical	14 973 134	15 899 747	16 960 219	16 975 535	17 503 404	17 750 893
Lutheran	5 172 148	5 689 299	7 061 934	7 620 999	8 062 409	8 556 171
Seventh-day Adventist	3 045 300	3 336 680	4 285 894	4 310 258	4 468 999	5 531 374
Independent schools	109 421 096	120 235 223	148 023 076	151 214 039	153 593 096	161 764 717
<b>Total</b>	<b>420 133 682</b>	<b>453 359 234</b>	<b>575 445 039</b>	<b>592 797 482</b>	<b>602 677 936</b>	<b>624 416 428</b>

Note: CECV and independent schools figures include students with disabilities funding paid in addition to SRGs. Total figures do not add due to rounding.

Source: Victorian Auditor-General's Office based on information from the Department of Education & Training.

Figure 1F shows the allocation of special purpose and other specific grants for 2009 to 2014. Note that in 2014, some categories of grants were combined.

**Figure 1F  
Special purpose grants, 2009 to 2014**

	2009 (\$)	2010 (\$)	2011 (\$)	2012 (\$)	2013 (\$)	2014 (\$)
<b>Independent Schools Victoria</b>						
Suicide prevention	308 333	308 333	308 333	308 333	308 333	
Support services	965 070	984 372	1 006 520	1 034 199	1 060 055	
Suicide prevention and support services						1 390 829
Facilitation program		960 000	960 000	960 000	960 000	960 000
Reward program			1 280 000	1 280 000	1 280 000	1 280 000
<b>Victorian Independent Schools Block Grant Authority</b>						
Interest subsidy scheme	217 778	217 778	217 778	217 778	217 778	221 351
<b>Catholic Education Commission of Victoria</b>						
Suicide prevention	891 667	891 667	891 667	891 667	891 667	
Support services	4 887 227	4 984 972	5 097 134	5 237 305	5 368 238	
Suicide prevention, support services and interest subsidy						7 055 977
Interest subsidy scheme	682 221	682 221	682 221	682 221	682 221	
Facilitation program		2 040 000	2 040 000	2 040 000	2 040 000	2 040 000
Reward program			2 720 000	2 720 000	2 720 000	2 720 000
<b>Total</b>	<b>7 952 298</b>	<b>11 069 344</b>	<b>15 203 654</b>	<b>15 371 505</b>	<b>15 528 293</b>	<b>15 668 157</b>

Note: Total figures do not add up due to rounding.

Source: Victorian Auditor-General's Office based on information from the Department of Education & Training.

### 1.3.3 Funding instruments

There are several key documents that govern the purpose and use of grants to non-government schools. These need to be read together, particularly the *Victorian Government Financial Assistance for Non-Government Schools 2010–2013 Guidelines* and the *Victorian Non-Government Schools Funding Agreement 2010–2013*. The funding agreement was extended for one year in 2014 and again in 2015. A new 2016 memorandum of understanding (MoU), funding agreement and guidelines have recently been developed. These are discussed in Section 2.6. However, the 2010–13 MOU, funding agreement and guidelines were in place for all activities examined during this audit.

## Memorandums of understanding covering 2010 to 2013

The broad terms of the funding agreement and the wider partnership between the Victorian Government and non-government schools are set out in two MoUs, signed in 2009 by the then Premier of Victoria and the heads of two of the Victorian non-government school bodies (ISV and CECV).

### *Victorian Government Financial Assistance for Non-Government Schools 2010–2013 Guidelines*

The *Victorian Government Financial Assistance for Non-Government Schools 2010–13 Guidelines* outlines the policies, procedures and accountabilities associated with funding provided by the Victorian Government to non-government schools.

### *Victorian Government and Non-Government Schools Funding Agreement 2010–2013*

The *Victorian Government and Non-Government Schools Funding Agreement 2010–2013* was signed by the former Department of Education and Early Childhood Development (DEECD) and the heads of the four Victorian non-government school system authorities and individual independent, non-systemic schools. It implements the funding arrangement between the state and non-government schools and sets out the conditions that apply. This funding agreement applies to SRGs and Facilitation and Rewards Program payments only.

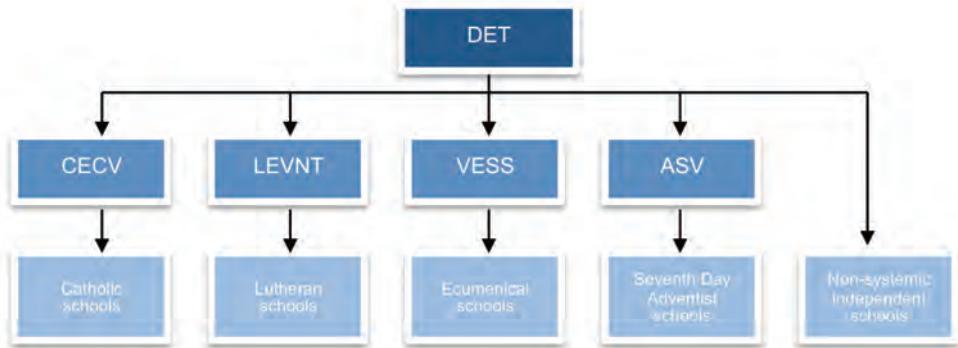
For special purpose grants there is, as of 2014:

- a separate funding agreement between the former DEECD and CECV, for all three special purpose grant programs
- a separate funding agreement between the former DEECD and ISV for the support services and suicide prevention programs, and a separate funding agreement with the VIS BGA for the interest subsidy scheme.

### 1.3.4 Grant allocation mechanisms

For Catholic, Lutheran, Ecumenical and Seventh-day Adventist schools, DET provides SRG funding through the respective system authorities. For independent, non-systemic schools, DET provides SRG funding directly. The flow of SRG funding from DET to non-government schools is shown in Figure 1G.

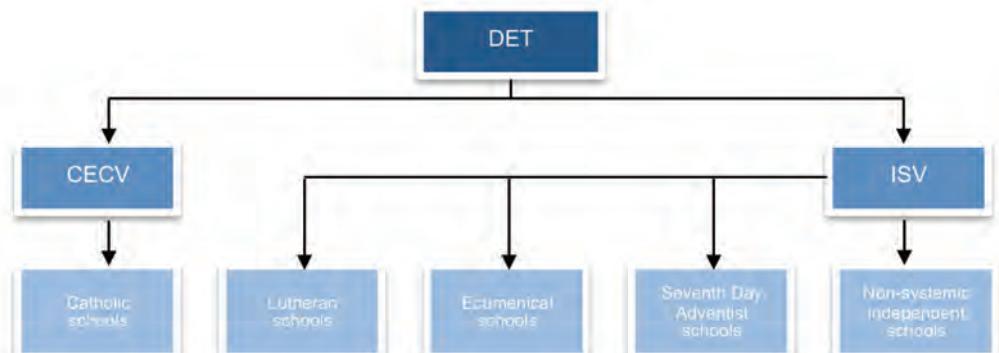
**Figure 1G**  
**Funding flow for state recurrent grants to non-government schools**



Source: Victorian Auditor-General's Office.

As shown in Figure 1H, for special purpose grants, funding for Catholic schools is provided through CECV, while funding for all other non-government schools is provided through ISV.

**Figure 1H**  
**Funding flow for special purpose grants to non-government schools**



Source: Victorian Auditor-General's Office.

### 1.3.5 *Education and Training Reform Amendment (Funding of Non-Government Schools) Act 2015*

The *Education and Training Reform Amendment (Funding of Non-Government Schools) Act 2015* (the Act) specifies the minimum amount of funding to be provided to non-government schools. It amounts to 25 per cent of the cost of educating a government school student.

The Act aims to ensure that growth in per-student state funding for government schools will also flow through to growth in state funding for non-government schools. The cost of educating a government school student is calculated based on a 'basket of goods' that specifies the particular recurrent lines on which the 25 per cent is applied. The basket is designed to capture the funding that is directly related to the cost of instruction of students in government schools.

The Act also sets up new mechanisms for accountability and reporting, such as:

- imposing reasonable funding conditions on non-government schools
- requiring non-government schools and system authorities to report on the application of funding.

It is too early to assess whether these new accountability mechanisms will be effective, as they came into operation on 1 July 2015.

The Act also provides for the establishment of a new School Policy and Funding Advisory Council. The function of the council is to advise the Minister for Education about regulatory, policy and funding issues that affect government and non-government schools. The council was established in August 2015 and consists of the following members appointed by the minister:

- the Secretary of DET who is the chair of the council
- a representative of CECV nominated by CECV
- a representative of ISV nominated by ISV
- a representative of government schools who is employed by DET.

## 1.4 Key entities involved in grants to non-government schools

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### 1.4.1 Department of Education & Training

DET leads the delivery of education and development services to children, young people and adults, both directly through government schools and indirectly through the regulation and funding of early childhood services, non-government schools and training programs. It also implements Victorian Government policy on early childhood services, school education and training and higher education services. DET manages Victorian government schools and drives improvement in primary and secondary government education.

Grants to non-government schools are administered by DET, which represents the government in the funding agreements and determines grant amounts. It is responsible for all aspects of managing grants to non-government schools.

## 1.4.2 Non-government school sector bodies

### Catholic Education Commission of Victoria

The largest of the non-government school sector bodies is the CECV. Catholic education in Victoria is administered in two tiers—at the diocesan level, and at the state level. There are four dioceses of the Catholic Church in Victoria—Melbourne, Ballarat, Sale and Sandhurst. Catholic Education Offices in each diocese, acting on behalf of the bishops, have primary responsibility for overseeing schooling activities. However, the key body for school funding purposes is the CECV. The CECV is a public company limited by guarantee whose members comprise the four bishops of Victoria. Its roles include receiving government grants provided to Catholic systemic schools, and allocating, distributing, expending or appropriating grants to schools in accordance with government conditions.

### Adventist Schools Victoria

ASV oversees the operation of five schools across eight campuses. All ASV schools are low fee, non-selective, coeducational day schools.

### Lutheran Education Vic, NSW & Tas

LEVNT oversees 15 schools in Victoria and works with and for schools to:

- encourage spiritual and professional growth of all within the school community
- provide quality teaching and learning programs
- provide support in governance and management
- develop and support financial structures
- facilitate communication between schools and the wider professional community.

### Victorian Ecumenical System of Schools

VESS is a registered public company limited by guarantee. The board of directors, through its executive and executive officer, work together with all member schools to establish goals, define policy and establish working protocols.

### Independent Schools Victoria

ISV is not a system authority managing schools, but a not-for-profit member association providing professional services and working to raise quality standards. ISV represents the interests of member schools to governments and the community on a wide range of issues.

ISV represents, promotes the interests of, and provides services to 210 member schools, educating more than 129 000 students.

## **Victorian Independent Schools Block Grant Authority**

VIS BGA administers Australian and Victorian Government programs to improve educational outcomes for independent school students by providing funding to assist with developing school infrastructure. Established in 1989, VIS BGA's primary objective is to carry out the functions of a block grant authority, as described in the *Australian Education Act 2013 (Cth)*. The VIS BGA administers the Victorian Government's Interest Subsidy Scheme for Non-Government Schools, which provides grants to assist in the repayment of borrowings undertaken to finance capital expenditure on buildings and curriculum related equipment.

### **1.4.3 Other agencies**

#### **Victorian Registration and Qualifications Authority**

The Victorian Registration and Qualifications Authority (VRQA) is responsible for the registration and regulation of all Victorian schools. All schools must comply with the minimum standards and other requirements specified in the *Education and Training Reform Act 2006* and the *Education and Training Reform Regulations 2007*.

The minimum standards for registration cover:

- school governance—democratic principles, structure, probity, philosophy and not-for-profit status
- enrolment—student enrolment numbers, enrolment policy, register of enrolments
- curriculum and student learning—curriculum framework, student learning outcomes, monitoring and reporting on students' performance
- student welfare—care, safety and welfare of students, discipline, attendance monitoring, attendance register
- staff employment—teacher registration requirements, compliance with the *Working with Children Act 2005*
- school infrastructure—buildings, facilities and grounds and educational facilities.

Non-government schools are assessed against the standards and other requirements for school registration by VRQA. All schools are reviewed at least once every five years, and may be reviewed at any time.

School review bodies manage the registration and the monitoring and compliance of certain schools against the minimum standards and other requirements for registration. The VRQA has approved DET, CECV and ASV as review bodies for government schools, Catholic schools and Seventh-day Adventist schools, respectively. It has developed a self-assessment tool that allows independent schools to assess their own compliance with the standards and other requirements for school registration.

## 1.5 Audit objective and scope

The objective of the audit was to determine whether DET, non-government schools and their system administrators are effectively and efficiently managing and using grants.

