

Block Grant Authority

Catholic Education Commission NSW BGA

10 October 2016



McGrathNicol

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Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
BOSTES	Board of Studies Teaching and Educational Standards NSW
CGP	Capital Grants Programme for Non-government Schools
Department	Department of Education and Training
Existing places	Applications for existing schools which are four or more years old and do not introduce additional streams or cohorts of students.
Facility Manager	The Facility Manager is employed at the Diocese level and manages capital projects undertaken within the Diocese
Membership Agreement	Agreement between the Catholic BGA and school when the school applies to become part of the BGA
New places	All places for schools less than four years old, applications for new schools or subsequent stages of new schools and additional streams or cohorts of students.
NSW Catholic BGA	The Catholic Education Commission NSW Block Grant Authority
Objectives	The objectives of the CGP
Operating Manual	CGP Operating Manual 2016
Participant Agreement	Agreement between the school and the NSW Catholic BGA entered into prior to the advancement of any grant funds
Requirements	Requirements under the CGP Operating Manual, <i>Australian Education Act 2013</i> and <i>Australian Education Regulation 2013</i>

Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training (“the Department”) under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of NSW Block Grant Authorities.

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We have carried out a review of NSW Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm’s policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

1 Executive summary and recommendations

1.1 Introduction

The Capital Grants Programme (CGP) for Non-government Schools is an Australian Government programme, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.¹

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.¹

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.¹

1.2 Scope

We have undertaken an operational review of the administration of the CGP by the NSW Catholic BGA. The review examines the efficiency and effectiveness of the NSW Catholic BGA in administering the CGP and evaluates the NSW Catholic BGA's compliance with the key areas of the Requirements.

The review will be conducted in the context of the Requirements which govern the administration of the programme.

In reviewing the NSW Catholic BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

1.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the *Australian Education Act 2013*;
- the *Australian Education Regulation 2013*;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the NSW Catholic BGA;
- meetings and discussions with representatives of NSW Catholic BGA, in particular:
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of the NSW Catholic BGA, including:
 - internal policies and procedures documents; and

¹ Work order form page 7.

- sample case files at the offices of the NSW Catholic BGA.

Provided below is a listing of the sample case files selected for the review testing:

Table 1: List of sample case files

Listing of sample case files		
Project ID	School	Funding (\$)
2011/01512/1	Our Lady of the Sacred Heart College	3,026,417
2014/01832/1	St Mary's High School	158,000
2013/01985/1	St Ursula's College	3,500,000
2014/01951/1	St Philomena's School	722,187
2012/05271/1	Casimir Catholic College	1,817,486
2012/16715/1	Red Bend Catholic College	1,542,185
2015/01433/1	Marist Catholic College Mortdale	3,500,000
2015/01632/1	St Dominic's College	68,601
2014/16698/1	Dunlea Centre, Australia's Original Boy's Town	6,538,595
2016/01319/1	Bethlehem College	3,500,000
2016/01333/1	Sacred Heart School	627,763
2016/29962/1	Wollongong Flexible Learning Centre	2,234,242
2016/15429/1	Good Samaritan Catholic College	312,601
2016/13839/1	McAuley Catholic Central School	611,627
2016/01620/1	St Christopher's Catholic Primary School	1,631,393

All of the above case files were made available to us in the review period.

1.4 Findings

1.4.1 Governance arrangements

The NSW Catholic BGA operates within the framework of the broader structure of the Catholic Education Commission and the Catholic Church. Generally speaking, the broader structure of the Catholic Education Commission and the Catholic Church is advantageous for the NSW Catholic BGA as it allows additional support to be provided to schools. The structure, however, does create challenges for the NSW Catholic BGA in achieving compliance with the Requirements.

The NSW Catholic BGA delegates part of its role to the 11 dioceses in NSW. It is therefore important that the dioceses document the activities and key decisions made and provide these documents to the NSW Catholic BGA. This procedure will allow the NSW Catholic BGA to ensure the dioceses are fulfilling their role in accordance with the Requirements. Policy and procedures documents do not provide transparency over the current processes of the NSW Catholic BGA.

We did not locate any conflict of interest registers and policy materials regarding the appropriate method of mitigating conflict of interest risk did not apply to the Diocesan Priority Committee or Approved Authority.

Participant agreements do not fully incorporate the following provisions required in the Operating Manual:

- Attachment 7 clauses b) and c); and
- Attachment 1 clause 2(a).

The NSW Catholic BGA has recently obtained an independent review from Ernst & Young, indicating that proactive steps are being taken to improve operations. The review provides the following findings which we largely agree with. We note that we have excluded a number of additional recommendations from the Ernst & Young review which we consider to be outside the scope of our review.

Table 2: Ernst & Young report findings and recommendations

Ernst & Young report findings and recommendations	
Finding	Recommendations
The need for capital infrastructure was not systemically assessed using a consistent measure for educational disadvantage	<ul style="list-style-type: none"> Establish a function responsible for state-wide infrastructure planning <ul style="list-style-type: none"> Implement a consistent approach to modelling enrolments, assessing condition and functionality Define a consistent approach to determine how infrastructure is contributing to educational disadvantage Complete a coordinated assessment of needs across the system
Grant funding was not allocated based on applicant's financial capacity	<ul style="list-style-type: none"> Include a transparent assessment of applicant's financial positions <ul style="list-style-type: none"> Development and documentation of the financial capacity framework Communication of the framework to applicants

Whilst some areas for improvement were identified in the Ernst & Young report, it is an indication of good governance that the NSW Catholic BGA has sought a review of its processes and procedures.

1.4.2 Selection and ranking of projects

The NSW Catholic BGA has a prescriptive and rigid process to estimate project costs and therefore to determine the funding paid. The NSW Catholic BGA has significant experience in monitoring capital projects so is well placed to develop 'rules of thumb' for construction costs. However, the introduction of a more accurate method of estimating project costs should be considered.

The multi-stage selection and ranking process can mean that if a diocese does not appropriately rank applications, the most schools which the CGP aims to prioritise funding to may be prevented from obtaining funding.

Schools are provided support to complete applications, assisting schools to clearly articulate their needs and provide comprehensive, complete applications.

School visits are undertaken to ensure current facilities are being maintained, review suitability and need for the proposed project and discuss potential costs saving options.

There is limited documentation on file to confirm that an active assessment of a school's financial capacity had been undertaken, however we note that this is difficult to determine given the range of potential funding sources available within the broader systemic structure member schools operate within.

1.4.3 Financial systems and practices for acquitting project funds

The school is required to maintain a separate building account. This improves transparency on funds handling at the school level and lowers the risk of funds mistakenly being used for other purposes.

The NSW Catholic BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple staff required prior to payments being made.

1.4.4 Project monitoring

Generally speaking the NSW Catholic BGA has a good level of oversight during the application and in the final or completion stages of the grant process. It was observed, however, that the quality of oversight during the monitoring stage was heavily reliant on information provided by schools and the diocese rather than source documentation or physical inspections by the NSW Catholic BGA. In our view, increased oversight during the monitoring stage would reduce the risk of projects not progressing as planned or grant funds not being used as intended such as documented interim checks of physical project status for example, video conferencing or photographs to demonstrate project progress.

Comprehensive tendering documentation detailing how contractors are selected was identified on each file which evidences the reasons for selection.

1.4.5 Records management

Electronic and physical documents reviewed were in good order and readily accessible.

Documentation on files demonstrated the NSW Catholic BGA proactively raising issues and consulting with the Department on complex or unusual matters and extensively clarifying aspects of applications with the diocese.

Retention of 10% of grant funds until completion documents are received provides a strong incentive for schools to complete documentation quickly.

1.5 Recommendations

In light of the above findings, we have identified the following recommendations for consideration by the NSW Catholic BGA and the Department:

- transparency improvements by keeping more detailed documentation in respect of:
 - conflicts of interest and how they are managed;
 - the processes and procedures of the NSW Catholic BGA, the dioceses and the schools;
 - decision making in the selection and ranking process;
 - ongoing project monitoring at the diocese level;
 - ongoing project monitoring at the NSW Catholic BGA level; and
- participant agreements be amended to fully incorporate the below requirements of the Operating Manual;
 - attachment 7 clauses b) and c); and
 - attachment 1 clause 2(a);
- implementation of a financial assessment framework to assess applicants or including notes on the consideration given to a school's potential other sources of funds as part of the assessment process; and
- implementation of a more flexible approach to estimate construction costs and determine funding amounts.

Implementation of a number of these recommendations are currently being considered or in the process of being introduced by the NSW Catholic BGA in light of recommendations made by Ernst & Young and the findings of this report. Further detail is discussed in section 2.3 of this report.

2 Background

2.1 Overview of Capital Grants Programme for Non-government Schools and the role of The NSW Catholic BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The NSW Catholic BGA is responsible to the NSW Bishops for funding contract management, advocacy and representation of Catholic education at the state level. The NSW Catholic BGA is governed by the Catholic Education Commission (CEC) Charter approved by the NSW Bishops. The NSW Catholic BGA has no authority to become involved in the administration of Diocesan system schools or Congregational schools, except in relation to funding contract management.

The NSW Catholic BGA utilises a number of documents and reference materials to administer the CGP. Provided below is a summary of the key internal and external documents that shape the delivery of CGP by the NSW Catholic BGA:

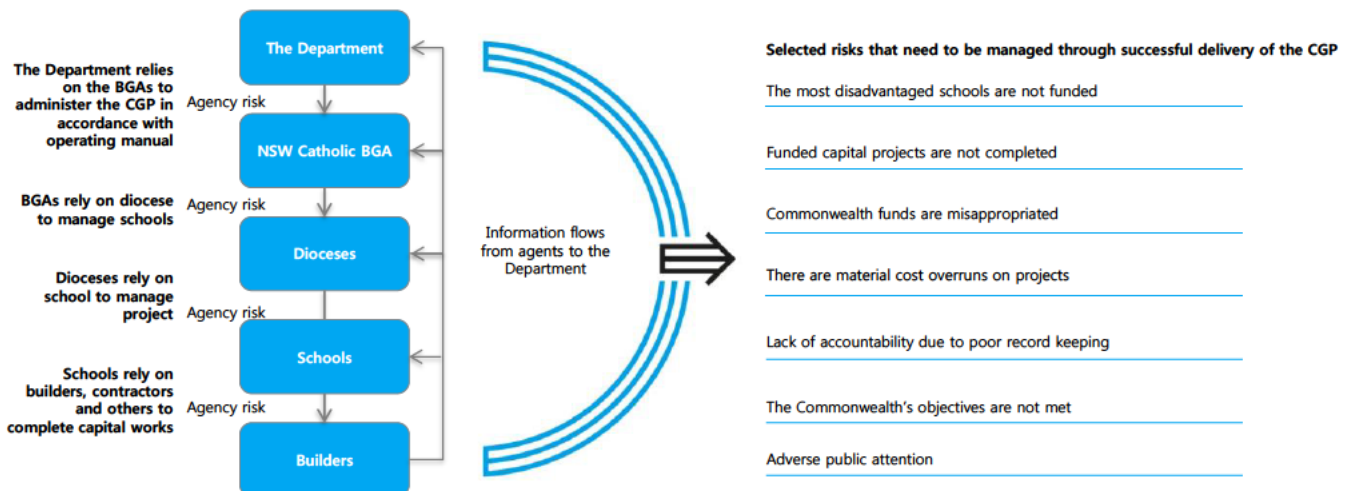
Table 3: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> ▪ <i>Australian Education Act 2013</i> ▪ <i>Australian Education Regulation 2013</i>
Regulatory guidance material	<ul style="list-style-type: none"> ▪ CGP Operating Manual 2016
NSW Catholic BGA policy documents for schools	<ul style="list-style-type: none"> ▪ Membership agreement ▪ Guidelines to Assist Applicants and Diocesan Priority Committees in Preparing and Assessing Applications (2014) ▪ NSW Catholic Block Grant Authority – Procedures Manual (draft)

In our dealings with representatives of the NSW Catholic BGA we found them to be well aware of the particular requirements of the NSW Catholic BGA and the schools and can articulate their obligations clearly. The NSW Catholic BGA acknowledges, however, that the diocese structure inherent in its delivery of the CGP creates challenges in achieving adherence to all requirements of the Operating Manual. This theme is discussed in more detail later in the report.

2.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the programme. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the programme's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below.

Figure 1: Agency risk created by the operating framework of the CGP.

2.3 Key steps in administering the Capital Grants Programme (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the NSW Catholic BGA. We have sought to summarise the key steps undertaken in the table below:

Table 4: Overview of Capital Grants Programme Administration

Overview of Capital Grants Programme Administration		
Step	Stage	Milestone
Step 1	Application process	An application is submitted by the Diocesan Education Office (or by schools in the case of non-systemic schools) to the Diocesan Priority Committee
Step 2		Applications are assessed and prioritised by the Diocesan Priority Committee
Step 3		The Diocesan Priority Committee provides recommended applications to the State Priority Committee in order of preference or rank
Step 4		At the first State Priority Committee meeting applications are considered and specific questions for site visits are determined
Step 5		Two members from the State Priority Committee visit each school with an application submitted to the State Priority Committee and a report setting out specific information requested as well as ratings of condition, functionality and locations and a check of all areas seeking refurbishment is provided
Step 6		The second State Priority Committee meeting considers the reports, determines the minimum of contribution and viability of a project
Step 7		Projects are then assessed and ranked by the State Priority Committee from the top ranked projects beginning with the lowest socioeconomic category using the Ross-Farish methodology (see Figure 2 below)
Step 8		Ranked, recommended projects are approved by the NSW Catholic BGA Executive Officer
Step 9		Applicants are advised of their indicative offer and sign a Proprietors Statement Endorsing Minimum Local Contribution
Step 10		The Catholic Education Commission NSW endorses the recommendation of the NSW Catholic BGA Executive Officer and State Priority Committee
Step 11	Approval stage	A list of ranked projects is provided to the Department
Step 12		The Department provides approval notification directly to the school as well as the NSW Catholic BGA
Step 13		Successful applicants sign an Acknowledgement of Receipt of Initial Offer
Step 14		A summary of tenders is provided to the NSW Catholic BGA
Step 15	Monitoring stage	If the tender documentation is acceptable, NSW Catholic BGA prepares a letter of Final Offer
Step 16		Successful applicants sign Acceptance of Final Capital Grant Offer
Step 17		School enters into contract and provides a copy of the contract
Step 18		Monthly reporting commences
Step 19	Finalisation and completion	Payments cease once projects reach 90% of the total grant amount
Step 20		The NSW Catholic BGA is provided the following completion documentation: <ul style="list-style-type: none"> Architect's/Supervisors Certificate of Completion Certificate by a qualified accountant
Step 21		Final 10% payment is made by the NSW Catholic BGA once the above completion documents are returned by the school

In addition, we have been advised by the NSW Catholic BGA that the following steps are undertaken.

- The State Priority Committee reviews all applications submitted by the Diocesan Priority Committees to ensure they are appropriately ranked.
- All schools who submit applications are visited at step 5 above.
- Whilst projects are under construction a monthly site meeting is held with the contractor, the project manager and/or the architect, a representative from the Diocesan Education Office (usually the Facility Manager or the Facility Officer) and a representative from the school.

In respect of the above steps, we were not provided documentation confirming the above steps form part of the process but we have included them on the advice of the NSW Catholic BGA.

The NSW Catholic BGA has advised that they are in the process of implementing or considering implementing a number of changes in light of findings from the Ernst & Young report and our findings including:

- establishing a governance framework documenting the names of various officers involved in the CGP, including members of the Diocesan Priority Committees and Delegated Authorities for schools;
- amending policy documents so that conflict of interest policies also apply to members of the Diocesan Priority Committees and Delegated Authorities;
- updating the 1987 procedures manual to reflect current practices;
- increasing focus on whether the project proposed in an application addresses the educational disadvantage identified;
- reconfiguring the application system to calculate both the assessed cost and the estimated actual cost;
- establishing architectural/construction services panels and providing an approved list of suppliers to schools;
- collection of more comprehensive information as part of monthly reporting including progress claims from contractors and claims from other suppliers;
- obtaining "works-as-executed" drawings at the time of practical completion; and
- breaking the final 10% payment into two 5% payments following receipt of:
 - Architect's/Supervisors certificate of completion and certificate of practical completion; and
 - Certificate by Qualified Accountant.

2.3.1 Selection and ranking committees

The State Priority Committee is comprised of:

- a representative from each of the 11 dioceses;
- a parents representative; and
- teacher or ex teacher.

Membership of the Diocesan Priority Committee varies in each diocese. We have been advised by the NSW Catholic BGA that generally, they consist of four to five members and may include:

- the executive officer of the Diocesan School Authority;
- school principals;
- parish priests;
- non-systemic school representatives (if there are non-systemic schools in the diocese)

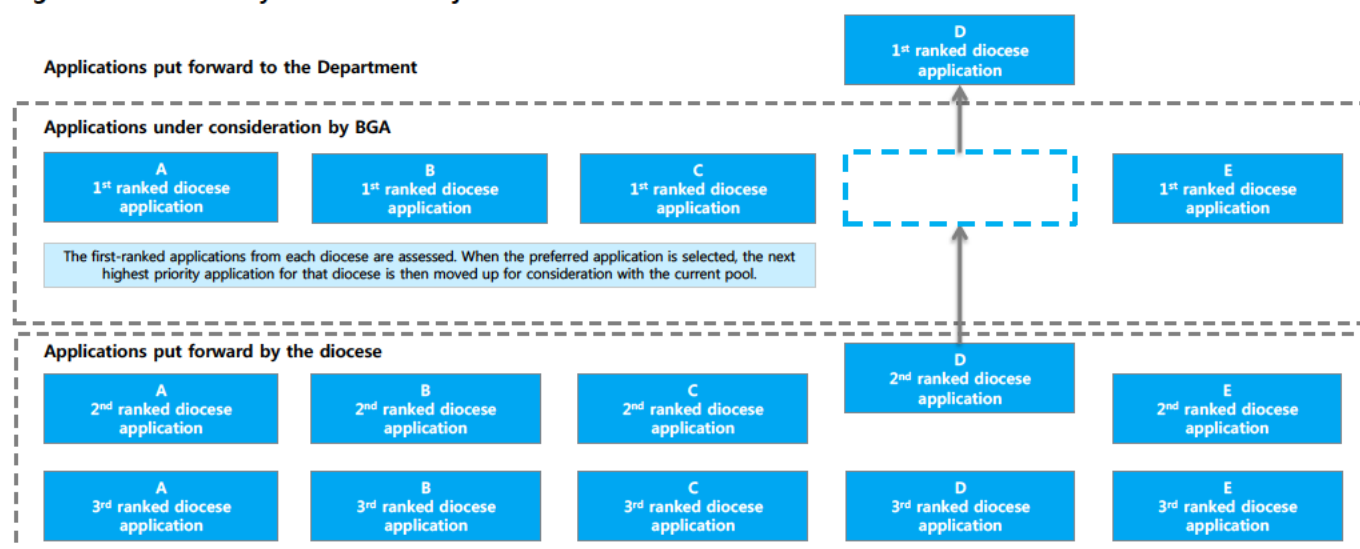
We note that the allocation of roles and responsibilities varies in each diocese. Certain tasks may be carried out by:

- the Delegated Authority;
- the diocese Facility Manager; or
- the Parish Office.

In reference to the process outlined above, provided below is a summary of how applications are selected by the State

Priority Committee. This process is undertaken for each SES category, beginning with category A schools and then moving to the next SES category once all category A projects have been ranked.

Figure 2: State Priority Committee Project Selection Process



The above figure illustrates the reliance the NSW Catholic BGA has on the diocese to undertake select and prioritise the capital grant applications of their respective member schools (particularly applications which fall within the same SES category).

3 Key findings

3.1 Governance arrangements

We identified limited policy materials regarding the appropriate method of mitigating conflict of interest risk and did not locate any conflict of interest registers. Each diocese representative on the State Priority Committee has an inherent self-interest as the members of the State Priority Committee, which belong to a diocese, each have an interest in funds being allocated to the schools which they represent.

We did not locate any conflict of interest registers at the level of the NSW Catholic BGA as a whole, the State Priority Committee, the Diocesan Priority Committee or the school level. In addition, we have been advised by the NSW Catholic BGA that conflict of interest policies did not apply to the Diocesan Priority Committee or the school level. We have been advised that the NSW Catholic BGA intends to amend policy documents to broaden the application of conflict of interest policies to the Diocesan Priority Committee and schools.

Each diocese representative has an inherent self-interest to argue for the interests of their systemic or membership schools. However, this self-interest is somewhat balanced by other members of the State Priority Committee with competing interests. As illustrated in the figure above, each diocese ordinarily has a first ranking school/project in each round of consideration; it is impractical for each diocese representative to withdraw from voting. Whilst this structure could cause stronger personalities or informal alliances among State Priority Committee members to be more successful in progressing their applications, we observed no evidence of this actually occurring on file.

We were advised by the NSW Catholic BGA that the State Priority Committee focuses on measures of educational disadvantage and views of committee members which are at odds with the rest of the Committee are questioned to understand the rationale.

We have been advised that the NSW Catholic BGA reviews tenders for related parties and have rejected tender recommendations where a related party submitting a higher tender cost was recommended by the school.

In order to strengthen governance, we recommend the Diocesan Priority Committee and State Priority Committee maintain a register of relationships with applicant schools or any other potential conflicts of interest and each member should be required to provide a declaration that they have no further conflicts of interest other than those recorded on the register. These requirements, along with guidelines as to what sort of relationships are considered to create a conflict of interest should be set out in a policy document by the NSW Catholic BGA.

Participant agreements contain the majority of required terms, however they do not fully incorporate the following provisions required by the Operating Manual:

- *Attachment 7 clauses b) and c); and*
- *Attachment 1 clause 2(a).*

Clauses b) and c) of Attachment 7 of the Operating Manual were not included in acceptance letters or membership agreements. We were advised by the NSW Catholic BGA that these documents were not amended to reflect changes to the Operating Manual. We note that membership agreements contain a clause agreeing to comply with reasonable requirements advised from time to time which provides scope for the BGA to vary requirements.

The membership agreement contains an authorisation for the Australian or New South Wales Governments to provide the NSW Catholic BGA with census data, financial information and any other relevant documents or information held. It does not include an agreement for the member school to provide financial, student enrolment or other relevant data as required under Attachment 1, clause 2(a) of the Operating Manual.

To address risk issues, we recommend that documentation be amended to ensure funding recipients are adequately bound to required terms under attachment 7 clauses b) and c) and attachment 1 clause 2(a) of the Operating Manual.

The NSW Catholic BGA has recently obtained an independent review, indicating that proactive steps are being taken to improve operations.

In February 2016, an independent review was undertaken by Ernst & Young to consider the NSW Catholic BGA's administration of the programme. Relevant to this review, Ernst & Young found that grant funding was not allocated based on an applicant's financial need and recommended that the NSW Catholic BGA include a transparent assessment of the applicant's financial position. As explored further below, we share this view and note that the NSW Catholic BGA appears to be taking some steps to address the findings contained in the Ernst & Young report to improve its operations. It is observed in the July 2015 State Priority Committee meeting draft minutes that the NSW Catholic BGA already had similar themed operational improvements scheduled for consideration.

Some of Ernst & Young's recommendations (which have been put forward for approval by more senior levels of the NSW Catholic BGA) are outlined in Table 2.

3.2 Methodology to determine eligibility and ranking of projects

The multi-stage selection and ranking process can mean that if a diocese does not appropriately rank applications, the most schools which best meet the CGP objectives may be prevented from obtaining funding and the NSW Catholic BGA (or the Department) could be criticised for the funding decisions made.

50% of funding is allocated to New places and 50% to Existing places using the methodology outlined in Figure 2 above. Funding for New places is available for new schools where appropriate.

The Diocesan Priority Committee ranking system (refer to Figure 2 above) may result in certain projects not being considered by the NSW Catholic BGA as they are "blocked" by another project in a diocese which receives a higher ranking. This could occur particularly in cases where a Diocesan Priority Committee has ranked multiple applications which fall into the same SES category.

In accordance with Guidelines to Assist Applicants and Diocesan Priority Committees in Preparing and Assessing Applications (2014), disadvantage is assessed using the following criteria:

- socioeconomic status;
- extent of shortfall against the NSW Catholic BGA area standards;
- contribution of the project to CGP objectives;
- condition and quantity of existing facilities;
- extent to which projects affect economies² through shared provision of educational or recreational services; and

² Economies refers to the reduced cost per student (or increased benefit) of making facilities available to students in multiple streams or schools

- extent to which the school is making adequate and regular provision for the upkeep of its facilities.

It appears that only some of the Diocesan Priority Committees choose to provide minutes from selection meetings to the NSW Catholic BGA. Furthermore, the level of detail in these minutes varies significantly.

The NSW Catholic BGA delegates some of its duties under the Requirements to 11 dioceses. There is limited documentation on file to determine whether the dioceses are carrying out their role in accordance with the Requirements and to a standard acceptable to the NSW Catholic BGA. We do note however that the dioceses share a close working relationship with the NSW Catholic BGA which may allow the NSW Catholic BGA to assure itself that the dioceses are operating effectively.

The Diocesan Priority Committee does not provide details of applications which it does not recommend to the State Priority Committee. Accordingly, the applications that are not recommended are not captured by the NSW Catholic BGA and there is a lack of transparency for the NSW Catholic BGA regarding the decisions made at a diocese level. This is not compliant with the Sections 87 to 90 of the Operating Manual which specifies details of all applications (including those not recommended) are to be provided to the Department.

Our consultation highlighted that there is potentially a risk that non-systemic schools could feel disadvantaged in the application process if they perceive that Catholic systemic schools are favoured due to their connection with the diocese that represents their interests. Whilst we found no evidence to support this risk having eventuated, it reinforces the need for a well documented and transparent decision making process at both the Diocesan Priority Committee and the State Priority Committee level.

As each Diocese does not always provide details of applications they do not recommend to the NSW Catholic BGA and not all Dioceses provide the rationale for their ranking of projects, limited transparency under the current structure may make it difficult for the NSW Catholic BGA to demonstrate that all applications submitted by schools are adequately and fairly considered.

In order to demonstrate compliance with the requirements of the CGP Operating Manual and to improve transparency, we recommend that each Diocesan Priority Committee provide documented rationale for its ranking of projects (including projects which are not recommended) and the State Priority Committee undertake a review of this rationale and ranking provided by the Diocesan Priority Committee to confirm that schools which the CGP aims to prioritise funding to do not miss out. We further recommend that the transparency of the selection decision making process be improved to mitigate the risk that non-systemic schools feel that systemic schools are favoured in the project selection process.

Further commentary regarding the issue of limited transparency around decision making is discussed below.

Policy and procedures documents do not provide transparency over the current processes of the NSW Catholic BGA.

Overall, where the NSW Catholic BGA obtains documentation from schools or documents processes, the documentation was in good order, however there were a number of activities and processes which we were informed took place but could not be evidenced through documentation on the file. For example:

- the State Priority Committee reviewing all applications submitted by the Diocesan Priority Committees to confirm they were ranked appropriately; and
- monthly meetings on project sites with a representative from the Diocese.

There is clear benefit in the NSW Catholic BGA improving transparency of their current processes in respect of the CGP. By making information publicly available, this may add clarity to the understanding of the CGP for schools, the NSW Catholic BGA and other stakeholders. It also provides an opportunity for the schools to better understand their responsibilities and obligations during the application and project stages of the CGP.

Sections 51 and 52 of the Operating Manual require information to be made publicly available, including the following:

- the amount of financial assistance provided in the year to the BGA and how that funding is applied. This information was not publicly disclosed by the NSW Catholic BGA;
- the application process including:
 - procedures for assessment of funding applications; and
 - how decisions are made in relation to the application process.

We do not consider that the application process information documents the procedures at a sufficient level of detail.

In order to comply with the requirements of the CGP Operating Manual, we recommend the NSW Catholic BGA improve transparency of its administration of the CGP by thoroughly documenting its processes and procedures and making this information publicly available.

Schools are provided support to complete applications, assisting schools to clearly articulate their needs and provide comprehensive, complete applications.

Schools are provided support in preparing applications. This assists schools who may not have the in-house expertise to plan projects and prepare applications. In addition, the role of managing grant funds is undertaken by the Facility Manager for the relevant diocese.

Support is available to all member schools that request it and can be provided by the Diocesan Education Office or the NSW Catholic BGA, dependent on resources available at the Diocese level. Support is provided in:

- interpretation of the guidelines; and
- development of designs.

School visits are undertaken to ensure current facilities are being maintained, review suitability and need for the proposed project and discuss potential costs saving options.

All schools are visited by members of the State Priority Committee on behalf of the NSW Catholic BGA prior to projects being recommended to the Department for funding (except for disability/out of round applications).

The case files include documentation that confirms that the value and design of the project is actively considered and debated. The documentation on file supports the view that the NSW Catholic BGA is very consultative in the early stages of a project and often recommends changes based on its experience, which are then adopted by schools in the final plans.

Application and funding amounts are then adjusted as required based on the results of the consultation process and site visits.

There is limited documentation on file to confirm that an active assessment of a school's financial capacity had been undertaken. Furthermore, structural complexities create challenges for the NSW Catholic BGA to determine the amount of funding a school can raise without the CGP's assistance and ensure the most schools which the CGP aims to prioritise funding to benefit from the programme.

The NSW Catholic BGA requires that schools (or the diocese on behalf of the schools) contribute a minimum of 30% of the total cost of the capital project.

A policy decision to have a minimum contribution could potentially cause financially disadvantaged schools who are also educationally disadvantaged to be deterred from making an application for the CGP. Furthermore, this requirement may lead to a school being unsuccessful in their application process due to its limited financial resources and inability to meet the minimum 30% threshold. In all case files reviewed, the schools (or the diocese on behalf of the schools) ultimately contributed well in excess of 30% of the total project costs (with the exception of special needs schools where some concessions were made).

In our review, we did not identify any documentation in the case files to confirm whether a school or the broader organisations which the schools falls into had the capacity to meet the minimum contribution requirement or whether in fact the school had the capacity to contribute more than 30% (and thereby avoid the need for government funding). The NSW Catholic BGA policy documents specify that the Diocesan Priority Committee should actively consider a school's financial position and capacity to fund capital works. The NSW Catholic BGA appears therefore to have minimal documentation to support that it actively considers financial need and capacity to pay.

The systemic nature of the NSW Catholic BGA creates additional complexities when assessing financial need because a school's capacity to pay for capital works is not limited to its own financial position but rather the financial resources of the diocese to which it belongs and the broader Catholic School network. For example, member schools can generally fund capital projects from a range of sources including school funds, the diocese school's office, the parish and the diocese church. These structural complexities create challenges for the NSW Catholic BGA in:

- measuring available funds from other sources whilst keeping in mind that these other sources also have other financial obligations for other parts of their operations which benefit the community; and
- ensuring the schools which the CGP aims to prioritise funding to benefit from capital funding.

More recent files reviewed contained a "Proprietor's statement endorsing local contribution" in which the relevant authority for the school provides an undertaking that they will provide the required contribution amount.

In order to demonstrate compliance with the Operating Manual and to manage the risk of financial viability of schools, the NSW Catholic BGA should consider implementing a financial assessment framework to determine a school's capacity to pay for capital works (or parish/diocese capacity if contributions are expected to be met by another organisation) or documenting notes considering contribution availability. The financial assessment framework could include a review of financial statements, student enrolment projections and projected fee collections, liquid assets available to meet costs, current debt levels and capacity to borrow.

A prescriptive and rigid process based on standardised costing is used to estimate project costs and to determine the funding paid.

A prescriptive and rigid assessment process is used to estimate project costs:

- projects are required to adhere to size standards and standard costs (special needs schools are generally treated differently);
- funding allocation to New Places (50%) and Existing Places (50%) is predetermined; and
- funding for a single project is generally limited to \$3.5 million.

Standard construction rates per square metre of construction are adopted to estimate project costs (with further percentage allowances for other related costs) and standardised area amounts are allocated per student. Refurbishment rates are calculated as a percentage of the standard rates for construction.

The standard construction rates do not appear to be sufficient and as a result all projects we reviewed had a significant overspend. The NSW Catholic BGA estimates that the average cost overrun is approximately 1.8 times the original cost assessment and these costs are funded locally (i.e. not by the Department). We did not identify any risk management processes in place to deal with these project cost overruns, however note that final acceptance of offers do not take place until after tenders are received, which may provide schools with a more realistic cost estimate.

Standard construction rates per square have the advantage of providing the NSW Catholic BGA with a reasonable basis to calculate costs but they fail to take into account the specific construction and funding needs of certain projects. For example, building costs can vary significantly across regions due to transport costs and the number of available builders in the local area.

In addition to the above, the limit on project size encourages schools to break applications into "stages" which may create inefficiencies as schools may be able to negotiate lower costs with larger projects and may not have funding to complete later stages if they are not approved in subsequent rounds.

The current cost estimation process does not appear to be accurate, leading to a risk of projects proceeding without accurate cost estimates. In order to manage this risk, a more accurate method of estimating construction costs should be considered by the NSW Catholic BGA to give clarity to the costs of projects and funding requirements for schools. In providing this recommendation we note however that the NSW Catholic BGA does not ordinarily seek additional funding from the Department for project overruns (i.e. any overruns are met by the school or other funding means).

3.3 Financial systems and practices for acquitting project funds

The school is required to maintain a separate building account. This improves transparency on funds handling at the school level and lowers the risk of funds mistakenly being used for other purposes.

Each school is required to maintain a separate bank account for capital works. This prevents comingling of funds, reduces the risk funds will accidentally be misallocated and simplifies the audit required at project completion.

The NSW Catholic BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple staff required prior to payments being made.

Strong controls were identified, with a multiple step approval process within the NSW Catholic BGA reducing the risk of fund misappropriation. Controls in place include:

- segregation of duties between the programme coordinator and finance personnel; and
- approval required from the director.

3.4 Project monitoring

Comprehensive documentation detailing how contractors are selected was identified on each file.

Each project is required to obtain 6 tenders and a summary of the tenders received and methods of advertising for tenders is provided to the NSW Catholic BGA.

If the lowest cost tender is not selected an explanation must be provided by the school to the NSW Catholic BGA with the reason for selecting the preferred tender.

Whilst copies of all tenders are not on file, sufficient detail is set out to enable the NSW Catholic BGA to contact the tenderer (if required).

A significant number of tenderers appear to withdraw from the tender processes. However, it is unclear as to why this may be the case.

Ongoing project monitoring is high level and heavily reliant on representations made by the funded school. The limited ongoing project monitoring by the NSW Catholic BGA exposes them to risks that project updates are not accurate or that project issues are not identified until after the grant funds have been advanced.

Monthly progress updates are required from Facility Managers to assist the NSW Catholic BGA with monitoring projects. The Facility Manager is responsible for project management and enters monthly reporting information. Grant payments are based on the information contained in these monthly statements.

The NSW Catholic BGA limits its ability to identify issues by relying heavily on representations from the Facility Managers. There is a risk that issues which may have been detected at an earlier stage in a project are not identified until closer to completion, after further grant funds have been advanced as:

- no supporting documents are provided in monthly reports;
- copies of material invoices are not required until after project completion, around the time a final visit is completed; and
- no further school visits are undertaken until after project completion.

We note that the NSW Catholic BGA plans to introduce site visits around project completion before releasing the retention to confirm the completed project aligns with approved plans as discussed in Section 3.5 of this report and have advised they will collect more information as part of monthly reporting including progress claims from contractors.

We note that the NSW Catholic BGA reviews trends in project expenditure and often asks for supporting documentation when there are changes to expected spending.

