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Chair
Joint Committee of Public Accounts and Audit
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EXECUTIVE MINUTE

on

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT No. 476
Australian Government Funding

General comments

The Department of Education (the department) welcomes the opportunity to respond to Recommendations 2 to 6 of the February 2019 Joint Committee of Public Accounts and Audit (JCPAA) report no 476. The Australian Government is considering Recommendation 1 and will provide a separate response to the Committee.

The department accepts Recommendations 2 to 6 and is well advanced in adopting reforms to address each of the recommendations.

The department's school funding assurance and compliance program is long-standing with individual components that have existed for over 30 years. The program continually evolves to reflect different policy and legislative requirements; however, an ongoing central tenet is the commitment to a robust school funding program that achieves the objectives of the Government.

The December 2017 Australian National Audit Office's (ANAO) performance audit, *Monitoring the Impact of Australian Government School Funding*, made four recommendations in relation to the department's program administration and monitoring of student outcomes. The department accepted these recommendations and noted they were consistent with a range of reform effort that had already commenced. These reform efforts included a simpler and more transparent calculation of school entitlements as well as detailed reporting requirements.

The department has taken a proactive approach to respond and implement the recommendations in both the ANAO and JCPAA reports. Actions the department has taken are provided in further detail within the attached responses.

A number of legislative changes in relation to new funding arrangements have also contributed to strengthened assurance arrangements, including the establishment of the National School Resourcing Board (the Board).

The Board's first review, into the socio-economic status score methodology, was completed in June 2018. The Government has agreed to all six recommendations.

The department is also using internal audit governance structures to monitor implementation of the ANAO and JCPAA recommendations, including inflight monitoring of the department's response to a 2019 independent review into the department's risk-based assurance and compliance activities under the *Australian Education Act 2013* (the Act). These governance arrangements are in place to ensure that the recommendations are given full consideration and their implementation is closely managed. The Audit and Assurance Committee includes representatives from the department, external members, and chaired by an independent representative.

Continuous improvement in the department's administrative processes, with a particular focus on delivering an assurance program that is robust, reliable and responsive, is supported through regular reviews of the compliance and accountability framework for the Act. This approach has seen a continual improvement and strengthening of administrative arrangements to improve the integrity of the department's assurance program and ensure public funds have been spent appropriately.

The department is happy to provide further updates to the Committee as work progresses.

Yours sincerely

Dr Michele Bruniges AM

14/8/19

Recommendation No: 2

The Committee recommends that the Department of Education and Training conduct a risk-based analysis and review of existing compliance and accountability arrangements of the Australian Government school funding under the requirements of the *Australian Education Act 2013*. Education should report back to the Committee on the outcomes of its review, including:

- findings related to the assessment of established monitoring mechanisms, reporting processes, and compliance and administration arrangements
- a detailed implementation plan for improvements to compliance and administration arrangements, including key milestones and delivery timeframes

Response

The department agrees.

On 25 January 2019, the department commissioned McGrathNicol Advisory to undertake an independent risk-based analysis and review of compliance and accountability arrangements for Australian Government school funding under the *Australian Education Act 2013* (the Act) including changes made in response to the ANAO's recommendations.

McGrathNicol Advisory were provided copies of the ANAO and JCPAA Reports to ensure they were considered within the scope of the review of the department's compliance and accountability arrangements.

The review provided guidance to the department on its efforts to consolidate its school funding assurance architecture into a single risk-based framework. The review also made a number of recommendations for improvement.

An Assurance Framework for Schooling

A draft Assurance Framework (the draft Framework) has been developed and outlines how the department's assurance activities are underpinned by a risk-based approach to monitoring compliance, relative to the risk profile for the schooling sector (Attachment A refers).

The draft Framework explains how the department's existing compliance activities provide assurance for the requirements of the Act. The department is currently consulting on the draft Framework through the Schools Policy Working Group of the Council of Australian Governments (COAG) Education Council.

Once the consultation process is concluded, the department will finalise the Assurance Framework and make it publically available on the department's website. The final document will be provided to the Committee once available.

The Assurance Framework will be reviewed (and updated) annually as part of ongoing review arrangements within the department, with a comprehensive review of compliance and assurance arrangements conducted every four years.

In addition to undertaking a review of the department’s assurance and compliance framework, McGrathNicol Advisory also reviewed the compliance sampling methodology used by the department. The review considered the sample weighting attached to activities and whether it reflected the risk profile of the different sectors. The report provided recommendations of appropriate tolerances for each verification activity to ensure all risks to program outcomes are adequately mitigated.

A detailed implementation plan from the reviews for improvements to compliance and administration arrangements, including key milestones and delivery timeframes and the current status of the department’s action in response, are summarised in the table below.

Table 1: Status of department responses to review recommendations

Recommendations	Status
Develop an overarching Assurance Framework document	The department is currently consulting on the framework prior to finalisation and public release in September 2019.
Update risk assessments	<p>The department engaged McGrathNicol Advisory to review and validate the department’s current compliance sampling methodology, including its approach to sample weighting, and prepare a report recommending appropriate tolerances for each verification activity to ensure all risks to program outcomes are adequately mitigated.</p> <p>The department maintains a range of risk plans for activities under the Act which are monitored and reviewed annually.</p> <p>The Schools Assurance Committee (outlined further below) will provide oversight of risk plans under the Act and ensure that risks are within the department’s tolerance targets.</p>
Develop a risk assessment model	The ANAO recommended the department establish a risk-based approach to monitoring compliance that increases transparency regarding the use of Australian Government school funding and the allocation of funding.

Recommendations	Status
	<p>On 24 May 2019 the department commissioned an independent consultant through Ernst & Young to develop a risk assessment model.</p> <p>The risk assessment model was delivered in July 2019. It draws together comprehensive compliance and financial data sets against a range of indicators to quantify risk ratings across the schooling sector to target the department's assurance activities.</p> <p>The risk assessment model will be used to identify targeted areas for capability building, quantify jurisdictional risk profiles, and identify approved authorities which may require additional support or guidance on legislative obligations.</p> <p>The model will be implemented in 2019 for 2020 assurance activities.</p>
Specify risk tolerances and targets	<p>Development of risk tolerances and targets is dependent on the implementation of the risk assessment model.</p> <p>The risk assessment model will be used by the department to quantify risk profiles and assist with updating error tolerances for assurance and compliance activities. Error tolerances relate to the maximum acceptable level of errors when conducting an assurance and compliance activity within the department's risk tolerance.</p> <p>The model will support the department's broader assurance and compliance activities and will commence in early 2020 for 2020 assurance activities.</p>
Pursue harmonisation opportunities	<p>The department supports opportunities to reduce regulatory burden on the non-government sector by collaborating with jurisdictions on data sharing and regulatory activities.</p> <p>In December 2018 the department established pilot harmonisation arrangements with New South Wales. As part of these pilot arrangements, greater information and data sharing has occurred, along with exploring the alignment of approved authority reciprocal registration arrangements.</p> <p>This work is ongoing and will be further informed by a project to map the legislative/regulatory environment nationally. The work with New South Wales will then</p>

Recommendations	Status
	inform similar approaches with other interested states and territories.
Demonstrate why assurance activities are undertaken and are appropriate	<p>The Assurance Framework sets out how the department's assurance and compliance activities respond to the risk profile of the schooling sector.</p> <p>The development of a risk assessment model has also provided opportunities for the department to further consider its approach to targeted compliance activities as well as preventative capability building approaches.</p> <p>As part of ongoing governance and oversight arrangements, a Schools Assurance Committee is being established within the department to oversee and review assurance arrangements to ensure their fitness for purpose.</p>
Regularly review the assurance framework	A Schools Assurance Committee is being established within the department to oversee and review the Assurance Framework annually to ensure its ongoing fitness for purpose. A comprehensive review of compliance and assurance arrangements will be conducted every four years.

Recommendation 3

The Committee recommends that the Department of Education and Training implement improvements to its administrative arrangements for compliance certificates for Australian Government school funding and acquittal certificates under the *Australian Education Act 2013*. The department should report back to the Committee on the development and implementation of improvements to the administrative arrangements for compliance certificates and acquittal certificates, inclusive of timeframes.

Response

The department agrees.

In 2017, the department conducted an internal review of compliance certificate arrangements to add verification arrangements for approved authorities that reported positive compliance with legislative requirements.

From 2018 (2017 data), the department's verification activities in relation to the compliance certificate were enhanced to include thorough follow up in respect of (1) non-respondents, (2) reported non-compliance and detailed justification of any requests for exemptions, and (3) a random sample of approved authorities that report full compliance, requiring evidence of action. They also include a thorough assessment of state and territory government responses.

The department is in the process of finalising the 2017 compliance certificate verification. The bulk of the process is largely completed and no compliance concerns have been raised as part of the enhanced and more robust arrangements.

In 2017, the department amended the *Australian Education Regulation 2013* to require that, from 2018, acquittal certificates are to be certified by an independent qualified accountant for non-government schools. The department undertakes a random sample review of the qualifications of qualified accountants that have submitted acquittal certificates to confirm the individuals submitting the certificates are registered and meeting the requirements of accounting professional bodies.

No compliance concerns were identified in the 2017 acquittal period, and the department will soon be undertaking a similar verification for the 2018 acquittal period.

The department has recently released the SchoolsHUB platform, a new and improved web-interface to coordinate the collection and access of administrative arrangements. The compliance certificate has moved from a manual letter based process into an online reporting tool within SchoolsHUB to allow for seamless improvements in monitoring.

The department is also progressing opportunities for business to business data transactions which will allow approved authorities to upload data directly to the department in real time thereby negating data entry or human transposition errors in reporting. The business to business data transactions is a long term project that will be progressed over several years.

Recommendation 4

The Committee recommends that the Department of Education and Training report back on how it has improved current monitoring arrangements of funding models for the Australian Government school funding, to enhance and enforce the public and transparent reporting of funding models as required under the *Australian Education Act 2013*.

Response

The department agrees.

Following the 1 January 2018 commencement of the amended *Australian Education Act 2013* (the Act), the department wrote to all 72 approved authorities for more than one school to confirm whether they distributed Commonwealth recurrent funding in accordance with subsection 78(4) or subsection 78(5) of the Act. Under section 78(5), approved system authorities must ensure their needs-based funding arrangements are transparent and publically available.

The department's analysis of the needs-based funding arrangements provided during the initial information requests indicated that almost all respondents had a different understanding of the requirements of subsection 78(5). Accordingly, the department sought further information about the operation of respondent's needs-based funding arrangements and suggested areas for improvement where identified.

Based on its assessment of the information provided during the 2018 collection and follow-up process, the department concluded that subsection 78(5) does not, by itself, provide sufficient guidance to approved authorities on the requirements for a compliant arrangement. This is consistent with feedback from the Australian Education Senior Officials Committee in July 2018, which noted the differing interpretations of the Act's requirements across the sector.

On 4 April 2019 the Minister requested the National School Resourcing Board to undertake a review of needs-based funding requirements for approved system authorities as defined in the Act. The department has made the material developed and findings from the 2018 process available to the Board to assist with their preparations for this review.

The outcome of the Board's review, and the Australian Government's response to any ensuing recommendations, will be used by the department as the basis for assessment of compliance with the requirements for needs-based funding arrangements and ongoing assurance arrangements.

Please see the response to Recommendation 6 for an update on the progress of the National School Resourcing Board's *Review of Needs-Based Funding Requirements*.

Recommendation 5

The Committee recommends that the Department of Education and Training improve its approach to measuring progress against the achievement of reform directions and objectives under the National School Reform Agreement.

Response

The department agrees.

Under section 22 of the *Australian Education Act 2013* (the Act), compliance with the national policy initiatives agreed under the National Agreement and the bilateral agreements is a condition of Commonwealth funding.

All states and territories have signed up to the National School Reform Agreement. Implementation and timing of the national policy initiatives are guided by the milestones set out in Schedule B, and require Education Council to consider and agree to the cost and cost-sharing arrangements, scope and governance of each initiative. To ensure there is visibility on progress against milestones, the department has introduced a regular status report update to be provided to the Education Council at each meeting.