The audit examined DET's administration of state recurrent and other grants to non-government schools. It also examined compliance with funding agreements and the use of funds by the four system authorities, other bodies and a selection of non-government schools.

The audit included:

- Department of Education & Training
- Adventist Schools Victoria
- Catholic Education Commission of Victoria Ltd
- Independent Schools Victoria
- ISV Block Grant Authority
- Lutheran Education Vic, NSW & Tas
- Victorian System of Ecumenical Schools
- a selection of 22 non-government schools.

## 1.6 Audit method and cost

DET, non-government school system bodies and a sample of 22 non-government schools were key sources of information for this audit. The audit team gathered evidence by:

- conducting interviews with and reviewing documents provided by DET and non-government system bodies
- reviewing system authority systems and financial records related to state government grants
- reviewing systems and process, and documentation for a sample of 22 non-government schools including financial and other records related to the use of state government grants.

The audit was conducted in accordance with section 15 of the *Audit Act 1994* and the Australian Auditing and Assurance Standards. Pursuant to section 20(3) of the *Audit Act 1994*, unless otherwise indicated any persons named in this report are not the subject of adverse comment or opinion.

The total cost of the audit was \$440 000.

## 1.7 Structure of the report

The report is structured as follows:

- Part 2 examines the grants governance arrangements and oversight by DET
- Part 3 examines the use of grants by system authorities and non-government schools.



# 2

# Grants governance and oversight

## At a glance

### Background

The Department of Education & Training's (DET) responsibility for administering grants to non-government schools is laid out in a series of memorandums of understanding, guidelines and funding agreements. These agreements set out the government's objectives for the grants, conditions on their use and the related reporting requirements.

### Conclusion

There is limited assurance that grant funds are being used for their intended purpose or are achieving the government's intended outcomes. This is primarily due to weaknesses in funding agreements, and DET's inadequate grants management including limited oversight of grant recipients and poor monitoring and reporting. DET has recently developed improved interim arrangements for 2016 which address some deficiencies.

### Findings

- Beyond basic financial reporting there are no performance measures or monitoring or reporting associated with grants to non-government schools.
- The reporting that does occur is not sufficiently tested or used by DET to determine whether grants are being used as intended.
- DET undertakes limited oversight and monitoring of non-government schools receiving state government grants.

### Recommendations

That DET:

- continues to improve the state recurrent grant funding agreement goals and performance measures
- clarifies record keeping and reporting requirements for grants
- improves special purpose grant funding agreements
- develops a program of audits of grant recipients and non-government schools.

## 2.1 Introduction

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The purpose and use of grants provided to non-government schools is governed by a number of documents, particularly the *Victorian Non-Government Schools Funding Agreement 2010–2013*, which incorporates the *Victorian Government Financial Assistance for Non-Government Schools 2010–2013 Guidelines*.

The Department of Education & Training (DET) negotiates the terms of the funding agreements, issues the guidelines, determines the amount of the grants, allocates funding under the agreements and is responsible for enforcing the terms of the agreements on behalf of the state. It is responsible for ensuring the grants to non-government schools are meeting the government's policy objectives.

This Part examines the governance arrangements for grants to non-government schools and DET's oversight of the non-government school sector.

## 2.2 Conclusion

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There is limited assurance that funds are being used for their intended purpose or are achieving the government's intended outcomes. This is primarily due to weaknesses in funding agreements, and DET's ineffective grants management. This includes insufficient oversight of grant recipients and their use of grants, and inadequate monitoring and reporting.

While the funding agreements and associated guidelines set out the goals of the grants and conditions on their use, there are no performance measures or targets, and limited reporting requirements. Controls that do exist are not used by DET to test or validate how grants are used by non-government schools.

The absence of clear, appropriate governance has led to poor grant administration and a lack of monitoring or oversight to ensure grants are being used as intended. It is encouraging that DET has recently developed interim memorandums of understanding (MoU), funding agreements and guidelines for the major state recurrent grant funding which have strengthened reporting and accountability requirements. It is important that DET continues to work with the non-government sector to further improve accountability and transparency for the use of state government grants when developing arrangements for 2017 and beyond. DET must also improve its oversight, monitoring and reporting of grant recipients.

## 2.3 State recurrent grants

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### 2.3.1 Purpose of the state recurrent grants

The purpose and goals of the state recurrent grants (SRG) are set out in the 2010–13 funding agreements between DET and the non-government system authorities and with independent, non-systemic schools.

The funding agreement has the following goals, which were agreed by DET and non-government school sector representatives and independent, non-systemic schools:

- improving student outcomes
- providing funding certainty for schools and school systems
- improving the equity of funding by targeting need
- supporting choice and assisting parents to make informed choices
- supporting best practice approaches in schools
- achieving effective partnerships
- achieving the effective and efficient use of public funds.

There are no performance measures or monitoring and reporting requirements associated with these goals, therefore DET has no ability to assure itself that they are being achieved. DET agrees that there is limited assurance that funds are used for intended purposes, although it believes that reporting for the Australian Curriculum, Assessment and Reporting Authority (ACARA), for the Australian Government's Financial Questionnaire, and system authority and school acquittals provide evidence of reporting. We also note that the Australian Government undertakes a Financial Questionnaire verification exercise—a routine quality assurance process in which the relevant Australian Government department checks whether Financial Questionnaire data submitted by non-government schools and school systems has been correctly drawn from their audited statements.

ACARA is responsible for collecting data from schools for the purpose of accountability and reporting, research and analysis, and resource allocation. Information on individual schools is also published on the My School website including information about performance on National Assessment Program – Literacy and Numeracy (NAPLAN) tests as well as information about school finances and school communities. While we accept there is a range of reporting, data and information relating to non-government schools that DET has access to, it does not use this information to monitor the performance of non-government schools or the achievement of the goals of the funding agreement.

DET has acknowledged that there are opportunities for improving the monitoring and assurance around grant funds. A recent review commissioned by DET also found that there are significant weaknesses with performance measures and related monitoring by DET. It found that:

- DET has yet to define the objectives of the recurrent funding program and determine how to best utilise the ‘reasonable conditions’ clause within the amended *Education and Training Reform Act 2006* (discussed in Section 1.3.5)
- no significant performance measures have been developed or utilised in relation to state recurrent funding provided to non-government schools
- DET may lack the systems, technology and resources required to implement a non-government school performance monitoring framework.

The review also found that current funding arrangements have been limited in their scope and have lacked sufficient rigour around performance measures and reporting on outcomes. It found that while annual financial acquittals have been provided by individual independent schools and system authorities, these acquittals provide limited detail about the expenditure of the funds received. In addition, it found that reporting to DET around educational outcomes for the non-government school sector has been limited and largely informed by data collected at a national level.

As discussed in Section 2.6, interim funding agreements have been developed for 2016 and these include improved performance measures that will use data to be sourced from a range of sources external to DET.

### 2.3.2 Reporting required by the funding agreements

#### Funding agreement clause 21 requirements

Under clause 21 of the funding agreements with all non-government school bodies except the Catholic Education Commission Victoria (CECV), the recipient must keep full and accurate records to enable:

- the identification of all income and expenditure of funds provided under this agreement
- the audit of those records in accordance with current Australian professional accounting standards
- the recipient to perform and report on any obligations under this agreement.

DET advised that the intent of this clause was that all school systems and schools keep full and accurate records to enable the identification of all income provided under the agreement and the expenditure of school funds. It advised that this does not extend to schools and systems being required to separately identify expenditure of SRG funds as opposed to expenditure from other sources of funding.

CECV's funding agreement with DET has a different clause 21 compared to all other funding agreements, with the second and third points the same. It reads as follows:

*The recipient must keep, and must ensure that the systemic schools keep, full and accurate records, including financial records, to enable:*

- *the identification of all income provided under this agreement and expenditure of school funds*
- *the audit of those records in accordance with current Australian professional accounting standards*
- *the recipient to perform and report on any obligations under this agreement.*

It is not clear why CECV had a different clause in its funding agreement which could be interpreted as meaning there were different requirements for CECV and Catholic schools, compared to all other non-government schools, despite them all receiving the same SRG funds. DET advised that while there was a difference in the clause relating to record keeping in past agreements for CECV and the other school systems and schools, the intent of this clause was the same. However it did not provide any evidence to support this assertion. CECV's view is that the requirements of clause 21 in its funding agreement with DET mean that Catholic schools do not have to separately track SRG expenditure, which is consistent with DET's advice.

DET advised that while there was a difference in the clause relating to record keeping in past agreements for the CECV and the other school systems and non-systemic schools, this anomaly was addressed in the 2016 agreement. DET reiterated that this requires all school systems and non-systemic schools to keep full and accurate records to enable the identification of all income provided under the agreement and the expenditure of school funds, but it does not extend to schools and systems being required to separately identify expenditure of SRG funds as opposed to expenditure from other sources of funding.

In new 2016 interim funding agreements, the relevant clause is the same for all grant recipients, including CECV. DET should make the intent of this clause and the explicit record keeping and reporting requirements clear and should communicate this to the non-government school sector. This is important as this clause establishes fundamental record keeping and accountability requirements for non-government schools. This is also relevant to the school level activities discussed in Part 3 including schools' general inability to demonstrate how grant funds were spent.

### Specific reporting requirements

Reporting requirements are set out in the funding agreements and the guidelines. The main requirement is the provision of a certificate by a qualified person (a registered company auditor and/or a member of the Institute of Chartered Accountants or Certified Practising Accountants) stating whether an amount equal to the funds paid under the agreement has been spent or committed to be spent for each calendar year, and for the purposes for which the funds were provided.

Audited financial statements and financial reports must be provided if requested by DET. However, DET has never exercised these requirements and this represents a gap in its accountability framework.

Other reporting requirements, which grant recipients must comply with, include the provision of:

- student family occupation data for each school
- the number of students with a disability (SWD) enrolled at each school, specifying the number of students at each Disability Severity Level
- a report, in the format specified in the guidelines, on SWDs enrolled and programs provided by each school for SWDs.

### 2.3.3 Monitoring performance against the funding agreements

#### DET oversight

DET does not oversee or monitor the use of SRGs beyond receiving financial acquittals. Nor does it use other sources of performance information to assure itself that the intended goals are being achieved. As discussed in Section 2.6, new interim arrangements partially address these issues, provided DET improves its monitoring and oversight activities.

As monitoring and reporting are limited to financial acquittals, there has been a lack of accountability for achieving the government's goals for the use and outcomes of SRGs. Identified weaknesses in DET's oversight are supported by the findings of its 2015 review of the accountability and reporting framework for non-government schools in relation to financial management and stewardship:

- The current acquittals provide limited value or assurance to DET. There is no formal mechanism to validate or confirm the information provided. The funding agreements provide DET with powers to request additional financial information, however, this has never been used.
- DET does not currently use the Australian Financial Questionnaire to analyse the financial position of non-government schools.

## 2.4 Other grants

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Conditions and requirements for other grants are set out in the relevant funding agreements and associated guidelines. DET does not oversee how schools use these grants, which means that it cannot provide assurance that the grants are being used for their intended purposes or achieving their intended objectives.

## 2.4.1 Students with disabilities grants

For SWD grants, CECV reports to DET for Catholic schools, while Independent Schools Victoria (ISV) reports for all independent schools, including Lutheran, Ecumenical and Seventh Day Adventist schools. These acquittals show the allocation of SWD funding to individual schools. The guidelines state that schools or system authorities must complete and provide to DET by 1 April 2011, 2012, 2013 and 2014, a report on programs provided for SWDs in the previous calendar year.

System authorities were to provide a completed system-level report. The report was to contain information on the number of SWDs at each severity level enrolled in the current calendar year, details of the programs provided to support these students, details of the demand for specific programs and an acquittal of expenditure against these programs.

Schools were only required to provide a report once its format was developed. This never occurred, and consequently this requirement was never enforced and DET only received acquittals of the allocation of grant funds to each school.

## 2.4.2 Special purpose grants

Reporting to DET on special purpose grants by CECV, ISV and the Victorian Independent Schools Block Grant Authority (VIS BGA) consists of one-page financial acquittals and metrics such as the number of students receiving support services, and/or the number of teachers receiving professional development relating to suicide prevention and/or the number of schools receiving interest subsidy funding. These are output metrics; there is no other accountability relating to the delivery or outcomes of these grants.

In the 2013 funding agreements with CECV and ISV, DET requested metrics on different grant programs, such as:

- the number of students receiving support services
- the schools involved in the support services program
- the type of support services delivered
- the number of teachers receiving professional development relating to suicide prevention
- the outcomes of the consultancy services funded under the suicide program
- the number of schools receiving interest subsidy funding
- the number of schools funded in comparison to the number of eligible applicants.