We recommend documented interim checks of physical project status prior to each progress payment of grant funding be included as part of project monitoring. In order to mitigate costs, methods other than physical attendance at the site may be more appropriate such as video conferencing or photographs to demonstrate project progress.

If the NSW Catholic BGA adopted a risk management based approach they may vary the level of monitoring on each file based on the assessed risk level of each project. We did not identify documentation indicating the level of monitoring being tailored for the level of assessed risk on each project. Whilst we have not provided a recommendation the NSW Catholic BGA may wish to consider their approach and whether resources are being managed in the most efficient way possible.

3.5 Records management

Electronic and physical documents reviewed were in good order and readily accessible.

We found that the NSW Catholic BGA maintains strong documentation and information management systems, with documentation the NSW Catholic BGA requires on each file in good order. The bulk of the records on file relate to the application assessment, project commencement and completion phases of the project.

Documentation on files demonstrated the NSW Catholic BGA proactively raising issues and consulting with the Department on complex or unusual matters and extensively clarifying aspects of applications with the diocese.

In the files sampled for testing, we reviewed detailed emails and file notes supporting the active management of issues by the NSW Catholic BGA. These indicated that the NSW Catholic BGA liaises closely with the schools selected for funding

and the Department in respect of issues identified and the proposed strategies to resolve these issues. When specific issues are identified on a project by the NSW Catholic BGA, the documentation reviewed supports that the Department is notified of the situation.

Many files had email correspondence where aspects of an application were confirmed to enhance the NSW Catholic BGA's understanding of the proposed project.

Retention of 10% of grant funds until project completion documents are received provides a strong incentive for schools to complete documentation quickly.

10% of grant funds are retained until the Certificate by Qualified Accountant, Architect's/Supervisors certificate of completion, certificate of practical completion and notification of opening ceremony are received.

This incentivises for schools to submit project completion documents in a timely manner. We identified strong project completion documents on each file tested.

The NSW Catholic BGA have advised that in light of recent findings for another BGA where the completed project did not align with the initial plans submitted, they are proposing to amend the completion information required prior to releasing the final 10% payment to include:

- a site visit; and
- "works-as-executed" drawings will also need to be submitted with other completion documentation.

4 Conclusion

The NSW Catholic BGA operates within the framework of the broader structure of the Catholic Education Commission and the Catholic Church. Generally speaking, the broader structure of the Catholic Education Commission and the Catholic Church is advantageous for the NSW Catholic BGA as it allows additional support to be provided to schools but it does create challenges for the NSW Catholic BGA in achieving compliance with the Requirements.

The NSW Catholic BGA delegates part of its role to the 11 dioceses in NSW. It is therefore important that the dioceses document the activities and key decisions made and provide these documents to the NSW Catholic BGA to allow the NSW Catholic BGA to ensure the dioceses are fulfilling their role in accordance with the Requirements.

Generally speaking the NSW Catholic BGA has a good level of oversight during the application and in the final or completion stages of the grant process. It was observed, however, that the quality of oversight during the monitoring stage was heavily reliant on information provided by schools and the diocese rather than source documentation or physical inspections of the project by the NSW Catholic BGA. In our view, increased oversight during the monitoring stage would reduce the risk of projects not progressing as planned or grant funds not being used as intended.

The NSW Catholic BGA has a prescriptive and rigid process to estimate project costs and therefore to determine the funding paid. The NSW Catholic BGA has significant experience in monitoring capital projects so is well placed to develop 'rules of thumb' for construction costs. However, the introduction of a more accurate method of estimating project costs should be considered. In the context of the above, we have made the following four recommendations for the NSW Catholic BGA and the Department to consider:

- transparency improvements by keeping more detailed documentation in respect of:
 - conflicts of interest and how they are managed;
 - the NSW Catholic BGA's processes and procedures and the processes and procedures of the dioceses and the schools;
 - decision making in the selection and ranking process;
 - ongoing project monitoring at the diocese level; and
- participant agreements be amended to fully incorporate the below requirements of the Operating Manual;
 - attachment 7 clauses (b) and (c); and
 - attachment 1 clause 2(a);
- implementation of a financial assessment framework to assess applicants or including notes on the consideration given to a school's potential other sources of funds as part of the assessment process; and

- implementation of a more flexible approach to estimate construction costs and determine funding amounts.

For clarity, we note that the NSW Catholic BGA has recently received recommendations from an independent review and has commenced implementing changes in line with the Ernst & Young review and the findings in this report. A number of the recommendations identified above align with the findings of the NSW Catholic BGA's independent review.

Block Grant Authority

Association of Independent Schools of NSW Block Grant Authority

10 October 2016



McGrathNicol

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Glossary

Glossary	
Name	Description
ABA	Australian Bankers Association
BGA	Block Grant Authority
BOSTES	Board of Studies Teaching and Educational Standards NSW
CFO	Chief Financial Officer
COO	Chief Operating Officer
CGP	Capital Grants Programme for Non-government Schools
CRM	AISNSW Grants Administration software platform (built on Microsoft Dynamics CRM)
Department	Department of Education and Training
EOI	Expression of interest
Membership Agreement	Agreement between the NSW Independent BGA and school when the school applies to become part of the BGA
NSW Independent BGA	The Association of Independent Schools of NSW Block Grant Authority
Objectives	The objectives of the CGP
Operating Manual	CGP Operating Manual 2016
Participant Agreement	Agreement between the school and the NSW Independent BGA entered into prior to the advancement of any grant funds
Requirements	Requirements under the CGP Operating Manual 2016, <i>Australian Education Act 2013</i> and <i>Australian Education Regulation 2013</i>

Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of NSW Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of NSW Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

1 Executive summary and recommendations

1.1 Introduction

The Capital Grants Programme (CGP) for Non-government Schools is an Australian Government programme, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.¹

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.¹

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.¹

1.2 Scope

We have undertaken an operational review of the administration of the CGP by the NSW Independent BGA. The review examines the efficiency and effectiveness of the NSW Independent BGA in administering the CGP and evaluates the NSW Independent BGA's compliance with key areas of the Requirements.

The review will be conducted in the context of the Requirements which govern the administration of the programme.

In reviewing the NSW Independent BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

1.3 Information relied and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the *Australian Education Act 2013*;
- the *Australian Education Regulation 2013*;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information contained in the NSW Independent BGA's grants management system (built for purpose based on Microsoft CRM);
- information available on the website of the NSW Independent BGA;
- meetings and discussions with representatives of the NSW Independent BGA, in particular:
 - s 47F
 - s 47F
 - s 47F

¹ Work order form page 7.

- information obtained during our site visits to the offices of the NSW Independent BGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of the NSW Independent BGA.

Provided below is a listing of the sample case files selected for the review testing:

Table 1: Listing of sample case files

Listing of sample case files		
Project ID	School	Funding (\$)
2014/14041/1	Central Coast Rudolf Steiner School	175,000
2013/15716/1	Emmanuel Anglican College	450,000
2012/17658/1	Green Valley Islamic College	500,000
2014/18087/1	Shellharbour Anglican College	800,000
2013/14239/1	St Mark's Coptic Orthodox College	500,000
2014/04078/1	St Paul's Grammar School, Penrith	30,200
2013/02007/1	Tweed Valley Adventist College	350,000
2016/04263/1	Carinya Christian School	52,334
2016/16095/1	Christadelphian Heritage College Sydney Inc	750,000
2016/03010/1	Elouera Special School	15,000
2016/04272/1	Macarthur Anglican School	30,000
2016/16519/1	Montgrove College	900,000
2016/77694/1	Richard Johnson Anglican School, Marsden Park Campus	950,000
2016/02035/1	Tyndale Christian School	750,000

1.4 Findings

1.4.1 Governance arrangements

The NSW Independent BGA has well documented processes and procedures which provide transparency over its activities in respect of the CGP, with the exception of conflict of interest management.

A multi-layered approval structure reduces the threat of conflicts or errors impacting the selection process, however the NSW Independent BGA does not appear to have documented specific conflicts of interest as they arise.

Participant agreements were comprehensive and provisions specified in the Operating Manual were included in either the Participant Agreement or Membership Agreement.

1.4.2 Methodology to determine eligibility and ranking of projects

Mandatory information sessions reduce the risk of schools not providing a sufficiently detailed application or not meeting their ongoing obligations following project approval.

The NSW Independent BGA uses a detailed application process which is designed to prevent funds being advanced to schools that are financially unviable or for projects that are not well designed or planned. However, as highlighted below, the financial tests applied during the application process may mean that some schools may not be able to meet the requirements of the financial viability assessment or may not be able to afford the costs of preparing applications.

1.4.3 Financial systems and practices for acquitting project funds

The NSW Independent BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple staff required prior to payments being made.

1.4.4 Project monitoring

The NSW Independent BGA requires schools to expend their entire contribution to a project prior to receiving funding from the NSW Independent BGA for the project. The requirement for the school to expend its contribution first assists in reducing the risk of projects not being completed due to schools being financially unviable or schools not having sufficient funds to meet their contribution.

Ongoing project monitoring is high level and the NSW Independent BGA limits its ability to identify issues by relying heavily on representations from the funded schools. There is a risk that issues which may have been detected at an earlier stage in the project will not be identified until closer to completion, after the majority of grant funds have been advanced.

1.4.5 Records management

Electronic and physical documents reviewed were in good order and readily accessible, with activities of the NSW Independent BGA well documented. Furthermore, retention of 10% of grant funds until completion documents are received provides a strong incentive for schools to complete documentation quickly.

1.5 Recommendations

In light of the above findings, we have identified the following recommendations for consideration by the NSW Independent BGA and the Department:

- the NSW Independent BGA require all individuals involved in the assessment process to provide a declaration of conflict of interests and document how these conflicts are managed;
- consider directing greater support to schools with limited expertise or financial resources including proposed new schools so they can be adequately considered during the application process; and
- interim checks of physical project status prior to each progress payment of grant funding be included as part of project monitoring. The level of monitoring implemented should be reflective of the risk level of the project. In order to mitigate costs, methods other than physical attendance at the site may be more appropriate such as video conferencing or photographs to demonstrate project progress.

2 Background

2.1 Overview of Capital Grants Programme and the role of the NSW Independent BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The NSW Association of Independent Schools is the peak body representing the independent schooling sector in NSW. It represents the interest of all independent schools and provides a wide range of services to over 480 member schools. The NSW Independent BGA administers and manages the CGP to more than 390 schools/campuses.

The NSW Independent BGA is a non-profit body whose members are not-for-profit independent schools located in NSW. Membership includes schools of many different:

- sizes;
- structures;
- financial positions;
- cultural backgrounds;
- religious affiliations; and
- educational philosophies.

We note contrasting schools which make up the NSW Independent BGA's portfolio.

The NSW Independent BGA utilises a number of documents and reference materials to administer the CGP. Provided below is summary of the key internal and external documents that shape the delivery of the NSW Independent BGA's CGP:

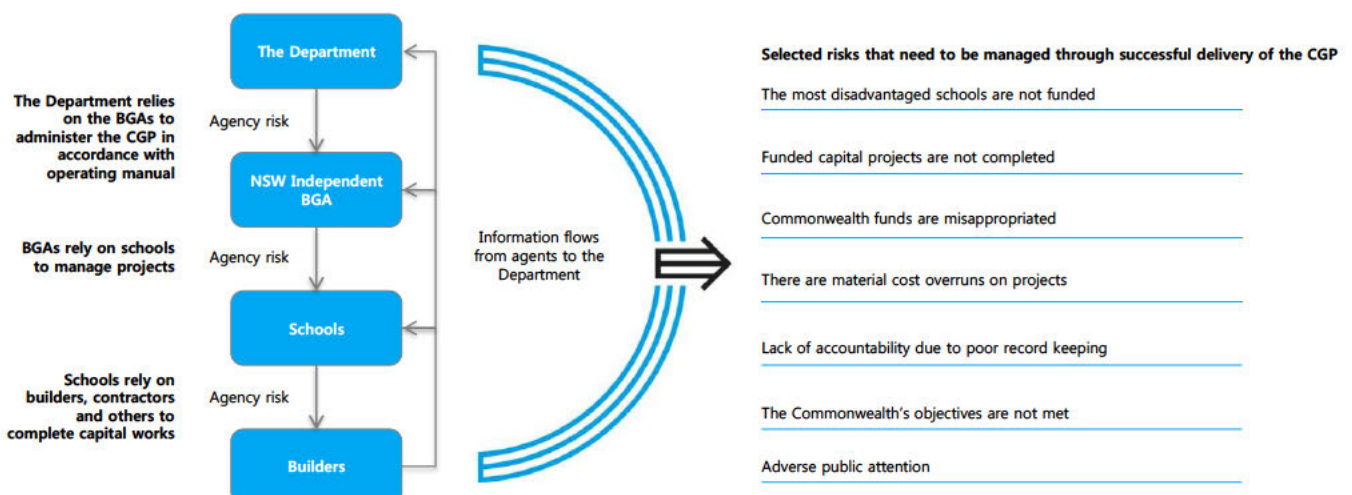
Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> ▪ <i>Australian Education Act 2013</i> ▪ <i>Australian Education Regulation 2013</i>
Regulatory guidance material	<ul style="list-style-type: none"> ▪ CGP Operating Manual 2016
NSW Independent BGA policy documents	<ul style="list-style-type: none"> ▪ The Processes and Procedures of the Capital Grants Program
NSW Independent BGA policy documents for schools	<ul style="list-style-type: none"> ▪ Membership agreement ▪ Participant agreement ▪ Guide to procurement processes ▪ Requirements and guidelines for submission of Financial Statements
NSW Independent BGA guidance materials	<ul style="list-style-type: none"> ▪ Copies of presentations from each mandatory seminar ▪ 'How to develop a school master plan' ▪ 'Sample master plans' ▪ 'Sample maintenance plan' ▪ 'Example strategic cash flow' ▪ 'Sample general purpose financial statement' ▪ 'How to apply for finance' ▪ 'How projects go wrong' ▪ 'Five common grant application mistakes'

In our dealings with representatives of the NSW Independent BGA, we found them to be well aware of the particular requirements of the NSW Independent BGA and the schools and can articulate their obligations clearly. Furthermore, the NSW Independent BGA internal policy documents, policy documents for schools and their guidance material are aligned and broadly consistent with the legislation, regulation and Capital Grants Programme Operating Manual.

2.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the programme. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the programme's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP

2.3 Key steps in administering the Capital Grants Programme (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the NSW Independent BGA. We have sought to summarise the key steps taken in the table below:

Table 3: Overview of Capital Grants Programme Administration

Overview of Capital Grants Programme Administration		
Step	Stage	Milestone
Step 1	Application process	All NSW Independent BGA member schools are invited to submit an EOI to ascertain whether the school's expectations in regard to the CGP are realistic
Step 2		Schools who have submitted an EOI attend a mandatory briefing session to ensure understanding of their obligations and the process (schools that were successful in the previous year's funding round must also attend a mandatory meeting which focuses on their obligations around tendering and acquittal)
Step 3		Only those schools which attended the mandatory briefing are provided with access to the online application. This is to ensure that all applicants are aware of the obligations and requirements for this year's round
Step 4		Eligible applications are assessed by the Assessment Team from a non-financial perspective to determine the school's level of educational need and a financial assessment is used to determine the school's financial need for the project
Step 5		Recommendations are then provided to the Appraisal Panel. This panel is comprised of experienced schooling practitioners (bursars and principals for example)
Step 6		Recommendations for all applications are then reviewed and amended as required by the Appraisal Panel and passed to the Quality Assurance Committee before final submission to the NSW Independent BGA Board
Step 7		Final recommendations and projects rejected are provided to the Department through SEP
Step 8		Schools are confidentially notified of their "in-principle" recommendation by the NSW Independent BGA
Step 9		The Department provides approval notification directly to the school and to the NSW Independent BGA
Step 10	Monitoring stage	Successful applicants enter into a Participant (Capital) Funding Agreement with the NSW Independent BGA and monthly reporting commences at this time
Step 11		Schools submit a summary of tenders and working drawings
Step 12		The NSW Independent BGA provides approval for the preferred tender
Step 13		School enters into contract with contractor and provides a copy of the contract and Confirmation of Commitment Form
Step 14		The school now reports monthly expenditure on the project and once the school contributions are fully expended, the NSW Independent BGA releases progress payments of government funding up to 90% of the grant funding. The NSW Independent BGA process employs multiple levels of authorisation prior to releasing payments: <ul style="list-style-type: none"> Grant management team prepares a batch payment and requests submission through the workflow processes of CRM through to the finance team The payment system on CRM prepares an ABA file for the accounts team and a funding summary report for the grant management team Both the grant management team and finance team compare the lists and sign off If the total batch payment is over \$1 million approval is required by the CFO and COO If the payment is under \$1 million the finance team can arrange for the payment to be released by the CFO
Step 15	Finalisation and completion	The Monthly Expenditure Statement will inform the BGA of the impending completion of the project and will trigger creation and distribution to the school of the acquittal documentation including: <ul style="list-style-type: none"> Architect/Builder's Statement of Completion Principal's Statement of Completion Certificate by Independent Qualified Accountant
Step 16		Once the acquittal documents are completed and returned to the BGA with copies of plans marked by the architect "as constructed", an Occupation Certificate if appropriate and confirmation that recognition requirements are being complied with, the final payment is made

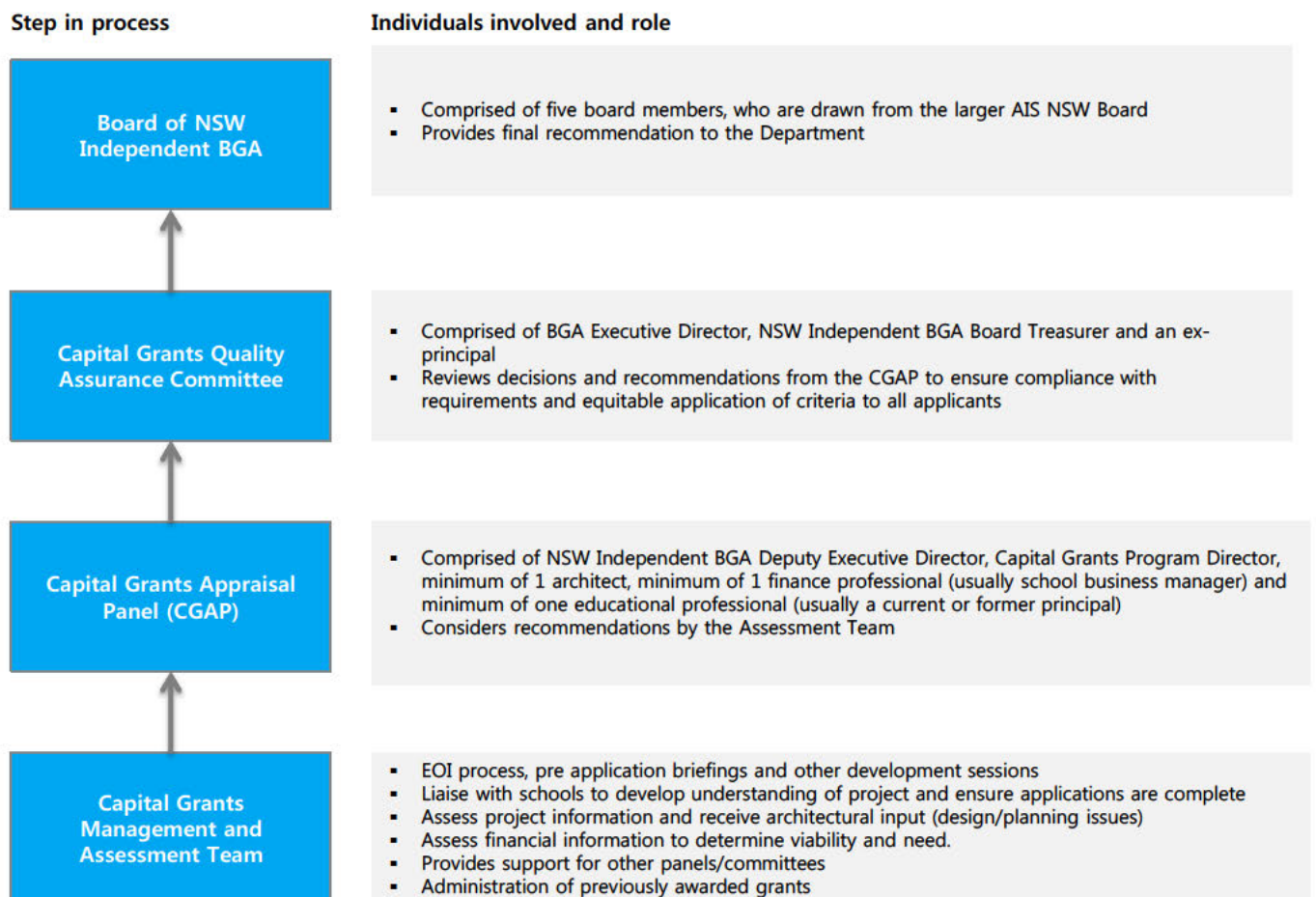
Overview of Capital Grants Programme Administration

Step 17	Finalisation and completion (continued)	A site visit is undertaken near or after completion to verify that a project aligns with the approved project scope and invoices are collected/reviewed for material costs
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We have been advised that the NSW Independent BGA has recently separated the Architects/Principals Statement into two separate documents (resulting in a minor change to step 15).

In reference to the process outlined above, provided below is a summary of how applications are approved by the NSW Independent BGA through its multi-layered approval structure:

Figure 2: Structure of application approval



If any of the individuals above identify a conflict of interest they are expected to disclose the relationship. This would be noted in the records of the meeting and they would take no part in the discussion of the relevant application.

Principals on the CGAP are selected from schools that do not have applications submitted in the current round.

The NSW Independent BGA does not aim to reflect the diversity of member schools as they consider it would require a significantly larger number of individuals to reflect the religions, philosophies and systems of member schools (at additional cost). As such, the above panels are formed based on expertise.

3 Key findings

3.1 Governance arrangements

The NSW Independent BGA has well documented processes and procedures which provide a transparent overview of the activities of the BGA.

Detailed policy and process documents (which are publicly available) provide transparency on how the capital grants program is administered and decisions are made.

A multi-layered approval structure reduces the threat of conflicts or errors impacting the selection process.

The NSW Independent BGA maintains a multiple layered governance structure incorporating expertise of former school principals, architects, finance professionals (e.g. school business managers) and NSW Independent BGA staff.

Multiple reviews of the assessment of applications in the multi-layered structure limits the threat of any error, individual bias or conflict of interest impacting the assessment process.

The NSW Independent BGA does not appear to have documented conflict of interest risk management

We did not identify any conflict of interest registers or other documentation specifying how specific conflicts of interests have been managed within the NSW Independent BGA. We have been verbally advised that some consultants (for example architects, school principals and school business managers) involved in the selection and ranking process may have some perceived level of conflict, however they generally abstain from making recommendations in relation to projects with perceived conflicts. We have been verbally advised that there are no known conflicts within the NSW Independent BGA staff.

In order to strengthen governance, we recommend that the NSW Independent BGA require all individuals involved in the selection and ranking process to provide a declaration of conflict of interests and document how these conflicts are managed.

Participant agreements were comprehensive and provisions specified in the Operating Manual were contained in either the Participant Agreement or Membership Agreement.

Each school is required to sign a Participant Agreement prior to receiving funding. The purpose of the Participant Agreement is to bind the school to the Requirements, agree certain timeframes for project milestones and provide for the recoverability of grant funds in certain circumstances. The Operating Manual provides detailed guidance on specific information required to be contained in each agreement.

The participant agreements reviewed were comprehensive and contained an all-encompassing undertaking for the school to agree to comply with the Requirements.

3.2 Methodology to determine eligibility and ranking of projects

Mandatory information sessions reduce the risk of schools not providing a sufficiently detailed application or not meeting their ongoing obligations following project approval.

Mandatory information sessions are held to communicate to potential applicants their obligations under the programme and provide guidance on the process generally. All member schools are notified through newsletters and by emails to Principals and Business Managers of these information sessions (noting that new schools are able to apply but generally not selected by the NSW Independent BGA for funding). Schools are able to connect remotely to these information sessions, ensuring remote schools (or schools that cannot afford to cover travel costs) are not disadvantaged.

The NSW Independent BGA facilitates two mandatory information sessions annually:

- (i) an information session for potential applicants who have submitted an expression of interest. Attendees may then proceed to lodge a detailed application; and
- (ii) an information session (immediately following the above session) for schools that were successful in the previous application round to reiterate obligations of the school including tendering, construction delivery methods and payment protocols

The NSW Independent BGA uses a detailed application process which is designed to prevent funds being advanced to schools that are not financially viable or for projects that are not well designed. Schools with less resources and in-house capabilities may not be able to meet the requirements of the detailed financial viability testing and potentially the costs and the rigorous and comprehensive nature of the application may be prohibitive. This may prevent applications from being received by some schools and this could cause the application process to not align with the objectives of the programme.

Detailed financial analysis is undertaken by the NSW Independent BGA to determine financial viability of the applicant school generally and of the particular project. This includes the NSW Independent BGA reviewing:

- audited financial statements;
- collections and ageing of fees;
- enrolment history and projections;
- fee projections; and
- the school's ability to borrow based on credit industry benchmarks.

Applications also require planning information including:

- facilities master plans;
- initial architectural plans;
- evidence of detailed costing data; and
- evidence of discussions with local councils.

The eligibility assessment process appears to have become more comprehensive and well documented in recent years, as the NSW Independent BGA has taken active steps to improve processes and procedures.

From our review, the current assessment and ranking process is thoroughly documented, with a report prepared specifying whether each application is recommended (or not recommended) along with the rationale to support and document each decision.

The eligibility assessment process is rigorous and the financial and non-financial hurdles set by the NSW Independent BGA (to meet the Commonwealth's criteria in the Operating Manual) may be prohibitive to some schools being successful in the application process or preparing an application. Some schools may not be able to meet the upfront costs to complete an application. We have observed a tension between the objectives of the CGP to fund the most educationally disadvantaged schools (many of which are likely to have limited financial resources), the requirements to fund only schools which are properly governed and financially viable, and NSW Independent BGA's objective to fund capital projects they are comfortable will be delivered on time, within budget and within the financial capacity of the school.

The advantages and disadvantages of the NSW Independent BGA's rigorous assessment process are presented in the table below:

Table 4: Advantages and disadvantages of the NSW Independent BGA's current assessment process

Advantages and disadvantages of the NSW Independent BGA's current assessment process

Advantages of current assessment process	Disadvantages of current assessment process
<ul style="list-style-type: none"> ▪ Applications are assessed from multiple perspectives (for example, level of educational disadvantage, soundness of proposed design and functionality of the project) and the recommendations are reviewed by the Board. The review process and reasons for decisions are well documented. 	<ul style="list-style-type: none"> ▪ Schools with limited in-house time, capabilities and resources or cash may not be able to meet upfront time or financial costs of preparing documentation for an application which may not ultimately receive funding approval. This may include the cost of engaging external consultants if they do not have in-house expertise to prepare the application. We note however that the costs are likely to be minor in the context of a capital project.

Advantages and disadvantages of the NSW Independent BGA's current assessment process

- Cost assessments appeared to be realistic, with relatively small cost overruns on the test files reviewed.
- Risk of funding schools which are not financially viable is minimised under the current process.
- A less detailed application process was implemented for certain smaller value special needs grants (for example access for students with a disability). This shows some flexibility to meet the needs of what may be seen as disadvantaged special needs schools and mainstream schools with special needs students.
- Whilst financial viability testing prevents funds being advanced to schools with going concern issues, schools with short term cash flow problems may not meet the requirements set by the NSW Independent BGA in respect of the financial viability testing.
- The NSW Independent BGA assumes that all schools are able to borrow up to certain amounts (based on benchmarking), whilst this ensures schools are treated equally, some schools have internal policies which prevent them from taking on debt.
- New schools are generally not funded (as they have limited historical financial data and less certain future cash flow than established schools).

We did not identify any specific evidence of schools electing not to submit an application for funding due to the detailed and comprehensive information requirements during the consultation to support this assertion but there could be a risk that some schools may avoid the application notwithstanding their educational need.

We have been advised that the NSW Independent BGA may consider funding new schools in some circumstances. These tend to be new campuses of existing schools or schools which are part of a larger organisation which has shown effective management of schools in the past.

In order to ensure all schools have the ability to apply for funding, the NSW Independent BGA could consider a more portfolio based approach, tailoring their approach to higher risk schools including:

- lowering financial position requirements in some circumstances to enable funding to be provided where the NSW Independent BGA is comfortable regarding the long term future of the school (for example, if a school shows promising growth prospects, but does not have sufficient cash flow or borrowing capacity to meet a contribution amount up-front, the NSW Independent BGA could consider the merits of altering the funding timing to fund prior to the contribution being spent or reduce the contribution amount);
- where schools do not have sufficient in-house expertise to complete quality applications or manage projects, using funding to provide additional support or guidance; and
- in situations where these requirements are lowered, taking a more active monitoring role in project management to mitigate the risk of projects not being completed.

It can be challenging to determine whether a school is not financially viable or in a weak financial position, but will continue to operate long term without risk of closure. A balance must be reached between allocating funding to the schools most in need of capital works and ensuring funds are allocated responsibly and where the benefit will be maximised over the longer term. The NSW Independent BGA considers a broad range of factors in undertaking the assessment of financial position to reduce risks that funds will be advanced for projects that may not complete or to schools that may not continue to operate long term.

There is a trade-off between funding financially viable projects and funding projects for schools in a weaker financial position. Overall, we consider that it is appropriate to continue comprehensive financial viability testing to mitigate the risk of funds being advanced to a school which is not able to complete the project or does not continue to operate in the long term but the NSW Independent BGA should actively consider the objectives of the CGP and consider directing greater support to schools with limited expertise or financial resources so they can prepare applications and be adequately considered during the application process.

3.3 Financial systems and practices for acquitting project funds

The NSW Independent BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple staff required prior to payments being made.

Strong controls were identified, with a multiple step approval process within the NSW Independent BGA, reducing the risk of fund misappropriation. Controls in place include:

- segregation of duties between the grants management team and finance team;
- signatures required by both the grants management team and finance team to confirm their agreement of the amounts to be paid; and
- approval required by both the CFO (Director of Capital Grants Programs) and COO for payment batches over \$1 million.

The NSW Independent BGA reduces financial viability risk by requiring schools to expend their internal contribution in full prior to receiving grant funding.

Schools are required to expend their contribution to the project in full before receiving further funding from the NSW Independent BGA.

Generally, grant funding provided by the NSW Independent BGA to a school is split into three progressive payments. Two 45% progress payments are made after the school has expended its contribution; and a final 10% payment to the school is made after the project has been acquitted.

Payments are made in stages to reduce the risk of funds being misappropriated or projects not being completed.

The requirement for the school to expend its contribution first also assists in reducing the risk of projects not being completed due to schools being financially unviable or schools not having sufficient funds to meet their contribution.

3.4 Project monitoring

The NSW Independent BGA requires a strong tender process, with tenders obtained from six parties except in special circumstances. In addition, potential conflicts of interest at the school level are managed through the BOSTES Related Party Transactions Register.

The NSW Independent BGA requires a detailed summary of six tenders obtained to be provided by the school as well as documentation to support the reasons for selection of preferred tenderers. The NSW Independent BGA has strict policies in respect of work not being given to related parties, except in exceptional circumstances where this is the most practical approach (for example very remote schools or where related parties are agreeing to waive significant costs).

BOSTES requires non-government schools to maintain a Related Party Transaction Register and Section 83 of the NSW *Education Act 1990* prohibits payments being made to individuals (or their associates) in governance positions which further mitigates the risk of conflict of interest at the school level.

Ongoing project monitoring is high level and heavily reliant on representations made by the funded school. The limited ongoing project monitoring by the NSW Independent BGA exposes them to risks that project updates are not accurate or project issues are not identified until after the grant funds have been advanced.

Monthly progress updates are required from schools to assist the NSW Independent BGA in monitoring projects. An online system is used to track these monthly progress reports which:

- allows schools to log in and input data online, preventing double entry;
- automatically generates alerts for the NSW Independent BGA staff when monthly reports are overdue; and
- shows expenditure with details of individual invoices/dates/amounts and suppliers on a month by month basis, assisting staff in determining when there may be a problem with a project due to stalled expenditure.

Monthly project updates allow the NSW Independent BGA to monitor project progress. Schools have the opportunity to comment on any delays or changes to the timing for the project.

The NSW Independent BGA limits its ability to identify issues by relying heavily on representations from the funded schools. There is a risk that issues which could be detected at an earlier stage in the project will not be identified until closer to completion, after the majority of grant funds have been advanced. This risk is heightened given:

- no supporting documents are provided in monthly reports;
- copies of material invoices are not required until after project completion, around the time a final visit is completed; and
- the school visit is generally undertaken after the project has been completed and grant funds have been fully paid.

As no invoices or supporting documents were provided in monthly reports, there was a risk schools may not be accurately reporting when funds are paid to contractors to manipulate the timing of grant payments. We understand this has been changed and individual invoice details are now included as part of monthly reporting. Requesting invoices from schools at an earlier stage may reduce the risk of funds being misappropriated or invoices being misplaced over time.

In order to reduce costs, visits by the NSW Independent BGA to inspect projects are often planned for multiple schools in a region simultaneously. In our test cases reviewed, two of the seven acquitted projects had been visited. The visits to these two schools were undertaken after the completion of multiple projects (i.e. the school had been fully paid for multiple projects before any completed projects were sighted). We have been advised that the NSW Independent BGA is in the process of moving school visits to after the school spends its contribution, prior to commencement of grant payments. Association of Independent Schools NSW staff involved in other matters at school premises also report to the NSW Independent BGA about the project works being conducted in schools.

Scheduling earlier visits for projects may be more appropriate to mitigate risk of fund misappropriation and project mismanagement. We acknowledge that this comes at an increased resource drain for the NSW Independent BGA. However, depending on the risk profile of the project, technology may be used to more effectively monitor the progress of projects.

In order to strengthen risk management, we recommend interim checks of physical project status prior to each progress payment of grant funding be included as part of project monitoring. The level of monitoring implemented should be reflective of the risk level of the project. In order to mitigate costs, methods other than physical attendance at the site may be more appropriate such as video conferencing or photographs to demonstrate project progress.

If the NSW Independent BGA adopted a risk management based approach they may vary the level of monitoring on each file based on the assessed risk level of each project. We did not identify documentation indicating the level of monitoring being tailored for the level of assessed risk on each project. This may be the result of each accepted application being expected to meet similar minimum criteria. Whilst we have not provided a recommendation the NSW Independent BGA may wish to consider their approach and whether resources are being managed in the most efficient way possible.

3.5 Records management

Electronic and physical documents reviewed were in good order and readily accessible, with activities of the NSW Independent BGA well documented.

We found that the NSW Independent BGA maintains strong documentation and information management systems, with documentation the NSW Independent BGA requires on each file in good order. The bulk of the records on project files relate to application assessment, project commencement and completion. Applications, project and payment data and monthly progress and expenditure reports are held on CRM.

The NSW Independent BGA proactively raises issues and consults with the Department on complex or unusual matters.

We have been advised by the Department that the NSW Independent BGA liaises closely with the Department in respect of specific issues identified on projects and the proposed strategies to resolve these issues.

Retention of 10% of grant funds until completion documents are received provides a strong incentive for schools to complete documentation quickly.

10% of grant funds are retained until an Architect's/Principal's statement of final costs and Certificate by Independent Qualified Accountant and related documentation are received. This incentivises schools to submit completion documents in a timely manner.