The National School Reform Agreement also includes a requirement for an annual public report by the Education Council to the Council of Australian Governments (COAG) outlining progress towards implementation of the national policy initiatives against the agreed milestones.

Under bilateral agreements, all states and territories will provide an annual report to the Secretary of the Department of Education on progress against implementation of state-specific reforms against agreed milestones. These reports will be published.

States and territories will also report annually on their funding contributions under Part 2 of their individual bilateral agreements and the National School Resourcing Board (the Board) will assess whether obligations under section 22A of the Act have been met.

The Board's annual reports will be tabled in Parliament and the Minister for Education has the power to take compliance action if a state or territory fails to meet its funding requirements.

The Measurement Framework for Schooling in Australia (the Measurement Framework) is used to monitor progress towards achieving the outcomes of the National School Reform Agreement and the goals of the Melbourne Declaration on Educational Goals for Young Australians.

The Measurement Framework details national key performance measures (KPMs) for schooling and outlines the annual assessment and reporting cycle. The Measurement Framework is published by the Australian Curriculum, Assessment and Reporting Authority (ACARA) and regularly reviewed and updated.

The Education Council uses the Measurement Framework as the basis for reporting to the community on progress through the National Report on Schooling in Australia which is published annually.

The framework also informs the Report on Government Services released by the Productivity Commission on behalf of COAG.

Under the National School Reform Agreement, governments have agreed to commission an independent review to assess:

- the effectiveness of the national policy initiatives outlined in the agreement
- the appropriateness of the Measurement Framework in measuring progress towards achieving the outcomes of this Agreement.

The review will be completed by 31 December 2022 for consideration of Education Council and COAG to inform the development of a new national reform agreement.

Recommendation 6

The Committee recommends that the Department of Education and Training continue to report back to the Committee on the progress and outcomes of the National School Resourcing Board review [of compliance with needs-based funding requirements] in six months. The Committee further recommend that Education report back to the Committee following the completion of the review.

Response

The department agrees.

The National School Resourcing Board (the Board) is an independent body that reports to the Minister for Education. The Board reviews the operation of the *Australian Education Act 2013* (the Act) and, in particular, arrangements and requirements relating to funding for schools. Information about the status of current reviews and reports of completed reviews are published online.

The Australian Government commissioned the Board to conduct a review of needs-based funding requirements for approved system authorities as defined in the legislation under Section 78(4) and Section 78(5) of the Act. The review commenced on 4 April 2019 ([Attachment B](#) refers).

During this review, the Board will consult with the schooling sector to develop a shared understanding of legislative requirements and make recommendations on further guidance that can be provided by the department as well as potential needs-based funding assurance activities.

An issues paper ([Attachment C](#) refers) was released on 28 May 2019 and consultation has been conducted, including a public submission process. The department has provided a submission to this review, which has been made publicly available ([Attachment D](#) refers).

The final report is to be submitted to the Minister for Education within the last quarter of 2019.

All reports of the Board will be tabled in Parliament.



Australian Government
Department of Education

Assurance Framework

July 2019

Schools and Youth Cluster



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The document must be attributed as the (Schools Assurance Framework July 2019).

Document control

Version history

Version	Date	Name	Change Description

NOTE: This version of this document was valid at the time it was printed. Please regularly check for any updated versions.

Approvals

Name	Date

Note: The approval should be documented in the approved minutes of the relevant Steering Committee meeting.

Distribution list

Name	Area	Date

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Purpose of the Assurance Framework

Objective

This document provides an overview of the Australian Government Department of Education's (the department's) approach to managing risk of error, non-compliance and fraud in respect of Australian Government funding for school education.

Record levels of Australian Government recurrent school funding have led to increased scrutiny of how these funds are being used. Further, record-funding levels have raised questions regarding the connection between increased funding and improved school outcomes. The department is committed to engaging constructively with state and territory governments, and other Australian Government agencies, to enable a cohesive and nationally consistent regulatory environment. The department's plan is to achieve this by promoting cooperative data and information sharing, and reducing administrative burden/red tape.

Preventing the occurrence of error, non-compliance and fraud is a key focus. This includes working with the schooling sector to support Approved Authorities to become and remain compliant, and undertaking assurance activities to identify non-compliance.

The assurance framework outlines the department's risk-based approach to monitoring compliance. It also describes how it will respond when Approved Authorities are not meeting their legislative obligations.

The department has longstanding procedures in place that have been effective in assuring the Australian Government's investment in schools. However, the legislative and policy landscape has been changing. The *Australian Education Act 2013* (the Act) commenced on 1 January 2014 and was amended on 23 June 2017 to give effect to the *Quality Schools* package, with changes to funding arrangements commencing from 1 January 2018. These changes have been made to support a funding model that is transparent, consistent and needs-based.

This assurance framework has been developed to ensure the department's assurance approach remains appropriate to provide confidence Australian Government funding for schools is being spent in accordance with legislative requirements, and is able to adapt to meet the needs of future changes in the education landscape.

Legislative context

The Act is the principal legislation governing the provision of Australian Government funding to government and non-government schools. The *Australian Education Regulation 2013* (the Regulation) provides more detail to support the operation of the Act. It outlines the financial accountability and other conditions required to be met in order to receive funding under the Act.

Under constitutional arrangements, state and territory governments are responsible for ensuring the delivery and regulation of schooling to all children of school age in their jurisdictions. The Australian Government is responsible for national leadership in key policy priority areas designed to achieve strategic outcomes.

The Australian Government provides the majority of public funding for non-government schools, which is supplemented by the states and territories. The states and territories provide the majority of public funding for government schools, with the Australian Government providing supplementary assistance. All Australian Government school funding is paid to (and through) state and territory treasuries as per constitutional requirements.

In the 2018-19 financial year, the Australian Government will provide \$19.7 billion in funding for schools, including both government and non-government schools.

Under the Act, Australian Government recurrent funding for schools is distributed to 'Approved Authorities'. Approved Authorities are legal entities approved to receive Australian Government recurrent funding for one or more schools. When an Approved Authority operates more than one school, the Australian Government provides the funding allocation for all the schools it operates as a single funding amount. Grants of financial assistance to states and territories are subject to various conditions being met and include the requirement to have a national and bilateral agreement with the Commonwealth.

National School Reform Agreement

Under paragraph 22(2)(a) of the Act, states and territories are required to have a [National School Reform Agreement \(the Agreement\)](#) with the Commonwealth. This Agreement outlines a set of strategic reforms in areas where national collaboration will have the greatest impact, builds on current national reform efforts, complements state and territory leadership in each jurisdiction and supports local implementation.

Shared accountability through reporting and public transparency are key mechanisms to give the community confidence that outcomes are being achieved and reforms to improve the quality and equity of Australia's schooling system are being implemented by states and territories. The Education Council of COAG is responsible for overseeing implementation of this Agreement and is required to submit an annual public report to COAG outlining progress towards implementing the national policy initiatives against the milestones (Schedule B of the Agreement).

Bilateral Agreement

Under paragraph 22(2)(b) of the Act, states and territories are required to have a [Bilateral Agreement](#) with the Commonwealth that sets out state-specific actions to improve student outcomes. Bilateral agreements include activities that support particular student cohorts such as Aboriginal and Torres Strait Islander students, students in regional, rural and remote areas, students with disability and students from a low-SES background.

Similar to the National Reform Agreement, the Education Council of COAG is responsible for overseeing implementation of the Bilateral Agreements.

Non-Government Reform Support Fund

As part of the *Quality Schools* package, the Australian Government announced the Non-Government Reform Support Fund (Reform Support Fund) for non-government representative bodies (NGRBs) in 2017.

Funding of \$200.1 million over five years from 2018 to 2022, will be provided to NGRBs to support implementation of national and state reforms in all non-government schools. These reforms will generally be the national policy initiatives set out in the new National School Reform Agreement and the state reform actions set out in each state's bilateral reform agreement with the Commonwealth.

The Minister for Education has approved 16 NGRBs under Section 91 of the Act, a Catholic Education Commission and an Association of Independent Schools in each state and territory.

Under the [Reform Support Fund Guidelines](#), NGRBs are required to seek approval of their annual work plans outlining the activities to be undertaken for the year as a condition of financial assistance.

The department's responsibility

The department is responsible for:

- the calculation and provision of Australian Government school funding
- administration of the Act and the Regulation
- guiding major policy reforms at a national level and
- delivering the Australian Government's commitments on key programs and initiatives affecting school education and youth related areas.

Due to the considerable sum of money that the Australian Government invests in education, it is important there are sound assurance mechanisms to ensure the funding provided is used in accordance with the legislative requirements.

The department's role is to monitor Australian Government funding provided to Approved Authorities to ensure the government's objectives are being achieved and funds are being expended in accordance with the requirements of the relevant legislation.

What is the assurance framework?

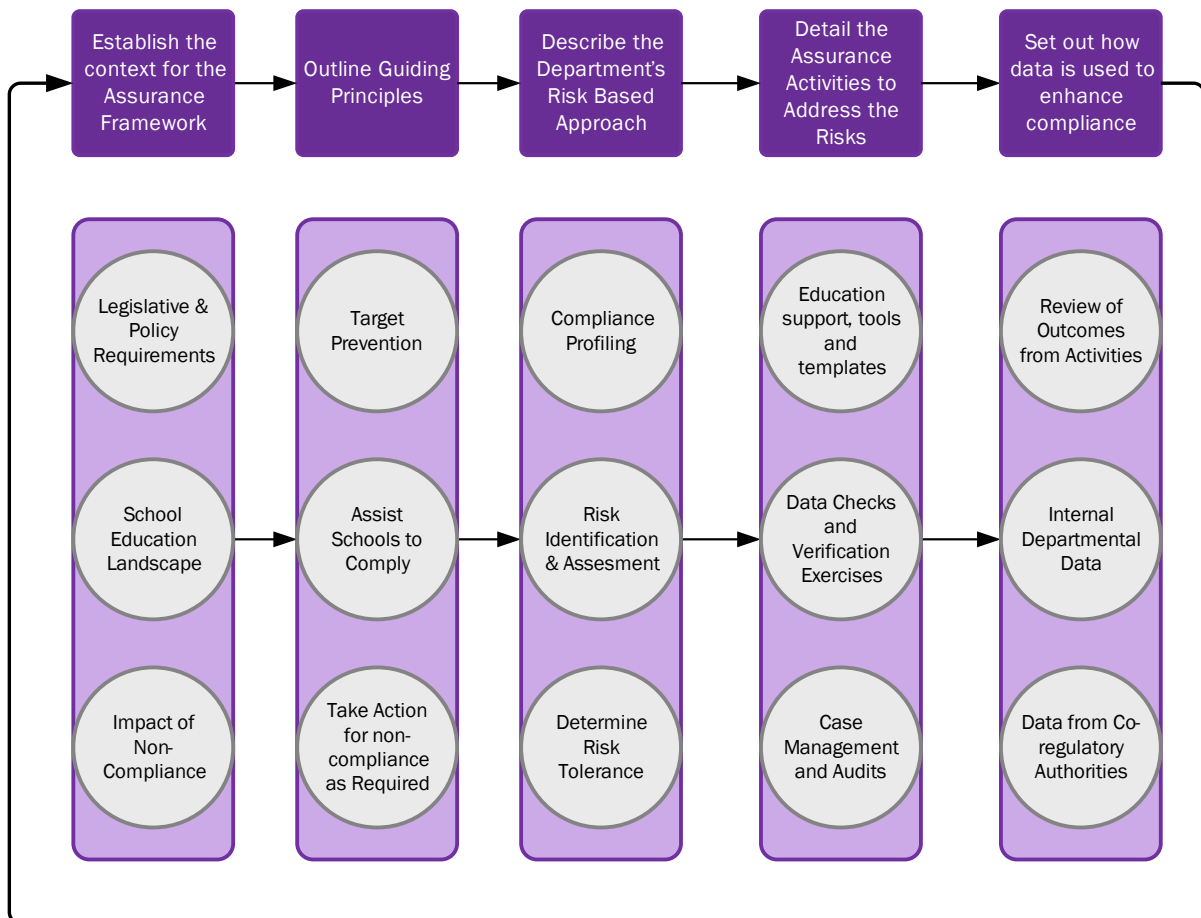
The assurance framework is an overarching document that sets out how assurance is practically undertaken by the department to make sure:

- Australian Government funding for schools is being appropriately spent, in accordance with the requirements of the Act and Regulation
- Approved Authorities are assisted and encouraged to become compliant and stay compliant
- non-compliance is identified and addressed
- Approved Authorities are not unreasonably burdened by compliance, or forced to bear an unreasonable cost of compliance
- systemic compliance issues are identified, so that policies and processes can be amended to remedy issues.