However, to reduce the administrative burden, funding agreements were combined in 2014. For CECV the support services, suicide prevention and interest subsidy funding agreements were rolled into one, while for ISV the support services and suicide prevention funding agreements were combined. For independent schools the interest subsidy funding agreement is signed with VIS BGA. The 2014 agreements do not include the above metrics and simply request the provision of details of payments made under the three programs. This diminishes oversight, accountability and transparency.

## DET oversight of special purpose grants

DET advised that CECV and ISV have the responsibility for administering and overseeing grants made to schools for all special purpose programs, and that CECV and ISV monitor and evaluate the programs according to guidelines provided by DET. In effect, this means that CECV and ISV oversee themselves, as they receive the grant funding from DET, manage the allocation of grants to schools, and provide acquittals to DET on expenditure. DET also advised that it has only assessed acquittals from system authorities to ensure that expenditure matched the payments provided. DET does not oversee or monitor ISV or CECV to assure itself that grants are used for their intended purpose or are achieving the intended outcomes.

### 2.4.3 Facilitation and reward payments

Facilitation and reward payments are designed to ‘widen and deepen the implementation of the Smarter Schools National Partnerships on Literacy and Numeracy, Improving Teacher Quality and Low Socioeconomic School Communities’. Conditions relating to the payments were designed to be consistent with those applying to National Partnerships.

These partnerships have now lapsed. However, DET has continued funding facilitation and reward payments. The reward payments were allocated to reward reform, based on the ‘achievement of predetermined milestones and benchmarks’. DET cannot be assured that milestones and benchmarks are being achieved because it does not have a monitoring and evaluation framework in place for facilitation and reward payments.

## 2.5 DET responsibility for non-government schools

Clear governance arrangements are essential for effective oversight and accountability for the expenditure of government funds.

Over many years DET has lacked clear, appropriate governance around grants to non-government schools. This has led to poor grant administration, including a small number of acquittals not being submitted by grant recipients. Significantly there has been very limited monitoring or oversight of grant recipients that would provide DET with the necessary assurance that grants are being used as intended or achieving the intended outcomes.

Figure 2A shows the various divisions and branches of DET and the former Department of Education and Early Childhood Development with various responsibilities related to non-government schools.

**Figure 2A**  
**Departmental responsibilities for non-government schools 2009 – present**

Division or branch	Functions
<b>2009</b>	
System Policy Division Office for Policy, Research and Innovation	<ul style="list-style-type: none"> <li>• Non-government schools policy</li> <li>• Accountability</li> <li>• Data analysis</li> <li>• Capital funding</li> </ul>
Financial Services Division	<ul style="list-style-type: none"> <li>• Funding provision</li> <li>• Management Non-government Schools Reference Committee</li> </ul>
<b>2012</b>	
Education Partnerships Division School Education Group	<ul style="list-style-type: none"> <li>• Non-government schools policy</li> <li>• Accountability</li> <li>• Capital funding</li> <li>• Schools acquittal process</li> </ul>
Financial Services Division	<ul style="list-style-type: none"> <li>• Funding provision</li> <li>• Management Non-government Schools Reference Committee</li> </ul>
Infrastructure and Sustainability Division	<ul style="list-style-type: none"> <li>• Infrastructure issues</li> </ul>
Intergovernmental Relations Division	<ul style="list-style-type: none"> <li>• National Partnerships</li> </ul>
<b>2013</b>	
As for 2012 with amendment: School Education Group	<ul style="list-style-type: none"> <li>• Additional accountability for Facilitation and Reward funding</li> </ul>
<b>2014</b>	
Financial Services Division	<ul style="list-style-type: none"> <li>• Funding provision</li> <li>• Management Non-government Schools Reference Committee</li> <li>• Schools' acquittal process (accountability)</li> </ul>
School Education Group	<ul style="list-style-type: none"> <li>• Facilitation and Reward funding</li> </ul>
<b>2015</b>	
Group Strategy and Coordination Division (Early Childhood and School Education Group)	<ul style="list-style-type: none"> <li>• Non-government school policy</li> <li>• Development of 2016 MoU and funding agreements</li> <li>• School Policy and Funding Advisory Council and DET working group</li> </ul>
Infrastructure and Sustainability Division	<ul style="list-style-type: none"> <li>• Infrastructure issues, including new government commitment of \$120 million to build and upgrade Catholic and independent schools across the state</li> </ul>

Source: Victorian Auditor-General's Office based on information from the Department of Education & Training.

DET's Financial Services Division allocates grant funds and receives acquittals. However, it does not undertake any testing or verification associated with the allocation or use of the funds, and no monitoring, reporting or oversight of grants recipients or the use of grants by non-government schools.

DET has advised that the Group Strategy and Coordination Division of the Early Childhood and School Education Group are now responsible for non-government school policy. It has developed a formal work program to put the legislative amendments into operation and has developed the interim 2016 MoU and funding agreements. The Group Strategy and Coordination Division's role includes the development and oversight of funding agreements for non-government schools (with the Infrastructure and Financial Services Division) and establishing and overseeing the ongoing operations of the School Policy and Funding Advisory Council (SPFAC).

DET advised that the establishment of SPFAC, which has an agreed 2016 work program, provides a strong governance framework for DET and the non-government school sector. The implementation of improved arrangements in 2016 and the further development of strengthened accountability and transparency arrangements requires DET to have a far more active role in overseeing and monitoring the agreements, non-government schools use of grants and the achievement of intended outcomes.

## 2.6 Recent developments

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DET advised it is strongly committed to ensuring that the funding provided by the state government to the non-government school sector is provided for the benefit of improved educational outcomes in Victoria and is spent in accordance with Victorian legislation, the funding agreements and government policy.

DET recognises the need to improve its ability to demonstrate whether grant funds are being used to deliver the outcomes for which they are provided. It advised that assurance over grant funding can be improved, with key areas for improvement being the funding agreement and DET's grant management process. This includes improving DET's oversight of grant recipients for the use of grants and in the monitoring and reporting by recipients that grant funds have been spent in accordance with the purpose for which they were intended.

DET advised it has commenced a program to enhance and improve the arrangements for grant funding to non-government schools through a combination of legislative, funding and regulatory means. The introduction of the *Education and Training Reform Amendment (Funding of Non-Government Schools) Act 2015* established the following:

- funding is paid directly to non-government schools or to an organisation (such as CECV or ISV) for the benefit of the non-government schools
- the Minister of Education may impose any 'reasonable conditions' on the provision of funding and may require a non-government school or organisation to enter into an agreement
- a non-government school is to provide a report (to the minister) if required, outlining the application of recurrent funding.
- formalises the establishment of the SPFAC.

DET has developed a new MoU, funding agreement and guidelines for 2016 to improve its grant administration and governance. These are interim measures with new arrangements to be developed for commencement in 2017. The interim measures for 2016 were developed in consultation with CECV and ISV through SPFAC. DET advised it has also established its own Non-Government Schools Funding and Accountability Working Group to drive the work required by DET to improve processes and provide support to the work of SPFAC.

## 2.6.1 2016 memorandum of understanding

The 2016 MoU between DET and CECV, and DET and ISV set out a commitment by the parties to work together through SPFAC to achieve high quality educational outcomes across all schools, and to support the *Victorian Non-Government Schools Funding Agreement 2016*.

The MoU sets out a range of contextual information and commitments, including:

- the parties' commitment to work together to address the findings and recommendations from this audit of grants to non-government schools
- the parties' commitment to participate in the Education State vision and directions, and recognise targets apply to all students in all school sectors
- the investigation and development of school-level measures to support monitoring and progress towards the Education State targets
- a comprehensive review of the allocation methodology of the Financial Assistance Model (FAM)
- commitment to an efficient and effective reporting and monitoring framework that strengthens accountability and efficient administration for non-government schools
- commitment to the development of a new funding agreement and MoU from 2017, including responding to any changes arising from Education State priorities, this audit of grants to non-government schools, and other relevant state and Australian reforms
- improved financial acquittal processes and school-level performance outcome measures, outlined in the funding agreement.

## 2.6.2 Guidelines for Victorian Government financial assistance for non-government schools 2016

The *Guidelines for Victorian Government financial assistance for non-government schools 2016* have been updated to reflect a range of changes including the current policy environment, establishment of SPFAC and the new 2016 MoU and funding agreements. The guidelines outline the state's financial assistance to non-government schools and the type and purpose of grants, performance measures, reporting requirements and so on consistent with the new MoU and funding agreement. The guidelines also outline the FAM used to allocate the state recurrent grant to non-government schools, although DET has committed to reviewing FAM during 2016.

## 2.6.3 Victorian Non-Government Schools Funding Agreement 2016

The 2016 funding agreement includes some notable changes compared to the 2010–13 agreement, including the goals and improved performance measures and reporting requirements. It includes some background information on the purpose of the recurrent grants, stating that DET provides recurrent financial assistance grants to non-government schools in Victoria to support the state's education policies and goals. The agreement outlines that financial assistance contributes to meeting the operational costs of schools for the purpose of supporting the teaching, learning and welfare of school students.

### Goals

Unlike the previous agreement, there are no specific goals. However, the 2016 MoU includes a commitment to participate in the Education State vision and directions, and recognises that targets apply to all students in all school sectors. The Education State targets cover a range of areas relating to student learning, resilience, physical activity, school completion and the impact of disadvantage.

### Reporting requirements

The 2016 agreement includes some strengthened reporting requirements including specifying how funding is spent, and a more robust acquittal process at the school level with a certificate issued by the school head and an independent auditor. It also strengthens financial oversight by requiring evidence that funding has been spent in specified categories. It also specifies areas that funding must not be used for.

The agreement includes provisions similar to the past arrangements allowing DET to undertake monitoring and audits. This provides an opportunity for DET to undertake a regular and robust program of audits of non-government schools to provide the requisite assurance that government grants are being used for their intended purposes. Under legislative changes from 2015, the Minister for Education may also require a non-government school to provide a report outlining the use of recurrent funding.

The 2016 MoU specifically commits the non-government school sector to work with DET in the development of school-level measures to monitor progress towards the Education State targets. The agreement also includes new performance outcomes and associated measures which will use information from other agencies. The outcomes and measures are shown in Figure 2B.

**Figure 2B**  
**Performance outcome data, 2016 funding agreement**

Outcome	Measure	Data source
Achievement	Reading (per cent of Year 5 and Year 9 students with a score in the top 2 bands)	NAPLAN
	Numeracy (per cent of Year 5 and Year 9 students with a score in the top 2 bands)	NAPLAN
Engagement and wellbeing	Certificate completion (per cent of Year 11 students who attain a certificate)	Certificate completion
	Attendance (aggregate school attendance rate Years 1–10, the proportion of students attending 90 per cent or more of the time)	National collection student attendance data

Source: Victorian Auditor-General's Office from the *Victorian Non-Government Schools Funding Agreement 2016*.

These new performance measures are consistent with the Victorian Government Education State reform agenda. DET advised these measures were chosen in response to the recommendations of its external review that ‘government objectives for funding of NGS [non-government schools] align with the Victorian Education State agenda; a clear basis be determined for understanding school performance through monitoring of selected measures (consistent with government school measures); and data requirements and the department’s proposed use of information be clearly identified’.

While there are no specific measures in the 2016 funding agreement associated with the school-level measures for reading, numeracy and certificate completion, the measures are consistent with Education State targets:

- Over the next five years 25 per cent more Year 5 students will reach the highest levels of achievement in reading and maths.
- Over the next 10 years 25 per cent more Year 9 students will reach the highest levels of achievement in reading and maths.

In addition, the completion measure is consistent with reporting on progress towards the following Education State target:

- Over the next 10 years the proportion of students who leave education early (between Years 9 and 12) will fall by 50 per cent.

While the performance measures in the 2016 funding agreement do not cover all Education State targets, DET advised further work will be undertaken to develop further sector-wide targets and relevant measures for the 2017 funding agreement. Nevertheless, the inclusion of performance measures in the funding agreement is encouraging, and they should be improved over time.

## **Recommendations**

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That the Department of Education & Training:

1. continues to improve the state recurrent grant funding agreement so that all relevant Education State targets for non-government schools are explicit and supported by relevant and appropriate performance measures and reporting requirements that enable the department to monitor the achievement of intended outcomes
  2. in conjunction with the non-government schools sector, clarifies and strengthens record keeping and reporting requirements for the expenditure of all state government grants so that requirements are explicit and well understood by grant recipients and all non-government schools
  3. improves special purpose grant funding agreements to ensure they have explicit and measurable outcomes, supported by relevant and appropriate performance measures and reporting requirements, that enable the department to monitor the achievement of intended outcomes
  4. develops a program of audits of grant recipients and non-government schools to provide assurance grants are being used as intended.
-

# 3

# Use of grants by non-government schools

## At a glance

### Background

The Department of Education & Training (DET) provides grants to non-government schools directly or through system bodies. The funding agreements set out the types or purpose of expenditure for which the funds may be used.