To mitigate the risk of buildings being constructed which do not reflect the initial design or approved purpose, plans are obtained and compared at multiple stages of the project. Plans are obtained and reviewed:

- at the time of application;
- at the time of tender; and
- with the Architect's statement of final costs.

When the school visit is undertaken, the physical building is also compared to the approved plans.

4 Conclusion

The NSW Independent BGA has strong internal policies and procedures and appeared to achieve a high level of compliance with the Requirements and Operating Manual in the case files reviewed.

Generally the level of oversight of projects by the NSW Independent BGA was high during the application and in the final or completion stages of the grant process.

It was observed that the level of oversight during the monitoring stage was heavily reliant on monthly expenditure information provided by the schools rather than source documentation, physical inspection or photographs to demonstrate project progress.

In our view, increased oversight during the monitoring stage would reduce the risk of projects not progressing as planned or grant funds not being used as intended.

We have made the following recommendations for the NSW Independent BGA and the Department to consider:

- the NSW Independent BGA require all individuals involved in the assessment process to provide a declaration of conflict of interests and document how these conflicts are managed;
- consider directing greater support to schools with limited expertise or financial resources including proposed new schools so they can prepare applications and be adequately considered during the application process; and
- interim checks of physical project status prior to each progress payment of grant funding be included as part of project monitoring. The level of monitoring implemented should be reflective of the risk level of the project. In order to mitigate costs, methods other than physical attendance at the site may be more appropriate such as video conferencing or photographs to demonstrate project progress.

Department of Education and Training

Operational Review of the NT Schools Block Grant Authority

19 February 2019

FINAL



McGrathNicol

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1 Glossary

Glossary	
Name	Description
AIS	Association of Independent Schools
BGA	Block Grant Authority
CEO	Catholic Education Office
CGP	Capital Grants Program for Non-government Schools
CGP Guidelines	Capital Grants Program Guidelines 2018
CS	Christian Schools
Department	Department of Education and Training
EOI	Expression of interest
Minister	Australian Government Minister for Education and Training
MOU	Memorandum of Understanding
NT BGA	Northern Territory Schools Block Grant Authority
Objectives	The objectives of the CGP
Participant Agreement	Agreement between the School and the NT Schools BGA entered into for the School to become a member of the NT Schools BGA.
PCES	Progressive Claim Expenditure Statement
Requirements	Requirements under the CGP Guidelines, Australian Education Act 2013 and Australian Education Regulation 2013
SES	Socio-economic Status

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") in accordance with Work Order AD16/000312 between McGrathNicol and the Department for the review of the Queensland and Northern Territory Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing.

We have carried out a review of Queensland and Northern Territory Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program for Non-government schools ("CGP") is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for Non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the Northern Territory Schools Block Grant Authority ("NT BGA"). The review examines the efficiency and effectiveness of the NT BGA in administering the CGP and evaluates the NT BGA's compliance with key requirements under the Capital Grants Program Guidelines 2018, Australian Education Act 2013 and Australian Education Regulation 2013 ("the Requirements") which govern the administration of the program.

In reviewing the NT BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken.

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Guidelines;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the NT BGA website;
- meetings and discussions with representatives of NT BGA, in particular;
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of NT BGA, including:

- internal policies and procedures documents; and
- sample case files at the offices of NT BGA.

As discussed with the Department we have chosen a sample of 15 files to review from a population of 50 projects in the 2015 to 2018 NT BGA Project Summary Reports. Provided below is a listing of the sample case files selected for the review testing:

Table 1: Listing of sample case files

NT BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2015/03001/1	Holy Family Catholic Primary School	100,000
2015/29602/1	MacKillop Catholic College	188,500
2015/13633/1	St John's Catholic College	256,580
<i>Un-acquitted projects</i>		
2016/15415/1	The Alice Springs Steiner School	370,500
2016/06880/1	O'Loughlin Catholic College	300,000
2016/06882/1	St Joseph's Catholic College	150,333
2016/14276/1	Virara College	126,100
2017/02069/1	St Mary's Catholic Primary School	261,324
2017/27652/1	Tiwi College	143,000
2017/13313/1	Murrupurtiyanuwu Catholic Primary School	94,900
2017/13633/3	St John's Catholic College	99,775
2018/15415/1	The Alice Springs Steiner School	310,750
2018/14276/1	Virara College	300,000
2018/27652/1	Tiwi College	150,000
2018/13284/1	St Philip's College	200,000

3.4 Findings

3.4.1 Governance arrangements

- The NT BGA has in place adequate documentation which outlines how its CGP funding process is carried out. The NT BGA also has in place adequate pro formas for each stage of the project.
- The Participation Agreement executed by schools is comprehensive and includes the required provisions specified in the CGP Guidelines.
- The NT BGA has a representative Board and Priorities Committee made up of members from the CEO, AIS and CS.
- The NT BGA's conflict of interest management process is not adequately documented and the NT BGA does not maintain a conflict of interest register.
- The NT BGA's Priorities Committee conflict of interest management processes could be strengthened.

3.4.2 Selection and ranking of projects

- Assessments of schools are based on detailed applications and school visits. School visits are undertaken for all applications by three Priorities Committee members. However, the NT BGA does not obtain evidence that applicant schools hold valid insurances during the application process.
- The assessment of schools' financial need is undertaken by the CEO's finance team and the Priorities Committee members attending the school visit. The NT BGA does not have in place policies and guidance on how it undertakes

an assessment of applicant schools' financial viability and financial need. Financial assessments are not sufficiently documented.

- The Priorities Committee meeting minutes could more clearly document how applications for grant funding are prioritised.
- The NT BGA Board makes a CGP funding recommendation to the Minister based on the recommendation of the Priorities Committee. The Board may accept the recommendation of the Priorities Committee or request the Priorities Committee reconsider its assessment of an application.

3.4.3 Financial systems and practices for acquitting project funds

- The NT BGA appears to have adequate controls to prevent misappropriation of grant funds prior to disbursement to schools.
- The NT BGA pays grant funds to schools on a full reimbursement basis from the commencement of the project until all grant funding is disbursed (except the final 10 per cent). Once all grant funding is disbursed, the school must fund the remainder of the project.
- Grant payments are made based on an initial PCES and subsequent tax invoices prepared by schools on a regular basis.
- The NT BGA does not require schools to provide underlying invoices to substantiate grant payments.

3.4.4 Project monitoring

- Schools are not required to have their tender process and preferred tenderer approved by the NT BGA prior to engaging the contractor. This may increase the risk that value for money is not achieved.
- Schools are not required to provide the NT BGA with regular non-financial progress reports during construction.

3.4.5 Records management

- Documents reviewed were in good order and readily accessible.
- Schools are required by the NT BGA to submit project closure documentation (including an Accountant's Certificate) within three months of the final grant payment. Project closure documentation was not provided in a timely manner by a number of schools selected in our sample.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the NT BGA and the Department to consider:

- The NT BGA should expand its documented conflict of interest management procedures. The NT BGA should also introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Board and Priorities Committee meetings. Any conflict of interest management processes undertaken should be identified in the meeting minutes;
- The NT BGA Priorities Committee members with a direct conflict of interest in regards to an applicant school should be replaced on the Priorities Committee on a temporary basis for that particular funding round. If a suitable replacement is unavailable, the conflicted Priorities Committee member should be excluded from discussion and decision-making in respect of their affiliated school;
- The NT BGA should require schools to provide evidence of relevant insurance policies during the application process;
- The NT BGA should document its financial viability and financial contribution assessment processes. The NT BGA should also document the financial viability and financial contribution assessment for each applicant school to support the determination of the grant and school contribution amounts;
- The Priorities Committee meeting minutes should clearly document the rationale for recommending one school for funding over others with the same priority ranking;

- The NT BGA should pay grant funds to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PCES should be disbursed). This reduces the risk that the project will not be successfully completed within timeframes;
- The NT BGA should require schools to submit progressive expenditure statements ("PESs") on a regular (e.g. monthly) basis throughout the construction phase of the project;
- The NT BGA should require schools to provide supporting documentation (i.e. underlying invoices) to substantiate project expenditure claimed each month;
- The NT BGA should review and approve the tender process of schools prior to schools entering into a contract with the preferred tenderer. This should include the NT BGA requiring schools to provide a copy of the preferred tender; and
- In accordance with its Operations and Procedures Manual, the NT BGA should ensure that schools are providing their completion documentation (including an Accountant's Statement of Final Costs) within required timeframes. If the NT BGA determines that the required timeframes are unable to be achieved, the NT BGA should amend its Operations and Procedures Manual to ensure schools have an appropriate timeframe to provide their completion documentation.

4 Background

4.1 Overview of the Capital Grants Program for Non-government schools and role of the Northern Territory Schools BGA

The CGP provides funding for Non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to Non-government schools are administered by Block Grant Authorities ("BGAs") who assess applications from schools and make recommendations for funding to the Australian Government Minister for Education and Training ("the Minister"). Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The Northern Territory Block Grant Authority ("NT BGA") is an unincorporated association responsible for administering and distributing the CGP to participating Non-government schools (both Catholic and Independent) in the Northern Territory in accordance with the *Australian Education Act 2013*.

The NT BGA operates as part of and within the offices of the Northern Territory Catholic Education Office ("CEO") and was formerly only responsible for administering the CGP on behalf of Catholic sector schools. At the request of the Australian Government Department of Education and Training ("the Department"), the NT BGA also took on responsibility for administering the CGP on behalf of the Independent sector schools. It is noted that the NT BGA Executive Officer is employed by and located in the Northern Territory CEO and the NT BGA (i.e. the Northern Territory CEO) is compensated for its administration of the CGP by the Australian Government.

The three non-government school organisations in the Northern Territory which are represented by the NT BGA are the Northern Territory CEO (i.e. the Catholic school sector organisation), the Association of Independent Schools ("AIS") (i.e. the Independent school sector organisation) and the Christian Schools ("CS"). Membership includes schools of many different:

- sizes;
- structures;
- financial positions;
- cultural backgrounds;
- religious affiliations; and
- educational philosophies.

It is noted that the NT BGA is not responsible for administering state government capital grant funding for Non-government schools in the Northern Territory, with State Government capital grants being administered directly by the school sector organisations (i.e. the CEO, AIS and CS).

In accordance with its constitution, the NT BGA is managed by a Board of Directors consisting of four members, including:

- one director appointed by the CEO;
- one director appointed by the AIS;
- one director appointed by the CS; and
- one industry representative appointed by the members of the Board from among nominees put forward by the CEO, AIS and CS.

The NT BGA Board is supported by the Executive Office and a Priorities Committee which is responsible for assessing and recommending applications for CGP funding. Members of the Priorities Committee include representatives nominated by each school sector which are selected by the Board. According to the NT BGA Constitution, membership of the Priorities Committee cannot exceed 12 members with members serving terms of two years, with a maximum of three consecutive terms.

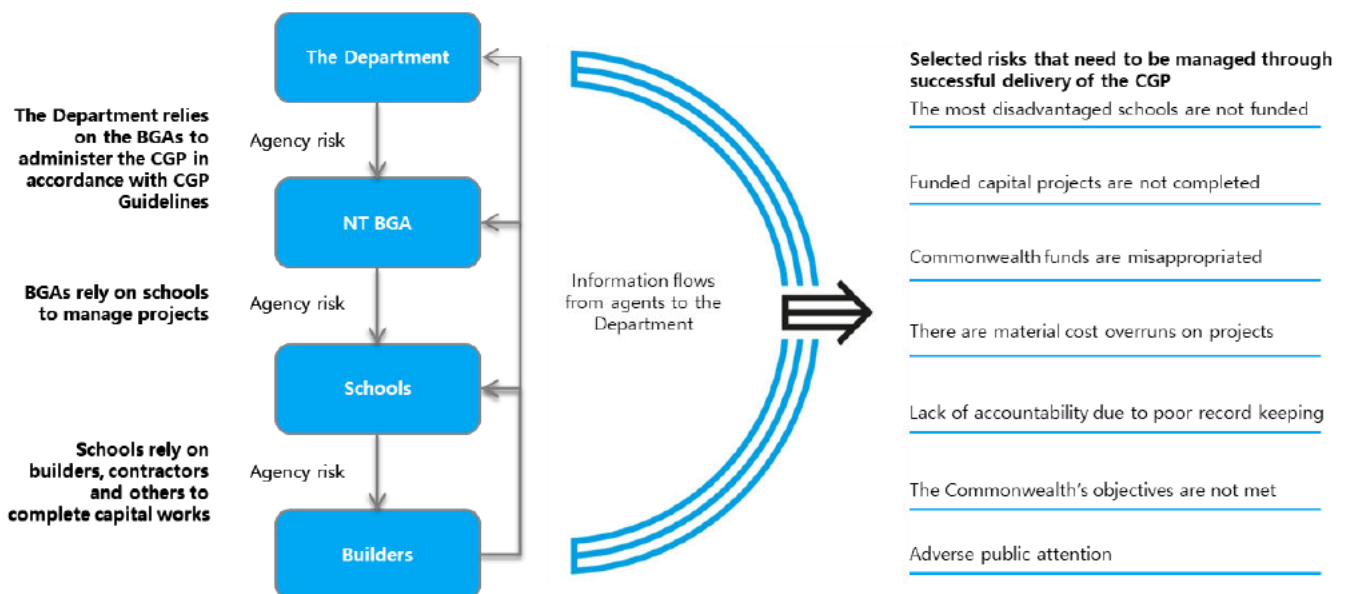
The NT BGA utilises a number of documents and reference materials to administer the CGP. Provided below is a summary of the key internal and external documents that shape the delivery of the NT BGA's CGP:

Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> Australian Education Act 2013 Australian Education Regulation 2013
Regulatory guidance material	<ul style="list-style-type: none"> CGP Guidelines 2018
NT BGA policy documents and agreements	<ul style="list-style-type: none"> NT BGA Constitution NT BGA Operations and Procedures Manual Participant agreements
NT BGA guidance materials	<ul style="list-style-type: none"> Relative Educational Need Assessment Guidance Socio-Economic Analysis Assessment Guidance Tendering Process Guidance;

4.2 Agency risk

In order for the Australian Government to achieve the Objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the Objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's Objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP

4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the NT BGA. We have sought to summarise the key steps taken in the table below:

Table 3: Overview of the Capital Grants Program Administration

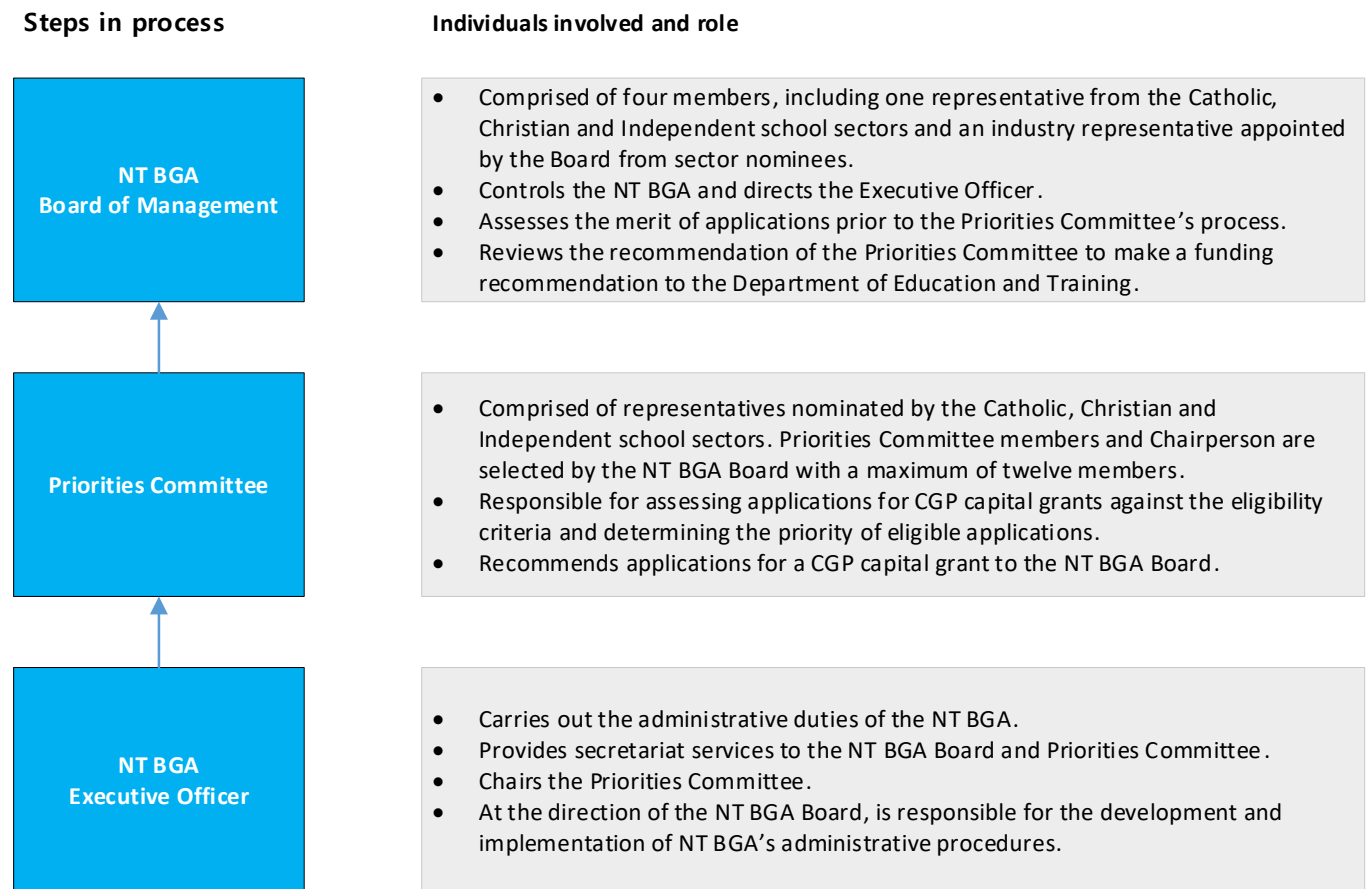
Overview of the CGP Administration		
Stage	Step	Milestone
Application Stage	Step 1	Schools seeking a grant submit a Form A Application. The Form A Application includes the following information: <ul style="list-style-type: none"> ▪ school details; ▪ project description; ▪ costing estimates; and ▪ authorisation by the school's representative.
	Step 2	Upon receipt of a Form A Application, provided that all the requirements of the application procedure have been met, the NT BGA Board will consider the merit of the application at the scheduled meeting. Schools will be notified of the outcome within 14 days of this meeting. Rejected applications may be appealed within 14 days of this notification.
	Step 3	If the Form A Application is approved, schools will be invited to provide a Form B Application for further assessment by the NT BGA Board. The Form B Application includes the following information: <ul style="list-style-type: none"> ▪ school details; ▪ project summary; ▪ enrolment and staffing details; and ▪ financial information (including income, balance sheet and tuition fees information).
Assessment Stage	Step 4	Provided all requirements of the application procedure have been met, the NT BGA Board will consider the merit of the application at the scheduled meeting. Schools will be notified of the outcome within 14 days of this meeting. Rejected applications may be appealed within 14 days of notification.
	Step 5	If the Form B Application is approved (i.e. the NT BGA considers the application to be of sufficient priority to warrant further development), the NT BGA will appoint representatives from the NT BGA Priorities Committee to conduct a school visit. The visiting Priorities Committee members will complete the school visit report, which will inform funding recommendations to the Minister.
	Step 6	The NT BGA Priorities Committee will use the information provided by the applicant school (and the school visit reports) to assess the school's eligibility for support under the following criteria: <ul style="list-style-type: none"> ▪ educational disadvantage; ▪ facility standards; and ▪ financial needs. Assessments documented under these aspects will form the basis of the decision for grant recommendations, and also the recommended grant levels.
	Step 7	Based on a recommendation from the Priorities Committee, the NT BGA may negotiate with applicant schools a minimum viable project ("MVP").

Overview of the CGP Administration

	Step 8	The Priorities Committee meet and rank the priority of projects and provide advice on the recommended grant amount for each project to the NT BGA Board.
	Step 9	The Board will review the recommendation of the Priorities Committee and provide a final recommendation to the Minister. In doing so, the NT BGA will inform schools whether their application has been recommended to the Minister.
	Step 10	If the project is approved by the Minister, the school will receive a Grant Approval Letter from the Minister, and subsequently a Grant Offer Letter from the NT BGA outlining the grant conditions. Additionally, the NT BGA will advise schools that the school may complete working drawings and proceed to tender.
	Step 11	Schools must accept the grant offer by completing and submitting the Letter of Acceptance to the NT BGA.
Construction & Monitoring Phase	Step 12	Schools undertake a competitive tendering process. If the value of the project exceeds \$75,000, schools must obtain at least five tenders (if available). For projects valued at less than \$75,000, schools must obtain at least three quotes.
	Step 13	Schools submit a completed Result of Tender Form to the NT BGA within seven days of tender closing.
	Step 14	Schools submit a completed Notification of Commencement form to the NT BGA within seven days of commencing construction, identifying: <ul style="list-style-type: none"> the contractor undertaking construction; the contract signing date; the date construction commenced; and expected completion date.
	Step 15	For the first claim of CGP funds, schools must submit a Progressive Claim Expenditure Statement ("PCES") to the NT BGA. Subsequent claims are made by submitting a tax invoice only (with the exception of the final payment).
	Step 16	If an approved project has not been completed in the funding year, the school Principal shall be contacted to provide a progress update.
Project Closure Phase	Step 17	Upon completion of construction, schools must provide NT BGA with the following pro forma accountability documents: <ul style="list-style-type: none"> Architect's / Supervisor's Statement of Final Costs (within six weeks of project completion); and Accountant's Certificate (within three months after practical completion).
	Step 18	Schools must install a plaque to recognise the Australian Government's contribution to the project. If the value of the project exceeds \$100,000, the school must hold an opening ceremony and invite the Minister and the NT BGA to attend.
	Step 19	After the completion of the Project, the NT BGA Executive Officer or Priorities Committee will undertake a review at their next visit of the school to confirm the project was completed as according to the NT BGA approved application. Findings will be documented in a Post-Occupancy Evaluation form.

In reference to the process outlined above we have set out a summary below of how applications are approved by the NT BGA:

Figure 2: Structure of application approval



5 Key findings

5.1 Governance arrangements

The NT BGA has in place adequate documentation which outlines how its CGP funding process is carried out. The NT BGA also has in place adequate pro formas for each stage of the project.

NT BGA has in place adequate documentation supporting the administration of the CGP. This includes the following process documentation, guidance material and pro forma templates:

- governance and process documentation:
 - NT BGA Operations and Procedures Manual;
- applicant guidance documentation:
 - Relative Educational Need Assessment Guidance;
 - Socio-Economic Analysis Assessment Guidance; and
 - Tendering Process Guidance;
- pro forma templates:
 - Application Form A Template;
 - Application Form B Template;
 - Letter of Intent to Assess;
 - Priorities Committee School Visit Report Template;
 - Letter of Grant Offer Template;
 - Grant Acceptance Letter Template;
 - Result of Tender Process Template ("Support Document 8");
 - Notification of Commencement of Project Template ("Support Document 10");
 - Progressive Claim Expenditure Statement Template ("Support Document 11");
 - Notice of Payment Template;
 - Architect's / Supervisor's Statement of Final Costs Template ("Support Document 12");
 - Accountant Certificate Template ("Support Document 13");
 - Priorities Committee Progress Report Template ("Support Document 14"); and
 - Priorities Committee Post-Occupancy Evaluation Report Template ("Support Document 15");

The Participation Agreement executed by schools is comprehensive and includes the required provisions specified in the CGP Guidelines.

In accordance with the CGP Guidelines, the NT BGA is required to enter into legally binding participation agreements with each school authority (i.e. the school sector authorities) prior to receiving funding. By executing this agreement each school authority accepts to be bound by the CGP Guidelines, and it is a requirement of the CGP Guidelines that the participation agreement contain a number of specific clauses from Attachment 1 to the CGP Guidelines.

The NT BGA provided the participation agreements between the NT BGA and the CEO, AIS and CS covering all schools within each respective school sector. The participation agreements contain all of the required clauses from Attachment 1 to the CGP Guidelines. Furthermore, the participation agreements were executed in 2014 and covered the review period from 2015 to 2018.

The NT BGA has a representative Board and Priorities Committee made up of members from the CEO, AIS and CS.

As noted above, the NT BGA Board is comprised of four members, including three representatives appointed by the CEO, AIS and CS school sector organisations and an industry representative elected by the NT BGA Board from sector organisation nominees. Similarly, the NT BGA Priorities Committee is comprised of three representatives from each of the three school sectors, nominated by the NT BGA Board (totalling nine members). It is also noted that teams undertaking school visit activities as part of the Priorities Committee's application assessment process will be comprised of three Priorities Committee members, including one representative member from each of the three school sectors.

Based on the governance structures for the NT BGA Board and the Priorities Committee described above, the NT BGA ensures that each of the three school sectors are equally represented throughout the NT BGA's capital grant application assessment process, including:

- the Board's initial review of Form A and Form B applications;
- the school visit process;
- the prioritisation and voting process of the Priorities Committee; and
- the Board's process for reviewing and recommending funding amounts to the Minister for Education and Training for approval.

Whilst we note the NT BGA's affiliation with the Northern Territory CEO (i.e. the NT BGA operating as part of the Northern Territory CEO's organisation) may present a perceived risk to the fairness and transparency of the NT BGA's administration of the CGP, there was no evidence to suggest that the governance structure of the NT BGA favoured one of the school sectors over the others. On the basis that conflicts of interests are managed appropriately throughout the NT BGA's CGP administration process, the NT BGA's governance structure, including the representative Board and Priorities Committee, appears reasonable.

The NT BGA's conflict of interest management process is not adequately documented and the NT BGA does not maintain a conflict of interest register.

The NT BGA advised that it does not have a standalone Conflict of Interest Policy outlining the NT BGA's process for managing conflicts of interest at the Board and Priorities Committee levels. However, we note that the NT BGA's Operations and Procedures Manual includes a section addressing the management of conflicts of interest. The Operations and Procedures Manual states that:

"Where there is an actual or potential conflict of interest at any stage of a project, a BGA should manage or resolve the conflict. A conflict of interest may arise, for example, where a member of a BGA assessment committee has an interest in a member school applying for Commonwealth Government capital assistance. A conflict of interest may also arise where a person associated with the governance of the school (approved authority, school board, staff member or other associated person or entity) has an interest in a body bidding for work funded by the Commonwealth Government.

We highlight that the NT BGA's addressing of conflicts of interest in the Operations and Procedures Manual is brief, and does not sufficiently describe the NT BGA's process for managing conflicts of interest. Better practice would be for the NT BGA to ensure that its process for managing conflicts of interest at the Board and Priorities Committee levels is formally documented either in the Operations and Procedures Manual, or preferably in a standalone Conflict of Interest Policy. To be in accordance with better practice, this Policy should, at a minimum, explicitly address the following:

- what is considered to be an actual, potential or perceived conflict of interest;
- under what circumstances actual, potential or perceived conflicts of interest could arise, with specific reference to conflicts that may arise at the Board and Priorities Committee levels;
- how the NT BGA will manage actual, potential or perceived conflicts of interest that arise at the Board and Priorities Committee levels; and
- the NT BGA's process for documenting conflicts of interest that arise and the mitigation activities undertaken to address these conflicts.

We note that the NT BGA advised that it does not currently have in place a conflict of interest register recording conflicts of interest that arise at the Board and Priorities Committee levels. The introduction of a conflict of interest register for the Board and Priorities Committee would assist the NT BGA to effectively identify and manage any actual, potential or perceived conflicts of interest which may arise in relation to the Board's and Priorities Committee's assessment process.

Based on review of the meeting minutes for the NT BGA Board and Priorities Committee, we note that there is no standing agenda item for the declaration of conflicts of interest by members of the Board and Priorities Committee. In accordance with better practice, the NT BGA should include a standing agenda item at the beginning of each Board and Priorities Committee meeting to ensure members declare interests which may result in an actual, potential or perceived conflict. This process of declaring and addressing conflicts of interest should be recorded in the relevant meeting minutes.

The NT BGA should expand its documented conflict of interest management procedures. The NT BGA should also introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Board and Priorities Committee meetings. Any conflict of interest management processes undertaken should be identified in the meeting minutes.

The NT BGA's Priorities Committee conflict of interest management processes could be strengthened.

Based on our review of the Priorities Committee meeting minutes for the period under review, we identified the following conflicts of interest within the Priorities Committee:

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The above affiliations represent direct conflicts of interest. It would be better practice for the NT BGA to require the CEO, AIS and CS to review their nominations for Priorities Committee members on an annual basis and confirm, cancel, or install a temporary replacement for directly conflicted members of the Priorities Committee. This process would minimise the possibility of any conflicts of interest, and would reduce the likelihood of any perception of conflicts of interest.

If the CEO, AIS and CS are unable to nominate individuals which do not have a direct conflict of interest with an applicant school (due to the size of the NT Schools system), the NT BGA should ensure that its processes to manage conflicts of interest (i.e. exclusion from discussion and decision-making) are identified and recorded in the Priorities Committee meeting minutes.

The NT BGA Priorities Committee members with a direct conflict of interest in regards to an applicant school should be replaced on the Priorities Committee on a temporary basis for that particular funding round. If a suitable replacement is unavailable, the conflicted Priorities Committee member should be excluded from discussion and decision-making in respect of their affiliated school.

5.2 Selection and ranking of projects

Assessments of schools are based on detailed applications and school visits. School visits are undertaken for all applications by three Priorities Committee members. However, the NT BGA does not obtain evidence that applicant schools hold valid insurances during the application process.

As part of the NT BGA's process for assessing applications for CGP funding, the NT BGA requires applicant schools to prepare two applications, including a Form A initial application and a Form B detailed application.

Schools provide the following information as part of the Form A application:

- applicant school details;
- proposed project description, including total project cost, anticipated school contribution, requested grant amount and planned completion date;
- needs-based justification for the project;
- master planning information;
- project profile;
- project cost breakdown; and
- authorisation by a representative of the school parent body and school Principal.

Upon receipt, the NT BGA Executive Officer will review the Form A application for consistency with the application requirements and the NT BGA Board will assess the merit of the application. Schools which submit an application that the NT BGA Board consider to be of sufficient merit will be requested to submit a Form B application for review. We note that the NT BGA advised that the Board will not typically reject applications at the Form A application stage based on merit.

The Form B application requires applicant schools to provide the following information:

- project benefit assessment;
- details for the project architect;
- project description, including total project cost, anticipated school contribution, requested grant amount and proposed project start and finish dates;
- if the school has applied for more than one project in the current funding round, the priority of the application relative to its other applications in the same funding round;
- project profile;
- project cost breakdown;
- enrolment and staffing information;
- financial information sourced from the applicant school's non-government school financial questionnaire. This includes information in respect of the schools recurrent income and expenditure and capital income and expenditure;
- site and building plans for the school / proposed project;
- master plan and maintenance plan;
- major capital expenditure items for the most recent year and planned major expenditure for the upcoming year and expenditure on maintenance; and
- authorisation by a representative of the school parent body and school Principal.

Similarly to the Form A application review process, the NT BGA Executive Officer will review the Form B application for consistency with the NT BGA's application requirements and the Board will assess the merit of the application. The NT BGA advised that during this process the Board will not typically reject Form B applications, but schools that have

submitted multiple applications during the same funding round may elect to not submit Form B applications for projects they deem to be of lower priority.

Form B applications approved by the Board are referred to the Priorities Committee for the assessment of the applicant school's educational and financial need. This includes the school visit process in which a team comprised of three members of the Priorities Committee (one member from each of the three school system organisations) attend the applicant school to meet with school representatives to tour the existing school and proposed capital project site, discuss the application and proposed project, and complete a School Visit Report template. The School Visit Report template prompts the visiting team to address and provide a response on the following matters during the school visit process:

- the appropriateness of enrolment projections provided by the school in the Form B application;
- whether there is evidence that the school carries out its maintenance plan provided as part of the Form B application;
- the amount of State Government capital funding or subsidies the project is or will receive (if applicable);
- whether the project represents part of a master plan or strategic plan for school development;
- the congruence of the proposed project in respect of the CGP Program Objectives;
- whether the proposed school contribution to the project is the maximum viable amount;
- whether the scope of the capital works could be decreased to a minimum viable product;
- the source of the school's proposed contribution to the cost of the project; and
- the visiting team's overall assessment of the project's priority ranking expressed as a score from one (highest priority) to five (lowest priority) with supporting commentary.

Subsequent to the school visit process, the Priorities Committee will meet to review and discuss the merit of each application in respect of educational and financial need, and conclude on whether the proposed project should receive CGP funding. Based on these meetings, the Priorities Committee will either accept the visiting team's score, or if considered appropriate by the Priorities Committee, adjust the score as required to reflect a higher or lower priority. The result of the Priorities Committee meetings is a schedule of eligible applications from highest priority (i.e. one) to lowest priority (i.e. five).

Whilst it is noted that the NT BGA's application and school visit process appears appropriate for the purposes of administering the CGP, we highlight that the eligibility requirements of the CGP Guidelines states that applicant schools are required to *"demonstrate to the BGA that adequate insurance is held over its buildings"*. Based on our review of the provided application and school visit process, it does not appear that the NT BGA require schools to provide sufficient evidence that schools hold current and valid insurances over buildings during the application and assessment phase. In accordance with better practice, the NT BGA should require schools to provide evidence of their insurance policies (e.g. certificates of currency) as part of the application process to ensure that schools demonstrate compliance with the eligibility requirements of the CGP Guidelines.

The NT BGA should require schools to provide evidence of relevant insurance policies during the application process.

The assessment of schools' financial need is undertaken by the CEO's finance team and the Priorities Committee members attending the school visit. The NT BGA does not have in place policies and guidance on how it undertakes an assessment of applicant schools' financial viability and financial need. Financial assessments are not sufficiently documented.

The NT CEO's Finance Team is responsible for undertaking a financial assessment of approved Form B applications which occurs concurrently to the school visit process. The CEO Finance Team's financial assessment includes analysis of the financial information provided in the Form B application, which the CEO Finance Team reconcile to information provided by the applicant school to the Australian Government through the Non-government school financial questionnaire process.

The NT BGA advised that the CEO Finance Team's financial assessment includes an assessment of the school's ongoing financial viability and financial need for CGP capital funding. This financial assessment process is provided to the Priorities Committee, which uses the financial assessment to inform its decision-making and prioritisation process. We highlight that

the applicant school's financial viability and maximum financial contribution are also considered by the Priorities Committee through the school visit process as outlined above.

The CEO Finance Team's financial assessment process is not documented, and the NT BGA was unable to provide procedural or guidance documentation which supports this process. To improve the transparency of its financial assessment process in accordance with better practice, the NT BGA should ensure that the financial assessment process of the CEO Finance Team is clearly documented in order to ensure the process is consistently applied for all projects.

We also note that the NT BGA does not maintain a copy or record of the financial assessment carried out for each application. As such, based on available documentation, we were unable to ascertain how specific grant and school contribution amounts were determined. Accordingly, it appears appropriate that the NT BGA going forward should ensure that it maintains a record of the financial assessment undertaken for each application to substantiate its decision-making and support the integrity of its CGP application assessment process.

The NT BGA should document its financial viability and financial contribution assessment processes. The NT BGA should also document the financial viability and financial contribution assessment for each applicant school to support the determination of the grant and school contribution amounts.

The Priorities Committee meeting minutes could more clearly document how applications for grant funding are prioritised.