The framework covers all major funding streams provided by the Australian Government for, or in respect of, government and non-government Approved Authorities, including:

- recurrent funding
- capital grants and
- other grants and assistance.

The flow diagram below highlights the key elements of the framework.



Impact of non-compliance

School funding is intended to assist with the genuine costs of providing education to school students. The significant majority of Approved Authorities meet their obligations to use public funds appropriately. However, some Approved Authorities either do not have the capability to comply, or deliberately choose not to comply with requirements for spending the funding provided to them. As part of the department's responsibility to assure the appropriate use of school funding, it undertakes ongoing assurance procedures to ensure funding is properly administered by Approved Authorities.

Misappropriation of Australian Government funding is an extremely serious issue. Non-compliant behaviour and defrauding the government of school funding damages the public's perception of the sector and the department, increases costs to the Australian Government and taxpayers and has the potential to adversely impact on student outcomes.

The department is committed to continually improving the integrity of school funding, taking action where required to respond to error, non-compliance and fraud, and addressing any identified gaps or weaknesses to protect the integrity of the system.

Assurance principles

The Schools and Youth Cluster approach to managing the appropriate use of school funding, including determining responses to breaches, error, non-compliance or fraud, is consistent with the Australian Government and departmental policy. In addition, the approach is governed by the following principles:

 <p>We target prevention</p>	<p>Our preference is to stop inappropriate use of government funding happening rather than taking action after a compliance breach has occurred. We aim to make compliance easy through provision of tools and templates. We provide schools with clear information in respect of their obligations and responsibility to expend funds for appropriate purposes.</p>
 <p>We respond appropriately</p>	<p>The legislation allows a variety of actions with a range of severity with which to respond to error and non-compliance. We use a proportional approach in responding to non-compliance based on the severity of the contravention, the history of the non-compliant approved authority, overall trends in non-compliant behaviour and the Approved Authorities' response to corrective action we take.</p>
 <p>We are responsive</p>	<p>The department will undertake ongoing monitoring of the school sector and share data across the department, with other agencies and with state and territory education authorities. We will act quickly when high consequence breach behaviours are detected. The department will perform reviews and compliance activities in as timely a manner as is practicable, noting that the time taken for reviews of decisions varies from case to case.</p>
 <p>We act consistently</p>	<p>A consistent approach does not mean that all cases are decided in the same way, but it does mean that the department applies consistent procedures when handling and responding to suspected or known non-compliance, fraud, debt recovery or criminal activity.</p>
 <p>We are fair</p>	<p>The department acts fairly and objectively, ensuring that if any non-compliance is identified, the affected Approved Authority and individuals will be given an opportunity to respond. The department takes seriously its requirement to maintain procedural fairness in conducting audits, investigations, enforcement, decision-making and review activities.</p>
 <p>We are impartial</p>	<p>The department is impartial and makes decisions based on the available evidence. The circumstances of a matter will determine the department's response and decisions will deal with the facts of a case.</p>
 <p>We are transparent</p>	<p>The department provides natural justice in dealing with individuals and approved authorities suspected of breaching requirements. Approved authorities are advised of the apparent non-compliance and have an opportunity to respond. Their response will be considered prior to a decision to sanction being made, except where an immediate suspension of funding is warranted.</p>
 <p>We are accountable</p>	<p>The department is accountable to the Parliament, the department's Executive and the public for ensuring the financial integrity of school funding. The department is held to account through review of activities and procedures including independent audit and assurance of financial reporting and administration by the ANAO.</p>

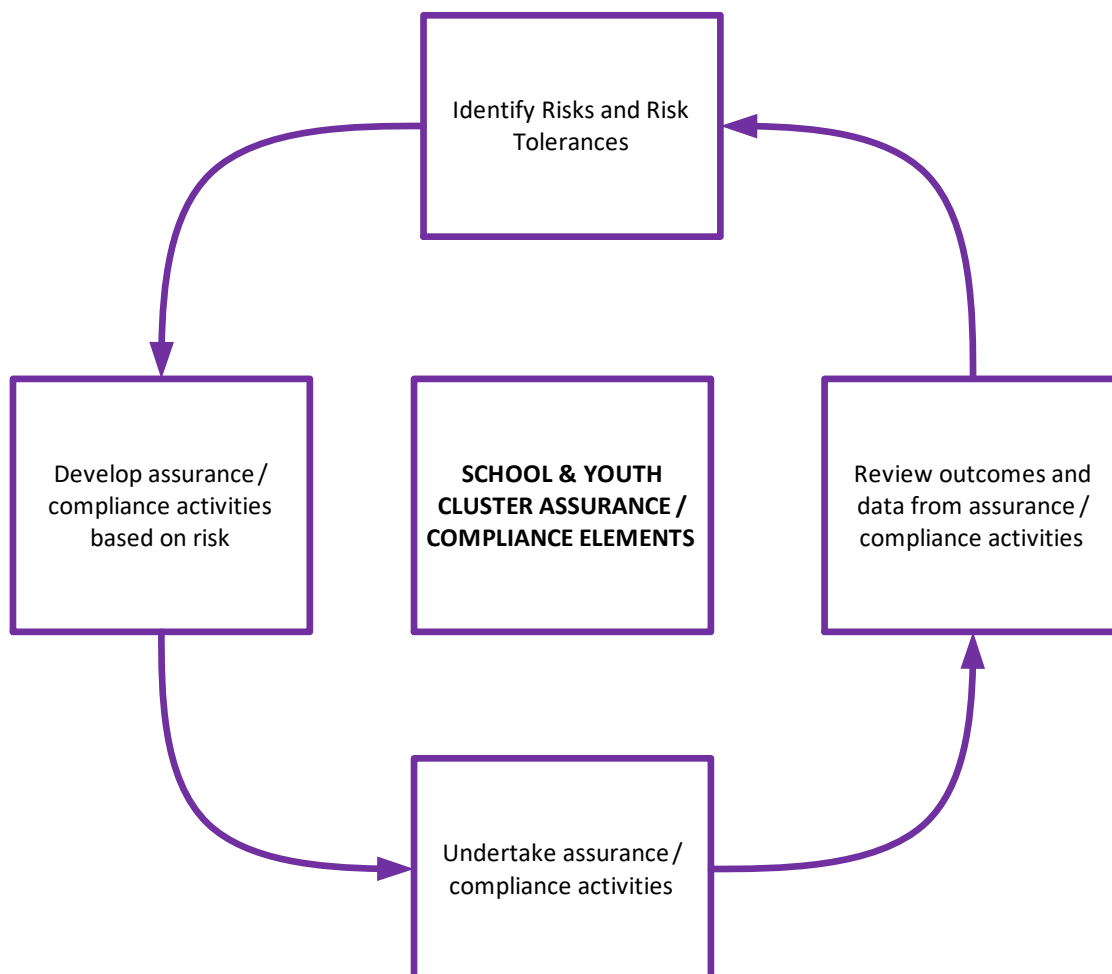
Risk based approach to assurance

Risk elements

The department recognises it has the primary responsibility for ensuring the accountability of the funding provided to Approved Authorities, and in the absence of scrutiny over the use of this funding, there is an unacceptable risk of funding being used in a manner inconsistent with the Australian Government's objectives and the legislation.

However, it is not feasible to expend unlimited funds and resources monitoring Approved Authorities' use of funding. A risk-based approach is critical to ensure assurance and compliance activities are sufficient but not excessive, cost effective, and appropriate to address the potential likelihood and consequences of identified risks.

The assurance and compliance framework is based on principles of effective risk management outlined in the International Organization for Standardization's standard *ISO 31000:2018: Risk Management*, and the Department of Finance's Commonwealth Risk Management Policy. For this assurance and compliance framework, the key elements for developing risk based assurance and compliance activities are illustrated below:



Profile of the schooling sector

The Australian school education system is stable and mature. Since the 1970s, Australian Government recurrent funding has been provided for schools.

To be eligible to receive funding under the Act, all schools (including their Approved Authorities) must meet a number of eligibility requirements. One of these requirements is that Approved Authorities must operate on a not-for-profit basis (Section 75 of the Act).

Whilst they still present some attendant risks, there are characteristics of not-for-profit entities that make the schooling sector different to other sectors the department is responsible for, which include for-profit operators. Not-for-profit entities are unable to distribute profits (either directly or indirectly) to individuals. The inability for individuals to directly profit from these entities' operations reduces the risks in respect of the deliberate misuse or misappropriation of funding.

The state and territory governments are the primary managers of government (or 'public') schools in Australia. They are responsible for assuring both state and Australian Government funding sources are provided to appropriately fund government schools. State and territory governments are responsible for monitoring the compliance of the government schools in their jurisdiction but they also co-regulate the non-government schooling sector with the Australian Government.

The department acknowledges the role of states and territories does not, of itself, eliminate all risks related to the expenditure of Australian Government funding, however it does considerably reduce the risks of non-compliance and fraud.

The assurance framework recognises the schools sector profile outlined above, and the impact that this has on compliance risk.

Compliance approach

It is important that the department have a compliance approach based on established risk management principles. This will ensure that:

- an appropriate level of assurance is undertaken by the department
- Approved Authorities are not subject to excessive or onerous requirements
- highest risks receive most attention
- there is a cost effective and resource effective approach to assurance / compliance activities
- any gaps in the assurance activities undertaken by the department can be readily identified and
- any duplication of assurance and compliance effort can be readily identified.

The department's compliance approach is adapted from the Ayres and Braithwaite responsive compliance model. This approach focuses on promoting voluntary compliance and monitoring patterns of behaviour, considers a risk assessment index of potential error, non-compliance or fraud, investigates suspected breaches, and intervenes accordingly. The approach, including the application of the department's intervention responses, is a continuum, allowing both graduated and reduced compliance action dependent on the increased or decreased level of compliance behaviour of the entity (Approved Authority) in question.

Table 1: Department’s compliance approach, adapted from the Ayres and Braithwaite responsive compliance model.

Entity’s compliance profile	<i>We have made a conscious decision to comply</i>	<i>We are trying to comply but we don’t always succeed</i>	<i>We are resistant to compliance</i>	<i>We have made a conscious decision to be non-compliant or are reckless about our obligations</i>
Entity’s compliance outcomes	The Approved Authority meets its compliance obligations and has effective compliance systems and management, and has a philosophy of compliance.	The Approved Authority generally meets its compliance obligations and has some compliance systems. Management has awareness of the requirements of the need for compliance but may lack capability and capacity.	The Approved Authority generally disregards compliance and has limited / poor compliance systems, and governance. Management is not aware of its compliance obligations and/or takes opportunities to exploit for gain.	The Approved Authority is deliberately non-compliant and/or has no compliance systems or structures. There may be criminal / fraudulent intent by management.

Low cost of compliance for the Department

High cost of compliance for the Department



Passive compliance Activities

Intensive compliance activities

Department’s likely intervention response				
Department’s high level philosophy for each type of entity’s pattern of compliance behaviour	Capacity Building / Inform	Restorative	Deterrence	Enforcement
What does the philosophy entail?	Supporting Approved Authorities through the provision of education, information and other resources	Working with the Approved Authority to correct the non-compliance through education, information and other resources	Correcting the non-compliance and addressing the Approved Authority’s opportunistic systems and behaviours	Using the full powers available to the department, which could include removing funding and initiating criminal proceedings
Potential Departmental Assurance / Compliance Activities	Training and Education Consultation on Assurance / Compliance Activities Support from the department	Help desk support for entities Obtaining further information from schools Providing information to schools to assist compliance	Issuing Notices (Section 66 of the Regulation) Requiring amounts of funding to be repaid (Part 8 of the Act) Placing conditions on approval Case Management Audit	Withdrawal of funding Revoking of Approved Authority Criminal charges and prosecution

An Approved Authority's compliance profile may vary over time, and vary in respect of different aspects of compliance. For example, a school may have issues with providing accurate census data, but no issues in reporting in its financial questionnaire. For this reason, non-compliance is initially actioned at an activity level. However, 'entity' non-compliance in one area can be an indicator of higher risk of non-compliance in another area, which is why communication of Approved Authority non-compliance to other areas of the department is so important.