### Conclusion

There is significant variation in the management practices of different schools and overall they lack policies and procedures to demonstrate the effective use of state government grants. With some exceptions, they cannot adequately track and demonstrate how grant funds have been spent.

### Findings

- The recurrent grant funds to Catholic schools are reallocated to individual schools by the Catholic Education Commission Victoria.
- Schools examined in this audit had an auditor's report stating state recurrent grant funds were expended for the purposes for which it was provided, but no school was able to demonstrate to VAGO that state recurrent grant funds were spent as required.
- Schools examined in this audit were mostly unable to adequately demonstrate that grants had been used as allowed under the funding agreements.

### Recommendation

That DET clarifies any conditions and reporting requirements for system authorities when their distribution of the state recurrent grants varies from DET's allocation to individual schools.

## 3.1 Introduction

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The Department of Education and Training (DET) provides grant funds to non-government schools either directly or through system authorities, who manage multiple schools. The funding agreements set out the types or purpose of expenditure for which the funds may be used.

This Part examines grant recipients and non-government schools use of state government grants.

## 3.2 Conclusion

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There is significant variation in the management practices of different schools and overall they lack policies and procedures to demonstrate the effective use of state government grants. With some exceptions, they cannot adequately track and demonstrate how grant funds have been spent.

We were able to reconcile state recurrent grant (SRG) funds received by a sample of independent schools against DET's allocation. The SRG funds to Catholic schools are reallocated to individual schools by the Catholic Education Commission Victoria (CECV) using its own methodology. This results in a significantly different allocation to Catholic schools, compared to DET's allocation. However, we were able to reconcile SRG funds received by Catholic schools in the audit against allocation data provided by CECV.

Most schools that received targeted funding for students with disabilities (SWD) or grants under the support services program (SSP) could not demonstrate that funds were used for their intended purpose.

## 3.3 Sample of schools included in this audit

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As part of the audit we tested a sample of 22 non-government schools. Our sample consisted of a mix of:

- Catholic, Ecumenical, Lutheran, Seventh-day Adventist and independent, non-systemic schools, as shown in Figure 3A.
- Primary, secondary and combined primary and secondary schools, as shown in Figure 3B.

**Figure 3A**  
**Number of schools in sample by type**

Type of school	Number of schools in sample
Catholic	6
Ecumenical	3
Lutheran	3
Seventh-day Adventist	3
Independent, non-systemic	7
<b>Total</b>	<b>22</b>

Source: Victorian Auditor-General's Office.

**Figure 3B**  
**Number of schools in sample by year levels**

Year level	Number of schools in sample
Primary	4
Secondary	5
Combined primary and secondary	13
<b>Total</b>	<b>22</b>

Source: Victorian Auditor-General's Office.

## 3.4 Distribution of state recurrent grants

### 3.4.1 Lutheran, Ecumenical, Seventh-day Adventist and independent, non-systemic schools

The Lutheran, Ecumenical and Seventh-day Adventist system authorities pass on in full the SRG to schools as allocated by DET, while non-systemic independent schools receive their allocations direct from DET. The tests undertaken in this audit sought to verify the amount of SRG received by each school in our sample against their allocations from information provided by either system authorities or DET. The amounts received for all schools were fully reconciled, with schools receiving what DET intended when it determined allocations using its Financial Assistance Model (FAM).

### 3.4.2 Catholic Education Commission Victoria

CECV reallocates the SRG to Catholic schools using its own methodology. While the funding agreement imposes an obligation on CECV to distribute funding to systemic schools it does not directly address the manner in which those funds should be distributed to those schools. The guidelines expressly recognise that a system authority may choose to reallocate the quantum of funding provided by DET to its member schools, rather than pass on the entitlement calculated by DET. Nevertheless some aspects of the agreement and the guidelines suggest an underlying assumption that each school will receive funding in accordance with its FAM allocation.

The overall effect of the CECV distribution methodology is that, in relation to SRG's, some Catholic schools receive substantially more than they would receive under DET's allocation and some substantially less. While student-family background is only one of a number of elements that make up the DET funding model, the overall effect of the CECV methodology is to reduce the importance of that element in providing SRG funds to individual schools. The Student Family Occupation (SFO) measure is based on the parental occupation category information and the SFO Density Score, which calculates the proportion of parents at the school in each occupation category, with each occupation category being weighted for relative education need. Figure 3C shows the occupation categories and related SFO weightings.

**Figure 3C**  
**Occupation category weightings**

Occupation category	Weighting
Senior management and qualified professionals	0.0
Other business managers and associate professionals	0.25
Tradespeople, clerks and skilled office, sales and service staff	0.5
Machine operators, hospitality staff, assistants, labourers and related workers	0.75
Not in paid work in the last 12 months	1.0
Not stated or unknown	0.0

Source: Independent Schools Victoria, *Guide to Australian and Victorian Government Funding 2015*.

As Figure 3D shows, CECV reallocates SRG funding away from the lower socio-economic status schools to schools with a higher socio-economic status. Overall, the highest socio-economic status schools, with an SFO index below 0.1, gained an additional 75.14 per cent in student funding while the lowest socio-economic status schools, with an SFO index of greater than 0.4, lost between 11.35 per cent and 63.33 per cent of their funding.

**Figure 3D**  
**CECV reallocation of state recurrent grants by student family occupation**

SFO index	Number of schools	Number of students	FAM allocation (\$)	FAM per student (\$)	CECV final allocation (\$)	CECV per student (\$)	Reallocation (\$)	Change (per cent)
<0.1	9	2 420	2 386 032	985.96	4 178 882	1 726.81	1 792 850	75.14
>=0.1<0.2	63	24 368	31 260 221	1 282.84	43 281 230	1 776.15	12 021 009	38.45
>=0.2<0.3	128	60 655	101 299 066	1 670.09	119 427 005	1 968.96	18 127 939	17.90
>=0.3<0.4	142	65 914	136 844 550	2 076.11	138 720 604	2 104.57	1 876 054	1.37
>=0.4<0.5	77	24 714	58 723 568	2 376.13	52 058 922	2 106.45	-6 664 646	-11.35
>=0.5<0.6	38	13 117	42 502 438	3 249.26	28 789 713	2 194.84	-13 712 725	-32.26
>=0.6<0.7	12	3 747	15 706 470	4 191.75	7 779 396	2 076.17	-7 927 074	-50.47
>=0.7<0.8	5	1 737	8 053 541	4 636.47	4 422 115	2 545.83	-3 631 426	-45.09
>=0.8<0.9	3	505	2 772 708	5 490.51	1 016 714	2 013.30	-1 755 994	-63.33
<=0.9	2	412	1 536 389	3 729.10	1 156 408	2 806.82	-379 981	-24.73

Note: These figures exclude grants for SWD within FAM as this funding must be allocated to SWD and is separately acquitted. These figures also exclude grants provided to CECV for two non-systemic, special Catholic schools as this funding is paid directly to those schools so is not subject to reallocation by the CECV. The five highest socio-economic status combined secondary schools whose funding is not subject to the CECV's reallocation formula are also excluded. With these exclusions, the data covers \$400.8 million in FAM grants for all other Catholic schools in Victoria in 2014.

Source: Victorian Auditor-General's Office based on data from the Catholic Education Commission Victoria.

Figure 3E shows that schools in the Ballarat and Sandhurst dioceses have reductions in their total funding allocations of 1.37 per cent and 6.38 per cent, respectively by CECV's reallocation methodology.

**Figure 3E**  
**CECV reallocation of grants by diocese**

Diocese	FAM allocation (\$)	FAM allocation per student (\$)	CECV allocation (\$)	CECV Allocation per student (\$)	Reallocation (\$)	Change (per cent)
Ballarat	40 886 059	2 244.39	40 327 070	2 213.71	-558 989	-1.37
Melbourne	282 531 833	1 969.45	284 997 793	1 986.64	2 465 960	0.87
Sale	35 601 255	2 052.66	36 438 833	2 100.95	837 578	2.35
Sandhurst	42 497 502	2 320.75	39 784 426	2 172.59	-2 713 076	-6.38

Source: Victorian Auditor-General's Office based on data from the Catholic Education Commission Victoria.

While the reallocation at the diocese level may not appear pronounced, at the school level, CECV's reallocation can have significant differences compared to DET's FAM allocation. For example:

- The highest amount reallocated to a school was \$966 724 which was to a Melbourne metropolitan secondary school. Fifteen schools had more than \$500 000 reallocated to them above the FAM allocations.
- The highest amount reallocated away from a school was \$1.74 million which was also from a Melbourne metropolitan secondary school. Eight Melbourne metropolitan schools had more than \$1 million allocated away from them, and 16 schools had between \$1 million and \$500 000 reallocated away from them, compared to the FAM allocations.

CECV's position is that its reallocation of FAM grants is required because FAM does not accurately estimate the need for government grants in Catholic schools. As noted in Section 2.6.1, DET plans to undertake a comprehensive review of the allocation methodology of FAM in 2016. CECV's view is:

- There is a disproportionate share of funding allocated to equity/needs based factors. Equity/needs funding comprises 59.4 per cent of total funding in the FAM, but it makes up only 15 per cent of funding in the Student Resource Package model used by the Victorian Government for government schools, or 20.3 per cent of funding in the Schooling Resource Standard model used by the Australian Government and applied to Catholic schools in Victoria. This requires the Catholic system to reallocate some FAM equity/needs funding toward meeting base/core school operating costs elsewhere in the Catholic system.
- If grants were allocated to Catholic schools strictly based on FAM, it would lead to a number of outcomes that run counter to the goals of CECV's funding agreement with DET. It would mean that some Catholic schools would not be viable, while others would not be able to provide a quality education to all of their students, and it would also be more difficult to open new Catholic schools. CECV did not provide any evidence to support this view.

- CECV's allocation of FAM grants to Catholic schools is similar to the allocation of government grants that is anticipated in the Australian Government's Schooling Resource Standard model.
- It is misleading for CECV's allocation of Victorian Government SRGs to schools to be considered in isolation of its allocation of Australian Government recurrent grants. The CECV allocates Victorian SRGs to schools in conjunction with Australian Government recurrent grants, and schools rely on grants from both governments to fund their operations. Australian Government grants are more than three-times greater than Victorian Government grants, and any analysis of the funding allocated to schools by the CECV based solely on grants sourced from the Victorian Government presents an incomplete and misleading picture of how the CECV allocates government grants and of the funding impacts on schools.

### **DET visibility of CECV allocation**

DET is aware that CECV reallocates the grant amounts according to its own methodology. Although it has access to information on the final allocations to schools through data reported nationally, DET advised that it is not aware of the methodology used by CECV to reallocate SRG or the revised allocations provided to Catholic schools. CECV complies with the requirements of the funding agreement which require it to provide DET with acquittals on SRG at an aggregate level and not for individual schools, therefore, DET cannot have any understanding of the outcome of this process, or its implications for achieving the government's objectives of providing grants. DET should clarify any conditions and reporting requirements associated with the reallocation of the state recurrent grant.

### **Reconciliation of CECV allocations of the state recurrent grant to Catholic schools**

We tested the SRG amounts received by six Catholic schools against allocations from CECV, and were able to reconcile these amounts.

## **3.5 Students with disabilities funding**

SWD funding must be used to support SWDs, although the funding does not need to be linked or allocated to individual students. Funding is allocated by DET to CECV and Independent Schools Victoria (ISV) based on the proportion of students with disabilities in each sector.

For Catholic schools, the SWD funds provided to each school depend on the number of eligible students at the school and their categories of need. The guidelines for SWD funding are provided to Catholic schools and schools apply to CECV for funding. Applications are assessed, and eligible students are appraised to determine their functional needs and are allocated into one of three categories of need.

ISV distributes funds to independent schools, and prior to 2015 it used the Australian Government process for distributing the funds based on the number of students with a disability and the severity of their conditions, using Australian Government data to arrive at a notional allocation of funds to schools.

ISV has now introduced a new process. The Australian Government program for which the data was collected has ended and therefore there is no up-to-date data on the severity of students' conditions. ISV has used the August school census to find the number of students with a disability. ISV then assumed that the distribution of severity in 2015 was the same as it was in 2014. Given this assumption and the number of students with a disability, ISV could arrive at a notional allocation of SWD funds to schools. In the future ISV anticipates there will be a 'nationally consistent collection of data on school students with a disability'. This work will cover all sectors and all jurisdictions, and ISV hopes that it will provide the data that ISV needs to determine a notional allocation of SWD funds to schools. While ISV has concerns over the current reliability of this data they hope its reliability will improve over time.