As outlined above, in determining the priority of applications for CGP funding the Priorities Committee will review the scores provided by the school visit team and either accept or amend this score to arrive at a final priority score from one (highest priority) to five (lowest priority) for each application. As a result of this ranking process, the Priorities Committee will produce a prioritisation schedule which lists all applications from highest priority to lowest priority. The NT BGA will then allocate CGP funding down the prioritisation schedule (i.e. beginning with the applications deemed the highest priority) until all CGP funding available for disbursement is allocated. We were advised that the NT BGA will during some funding rounds allocate interest earned on CGP funds held by the NT BGA to priority cases.

We highlight that the Priorities Committee's ranking process allows for multiple applications to be issued the same priority ranking (e.g. more than one application may receive a priority ranking of three). As noted above, CGP funding is provided to the applications which are deemed the highest priority first. For example, CGP funding may be allocated to all applications which receive a priority ranking of one or two, however there may be insufficient funding remaining to allocated grant funds to all projects with a priority ranking of three. In this event, based on review of the Priorities Committee meeting minutes, it appears that some applications are allocated CGP funding over others with the same priority ranking. However, reasoning to support these allocations is not recorded in the meeting minutes. Based on our discussions with the NT BGA, the decision to allocate CGP funding to some applications and not others with the same priority ranking occurs through discussion amongst members of the Priorities Committee during the Priorities Committee meetings. As such, the NT BGA should improve its record-keeping practices by more clearly documenting the justification for allocating CGP funding to some applications and not others with the same priority ranking in the Priorities Committee meeting minutes.

The Priorities Committee meeting minutes should clearly document the rationale for recommending one school for funding over others with the same priority ranking.

The NT BGA Board makes a CGP funding recommendation to the Minister based on the recommendation of the Priorities Committee. The Board may accept the recommendation of the Priorities Committee or request the Priorities Committee reconsider its assessment of an application.

As noted above, the outcome of the Priorities Committee's application assessment process is a prioritisation schedule which lists the recommended CGP funding amount for each application. This prioritisation schedule is provided to the NT BGA Board. The Priorities Committee's prioritisation schedule forms the basis of the NT BGA Board's funding recommendation to the Minister.

The NT BGA advised that the Board will typically accept the funding recommendation of the Priorities Committee. However, the Board may also request the Priorities Committee to reconsider its assessment of a particular application, or the prioritisation schedule as a whole. This reassessment process is undertaken on the basis that the Priorities Committee has greater knowledge of the applications than the Board after having undertaken the application assessment process

(including the school visits). The outcome of the Priorities Committee's re-assessment process may be a revised prioritisation schedule.

Regardless of whether the Board requests the Priorities Committee to undertake a reassessment, the Board will ultimately accept and refer the Priorities Committee's prioritisation schedule to the Minister for approval. We highlight that the NT BGA advised that the Board does not have the power to amend the Priorities Committee's recommended funding allocations to schools without consulting the Priorities Committee.

5.3 Financial systems and practices for acquitting project funds

The NT BGA appears to have adequate controls to prevent misappropriation of grant funds prior to disbursement to schools.

The following process appears to be in place to release grant funds to schools:

- a school submits a Progressive Claim Expenditure Statement (Support Document 11) ("PCES") for the first claim or tax invoice for subsequent claims. The NT BGA requires schools to submit PCESs / tax invoices on a regular basis throughout the construction phase of the project;
- the PCES is reviewed and approved by the NT BGA Executive Officer for processing by the CEO's Finance Team;
- The CEO Finance Team checks the PCES or tax invoice against the approved grant amount and enters the payment in the accounting system (TechOne);
- The CEO Finance Team also transfers funds from an interest-earning bank account into the NT BGA's bank account which is used for disbursing CGP funding to schools;
- The CEO Finance Team enters the payment into the banking system (NAB Connect);
- Two of the CEO's eight NAB Connect signatories (e.g. the CEO Director, NT BGA Executive Officer, CEO Finance Officer) authorise the disbursement in NAB Connect, which releases funds to schools;
- Upon release of funds, the NT BGA will provide a Notice of Payment Letter to the recipient school detailing the amount paid and the percentage of the total approved grant amount provided to date. The Notice of Payment Letter is signed by the NT BGA Executive Officer and the second signatory.

The segregation of duties and second signatory authorisation are appropriate controls for reducing the risk that CGP funds are misappropriated, and multiple stages of review reduces the risk of errors not being detected.

The NT BGA pays grant funds to schools on a full reimbursement basis from the commencement of the project until all grant funding is disbursed (except the final 10 per cent). Once all grant funding is disbursed, the school must fund the remainder of the project.

Based on discussions with the NT BGA and review of the documentation provided for the sampled projects, we note that the NT BGA will fully reimburse schools for project expenditure as it is incurred by the school i.e. schools are not required to expend any of their own contribution until after all grant funding (except for the final 10 per cent) is expended. The NT BGA withholds the final 10 per cent of the grant amount until the school provides the Architect's / Supervisor's Statement of Final Costs Template (Support Document 12).

Assessment of schools' financial capacity to meet their own contributions to projects is conducted during the assessment process. The amount of time between that financial assessment and all grant funding being disbursed (except for the final payment) is significant (approximately 12 months). Accordingly, the school's financial position may change during that period and the school may no longer have sufficient funds to meet its contribution. As such, project timeframes may have to be extended in order for the school to accumulate sufficient funds to meet its contribution.

We were advised that the projects which the NT BGA recommends to the Commonwealth for CGP funding are typically of a smaller size compared to projects which are recommended by other BGAs. Accordingly, the risk that schools are unable to meet their contribution (due to the smaller size of the project) is comparatively low. Regardless, it would be better practice for the NT BGA to pay grant funds to schools on a pro rata basis throughout the life of the project, to ensure schools are not required to meet the costs incurred towards the end of the project solely from their own contribution.

The NT BGA should pay grant funds to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PCES should be disbursed). This reduces the risk that the project will not be successfully completed within timeframes.

Grant payments are made based on an initial PCES and subsequent tax invoices prepared by schools on a regular basis.

As noted above, schools are required to submit a PCES (Support Document 11) when making their first grant payment claim to the NT BGA. For subsequent claims, schools are only required to issue a tax invoice to the NT BGA in order to claim grant payments.

The PCES template requires schools to provide the following information:

- project and school details;
- a breakdown of actual expenditure for the current period and expenditure to date into the following categories:
 - building contract expenditure;
 - professional fee expenditure;
 - furniture & equipment expenditure; and
 - other expenditure;
- anticipated expenditure for all remaining periods to project completion;
- a breakdown of the latest cost estimates for the project, including the following items:
 - contract amount (excluding contingency sums);
 - contingency sums;
 - variations to the contract;
 - other costs not included in the contract;
 - furniture, equipment and flooring costs;
 - professional fees; and
 - escalation allowances;
- the latest estimated project cost;
- a general (i.e. non-financial) progress update; and
- sign-off by the school principal or project architect / manager.

We highlight that the PCES template requires schools to provide a significantly greater level of detail in respect of expenditure to date for the first claim than is obtained for subsequent claims when schools are only required to provide a tax invoice. Accordingly, to improve the NT BGA's oversight of expenditure on CGP projects, it would be better practice for the NT BGA to require schools to submit progressive expenditure payments ("PESs") (i.e. a breakdown of total actual expenditure for the period since the last PES and to date similar in nature to the PCES required to be provided for the first claim) for all claims throughout the construction phase of the project (i.e. the NT BGA should replace the requirement for schools to only submit tax invoices with a requirement for schools to submit PESs similar to the PCES on a regular basis until the completion of the project).

The NT BGA should require schools to submit progressive expenditure statements ("PESs") on a regular (e.g. monthly) basis throughout the construction phase of the project.

The NT BGA does not require schools to provide underlying invoices to substantiate grant payments.

As detailed above, the NT BGA requires schools to submit a PCES for its first expenditure claim and a tax invoice for subsequent claims. The NT BGA advised that it does not require schools to provide supporting invoices from contractors

when submitting these claims. This was confirmed through review of the sampled project files which showed the NT BGA did not collect and retain supporting contractor invoices for any of the sampled projects.

By not requiring schools to provide supporting invoices at the time of submitting claims, the NT BGA is unable to independently verify whether project expenditure is in accordance with the approved purpose. Accordingly, it would be better practice for the NT BGA to require schools to provide supporting invoices at the time of submitting a claim to substantiate the distribution of CGP funds.

The NT BGA should require schools to provide supporting documentation (i.e. underlying invoices) to substantiate project expenditure claimed each month.

5.4 Project monitoring

Schools are not required to have their tender process and preferred tenderer approved by the NT BGA prior to engaging the contractor. This may increase the risk that value for money is not achieved.

Attachment 5 to the CGP Guidelines provides guidance to Block Grant Authorities and applicant schools regarding their obligations for tendering in respect of a CGP funded project, which includes the following:

"... BGAs must ensure schools obtain value for money from a tender process and not just the lowest price offered. Schools must assess all tender submissions for eligibility, adherence to applicable policies, quality assurance, capability and capacity of offers and ensuring value for money is achieved. Schools must document their assessment methodology, selection criteria and recommended outcome for each tender submission and seek appropriate approvals".

The NT BGA has incorporated the above tendering requirements from Attachment 5 of the CGP Guidelines into its Operations and Procedures Manual.

The NT BGA allows schools to proceed to tender immediately after receiving funding approval from the Minister. We highlight that schools must undertake a competitive tender process with the NT BGA requiring schools to obtain at least five tenders for capital works exceeding \$75,000, and at least three quotations for capital works less than \$75,000. At the conclusion of the tender process, the NT BGA requires schools to complete and submit a Result of Tender Process form (Support Document 8). The Result of Tender Process template requires schools to provide the following information:

- school and project details;
- details of the Final Sketch Plan on which tenders were based;
- whether a registration of interest or open tender process was utilised;
- details of local advertisements, including attached copies;
- the tender process opening and closing dates;
- a schedule of tenders / quotes obtained, including the name of the tenderer and their proposed price;
- the school's preferred tenderer;
- anticipated construction period, commencement date and completion date;
- estimated project cost, including the preferred tender price, contingency sums, other costs not included in the tender, estimates for furniture, equipment, floor coverings and professional fees, and allowance for escalation;
- anticipated monthly cash flow as a percentage of the total project costs; and
- sign-off by a school representative of the school (e.g. Principal, Architect or Supervisor).

We highlight that the NT BGA does not appear to review and approve the tender process of schools prior to schools entering into a contract with the builder. This was supported through review of documentation retained on file for the sampled projects, which showed that five of the 15 (33 per cent) projects had a Results of Tender Process form with the same date as the Notification of Commencement of a Project form (Support Document 10) (noting that the NT BGA requires schools to prepare a Notification of Commencement of a Project form after entering into a contract with a builder).

In order to ensure schools obtain value for money from their tender processes for each project, the NT BGA should require schools to provide the completed Result of Tender Process Template and preferred tender to the NT BGA for approval prior to entering into a contract with the preferred tenderer. The NT BGA would then be able to undertake a review of the tender process and outcomes achieved by schools, and ensure schools are achieving value for money as required under the CGP Guidelines.

The NT BGA should review and approve the tender process of schools prior to schools entering into a contract with the preferred tenderer. This should include the NT BGA requiring schools to provide a copy of the preferred tender.

Schools are not required to provide the NT BGA with regular non-financial progress reports during construction.

The NT BGA requires schools to provide a general (i.e. non-financial) progress update for the project in the PCES template. Schools are only required to submit a PCES for the first payment claim with subsequent claims requiring only a school issued tax invoice. Accordingly, under the NT BGA's current process, schools are only required to provide a non-financial progress update for the first month of the construction period.

It is noted that the NT BGA also has in place a Progress Report template (Support Document 14) which it requires schools to complete and submit if the project is not completed within the relevant funding year. The NT BGA advised that in October or November of each year it will review all active projects to identify which are unlikely to be completed before the end of the year, and it will issue the relevant schools with the Progress Report template for completion.

Other than the PCES (for the first claim) and the Progress Report (where projects are not expected to be completed in the funding year), the NT BGA does not require schools to provide regular non-financial progress updates.

We were advised that the projects which the NT BGA recommends to the Commonwealth for CGP funding are typically of a smaller size compared to grants which are recommended by other BGAs. As a result, these projects tend to be completed within shorter timeframes (e.g. in under a year). Regardless, it would be better practice for the NT BGA to require schools to provide regular non-financial progress updates which may assist the NT BGA to confirm grant funding is being expensed in accordance with CGP Guidelines and for the approved purpose.

We highlight our recommendation in Section 5.3 that the NT BGA should require schools to submit PCESs on a regular basis throughout the construction period (i.e. in place of regular tax invoices). As the NT BGA's PCES template includes a general non-financial progress update, if the NT BGA was to require schools to submit PCESs on a regular basis, schools would as a matter of course be providing regular non-financial progress updates to the NT BGA. Accordingly, the NT BGA should consider requiring schools to provide PCESs on a regular basis in order to capture both financial and non-financial information.

5.5 Records management

Documents reviewed were in good order and readily accessible.

The NT BGA records were largely maintained in good order, with documentation for each project kept on an individual hard copy file. The bulk of the records on file relate to the application, project commencement, payment and completion.

However, we highlight our findings regarding the lack of records in respect of the NT BGA's financial assessment process addressed in section 5.2 above.

Schools are required by the NT BGA to submit project closure documentation (including an Accountant's Certificate) within three months of the final grant payment. Project closure documentation was not provided in a timely manner by a number of schools selected in our sample.

Upon project completion, the NT BGA requires schools to provide completion documentation which includes:

- Architect's / Supervisor's Statement of Completion (NT BGA Support Document 12);
- Accountant's Statement of Final Costs (NT BGA Support Document 13); and
- where relevant, evidence of a plaque and opening ceremony.

As discussed above, the NT BGA withholds 10 per cent of the total grant amount until the school provides an Architect's / Supervisor's Statement of Completion. In practice, schools will often submit the Architect's / Supervisor's

Statement of Completion concurrently to submitting its final grant payment claim, in which case the NT BGA will release any remaining grant funds (including the withheld 10 per cent) to the school.

We note that the NT BGA's Operations and Procedures Manual states that schools are required to submit the Accountant's Statement of Final Costs within three months of receiving and expending 100 per cent of the grant. The NT BGA's Operations and Procedures Manual further states that schools are required to submit evidence of a plaque at the time of submitting the Accountant's Statement of Final Costs. We were advised that this was difficult to achieve given difficulty in arranging the attendance of the relevant Commonwealth or State Minister to attend the opening ceremony.

Based on review of the documentation retained on the project file for the sampled projects, the NT BGA often has difficulty obtaining the Accountant's Statement of Final Costs from schools, which are often provided more than three months after the submission of the Architect's / Supervisor's Statement of Completion. Specifically, six (75 per cent) of the eight Accountant's Statements provided for the sampled projects were dated more than three months after the submission of the Architect's / Supervisor's Statement of Completion, and three (50 per cent) of these six were provided more than six months after the submission of the Architect's / Supervisor's Statement of Completion. We were advised that as most projects are not large and are completed within a relatively short timeframe, schools will generally incorporate their BGA audits with their yearly audits to reduce costs.

The NT BGA's difficulty in obtaining the Accountant's Statement within a timely manner may be attributable to schools having already received 100 per cent of their allocated grant funding amount prior to the submission of the Accountant's Statement of Final Costs. As a result, there is less incentive for schools to provide this documentation in a timely manner. Notwithstanding, the NT BGA should ensure it is obtaining Accountant's Statements of Final Costs from schools within three months of project completion as in accordance with its Operations and Procedures Manual.

In accordance with its Operations and Procedures Manual, the NT BGA should ensure that schools are providing their completion documentation (including an Accountant's Statement of Final Costs) within required timeframes. If the NT BGA determines that the required timeframes are unable to be achieved, the NT BGA should amend its Operations and Procedures Manual to ensure schools have an appropriate timeframe to provide their completion documentation.

6 Conclusion

In light of the findings set out in this report, we have made the following recommendations for the NT BGA and the Department to consider:

- The NT BGA should expand its documented conflict of interest management procedures. The NT BGA should also introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Board and Priorities Committee meetings. Any conflict of interest management processes undertaken should be identified in the meeting minutes;
- The NT BGA Priorities Committee members with a direct conflict of interest in regards to an applicant school should be replaced on the Priorities Committee on a temporary basis for that particular funding round. If a suitable replacement is unavailable, the conflicted Priorities Committee member should be excluded from discussion and decision-making in respect of their affiliated school;
- The NT BGA should require schools to provide evidence of relevant insurance policies during the application process;
- The NT BGA should document its financial viability and financial contribution assessment processes. The NT BGA should also document the financial viability and financial contribution assessment for each applicant school to support the determination of the grant and school contribution amounts;
- The Priorities Committee meeting minutes should clearly document the rationale for recommending one school for funding over others with the same priority ranking;
- The NT BGA should pay grant funds to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PCES should be disbursed). This reduces the risk that the project will not be successfully completed within timeframes;
- The NT BGA should require schools to submit progressive expenditure statements ("PESs") on a regular (e.g. monthly) basis throughout the construction phase of the project;
- The NT BGA should require schools to provide supporting documentation (i.e. underlying invoices) to substantiate project expenditure claimed each month;
- The NT BGA should review and approve the tender process of schools prior to schools entering into a contract with the preferred tenderer. This should include the NT BGA requiring schools to provide a copy of the preferred tender; and
- In accordance with its Operations and Procedures Manual, the NT BGA should ensure that schools are providing their completion documentation (including an Accountant's Statement of Final Costs) within required timeframes. If the NT BGA determines that the required timeframes are unable to be achieved, the NT BGA should amend its Operations and Procedures Manual to ensure schools have an appropriate timeframe to provide their completion documentation.

Department of Education and Training

Operational Review of the QLD Catholic Schools Block Grant Authority (QCEC)

19 February 2019

FINAL



McGrathNicol

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1 Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
CGP	Capital Grants Program for Non-government Schools
Department	Department of Education and Training
EOI	Expression of interest
ICSEA	Index of Community Socio-Educational Advantage
Minister	The Australian Government Minister for Education and Training
MOU	Memorandum of Understanding
Objectives	The objectives of the CGP
CGP Guidelines	Capital Grants Program Guidelines 2018
Participant Agreement	Agreement between the School Authority and QCEC entered into for the School to become a member of the QLD Catholic Schools BGA.
PES	Progressive Expenditure Statement
Requirements	Requirements under the CGP Guidelines, Australian Education Act 2013 and Australian Education Regulation 2013
SES	Socio-economic Status
QCEC	Queensland Catholic Education Commission (i.e. the Queensland Catholic Schools Block Grant Authority)

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") in accordance with Work Order AD16/000312 between McGrathNicol and the Department for the review of the Queensland and Northern Territory Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing.

We have carried out a review of Queensland and Northern Territory Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program for Non-government schools ("CGP") is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for Non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The Objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the Queensland Catholic Schools Block Grant Authority, the Queensland Catholic Education Commission ("QCEC"). The review examines the efficiency and effectiveness of QCEC in administering the CGP and evaluates QCEC's compliance with key requirements under the Capital Grants Program Guidelines 2018, Australian Education Act 2013 and Australian Education Regulation 2013 ("the Requirements") which govern the administration of the program.

In reviewing QCEC we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Guidelines;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the QCEC website;
- meetings and discussions with representatives of QCEC, in particular:
 - s 47F
 - s 47F
 - s 47F
- information obtained during our site visit to the offices of QCEC, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of QCEC.

As discussed with the Department we have chosen a sample of 15 files to review from a population of 44 projects in the 2015 to 2018 QCEC Project Summary Reports. Provided below is a listing of the sample case files selected for the review testing:

Table 1: Listing of sample case files

QLD Catholic BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2015/00496/1	Our Lady of Good Counsel School	2,374,376
2015/77369/1	Columba Catholic College	1,647,864
2015/05609/1	St Francis College	677,262
2016/00684/1	St Patrick's Catholic Primary School	2,125,190
2016/00572/1	St Francis Xavier Catholic Primary School	1,416,564
2017/02528/1	Christ the King Catholic Primary School	1,567,819
<i>Un-acquitted projects</i>		
2016/30269/1	McAuley College	3,499,518
2016/30270/1	St Clare's Primary School	1,250,279
2017/17247/1	St Teresa's College	5,746,772
2017/30318/1	St Benedict's Catholic School	4,729,842
2017/17221/1	Assumption College	1,271,646
2018/00550/1	St Catherine's Catholic College The Whitsundays	3,274,050
2018/17247/1	St Teresa's College	4,025,133
2018/00662/1	St Mary's Catholic Primary School	2,680,559
2018/00627/1	St Joseph's Catholic Primary School	1,915,261

3.4 Findings

3.4.1 Governance arrangements

- Generally, QCEC has in place adequate documentation supporting the administration of the CGP, however its Grant Acceptance Letter pro forma template could be strengthened;
- The Participant Agreement executed by schools is comprehensive and is supported by QCEC's Conditions of Compliance;
- QCEC has recently made significant improvements to its governance structure, including implementing an independent Assessment Committee; and
- QCEC is in the process of introducing a new conflict of interest management process, however it does not have a conflict of interest register or a current conflict of interest policy.

3.4.2 Selection and ranking of projects

- The QCEC Secretariat, Capital Assistance Reference Group ("CARG") and Capital Assistance Assessment Committee ("CAAC") (previously the Capital Programs Sub-committee) assess applications based on detailed application forms, school visits and briefings provided by school representatives;
- The CAAC ranks the applications primarily in regards to educational need;
- QCEC's Finance Team undertake the assessment of the schools' financial need, however an assessment of schools' financial viability is not specifically undertaken; and
- QCEC ("the Commission") makes recommendations to the Commonwealth based on the CAAC's priority rankings and the QCEC Finance Team's assessment of schools' financial need.

3.4.3 Financial systems and practices for acquitting project funds

- Commonwealth and State capital grant funding is generally allocated separately;
- QCEC appears to have adequate controls to prevent misappropriation of grant funds prior to disbursement to schools;

- QCEC pays grant funds to schools based on progressive expenditure statements, which are either supported by invoices or a schedule of invoice numbers; and
- QCEC pays grant funds to schools on a full reimbursement basis from the commencement of the project until all grant funding is disbursed. Once all grant funding is disbursed, the school must fund the remainder of the project. This increases the risk that the project may not be completed within agreed timeframes.

3.4.4 Project monitoring

- QCEC requires schools to have a strong tender process, with tenders to be obtained from multiple providers and a requirement to utilise the lowest tenderer's quotation (except in special circumstances); and
- QCEC does not obtain formal non-financial project updates. There is a risk that QCEC may not become aware of misappropriation of grant funds until after project completion.

3.4.5 Records management

- QCEC maintains electronic records for all projects which were in good order and readily accessible; and
- QCEC does not retain a final progress payment amount until completion documentation is received from schools.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for QCEC and the Department to consider:

- QCEC amend the Grant Acceptance Letter pro forma template to require schools to date the Letter on execution;
- QCEC introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Commission, CAAC and CARG meetings. Any conflict management processes should be identified in the meeting minutes. QCEC should ensure its conflict of interest policy is current;
- QCEC should undertake and maintain on file financial viability assessments of the 17 Religious Institute non-Diocesan schools if they apply for CGP funding. This will ensure applicant schools are financially viable as required by the CGP Guidelines;
- QCEC should pay grant funds to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PES should be disbursed). This reduces the risk the project will not be successfully completed within timeframes;
- QCEC should require schools to provide non-financial progress updates, including photos, at the time of submitting monthly PESs; and
- QCEC should retain 10 per cent of grant funds until all completion documentation (excluding the Accountant's Certificate) is received in order to provide incentive for schools to complete their documentation promptly.

4 Background

4.1 Overview of the Capital Grants Program for Non-government schools and role of the Queensland Catholic Schools BGA

The CGP provides funding for Non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to Non-government schools are administered by Block Grant Authorities ("BGAs") who assess applications from schools and make recommendations for funding to the Australian Government Minister for Education and Training ("the Minister"). Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

Queensland Catholic Education Commission ("QCEC" or "the Commission") is the peak body representing all Catholic Education authorities in Queensland which together operates more than 250 schools. QCEC is also the approved school system for the purposes of the *Schools Assistance Act 2008* and is recognised as both the Queensland Catholic Schools BGA for the purposes of administering Australian Government capital funding assistance and the Capital Assistance Authority ("CAA") for the purposes of administering State government capital funding assistance to Catholic sector schools in Queensland.

QCEC is a non-profit entity whose members are not-for-profit Catholic schools located in Queensland. Membership includes 22 school authorities, including:

- Archdiocese of Brisbane;
- Diocese of Toowoomba;
- Diocese of Rockhampton;
- Diocese of Townsville;
- Diocese of Cairns; and
- 17 Religious Institute schools which operate independently of the Diocese within which they are geographically located.

QCEC utilises a number of documents and reference materials to administer the CGP. Provided below is a summary of the key internal and external documents that shape the delivery of QCEC's CGP:

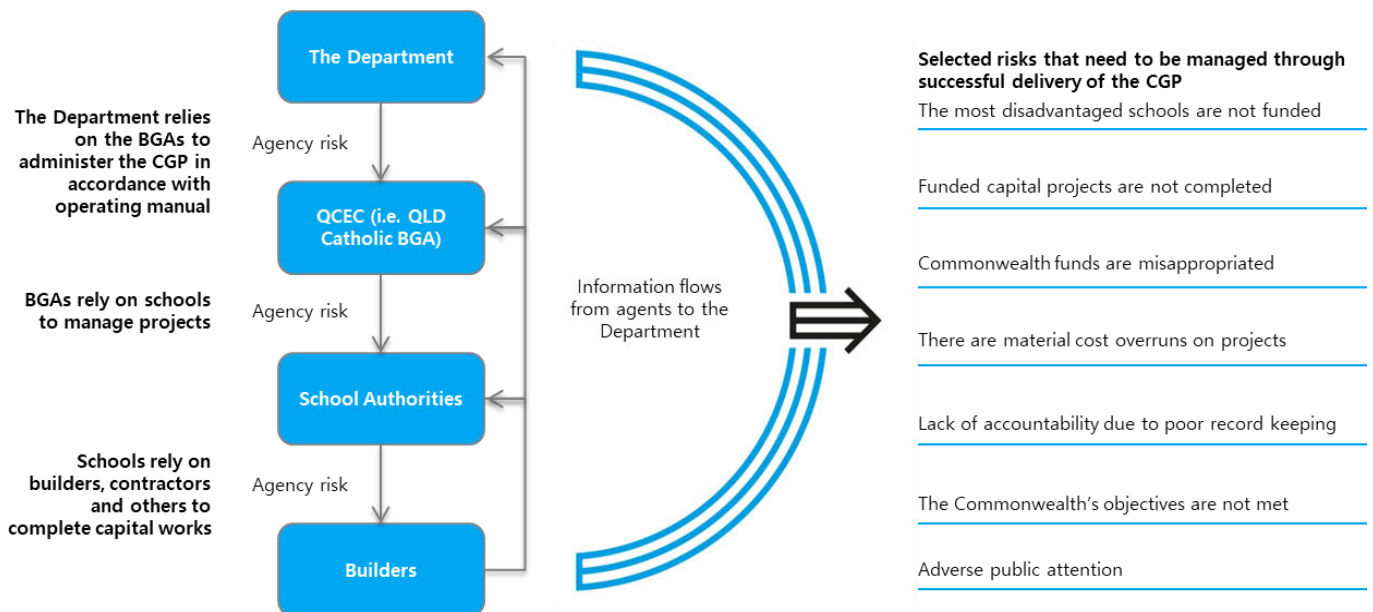
Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> ▪ Australian Education Act 2013 ▪ Australian Education Regulation 2013
Regulatory guidance material	<ul style="list-style-type: none"> ▪ CGP Guidelines 2018
QCEC policy documents and agreements	<ul style="list-style-type: none"> ▪ Participant agreement ▪ Conflict of Interest Policy
QCEC guidance materials	<ul style="list-style-type: none"> ▪ Capital Program Guidelines ▪ Capital Program Funding Conditions of Compliance ▪ Capital Programs Functional Area Cost Guide ▪ Capital Assistance Reference Group (CARG) Terms of Reference ▪ Capital Assistance Assessment Committee (CAAC) Terms of Reference ▪ Project Scoring Methodology

4.2 Agency risk

In order for the Australian Government to achieve the Objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the Objectives of the CGP. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required in order to deliver the CGP and achieve the program's Objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP

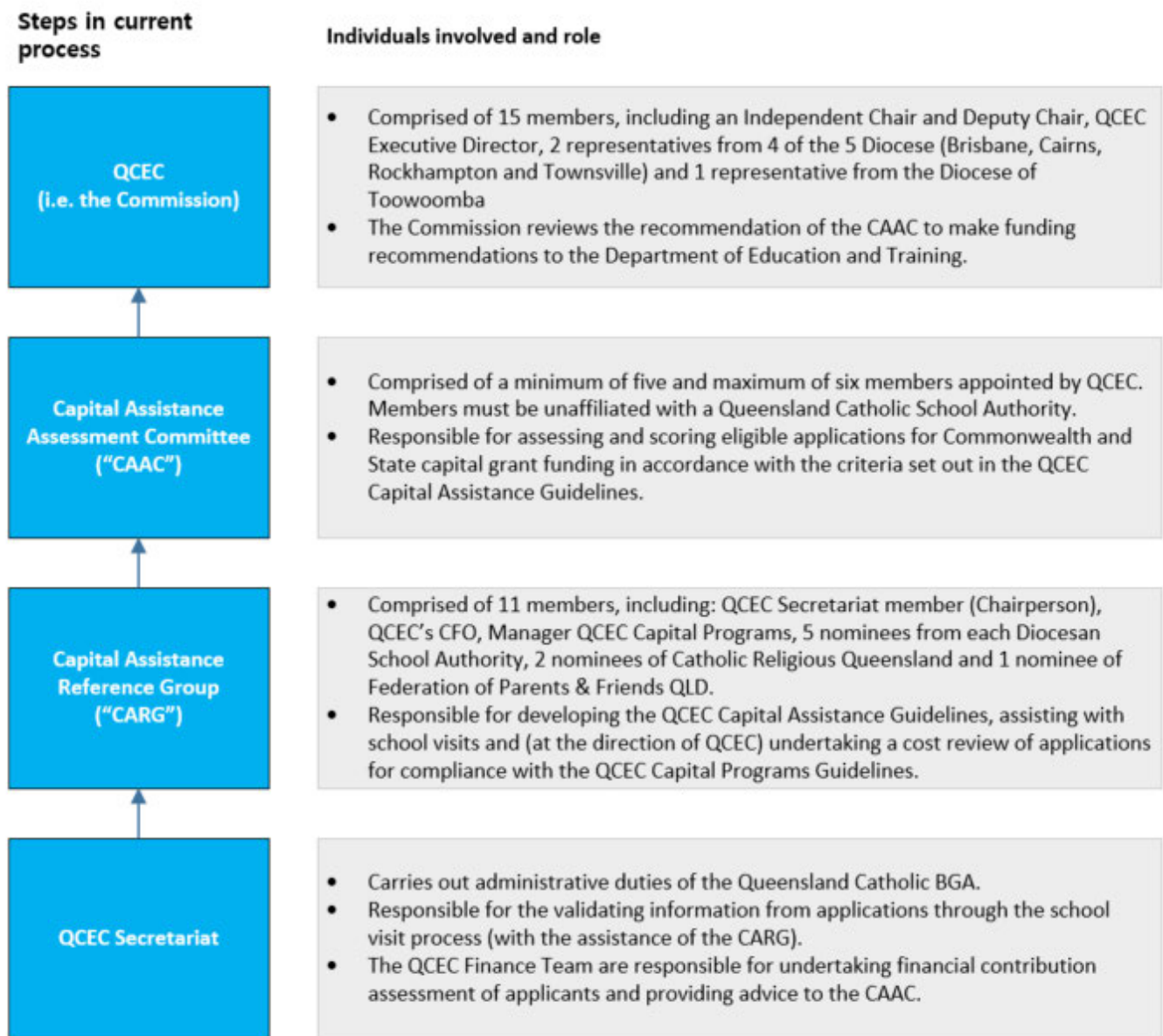


4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

QCEC received independent advice on its capital grants management process from Bentleys in 2016. Based on this advice, QCEC amended its capital grants governance structure by replacing the former Capital Programs Sub-committee with the Capital Assistance Reference Group ("CARG") and Capital Assistance Assessment Committee ("CAAC").

In Figure 2 we have outlined the current QCEC CGP governance structure. In Figure 3, we have outlined the former QCEC CGP governance structure for reference (noting that this was the structure in place when the projects in our sample were approved).

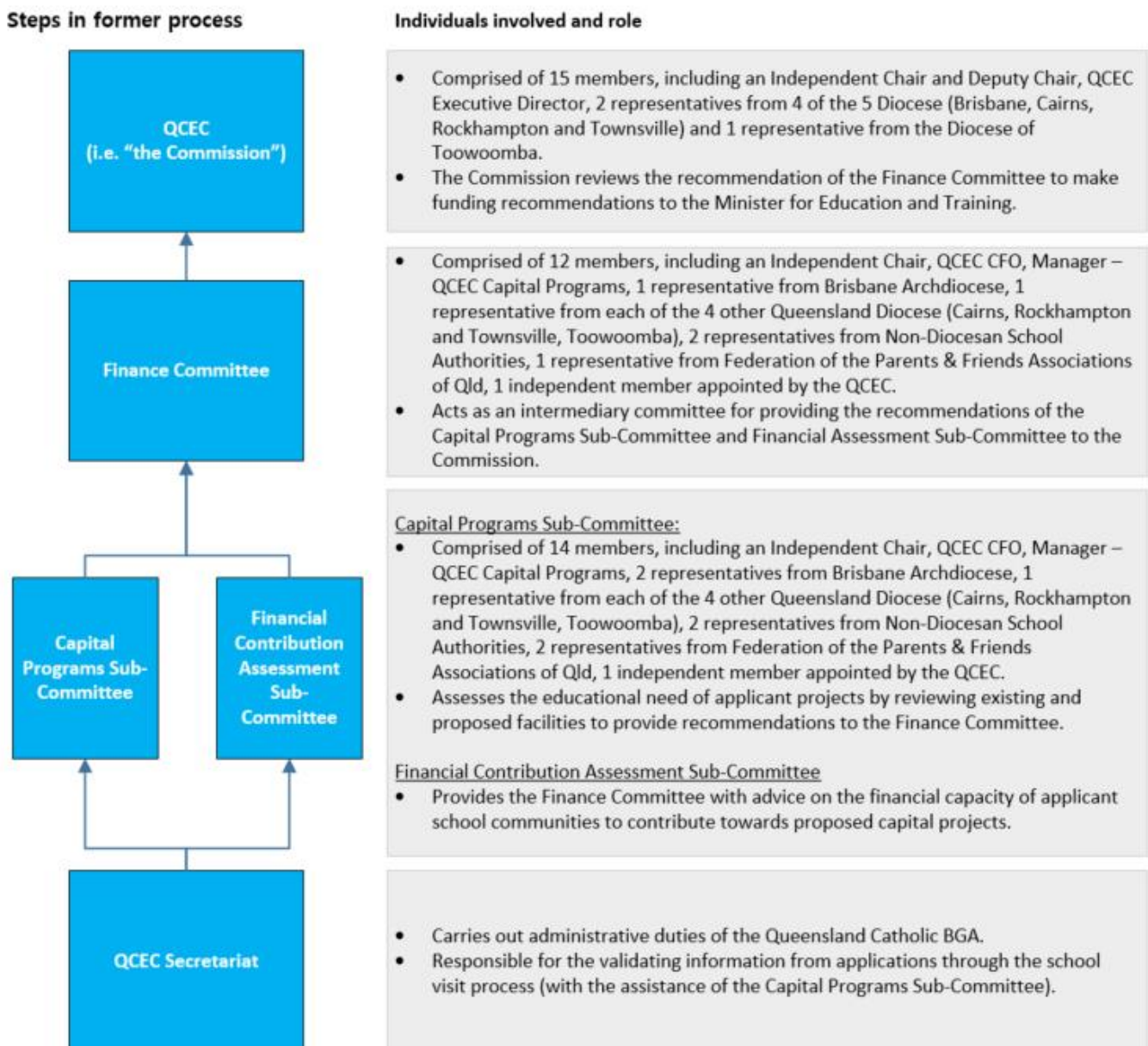
Figure 2: Structure of current application approval



The current structure was implemented and has been in place since October 2017 and will be applicable for the 2019 capital grant funding round.