There is also likely to be a range of different compliance profiles across the population of Approved Authorities. However, the department has been able to observe the compliance profile of Approved Authorities over a number of years, and develop a consolidated view based on the results of its compliance and assurance activities.

The results of assurance and compliance activities undertaken show that, in the main, Approved Authorities try to get it right, and where they do not, the errors are unintentional and due to lack of understanding of what is required or simple mistakes. For these Approved Authorities, education is an important tool in providing information that assists them to comply, and assurance and compliance processes that check for errors and incorrect classification are effective in remedying the innocent mistakes that happen from time to time.

However, historical observations show there are a small number of Approved Authorities who are either resistant to compliance or make a decision to intentionally not comply.

Accordingly, the assurance and compliance procedures undertaken by the department need to reflect this overall compliance profile. A number of assurance and compliance activities should be directed at those Approved Authorities that try to comply, and assist in detecting unintentional errors that are made. However, the department also needs to have assurance and compliance tools it can call upon where Approved Authorities are resistant to compliance or deliberately seek not to comply.

The department's assurance, compliance and educational activities aim to move all Approved Authorities towards making a conscious decision to comply with their obligations in respect of the funding provided to them. However, it is likely to be impossible to completely move all Approved Authorities to this compliance profile. The department has robust procedures upfront aimed at preventing the approval of authorities (and their representatives) who are not suitable for responsibly expending Australian Government funding. However, the department recognises wherever Australian Government funding is provided to third parties, there is a risk that some will seek to deliberately or recklessly misuse this funding.

The department's risk identification activities (discussed below), and continual monitoring of the outcomes of assurance and compliance activities, help it to identify non-compliant providers, allowing action to be taken to encourage them to comply or face removal of their status as an Approved Authority.

Risk identification

In addition to being guided by the compliance profile of Approved Authorities, the assurance and compliance procedures undertaken by the department are informed by the risks of non-compliance with the relevant legislation, as identified through the conduct of risk assessments.

The department's process for identifying risks of errors, non-compliance or fraud concerning the use of Australian Government school funding has two key components:

- undertaking risk assessments for key funding streams as outlined below and
- observing results of compliance procedures, using data to identify risks (refer section 3.2 for details).

Risk assessments

Risk assessments are conducted in accordance with *ISO 31000:2018: Risk Management*, and the Department of Finance's Commonwealth Risk Management Policy.

Table 2: The following broad risk management plans have been completed

Risk management plan	Key risks identified	How risks are managed
School Assurance Branch Risk Management Plan 2017/18.	<ul style="list-style-type: none"> ▪ Approved Authorities for schools may be unaware of their requirements under the Act. 	<ul style="list-style-type: none"> ▪ The department actively communicates with Approved Authorities to make them aware of potential compliance issues. This includes the communication of sector wide issues and targeted correspondence to particular Approved Authorities with a history of compliance issues. ▪ The department undertakes a range of assurance and compliance activities, and communicates to Approved Authorities that their reporting of financial and student data may be subject to verification processes.
Administration of Australian Government recurrent funding for schools	<ul style="list-style-type: none"> ▪ Approved Authorities are overpaid because the department is not notified of a school's changes to key data (such as changes to student numbers, entitlement to support for students with disabilities etc.). ▪ Incorrect data inputs (such as through the annual school census collection) which leads to an overpayment. ▪ Schools use recurrent grant funding in a manner that is not consistent with the intended use of the funds as prescribed under the <i>Australian Education Act 2013</i> or the <i>Australian Education Regulation 2013</i>. 	<ul style="list-style-type: none"> ▪ Approved Authorities are selected for the financial questionnaire verification exercise. ▪ If an Approved Authority does not notify the department when its circumstances change, the delegate can determine the Approved Authority's funding entitlement should be varied or suspended. ▪ The department conducts an annual census post enumeration exercise to verify that census information provided by Approved Authorities (and their schools) is accurate. ▪ Payment algorithms are quality assured by the department. In addition, the payment calculator has been rigorously tested by external auditors. ▪ Each school undergoes a strict editing process upon completion of its census data. This includes logic checks, in-built within the collection application, and validation of data prior to departmental acceptance.

Risk management plan	Key risks identified	How risks are managed
The Capital Grants Program for Non-Government Schools	<ul style="list-style-type: none"> ▪ Program outcomes or deliverables are not met. ▪ Grant funding is misused by recipients as a result of deliberate deception or unintentional error. 	<ul style="list-style-type: none"> ▪ Before project funding is approved, they are assessed by the BGAs against requirements in the Act, the Regulation, the Capital Grants Program Guidelines, the Operating Manual; and the Participant Agreement between the BGAs and the schools. ▪ BGAs make recommendations to the department for approval of capital projects. The department assesses all recommended projects and the Minister's delegate makes the final decision to approve or reject proposals. ▪ Annual Financial Accountability Report and other required documentation (accountant certificate/audited by Independent Account) submitted by BGAs demonstrate to the Department how funds have been spent, ensuring expenditure occurred for approved purposes.
Special Circumstances	<ul style="list-style-type: none"> ▪ Application form is incorrectly completed as a result of deliberate deception or unintentional error. ▪ Grant funding is misused by recipients. 	<ul style="list-style-type: none"> ▪ The department reviews the Approved Authority's historical financial viability information and requests current financial data to confirm eligibility. ▪ Approved Authority may be placed on monthly payments to mitigate Commonwealth financial exposure. ▪ Special circumstances funding is acquitted by a qualified accountant as part of the annual Financial Acquittal process.
Non-Government Representative Bodies	<ul style="list-style-type: none"> ▪ NGRBs do not spend funding on activities directly related to agreed priority reform areas. ▪ False claims/information provided by the NGRBs which results in national priorities not being addressed in the non-government schools sector. 	<ul style="list-style-type: none"> ▪ The department monitors reports submitted by NGRBs for any funding inconsistencies and a thorough understanding of where the funds have been directed ▪ Annual financial acquittal arrangements submitted for review by the department.

Risk tolerance

The department administers a regulatory scheme that encourages schools to adopt high standards of corporate governance. Under its assurance framework, the department conducts a range of monitoring, assurance and compliance activities to ensure schools in receipt of Australian Government funding are operating in accordance with legislative requirements.

The department's tolerance for errors, non-compliance and fraud varies in accordance with the severity of each incident.

The department has a moderate tolerance for unintentional errors. The department's approach is to educate schools and provide them with support, tools and assistance to reduce the risk of future errors. Where common errors or unintentional non-compliance issues are identified from the department's assurance procedures, these are communicated to Approved Authorities (and their schools) to aid future compliance.

The department has a very low tolerance for deliberate non-compliance and fraud. Where the impact of the non-compliance is immaterial or minor, the department will seek to work with the Approved Authority to remedy the non-compliance.

Where the impact of deliberate non-compliance or fraud is material (in terms of dollar value or impact on educational outcomes), the department will take action to ensure that Australian Government funding is protected. This will include the department seeking explanations from schools, initiating audits where appropriate and recovering funds, if necessary. If it is found that serious breaches of the legislation occurred, the department will pursue actions which may include the cessation of Australian Government funding or referral to the department's Fraud Team or relevant law enforcement agencies.

For all assurance activities, the department will develop a set risk tolerances that reflect these principles.

Assurance activities

The department undertakes a range of assurance and compliance activities. The activities undertaken are based on the risks identified, the risk tolerance and the compliance profile of Approved Authorities.

The table below illustrates the key requirements of the Act, the data the department obtains and the key assurance activities undertaken.

Table 3: Assurance and compliance activities

	Approval / ongoing requirements for AAs	Provision of recurrent funding	Other payments under the Act	Requirements to spend on education	Educational Outcomes / performance
Relevant legislation	<ul style="list-style-type: none"> ▪ The Act, Division 2 - Approving Approved Authorities ▪ The Act, Section 75 - Basic requirements for approval ▪ The Act, Sections 77 and 78 - Ongoing funding requirements for approved providers 	<ul style="list-style-type: none"> ▪ The Act, Part 3 – recurrent funding for participating schools ▪ The Act, Part 3, Division 3 – Working out loadings (SwD, Indigenous, low SES) ▪ The Regulation, Part 2 – Grants of financial assistance to States and Territories 	<ul style="list-style-type: none"> ▪ The Act, Part 5 – Capital funding, special circumstances funding and funding for non-government representative bodies ▪ The Regulation, Part 4 – Capital and Other Funding 	<ul style="list-style-type: none"> ▪ The Act, Section 22(1) – conditions of financial assistance for government schools ▪ The Act, Section 23(1) – conditions of financial assistance for non-government schools ▪ The Act, section 78 – ongoing funding requirements for Approved Authorities 	<ul style="list-style-type: none"> ▪ The Act Part 7 – Implementation Plans for Approved Authorities with more than one participating school ▪ The Regulation, Section 42 – Implementing a curriculum ▪ The Regulation, Section 43 – student assessments

	Approval / ongoing requirements for AAs	Provision of recurrent funding	Other payments under the Act	Requirements to spend on education	Educational Outcomes / performance
Key inputs	<ul style="list-style-type: none"> ▪ Application for approval ▪ Financial information for Approved Authorities ▪ Block allocation reports 	<ul style="list-style-type: none"> ▪ Census data including: <ul style="list-style-type: none"> – SwD data – Indigenous data ▪ Capacity to contribute <ul style="list-style-type: none"> – SES score data – Student address data ▪ ACARA collection of data including: <ul style="list-style-type: none"> – DLBOTE; and – ICSEA. 	<ul style="list-style-type: none"> ▪ Funding recommendations from Block Grant Authorities (BGAs) ▪ Information provided in Special Circumstances funding application form <ul style="list-style-type: none"> – Trend data on Approved Authority financial viability – Analysis of Approved Authority compliance with requirements under the Act. 	<ul style="list-style-type: none"> ▪ Approved Authorities provide reports on total financial assistance paid. ▪ Review of Block Allocation reports. ▪ Needs-based funding arrangements 	<ul style="list-style-type: none"> ▪ NAPLAN results ▪ Performance measurement data ▪ Compliance Certifications
Department's Assurance activities and controls	<ul style="list-style-type: none"> ▪ Assessment of applications ▪ Searches of individuals to assess fit and proper person requirements ▪ Review of Audited Financial Statements ▪ Financial Questionnaire (FQVE) ▪ Compliance Certifications (Compliance Certificate Verification Exercise) ▪ Case management ▪ Audits 	<ul style="list-style-type: none"> ▪ Census Post Enumeration for non-government schools. ▪ For government schools the department has safeguards to ensure data is suitable and accurate for the calculation of funding, including cross-check of figures with the ABS. ▪ Comparison with previous year enrolment data ▪ School funding production ready spreadsheet. ▪ Review of block allocation reports. 	<ul style="list-style-type: none"> ▪ Assessment of Project Competitive Capital Grants for Non-Government Schools ▪ Capital funding project monitoring ▪ Review of reports from BGAs ▪ Contracts and grants management activities ▪ Program management 	<ul style="list-style-type: none"> ▪ Ongoing review of Audited Financial Statements ▪ Financial Questionnaire (Financial Questionnaire Verification Exercise) ▪ Case management ▪ Audits 	<ul style="list-style-type: none"> ▪ Compliance Certificate Verification Exercise
Relevant Co-regulatory assurance activities	<ul style="list-style-type: none"> ▪ States and Territories also have processes in place to register schools. ▪ ACNC regulation of Approved Authorities 	<ul style="list-style-type: none"> ▪ MOU with ACARA. ▪ Australian Bureau of Statistics data. ▪ State and Territory census counts ▪ NSRB review of data. 	<ul style="list-style-type: none"> ▪ Block Grant Authority assessments of capital grant applications, and monitoring of progress. 	<ul style="list-style-type: none"> ▪ Evidence Institute. ▪ International performance 	<ul style="list-style-type: none"> ▪ States and Territories review educational outcomes for both government and non-government schools
Outcomes of assurance activities	<ul style="list-style-type: none"> ▪ Refuse approval of Approved Authority. ▪ Revoke approval of Approved Authority ▪ Conditions for continues approval (i.e. requirement to improve governance processes) ▪ Vary funding 	<ul style="list-style-type: none"> ▪ Recalculation of school funding entitlements. ▪ Funding recovery. ▪ Further assistance to schools to help improve accuracy of census reporting 	<ul style="list-style-type: none"> ▪ Requirement for schools receiving capital grants and other payments to fulfil their contract obligations ▪ Withdrawal of funding where applicable 	<ul style="list-style-type: none"> ▪ Requirement for Approved Authorities to repay funds used for ineligible purposes. ▪ Revocation of approval where there is serious non-compliance 	<ul style="list-style-type: none"> ▪ Require Approved Authority to improve policy approach. ▪ Potential to include common assurance items into capability training documents.