### **3.5.1 Reconciliation of student with disability grant allocations**

We tested financial records for SWD grants received in 2014 from ISV for all non-Catholic schools, and Catholic schools who receive funding through CECV. There was no variance found for any schools we tested.

## **3.6 Use of grants by non-government schools**

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### **3.6.1 Grants administration in the sampled schools**

This audit examined whether the 22 schools in the sample:

- had policies and/or procedures in place for managing state grants
- had systems and processes in place to ensure grants are spent for their intended purpose
- could track and demonstrate how grant funds had been spent
- could demonstrate that grants had been used for their intended purpose
- had sufficient and appropriate evidence to verify expenditure of grant funds.

Our tests were not designed to assess compliance with the relevant funding agreements, but to determine whether there were controls and processes in place at schools that could provide assurance that grants were being used as intended.

Figure 3F shows the results of our testing.

**Figure 3F**  
**Results of non-government school testing – state government grants**

	Met	Partially met	Not met
Schools have policies and procedures around accountability and the use of grants	0	5	17
Schools have systems and processes to ensure grants are used for their intended purpose	0	5	17
Schools have budgets to ensure grants are spent or committed in the relevant financial year	21	0	1
Schools have a general ledger of expenses showing how grant money was spent	0	13	9
Schools have supporting documentation (e.g. invoices) showing how grant money was spent	0	9	13
Schools can demonstrate that state RGFs were not used for capital purposes	0	0	22
Schools can demonstrate that SWD funds were spent on their intended purpose	4	3	13
Schools can demonstrate that SSP funds were spent on their intended purpose	2	4	7
Schools provided a signed acquittal from an approved auditor	21	1	0
Schools provided a school financial report or completed a financial questionnaire	20	0	2

*Note:* Not all schools received SWD or SSP grants.

*Source:* Victorian Auditor-General's Office.

### Policies and procedures

Policies and procedures are used by schools to ensure their staff administer grants in accordance with the terms of the relevant funding agreements. For example, they contain business rules for staff on how grant monies can be spent and how to record the expenditure against the grant amounts.

No schools in our sample had adequately documented policies and procedures in place to support sound administration of the state government grants. Five schools had appropriate documentation of staff responsibilities but no school had clearly documented business rules for grants administration. Six schools relied on what they described as ‘verbal’ policies, which by their nature cannot be considered policies.

### Systems and processes

Systems and processes can be established to ensure that grants are used for their intended purpose. These systems could relate to managing risks associated with incorrect use of grants, assessment and approvals processes for proposals to use grant money, and regular acquittals or self-audits that grants have been spent on their intended purpose.

None of the schools in our sample provided evidence that all such systems were in place. One school had a series of controls for approval of expenditure. Four schools relied on ‘verbal’ processes.

### 3.6.2 Ability to demonstrate use of grant funds

Schools were asked to provide evidence of how grant money was accounted for in the school's financial system. The ability to trace expenditure to the source of funds is important as all Victorian Government grants to non-government schools include conditions on the types of expenditure for which they can and cannot be used.

Nearly all schools (21 of 22) had budgets in place to ensure that grants were spent or committed in the relevant year.

While the majority of schools were able to demonstrate that grant money was spent or committed in the financial year for which it was received, they were unable to provide sufficient supporting evidence, through detailed general ledgers and invoices that grant funds had been spent as budgeted.

#### State recurrent grants

The guidelines state that SRG must be used to meet the recurrent costs of providing education programs consistent with Victoria's education policies and goals, and is not to be used for capital purposes. Otherwise, funding through SRG remains 'untagged', with the exception of funding for SWD.

It was therefore common for schools to add SRG funds to a general account, together with other income, such as Australian Government grants. Schools considered inappropriate use of SRG to be a low risk as the funding received was far less than their employee wages and recurrent operational expenses. Nevertheless, we sought evidence from schools to demonstrate that SRG funds were not used for capital purposes. While all individual schools we tested had an auditor's report stating SRG funds were expended for the purposes for which they were provided, no school was able to demonstrate to VAGO that SRG funds were spent in full accordance with the agreement. CECV and ISV's view is that schools are not required to record which of their recurrent expenditures (including commitments to spend) were paid using SRG funds. This relates to their interpretation of clause 21 of the funding agreement which is discussed in Section 2.3.2.

DET's 2016 funding agreement includes strengthened reporting requirements that specify how funding is to be spent, with a requirement for a certificate to be issued by the school head and an independent auditor. However, without separately identifying expenditure of SRG funding, it is not clear how a school and, consequently, DET can be assured that funds are spent in accordance with the agreement. Therefore, the specific record keeping and reporting requirements relating to expenditure of SRG funds need to be made clearer.

## Students with disabilities grants

The guidelines state that all SWD funding allocated to schools must be used by schools to provide programs for students assessed as qualifying for such funding.

Of the 20 schools that received SWD funding, only four (20 per cent) were able to provide sufficient evidence that SWD funds were spent on their intended purpose.

These schools were able to provide evidence linking their SWD funds to:

- salaries associated with the provision of targeted professional support services for students with assessed special learning needs
- budgets for special needs, which is updated when expenses have been approved and allocated to this budget, and shows the use of SWD funds for speech pathology, professional development and resources
- teacher's aide salaries with evidence of details of student need by grant type, days and hours per week, as well as a summary aide costing
- salaries for staff that support students with disabilities.

A further three schools were able to provide some evidence of expenditure, but were unable to either link the expenditure to the source of funds or substantiate the expenditure shown in the general ledger.

Thirteen schools could not demonstrate that their SWD grants were used for the intended purpose.

## Support Services Program

The guidelines state that the SSP provides targeted funds to assist students attending non-government schools who have special learning needs. The funding is available to deliver a range of professional support services, including visiting teacher services (physical or health impaired, hearing impaired), psychology services and speech pathology services. Individual schools apply directly to ISV or CECV for this funding.

Of the 13 schools that received SSP grants, only two schools (15.4 per cent) provided sufficient evidence that SSP funds were spent on their intended purpose. Evidence provided by the two schools that met this test were:

- a general ledger and supporting invoices for professional services (occupational therapist and speech pathologist) provided to the school
- a general ledger showing expenditure of 'languages grant'.

Four schools were able to provide a sufficiently detailed general ledger, but were not able to provide documentation to verify the expenditure. The remaining seven schools could not demonstrate that SSP funds were spent on their intended purpose.

## Recommendation

- 
5. That the Department of Education & Training clarifies any conditions and reporting requirements for system authorities when their distribution of state recurrent grants varies from the department's allocation to individual schools.

## Appendix A.

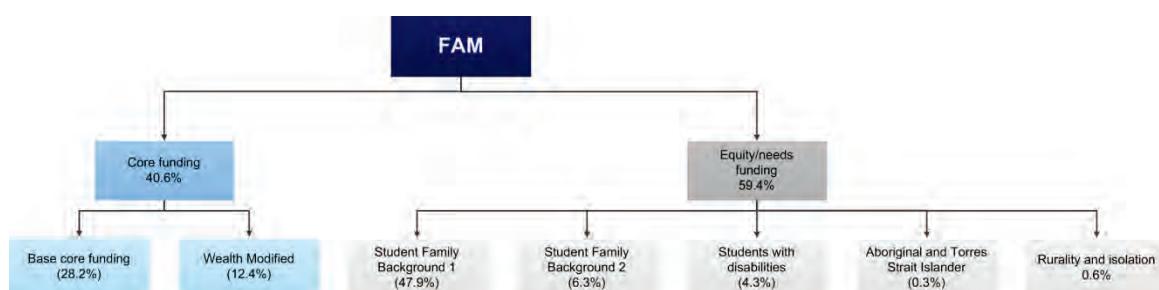
# Overview of DET Financial Assistance Model

### The Financial Assistance Model

The Financial Assistance Model (FAM) is the Department of Education & Training's (DET) model for distributing state recurrent grants. The FAM replaced the former Education Resource Index funding model in 2006. Funding for each school is calculated under two components (core funding and equity funding), however, the total funding provided to a school under the model is untied recurrent funding. This allows schools the flexibility to determine how the funds will be spent in order to best meet the needs of the students.

The core funding and equity funding components are divided into various funding elements. FAM is not the major contributor of funds to non-government schools, but rather it is intended to target particular needs, based on the number of enrolments. Nearly 60 per cent of FAM funding is focused on equity and need. All elements of FAM, except for the students with disabilities (SWD) element, can be used for any general recurrent funding purpose. While the SWD element of FAM must be used to support students with disabilities, the funding does not need to be linked or allocated to individual students.

**Figure A1**  
**The Financial Assistance Model**



Source: Victorian Auditor-General's Office based on information from the Department of Education & Training.

The specific rates applied to each element of the FAM change from year to year, and depend on the total number of students in non-government schools.

## Core funding component

The core funding component is made up of base core funding and wealth modified core funding. Schools receive core funding for every eligible student enrolled at the school.

### Base core funding

Base rates of funding per student have been established. These rates are weighted for both a primary/secondary split and for the stage of schooling—which considers the relative average recurrent cost of educating a student in each year level in a Victorian government school. The 2015 funding rate ranges from \$397.44 per student for students in years 3, 4, 5 and 6 and ungraded primary students to \$619.40 per student for all levels of secondary school.

### Wealth modified core funding

Schools receive funding under the wealth modified core element according to the private recurrent income that the school receives. The calculation of private recurrent income is based on information provided by schools to the Australian Department of Education and Training in the annual Financial Questionnaire.

Schools receive a block allocation of funding under this element, rather than a per student rate.

## Equity funding component

Equity funding comprises five elements that have been identified by DET as a measure of educational disadvantage:

- SWD funding
- Aboriginal and Torres Strait Islander funding
- Rurality and isolation funding
- Student family background 1 funding
- Student family background 2 funding.

### Students with disability funding

Currently, the majority of SWD funding is measured by the number of students with an Australian Government-defined disability, as identified by the school on the Australian Government Census.

A single per capita rate has been established for each student with a disability, regardless of the level of severity of their disability. The funding rate for 2015 is \$2 119.07 per eligible student.

The Victorian Government has also provided additional funding since 2010, to provide more targeted support for students with a disability. This funding was intended to be dependent on the establishment of consistent measures of disability severity across the non-government school sector. However, agreement has yet to be reached and funding has been distributed within each sector according to that sector's agreed definitions of disability.

## Aboriginal and Torres Strait Islander funding

This funding is allocated based on the number of students from an Aboriginal or Torres Strait Islander background, as identified on the Australian Government Census. The 2015 funding rates were \$697.00 per eligible primary student and \$1 045.00 per eligible secondary student.

## Rurality and isolation funding

Rurality and isolation funding is designed to recognise the additional costs of education provision in geographically remote schools.

Each school campus is allocated a Rurality Location Index score based on its distance from Melbourne, its distance from the nearest provincial centre with a population greater than 20 000, and its distance from the nearest 'large school'. School campuses in the Melbourne metropolitan area automatically receive an index score of 0.00, while the most remote school in Victoria receives a score of 1.00.

Each school's funding is calculated by multiplying the base Rurality and Isolation Index rate of funding by each campus' Rurality Location Index score, by the number of students at the campus and by a primary/secondary weighting, and then calculating the sum of the campus allocations. The 2015 funding rates were \$176.90 per primary student and \$260.04 per secondary student.

## Student family background 1 funding

Prior to 2014, funding was provided to schools based on the number of students who receive Education Management Allowance (EMA) funding. The EMA was provided for parents who held a Health Care Card, Pensioner Concession Card, Veterans' Affairs Gold Card, or who were foster parents.

From 2015, DET no longer collects EMA data. Consequently, the 2015 student family background 1 element of the FAM will be based on the proportion of students at each school who were eligible to receive EMA funding in 2014.

Funding is calculated by multiplying the base student family background rate of funding by the number of eligible students at the school, with a primary/secondary weighting of 1.00/1.47. In 2015, the rates were \$5 723.03 per primary student and \$8 412.85 per secondary student.

This component accounts for a significant portion of the FAM allocation.

## Student family background 2 funding

The Student Family Occupation (SFO) measure is calculated based on parental occupation information, as collected as part of the Student Background Characteristics data. Schools receive funding according to their SFO density score, which calculates the proportion of parents at the school in each occupation category, with each occupation category being weighted for relative education need. The equity/needs funding component aims to break the patterns of inequality in student outcomes by targeting funds at schools with a higher density of students from low socio-economic backgrounds, who are most at risk of not achieving satisfactory outcomes in literacy and numeracy. The guidelines highlight that student family background has a significant impact on student achievement. This measurement, used to assess student need, is based upon parental occupation and has become an increasingly important component of funding.