We note that QCEC advised the Diocese of Toowoomba made the election to only have one representative on the Commission.

Figure 3: Structure of former application approval



We highlight that the former structure was applicable to all funding rounds in the review period from 2015 to 2018.

In regards to the current process, we have sought to summarise the key steps taken in the table below.

Table 3: Overview of the Capital Grants Program Administration

Overview of the CGP Administration		
Step	Stage	Milestone
Step 1	Application Process	Schools lodge an application for a capital grant via QCEC's online applications system: Capital Programs Online. Applications include relevant information regarding the project details, costing estimates, justification, the school, student enrolments and staffing information.
Step 2		Schools also lodge a Financial Contribution Assessment Application which must include audited financial statements.
Step 3	Compliance Check	A member of the QCEC Secretariat and a member of the CARG will visit the school to validate the application information and explore the merits of the proposed project. Capital applications may be amended after the school visit but not after 1 June each year.
Step 4		Schools are required to have entered into an affiliation agreement with QCEC prior to any offer of capital assistance being considered.
Step 5	Merit Assessment Stage	The CAAC meet in June each year to evaluate the merit of each application and determine funding priorities. The CAAC consider each project against the following criteria: <ul style="list-style-type: none"> ▪ Changes in demographics, enrolments and student characteristics; ▪ Educational planning; and ▪ Infrastructure planning. CAAC members independently score each facet of each criterion between 1 (lowest) to 3 (highest). Each CAAC member's project score is the sum of all unweighted scores for that project and can range from a minimum of 8 to a maximum of 24 (a higher score indicating higher funding merit).
Step 6		QCEC applies a weighting factor derived from the school's ICSEA value to give consideration to schools' relative educational disadvantage. The weighting factors are determined as follows: <ul style="list-style-type: none"> ▪ The weighting factor for schools more than one standard deviation below the ICSEA mean (Band 1) is 1.1. ▪ The weighting factor for schools within one standard deviation of the ICSEA mean (Band 2) is 1.0. ▪ The weighting factor for schools more than one standard deviation above the ICSEA mean (Band 3) is 0.9. QCEC will allocate a weighting factor to new schools based on the weighting factor for schools within its relative proximity.
Step 7		QCEC will determine projects' priority ranking by combining CAAC members' scores using a trimmed mean (i.e. excluding the highest and lowest scores). Where two or more CAAC members give an equal highest or lowest score, only one score is excluded. Combined scores are rounded to one decimal place.
Step 8	Financial Assessment Stage	Concurrent to the Merit Assessment Process, the QCEC Finance team assess the financial capacity of applicant school communities to contribute towards proposed capital projects based on information provided in the Financial Contribution Assessment Application.
Step 9		QCEC complete an initial assessment of schools' total contribution using QCEC's Capital Financial Contributions Guidelines.
Step 10		The QCEC Secretariat advise the school of the outcome of the initial assessment.

Overview of the CGP Administration

Step 11		Schools are given the opportunity to request a re-assessment of the financial contribution and provide further information to be considered in reassessing the total contribution required.
Step 12		The QCEC Finance team reassess schools' total contributions using QCEC's Capital Financial Contributions Guidelines for consideration in the Allocation and Offer Stage.
Step 13	Allocation and Offer	Based on the outcomes of the Merit and Financial Assessment stages, QCEC determines the prioritisation list.
Step 14		Australian Government funding is first allocated to the lowest SES ranked schools that have been prioritised for funding, followed by State Government funding until all available funding is exhausted.
Step 15		Schools are given the opportunity to submit a written appeal to the outcome of QCEC's assessment process. Schools must give notice of their intention to appeal within two weeks of the date of notification of a funding decision, with schools required to submit their appeal within a further two weeks.
Step 16		QCEC advises successful applicants that their application has been recommended to the respective Education Minister for final approval.
Step 17		Schools with projects recommended for funding by QCEC are advised of the outcome of their application by the Education Minister.
Step 18		QCEC provides successful schools with a formal Offer of Grant letter.
Step 19		Schools accept the Offer of Grant by returning an Offer Acceptance Letter to QCEC.
Step 20	Monitoring Stage	QCEC undertakes a pre-tender review of request for tender documents to ensure the approved project is being tendered. Following this review, Schools will conduct a tender process and submit a Result of Tender Process form.
Step 21		Unless prior approval is received from the Department, schools must enter into a contractual arrangement to proceed with the project before the end of the year in which the first instalment of the grant is payable.
Step 22		Grant payments are made to schools subsequent to the school providing QCEC with the following: <ul style="list-style-type: none"> ▪ a signed agreement from the school authority to the condition of grant offer; and ▪ the results of tender/quotation bids.
Step 23		Schools provide QCEC with Progressive Expenditure Statements (PESs) on a monthly basis. The PESs must include an update of the percentage complete (milestone) progress of works and the amount claimed for that PES, signed by the school authority's representative (e.g. Architect or Project Supervisor).
Step 24	Finalisation and Completion	The QCEC Secretariat may undertake a review of the completed project, including a site visit and preparation of the Post-Occupancy Review Report.
Step 25		Schools conduct an opening ceremony and provide QCEC with evidence (e.g. a photo) of the opening plaque.
Step 27		Following the submission of the Project Completion Statement, QCEC will request schools return any overpayments of grant funding.

5 Key findings

5.1 Governance arrangements

Generally, QCEC has in place adequate documentation supporting the administration of the CGP, however its Grant Acceptance Letter pro forma template could be strengthened.

QCEC has in place adequate documentation supporting the administration of the CGP. This includes the following process documentation, guidance material and pro forma templates:

- governance and process documentation:
 - Capital Assistance Guidelines;
 - Project Scoring Methodology;
 - Capital Assistance Assessment Committee ("CAAC") Terms of Reference; and
 - Capital Assistance Reference Group ("CARG") Terms of Reference;
- applicant guidance documentation:
 - Capital Program Guidelines;
 - Conditions of Compliance; and
 - Functional Area Cost Guide;
- pro forma templates:
 - Part A Application;
 - School Visitors Notes;
 - Letter of Recommendation;
 - Offer of Grant;
 - Grant Acceptance Letter;
 - Result of Tender Process and Result of Quotation Process templates (for minor projects under \$100,000);
 - Progressive Expenditure Statements ("PES");
 - Practical Completion Statement;
 - Project Accountant's Statement;
 - Capital Project Completion Statement; and
 - Post-Occupancy Review Report.

It is noted that the Grant Acceptance Letter pro forma template is the principal document in QCEC's capital grant administration process for recognising grant recipients' agreement to the conditions of compliance for receiving grants, including spending the grant only on the approved project as described in the grant offer. However, the Grant Acceptance Letter pro forma template does not require schools to record the execution date. We note that in our sample of 15 projects, 14 Grant Acceptance Letters were not dated upon execution. Accordingly, based on review of the documentation, it is unclear if the grant recipients agreed to the terms prior to receiving grant funding.

QCEC amend the Grant Acceptance Letter pro forma template to require schools to date the Letter on execution.

The Participant Agreement executed by schools is comprehensive and is supported by QCEC's Conditions of Compliance.

Under the CGP Guidelines, each school is required to enter into a legally binding written agreement accepting to be bound by all requirements listed in the CGP Guidelines prior to receiving funding. The CGP Guidelines provide detailed guidance on specific conditions required to be contained in each agreement.

QCEC's Participation Agreement is supported by QCEC's Conditions of Compliance guidance document. Between the Participation Agreement and QCEC's Conditions of Compliance, all provisions contained in the CGP Guidelines appear to

have been appropriately addressed, ensuring schools are aware of and agree upon their obligations prior to receiving funding.

QCEC has recently made significant improvements to its governance structure, including implementing an independent Assessment Committee.

During the first half of 2016, Bentleys was engaged by the Queensland Government Department of Education and Training to review QCEC's administration of State capital assistance to non-state schools. Subsequently, QCEC engaged Bentleys to undertake a review of its capital grants governance. From the review of QCEC's capital grants governance, Bentleys issued a report in December 2016 outlining findings and recommendations for improving:

- accountabilities and program governance;
- conflicts of interest / organisational structure; and
- probity, accountability and transparency.

QCEC has implemented a number of the recommendations outlined in the Bentleys report. Notably, the Bentleys report identified the potential for actual or perceived conflict of interests to arise in respect of the former Capital Programs Sub-committee, which was responsible for assessing and prioritising applications for capital funding. The potential conflict of interest was found to arise as a result of the Capital Programs Sub-committee being a representative committee comprised of members nominated by school authorities (i.e. head organisations of applicants for capital funding).

At Bentleys' recommendation, QCEC replaced the Capital Programs Sub-committee with the Capital Assistance Assessment Committee ("CAAC") and Capital Assistance Reference Group ("CARG"). The CAAC is a skills based, non-representative committee responsible for assessing and prioritising the educational need of applications for capital funding. In contrast the CARG is a representative committee (i.e. including members nominated by school authorities) responsible for developing the Capital Programs Guidelines, setting functional area costs standards, assisting QCEC's Secretariat to validate information included in capital grant applications through the school visit process and (at the direction of QCEC) undertaking a cost review of capital assistance applications.

The introduction of the CAAC and CARG in the place of the Capital Programs Sub-committee appears to significantly increase the transparency of QCEC's capital grant governance and mitigate the potential for actual or perceived conflicts of interest to arise.

QCEC is in the process of introducing a new conflict of interest management process, however it does not have a conflict of interest register or a current conflict of interest policy.

With the introduction of the CARG and CAAC governance structure in 2018, QCEC is in the process of implementing a new conflict of interest management process for the CARG and the CAAC. According to both the CARG and CAAC Terms of Reference, members are required to declare any interests that could constitute a real, potential or apparent conflict of interest with respect to participation. The declaration must be made on appointment to the CARG / CAAC and in relation to specific agenda items at the commencement of each meeting and be updated annually. However we note that we were provided with the Agenda and Minutes for the CARG meeting in August 2018 and there did not appear to be a standing agenda item to declare any interests (as prescribed by the CARG Terms of Reference). Accordingly, it appears the implementation of QCEC's new conflict of interest management processes is still in train.

Furthermore, QCEC advised that it does not currently have a conflict of interest register in place. The introduction of a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of the Commission, CAAC and CARG meetings may assist QCEC to effectively manage any actual, potential or perceived conflicts of interest.

In regards to the selection and approval of our sampled projects during the 2015 – 2018 funding years, the conflict of interest management processes undertaken are unclear based on the Capital Programs Sub-committee agendas and minutes. It is noted that QCEC had in place a Conflict of Interest Policy at the time (dated 19 January 2015) which outlines the obligations that were placed on all QCEC employees, volunteers and other third party contractors for managing conflicts of interest. These obligations included signing the QCEC Policy Compliance Checklist as part of QCEC's induction process and annual review process, and disclosing conflicts of interest and their nature as conflicts arise. This Conflict of Interest Policy appears to still be in place, however it has a review date for 1 November 2015. Accordingly, it is unclear whether the Conflict of Interest Policy has been reviewed and approved by QCEC Secretariat leadership since January 2015. It is important that QCEC's Conflict of Interest Policy is up to date, particularly with the new governance structure put in place as a result of the Bentleys review.

QCEC introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Commission, CAAC and CARG meetings. Any conflict management processes should be identified in the meeting minutes. QCEC should ensure its conflict of interest policy is current.

5.2 Selection and ranking of projects

The QCEC Secretariat, Capital Assistance Reference Group ("CARG") and Capital Assistance Assessment Committee ("CAAC") (previously the Capital Programs Sub-committee) assess applications based on detailed application forms, school visits and briefings provided by school representatives.

Schools prepare detailed applications which include relevant information regarding the following:

- project details;
- enrolment information;
- staffing information;
- information for previously completed capital projects;
- justification for the proposed project;
- master planning information;
- information regarding existing and proposed facilities; and
- schedule of proposed costs.

Schools also lodge a Financial Contribution Assessment Application which must include the following documents:

- declaration signed by an appropriate delegate of the school;
- completed Financial Contribution Assessment Template; and
- audited financial statements and management reports.

QCEC's process for assessing and recommending grants to the Minister commences with an initial review of school applications by members of QCEC's Secretariat. During this initial review, the QCEC Secretariat will assess the application for compliance with QCEC's Capital Assistance Guidelines and prepare a project history report outlining the school's enrolment trends and any historical capital projects undertaken.

Following the initial review, one member of the QCEC Secretariat and one member of the CARG (previously a member of the former Capital Programs Sub-Committee) will visit each applicant school to validate all information contained in the application and to explore the merits of the proposed project. School visitors will prepare a BGA School Visit Summary form which includes a project description and the school visitors' notes on:

- enrolments and streams;
- the proposed works (in relation to the Master Plan and Area Guidelines);
- refurbishment details;
- external works;
- other costs;
- furniture and equipment;
- fees and local authority charges; and
- other comments.

The application and the school visitor notes are considered by the CAAC (previously the Capital Programs Sub-Committee). Furthermore, QCEC invites representatives from applicant schools to the CAAC meeting where priorities of projects are determined to provide a brief overview of the educational need of the proposed capital project.

It is noted that QCEC's process for reviewing applications and undertaking school visits has remained largely unchanged since QCEC updated its governance structure by replacing the Capital Programs Sub-Committee with the CARG and CAAC.

The CAAC ranks the applications primarily in regards to educational need.

Following the applicant school briefings and discussion amongst CAAC (previously Capital Programs Sub-Committee) members, members of the CAAC prioritise the educational need for each project by individually scoring applications against the following criteria:

- changes in demographics, enrolments and student characteristics;
- educational planning; and
- infrastructure planning.

Under the current ranking process, individual CAAC member scores are adjusted by a weighting factor derived from the school's ICSEA value (i.e. a measure of the schools' relative socio-economic disadvantage). Each applicant's scores are then combined excluding the highest and lowest scores for a 'trimmed mean'. Scores are then ranked from higher to lowest to form the CAAC's prioritisation schedule.

QCEC's process for ranking the educational need of projects, notably the weighting of scores by a socio-economic indicator, appears a robust model for allocating Commonwealth capital grant funding in accordance with the Objectives of the CGP Guidelines.

QCEC's Finance Team undertake the assessment of the schools' financial need, however an assessment of schools' financial viability is not specifically undertaken.

Concurrent to the CAAC's assessment of applicant schools' educational need for capital grant funding, the QCEC Finance team undertake an assessment of applicant schools' financial capacity to contribute to the total project cost. QCEC's financial contribution assessment template takes into account schools' Government and private income, student enrolments (and income per student) and existing debt servicing. The template also ensures 10 per cent or \$150,000 of the schools' cash holdings are held in reserve for operational / working capital purposes.

QCEC provided financial contribution assessments for the sampled projects in the 2016 - 2018 CGP funding rounds (noting that the documentation supporting this process has improved since the 2015 funding round). QCEC's financial contribution assessment calculates the schools' estimated total contribution to the project cost (including a breakdown into the schools' estimated cash contribution and estimated loan contribution).

Based on review of the sample financial contribution assessments, the estimated total contribution amounts calculated using QCEC's financial contribution assessment tool align to the actual school contribution amount recorded on the Grant Acceptance Letters.

It is noted that the systemic nature of Queensland Catholic Diocesan schools creates complexities when assessing financial need as a school's capacity to pay for capital works is not limited to its own financial position but rather the financial resources of the Diocese to which it belongs and more broadly the Catholic Church. Accordingly, we were advised by QCEC that from 2018 QCEC has started to assess both the school and its respective school authority in regards to financial need for the capital grant.

It is noted that the financial contribution assessment tool does not assess schools' financial viability. Based on discussions with QCEC, due to the systemic nature of Queensland Catholic Diocesan schools (e.g. Catholic Diocesan schools tend not to hold cash as school authorities will pay operating expenses of schools) it is difficult to undertake an assessment of applicant schools' financial viability. Furthermore, QCEC representatives advised that Queensland Catholic Diocesan schools are unlikely to represent a financial viability risk as each school is supported by their relevant Diocese and ultimately the Catholic Church. We note that we were not provided with any evidence of formal guarantees between the sampled schools and their relevant Diocese or the Catholic Church, so on the basis that no formal guarantee exists, schools may still represent a financial viability risk. However, we note that it appears this risk is likely to be low.

However, QCEC also does not undertake a financial viability assessment of the 17 Religious non-Diocesan schools, despite these schools not being financially supported by a Diocese or the Catholic Church in the same manner as the Diocesan schools. Compared to the Diocesan schools, it appears that the lack of financial support for the non-Diocesan schools may represent an actual financial viability risk, and accordingly, the non-Diocesan schools should be required to demonstrate to the QCEC that they are financially viable as required by the CGP Guidelines. As such, it appears appropriate that the QCEC should undertake and maintain on file a financial viability assessment of these 17 Religious Institute non-Diocesan schools if they apply for CGP funding to ensure compliance with the CGP Guidelines.

QCEC should undertake and maintain on file financial viability assessments of the 17 Religious Institute non-Diocesan schools if they apply for CGP funding. This will ensure applicant schools are financially viable as required by the CGP Guidelines.

The Commission makes recommendations to the Commonwealth based on the CAAC's priority rankings and the QCEC Finance Team's assessment of schools' financial need.

Subsequently to the CAAC's educational need assessment and QCEC Finance Team's financial contribution assessment processes, QCEC allocates capital grant funding to eligible schools in order of priority ranking. Specifically, the application identified as having the highest educational need per the prioritisation schedule from the CAAC's assessment process receives capital grant funding first, followed by the application with the second highest educational need and so on until all capital grant funding has been allocated. All Commonwealth funding will be allocated before State funding in order to ensure Commonwealth funding is allocated to the most educationally disadvantaged schools.

The Commission will review and approve the CAAC's recommendations in regards to Commonwealth and State funding and the Commission will ultimately recommend the CGP projects and the grant funding amounts to the Commonwealth.

5.3 Financial systems and practices for acquitting project funds

Commonwealth and State capital grant funding is generally allocated separately.

In recommending capital grant funding amounts to the Minister, QCEC will allocate Australian and State government capital grant funding down the prioritisation list by beginning with CGP funding, followed by State government capital funding. In doing so, Commonwealth capital grant funding is largely kept separate from State Government funding, and schools' are generally either wholly funded by Commonwealth capital grant funding or State Government capital grant funding (noting that at the junction where all Commonwealth funding is allocated and QCEC commences allocating State funding down the priority schedule, there is the potential for a project to require both Commonwealth funding and State funding to meet its financial need).

QCEC's practice of generally allocating either Commonwealth or State Government funding results in recipient schools being bound by either the Commonwealth or State Government capital funding rules (i.e. not both). This appears to be a simple and effective mechanism for minimizing the administrative burden on QCEC and the schools.

As a side note, projects typically also receive funding under the External Infrastructure Subsidy Scheme from the State government (a separate scheme to the State Government capital assistance scheme). This scheme provides partial funding to non-state schools to meet the cost of construction of external infrastructure (i.e. off-site construction costs) and headwork contribution costs levied by local governments. This funding is allocated separately to the CGP funding and the State Government capital assistance funding and is not allocated on the basis of educational need.

QCEC appears to have adequate controls to prevent misappropriation of grant funds prior to disbursement to schools.

The following process appears to be in place to release grant funds to schools:

- a school submits a Progressive Expenditure Statement ("PES") claim to QCEC;
- the Capital Programs team will review the PES and grant details to confirm the claim complies with requirements and that grant funding is available for payment. The Capital Programs team will prepare the funding payment in the TechOne system for approval by Manager – Capital Programs;
- the Manager – Capital Programs will review and approve the release of funds to the school. The details and approval is forwarded to QCEC's Finance Team for processing;
- QCEC's Finance Team creates the payment in the accounting system;
- two members of QCEC Secretariat's leadership team are required to review and approve the release of funds in QCEC's accounting system;
- the QCEC Finance team prepares payment from QCEC's bank accounts;
- payments are reviewed and approved by two delegates of the QCEC Finance Team, and funds are released from QCEC's bank accounts to the school.

Segregation of duties reduces the risk of fund misappropriation and multiple stages of review reduces the risk of errors not being detected.

QCEC pays grant funds to schools based on progressive expenditure statements, which are either supported by invoices or a schedule of invoice numbers.

QCEC requires schools to submit completed Progressive Expenditure Statements ("PES") in order to claim capital grant funds on a monthly basis. In order to calculate the claim amount for each PES, the PES form requires schools to input the following information (GST exclusive):

- the original contract sum and approved variations;
- value of contract work completed to date;
- an estimate of expenditure to date not in the contract; and
- the value of all previous claims.

Schools are also required to indicate the approximate milestone percentage achieved for each PES claim and the project's estimated completion date. The PES must be signed by the project's architect or supervisor and the school's representative. Diocesan schools submit the PES form to their respective Diocesan Education Office for forwarding to QCEC via email.

QCEC also requires schools to provide invoices or schedule of invoices (i.e. list of invoices with invoice numbers and amounts) as evidence of project expenditure. These invoices or schedules are typically prepared by the project architect or supervisor and are attached to the PES claim.

QCEC pays grant funds to schools on a full reimbursement basis from the commencement of the project until all grant funding is disbursed. Once all grant funding is disbursed, the school must fund the remainder of the project. This increases the risk that the project may not be completed within agreed timeframes.

Upon schools submitting a PES to QCEC, QCEC will fully reimburse schools for project expenditure i.e. schools are not required to expend any of their own contribution until after all grant funding is expended.

Assessment of schools' and respective school authorities' financial capacity to meet their own contributions to projects is conducted during the assessment process. The amount of time between that financial assessment and all grant funding being disbursed can be significant (approximately 18 months). Accordingly, the grant recipients' financial position may change during that period and the school may no longer have sufficient funds to meet its contribution. As such, project timeframes may have to be extended in order for the grant recipient to accumulate sufficient funds to meet its contribution.

QCEC should pay grant funds to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PES should be disbursed). This reduces the risk the project will not be successfully completed within timeframes.

5.4 Project monitoring

QCEC requires schools to have a strong tender process, with tenders to be obtained from multiple providers and a requirement to utilise the lowest tenderer's quotation (except in special circumstances).

Schools are required to complete and submit to QCEC the Result of Tender Process pro forma template. This form requires schools to provide details of the tender process, including:

- details of advertisements;
- key tender dates (e.g. tender open and close dates);
- tender box open time, location and persons in attendance;
- schedule of tenders received and price;
- preferred tenderer;
- revised total project cost;
- provisional sums (e.g. prime cost items, sub-contracts and sub-elements);
- anticipated construction commencement date and construction period; and
- sign off by the school principal, project architect / supervisor and school authority representative.

The Result of Tender Process form must be supported by the preferred tender and evidence of the advertising process for review by QCEC.

Based on the outcome of the tender process, QCEC will utilise the tender results to revise the total project cost (including the local contribution and capital grant funding amount) which were originally based on cost estimates prepared during the application process. QCEC's internal process is for QCEC's Manager - Capital Programs to seek written endorsement for the variation from QCEC's Chief Financial Officer (for variations less than \$500,000) or QCEC's Chief Financial Officer and Executive Director (for variations greater than \$500,000). QCEC will subsequently provide schools with an Offer Letter as a Result of Tender, which confirms the total project cost and capital grant amount and advises the school that it may commence the project by entering into a formal agreement with a contractor.

QCEC does not obtain formal non-financial project updates. There is a risk that QCEC may not become aware of misappropriation of grant funds until after project completion.

Although QCEC interacts with schools and Diocesan representatives on a regular basis, including receiving informal progress updates on the status of projects under construction, QCEC does not require schools to provide formal, non-financial progress updates or construction photos throughout the life of the project.

The Bentleys report notes in regards to QCEC's administration of State capital assistance to non-state schools that QCEC can enhance its level of oversight of the progress of projects, including non-financial matters (e.g. that the project is proceeding in accordance with the approved version of the plans). Bentleys recommended QCEC require project reporting from schools on a milestone basis. It appears that this recommendation has not been implemented as currently QCEC only formally requires schools to indicate the approximate construction milestone percentage at the time of submitting a PES claim. No further formal, non-financial progress updates or construction photos are required from schools throughout the life of the project.

In the place of a formal project status reporting process, QCEC advised that it ensures CGP funds are expended for an approved purpose through Post-Occupancy reviews in which QCEC's internal auditor visits the school site to confirm the capital works align with the approved specification, including:

- measuring all new areas (built and refurbished) included in the approved project;
- inspecting new items of property, plant and equipment that were accessible and exposed; and
- reviewing supporting documentation and holding discussions with relevant personnel in regards to new items which were concealed and unable to be inspected.

We were advised that projects are selected from all school authorities and QCEC undertakes at least six Post-Occupancy reviews a year. QCEC advised that if the Post-Occupancy review process were to find that a school had not complied with their obligations to only expend capital grant funding for an approved purpose, QCEC would require the school to repay the grant funding amount to QCEC, which would subsequently be re-allocated to another project.

It is noted that the Post-Occupancy review process limits QCEC's capacity to take corrective action before construction is completed, at which time a school's capacity to repay the grant funding to QCEC may be limited. On this basis, QCEC's project monitoring during construction could be strengthened if QCEC were to require schools to submit formal, non-financial progress updates, including progress photos, as part of the monthly PES process. This would provide QCEC with greater oversight of the projects during construction, and may also assist QCEC to detect and undertake timely corrective action to ensure Commonwealth capital grant funding is expended for the approved project.

QCEC should require schools to provide non-financial progress updates, including photos, at the time of submitting monthly PESs.

5.5 Records Management

QCEC maintains electronic records for all projects which were in good order and readily accessible.

QCEC maintains detailed records, with documentation for each project kept on an individual electronic file and in good order. The bulk of the records on file relate to the application, project commencement, payment and completion.

It is noted that documentation relating to QCEC's financial assessment of schools' financial need improved over the period under review, and the current financial contribution assessment documentation appears robust.

QCEC does not retain a final progress payment amount until completion documentation is received from schools.

QCEC disburses all grant funding prior to schools providing all required documentation. QCEC requires the following documentation from schools at the completion of the project:

- Practical Completion Letter;
- Project Accountant's Statement;
- Capital Project Completion Statement; and
- evidence of plaque / opening ceremony.

We were advised that QCEC is required to regularly follow up schools for completion documentation. If QCEC was to retain 10 per cent of grant funds until all completion documentation (excluding the Accountant's Certificate) is received, this may encourage schools to submit project completion documentation in a timely manner. We note that the Accountant's Certificate should be excluded from this requirement on the basis that an accountant will not certify that all funds have been appropriately expended (i.e. by providing an Accountant's Certificate) until the total grant amount (including the withheld 10 per cent) is received and expended by the school.

QCEC should retain 10 per cent of grant funds until all completion documentation (excluding the Accountant's Certificate) is received in order to provide incentive for schools to complete their documentation promptly.

6 Conclusion

QCEC maintains a close working relationship with member schools in administering the Program and all records and files were kept in good order.

In light of the findings set out this report, we have made the following recommendations for QCEC and the Department to consider:

- QCEC amend the Grant Acceptance Letter pro forma template to require schools to date the Letter on execution;
- QCEC introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Commission, CAAC and CARG meetings. Any conflict management processes should be identified in the meeting minutes. QCEC should ensure its conflict of interest policy is current;
- QCEC should undertake and maintain on file financial viability assessments of the 17 Religious Institute non-Diocesan schools if they apply for CGP funding. This will ensure applicant schools are financially viable as required by the CGP Guidelines;
- QCEC should pay grant funds to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PES should be disbursed). This reduces the risk the project will not be successfully completed within timeframes;
- QCEC should require schools to provide non-financial progress updates, including photos, at the time of submitting monthly PESs; and
- QCEC should retain 10 per cent of grant funds until all completion documentation (excluding the Accountant's Certificate) is received in order to provide incentive for schools to complete their documentation promptly.

Department of Education and Training

Operational Review of the QLD Independent Schools Block Grant Authority (QISBGA)

19 February 2019

FINAL



McGrathNicol

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1 Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
CGP	Capital Grants Program for Non-government Schools
CGP Guidelines	Capital Grants Program Guidelines 2018
Department	Department of Education and Training
Education / Buildings Committee	QISBGA Capital Grants Advisory Committee – Education and Buildings
EOI	Expression of interest
Finance Committee	QISBGA Capital Grants Advisory Committee - Finance
ISQ	Independent Schools Queensland
Minister	Australian Government Minister for Education and Training
MOU	Memorandum of Understanding
MPER	Monthly Progress and Expenditure Report
Objectives	The objectives of the CGP
Participant Agreement	Agreement between the School and the QLD Independent Schools BGA entered into for the School to become a member school of the QLD Independent Schools BGA.
RCTI	Recipient Created Tax Invoice
Requirements	Requirements under the CGP Guidelines, Australian Education Act 2013 and Australian Education Regulation 2013
SCAS	State Government Capital Assistance Scheme
SES	Socio-economic Status
QISBGA	Queensland Independent Schools Block Grant Authority

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") in accordance with Work Order AD16/000312 between McGrathNicol and the Department for the review of the Queensland and Northern Territory Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing.

We have carried out a review of Queensland and Northern Territory Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program for Non-government schools ("CGP") is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for Non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The Objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the Queensland Independent Schools Block Grant Authority ("QISBGA"). The review examines the efficiency and effectiveness of QISBGA in administering the CGP and evaluates QISBGA's compliance with key requirements under the Capital Grants Program Guidelines 2018, Australian Education Act 2013 and Australian Education Regulation 2013 ("the Requirements") which govern the administration of the program.

In reviewing the QISBGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken.

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Guidelines;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the QISBGA website;
- meetings and discussions with representatives of QISBGA, in particular;
 - s 47F
 - s 47F
 - s 47F
 - s 47F
 - s 47F

- information obtained during our site visits to the offices of QISBGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of QISBGA.

As discussed with the Department we have chosen a sample of 15 files to review from a population of 118 projects in the 2015 to 2018 QISBGA Project Summary Reports. Provided below is a listing of the sample case files selected for the review testing:

Table 1: Listing of sample case files

QLD Independent BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2015/29365/1	Endeavour Christian College	940,000
2016/05525/1	Brisbane Christian College	1,600,000
<i>Un-acquitted projects</i>		
2015/13754/1	Silkwood School	810,000
2015/04245/1	Chinchilla Christian College	1,130,000
2016/04048/1	Burdekin Christian College	1,150,000
2016/18024/1	Caloundra City Private School	900,000
2016/18132/1	The Kooralbyn International School	550,000
2017/17507/1	Pacific Lutheran College	600,000
2017/17214/1	Mueller College	815,000
2017/02551/1	Gold Coast Christian College	770,000
2017/30254/1	Carmichael College	700,000
2018/30013/1	Arcadia College	1,325,000
2018/17892/1	Faith Lutheran College (Plainland)	875,000
2018/30304/1	Girl Academy	875,000
2018/30310/1	Carinity Education - Rockhampton	600,000

3.4 Findings

3.4.1 Governance arrangements

- The QISBGA has in place adequate documentation (including guidance and pro formas) which outlines how its CGP funding process is carried out;
- The Participation Agreement executed by schools is comprehensive and includes the required provisions specified in the CGP Guidelines;
- Capital Grant Recipient School Agreements are not always executed in a timely manner;
- The Capital Grants Advisory Committee includes representatives from the nine independent school groups; and
- The QISBGA's conflict of interest management process for the Capital Grants Advisory Committee meetings is not adequately documented and the QISBGA does not maintain a conflict of interest register.

3.4.2 Selection and ranking of projects

- Assessments of schools are based on detailed applications and school visits. School visits are undertaken for all applications by members of the Capital Grants Advisory Committees and QISBGA Secretariat. However, the QISBGA does not maintain evidence on file that applicant schools held valid insurances at the time of the application.
- The QISBGA has a robust financial viability and financial contribution assessment process;
- The Capital Grant Advisory Committees rank the applications in regards to educational disadvantage and financial need, and the QISBGA Board makes recommendations to the Commonwealth based on the Education / Buildings Committee's assessment of educational need and the Finance Committee's assessment of schools' financial need; and

- The QISBGA has historically allocated both Commonwealth and State capital grant funding to projects. We were advised that commencing in the 2019 funding round the QISBGA has amended its procedures to ensure projects are funded from only Commonwealth or State funding and not both.

3.4.3 Financial systems and practices for acquitting project funds

- The QISBGA appears to have adequate controls to prevent misappropriation of grant funds prior to disbursement to schools; and
- The QISBGA disburses grant funding to schools based on a payments schedule, and not based on the receipt of progressive expenditure statements or invoices.

3.4.4 Project monitoring

- Based on review of the sampled projects, a number of schools did not enter into an agreement with a builder during the funding year;
- The QISBGA requires schools to have a strong tender process, with tenders to be obtained from multiple parties and a requirement to utilise the lowest tenderer's quotation (except in special circumstances). This is documented in the Results of Tender Process form; and
- Schools are not required to provide the QISBGA with formal non-financial progress reports during construction.

3.4.5 Records management

- Documents reviewed were in good order and readily accessible. However, the QISBGA was unable to provide the Participation Agreements for two of the sampled schools which were in place at the time of the relevant projects; and
- The QISBGA disburses 100 per cent of grant funding prior to project completion documentation being provided by schools.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the QISBGA and the Department to consider:

- The QISBGA should require schools to execute a Capital Grant Recipient School Agreement shortly after Commonwealth grant approval is obtained and before confirming a definitive cost for the project through the tender process;
- The QISBGA should introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Capital Grant Advisory Committee meetings. Any conflicts management processes should be recorded in the meeting minutes;
- The QISBGA should obtain evidence from schools that schools hold valid insurance policies;
- The QISBGA should ensure that it allocates either Commonwealth or State capital grant funding and not both to projects to reduce the compliance and administrative burden on both schools and the QISBGA;
- The QISBGA should implement processes to reimburse schools based on progressive expenditure statements and supporting invoices. Furthermore, reimbursements should be made to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PES should be disbursed). This reduces the risk the project will not be successfully completed within timeframes;
- The QISBGA should undertake appropriate activities to ensure that schools are entering a contract with a builder during the relevant funding year and therefore that schools are compliant with sections 107(c) and 108 of the CGP Guidelines;
- The QISBGA should require schools to provide non-financial progress updates at the time of submitting a progressive expenditure statement;
- The QISBGA should ensure all former Participation Agreements with member schools are maintained on file; and
- The QISBGA should retain a portion (e.g. 10 per cent) of grant funds until schools submit the Architect's Statement, and evidence of the plaque and opening ceremony (where applicable).