Analysis of outcomes of assurance activities

The data obtained through conducting assurance activities provides valuable information that:

- helps identify Approved Authorities that are not complying, have a higher risk of non-complying, or are experiencing difficulties (such as financial issues) that may impact on their ability to provide education services
- enables targeted follow-up of compliance issues
- allows the department to identify new and emerging compliance risks
- helps the department confirm the compliance profile of Approved Authorities.

For all assurance activities, the department will develop a set risk tolerances that reflect these principles.

Risk tolerances set the baseline for acceptable performance. Whilst a number of the department's assurance activities are conducted using sampling techniques, they allow for extrapolation of the results for the population of Approved Authorities (and their schools), and the assessment of assurance activity outcomes against risk tolerances.

Performance targets set a higher benchmark. Whilst risk tolerances may be met, failure to reach performance targets identifies areas where Approved Authorities compliance can be improved.

The department recognises the importance of maximising the use of available data. If any data captured was found not to be used, the department will review why it is being collected, and either use it, or cease collecting it.

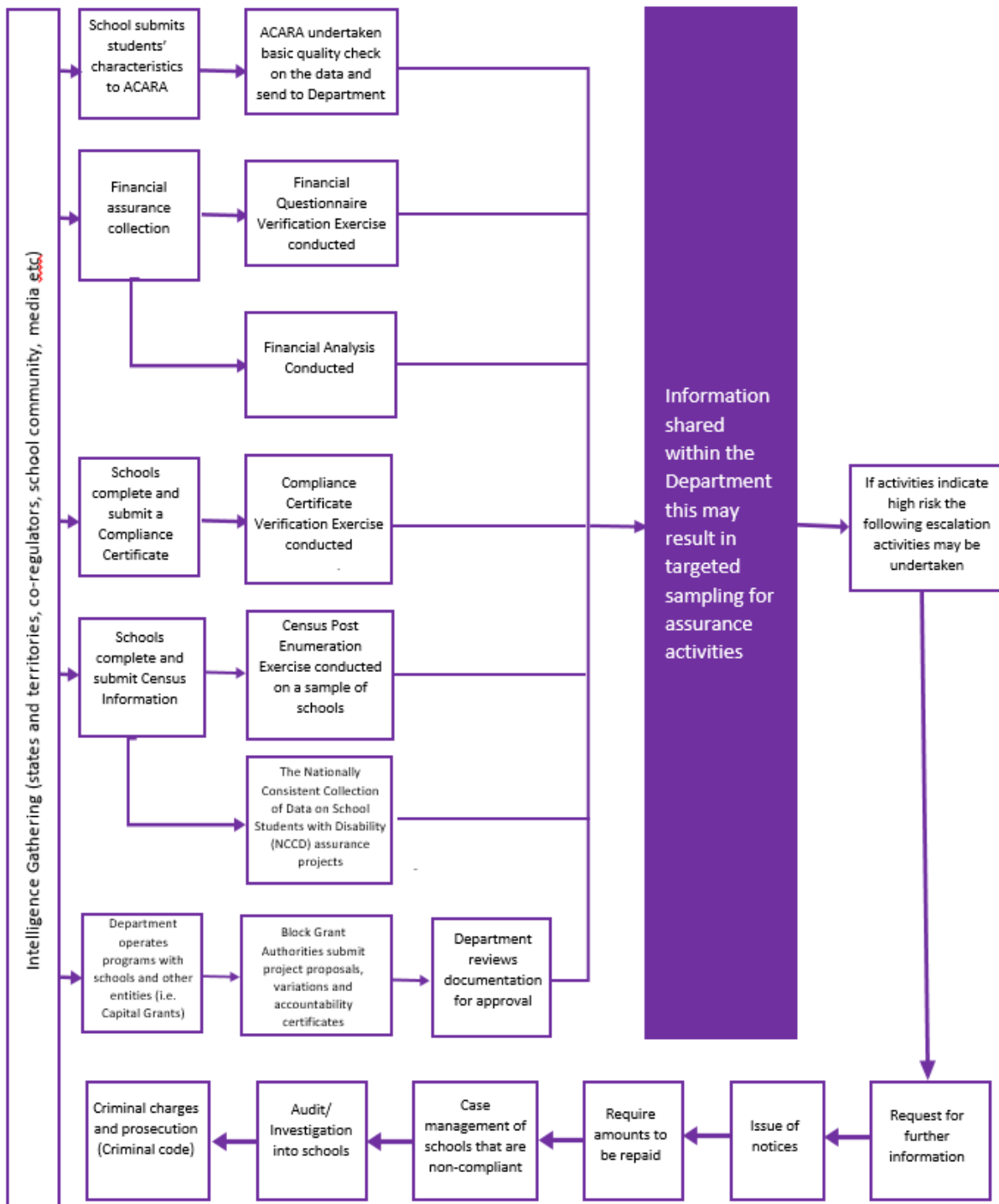
Internal information sharing

One of the great strengths of the department's assurance framework is the co-ordinated sharing of information that occurs between the School and Youth Cluster's groups, branches and teams regarding their respective assurance processes.

This sharing of information:

- helps target schools that have been identified through other assurance and compliance procedures as representing a higher risk of non-compliance. Flags in one assurance process are considered in others where relevant
- helps reduce the compliance burden on those schools that have a strong track of compliance, and therefore represent a low risk of non-compliance.

The key links between processes are illustrated below:



Co-regulatory environment

The department works closely with other Australian Government agencies and state and territory governments to deal with suspected non-compliance, collusion, fraud or criminal activities. In line with legislative obligations, collaboration with other regulatory bodies include:

School registration with state authorities

- monitoring by states of registration requirements (entry and ongoing)
- exchange of data
- sharing of intelligence and information
- engagement in joint activities
- referrals and sharing of tip-offs
- sharing of compliance outcomes.

Table 4: Information sharing arrangements between key agencies and the department

Co-regulatory body	Information sharing
<p>The state and territory education departments</p>	<ul style="list-style-type: none"> ▪ The department recognises the importance of working closely with the state and territory education departments. There is a common objective of ensuring that government funds provided to Approved Authorities (and their schools) are used appropriately for education purposes. ▪ The department is committed to pursuing harmonisation opportunities that will reduce the cost of assurance and, through the reduction in duplication of effort, reduce compliance costs for Approved Authorities. ▪ The states and territories undertake a number of their own assurance and compliance procedures, including census counts and audits. ▪ The department's assurance framework is enhanced by the sharing of information, particularly where this sharing helps identify non-compliance risk. Information shared may include: <ul style="list-style-type: none"> – potential non-compliance by Approved Authorities and schools – potential school financial viability risks – information in relation to school demographics and – other information that may impact school eligibility for Australian Government funding.

Co-regulatory body	Information sharing
The Australian Charities and Not-for-profits Commission (ACNC)	<ul style="list-style-type: none"> ▪ Approved Authorities of non-government schools are not-for-profit entities regulated by the ACNC. ▪ The ACNC seeks to achieve the following objects: <ul style="list-style-type: none"> – maintain, protect and enhance public trust and confidence in the sector through increased accountability and transparency – support and sustain a robust, vibrant, independent and innovative not-for-profit sector – promote the reduction of unnecessary regulatory obligations on the sector¹. ▪ Consistent with the <i>Australian Charities and Not-for-profits Commission Act 2012</i>, the ACNC encourages not-for-profit entities to use their resources effectively and to enhance their accountability to donors, beneficiaries and the public. ▪ Accordingly, the ACNC plays an important role in the assurance framework, encouraging compliance of non-government schools. ▪ To reduce administrative burden on Approved Authorities, the ACNC and the department have worked together to refine financial data collection arrangements so that a single approach will satisfy both the department's and the ACNC's reporting requirements.
Australian Curriculum, Assessment and Reporting Authority (ACARA)	<ul style="list-style-type: none"> ▪ ACARA is responsible for the ongoing refinement of the Australian Curriculum, national assessment including NAPLAN, and reporting on schooling in Australia. ▪ ACARA provides information that assists the department in its assurance of whether educational and performance outcomes are being achieved. ▪ ACARA provides data that enables calculation of the funding entitlement of Approved Authorities, including DLBOTE and ICSEA data.
Australian Federal Police (AFP) and other Policing Organisations	<ul style="list-style-type: none"> ▪ Where possible, the department will always seek to resolve issues of non-compliance without involvement of the AFP. ▪ However, where there is evidence that a serious fraud involving Australian Government funding has occurred, in accordance with the Commonwealth Fraud Control Framework, the matter must be referred to the AFP for investigation. ▪ This could require the department to provide the AFP with relevant information to enable them to conduct an investigation.
Australian Bureau of Statistics (ABS)	<ul style="list-style-type: none"> ▪ The ABS maintains information relating to student numbers and student demographics that can be used by the department to check the reasonableness of census data. ▪ The department also has an MOU with the ABS to collect and validate the residential address collection to inform the calculation of the direct capacity to contribute measure – a new measure that will be implemented in the recurrent funding model shortly.

¹ Australian Charities and Not-for-profits Commission website

Harmonisation

The department has the strategic vision of harmonising Australian Government and state regulatory requirements and data sharing arrangements.

The benefits of harmonisation from an assurance perspective include:

- aiding compliance by lessening regulatory burden and simplifying reporting
- sharing information about schools that might present a higher compliance risk
- sharing information about school practices that might indicate emerging compliance risks and
- reducing the department's compliance activities where states and territories are already undertaking similar assurance and compliance activities, which will allow the department to maximise the assurance it can obtain from available resources.

The department is pursuing a three-stage approach to harmonisation, as follows:

Stage 1 – conduct a pilot project with New South Wales (approximate timeframe: second half of 2019)

Stage 2 – draft the National Harmonisation Plan and obtain approval of the plan from the Education Council (approximate timeframe: first half of 2020) and

Stage 3 – implement National Harmonisation Plan (approximate timeframe: July 2020-July 2021).

National School Resourcing Board

The National School Resourcing Board (the Board) is an independent body, responsible for reviewing different aspects of the Australian Government's school education funding model. These reviews provide assurance regarding the integrity of the funding model and assess whether the states, territories and other Approved Authorities are compliant with their obligations under the Act.

The reviews that the Board are currently undertaking or have undertaken to date are:

- a review of the socio-economic status score methodology
- a review of the loading for students with disability and
- a review of needs-based funding review arrangements.

Departmental Accountability – Schools Assurance Committee

The department will establish a Schools Assurance Committee (the Committee) within the Schools and Youth Cluster to oversee the effective management and implementation of the activities outlined in this assurance framework.