**Figure A2**  
**Occupational category weightings**

Occupation category	Weighting
Senior management and qualified professionals	0.0
Other business managers and associate professionals	0.25
Tradespeople, clerks and skilled office, sales and service staff	0.5
Machine operators, hospitality staff, assistants, labourers and related workers	0.75
Not in paid work in the last 12 months	1.0
Not stated or unknown	0.0

Source: Independent Schools Victoria, *Guide to Australian and Victorian Government Funding 2015*.

Funding is calculated by multiplying the base SFO rate of funding by a school's SFO density score and the number of students at the school. There is no primary/secondary weighting applied to this element of funding. For small schools, a minimum funding amount of \$5 500 is applied. In 2015, the initial base SFO rate was \$418.86 per student.

## Appendix B.

# *Audit Act 1994 section 16— submissions and comments*

### Introduction

In accordance with section 16(3) of the *Audit Act 1994*, a copy of this report, or part of this report, was provided to:

- the Department of Education & Training
- Adventist Schools Victoria
- Catholic Education Commission of Victoria Ltd
- Independent Schools Victoria
- Lutheran Education Vic, NSW & Tas
- Victorian Ecumenical System of Schools.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

The Department of Education & Training .....	42
Catholic Education Commission of Victoria Ltd.....	45
Independent Schools Victoria.....	55

Further audit comment:

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***RESPONSE provided by the Acting Secretary, Department of Education & Training***



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Dr Peter Frost  
Acting Auditor-General  
Victorian Auditor-General's Office  
Level 24, 35 Collins Street  
MELBOURNE 3000



Dear Dr Frost

**Proposed report: Grants to non-government schools**

Thank you for your letter of 17 February 2016 providing the opportunity to comment on the proposed report for the *Grants to non-government schools* performance audit.

Non-government schools in Victoria provide education to around 334,000 students, representing over one third of all Victorian students.

The Department of Education and Training is committed to ensuring that State Government funding delivered to non-government schools is used to improve outcomes for these students, making a positive contribution to the overall improvement of Victoria's education system.

The Department has reviewed the report, accepts the recommendations and has initiated a significant body of work to address the identified issues.

As acknowledged in the report, the Department has recently taken steps to strengthen the management and monitoring of grant funding to non-government schools through a combination of legislative, funding and regulatory means. These improvements strengthen accountability and reporting requirements for non-government schools, and provide the foundation for further reforms as recommended by VAGO.

In implementing VAGO's recommendations, we will continue to work constructively with non-government schools and their representative bodies through the School Policy and Funding Advisory Council.

Enclosed with this letter is the Department's action plan to address each recommendation, along with completion dates.

Finally, I would like to take the opportunity to commend VAGO on an audit process which has been constructive and characterised by good working relationships between our agencies.



**RESPONSE provided by the Acting Secretary, Department of Education & Training – continued**

Should you wish to discuss the content of this response further, please contact Melissa Dwyer, Acting Executive Director, Integrity and Assurance Division, Department of Education and Training on 9651 3650 or by email: [dwyer.melissa.j@edumail.vic.gov.au](mailto:dwyer.melissa.j@edumail.vic.gov.au).

Yours sincerely



Katy Haire  
Acting Secretary

13/01/2016

***RESPONSE provided by the Acting Secretary, Department of Education & Training – continued***

#	Recommendations – That DET:	Response	#	Action(s) that address the recommendation	By...
1	Continues to improve the state recurrent grant funding agreement so that all relevant Education State targets for non-government schools are explicit and supported by relevant and appropriate performance measures and reporting requirements that enable the department to monitor the achievement of intended outcomes	Accept	1.1	Further develop existing school-level performance outcome measures to support monitoring of non-government school progress towards the Education State targets for inclusion in the 2017 Funding Agreement.	31 Dec 2016
			1.2	Review and monitor the achievement of intended outcomes of the Funding Agreement through the School Policy and Funding Advisory Council.	31 Dec 2016
2	In conjunction with the non-government schools sector, clarifies and strengthens record keeping and reporting requirements for the expenditure of all state government grants so that requirements are explicit and well understood by grant recipients and all non-government schools	Accept	2.1	Review and strengthen the 2017 Funding Agreements for all state government grants through the School Policy and Funding Advisory Council to ensure that record keeping and reporting requirements for the expenditure of state grants are clear.	31 Dec 2016
			2.2	Work with the CECV and ISV to promote sound record keeping and reporting across non-government schools.	31 Dec 2016
3	Improves special purpose grant funding agreements to ensure they have explicit and measurable outcomes, supported by relevant and appropriate performance measures and reporting requirements that enable the department to monitor the achievement of intended outcomes	Accept	3.1	Review the objectives and accountabilities for Special Purpose Grants to non-government schools through the School Policy and Funding Advisory Council to ensure future funding arrangements include performance measures and associated reporting requirements that enable the Department to monitor intended outcomes.	31 Dec 2016
4	Develops a program of audits of grant recipients and non-government schools to provide assurance grants are used as intended	Accept	4.1	Develop a targeted, risk-based audit program on grants provided to non-government schools through the School Policy and Funding Advisory Council. This will take into account the level of assurance that can be obtained from other governance and oversight activities.	31 Dec 2016
			4.2	Implement the targeted, risk-based audit program.	30 Sep 2017
5	Clarifies any conditions and reporting requirements for system authorities when their distribution of state recurrent grants varies from the Department of Education & Training's allocation to individual schools	Accept	5.1	Review and work with non-government school system authorities through the School Policy and Funding Advisory Council to clarify through the 2017 Funding Agreement, the principles and purposes of the conditions and reporting requirements for the distribution of the state recurrent grant.	31 Dec 2016

**RESPONSE provided by the Executive Director, Catholic Education Commission of Victoria Ltd**



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*in reply please quote:* GE04/0138 1

2 March 2016

Dr Peter Frost  
Acting Auditor-General  
Victorian Auditor-General's Office  
Level 24, 35 Collins Street  
MELBOURNE VIC 3000



Dear Acting Auditor-General

**Performance audit – Victorian Government Grants to Non-Government Schools**

Thank you for the opportunity to comment on the proposed report on the performance audit of Victorian Government Grants to Non-Government Schools.

As you are aware, the CECV has concerns over various findings in your report. Many of them stem from its highly limited scope. Overall, the CECV considers that your report lacks context and balance, and will be of little use to the schooling sector in Victoria. The CECV's concerns are further explained below.

**Scope of the audit**

The CECV has from the outset of this audit maintained that its scope was too narrow, and that exclusions from the audit scope would undermine the quality and relevance of VAGO's findings and recommendations. In particular, the audit scope did not take into account:

- Reporting and accountability requirements placed on non-government schools by the Australian Government (in school funding conditions)
- Reporting and accountability requirements placed on non-government schools by the Victorian Registration and Qualifications Authority (VRQA) (for school registration)
- Reporting and accountability requirements placed on government schools in Victoria.

While VAGO defended its limited scope as standard practice for grants management and administration, the above exclusions are untenable in the unique context of schooling.

Many requirements placed on non-government schools are organised at the national level by the Australian Government to enable national coverage and consistency. The Victorian Government has helped shape these requirements through the Education Council. That these requirements should be excluded by VAGO from the audit – merely because they are imposed by the Australian Government, as they must be to produce nationally consistent data – is extremely difficult to understand.

Within Victoria, it is the VRQA and not the Department which has primary responsibility for regulating schooling. This structural separation of responsibilities is important because it reduces the conflict of interest that would occur were the Department to be responsible for regulating non-government schools while also providing a competitor product. Funding conditions placed on non-government schools by the Department must be assessed in this context: they are intended to

**RESPONSE provided by the Executive Director, Catholic Education Commission of Victoria Ltd – continued**

Dr P Frost, Acting Auditor General

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complement school registration requirements imposed by the VRQA. This is unmistakable from the CECV's funding agreement with the Department, which specifies that each systemic school must be registered with the VRQA. Yet VAGO's report essentially denies that the VRQA's activities are relevant to the Department's oversight of grants to non-government schools.

VAGO's exclusions of these requirements mean its analysis is contrived. Moreover, had VAGO considered reporting and accountability requirements placed on government schools alongside those for non-government schools it would have gained some much-needed insight into standards of reporting and accounting in schooling. Altogether, VAGO's limited scope has led to a report which is incomplete and therefore misleading. With a broader, more appropriate scope many of the concerns and issues raised by VAGO would have been substantially addressed. Specific examples relevant to VAGO's findings are provided over the following sections.

At the outset of this audit – before any substantive work had commenced – the former Auditor-General stated in the media, in relation to grants to non-government schools, that "there is quite limited accountability coming back the other way as to what the money was used for, how it was used, and whether it was effective". VAGO has now produced a report to endorse these comments. It is hard not to conclude that the scope was intentionally designed to serve this purpose, given that a broader scope would have challenged many of VAGO's findings.

**CECV autonomy to reallocate government grants**

In section 3.4.2, VAGO's report casts ambiguity over whether the Department permits the CECV to reallocate state recurrent grants between systemic schools, and implies that the CECV is not accountable or transparent over how it allocates grants. Yet Departmental policy on this issue is clear from the first page of its funding agreement with the CECV:

*The funding arrangements provide schools with funding certainty and the flexibility to manage expenditure. They respect the independence of non-government schools and systems to determine their own priorities in meeting the needs of their students.*

The Government's policy is also unambiguous and was most recently spelt out by the Minister for Training and Skills when introducing the Education and Training Reform Amendment (Funding of Non-Government Schools) Bill 2014<sup>1</sup>:

*The bill respects and preserves existing administrative arrangements between the government and non-government sector regarding non-government school funding, so that there will be no disruption or change for the sector in relation to its implementation. The bill enables system authorities, such as the Catholic Education Commission of Victoria, to continue to receive funding on behalf of their constituent schools and distribute it as they see fit, continuing to respect their autonomy.*

Providing school systems with autonomy to allocate untied recurrent grants according to their own assessments of need in their schools is a position that is universally supported by governments throughout Australia<sup>2</sup>.

Moreover, if VAGO had considered requirements placed on school systems by the Australian Government, VAGO would have concluded the CECV is subject to a range of transparency and accountability measures on how it allocates grants. Specifically:

- The funding models used by the CECV must be publicly available and transparent.
- The funding models used by the CECV must comply with a specific, high-level structure based upon the Schooling Resource Standard (SRS) model used by the Australian Government to calculate school funding entitlements.

<sup>1</sup> Mr Herbert (Minister for Training and Skills), Legislative Council Hansard, Thursday, 12 February 2015, p238

<sup>2</sup> For example, this is endorsed in the Gonski review (*Review of School Funding – Final Report* (2011), Canberra, ACT: Department of Education, Employment and Workplace Relations, December, p. 181.) and in the Australian Education Act 2013 (Paragraph 78(3)(a)).

**RESPONSE provided by the Executive Director, Catholic Education Commission of Victoria Ltd – continued**

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- Each year, the CECV must provide to the Australian Government a breakdown of how it allocates grants to schools by various items (base funding and different loadings, including the six loadings in the SRS model).
- Through the MySchool website, the CECV reports on the state grants provided to all Catholic schools in Victoria each year. The complete dataset on Catholic school allocations is also made available to the Department.

These requirements are relevant because the CECV uses the same funding models to allocate both Australian Government recurrent grants and state recurrent grants. The CECV fully complies with these requirements. Most recently, in 2015, the CECV released *Allocating government grants to Catholic schools in Victoria* on the CECV website ([www.cec.v.catholic.edu.au](http://www.cec.v.catholic.edu.au)). This explains the decision-making processes and funding models used by the CECV to allocate government grants. It is available to the general public as well as the Department, although the CECV is not aware of whether the Department has reviewed the document.

A further problem with section 3.4.2 is its simplistic focus on the reallocations of state recurrent grants that result under the CECV funding models. VAGO has neglected the considerable, overarching benefit that permitting the CECV to reallocate government recurrent grants provides to governments and the community. This enables the CECV to guarantee school viability, meaning that there are no unplanned closures of Catholic schools in Victoria<sup>3</sup>. This eliminates one of the biggest risks to the community of non-government schooling. VAGO is aware of this, having cited in its audit specification that disruption to students and schools caused by unplanned closures of non-government schools was a key reason for the audit. It is therefore surprising that VAGO can cite this risk as a reason for the audit, but fail to note in the audit report that the risk does not apply to Catholic schools because the CECV is able to reallocate state recurrent grants.