4 Background

4.1 Overview of the Capital Grants Program for Non-government schools and role of the QLD Independent Schools BGA

The CGP provides funding for Non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to Non-government schools are administered by Block Grant Authorities ("BGAs") who assess applications from schools and make recommendations for funding to the Australian Government Minister of Education and Training ("the Minister"). Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

Independent Schools Queensland ("ISQ") is an association of non-Government, non-Catholic schools. Members of ISQ wholly control and own Queensland Independent Schools Block Grant Authority Limited ("QISBGA"), a company limited by guarantee. QISBGA is the legal authority for administering the CGP to non-government, independent schools in Queensland. QISBGA is also the legal authority for administering the State Government Capital Assistance Scheme ("SCAS") on behalf of the Queensland State Government.

Responsibility for the management of the business and affairs of the QISBGA is delegated to the QISBGA Board. Other than the ISQ Executive Director who is an ex-officio member of the QISBGA Board, the QISBGA Board consists of six independent members appointed by the ISQ Board. All QISBGA Board members have experience and expertise in capital development programs in independent schools and / or in other areas relating to the legal obligations of the QISBGA Board. The QISBGA Board is supported by the QISBGA Secretariat who undertake the administrative responsibilities of QISBGA.

The QISBGA is a non-profit entity whose members are not-for-profit independent schools located in Queensland. QISBGA members are not required to be member schools of ISQ. Membership includes schools of many different:

- sizes;
- structures;
- financial positions;
- cultural backgrounds;
- religious affiliations; and
- educational philosophies.

For administration and governance purposes the QISBGA has divided schools into the following nine school groups:

- Anglican schools;
- Uniting Church schools;
- Lutheran schools;
- Presbyterian and Methodist schools;
- Grammar schools;
- Seventh-day Adventist schools;
- Christian schools;
- Other independent schools (non-aligned); and
- Special Assistance Schools.

The QISBGA Board's governance of the CGP and SCAS involves two advisory committees, the Capital Grants Advisory Committee – Education / Buildings ("Education / Buildings Committee") and the Capital Grants Advisory Committee – Finance ("Finance Committee"). Membership of the Capital Grants Advisory Committees comprise QISBGA directors (in their capacity as ex-officio voting members) and representatives from each of the nine school groups. Representatives are appointed for a three year term on a rolling basis with three of the nine school groups nominating new representatives each year. Members of the Education / Buildings Committee must have expertise in education administration, and members of the Finance Committee must have expertise in school-based operational finance management.

The QISBGA utilises a number of documents and reference materials to administer the CGP. Provided below is a summary of the key internal and external documents that shape the delivery of the QISBGA's CGP:

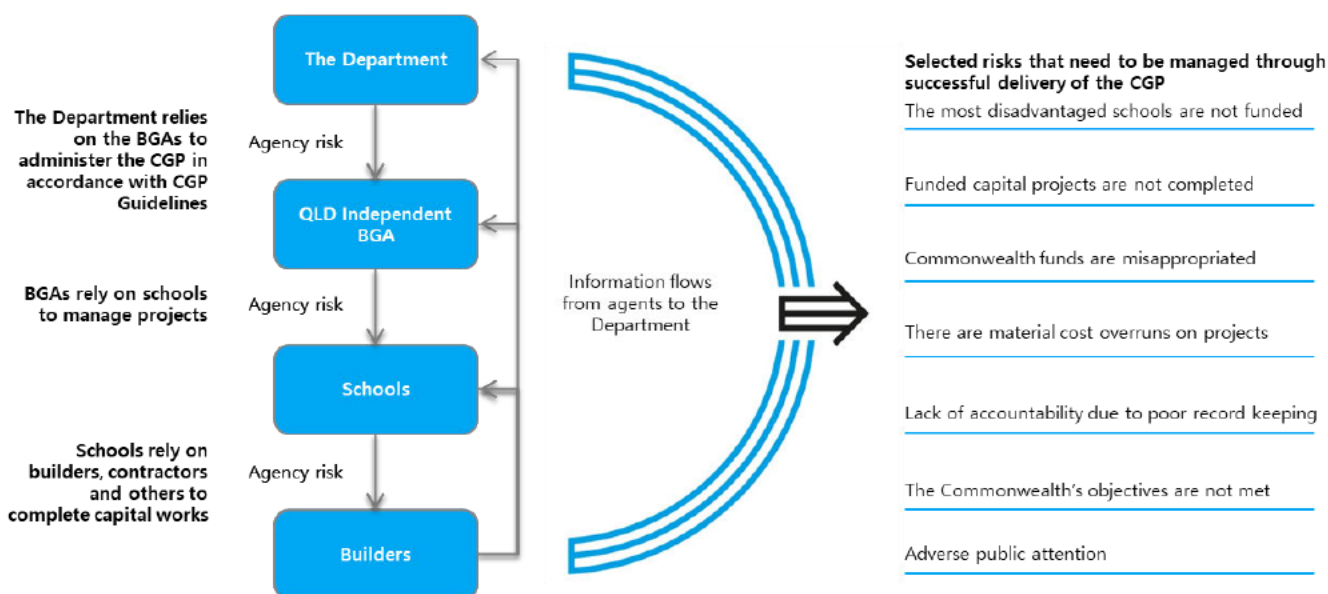
Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> Australian Education Act 2013 Australian Education Regulation 2013
Regulatory guidance material	<ul style="list-style-type: none"> CGP Guidelines 2018
QISBGA policy documents and agreements	<ul style="list-style-type: none"> QISBGA Board Charter QISBGA Ltd Directors' Manual Participant agreement
QISBGA guidance materials	<ul style="list-style-type: none"> Committee Member Operational Guidelines Committee Code of Conduct Membership of the Capital Advisory Committee Policy

4.2 Agency risk

In order for the Australian Government to achieve the Objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the Objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's Objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP



4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the QISBGA. We have sought to summarise the key steps taken in the table below:

Table 3: Overview of the Capital Grants Program Administration

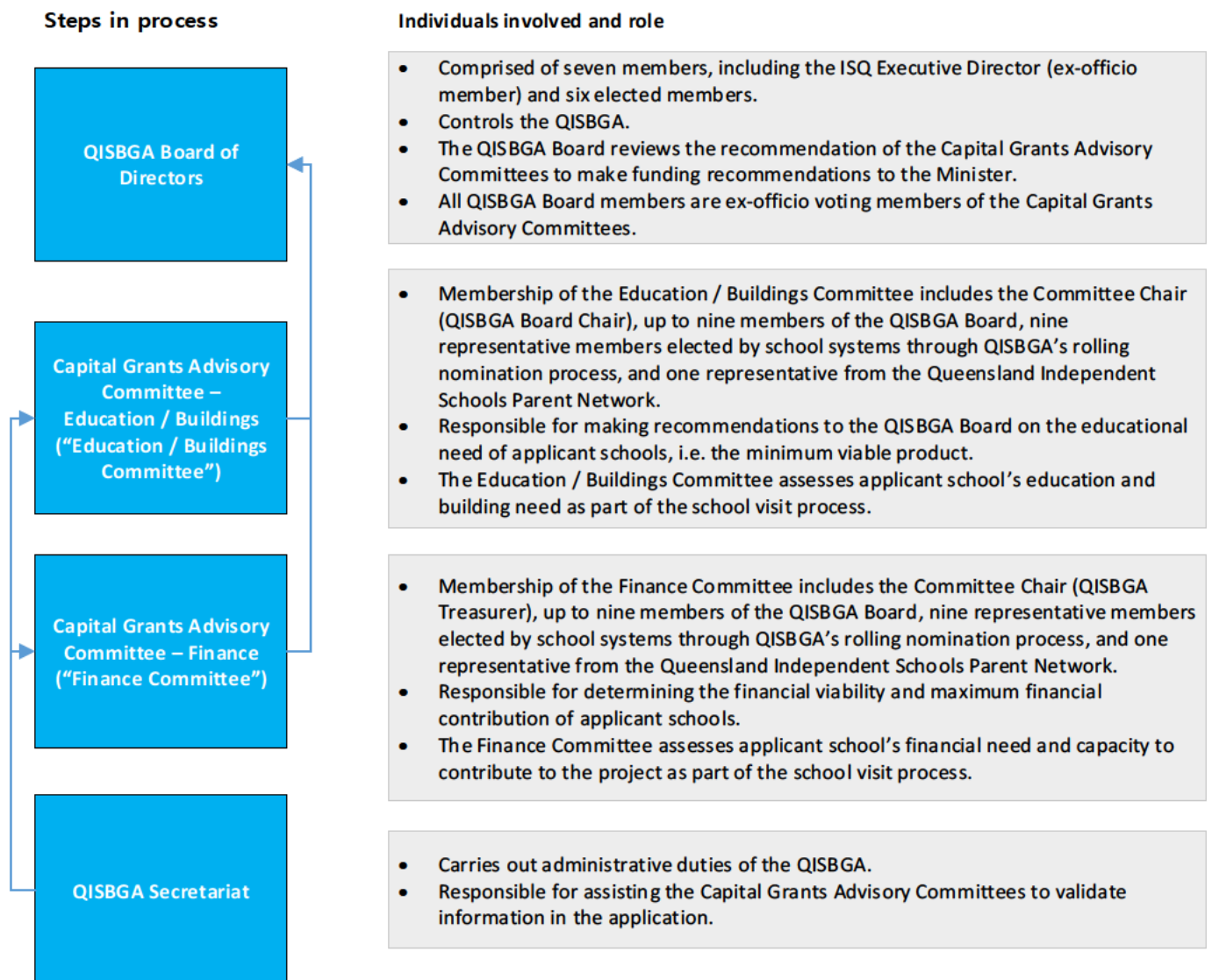
Overview of the CGP Administration		
Step	Stage	Milestone
Step 1	Application Process	QISBGA advises Queensland Independent schools of key application dates and invites school representatives to attend information seminars held throughout Queensland.
Step 2		<p>Schools lodge an application for a capital grant. Applications include information regarding the following:</p> <ul style="list-style-type: none"> ▪ school details; ▪ project summary; ▪ tuition; ▪ enrolment details; ▪ staff and fees; ▪ projects; ▪ justification; ▪ proposed projects; ▪ source of funds; ▪ financial information (including income and expenditure, balance sheet, cash flow and debt profile); ▪ floor area calculations; ▪ eligibility checklist; ▪ detailed plans and elevations; and ▪ appendices supporting the application.
Step 3	School Visit	<p>One week prior to the scheduled school visit, QISBGA will provide members of the visit team with:</p> <ul style="list-style-type: none"> ▪ a copy of the school's application; ▪ plans for the proposed project; ▪ a comparison of the proposed space to exemplar space; ▪ a visit report overviewing existing and proposed facilities and curriculum requirements for the applicant school prepared by the QISBGA Education / Buildings Secretariat member. ▪ for the Education / Buildings visitor, a copy of the school's prospectus; and ▪ for the Finance visitor, an analysis of the school's financial information prepared by QISBGA Finance Secretariat member and the previous two years' audited financial statements. <p>These documents, along with the visit team's notes, School Visit Reports are returned to QISBGA at the conclusion of the school visits for secure disposal.</p>
Step 4		<p>Each QISBGA visit team will consist of:</p> <ul style="list-style-type: none"> ▪ QISBGA Education / Buildings Secretariat member; ▪ QISBGA Finance Secretariat member; ▪ Education / Buildings Committee member; and ▪ Finance Committee member.
Step 5		During the school visit the school will be provided with the opportunity to address the application materials, introduce the project and any other information they wish to highlight prior to the discussion being conducted by the visiting team.

Overview of the CGP Administration

Step 6	Committee Meetings and Approval	After the conclusion of the school visit, the visiting Committee members and QISBGA Secretariat will debrief and collate their notes which are used to prepare a School Visit report to be presented on behalf of the school by the Committee members at the relevant committee meeting. The School Visit report will be finalised by the QISBGA Secretariat and tabled as part of the papers at both the Education / Buildings and Finance Capital Advisory Committee meetings.
Step 7		After the committee meetings have taken place, recommendations made will be submitted to the QISBGA Board of Directors for final recommendation to the respective Queensland and Australian Government Ministers for Education.
Step 8		QISBGA and the Commonwealth Minister for Education will provide schools with letters of approval notifying the school of their successful application. Capital grants may only be provided to schools with a current Participant Agreement with QISBGA.
Step 9		Schools that have applied for a Commonwealth / State capital grant which are dissatisfied with the process or outcome may appeal the funding decision in accordance with QISBGA's Policy on Review of Recommendation - CGP.
Step 10	Monitoring Stage	Tender plans (including detailed drawings) are lodged, received and approved by QISBGA prior to tenders being sought.
		Schools will undertake a competitive tender process and advise QISBGA of the outcome by submitting to the QISBGA a completed Results of Tender template / tender summary documentation, as well as copies of advertisements for tender.
Step 11		School authorities accept the capital grant by completing and returning the Capital Grants Program Recipient Schools Agreement.
Step 12		Upon contract signing, schools will provide QISBGA with a copy of the agreement between the school and the construction contractor.
Step 13		The school must establish and maintain a bank account specifically for the receipt and expenditure of capital grant funding provided by QISBGA. The school must also maintain a ledger specifically for this account to record all receipts and expenditure related to the project.
Step 14		Payments are made in accordance with scheduled (entered into School Entry Point) commitments following Project Implementation notification by the school and after confirming project progress. QISBGA will provide the school with a Recipient Created Tax Invoice ("RCTI") / Remittance Advice. Upon receipt of funds from QISBGA, schools must acknowledge in a pro forma letter that funds have been received. All funds must be fully expended by the school as soon as possible and not later than six months after receipt.
Step 15	Finalisation and Completion	Upon completion of construction and within a period of 12 months, schools must provide QISBGA with the following pro forma accountability documents: <ul style="list-style-type: none"> ▪ Final Certificate of Costs by a Qualified Accountant; and ▪ Architect's / Supervisor's Statement of Completion.
Step 16		Schools conduct an opening ceremony and provide QISBGA with evidence (e.g. a photo) of the opening plaque. QISBGA Secretariat members may attend opening ceremonies and carry out post completion inspections at that time.
Step 17		Additional post completion inspections are carried out following project completion for a sample of projects. This may occur during school visits relating to subsequent grant applications.

In reference to the process outlined above we have set out a summary below of how applications are approved by the QISBGA:

Figure 2: Structure of application approval



5 Key findings

5.1 Governance arrangements

The QISBGA has in place adequate documentation (including guidance and pro formas) which outlines how its CGP funding process is carried out.

QISBGA has in place adequate documentation supporting the administration of the CGP. This includes the following process documentation, guidance material and pro forma templates:

- governance and process documentation:
 - Directors' Manual;
 - QISBGA Board Charter;
 - Director Conflict of Interest Policy;
 - Member of the Capital Advisory Committee Policy;
 - Australian Privacy Principles ("APP") Privacy Policy;
 - Committee Member Operational Guidelines; and

- Committee Member Code of Conduct.
- applicant guidance documentation:
 - Summary of Outline of Conditions from Capital Grants Recipient School Agreement guidance;
 - Procedures to Access Funds guidance;
 - Tendering Process guidance;
 - Recognition of Government Assistance guidance;
 - Construction Costs and Descriptors for Functional Spaces guidance;
 - Furniture, Equipment and Sundry Allowances guidance;
 - Learning Places and Spaces – Area guidelines for educational spaces; and
 - Locality Indices Fact Sheet;
- pro forma letters and templates:
 - Application;
 - Commonwealth Approval Letter;
 - QISBGA Project Approval and Grant Offer Letter;
 - Planning approval letter;
 - Result of Tender template;
 - Grant Agreement Letter;
 - Notification of Project Implementation template;
 - Grant Payment Schedule Letter;
 - Acknowledgement of Grant Receipt;
 - Final Acquittal Letter;
 - Architect's/Supervisor's Statement of Completion; and
 - Final Certificate of Costs by a Qualified Accountant template.

The Participation Agreement executed by schools is comprehensive and includes the required provisions specified in the CGP Guidelines.

Under the CGP Guidelines, each school is required to enter into a legally binding written agreement accepting to be bound by all requirements listed in the CGP Guidelines prior to receiving funding. The CGP Guidelines provides detailed guidance on specific conditions required to be contained in each agreement.

The QISBGA's Participation Agreement appears to include all provisions contained in the CGP Guidelines ensuring schools are aware of and agree upon their obligations prior to receiving funding.

Capital Grant Recipient School Agreements are not always executed in a timely manner.

Based on our review of documentation provided for the sample of 15 projects, it was identified that there is often a significant amount of time between when schools are notified of their approval for CGP grant funding by both the Minister and the QISBGA, and the date that schools enter into a Capital Grant Recipient School Agreement with the QISBGA.

The Capital Grant Recipient School Agreement is the principal document in QISBGA's capital grant administration process for recognising grant recipients' agreement to the conditions for receiving each grant, including complying with the terms of the CGP funding, and spending the grant only for the approved purpose. Accordingly, if grant recipients are not executing these agreements prior to commencing projects or receiving funding, there appears to be a risk they are not required to comply with the terms of the CGP funding.

It is noted that for project 2016/05525/1 (Brisbane Christian College), the QISBGA appears to have released funds to the school on 29 March 2016 (the date recorded on the Recipient Created Tax Invoice ("RCTI")) prior to executing a Capital Grant

Recipient School Agreement (dated 30 March 2016). Accordingly, the grant recipient appears to have not agreed to the terms of the CGP funding prior to receiving grant funds.

Furthermore, under QISBGA guidance (Commonwealth Agreement Information Letter), schools *“must not sign any contract or otherwise enter into a commitment with builders until [the school] has signed the Capital Grant Recipient School Agreement (Contract) and accepted the grant offer”*. However, based on our review of documentation provided for the sampled 15 projects, we identified that for the following two projects, schools entered into a contract with a builder prior to signing the Capital Grant Recipient School Agreement:

s 47G

Based on the sampled files and discussion with QISBGA staff, the QISBGA's current process is to execute a Capital Grant Recipient School Agreement with schools after a definitive project cost has been determined through undertaking a tender process. It would be better practice for the QISBGA to ensure schools have entered into a Capital Grant Recipient School Agreement with the QISBGA based on the approved project cost and shortly after Commonwealth grant approval is obtained. This would ensure that schools are aware of, and contractually bound to comply with, the Commonwealth's conditions for providing CGP funding. In doing so the QISBGA will also reduce the risk that CGP funds are misused or schools enter into contracts prematurely without confirmation that the grant funding is forthcoming.

The QISBGA should require schools to execute a Capital Grant Recipient School Agreement shortly after Commonwealth grant approval is obtained and before confirming a definitive cost for the project through the tender process.

The Capital Grants Advisory Committee includes representatives from the nine independent school groups.

The QISBGA's Capital Advisory Committees (i.e. the Education / Buildings and Finance Committees) are comprised of ex-officio Board members and representatives elected by the school groups through the QISBGA's rolling nomination process. We highlight that each of the nine school groups are provided equal opportunity to nominate persons with relevant expertise in education administration and operational finance management to the Education / Buildings Committee and Finance Committee respectively.

The following table illustrates the number of QISBGA member schools for each of the nine school groups.

Table 4: Member schools of the QISBGA by school group.

School Group	Number of Schools	Per cent of total
Other Independent	75	32%
Christian Schools	52	22%
Lutheran Schools	31	13%
Special Assistance School	29	12%
Anglican Schools	24	10%
Seventh-day Adventist Schools	10	4%
Grammar Schools	8	3%
Total	238	100%

Source: QISBGA.

It is noted that the above table does not take into account the number of enrolments at each school group. Regardless, there appears to be the potential for membership to the QISBGA's Capital Advisory Committees to provide disproportionate representation to some school groups which represent a smaller proportion of the overall population of Queensland Independent schools. However, we note that based on our review of the documentation and discussion with the QISBGA, there was no indication of any issues.

The QISBGA's conflict of interest management process for the Capital Grants Advisory Committee meetings is not adequately documented and the QISBGA does not maintain a conflict of interest register.

The QISBGA has a conflict of interest management process and conflict of interest management guidance for directors and committee members. This guidance is included in the QISBGA's Directors Conflict of Interest Policy and Committee Member Code of Conduct documents.

QISBGA conflict of interest management processes for Directors

The QISBGA's Director Conflict of Interest Policy outlines the responsibilities of QISBGA's directors for managing potential, perceived and actual conflicts of interest, and the QISBGA's procedure for managing director-related conflicts. The Policy states that directors (i.e. Board members) are required to identify all their relevant interests and relationships which may give rise to a conflict of interest at the beginning of their tenure and on an annual basis thereafter, and to advise the QISBGA Secretary if these conflicts arise. The Policy also states that the QISBGA Board maintains a director interest register and a standing agenda item for the declaration of conflicts of interest at the beginning of every Board meeting. The standing agenda item for the declaration of conflicts of interest was carried out according to the Board meeting minutes, and accordingly these controls appear to be in place. Furthermore, it is noted that these conflict of interest management processes at the Director-level appear to be appropriate.

QISBGA conflict of interest management processes for Committee members

The Committee Member Code of Conduct identifies situations in which an actual, potential or perceived conflict of interest may exist for Education / Buildings Committee and Finance Committee members. The Code of Conduct states that where a perceived or apparent conflict of interest exists, the appropriate action is to inform the QISBGA General Manager and / or the Committee Chair of the conflict of interest, and for the conflicted Committee member to be excluded from the decision-making process related to the conflict of interest. Further, the Code of Conduct states that the Committee meeting minutes will note when a committee member has removed themselves from the meeting due to a conflict of interest.

The QISBGA provided meeting minutes for both the Education / Building Committee and the Finance Committee. Our review of the Committee meeting minutes found that there was no standing agenda item for the declaration of conflicts of interest. Instead, the Committee meeting minutes show that at the beginning of each Committee meeting the Chair would typically remind the Committee members to remove themselves from discussion if a conflict of interest were to exist. Accordingly, it appears that the conflict of interest management processes for the Committees could be enhanced by including a standing agenda item for the declaration of conflicts at the beginning of all Committee meetings similar to the standing agenda item for Board meetings. This would ensure that all conflicts are recorded in the minutes at the beginning of each meeting and all Committee members have an awareness of declared conflicts throughout the assessment process.

From the Committee meeting minutes provided, we observed that Committee members will depart the meeting prior to the discussion of a particular school's application. The minutes show that these Committee member/s would then return after the discussion of the relevant application had concluded. Although it appears that the departure of Committee members during meetings relates to conflicts of interest between the Committee member and the applicant school, this is not explicitly stated in the meeting minutes. Better practice would be for the meeting minutes to explicitly state that the Committee member is excluding themselves due to a conflict of interest and to identify the member's conflicting interest. This would ensure that there is clear record of the conflict of interest and the QISBGA taking appropriate action to uphold the integrity of the assessment process.

The QISBGA does not currently have a conflict of interest register for recording conflicts of interest at the Committee level. The introduction of a conflict of interest register for the QISBGA Capital Grants Advisory Committees would assist the QISBGA to effectively manage any actual, potential or perceived conflicts of interest which may arise in relation to the Committees' assessment process.

The QISBGA should introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Capital Grant Advisory Committee meetings. Any conflicts management processes should be recorded in the meeting minutes.

5.2 Selection and ranking of projects

Assessments of schools are based on detailed applications and school visits. School visits are undertaken for all applications by members of the Capital Grants Advisory Committees and QISBGA Secretariat. However, the QISBGA does not maintain evidence on file that applicant schools held valid insurances at the time of the application.

Schools prepare detailed applications which include:

- school details;
- a project description;
- enrolment details;
- staff and enrolment fee details;
- previous and future projects planned by the school;
- a copy of the school's maintenance plan;
- details of the school's existing facilities;
- justification for the project;
- proposed project costs;
- details of the proposed source of project funding; and
- financial information for the school, including audited financial statements;

It is noted that the application requires applicant schools to indicate whether they hold adequate building insurance cover for their existing facilities. However, schools are not required to provide evidence to substantiate that they hold current and valid insurance policies. Better practice would be for the QISBGA to require schools to provide evidence of their insurance policies as part of the application process to ensure that schools meet the eligibility requirements of the CGP Guidelines and "demonstrate to the BGA that adequate insurance is held over its school buildings". We were advised that commencing in the 2020 funding round the QISBGA will obtain copies of certificates of insurance.

The QISBGA should obtain evidence from schools that schools hold valid insurance policies.

The QISBGA has a robust financial viability and financial contribution assessment process.

The QISBGA Secretariat is responsible for preparing a financial assessment for applicant schools based on the information provided during the application phase. The QISBGA provided example financial assessments for two of the sampled projects (2017/30254/1: Carmichael College and 2018/17892/1: Faith Lutheran College (Plainland)). The example financial assessments contain analysis of the applicant schools' historical and forecast financial position and performance against a range of financial indicators, including:

- Student to teacher ratios;
- Profitability ratios;
- Debt servicing and interest coverage ratios;
- Cumulative cash surplus;
- School tuition fees;
- Profit and loss (including from recurrent and capital sources); and
- Cash flows.

The financial assessment prepared by the QISBGA Secretariat is provided to the Finance Committee. In conjunction with the information gathered during the school visit process, the financial assessment assists the Finance Committee to determine the applicant schools' financial viability and maximum financial contribution.

The QISBGA's financial assessment template appears to be a robust tool for evaluating the financial viability and maximum financial contribution of applicant schools. We highlight that the financial assessment includes relevant financial indicators, including debt per student and interest coverage ratios which are commonly used to determine applicant schools' capacity to take on additional debt to meet the cost of the project.

The Capital Grant Advisory Committees rank the applications in regards to educational disadvantage and financial need, and the QISBGA Board makes recommendations to the Commonwealth based on the Education / Buildings Committee's assessment of educational need and the Finance Committee's assessment of schools' financial need.

The QISBGA's process for assessing and recommending grants to the Minister commences with an initial review of school applications by the QISBGA Secretariat to determine whether the application meets the eligibility requirements of the CGP. During this process the QISBGA Secretariat will also prepare school visitor papers for Committee members responsible for undertaking the school visit to familiarise themselves with the application.

Subsequent to confirming the eligibility of the application, the QISBGA will undertake a school visit to validate the information provided in the application and gain additional context for the proposed project. School visit teams will consist of the following:

- QISBGA Education / Buildings Secretariat member;
- QISBGA Finance Secretariat member;
- Education/Buildings Committee member; and
- Finance Committee member.

The QISBGA's Committee Member Operational Guidelines provide an overview of matters to be considered by the school visit team during the school visit process which generally address the following questions:

- Education/Building Committee member:
 - is there an educational need for the facilities requested?
 - if an educational need can be identified, what is the minimum viable project that meets the educational need?
- Finance Committee member:
 - is the school a going concern?
 - what is the maximum financial contribution the school can make to the cost of the minimum viable project?

Subsequent to the school visit, the visiting team will consolidate their notes and findings in the School Visit Report which is tabled in the Education / Buildings and Finance Committees meeting papers. The School Visit Report includes the following information:

- school details, including SES and ICSEA scores;
- school visit date and visiting Committee members;
- enrolment information;
- project summary;
- the visiting team's analysis of the application in respect of the following elements: enrolments; educational need; project costs; requested facilities; minimum viable project; financial information; outstanding information to be provided by the school; maintenance plan; school insurance; and land; and
- the visiting team's recommended grant amount with a cost breakdown using the QISBGA's functional area costing methodology.

The visiting Committee members will present an overview of the school visit in their respective Committee meetings, during which the Committee will conclude on whether the application demonstrates an educational and financial need for grant funding.

Historically, the QISBGA determined the priority ranking of projects based on Socio-Economic Status ("SES") scores, with lower SES scores being ranked as a higher priority for capital grant funding. However, the QISBGA advised that it has recently (i.e. during 2018) adjusted its priority ranking methodology to include the following elements:

- SES scores as a measure of schools' socio-economic and education disadvantage;
- floor area standards, which takes into account schools with per student floor areas below the standard;

- students with disabilities, which is designed to ensure schools' with a higher proportion of students with disabilities are given higher priority; and
- hardship concessions, which gives higher priority to schools with a higher proportion of students receiving fee assistance and concessions.

It is noted that the QISBGA advised that over the review period the total Commonwealth and State capital grant funding available for allocation was sufficient to meet all applications and accordingly, whilst the QISBGA's priority ranking process was undertaken, it was not a determining factor for which applications received grant funding.

The QISBGA has historically allocated both Commonwealth and State capital grant funding to projects. We were advised that commencing in the 2019 funding round the QISBGA has amended its procedures to ensure projects are funded from only Commonwealth or State funding and not both.

Based on review of the documentation provided for the sampled projects, the QISBGA has historically allocated Commonwealth (i.e. CGP) and State (i.e. SCAS) capital grant funding to projects. It is noted that 11 (73 per cent) of the 15 sampled projects were found to have received both a Commonwealth and State capital grant.

The practice of allocating both Commonwealth and State capital grant funding to projects would require the recipient school to enter into a funding agreement with both the Commonwealth and State governments. Both capital grant programs have distinct funding conditions which the school must comply with and accordingly, may place additional compliance burden on recipient schools and administrative burden on the QISBGA in ensuring schools are compliant with their obligations. To minimise this burden, better practice would be for the QISBGA to allocate either Commonwealth or State capital grant funding to each project (i.e. not both). This may be achieved through first allocating Commonwealth capital grant funding to the applications identified as having the greatest educational need / highest priority. Once Commonwealth capital grant funding is fully allocated, the QISBGA could then allocate State capital grant funding to the lesser priority projects.

The QISBGA advised that beginning in the 2019 funding round, the QISBGA had amended its procedures to ensure that projects were only funded from Commonwealth or State funding and not both (noting that it is possible for there to be some overlap in funding sources where Commonwealth funding is exhausted and State funding is required to meet the total grant amount). Whilst this amendment aligns with better practice as outlined above, we highlight that the QISBGA should ensure this new procedure is carried out effectively.

The QISBGA should ensure that it allocates either Commonwealth or State capital grant funding and not both to projects to reduce the compliance and administrative burden on both schools and the QISBGA.

5.3 Financial systems and practices for acquitting project funds

The QISBGA appears to have adequate controls to prevent misappropriation of grant funds prior to disbursement to schools.

The following process appears to be in place to release grant funds to schools:

- the CGP Program Manager reviews the progress of projects scheduled for payments (i.e. checks that the projects have commenced and progress is generally in accordance with expectations);
- the CGP Program Manager provides the QISBGA Finance Officer with an approved list of payments;
- on a quarterly basis, the QISBGA Finance Officer will prepare payments in accordance with the grant payment schedule for all active projects;
- the QISBGA Finance Officer creates the payment in the accounting system (including the preparation of a RCTI) and uploads the payment into the QISBGA's banking system;
- the QISBGA General Manager reviews the payment amounts and approves payment to schools;
- the QISBGA Treasurer (i.e. Chair of the Finance Committee) provides a second authorisation for the release of funds to schools; and
- schools will acknowledge receipt of capital grant funding by returning an Acknowledgement of Grant Receipt form to the QISBGA.

Segregation of duties reduces the risk of fund misappropriation and multiple stages of review reduces the risk of errors not being detected.

The QISBGA disburses grant funding to schools based on a payments schedule, and not based on the receipt of progressive expenditure statements or invoices.

The QISBGA disburses capital grant funding to recipient schools on a schedule basis instead of a reimbursement basis (i.e. reimbursements based on tax invoices for expenditure incurred by schools (however not necessarily already paid by schools)). The QISBGA's schedule-based approach involves the QISBGA allocating and disbursing percentages of the total grant amount on fixed dates which are determined prior to the commencement of the project. The timing of grant funding disbursements are outlined in a letter issued by the QISBGA to recipient schools subsequent to the signing of the Capital Grant Recipient School Agreement. Payments occur at the end of each quarter (i.e. in March, June, September and December each year). Grant funding payments are spread over the construction period and accordingly, grant funding for projects that extend beyond the funding year may be scheduled and paid in the following year.

The QISBGA's quarterly grant payment procedure appears to provide the QISBGA with a level of comfort in respect of its cash flows by ensuring sufficient grant funding is received from the Department prior to quarterly grant disbursements to recipient schools. However, we note that it is possible that grant funding is not always disbursed prior to expenditure by schools and the QISBGA does not reconcile the amount of grant funding disbursed to actual project-related expenditure during construction.

It would be better practice for the QISBGA to adopt a reimbursement basis for distributing grant funding to recipient schools by requiring schools to submit progressive expenditure statements ("PESs") to claim grant funding. Requiring schools to submit claims for grant funding in this manner would increase the QISBGA's ability to ensure that grant funding is only expended on the approved purpose. The reimbursement of PESs would also reduce the risk that more grant funding is provided to recipient schools than required (i.e. in the case of project underspends). PESs should be accompanied by invoices to substantiate the claim amount and should be required to be provided by schools on a regular basis (e.g. monthly or quarterly). We were advised that PESs are being implemented beginning in the 2019 funding round.

Furthermore, the QISBGA should reimburse schools on a pro rata basis (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PES should be disbursed). Paying grant funds to schools on a full reimbursement basis from the commencement of the project until all grant funding is disbursed, requiring schools to fund the remainder of the project, increases the risk the project may not be completed within agreed timeframes. This is due to assessment of schools' financial capacity to meet their own contributions to projects being conducted during the assessment process (i.e. approximately 18 months prior to all grant funding being disbursed). As such, the school's financial position may change during that period and the school may no longer have sufficient funds to meet its contribution. In such circumstances, project timeframes may have to be extended in order for the school to accumulate sufficient funds to meet its contribution. Accordingly, providing grant funding to schools throughout the life of the project (on a pro rata basis) may reduce the risk that schools are unable to meet their contributions to projects in a timely manner.

The QISBGA should implement processes to reimburse schools based on progressive expenditure statements and supporting invoices. Furthermore, reimbursements should be made to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PES should be disbursed). This reduces the risk the project will not be successfully completed within timeframes.

5.4 Project monitoring

Based on review of the sampled projects, a number of schools did not enter into an agreement with a builder during the funding year.

Section 107 of the CGP Guidelines state that:

"In order for the BGA to comply with its obligations under the Act and Regulation, the BGA should ensure that schools...

c) enter into a legally binding contractual arrangement (for example, sign a contract with a builder) to proceed with the project before the end of the year in which the first instalment of the grant is payable unless, in exceptional circumstances, the department gives prior approval for a later commitment date".

This requirement is similarly addressed in sections 108 and 109 of the Guidelines, with section 109 stating that:

"If a school cannot make a commitment to commence the project by the end of the program year, the BGA should seek the department's approval to reallocate the funds to other projects which have commenced, or can commence, before the end of the year. In exceptional circumstances, the department may consider approval for a later date of commitment".

Based on review of the documentation provided, we identified that six (40 per cent) of the 15 sampled projects did not enter into a contract with a builder prior to the end of the program year (i.e. the year in which the first instalment of the grant is payable) as required by the CGP Guidelines. The details of these six projects are provided in Table 5 below:

Table 5: Sampled projects where a builder was not contracted within the funding year.

Project	Funding Year	Contract Execution Date
s 47G	2015	20 September 2018
	2015	4 June 2016
	2016	N/A ¹
	2016	8 May 2017
	2017	N/A ¹
	2017	23 April 2018

Source: QISBGA project documentation.

We were advised that significant delay to schools entering into a contract with a builder is potentially the result of school's preparation to undertake the project once funding is confirmed. This may include finalising construction plans from the application phase, engaging a project manager or architect, or obtaining financing. We also note that the QISBGA's process includes a review of finalised plans for compliance with the QISBGA's functional space and design guidelines prior to proceeding to tender which could potentially contribute to delays.