The Committee will be responsible for:

- providing strategic advice to the Schools and Youth Cluster Executive on current assurance processes and future issues under the Act and Regulation;
- overseeing cluster-wide, coordinated assurance activities and programs; and
- fostering collaboration across the cluster on key assurance and compliance priorities.

Review of the assurance framework

The Committee will review the assurance framework and the Forward Work Plan and report to the Funding and Data Collection Group Manager on its outcomes annually.

This review ensures that the assurance framework remains appropriate to manage the risks associated with the Australian Government funding of Approved Authorities (and their schools), it is an imperative that it is a live document. Where necessary, the Committee will undertake additional reviews when there are changes in respect of legislation, compliance risks, compliance activities, compliance profiles, the co-regulatory environment and the school education landscape.

Further information

It is important that the assurance framework be linked with other key strategic documents of the department. These include, but may not be limited to:

- Risk Management Framework and Policy

- Risk Appetite and Tolerance Statement

- Fraud Risk Assessment 2018-20

Appendix A: Key assurance activities

Financial Questionnaire Verification Process

Current process

The Financial Questionnaire Verification Exercise (“FQVE”) is an activity related to the financial questionnaire. The financial questionnaire is a standard reporting template that is completed by all schools, and includes income, expenditure, asset and liability data for the school.

What is the purpose of the assurance activity?

This purpose of the FQVE is to provide assurance that financial questionnaire data is accurate and that the financial information from the schools map back to the Chart of Accounts.

How is the assurance activity conducted?

Each year 100 schools are randomly selected for the FQVE, to assess whether they have completed the financial questionnaire accurately. In addition, schools are also targeted if they are considered to represent a high risk of error, which may be the result of department concerns with responses to the previous year’s questionnaire. This usually results in approximately 20 further schools being added, and a total of approximately 120 schools participating in the FQVE.

Outcomes of the assurance activity

The error rates detected through the FQVE have indicated that a number of schools (up to 40%) have errors in their FQ data. However, the errors are usually not material and do not raise concerns of recurrent funding being expended inappropriately. Often errors relate to the school incorrectly classifying income or expenditure items in the financial questionnaire, using the incorrect reporting period, or incorrectly netting figures where separate income and expenditure amounts are required to be disclosed². More serious errors that indicate potential non-compliance with the Act are rare.

Financial Audit Checking and Financial Viability Assessments of Schools

Current process

The Department obtains the audited financial statements for all non-government schools. Audited financial statements are required to be submitted when the schools complete the Financial Questionnaire. The Department reviews the audited financial statements for compliance and financial viability indicators. The process is conducted annually for all schools.

What is the purpose of the assurance activities?

The purpose of review of audited financial statements is to provide a level of assurance that the schools are complying with the Education Act and Regulation, and that the schools are financially viable, that is, to assess whether the schools are at risk of insolvency or potentially experiencing financial stress.

² Department of Education and Training website – Common Errors in the Financial Questionnaire, March 2018

How are the assurance activities conducted?

Financial Audit Checking is an annual process, where all non-government schools audited financial statements are reviewed by members of the Department to assess whether schools are complying with the Education Act and Regulation in the following areas: that the school is not a body corporate or political body, the school is not for profit, the school is financially viable and the people operating the school are fit and proper. The schools are rated against the areas as high, medium or low and if a school is rated as high, further action is undertaken by the Department.

The Financial Viability Assessment is an annual two stage process which initially involves a basic review of all non-government schools financial information. If any issues concerning the financial viability are identified during the initial basic review, a more thorough examination of the financial position and performance of the school is conducted by the Department.

Outcomes of the assurance activity

The Financial Audit Checking assurance activity provides, an assessment of whether the schools are complying with key areas of the Education Act and Regulation, and an annual compliance rating of schools compliance, which can be used as part of the overall compliance assessment of a school.

The Financial Viability Assessment provides information on the financial position and performance of the schools. This assessment can then be used to determine whether further support is required to be provided to the schools and can be use as part of the overall compliance assessment of a school.

Compliance Certification

Current process

All Approved Authorities are required to complete a Compliance Certificate at the end of each calendar year and submit it to the Department. This includes Approved Authorities representing one non-government school, Approved Authorities representing multiple non-government schools, and the eight state and territory education departments representing government schools. The Approved Authority makes a declaration that it has complied with policy requirements set out in section 77 of the Act and sections 41, 42, 43, 56(f), 59 and 60 of the Regulation.

What is the purpose of the assurance activity?

The purpose of the Compliance Certification activity is to provide a level of assurance that the Approved Authorities are complying with the Education Act and with the requirements of the nationally agreed policy objectives.

How is the assurance activity conducted?

Approved Authorities are required to complete a Compliance Certificate declaring whether the schools comply with the Education Act and the nationally agreed policy objectives and submit the Compliance Certificate to the Department. Whilst this is a self-reporting exercise, there is a requirement for both the school and an accountant to certify that the information reported is correct.

Outcomes of the assurance activity

Information from the compliance certification process is used to provide insights into the compliance profiles of the Approved Authorities.

Compliance Certification Verification Exercise**Current process**

The Compliance Certification Verification Exercise (“CCVE”) is an activity related to the Compliance Certification process and is used to verify the information provided through the Compliance Certification process.

What is the purpose of the assurance activity?

The purpose of the CCVE is to confirm that the information provided through the Compliance Certification process is accurate, complete and reliable.

How is the assurance activity conducted?

The Department selects a random sample of 68 Approved Authorities from the population of non-government Approved Authorities, and requests that they provide documentation to support the declarations made in their Compliance Certificate.

In addition, if there are negative responses to any of the questions in the Compliance Certificate, the Department obtains an explanation and further information from the Approved Authority as to why there was a negative response. The explanations and further information is reviewed by the Department and used to assess whether the responses are reasonable, or whether any further investigation is required to be undertaken (such as an audit).

Outcomes of the assurance activity

For the verification exercise conducted in 2017 (2016 school year), all 68 Approved Authorities were able to demonstrate that they were compliant with the requirements.

In addition, it is noted that for the 39 Approved Authorities that indicated non-compliance in the certification certificate, the Department reviewed the reasons for non-compliance and in all cases was satisfied that this was reasonable and no further action was required.

Qualified Accountants Review**Current process**

Each year, all schools are required to respond to a questionnaire in relation to the school’s compliance with the national agreed policy objectives. There is a requirement for a qualified accountant (as defined with Education Act Regulation), to sign the questionnaire, and certify that the funding allocated to the schools has been spent correctly and in accordance with the Act and Regulation. The Qualified Accountants Review verifies the professional status and credentials of the accountants providing the sign-off.

What is the purpose of the assurance activity?

The purpose of the annual Qualified Accountants Review activity is for the Department to assess whether the qualified accountants providing the certification have the appropriate qualifications in accordance with the Education Act Regulation to perform this function.

How is the assurance activity conducted?

Each year a sample of 60 accountants who have provided financial accountability certifications for schools, have their professional status and credentials examined by the Department. This involves the Department obtaining information from industry bodies (e.g. CPA Australia, Chartered Accountants Australia and New Zealand), and Government Regulatory Authorities (e.g. Australian Securities and Investments Commission) to assess whether the accountants have the applicable accounting qualifications in accordance with the Education Act Regulation.

Outcomes of the assurance activity

The results of the activity conducted over recent years show that the credentials of the accountants is able to be established, and that appropriately qualified accountants are providing the certifications.

CENSUS POST ENUMERATION EXERCISE**Current process**

The census post enumeration (“PE”) exercise for non-government schools is related to the annual non-government school census counts. The Census PE verifies that the information provided within a school’s census return is accurate, complete and reliable.

What is the purpose of the assurance activity?

The purpose of the Census PE is to validate whether the census information provided by schools is accurate, complete and reliable, and to ensure that the census count process has integrity.

The Census PE is also the way the department measures the accuracy of recurrent funding payments, with the outcomes reported to the Australian National Audit Office.

How is the assurance activity conducted?

The department engages contractors to attend approximately 200 non-government schools³, to verify the accuracy, completeness and reliability of school’s census return, using a nationally consistent approach. The contractors recommend adjustments to census returns as required, which are then assessed by the department before being used as an input into the school’s funding calculation.

³ The selection of the schools comes from a simple random sample from the population of schools and schools that are targeted based on intelligence held by the Department.

Outcomes of the assurance activity

The information provided from the Census PE is used to verify the annual non-government school census. The error rate from the past three Census PEs is high with up to 67% of schools found to have reported errors of some type in their census data, and up to 45% reporting errors that affected recurrent funding entitlements. However, when extrapolating the payment affecting errors of randomly selected schools in a national context, this equates to around 0.2% of non-government schools recurrent funding, so falls within an acceptable tolerances level.

Reports are prepared for all schools detailing the outcome of the Census PE process so that schools can use the experience of the Census PE to improve its administrative and reporting practices.

Terms of Reference—Review of needs-based funding requirements for approved system authorities

The Australian Government through its *Quality Schools* reforms is committed to Commonwealth schools funding that is needs-based, transparent and equitable so students with the same need in the same sector will attract the same level of support from the Commonwealth.

Constitutional responsibility for school education lies with states and territories and each state has in place its own regulatory frameworks to maximise students' educational outcomes. The Australian Government is responsible for providing national leadership across important policy areas, and is working with states and territories towards the common aspiration that every child has a quality education.

Needs-based funding requirements

From 1 January 2018, subsection 78(3) of the *Australian Education Act 2013* (the Act) requires approved system authorities to distribute all Australian Government recurrent funding in accordance with a needs-based funding arrangement that is compliant with subsection 78(5) of the Act. This approach recognises that approved system authorities are best placed to understand the individual needs of their schools and students.

Subsection 78(5) stipulates an approved system authority's needs-based funding arrangement must:

- provide an amount per student that:
 - represents the recurrent resources required to support a student with minimal educational disadvantage to achieve expected educational outcomes
 - takes account of efficiencies that can be realised while improving educational outcomes
- provide loadings to students and schools with additional needs in order to support student achievement, including loadings for:
 - students with disability, Aboriginal and Torres Strait Islander students, students with socio-educational disadvantage, students who have low English proficiency
 - schools based on location and size
- be publicly available and transparent.

The needs-based arrangement for the distribution of Commonwealth recurrent funding is likely to form part of a wider arrangement which takes account of other funding from Commonwealth, state, or private sources. A needs-based funding arrangement is not required to mirror the Schooling Resource Standard (including consideration of capacity to contribute) applied by the Australian Government but must comply with subsection 78(5).

The Australian National Audit Office's (ANAO) report on *Monitoring the Impact of Australian Government School Funding*, tabled in Parliament on 6 December 2017, made a number of recommendations aimed at strengthening accountability arrangements, increasing transparency, improving monitoring, and making greater use of available data related to Australian Government school funding. The Joint Committee of Public Accounts and Audit's *Report 476: Australian Government Funding*, tabled in Parliament on 14 February 2019, also included recommendations on monitoring the impact of Australian Government School Funding.

In response to the ANAO report, the Australian Government Department of Education and Training (the department), undertook to improve its risk-based approach to monitoring compliance and increasing transparency of funding allocations. During 2018, the department has engaged with the sector to obtain approved system authorities' current needs-based funding arrangements, and requested additional information on their operation where it was unclear how they met one or more of the criteria in subsection 78(5)

Scope

In the context of the ANAO's recommendations and the department's ongoing response, prior to the Board undertaking a review of approved system authorities' compliance with funding requirements per section 128 of the Act, the Board will consult with the sector to:

- support the development of a shared understanding of the legislative requirements placed on approved system authorities to distribute all Australian Government recurrent funding and to have a needs-based funding arrangement
- identify and make recommendations on:
 - additional guidance required from the Commonwealth to support compliance by approved system authorities with the legislative requirement to have a needs-based funding arrangement
 - future actions by the department and approved system authorities that would support a comprehensive assessment in a subsequent compliance review of needs-based funding arrangements.

In doing so, the Board will consider:

- the requirements of the Act, the National School Reform Agreement and associated Bilateral Reform Agreements
- compliance activities undertaken by the department
- the current needs-based funding arrangements and processes of approved system authorities
- local contextual factors that inform the funding allocation approaches taken by approved system authorities.