*Reallocation of state recurrent grants by the CECV in 2014*

Figure 3D in the VAGO report presents data on how the CECV reallocates state recurrent grants by school Student Family Occupation (SFO) density. There is a reallocation away from high-SFO schools to low-SFO schools. This is entirely a product of the structure of the Financial Assistance Model (FAM), which allocates a relatively high share of funding to loadings in general, and disadvantaged student family background (SFB) in particular. Allocations in the FAM for these items are compared to other school funding models in Table 1.

**Table 1: Comparison of the FAM against other school funding models**

Funding model	Financial Assistance Model (FAM)	Schooling Resource Standard (SRS) model	Student Resource Package (SRP)	CECV school funding models <sup>2</sup>
Context	Applied by the Victorian Government to non-government schools <sup>4</sup>	Applied by the Australian Government to all schools <sup>5</sup>	Applied by the Victorian Government to government schools <sup>3</sup>	Applied by the CECV to Catholic systemic schools in Victoria
Base funding	28.2%	79.7%	83%	75.1%
Loadings	71.8%	20.3%	17%	24.9%
Student family background <sup>5</sup>	54.2%	9.2%	4%	6.7%

<sup>1</sup> Figures are for the SRS model applied to Victorian Catholic schools in 2014

<sup>2</sup> The CECV has different funding models for primary and secondary schools; these figures combine outcomes from both.

<sup>3</sup> Funding for school site costs is counted as base funding, while funding for targeted curriculum programs is treated as loadings.

<sup>4</sup> Estimates relate to the whole non-government school sector in Victoria. Wealth Modified Core funding is treated as a loading.

<sup>5</sup> This is measured by Student Family Occupation (SFO) in the SRP and FAM, and by Socio-Educational Advantage (SEA) in the SRS model. In 2014 the CECV models used both of these measures along with Education Maintenance Allowance (EMA).

<sup>3</sup> Instead, the Catholic school sector partners with government schools to assist displaced students when there are unplanned closures of independent schools. For example, Catholic schools in Victoria took in about 200 students from Mowbray College, and about 150 students from Acacia College, when these independent schools closed abruptly during 2012-13.

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The sharpest contrast is between the FAM (54.2% of funding for SFB) and the Student Resource Package (SRP, 4% of funding for SFB), which the Victorian Government uses to allocate funding to government schools. To our knowledge VAGO did not enquire why the Victorian Government allocates only 4% of funding to SFB in government schools, compared to 54.2% of funding in non-government schools (in the FAM), even though schools in the Catholic system are similar to schools in the government system. This is yet another missed opportunity for insightful analysis due to VAGO's limited scope.

In any event, the structure of the FAM means that in allocating state recurrent grants the CECV must reduce the share of funding allocated based on SFB. This inevitably requires funding to be reallocated from high-SFO schools to low-SFO schools. There is nothing exceptional about this reallocation. The same reallocation would be required in government schools if the Victoria Government received school funding through the FAM but allocated it using the SRP. The same reallocation would also be required if the CECV allocated state recurrent grants based on the outputs of the SRS model used by the Australian Government to calculate CECV funding. It is the nature of the FAM that requires the CECV to reallocate state recurrent grants in the way it does. The CECV believes these basic observations should have been made by VAGO and included in the report to provide proper context.

**Accounting for expenditures of state recurrent grants – and Department audits**

In its report VAGO concludes that "non-government schools do not have systems and processes to ensure grants are used for their intended purpose" (which excludes capital purposes). At the core of this finding is VAGO's insistence that this can only be demonstrated if schools separately record their expenditures of state recurrent grants (distinct from expenditures funded by other income sources).

This disregards established standards of financial reporting in schooling throughout Australia, including in government schools. As explained by the previous Minister for Education in Victoria, in relation to government schools<sup>4</sup>:

*In Victoria we pool our money, the money goes to the schools and the schools work out what are the best ways in which they can address the needs of their school communities. We do not give a detail-by-detail split of the money and where it should go. The money is pooled, and it goes out to our schools....We do not treat them [Australian Government funding and Victorian Government funding] as separate buckets of money. It is school funding and we do not divide them up like that...*

Nowhere in Australia are school expenditures expected to be recorded by income source. These practices are embedded in the Australia Government's Financial Questionnaire (FQ) and (audited) Annual Financial Statements (AFS), which sets the standard for financial reporting for non-government schools. Governments have historically accepted that data extracted from the FQ and AFS provides sufficient assurance that grants are used for their intended purposes (including that recurrent grants have not been used for capital purposes).

VAGO's finding therefore rests on an unreasonable and unrealistic standard of financial reporting. This standard is vastly different from what governments have previously asked non-government schools to do, and which they wisely do not require of government schools. The CECV believes VAGO should have made these facts clear in its finding on this issue.

<sup>4</sup> Mr M Dixon, Minister for Education, Public Accounts and Estimates Committee, Inquiry into budget estimates 2014-15, Melbourne – 13 May 2014, pp 5-6.

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However, this finding then appears to underpin VAGO's recommendation that the Department "develops a program of audits of grant recipients and non-government schools to provide assurance grants are being used as intended". It is not clear how these audits would interact with those already undertaken by the Australian Government (which validates data entered into the FQ) and the VRQA (which audits schools to assure financial viability). Nevertheless, if the Department is to seek this assurance, the best party to provide it is the independent auditors who audit school financial statements each year. There is no need for the Department to implement its own audit program. Altogether, the CECV considers this recommendation is poorly conceived and specified.

**Performance goals, monitoring and reporting**

VAGO's report states that in the funding agreements between the Department and non-government schools "there are no performance measures or targets and limited reporting requirements, beyond financial reporting", and therefore finds the Department "is unable to determine if grants are contributing to the achievement of its goals". Again, these findings do not take into account requirements set at the national level or as part of school registration processes. For example:

- The *National Education Reform Agreement* between the Australian and state and territory governments contains several performance targets (with indicators) applicable to all schools:
  - Lift the Year 12 (or equivalent) or Certificate II attainment rate to 90 per cent by 2015
  - Lift the Year 12 (or equivalent) or Certificate III attainment rate to 90 per cent by 2020
  - At least halve the gap for Aboriginal and Torres Strait Islander students in Year 12 or equivalent attainment rates by 2020, from the 2006 baseline
  - Halve the gap for Aboriginal and Torres Strait Islander students in reading, writing and numeracy by 2018, from the 2008 baseline
  - Australia placed in the top 5 countries internationally in reading, mathematics and science by 2025
  - Australia considered to be a high quality and high equity schooling system by international standards by 2025.

Funding agreements between the Department and non-government schools explicitly reference these and other national agreements<sup>5</sup>. Moreover, performance against certain targets is reported each year in the National Report on Schooling in Australia, in some cases specifically for Catholic schools in Victoria.

- Under national school performance and transparency requirements, non-government schools must carry out national student assessments (NAPLAN, PISA, TIMSS, PIRLS, etc.) and report to the Australian Government a wealth of information that is ultimately made available to the public through the MySchool website. This information includes school financial data, student demographic data and data on school performance in terms of NAPLAN, attendance rates and (where relevant) Year 12 results and post-school destinations. The MySchool website includes sophisticated tools that anyone can use (including the Department) to compare school performance in NAPLAN tests
- As part of the school registration requirements administered by the VRQA, schools must provide a detailed annual report for the local community containing a range of prescribed information on school performance (test results of students, rates of student attendance, financial statements, etc.). This is available to the public on the Victorian State Register. In addition, schools must monitor and report on student performance, and must provide at least two written reports to parents/guardians each year.

<sup>5</sup> For example, the CECV's funding agreement with the Department explains that the agreement is framed in the context of the *National Education Agreement 2008*, which was the predecessor to the *National Education Reform Agreement* and contains similar goals.

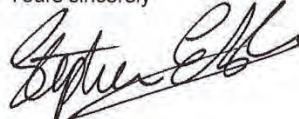
***RESPONSE provided by the Executive Director, Catholic Education Commission of Victoria Ltd – continued***

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These requirements highlight that non-government schools must report on their performance extensively to the local community and parents/guardians. An important issue in school accountability is how reporting to governments should sit alongside this. Parents/guardians are the foremost party to which schools ought to be held accountable, and the foremost adjudicator of school effectiveness. This is especially true for non-government schools, which require parents/guardians to pay fees and must therefore demonstrate value-for-money in order to be financially viable. The interests of parents/guardians are generally aligned with the policy objectives of governments. In this context, the CECV considers VAGO should have assessed the extent that school reporting to parents/guardians and local communities obviates the need to report to governments (beyond financial reporting). Such an assessment would have made a worthwhile contribution to the issue of school accountability, but unfortunately VAGO missed this opportunity.

Yours sincerely



Stephen Elder  
EXECUTIVE DIRECTOR

## Further audit comment in response to the submission from the Executive Director, Catholic Education Commission Victoria

The Catholic Education Commission Victoria (CECV) has raised several significant issues and concerns in their responses that warrant my further comment.

CECV comment	Acting Auditor-General's comment
<p>The CECV has from the outset of this audit maintained that its scope was too narrow, and that exclusions from the audit scope would undermine the quality and relevance of VAGO's findings and recommendations. In particular, the audit scope did not take into account:</p> <ul style="list-style-type: none"> <li>• Reporting and accountability requirements placed on non-government schools by the Australian Government (in school funding conditions)</li> <li>• Reporting and accountability requirements placed on non-government schools by the Victorian Registration and Qualifications Authority (VRQA) (for school registration)</li> <li>• Reporting and accountability requirements placed on government schools in Victoria.</li> <li>• While VAGO defended its limited scope as standard practice for grants management and administration, the above exclusions are untenable in the unique context of schooling.</li> </ul> <p>Within Victoria, it is the VRQA and not the Department which has primary responsibility for regulating schooling. This structural separation of responsibilities is important because it reduces the conflict of interest that would occur were the Department to be responsible for regulating non-government schools while also providing a competitor product. Funding conditions placed on non-government schools by the Department must be assessed in this context: they are intended to complement school registration requirements imposed by the VRQA. This is unmistakable from the CECV's funding agreement with the Department, which specifies that each systemic school must be registered with the VRQA. Yet VAGO's report essentially denies that the VRQA's activities are relevant to the Department's oversight of grants to non-government schools.</p> <p>VAGO's exclusions of these requirements mean its analysis is contrived. Moreover, had VAGO considered reporting and accountability requirements placed on government schools alongside those for non-government schools it would have gained some much-needed insight into standards of reporting and accounting in schooling. Altogether, VAGO's limited scope has led to a report which is incomplete and therefore misleading. With a broader, more appropriate scope many of the concerns and issues raised by VAGO would have been substantially addressed.</p>	<p>My office has previously responded to CECV on these issues noting that the argument the audit scope was 'too narrow' is not soundly based. The range of reporting and accountability requirements referenced by CECV are not directly related to the Department of Education &amp; Training's (DET) funding agreements and their goals and, most importantly, not used by DET to acquit its role in monitoring the use of grants by non-government schools. CECV's comments also fail to recognise that the mandate of the Victorian Auditor-General does not extend to examining the activities of the Australian Government.</p> <p>CECV's point about the VRQA is entirely problematic. My report does outline the role of the Victorian Registration and Qualifications Authority (VRQA) and the minimum standards that all schools must comply with for registration. It is also important to note that in the audit's scope it was clear that VRQA's role would be examined, but only in relation to how DET interacts with it where grants are involved. This approach was appropriate as only DET has a role in the administration, oversight and monitoring of grants.</p> <p>Hence CECV's suggestion that my report 'denies that VRQA's activities are relevant to the department's oversight of grants to non-government schools' is erroneous and ignores this important aspect of the audit scope. CECV appears to have missed this important aspect of the audit scope.</p> <p>My report, in a number of parts, also acknowledges the reporting requirements of the Australian Government. For example Section 2.3.1 refers to reporting for the Australian Curriculum, Assessment and Reporting Authority (ACARA) and the Australian Government Financial Questionnaire. However, as these requirements do not apply directly to the use of state government grants, and are beyond the remit of the Victorian Auditor-General, they were not examined.</p> <p>For these reasons, I emphatically reject any suggestion that my analysis is 'contrived'. This assertion is baseless and reflects a serious misunderstanding of the context of my audit and mandate.</p>