Irrespective of the cause of these significant delays, the QISBGA should ensure that schools are complying with the requirements of the CGP Guidelines and entering into a contract with a builder during the timeframe specified in sections 107(c) and 108 of the CGP Guidelines. This could potentially include requiring schools to have submitted finalised plans for review within three months of the grant approval letter execution date or undertaking appropriate monitoring and follow up activities to ensure schools are progressing their projects.

The QISBGA should undertake appropriate activities to ensure that schools are entering a contract with a builder during the relevant funding year and therefore that schools are compliant with sections 107(c) and 108 of the CGP Guidelines.

The QISBGA requires schools to have a strong tender process, with tenders to be obtained from multiple parties and a requirement to utilise the lowest tenderer's quotation (except in special circumstances). This is documented in the Results of Tender Process form.

The QISBGA has adopted the Australian Standard AS4120 – Australian Standard Code of Tendering as a general guide for the conduct of the tendering process for QISBGA capital grants. Schools receiving capital grants are provided with guidance on the QISBGA's tender process requirements at the time of receiving notification of their grant approval from QISBGA.

The QISBGA requires schools to undertake a public and competitive tender process for projects with a total project cost of \$100,000 or more. This public tender process must include advertisement in local newspapers and a tender period of greater than 21 days. The QISBGA expects schools to obtain five tenders at a minimum (fewer tenders are acceptable for regional and remote schools). The QISBGA tender guidance to schools emphasises that schools are expected to obtain value for money from the tender process and should provide a written explanation to the QISBGA if the lowest cost contractor is not selected as the preferred tenderer.

Schools are required to complete and submit the result of tender process pro forma template to the QISBGA at the completion of the tender process. This template requires schools to provide the following information:

- details of the tender process;
- a list of tenders received and tendered costs;
- the preferred tenderer;

¹ Based on the documentation provided for review the school had not entered into a contract as at 12 October 2018 (the time of the site visit).

- the total cost of the project resulting from the tender process, including the preferred tenderers' costs, contingency sums, professional fees, furniture and equipment costs, etc.;
- a list of provisional sums, prime cost items and sub-contracts;
- project description;
- expected construction period and commencement date;
- details of the project supervisor; and
- school Principal's sign-off.

Typically, the school will provide the QISBGA with evidence of its advertisements in local newspapers as supporting documentation attached to the result of tender form.

Based on the information contained in the completed results of tender form provided by the school, the QISBGA will review and update the total project cost. The QISBGA will subsequently provide schools with the Capital Grant Recipient School Agreement, which confirms the total project cost and capital grant amount. The QISBGA will then advise schools that they may commence the project by entering into a formal agreement with contractors.

Schools are not required to provide the QISBGA with formal non-financial progress reports during construction.

The QISBGA Secretariat advised that the QISBGA does not require schools to provide regular progress reporting during the construction period. However, the QISBGA advised that it interacts with schools and their representatives (i.e. school system offices) on a regular basis, which may include informal progress updates on the status of projects under construction. The QISBGA also advised that should the school apply for a capital grant in future funding rounds, the QISBGA Secretariat will enquire about the completed project during the school visit process in order to assess its compliance with CGP Guidelines.

It is noted that the post-completion enquiry process limits the QISBGA's capacity to take appropriate action to ensure capital grant funding is only expended for an approved purpose before construction is completed (noting that at that time a school's capacity to repay the grant funding to the QISBGA may be limited). Accordingly, QISBGA's project monitoring procedures could be strengthened if QISBGA were to require schools to submit formal, non-financial progress reports on a regular basis. The provision of regular progress updates would provide the QISBGA with greater oversight of schools' compliance with both the CGP Guidelines and the QISBGA's policies, and may assist the QISBGA to ensure Commonwealth capital grant funding is only expended for an approved purpose. We highlight that the timing of these non-financial progress updates could be incorporated into the submission of the progressive expenditure statement process, which has been recommended above.

The QISBGA should require schools to provide non-financial progress updates at the time of submitting a progressive expenditure statement (a process which is recommended at Section 5.3 above).

5.5 Records management

Documents reviewed were in good order and readily accessible. However, the QISBGA was unable to provide the Participation Agreements for two of the sampled schools which were in place at the time of the relevant projects.

QISBGA maintains all documentation for each project on an individual hard copy file. The files are maintained in good order with the majority of records relating to the application, school visit, approval, project commencement and completion phases.

Documentation relating to QISBGA's application assessment process is contained in the meeting minutes of the Capital Grant Advisory Committees. These minutes provide a summary of the Committees' discussion on the educational and financial need for each project. The meeting minutes of the QISBGA Board also detail the Board's decision-making regarding the provision of capital grant funding.

QISBGA maintains signed Participation Agreements with each school authority on a hard copy file. Based on our review of these Participation Agreements, we were able to observe that Participation Agreements were in place at the time of applications being received and grants being provided for 13 (87 per cent) of the 15 sampled projects. QISBGA were unable to locate Participation Agreements in effect at the time of the application and granting processes for two (13 per cent) of the sampled projects, (2015/29365/1: Endeavour Christian College and 2016/18132/1: The Kooralbyn International School). However it is noted that the QISBGA renews Participation Agreements with each school every four years, with the

most recent renewal occurring in late 2017. QISBGA was able to provide the 2017 Participation Agreements (i.e. agreements currently in place) for Endeavour Christian College and the Kooralbyn International School.

The QISBGA should ensure all former Participation Agreements with member schools are maintained on file.

The QISBGA disburses 100 per cent of grant funding prior to project completion documentation being provided by schools.

Upon project completion, the QISBGA requires schools to provide completion documentation which includes:

- Architect's / Supervisor's Statement of Completion;
- Accountant's Statement of Final Costs; and
- evidence of a plaque and opening ceremony (where applicable).

Based on review of the sampled projects and discussions with QISBGA Secretariat, we identified that the QISBGA often has difficulty obtaining these accountability documents from recipient schools. On the basis that schools have already received 100 per cent of their allocated grant funding amount prior to project completion, there is less incentive for schools to provide this documentation in a timely manner.

Whilst it is noted that schools may be unable to provide the Accountant's Certificate of Final Costs prior to all grant funding being disbursed, it would be better practice for the QISBGA to withhold a portion of the grant amount (e.g. 10 per cent) until schools provide their other completion documentation (i.e. the Architect's / Supervisor's Statement of Completion and evidence of a plaque and opening ceremony) before releasing the final portion of the grant amount as an incentive for schools to provide this documentation in a timely manner.

The QISBGA should retain a portion (e.g. 10 per cent) of grant funds until schools submit the Architect's Statement, and evidence of the plaque and opening ceremony (where applicable).

6 Conclusion

In light of the findings set out in this report, we have made the following recommendations for the QISBGA and the Department to consider:

- The QISBGA should require schools to execute a Capital Grant Recipient School Agreement shortly after Commonwealth grant approval is obtained and before confirming a definitive cost for the project through the tender process;
- The QISBGA should introduce a conflict of interest register and a standing agenda item for the declaration of conflicts at the beginning of all Capital Grant Advisory Committee meetings. Any conflicts management processes should be recorded in the meeting minutes;
- The QISBGA should obtain evidence from schools that schools hold valid insurance policies;
- The QISBGA should ensure that it allocates either Commonwealth or State capital grant funding and not both to projects to reduce the compliance and administrative burden on both schools and the QISBGA;
- The QISBGA should implement processes to reimburse schools based on progressive expenditure statements and supporting invoices. Furthermore, reimbursements should be made to schools on a pro rata basis throughout the life of the project (e.g. if the grant is for 50 per cent of the total project cost, 50 per cent of the expenditure reported in the PES should be disbursed). This reduces the risk the project will not be successfully completed within timeframes;
- The QISBGA should undertake appropriate activities to ensure that schools are entering a contract with a builder during the relevant funding year and therefore that schools are compliant with sections 107(c) and 108 of the CGP Guidelines;
- The QISBGA should require schools to provide non-financial progress updates at the time of submitting a progressive expenditure statement (a process which is recommended at Section 5.3 above);
- The QISBGA should ensure all former Participation Agreements with member schools are maintained on file; and
- The QISBGA should retain a portion (e.g. 10 per cent) of grant funds until schools submit the Architect's Statement, and evidence of the plaque and opening ceremony (where applicable).

Block Grant Authority

Catholic Education South Australia

23 February 2018



McGrathNicol

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1 Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
CGP	Capital Grants Program for non-government schools
Department	Department of Education and Training
EOI	Expression of interest
CESA	Catholic Education South Australia
CEO	Catholic Education Office
CDF	Capital Development Fund
SA Catholic BGA	The South Australian Catholic Schools Block Grant Authority
Objectives	The objectives of the CGP
Operating Manual	CGP Operating Manual 2016
Participant Agreement	Agreement between the School or Legal Entity responsible for the School and the SA Catholic BGA entered into for the School to become a member of the SA Catholic BGA
IPAD	Infrastructure Planning and Development Committee
FISC	Finance and Infrastructure Standing Committee
SACCS	South Australian Commission for Catholic Schools
SEP	Schools Entry Point
Requirements	Requirements under the CGP Operating Manual 2016, Australian Education Act 2013 and Australian Education Regulation 2013

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of South Australian Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of South Australian Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program (CGP) for non-government schools is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the SA Catholic BGA. The review examines the efficiency and effectiveness of the SA Catholic BGA in administering the CGP and evaluates the SA Catholic BGA's compliance with key areas of the Requirements.

The review was conducted in the context of the Requirements which govern the administration of the program.

In reviewing the SA Catholic Schools BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the SA Catholic BGA;
- meetings and discussions with representatives of the SA Catholic BGA, in particular:
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of the SA Catholic BGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of the SA Catholic BGA.

As discussed with the Department we have chosen a sample of 12 files to review. Provided below is a listing of the sample case files selected for the review testing:

Table 1: Sample case files

South Australian Catholic BGA sample files		
Project ID	School name	Funding (\$)
<i>New projects (un-acquitted projects)</i>		
2014/23695/1	Galilee Catholic School	1,421,000
2014/02602/1	Antonio Catholic School	948,273
2014/00352/1	St Joseph's School, Port Lincoln	1,000,000
2014/00339/1	St Joseph's School, Hectorville	1,000,000
2014/00319/1	St Gabriel's School	1,200,000
2015/14129/1	All Saints Catholic Primary School	1,630,000
2015/00255/1	Cabra Dominican College	950,000
2017/00250/1	Christ the King School	500,000
2017/00282/1	Mount Carmel College	1,500,000
2017/77540/1	Our Lady Help of Christians Campus	1,500,000
2017/00381/1	St Francis de Sales College	3,813,625
2017/14109/1	Emmaus Catholic School	200,000

3.4 Findings

3.4.1 Governance arrangements

The SA Catholic BGA does not have detailed documentation which shows how its processes and procedures are carried out.

The SA Catholic BGA has documented conflict of interest risk management policy and guidance material to assist with identifying and managing potential conflicts of interest.

There is one Participant Agreement to cover all Archdiocese of Adelaide schools and another Participant Agreement for the Diocese of Port Pirie schools. Other schools are congregational and incorporated under an incorporated body. These schools are required to execute individual agreements. The Archdiocese of Adelaide schools and Diocese of Port Pirie schools are not provided with a copy of the Participation Agreement. As such, a school may not be aware of their obligations under the program.

3.4.2 Selection and ranking of projects

Schools are recommended for grants to the Department based on Expressions of Interest and site visits. School visits are undertaken by Infrastructure Planning and Development Committee members to review suitability and need for the proposed project.

The Catholic Education Office (CEO) finance team provide data on each of the considered schools and a detailed assessment of financial need is prepared. The CEO finance team have good insight into each schools' financial position and prepare complex modelling to demonstrate a school's capacity to fund. The supporting documentation relied on by the CEO finance team in preparing these applications is not further reviewed by the Capital Grants Team and is not stored on project files.

Once a grant has been approved by the Department, a Capital Development Application is prepared and submitted for approval by SACCS. The Capital Development Application includes further design development and a revised cost estimate for the project.

3.4.3 Financial systems and practices for acquitting project funds

Grant payments are paid once schools complete a cost control spreadsheet using a template provided to them by the BGA. Supporting invoices are not required.

The SA Catholic BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple representatives required prior to payments being made.

3.4.4 Project monitoring

A BGA member is assigned to each school and is involved with the planning and development process including attending onsite meetings with the school and contractors at least once a month. There was evidence of regular email correspondence discussing planning and construction between the BGA, the school and contractors on file.

The SA Catholic BGA is heavily involved in the tender process and assists in preparing documents for tender. Tenders are obtained from multiple parties and there is a requirement to utilise the lowest tenderer's quotation (except in special circumstances).

3.4.5 Records management

The majority of electronic and physical documents reviewed were not readily accessible and difficult to locate.

There is currently no retention of a final progress payment amount until completion documentation is received from schools as such, a number of completed projects are still waiting to be acquitted as accountant's certificates have not been received. We identified significant delays receiving accountant's certificates on older files where construction has been completed.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the SA Independent Schools BGA and the Department to consider:

1. To demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, we recommend the SA Catholic BGA document its internal processes and procedures.
2. In consultation with the Department, an Agreement or some other form of acknowledgement is developed which is executed by each school to ensure they are aware of the conditions of accepting funding.
3. Externally sourced information relating to a school's capacity to fund a project should be stored with other project files.
4. The SA Catholic BGA should consider preparing and approving Capital Grant Application before receiving Departmental approval for a project. This will help to reduce time pressure for the SA Catholic BGA.
5. To reduce the risk that contractors are being paid without the work being undertaken, the SA Catholic BGA should request contractor invoices to support each progress claim. The invoices should be kept on file with the cost control spreadsheet and payment request form.
6. The SA Catholic BGA should ensure that it retains signed copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation if required after project completion. The SA Catholic BGA implement processes to ensure that where there is departure from normal procedures, the Department is consulted and consent to proceed with the proposed approach is documented.
7. All documentation which relates to a project should be kept in an easily accessible location. Development of a more comprehensive filing structure/archived document listing may assist with locating records.
8. The SA Catholic BGA should contact schools on a regular basis to ensure all completion documentation has been received and the project is acquitted. The SA Catholic BGA could implement a policy to require schools to submit completion documentation. The SA Catholic BGA should ensure schools have complied with recognition requirements before project acquittal. This should be documented by the SA Catholic BGA.

4 Background

4.1 Overview of the Capital Grants Program for non-government schools and role of the SA Catholic BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The role of the BGA is carried out by CEO staff.

The Catholic Education system in SA consists of 103 Catholic schools, with 6,000 staff and 46,000 students. There are three types of member schools in the years covered by the review being:

- Diocesan schools;
- Diocese of Port Pirie; and
- Cabra Dominican College.

The following criteria is used to determine the school's funding mix (available funds from grant funds, school contributions and other sources):

- financial need, indicated by current cash reserves and projected cash flows;
- SES score;
- current and future enrolments; and
- educational benefit.

The SA Catholic BGA utilises a limited number of documents and reference materials to administer the CGP. Provided below is summary of the key internal and external documents that shape the delivery of the SA Catholic BGA's CGP:

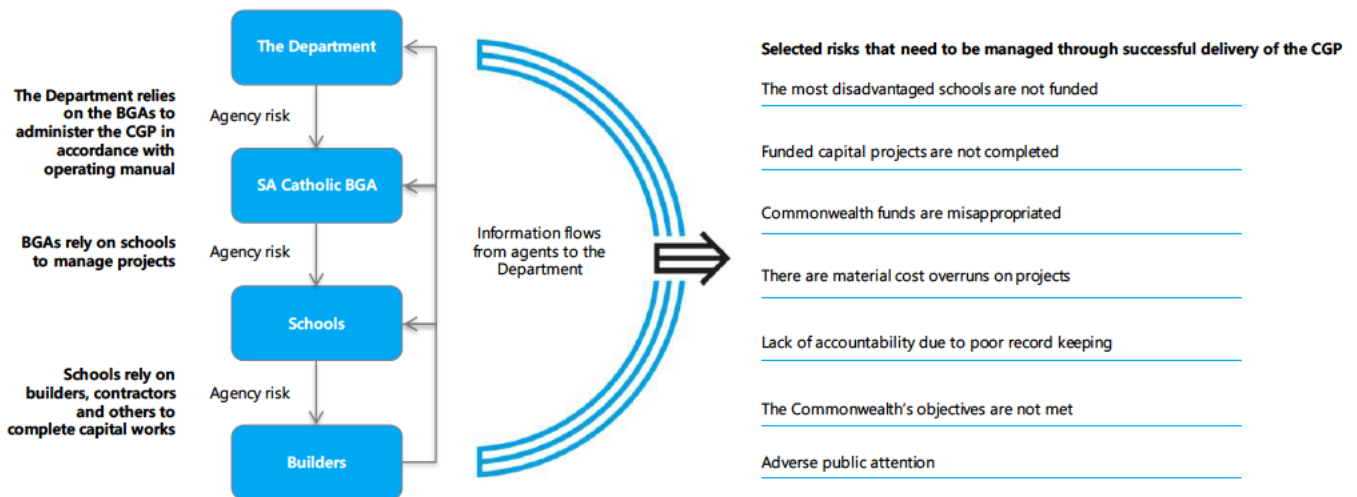
Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> ▪ Australian Education Act 2013 ▪ Australian Education Regulation 2013
Regulatory guidance material	<ul style="list-style-type: none"> ▪ CGP Operating Manual 2016
SA Catholic BGA policy documents for schools	<ul style="list-style-type: none"> ▪ Participant Agreement
SA Catholic BGA internal governance documents	<ul style="list-style-type: none"> ▪ Code of Conduct ▪ Conflict of Interest Procedure ▪ South Australia Commission for Catholic Schools (SACCS) Statutes ▪ Terms of Reference, Membership and Meeting Protocols of the Infrastructure, Planning and Development Committee ▪ Terms of Reference, Membership and Meeting Protocols of the SACCS Finance and Infrastructure Standing Committee (FISC)
SA Catholic BGA guidance materials	<ul style="list-style-type: none"> ▪ We did not locate any documentation that sets out the SA Catholic BGA's internal processes and procedures

4.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:


Figure 1: Agency risk created by the operating framework of the CGP





4.3 Key steps in administering the Capital Grants Program (CGP) for non-government schools

The CGP is administered on an ongoing basis by the SA Catholic BGA. We have sought to summarise the key steps taken in the table below:

Table 3: Overview of the Capital Grants Program Administration

Overview of the Capital Grants Programme Administration		
Step	Stage	Milestone
Step 1		All member schools are invited, via circular, to lodge an Expression of Interest should they intend to apply for a grant
Step 2		Schools complete Expression of Interest
Step 3		The CEO Planning and Development team reviews Expressions of Interest, checking to master plan and status of concept development
Step 4		The Infrastructure Planning and Development Committee (IPAD) review the Expressions of Interest received and shortlist schools that might meet the financial need test
Step 5		The shortlisted schools are visited by members of IPAD. The schools are informed of the key elements that will be assessed through the onsite visit, and a school visit report will subsequently be written.
Step 6		The CEO Finance Team provide data on each of the considered schools and a detailed assessment of financial need is prepared
Step 7		IPAD committee meeting to discuss school visits and financial need assessment. A report is prepared making a recommendation to the Finance and Infrastructure Standing Committee (FISC)
Step 8		IPAD notifies schools via letter if they have been recommended to the FISC
Step 9		Schools that have not been recommended to FISC are advised and given the opportunity to submit full documentation to FISC
Step 10		The FISC reviews Expressions of Interest provided by schools and IPAD and makes recommendations to the South Australian Commission for Catholic Schools (SACCS).
Step 11		The SACCS recommends grants which CEO staff enter into School Entry Point for consideration by the Department and for the Minister to approve
Step 12		The Department notifies successful schools of approval
Step 13		Successful schools are to submit a detailed capital development application form to IPAD for review. This is to include the concept design documentation
Step 14		Once reviewed and if endorsed by IPAD, the application is forwarded to FISC for further review and then to SACCS to approve
Step 15		After endorsement by FISC, schools attend the Archdiocese Design Review Panel (ARP) to present the project. The panel includes a range of skills including architects, engineers and project managers. The ARP approval is required before the Catholic Development Fund will approve a loan to a school

Overview of the Capital Grants Programme Administration

Step 16		After the application is approved by SACCA, CEO staff continue to work closely with the school to ensure the project design, cost estimate and other relevant documents are ready for tender. This includes a requirement for regular scope and cost reviews at critical design development milestones prior to tender. The tender process then commences
Step 17		The school, with the assistance of the architect and project manager, prepares and releases a Tender Assessment Report, which is reviewed by the CEO Planning and Development team to recommend and approve the successful tender.
Step 18		Monitoring stage The CEO issues a letter to the school to advise of the approved tender and copies the advice to the architect and project manager and various other stakeholders such as the diocese and insurer
Step 19		The CEO prepares and issues to the contractor a letter of intent and/or the finalised contract for execution by the Catholic Church Endowment Society Inc (CCES) or the Catholic Diocese of Port Pirie and the Contractor
Step 20		A CEO member is assigned to the school and attends regular site meetings usually at least once a month
Step 21		The school collects invoices and supporting documentation, completes payments details in the cost control spreadsheet, and provides to the CEO
Step 22		The CEO staff review the cost control spreadsheet, review reasonableness and authorise payment. The CEO then pay the reimbursement
Step 23		At project completion (after the defects period) the school prepares the final cost control spreadsheet and the CEO prepares the final payment request form
Step 24		Final progress claim paid by the CEO. The CEO updates School Entry Point to reflect final project costs and submits variations as necessary
Step 25		Finalisation and completion School arranges Audit certificate to confirm receipt and expenditure of Capital Development Grant
Step 26		The school submits a minimum of three dates for an opening ceremony to the Archbishop for approval
Step 27		The approved dates are then sent to the Minister's office where a date is confirmed
Step 28		A member of the Catholic BGA attends the opening ceremony

There is potential that the project be rejected by IPAD, FISC or the CDF (steps 14 and 15) we have been advised by the SA Catholic BGA that this scenario is unlikely however the following steps would be undertaken should a project be rejected post receiving the Departments grant approval:

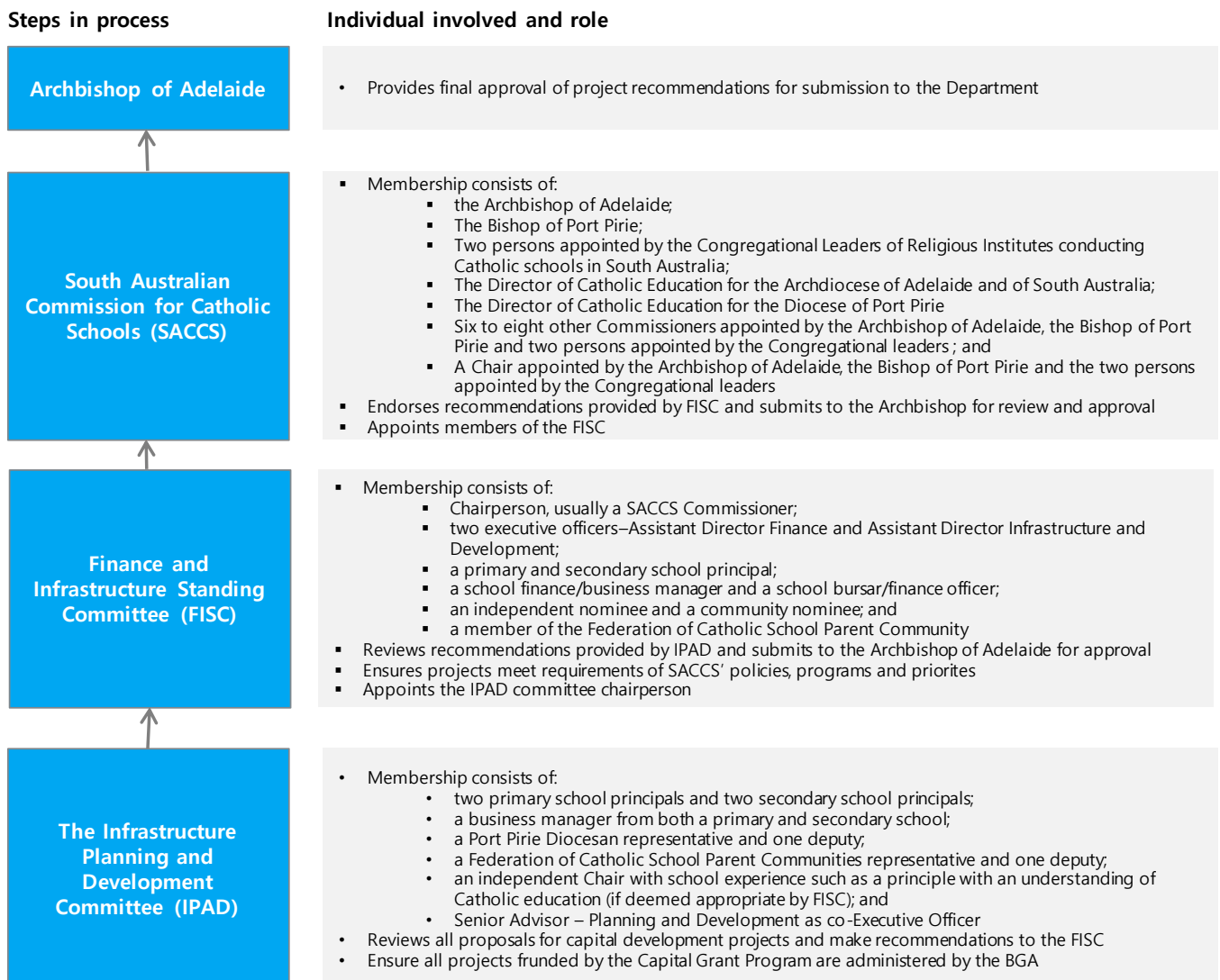
- As the role of IPAD is to determine the strategic appropriateness of the project, an unsuitable project would have been recognised during the initial review.
- FISC consider if a school can afford a project. Should a schools financial circumstances change in the period between grant approval and FISC approval FISC would consider if a revised version of the project could be

submitted to the Department. If the project was abandoned, a cancellation form would be submitted to the Department with the approved funds. The funds would then be reallocated to a suitable project.

- Projects rejected by the CDF in step 15 would be referred back to the CEO Finance Team to review. The CEO Finance Team would revise the plan to meet the requirements of the CDF. The updated proposal would then be resubmitted for approval through FISC and SACCS before going back through CDF. If the project in any form was deemed unacceptable and abandoned, a cancellation form would be submitted to the Department with the approved funds. The funds would then be reallocated to a suitable project.
- Should there be any variations made to the project throughout the construction process the school Principal supported by a member of the CEO Planning and Development Team and in many cases the consulting project manager will authorise assuming it is within the design and construction contingency limit.
- Should the value of the variations exceed the approved budget, the project would be re-submitted to FISC and SACCS. FISC and SACCS would revise the financial plan to ensure the school can manage the increase in cost prior to approval.

In reference to the process outlined on the previous page, we have set out a summary below of how applications are approved by the SA Catholic BGA:

Figure 2: Structure of application approval



5 Key findings

5.1 Governance arrangements

The SA Catholic BGA does not have detailed documentation which shows how its processes and procedures are carried out.

BGA has "Terms of Reference" documents which set out the objectives and roles of the IPAD and FISC and the SACCS Statutes which outline the SACCS' role and responsibilities.

We did not identify detailed policy and process documentation which set out the internal processes and procedures of the SA Catholic BGA.

Detailed policy and process documentation would provide transparency on how the Capital Grants Program is administered and decisions are made. Documents could cover the following:

- corporate governance;
- how projects are selected and ranked;
- how proposed allocations are reviewed and approved;
- how the project will be monitored by the SA Catholic BGA;
- how funds will be administered; and
- completion processes.

As the SA Catholic BGA has committed to changes in recent years, such as changing the selection and ranking process, and further improvement going forward, it would be an appropriate time to document its processes and procedures.

Recommendation 1: To demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, the SA Catholic BGA should document its internal processes and procedures.

The SA Catholic BGA has documented conflict of interest risk management policy and guidance material to assist with identifying and managing potential conflicts of interest.

The SA Catholic BGA identified the following guidance material regarding identifying and managing conflicts of interest or potential conflicts of interest:

- Code of Conduct – The Code of Conduct acknowledges that a person is expected to manage and declare any conflicts or potential conflicts.
- Conflict of Interest Procedure – The Conflict of Interest Procedure document defines a conflict and documents how a conflict should be addressed and documents the meeting declaration process.

Where committee members have an interest in the school or project being applied for, they declare these interests and then leave the room whilst the school or project is discussed. This is documented in the minutes.

There is one Archdiocese of Adelaide Participant Agreement to cover all Archdiocese of Adelaide schools and another to cover Diocese of Port Pirie schools. Other schools are required to execute individual agreements. The Archdiocese of Adelaide and Diocese of Port Pirie schools are not provided with a copy of the Participation Agreement. As such, a school may not be aware of their obligations under the program.

For Archdiocese of Adelaide schools, a single Participant Agreement is signed by the South Australian Commission for Catholic Schools (SACCS) on behalf of the BGA. The Archbishop of Adelaide signs the Participant Agreement on behalf of the Catholic Church Endowment Society Incorporated. This is the legal entity responsible for these schools.

For the Diocese of Port Pirie schools, the Participant Agreement is signed by the SACCS as the BGA and Director Diocese of Port Pirie for schools under the Diocese of Port Pirie. This is the legal entity responsible for these schools. For other schools that do not fall into either the Diocesan or Diocese of Port Pirie category, individual Participant Agreements are signed by the individual school.

Individual Archdiocese of Adelaide schools and schools of the Diocese of Port Pirie do not execute a signed agreement with the BGA to become a member of the BGA, to accept a grant, or to acknowledge they are aware of the conditions of receiving funding and their subsequent obligations.

Currently, schools are not provided a copy of the Participation Agreement and thus may not be aware of their obligations under the CGP program and be at risk of not meeting the requirements.

We note that the CGP Operating Manual specifies that BGAs should ensure that there is a legally binding agreement executed between the BGA and the school or school system. We have been advised by the SA Catholic BGA that as there are no legal entities at a school level, they do not consider that agreements executed by school representatives would be legally binding.

Recommendation 2: In consultation with the Department, an Agreement or some other form of acknowledgement is developed which is executed by each school to ensure they are aware of the conditions of accepting funding.

5.2 Selection and ranking of projects

Schools are recommended for grants to the Department based on Expressions of Interest and site visits. School visits are undertaken by Infrastructure Planning and Development Committee members to review suitability and need for the proposed project.

Assessment and ranking of projects and approval of final design is undertaken in two phases:

- an assessment based on an Expression of Interest (EOI) form and a school visit prior to the prioritising process and recommendation to the Department for approval; and
- a more in-depth assessment focusing on project design, development and cost prior to the final approval of the project.

The recommendation to the Minister for approval of a grant is provided based on the Expression of Interest form (EOI) and school visit. For the 2017 Capital Grants the SA Catholic BGA accepted EOI's via phone due to a requirement to complete an accelerated process. A spreadsheet was then created which summarises the ranking of the projects based on funding capacity and cash required, and a preliminary assessment was undertaken which considers the school SES, financial need and educational need prior to grant recommendation. The SA Catholic BGA reviewed master plans and concept plans as part of this assessment.

Compared to previous years, in 2018 the capital grant process initial assessment was more in depth in terms of selecting and ranking projects based on EOIs and site visits. Various factors are considered to determine the overall project ranking. This ranking is well documented and provides a transparent overview of the selection and ranking process.

A school visit report is prepared and incorporated into an Expression of Interest report. Two members of the IPAD visited each schools that had submitted an Expression of Interest for the 2018 grant funding round. The report prepared is detailed and looks at:

- cost estimates and whether they are in line with the scope of the project;
- the current state of existing facilities;
- the educational benefit of the proposed project; and
- the financial need of the school.

The following categories are then reviewed and an EOI summary matrix prepared to give each project a recommended grant amount:

- estimated project cost;
- estimated school contribution;
- estimated loan required;
- grant amount requested;
- current and projected enrolments;
- financial need; and
- educational benefit.

For the 2014 and 2015 capital grants process schools were visited by members of IPAD and a school visit report was prepared which assessed educational benefit. This was then used along with a financial assessment prepared by the CEO finance team to rank the project.

The CEO finance team provide data on each of the considered schools and a detailed assessment of financial need is prepared. The CEO finance team have good insight into each schools' financial position and prepare complex modelling to demonstrate a school's capacity to fund. The supporting documentation relied on by the CEO finance team in preparing these applications is not further reviewed by the Capital Grants Team and is not stored on project files.

The CEO finance team have access to schools' financial and enrolment data. This information is used to determine the ability of the school to meet contribution amounts and balance of grant funds required.

We have advised the actual information which forms part of these models is sourced and reviewed as follows:

- the data is input in the template by schools;
- the CEO Finance Team then checks enrolment information to census data;
- the actual cash balance movement from actual cash flow information is checked for consistency to audited financial statement opening and closing cash balances;
- loans which are sourced through the Capital Development Fund are checked against a monthly loan report prepared by the Capital Development Fund;
- any significant changes to forecast information are queried with the school to understand reasonableness; and
- interim checks of enrolment against forecasts and financial information against forecasts are also undertaken subsequent to this assessment.

Recommendation 3: Externally sourced information relating to a school's capacity to fund a project should be stored with other project files.

Once a grant has been approved by the Department, a Capital Development Application is prepared and submitted for approval by SACCS. The Capital Development Application includes further design development and a revised cost estimate for the project.

The Capital Grant Application must include copies of:

- proposed site master plan;
- approved site master plan;
- preliminary design development drawings; and
- preliminary cost estimate.

The Capital Development Application goes through the following levels of approval: IPAD, FISC and SACCS. The last step is for the school to present the project to the Archdiocese Design Review Panel (ARP) which has a range of skills from architects, engineers and project managers.

The current process appears to create time pressures in adhering to the timeline for a project to commence following Department approval, with steps 13 to 19 of Table 3 needing to be completed following Department approval but prior to 31 December. Two of the 2017 projects had not yet gone to tender at the time of reviewing files. The requirement to prepare the Capital Development Application and have this approved prior to project commencement creates pressure on the requirement for projects to have commenced prior to 31 December.

Where a project's costs differ from the amount submitted for approval in SEP or the scope needs to be amended to align more closely with available funds, a variation is processed in SEP.

The SA Catholic BGA have advised that moving parts of the process to prior to receiving Department approval for a project would result in the school incurring further costs when it is possible the project may not be approved by the Department which may be met by resistance from schools.

Whilst there is a risk that additional costs are incurred where a project may not be approved, we consider this risk is outweighed by the benefits of having additional time to design the project, consider tenders and agree terms and execute agreements. The current process is undertaken within relatively tight timeframes and where issues arise, it may be beneficial to have additional time to close these out and explore options available.

Recommendation 4: The SA Catholic BGA should consider preparing and approving the Capital Grant Application before receiving Departmental approval for a project. This will help to reduce time pressure for the SA Catholic BGA.

5.3 Financial systems and practices for acquitting project funds

Grant payments are paid on presentation of a cost control spreadsheet that is completed by the school using a template provided to them by the BGA. Supporting invoices are not required.

We have been advised by the SA Catholic BGA that the school compiles all invoices and supporting documentation and completes the cost control spreadsheet. The cost control spreadsheet is then provided to the SA Catholic BGA. The SA Catholic BGA review the cost control spreadsheet for reasonableness and as they attend the site regularly they are aware of the works being undertaken. The SA Catholic BGA has advised that they consider the risk of funds being misappropriated to be minimal as the staff involved in project oversight have a detailed understanding of the level of work undertaken and will have a sense of whether the amounts reported in the cost control spreadsheet are reasonable.