This review will inform a subsequent review of approved system authorities' compliance with subsection 78(5) of the Act (needs-based funding arrangements). The Board will not provide any commentary nor make any findings on compliance by approved system authorities in this review.

Consultation

The Board will consult with the Commonwealth and approved system authorities as well as the Education Council. The Board may also consult with other parties as required. The Board will consult on funding allocation processes and other mechanisms approved system authorities have in place to meet the requirements of the Act.

To the extent possible, the Board will use existing reporting and data sources, to minimise the reporting burden on approved system authorities.

Timing

The Board will provide its final report to the Australian Government Minister for Education by October 2019.

The Minister will invite the Chair of Board to present the final report to the Education Council.

Review of
needs-based funding requirements

Issues paper

Issues Paper

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Disclaimer

As this is an independent review, the issues paper does not necessarily reflect the views of the Australian Government.

This document must be attributed as the *Review of needs-based funding requirements—Issues paper*.

National School Resourcing Board

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Context

Australian Government recurrent funding for schools is needs-based

Australian Government recurrent funding for schools is calculated based on the Schooling Resource Standard (SRS). The SRS is an estimate of how much total public funding a school needs to meet the educational needs of its students. It is made up of a base amount for every primary and secondary student and six loadings to provide extra funding for disadvantaged students and schools.

The implementation of the SRS was a recommendation of the *2011 Review of Funding for Schooling—Final Report*. The review found that funding arrangements should aim to ensure that differences in education outcomes are not the result of differences in wealth, income, power or possessions.¹

The preamble of the *Australian Education Act 2013* (the Act) specifies that to help education authorities provide every child with a quality education, Commonwealth investment will be fairly and transparently distributed and allocated according to need.

The Australian Government has put in place transition arrangements to ensure that, over time, students with the same need within the same sector attract the same support, regardless of the state where they live.

Australian Government recurrent funding for schools is distributed to approved authorities

The Australian Government has estimated it will contribute approximately \$19.9 billion in recurrent funding for schools in 2019². This contribution will grow to approximately \$32.4 billion in 2029. From 2018 to 2029 the Australian Government will contribute a total of approximately \$310.3 billion in recurrent funding for schools.³

Under the Act, Australian Government recurrent funding for schools is distributed to approved authorities. Approved authorities are legal entities approved to receive Australian Government recurrent funding for one or more schools. Where an approved authority operates more than one school, the Australian Government provides the funding allocation for all the schools it operates as a single funding amount.

An approved authority for more than one school that distributes Australian Government funding according to its own arrangement is known as an *approved system authority*

An approved authority for more than one school can distribute the Australian Government recurrent funding it receives to its schools in line with the Australian Government's SRS funding formula, or it can choose to distribute that funding according to its own arrangement.

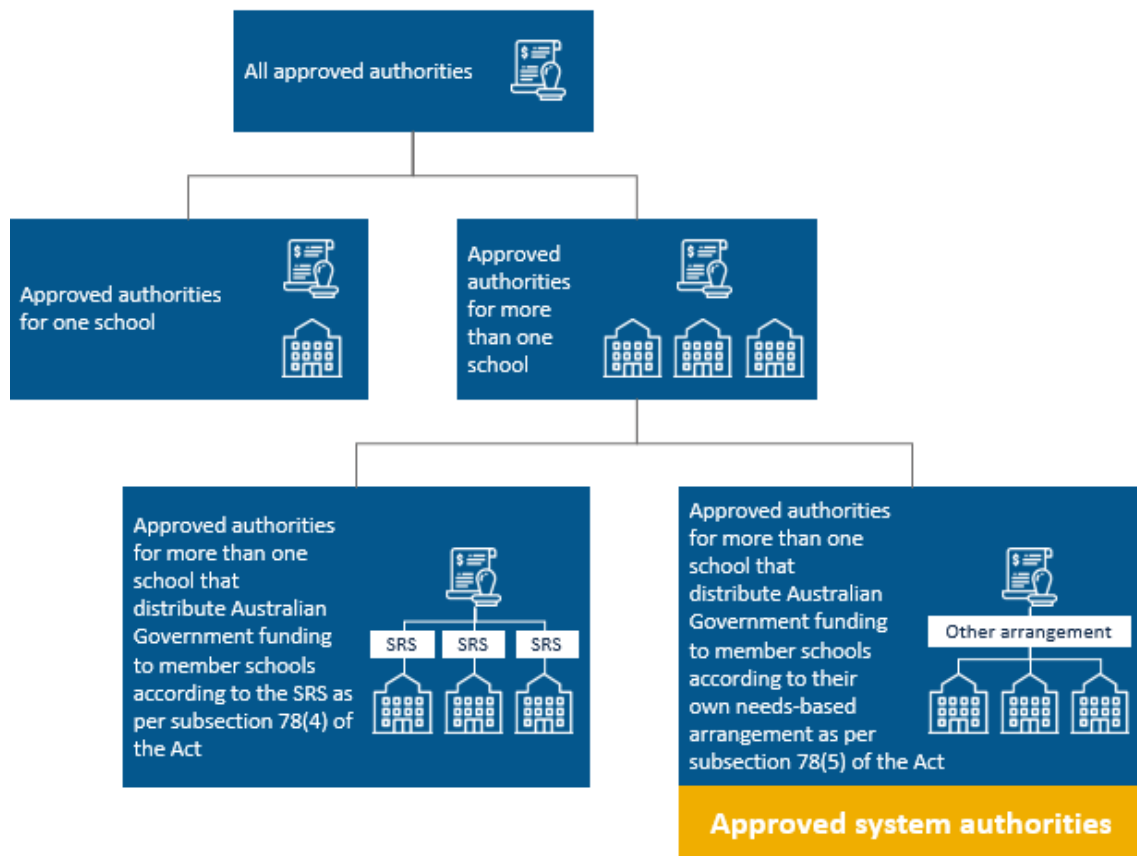
¹ Gonski, D., Boston, K., Greiner, K., Lawrence, C., Scales, B., Tannock, P. 2011, *Review of Funding for Schooling—Final Report*, DEEWR, Canberra, p. 166.

² Department of Education and Training

³ Department of Education and Training 2019, *What is the Quality Schools package and what does it mean for my school?* Australian Government, accessed 30 April 2019, <[Department of education and training website](#)>

The approved authorities for more than one school that take a different view of how best to use Australian Government recurrent funding to meet educational need are described in the Act as **approved system authorities**, see exhibit 1.

Exhibit 1. Types of approved authorities



Approved system authorities are required to have a needs-based funding arrangement

From 1 January 2018, all approved system authorities have been required, under subsection 78(5) of the Act, to have a needs-based funding arrangement that:

- provides an amount per student that:
 - represents the recurrent resources required to support a student with minimal educational disadvantage to achieve expected educational outcomes
 - takes account of efficiencies that can be realised while improving educational outcomes
- provides loadings to students and schools with additional needs in order to support student achievement, including loadings for:
 - students with disability, Aboriginal and Torres Strait Islander students, students with socio-educational disadvantage, students who have low English proficiency
 - schools based on location and size
- is publicly available and transparent.

These are the needs-based funding requirements for approved system authorities.

While needs-based funding requirements only apply to Australian Government recurrent funding for schools, an approved system authority's needs-based funding arrangement is likely to take account of other funding from Australian Government, state, or private sources.

Review Purpose

The Act requires the National School Resourcing Board to periodically review approved authorities' compliance with ongoing funding requirements

The National School Resourcing Board (the Board) comprising people with expertise in education, finance and demography. Its role is to conduct annual and periodic reviews of elements of the Australian Government school funding model under the Act. These reviews will help ensure public confidence in the funding model and to ensure states, territories, and other approved authorities comply with their requirements under the Act.

Section 128 of the Act requires the Board to undertake periodic reviews of compliance of approved authorities, including approved system authorities, with ongoing funding requirements described in section 78 of the Act. This includes the needs-based funding requirements described in subsection 78(5) of the Act.

The Australian Government Department of Education and Training is required to monitor and assure recurrent funding

The Australian National Audit Office's (ANAO) 2017 report on *Monitoring the Impact of Australian Government School Funding*, and the Joint Committee of Public Accounts and Audit's (JCPAA) 2019 *Report 476: Australian Government Funding*, both found that the Department of Education and Training needs to strengthen its administration and assurance arrangements to appropriately monitor the distribution of government funding.^{4 5}

The JCPAA recommended the Department of Education and Training report back to the committee on the progress and outcomes of a Board review into approved system authorities' compliance with needs-based funding arrangements in August 2019 and at the completion of that review.

This is not a review of approved system authorities' compliance

This is not a review of approved system authorities' compliance with requirements under subsection 78(5), although the outcomes are intended to inform a compliance review at a later date.

The terms of reference for this review make it clear that the Board will not provide any commentary nor make any findings on compliance by approved system authorities in this review.

⁴ Australian National Audit Office 2017, *Monitoring the Impact of Australian Government School Funding*, Australian National Audit Office, Canberra, p. 10.

⁵ Joint Committee of Public Accounts and Audit 2019, *Report 476: Australian Government Funding*, Parliament of the Commonwealth of Australia, Canberra, p. vii.

A shared understanding of subsection 78(5) of the Act will provide clarity for a compliance review of needs-based funding requirements

In 2018, the Australian Government consulted stakeholders on terms of reference for a review of approved system authorities' compliance with ongoing funding requirements, particularly needs-based funding requirements under subsection 78(5).

These consultations highlighted stakeholder concern about the level of clarity of the needs-based funding requirements under the Act and the possibility of differing interpretations of these. Stakeholders also emphasised the importance of the Board consulting and engaging with approved system authorities when considering their compliance.

The Board has therefore been tasked with working with the sector to support the development of a shared understanding of the requirements of subsection 78(5) of the Act prior to undertaking a compliance review.

In this review, the Board will consult with the sector to

- support the development of a shared understanding of the legislative requirements placed on approved system authorities to distribute all Australian Government recurrent funding and to have a needs-based funding arrangement.
- identify and make recommendations on
 - additional guidance required from the Commonwealth to support compliance with the legislative requirements to have a needs-based funding arrangement.
 - future actions by the department and approved system authorities that would support a comprehensive assessment in a subsequent compliance review of needs-based funding arrangements.

The terms of reference for this review are available at www.education.gov.au/national-school-resourcing-board.

The final report and recommendations is to be provided to the Australian Government Minister for Education by October 2019.

Issues

The distribution of school funding is a critical factor in addressing need

The reforms which have led to the current needs-based funding arrangements arose from an acknowledgement nationally that a significant number of children were not receiving a quality education '...regardless of where they live and what school they attend...'⁶. The Object of the Act is to provide a Commonwealth needs-based funding model for school education that includes a base amount of funding for every student and loadings for students and schools who need extra support.⁷

⁶ Australian Education Act 2013, Preamble

⁷ Australian Education Act 2013, Part 1, Division 1, Objects of this Act

Flexibility is provided for under the Act

In accordance with the principle of subsidiarity, the Australian Government provides approved system authorities a level of flexibility to make decisions about student and school need.

In the provision of Australian Government funding to schools, the Australian Government recognises the importance of subsidiarity for systems and schools to use flexibility to make local decisions about distributing funding to address need. The *2011 Review of Funding for Schooling—Final Report* noted that the benefits of government and non-government school systems allocating or redistributing funding to where it is most needed and in achieving efficiencies through economies of scale is well established.⁸

The Australian Government provides a funding amount to approved system authorities based on the characteristics of member schools and their students.

The approved system authority then uses its more detailed knowledge of local need to allocate that funding most effectively. In some cases, a portion of this funding is used for administrative purposes.

Submission focus question

- *What are desirable levels of flexibility for needs-based funding requirements—are there different levels of flexibility that could be applied to the per student amount and loadings?*

The requirements for recipients of public funding should be clear and effective

The Act sets out high-level conditions for Australian Government recurrent funding and outlines the broad requirements for the distribution of funding.

Approaches to distributing funding differ across approved system authorities as these arrangements often pre-date the needs-based funding requirements, and the introduction of the SRS. When the SRS was proposed by the *2011 Review of Funding for Schooling—Final Report*, it was noted that the SRS is not intended to replace the local funding arrangements of approved system authorities.