## Further audit comment – continued

CECV comment	Acting Auditor-General's comment
<p>At the outset of this audit – before any substantive work had commenced – the former Auditor-General stated in the media, in relation to grants to non-government schools, that “there is quite limited accountability coming back the other way as to what the money was used for, how it was used, and whether it was effective”. VAGO has now produced a report to endorse these comments. It is hard not to conclude that the scope was intentionally designed to serve this purpose, given that a broader scope would have challenged many of VAGO’s findings.</p> <p>In section 3.4.2, VAGO’s report casts ambiguity over whether the Department permits the CECV to reallocate state recurrent grants between systemic schools, and implies that the CECV is not accountable or transparent over how it allocates grants.</p> <p>Moreover, if VAGO had considered requirements placed on school systems by the Australian Government, VAGO would have concluded the CECV is subject to a range of transparency and accountability measures on how it allocates grants.</p>	<p>See Auditor-General’s comments on Page vii of this report.</p> <p>The former Auditor-General exercised no substantive influence over the audit conduct of this audit or the development of this report.</p> <p>It is important to note that my audits are conducted in accordance with the <i>Audit Act 1994</i> and the Australian Auditing and Assurance Standards, which require audit findings and conclusions to be based on sufficient and appropriate evidence.</p> <p>This statement does not accurately represent the content of my report.</p> <p>Section 3.4.2 of my report clearly acknowledges that a system authority can choose to reallocate the quantum of funding provided by DET to its member schools. Nevertheless, as my report highlights, some aspects of the agreement and the guidelines suggest an underlying assumption that each school will receive funding in accordance with its allocation made by DET using its Financial Assistance Model.</p> <p>As my report notes, although DET has access to information on the final allocations to schools through data reported nationally, DET is not aware of the methodology used by CECV to reallocate state recurrent grants or of the revised allocations to Catholic schools. In this context, Australian Government requirements are irrelevant, as DET is responsible for all aspects of managing grants to non-government schools in Victoria.</p>
<p>A further problem with section 3.4.2 is its simplistic focus on the reallocations of state recurrent grants that result under the CECV funding models. VAGO has neglected the considerable, overarching benefit that permitting the CECV to reallocate government recurrent grants provides to governments and the community. This enables the CECV to guarantee school viability, meaning that there are no unplanned closures of Catholic schools in Victoria. This eliminates one of the biggest risks to the community of non-government schooling. VAGO is aware of this, having cited in its audit specification that disruption to students and schools caused by unplanned closures of non-government schools was a key reason for the audit. It is therefore surprising that VAGO can cite this risk as a reason for the audit, but fail to note in the audit report that the risk does not apply to Catholic schools because the CECV is able to reallocate state recurrent grants.</p>	<p>Section 3.4.2 simply shows the outcome of CECV’s allocation compared to the allocation made by DET using its Financial Assistance Model.</p> <p>CECV repeatedly failed to provide sufficient and appropriate evidence to support its assertions during the audit that grants guarantee school viability.</p> <p>CECV’s references to VAGO’s audit specification are factually incorrect and misleading. The audit specification did not include references to the closure of private schools—this was included in VAGO’s 2015–16 Annual Plan. The rationale for the audit included in the audit plan is as follows:</p> <p>‘Non-government schools provide education for more than one-third of Victorian school children. Grants to non-government schools total more than \$640 million annually. Given the amount of funding to non-government schools, it is important to determine if these grants are administered appropriately and are being used to maximise the intended outcomes.’</p>

## Further audit comment—continued

CECV comment	Acting Auditor-General's comment
<p>Figure 3D in the VAGO report presents data on how the CECV reallocates state recurrent grants by school Student Family Occupation (SFO) density. There is a reallocation away from high-SFO schools to low-SFO schools. This is entirely a product of the structure of the Financial Assistance Model (FAM), which allocates a relatively high share of funding to loadings in general, and disadvantaged student family background (SFB) in particular.</p> <p>The structure of the FAM means that in allocating state recurrent grants the CECV must reduce the share of funding allocated based on SFB. This inevitably requires funding to be reallocated from high-SFO schools to low-SFO schools. There is nothing exceptional about this reallocation. The same reallocation would be required in government schools if the Victoria Government received school funding through the FAM but allocated it using the SRP. The same reallocation would also be required if the CECV allocated state recurrent grants based on the outputs of the SRS model used by the Australian Government to calculate CECV funding. It is the nature of the FAM that requires the CECV to reallocate state recurrent grants in the way it does. The CECV believes these basic observations should have been made by VAGO and included in the report to provide proper context.</p> <p>In its report VAGO concludes that “non-government schools do not have systems and processes to ensure grants are used for their intended purpose” (which excludes capital purposes). At the core of this finding is VAGO’s insistence that this can only be demonstrated if schools separately record their expenditures of state recurrent grants (distinct from expenditures funded by other income sources).</p> <p>This disregards established standards of financial reporting in schooling throughout Australia, including in government schools.</p> <p>VAGO’s finding therefore rests on an unreasonable and unrealistic standard of financial reporting. This standard is vastly different from what governments have previously asked non-government schools to do, and which they wisely do not require of government schools. The CECV believes VAGO should have made these facts clear in its finding on this issue.</p> <p>However, this finding then appears to underpin VAGO’s recommendation that the Department “develops a program of audits of grant recipients and non-government schools to provide assurance grants are being used as intended”. It is not clear how these audits would interact with those already undertaken by the Australian Government (which validates data entered into the FQ) and the VRQA (which audits schools to assure financial viability). Nevertheless, if the Department is to seek this assurance, the best party to provide it is the independent auditors who audit school financial statements each year. There is no need for the Department to implement its own audit program. Altogether, the CECV considers this recommendation is poorly conceived and specified.</p>	<p>The information presented in Figure 3D is factually correct and CECV has not disputed this.</p> <p>CECV’s reallocation of state recurrent grants to Catholic schools is not a product of DET’s Financial Assistance Model. It is solely a result of CECV’s own reallocation methodology.</p> <p>These statements contain factual errors and misrepresent the content of my report.</p> <p>My office has never insisted that schools should separately record their expenditures of state recurrent grants, and this is not at the core of my findings that non-government schools do not have systems and processes to ensure grants are used for their intended purpose.</p> <p>Section 3.6.1 of my report clearly sets out what the audit examined and the tests undertaken to determine whether there were controls and processes in place at schools that could provide assurance that grants were being used as intended.</p> <p>My recommendation that DET develops a program of audits of grant recipients and non-government schools to provide assurance that grants are being used as intended is based on the totality of the report’s findings, including separate findings relating to the allocation and use of different state government grants. I note that the focus of this recommendation, which DET has accepted, applies to both grants recipients including CECV, and individual non-government schools.</p> <p>I also note that while all individual schools we tested had an auditor’s report stating that state recurrent grant funds were expended for the purposes for which they were provided, no school was able to demonstrate to VAGO that these funds were indeed spent in full accordance with DET’s funding agreement.</p>

Further audit comment – *continued*

CECV comment	Acting Auditor-General's comment
VAGO's report states that in the funding agreements between the Department and non-government schools "there are no performance measures or targets and limited reporting requirements, beyond financial reporting", and therefore finds the Department "is unable to determine if grants are contributing to the achievement of its goals". Again, these findings do not take into account requirements set at the national level or as part of school registration processes.	Section 2.3.1 of my report outlines the goals of the funding agreement and establishes that there are no performance measures or monitoring and reporting requirements associated with <i>these</i> goals. This section also notes DET agrees that there is limited assurance that funds are used for intended purposes. Section 2.3.3 of my report notes that DET does not oversee or monitor the use of state recurrent grants beyond receiving financial acquittals. Nor does it use other sources of performance information to assure itself that the intended goals are being achieved.

**RESPONSE provided by the Chief Executive, Independent Schools Victoria**

1 March 2016

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**Re: Audit of Grants to Non-Government Schools**

Dear Dr Frost

Thank you for your letter of 17 February 2016, inviting Independent Schools Victoria (ISV) to make comment on the Victorian Auditor-General's Office's (VAGO) report on *Grants to Non-Government Schools*.

Victorian taxpayers provide significant financial support for the education of all Victorian children. ISV believes that government and the public have a right to know how all government funding is being used. ISV and Victorian independent schools remain committed to ensuring that the non-government school sector uses government funding, and all sources of income, appropriately, to improving student performance and educational attainment for all Victorians, and to ensuring that the sector complies with all government requirements regarding the use of government funding.

ISV accepts the recommendation in the report that the Victorian Department of Education and Training (Vic DET) could do more to improve its processes with regards to funding for non-government schools. We agree that the reporting requirements and funding agreements for schools need to be clarified, and we welcome VAGO's recommendation that Vic DET collaborate with the non-government schools sector to develop such improvements. The report finds that recent legislative and administrative changes, including new interim funding agreements introduced by Vic DET with ISV's cooperation, are already addressing the historical weaknesses that the report says have existed in the department's grant management. ISV has always worked in close collaboration with Vic DET to assist to make improvements to the administration of funding arrangements for non-government schools. We look forward to continuing our work in this area.

In determining these improvements, it is important to place the role of Victorian Government funding within the context of schools' accountability to the wide range of Victorian and Australian Government agencies, including:

- the Australian Department of Education and Training, which provides an average of 76 per cent of Victorian independent schools' funding from government
- the Victorian Regulation and Qualification Authority, which, as the regulator of Victorian schools, ensures that all schools meet quality standards
- the Australian Charities and Not-for-Profits Commission, which regulates the activities of all Australian charities
- a range of other federal and state agencies.

***RESPONSE provided by the Chief Executive, Independent Schools Victoria – continued***

VAGO correctly identified in its recommendations that any performance measures and reporting requirements should be relevant and appropriate. It is an unfortunate limitation of this audit that the Terms of Reference did not permit VAGO fully to consider how school accountability for Victorian Government recurrent funding fits within schools' broader accountability requirements to government.

It is appropriate, when considering schools' accountability to one government agency, to determine whether accountability to other government agencies can be accessed, in order to minimise bureaucratic redundancies. This fact has also been recognised and enunciated by Vic DET.

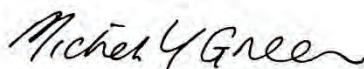
ISV looks forward to working further with Vic DET to ensure that any additional changes to grant management processes are:

- consistent
- reasonable
- realistic
- clearly spelled out
- not a duplication of other reporting requirements.

Taxpayers would rightly be concerned by the imposition of an onerous administrative burden on schools – both government and non-government – through a proliferation of red tape, which would inevitably draw resources away from their primary function – the education of Victorian students. ISV welcomes the statement in the report that schools and school systems would not be expected to separately identify expenditure of State Recurrent Grant funding from expenditure from other sources of funding.

It is important to note that the audit found no evidence that grants to non-government were not being used for intended purposes. Nor did VAGO find any evidence that non-government schools were not contributing toward Victorian Government goals, or were not providing value to Victorian taxpayers. We look forward to working with Vic DET to improve the administrative processes that would provide clear evidence in the future of the benefit that Victorian non-government schools already provide to society.

Best wishes



Michelle Green  
Chief Executive

# Auditor-General's reports

## Reports tabled during 2015–16

Report title	Date tabled
Follow up of Collections Management in Cultural Agencies (2015–16:1)	August 2015
Follow up of Managing Major Project (2015–16:2)	August 2015
Follow up of Management of Staff Occupational Health and Safety in Public Schools (2015–16:3)	August 2015
Biosecurity: Livestock (2015–16:4)	August 2015
Applying the High Value High Risk Process to Unsolicited Proposals (2015–16:5)	August 2015
Unconventional Gas: Managing Risks and Impacts (2015–16:6)	August 2015
Regional Growth Fund: Outcomes and Learnings (2015–16:7)	September 2015
Realising the Benefits of Smart Meters (2015–16:8)	September 2015
Delivering Services to Citizens and Consumers via Devices of Personal Choice: Phase 2 (2015–16:9)	October 2015
Financial Systems Controls Report: Information Technology 2014–15 (2015–16:10)	October 2015
Department of Education and Training: Strategic Planning (2015–16:11)	October 2015
Public Hospitals: 2014–15 Audit Snapshot (2015–16:12)	November 2015
Auditor General's Report on the Annual Financial Report of the State of Victoria, 2014–15 (2015–16:13)	November 2015
Local Government: 2014–15 Audit Snapshot (2015–16:14)	November 2015
Responses to Performance Audit Recommendations 2012–13 and 2013–14 (2015–16:15)	December 2015
East West Link Project (2015–16:16)	December 2015
Portfolio Departments and Associated Entities: 2014–15 Audit Snapshot (2015–16:17)	December 2015
Water Entities: 2014–15 Audit Snapshot (2015–16:18)	December 2015
Implementing the Gifts, Benefits and Hospitality Framework (2015–16:19)	December 2015
Access to Public Sector Information (2015–16:20)	December 2015
Administration of Parole (2015–16:21)	February 2016
Hospital Performance: Length of Stay (2015–16:22)	February 2016

Public Safety on Victoria's Train System (2015–16:23)	February 2016
Victorian Electoral Commission (2015–16:24)	February 2016

VAGO's website at [www.audit.vic.gov.au](http://www.audit.vic.gov.au) contains a comprehensive list of all reports issued by VAGO.



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