The Act does not specify how the per student amount and loadings are to be structured. In 2018, the Department of Education and Training collected information on approved system authorities' needs-based funding arrangements, which demonstrated the complexity and variety of approaches used to distribute funding to address educational disadvantage in schools and reflected their evolution over decades in some cases.

Approved system authorities utilise their own, often differing, needs-based funding arrangements—a flexibility allowed by subsection 78(5).

⁸ Gonski, D., Boston, K., Greiner, K., Lawrence, C., Scales, B., Tannock, P. 2011, *Review of Funding for Schooling—Final Report*, DEEWR, Canberra, p. 52.

Submission focus questions

- *What level of prescription by the Australian Government regarding needs-based funding arrangements may reasonably be required and is possible?*
- *What additional guidance may be necessary and what form should it take?*
- *What is the right balance of prescription and flexibility for assessing compliance with needs-based funding requirements and why?*

The size and nature of public investment calls for a level of transparency and accountability

The Australian Government's investment in recurrent funding for schools is significant. As the funding distributed to approved system authorities is public money, there is an expectation that conditions are placed on the provision of funding, and that approved system authorities are publicly accountable for their decisions about the allocation of funding.

The *2011 Review of Funding for Schooling—Final Report* also noted that schools should be able to readily understand why school systems and individual schools receive the funding they do, and how changes to the size or composition of their student body will affect funding in the future.⁹

Submission focus question

- *What level of transparency is required to effectively enable accountability of approved system authorities?*

Transparency is also necessary for public accountability. Making available the arrangements for the allocation of funding to schools at all levels gives the public confidence that resource allocation is appropriate and defensible.

The ANAO's performance audit also highlighted the need for the Australian Government to:

- determine whether the current policy settings are effective in supporting the achievement of educational outcomes
- provide a sufficient level of assurance that funding has been used in accordance with the legislative framework, in particular the requirement for funding to be distributed on the basis of need
- deliver the level of transparency and accountability envisaged under the Act.¹⁰

Definition of what publicly available entails for needs-based funding arrangements is not defined under the Act or its associated regulations, and consequently approaches to this differ across approved system authorities.

⁹ Gonski, D., Boston, K., Greiner, K., Lawrence, C., Scales, B., Tannock, P. 2011, *Review of Funding for Schooling—Final Report*, DEEWR, Canberra, p. 151.

¹⁰ Australian National Audit Office 2017, *Monitoring the Impact of Australian Government School Funding*, Australian National Audit Office, Canberra, pp. 8–9.

Submission focus question

- *What are acceptable approaches for approved system authorities to make their needs-based funding arrangements publicly available?*

Making a submission

The Board is now calling for submissions on the issues outlined in this paper.

The submission process is open to all interested parties.

Submissions are to be made through an online form. Each submission is limited to 3000 words. Submissions will also include a summary of the key points, of up to an additional 300 words.

To find out how to lodge your submission, and for more information on the Review, please visit the website: www.education.gov.au/review-needs-based-funding-requirements.

Submissions will close at 5.00pm (AEST) on **28 June 2019**.



Department of Education Submission: Needs-Based Funding Requirements National School Resourcing Board Review

Introduction

The Australian Government Department of Education (the department) welcomes the opportunity to make a submission to the Needs-Based Funding Requirements review conducted by the National School Resourcing Board (the Board).

In preparing this submission, the department has specifically considered the historical context of needs-based funding under the governing legislation of the *Australian Education Act 2013* (the Act) and the *Australian Education Regulation 2013* (the Regulation), and its predecessor legislation. It has also considered recent findings of the Australian National Audit Office (ANAO) in its December 2017 performance audit, *Monitoring the Impact of Australian Government School Funding*, and the February 2019 findings of the Australian Parliament's Joint Committee on Public Accounts and Audit (JCPAA) inquiry into school funding, as contained in *Report 476: Australian Government Funding*.

The department supports appropriate transparency and accountability for the record and growing levels of Australian Government funding in schools so that principals and teachers can focus on teaching, not paperwork, and deliver improved student outcomes.

Background

Legislative requirements for needs-based funding arrangements

The Act and the Regulation provide the legislative authority for the department to provide Australian Government funding to school approved authorities, block grant authorities and non-government representative bodies.

Approved system authorities (systems) have historically had the flexibility to re-distribute Australian Government recurrent funding in recognition of their understanding of local schooling arrangements and student need. With the introduction of the new Act and the Regulation on 1 January 2014, systems were required to make their needs-based funding arrangements publicly available to provide transparency for school communities and promote informed school choice by parents and caregivers.

On 23 June 2017, the Act was amended to deliver a range of enhancements, including a new funding model that provided significant increases to funding and an expanded Section 78 covering requirements for needs-based funding arrangements. The amendments commenced on 1 January 2018.

Specifically, subsection 78(3) of the amended Act requires approved authorities for more than one school to allocate all recurrent funding received in accordance with an arrangement compliant with either:

- subsection 78(4) – all Australian Government recurrent funding is passed on to the schools under its authority as it is allocated by the Australian Government; or
- subsection 78(5) of the Act – all such funding is re-distributed to its schools in accordance with a publicly available arrangement compliant with this subsection's requirements.

Approved authorities are required to comply with the requirements of the Act, irrespective of any assurance policies the department has in place. While the Act and Regulation set out the legislative requirements for organisations that receive funding, they do not impose express legislative requirements on the department to check, investigate or assure compliance with the Act.

The Australian National Audit Office report

In December 2017, the Australian National Audit Office (ANAO) delivered its Performance Audit report, *Monitoring the Impact of Australian Government School Funding*. In this report, the ANAO considered the administrative arrangements in place at the time of the audit and recommended the department strengthen its monitoring of approved authorities' arrangements.

Two recommendations from the report are relevant to the department's monitoring of arrangements:

- a. Recommendation 1: Establish a risk based approach to monitoring compliance with requirements established under the *Australian Education Act 2013* and increase transparency surrounding the allocation and use of Australian Government funding.
- b. Recommendation 2: Strengthen analysis of school funding allocation data to gain assurance school funding is being distributed according to need.

It is important to note that the ANAO report focussed on reviewing arrangements as they existed in 2017. The scope of the report did not include consideration of decisions already taken by the Australian Government in relation to new funding arrangements and requirements in the amended Act and Regulation, which came into effect on 1 January 2018.

The Joint Committee on Public Accounts and Audit

The JCPAA held an inquiry into the ANAO Performance Audit in August and October 2018, and released its findings in *Report 476: Australian Government Funding* in February 2018. The JCPAA recommendations closely align with the ANAO report and, as such, the scope of the JCPAA report likewise did not include decisions taken by the Australian Government in relation to the amended Act and Regulation.

The first two recommendations of the JCPAA are relevant to the Board's consideration of needs based funding arrangements:

- a. Recommendation 1: The Australian Government amend the *Australian Education Act 2013* and the accompanying Regulation to include a requirement for the Department of Education and Training to:
 - i. monitor compliance to assure that Australian Government school funding is delivered in accordance with the Act
 - ii. monitor the use of Australian Government school funding in achieving the objectives of the Act.
- b. Recommendation 2: The Department of Education and Training conducts a risk-based review of existing accountability arrangements of Australian Government school funding under the requirements of the Act.

The department is taking a considered approach to addressing the findings of both the ANAO and JCPAA reports. A number of the recommendations have already been addressed via changes to legislation, changes to administrative practices, development of a school funding assurance framework, and the establishment of the National School Resourcing Board (the Board).

When administering any Government program, including those based within a legislative framework, public officials have general duties under the *Public Governance, Performance and Accountability Act 2013*, and the broader framework of the APS Values and APS Code of Conduct as set out in the *Public Service Act 1999*. It is within this general framework that there is an expectation that the department has in place a reasonable and proportionate approach to ensuring that requirements on funding provided under the Act and the Regulation are being met.

The department's school funding assurance framework

In response to the ANAO and JCPAA findings, the department commissioned an overarching assurance framework in early 2019. This framework outlines the principles, objectives and key activities undertaken under the Act and Regulation within a risk-based approach to assurance. The framework explains the connections between the department's various school funding assurance activities within a consistent narrative, reflective of the risk-profile that the department operates within under the Act and Regulations. The framework will include provisions to ensure appropriate assurance and compliance controls are in place in respect of needs-based funding. Outcomes of the Board's current review will inform those provisions.

Once complete, the department will undertake broad consultation on the assurance framework with the schooling sector through the auspices of the Education Council arrangements. As a phased response to the ANAO and JCPAA recommendations, the department will also be undertaking capacity building with the sector to enhance its capability to comply with legislative requirements whilst balancing the principles and objectives of appropriate transparency and accountability for the record and growing levels of Australian Government funding in schools.

The 2018 needs-based funding arrangement collection process

Overview

Following the commencement of the amended Act in January 2018 and the delivery of the ANAO report, the department wrote out to all approved authorities for more than one school in February 2018, requesting information on how their funding distribution arrangements meet the requirements in section 78 of the Act. Specifically, the department sought to establish the extent to which approved authorities' arrangements met legislative requirements.

Based on its assessment of the information provided during that collection, the department considers that subsection 78(5) of the Act does not, by itself, provide sufficient guidance to approved authorities on the requirements for a compliant needs-based funding arrangement. This is consistent with feedback from the Australian Education Senior Officials Committee in July 2018, which raised concerns about the clarity of the Act's requirements for arrangements and their differing interpretations across the sector.

As this collection was part of an information gathering exercise, and the first of its kind, the department did not take any compliance action based on its assessment of systems' 2018 arrangements. The department has made the material developed and findings from the 2018 process available to the Board to assist with their preparations for this review.

Areas in which systems have different legislative interpretations

The following areas were identified by the department during the 2018 needs-based funding arrangement collection and assessment exercise as having varying interpretations of legislative requirements by systems:

- explaining arrangements based on staff allocation rather than funding allocation
- determining whether the requirements to provide funding for the six Australian Government loadings were satisfied by systemic programs instead of direct school funding
- explaining loadings and programs additional to those fulfilling the base and Australian Government loadings requirements
- explaining arrangements where an additional body under the system further re-distributes Australian Government funding among schools; for example, Catholic dioceses in some states
- determining the appropriate timing for an arrangement (i.e. when does an approved authority need to complete their arrangement, make it publicly available and notify the department if it wishes to commence re-distributing funding in a particular year).

Systems satisfied the public availability requirement through publication of the arrangement on the system/school website(s), in most cases also making physical copies of the arrangement available to school communities.

The department's needs-based funding policy and assurance objectives

The department is awaiting the outcome of the Board's review, and the Australian Government's response to any ensuing recommendations, prior to further developing policy on needs-based funding arrangements.

The department has a responsibility to ensure positive schooling outcomes for all Australian students, including those in the non-government sectors. The department and the Australian Government therefore require an understanding of a systems' distribution of funding between schools, in order to meaningfully assess the impact Australian Government funding is having on schooling outcomes.

Recent JCPAA hearings and the debate on the amendments to the Act have highlighted the need for consideration of the distribution of funding to individual schools (particularly when part of a system), and how this compares to their allocations under the Act.

The department's objective in assuring arrangements is to use a risk-based approach to balance its assurance obligations under the Act with simplicity and clarity for systems. The department believes systems are in the best position to determine their own funding distribution mechanisms, and sees little value in intervening in these arrangements to impose any particular method of distributing Australian Government funding among schools.

In keeping with the principle of promoting school choice and the balance of administrative requirements with simplicity and clarity for systems, the department considers that a straightforward and comprehensible arrangement that the public is aware of and can easily access would fulfil this obligation.

As a system's arrangement is unlikely to change substantially from year to year, the department does not consider an annual compliance assessment necessary. An assessment of arrangements every three to four years, or wherever arrangements are changed, should provide ample assurance to the department, although checks will be necessary between assessments to ensure public availability is maintained.

The department would welcome the opportunity to discuss its submission with the Board, and looks forward to the outcomes of the review.