The invoices and supporting documentation collated by the school are not required to be provided to the BGA and were not kept on file and not identified for any project during our onsite testing.

Copies of each payment request form and corresponding cost control spreadsheet were not always kept on file however as documentation is provided to the CEO Finance Team for approval it was subsequently located.

We consider that including a requirement for schools to provide copies of the relevant invoices or progress claims for payments reported in the cost control spreadsheet would not create significant additional administrative burden.

Recommendation 5: To reduce the risk that contractors are being paid without the work being undertaken, the SA Catholic BGA should request contractor invoices to support each progress claim. The invoices should be kept on file with the cost control spreadsheet and payment request form.

The SA Catholic BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple representatives required prior to payments being made.

The following process is in place to release progress payment funds to schools:

- The cost control spreadsheet is completed by the school and provided to the SA Catholic BGA;
- The SA Catholic BGA review the cost control spreadsheet for reasonableness;
- s 47F prepares a payment request form;
- The payment request form and cost control spreadsheet are reviewed and signed off by s 47F
- The payment request form and cost control spreadsheet are then reviewed and signed off by the Assistant Director – Finance;
- The approved payment request form is then provided to the CEO Accounts Payable Officer, who uploads the payment;
- A separate member of the CEO finance team approves the payment online; and
- The Infrastructure and Development Finance Officer has enquiry access to the bank account and also receives bank statements from the CEO finance team so is able to confirm payment has been made.

Segregation of duties reduces the risk of fund misappropriation and multiple stages of review reduces the risk of input errors in payment information not being detected.

5.4 Project monitoring

A BGA member is assigned to each school and is involved with the planning and development process including attending onsite meetings with the school and contractors at least once a month. There was evidence of regular email correspondence discussing planning and construction between the BGA, the school and contractors on file.

The SA Catholic BGA are involved heavily in the construction process. This enables identification of any potential issues/delays on projects at an early stage and ensures the SA Catholic BGA is well informed of progress as well as providing support to schools who have less expertise.

We have been advised by the SA Catholic BGA that its members monitor progress on projects by attending physical sites for meetings regularly. We identified a large volume of email correspondence between the SA Catholic BGA and architects/project managers regarding design, development and construction.

Site meetings are held regularly for each project and discuss:

- safety issues;
- status of each trade;
- any variations to original project including cost;
- design issues; and
- timing.

Site meeting minutes were kept on file for each project and offer a detailed insight into the progress of the project.

The SA Catholic BGA is heavily involved in the tender process and assists in preparing documents for tender. Tenders are obtained from multiple parties and there is a requirement to utilise the lowest tenderer's quotation (except in special circumstances).

The SA Catholic BGA work closely with the school to ensure the project design, cost estimate and other relevant documents are ready for tender. This includes a requirement for regular scope and cost reviews at critical design development milestones prior to tender.

Each project is then required to obtain tenders and with the assistance of the architect/project manager produce a Tender Assessment Report. In each test file reviewed, the lowest cost tender was selected.

There was no tender report for Emmaus Catholic School as the SA Catholic BGA used a managing contractor arrangement, where tenders are not required. There is also no tender assessment report for Mt Carmel College, Our Lady Help of Christians Campus and St Francis de Sales College because those projects have not yet gone to tender. These projects are required to commence by 31 December 2017.

Executed copies of contracts with architects and builders were not sighted during the onsite testing however with the exception of two projects were provided at a later date, as they were saved in a different location.

- There was no signed contract in place for s 47G despite work being completed. We were advised by the SA Catholic BGA that due to difficulties with the project, no contract was signed and that the BGA obtained legal advice to mitigate risk.
- The key contracts for Cabra Dominican College, a non-diocesan school were obtained by the SA Catholic BGA and have since been requested from the school.

The SA Catholic BGA have acknowledged that moving forward electronic copies of final executed contracts for both diocesan and non-diocesan schools will be kept on file.

Recommendation 6: The SA Catholic BGA should ensure that it retains signed copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation if required after project completion. The SA Catholic BGA implement processes to ensure that where there is departure from normal procedures, the Department is consulted and consent to proceed with the proposed approach is documented.

5.5 Records management

The majority of electronic and physical documents reviewed were not readily accessible and difficult to locate.

The SA Catholic BGA maintains an electronic filing system for each project folder with the following subfolders:

- approvals;
- contracts;
- correspondence;
- cost control; and
- plans.

The majority of information on the file is related to development, planning and construction. Various documents were saved within an email such as the Capital Development Application form and approvals making them difficult to locate.

There was no consistency to the filing system and whilst the SA Catholic BGA has protocols from document storage, this did not assist with locating documents for review.

The SA Catholic BGA is involved with other aspects of schools' resource and capital planning and as a result some of the information required for our review was stored in other locations. Documentation for each project was spread across different files, such as applications, agreements and payments.

A more detailed filing structure would ensure all required documents were up to date and readily accessible, regardless of staff movements. It would also ensure that should there be any issues with a project, documentation will be readily available and the SA Catholic BGA can be confident they are following all record keeping requirements as per the CGP Operating Manual and storing documents that demonstrate compliance with the Manual are stored together.

Recommendation 7: All documentation which relates to a project should be kept and in an easily accessible location. Development of a more comprehensive filing structure/archived document listing may assist with locating records.

There is currently no retention of a final progress payment amount until completion documentation is received from schools as such, a number of completed projects are still waiting to be acquitted as accountant's certificates have not been received. We identified significant delays receiving accountant's certificates on older files where construction has been completed.

The SA Catholic BGA does not currently retain a portion of the grant payment until the school has submitted completion documentation.

The SA Catholic BGA could encourage schools to submit project completion documentation in a timely manner by withholding final payment in cases where there are delays in submitting completion documentation. Withholding funds would also reduce the risk of funds being misappropriated or projects not being completed.

In four of the five sample files reviewed that were completed between 6 and 18 months ago, accountant's certificates are still outstanding. We have been advised this is the case for a number of projects dating back to 2014. The SA Catholic BGA are in the process of chasing all completed projects that are yet to provide an accountant's certificate in order to acquit the projects, and there is a clear improvement in bringing legacy matters up to date.

The current staff are aware of the situation and working through completed projects to catch up outstanding acquittals however, this will take some time. There has been a significant improvement over a short timeframe in bringing old projects up to date particularly in updating School Entry Point

There was no evidence that the SA Catholic BGA monitor each school's compliance with recognition requirements to determine whether or not they have obtained a plaque or arranged an opening ceremony. We were advised by the SA Catholic BGA that the team prompts schools to ensure they arrange an opening ceremony and that a member of the SA Catholic BGA usually attends however they do not retain records on project files. The SA Catholic BGA were able to provide some invitations or email correspondence for opening ceremonies. Photographs of plaques are not requested.

Recommendation 8: The SA Catholic BGA should contact schools on a regular basis to ensure all completion documentation has been received and the project is acquitted. The SA Catholic BGA could implement a policy to require schools to submit completion documentation. The SA Catholic BGA should ensure schools have complied with recognition requirements before project acquittal. This should be documented.

6 Conclusion

Generally, the SA Catholic BGA maintains a close working relationship with member schools in administering the Program with support throughout the construction process.

In light of the findings set out this report, we have made the following recommendations for the SA Catholic BGA and the Department to consider:

1. To demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, the SA Catholic BGA should document its internal processes and procedures.
2. In consultation with the Department, an Agreement or some other form of acknowledgement is developed which is executed by each school to ensure they are aware of the conditions of accepting funding.
3. Externally sourced information relating to a school's capacity to fund a project should be stored with other project files.
4. The SA Catholic BGA should consider preparing and approving Capital Grant Application before receiving Departmental approval for a project. This will help to reduce time pressure for the SA Catholic BGA.
5. To reduce the risk that contractors are being paid without the work being undertaken, the SA Catholic BGA should request contractor invoices to support each progress claim. The invoices should be kept on file with the cost control spreadsheet and payment request form.
6. The SA Catholic BGA should ensure that it retains signed copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation if required after project completion. The SA Catholic BGA implement processes to ensure that where there is departure from normal procedures, the Department is consulted and consent to proceed with the proposed approach is documented.
7. All documentation which relates to a project should be kept and in an easily accessible location. Development of a more comprehensive filing structure/archived document listing may assist with locating records.
8. The SA Catholic BGA should contact schools on a regular basis to ensure all completion documentation has been received and the project is acquitted. The SA Catholic BGA could implement a policy to require schools to submit completion documentation. The SA Catholic BGA should ensure schools have complied with recognition requirements before project acquittal. This should be documented.

Block Grant Authority

South Australia Independent Schools Block Grant Authority

23 February 2018



McGrathNicol

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1 Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
CGP	Capital Grants Program for Non-government Schools
Department	Department of Education and Training
EOI	Expression of interest
AISSA	Association of Independent Schools of South Australia
SA Independent Schools BGA or SAIS BGA	The South Australian Independent Schools Block Grant Authority
Objectives	The objectives of the CGP
Operating Manual	CGP Operating Manual 2016
Participant Agreement	Agreement between the School and the SA Independent Schools BGA entered into for the School to become a member of the SA Independent Schools BGA
Application Agreement	Agreement between the school and the SA Independent Schools BGA entered into prior to an application being submitted
Acceptance Agreement	Agreement between the school and the SA Independent Schools BGA entered into prior to the advancement of any grant funds
Requirements	Requirements under the CGP Operating Manual 2016, Australian Education Act 2013 and Australian Education Regulation 2013

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of South Australian Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of South Australian Block Grant Authorities in accordance with the Official Order.

McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program (CGP) for Non-government Schools is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the SA Independent Schools BGA. The review examines the efficiency and effectiveness of the SA Independent Schools BGA in administering the CGP and evaluates the SA Independent Schools BGA's compliance with key areas of the Requirements.

The review will be conducted in the context of the Requirements which govern the administration of the program.

In reviewing the SA Independent Schools BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the SA Independent Schools BGA;
- meetings and discussions with representatives of the SA Independent Schools BGA, in particular;
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of the SA Independent Schools BGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of the SA Independent Schools BGA.

As discussed with the Department we have chosen a sample of 15 files to review. Provided below is a listing of the sample case files selected for the review testing:

Table 1: Listing of sample case files

South Australian Independent BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2016/08824/1	Golden Grove Lutheran Primary School	42,350
2015/04059/1	Calvary Lutheran School	575,890
2015/02610/1	Emmaus Christian College Incorporated	456,637
2015/22817/1	Pinnacle College - Elizabeth East Campus	465,881
2015/17272/1	Encounter Lutheran College	703,730
<i>New projects (un-acquitted projects)</i>		
2017/30155/1	Blakes Crossing Christian College	435,250
2017/77473/1	Paradise Campus	102,420
2017/00269/1	Maitland Lutheran School	284,760
2017/22817/1	Pinnacle College - Elizabeth East Campus	855,000
2017/13280/1	Sunrise Christian School Whyalla	100,000
2017/14290/1	Tatachilla Lutheran College	500,000
2017/02605/1	Unity College Inc	35,000
2016/02606/1	Prescott College Southern	289,130
2016/02629/1	St Martins Lutheran College	960,560
2016/16724/1	Tyndale Christian School Murray Bridge	599,030

3.4 Findings

3.4.1 Governance arrangements

The SA Independent Schools BGA has limited internal documentation which shows how its processes and procedures are carried out.

The SA Independent Schools BGA does not appear to have documented conflict of interest risk management procedures, however, potential conflicts are noted in meeting minutes.

The Participation Agreement, Application Agreement and Acceptance Agreement executed by schools are comprehensive and include the required provisions specified in the Operating Manual.

3.4.2 Selection and ranking of projects

School visits are undertaken by the Chairman, Executive Officer and usually two BGA committee members to ensure current facilities are being maintained, to review the suitability and need for the proposed project to and discuss potential cost saving options or other scope amendments.

The SA Independent Schools BGA uses a detailed application process, ranking schools in SES order before discussing the eligibility of each school and ranking projects by educational need. Available funds are then allocated through a financial need assessment which is well documented in an allocation worksheet.

3.4.3 Financial systems and practices for acquitting project funds

The SA Independent Schools BGA maintains a separate bank account for all Capital Grant Funds received from the Department.

The SA Independent Schools BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple representatives required prior to payments being made.

3.4.4 Project monitoring

Schools provide Monthly Progressive Expenditure Statements (MPES) to the SA Independent Schools BGA. The MPES includes an update on costs, copies of invoices, timing and the general progress of the project.

Whilst there are no physical checks of project status during construction, the SA Independent Schools BGA and the schools maintain a close working relationship and we identified frequent emails with schools on project files.

3.4.5 Records management

The electronic and physical documents reviewed were in good order and readily accessible.

Retention of 10% of the total grant payment for all grants over \$250,000 and 15% of the total grant payment for grants under \$250,000 until an architect's certificate is received provides a strong incentive for schools to complete documentation quickly.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the SA Independent Schools BGA and the Department to consider:

- To demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, we recommend the SA Independent Schools BGA document its internal processes and procedures more thoroughly.
- The SA Independent Schools BGA should maintain a register of relationships with applicant schools and Committee members (or any other potential conflicts of interest). Guidelines surrounding conflict of interest management should be set out in policy documents by the SA Independent Schools BGA.
- Documented interim checks of the physical project status should be undertaken prior to each progress payment of grant funding. As site visits can be both time consuming and costly it may be more appropriate for the SA Independent Schools BGA to use other methods (such as photographs) to check project progress. Project checks should be documented and kept on files. File notes should be prepared and kept on file to document any telephone conversations discussing the project.
- We recommend that the SA Independent Schools BGA retain copies of appropriate contracts (such as with builders and architects) for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- The SA Independent Schools BGA should continue to regularly follow up schools for completion documentation particularly the accountant's certificate which is required after the grant payment has been paid out in full.

4 Background

4.1 Overview of the Capital Grants Program for Non-government Schools and role of the SA Independent BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The Association of Independent Schools of SA is an association of non-Government, non-Catholic schools. The association provides a forum for debate on significant policy issues, plays a leadership role in providing advice and information, representing individual schools and the sector, and shaping change across the sector.

The SA Independent Schools BGA is a non-profit body whose members are not-for-profit independent schools located in South Australia. Membership includes schools of many different:

- sizes;
- structures;
- financial positions;
- cultural backgrounds;
- religious affiliations; and
- educational philosophies.

The funding mix is determined taking into account a school's educational disadvantage and financial need.

The SA Independent Schools BGA utilises a number of documents and reference materials to administer the CGP. Provided below is summary of the key internal and external documents that shape the delivery of the SA Independent Schools BGA's CGP:

Table 2: Documented policies, procedures and guidance materials

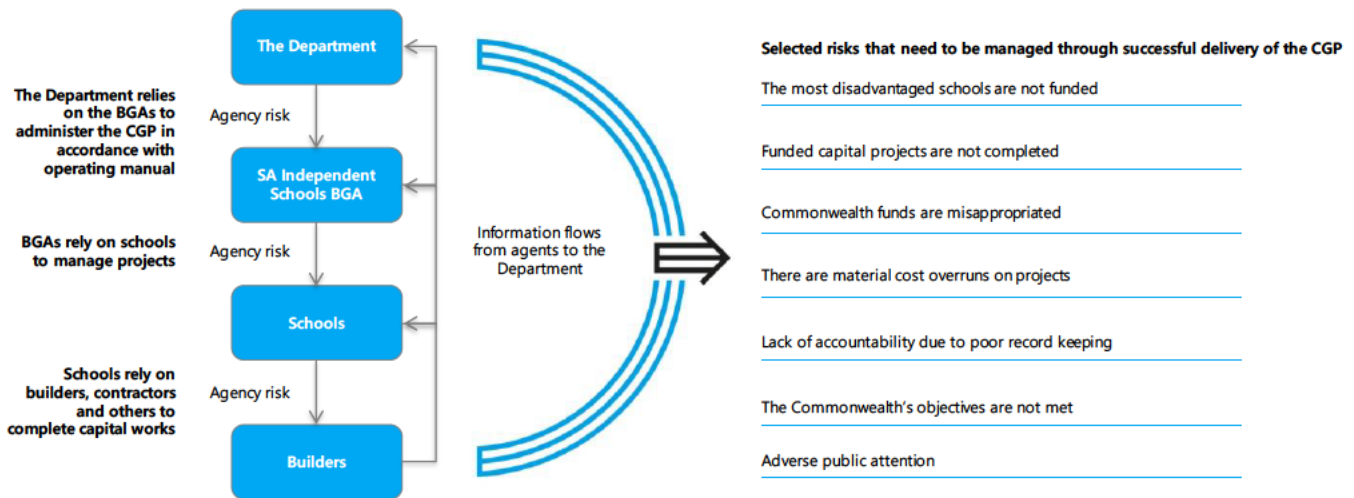
Documented policies, procedures and guidance materials		
Category of documents	Title of document	
Legislation and regulations	▪	Australian Education Act 2013
	▪	Australian Education Regulation 2013
Regulatory guidance material	▪	CGP Operating Manual 2016
SA Independent BGA policy documents for schools	▪	Participant agreement
	▪	Application agreement
	▪	Acceptance agreement
SA Independent BGA guidance materials	▪	Procedural Guidelines: New Schools Policy
	▪	Procedural Guidelines: School's Viability Policy
	▪	Procedural Guidelines: Area Discounting
	▪	Procedural Guidelines: Funding of Air Conditioning Equipment
	▪	Procedural Guidelines: Arrangements for Schools on Leased Sites
	▪	Procedural Guidelines: Change of Facilities in the Designated Use Period
	▪	Procedural Guidelines: Design/Contract Model, Procurement of Contracts

4.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the

CGP and achieve the program's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP









4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the SA Independent Schools BGA. We have sought to summarise the key steps taken in the table below:

Table 3: Overview of the Capital Grants Program Administration

Overview of the Capital Grants Programme Administration		
Step	Stage	Milestone
Step 1	Application Process	A flyer is distributed to member schools notifying schools of the annual BGA seminar, the seminar is also flagged in the Association of Independent Schools of South Australia ("AISSA") newsletter
Step 2		Schools attend the annual BGA seminar. The annual Seminar covers the CGP process, including key dates, ranking of applicants, compliance matters, and changes or developments for the next round
Step 3		Schools are to complete the stage 1 Notice of Intent form available on the BGA webpage
Step 4		The BGA reviews the submitted stage 1 Notice of Intent forms and conducts a filtering process based on general CGP eligibility questions, the educational disadvantage of students in the school and how each application fits in with the objectives of the Capital Grants program
Step 5		Continuing schools lodge a detailed stage 2 Initial Application, having attended a briefing regarding how to complete the form. The Application is to include enrolment forecasts, area per student, standard costs, project costs, funding sources and a financial forecast. Application forms and information sheets are made available on the BGA webpage
Step 6		The School and the BGA sign the Application Agreement*
Step 7		The Chairman and the Executive officer along with two committee members of the BGA (the Panel) visit schools that have submitted a stage 2 Initial Application. The Panel uses a checklist/survey to assess educational need and prepares a written report

Overview of the Capital Grants Programme Administration

Step 8		Application Process	The committee meet to discuss the reports and prepare the initial allocation worksheet. Applications are firstly ranked in SES order. This is modified, if necessary, by other factors relating to educational need.
Step 9			Schools complete Stage 3 financial information, providing more detailed financial information about operating costs, profitability, fee debtors, loan structure, bank agreements and revised financial forecasts. The finance group then analyse this information and rank schools by financial need and recommend to the committee
Step 10			The committee combines the educational and financial need rankings/assessments and creates an indicative allocation of available funds
Step 11			Successful schools are notified of their indicative grants and invited to complete stage 4 final application. Unsuccessful schools are also notified
Step 12			Successful schools complete stage 4 final application providing final costs, plans, funding and financial forecasts
Step 13			The committee use the allocation spreadsheet and the information provided via stage 4 final application and finalises its grant allocation recommendations
Step 14			BGA recommends grants to the Minister for approval
Step 15			Once the Minister has approved the recommended projects, the BGA notifies the successful schools and issues a Grant Acceptance Agreement*, which includes the grant details. The school is required to sign and return the documents to the BGA
Step 16		Monitoring stage	The BGA then countersign the Grant Acceptance Agreement* and return a copy to the school along with pro-formas of the tender results form and grant monitoring forms
Step 17			Tender process commences
Step 18			School submits tender results form and recommends a tender to the BGA for approval
Step 19			The BGA Executive Officer provides verbal approval to the school followed by written approval
Step 20			School enters into contract with builder and provides the BGA with written confirmation of contract signing and project commencement
Step 21			School provides Monthly Progressive Expenditure Statements (MPES) to the BGA. The MPES is to include an update on costs, timing and the general progress of the project
Step 22		Finalisation and completion	The BGA pays grant instalments based on the MPES
Step 23			The BGA withhold 10% of the total grant payment for all grants over \$250,000 and 15% of the total grant payment for grants under \$250,000 (retention amount)
Step 24			The final MPES is submitted with architect's/supervisor's statement of Final Costs
Step 25			The BGA pays the retention amount and issues a letter to the school to confirm payment and request the accountant's certificate to acquit the project

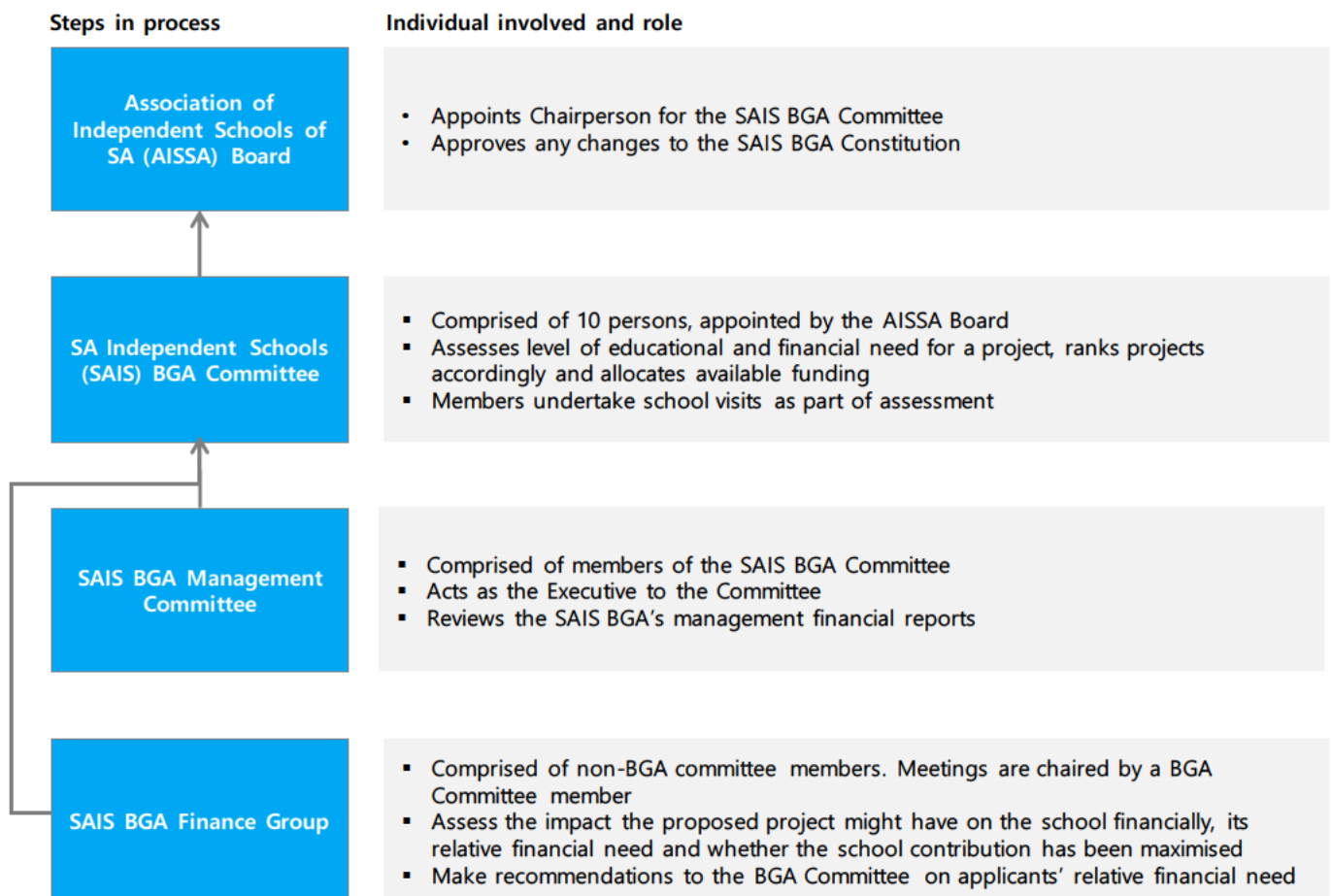
Overview of the Capital Grants Programme Administration

Step 26	↕	Finalisation and completion	BGA Chairman, Executive Officer and possibly other committee members attend the opening ceremony
Step 27			The school submits the Architect's Statement of Final Costs

* The SA Independent Schools BGA are in the process of preparing a new Agreement to consolidate the Participation Agreement, Application Agreement and Acceptance Agreement. Once finalised this agreement will be signed by all member schools and the BGA. As such, step 6 will be removed and the Grant Acceptance Agreement in steps 15 and 16 will be replaced with Schedule 2 of the combined Agreement. The new BGA website will be used to download and upload all forms. This process will be in place for 2019 grants onwards.

In reference to the process outlined above we have set out a summary below of how applications are approved by the SA Independent Schools BGA:

Figure 2: Structure of application approval



5 Key findings

5.1 Governance arrangements

The SA Independent Schools BGA has limited internal documentation which shows how its processes and procedures are carried out.

We found limited policy and process documentation available at the SA Independent Schools BGA which show how internal processes are carried out. The following guidance material for schools wishing to participate in the CGP were identified:

- Procedural Guidelines: New Schools Policy
- Procedural Guidelines: School's Viability Policy
- Procedural Guidelines: Area Discounting
- Procedural Guidelines: Funding of Air Conditioning Equipment
- Procedural Guidelines: Arrangements for Schools on Leased Sites
- Procedural Guidelines: Change of Facilities in the Designated Use Period
- Procedural Guidelines: Design/Contract Model, Procurement of Contracts

Although the SA Independent Schools BGA provides some guidance material and process and procedures documentation for schools to follow, we did not identify documents which set out the internal processes and procedures of the SA Independent Schools BGA.

Detailed policy and process documentation would provide transparency on how the Capital Grants program is administered and decisions are made. In particular the following policy and procedures should be described in more detail:

- corporate governance;
- how projects are selected and ranked;
- how projects are monitored; and
- how Capital Grant funds are administered.

To demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, we recommend the SA Independent Schools BGA document its internal processes and procedures more thoroughly.

The SA Independent Schools BGA does not appear to have documented conflict of interest risk management procedures however, a conflict is noted in meeting minutes.

We did not identify any conflict of interest registers or any other documentation specifying how specific conflicts of interest have been managed within the SA Independent Schools BGA.

Committee members may have the following interests in projects being considered:

- principals or business managers of schools who have submitted applications; or
- architects who have been engaged by schools for the project under consideration.

The meeting minutes disclose that the Chairperson acknowledges possible conflicts of interest of Committee members working in or with schools however, the minutes do not provide any detail as to the level of involvement in decision making by committee members with potential conflicts.

The SA Independent Schools BGA should maintain a register of relationships with applicant schools and Committee members (or any other potential conflicts of interest). Guidelines surrounding conflict of interest management should be set out in policy documents by the SA Independent Schools BGA.

The Participation Agreement, Application Agreement and Acceptance Agreement executed by schools are comprehensive and include the required provisions specified in the Operating Manual.

Each school is required to sign an acceptance to be bound to requirements listed in the Operating Manual prior to receiving funding. The Operating Manual provides detailed guidance on specific information required to be contained in each agreement.

Schools currently enter into the following agreements with the SA Independent Schools BGA in relation to the CGP:

- Participation Agreement;
- Application Agreement; and
- Acceptance Agreement.

The above Agreements include all provisions contained in the CGP Operating Manual ensuring schools are aware of and agree upon their obligations prior to receiving funding.

The SA Independent Schools BGA are currently in the process of combining the three current agreements into a consolidated Participation Agreement. We have reviewed a draft Agreement which also contains all the required provisions under the CGP Operating Manual.

5.2 Selection and ranking of projects

School visits are undertaken by the Chairman, Executive Officer and usually two BGA committee members to ensure current facilities are being maintained, to review suitability and need for the proposed project and to discuss potential cost saving options or other scope amendments.

Between two and four committee members will visit schools prior to the SA Independent Schools BGA ranking projects and making recommendations. This ensures the proposed project is well planned, assists the SA Independent Schools BGA with determining need for the project and provides an opportunity to clarify any aspects of the proposed project that were unclear from the application.

The school visit also gives the SA Independent Schools BGA the opportunity to discuss potential cost savings with the school to ensure the grant funds can be allocated across as many projects as possible.

The SA Independent Schools BGA uses a detailed application process, ranking schools in SES order before discussing the eligibility of each school and ranking projects by educational need. Available funds are allocated through a financial need assessment which is well documented in an allocation worksheet.

Projects are assessed from an educational and financial need perspective. The applications reviewed by the SA Independent Schools BGA contain the following information:

- school's financial information including;
 - audited financial statements;
 - financial data to calculate liquidity ratios;
 - current and future loan amounts;
 - funding source for the school contribution;
- enrolment details (historical and projections);
- existing and planned facilities;
- the proposed project information including project finances;
- socio-economic information (including SES score); and
- asset management and master plans.

A school visit is undertaken by committee members and the findings from the visit are discussed at the committee meeting.

Minutes of the committee meetings show that the committee discusses the educational and financial need of each project and projects are not recommended where there is no educational or financial need.

A range of factors are considered to determine the level of need and ranking in an allocation and ranking spreadsheet. These factors include school debt levels, SES score, enrolments, master planning and project purpose.

5.3 Financial systems and practices for acquitting project funds

The SA Independent Schools BGA maintains a separate bank account for all Capital Grant Funds received from the Department.

The SA Independent Schools BGA maintains a separate bank account to deposits the funds provided by the Department. This simplifies tracking unallocated funds, and reconciliation and audit processes. The use of a separate bank account also reduces any risk of funds mistakenly being used to meet other costs.

The SA Independent Schools BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple representatives required prior to payments being made.

The following process is in place to release progress payment funds to schools:

- the school submits a Capital Grants Monthly Progressive Expenditure Statement (MPES) with supporting invoices;
- the Finance Officer/Administration Assistant checks the MPES complies with requirements;
- the Finance Officer/Administration Assistant enters the payment into the SA Independent BGA's accounting system and prepares the Details of Payment form;
- the Executive Officer approves the payment;
- the Finance Officer/Administration Assistant uploads the payment to Westpac via ABA file and prints the Direct Entry Payment Report;
- the BGA Business Manager reviews and approves the payment online; and
- the Finance Officer/Administration Assistant reconciles bank accounts monthly.

Segregation of duties reduces the risk of fund misappropriation and multiple stages of review reduces the risk of input errors in payment information not being detected.

5.4 Project monitoring

Schools provide Monthly Progressive Expenditure Statements (MPES) to the SA Independent Schools BGA. The MPES is to include an update on costs, copies of invoices, timing and the general progress of the project.

Schools are to provide the SA Independent Schools BGA with MPES. The MPES provides detail on the following aspects of the project:

- actual expenditure for the month and to date;
- anticipated expenditure by month to project completion;
- expected completion date; and
- a general progress update.

The MPES is used as supporting documentation when a school is requesting grant payment, however the MPES is also provided to the SA Independent Schools BGA every month irrespective of whether a grant is being claimed.

Whilst there are no physical checks of project status during construction, the SA Independent Schools BGA and the schools maintain a close working relationship, and we identified frequent emails with schools on project files.

Documented progress updates that were on files during construction are primarily in the form of the MPES, and when required attached documentation (invoices etc.).

We identified regular email correspondence with schools following up outstanding documentation and liaising regularly with schools.

We were advised by the SA Independent Schools BGA that there is an awareness of the activities of each school and much of the communication with schools is verbal. These conversations are not always documented.

We found evidence in the Committee minutes of an issue at s 47G where a building funded by the Capital Grants Program was being used for an early learning centre. The school proactively raised this issue with the SA Independent BGA which, together with the Department, negotiated the building of a new early learning centre to resolve the breach of the Grant Acceptance Agreement in a timely manner.

Requiring schools to provide evidence of physical project status prior to approving progress payments may provide further confidence that the project is progressing accordance with the approved plans.

Documented interim checks of the physical project status should be undertaken prior to each progress payment of grant funding. As site visits can be both time consuming and costly it may be more appropriate for the SA Independent Schools BGA to use other methods (such as photographs) to check project progress. Project checks should be documented and kept on files. File notes should be prepared and kept on file to document any telephone conversations discussing the project.

5.5 Records management

The electronic and physical documents reviewed were in good order and readily accessible.

The SA Independent Schools BGA maintains detailed records, with documentation for each project kept on its individual file and in good order with checklists maintained for each file to track the receipt of relevant documentation. The bulk of the records on file relate to the application assessment, project commencement, payment and completion.

The SA Independent Schools BGA does not currently obtain copies of the executed contracts between the school and the architect or builder; however the SA Independent Schools BGA requests a letter from the school to confirm the contracts have been signed and the project will commence.

We recommend that the SA Independent Schools BGA retain copies of relevant contracts (such as with builders and architects) for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.

Retention of 10% of the total grant payment for all grants over \$250,000 and 15% of the total grant payment for grants under \$250,000 until an architect's certificate is received provides a strong incentive for schools to complete documentation quickly.

The final grant payment of 10% of the grant amount for projects with a grant larger than \$250,000 and 15% of the grant amount for projects with a grant less than \$250,000 is retained until the SA Independent Schools BGA receives the following documentation:

- Monthly Progressive Expenditure Statement and supporting documentation; and
- Architect's or Supervisor's Statement of Final Costs.

This encourages schools to submit project completion documentation in a timely manner.

Whilst there were some examples of delays in Architect's Statement of Final Costs being submitted on sample files, we identified evidence of the BGA repeatedly following up schools that were late in submitting documents on each of these files.

The SA Independent Schools BGA should continue to regularly follow up schools for completion documentation particularly the accountant's certificate which is required after the grant payment has been paid out in full.

6 Conclusion

The SA Independent Schools BGA maintains a close working relationship with member schools in administering the Program and all records and files were kept in good order.

In light of the findings set out this report, we have made the following recommendations for the SA Independent Schools BGA and the Department to consider:

- To demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, we recommend the SA Independent Schools BGA document its internal processes and procedures more thoroughly.
- The SA Independent Schools BGA should maintain a register of relationships with applicant schools and Committee members (or any other potential conflicts of interest). Guidelines surrounding conflict of interest management should be set out in policy documents by the SA Independent Schools BGA.
- Documented interim checks of the physical project status should be undertaken prior to each progress payment of grant funding. As site visits can be both time consuming and costly it may be more appropriate for the SA Independent Schools BGA to use other methods (such as photographs) to check project progress. Project checks should be documented and kept on files. File notes should be prepared and kept on file to document any telephone conversations discussing the project.
- We recommend that the SA Independent Schools BGA retain copies of key contracts (such as with builders and architects) for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- The SA Independent Schools BGA should continue to regularly follow up schools for completion documentation particularly the accountant's certificate which is required after the grant payment has been paid out in full.

Block Grant Authority

Catholic Education Centre

10 July 2017



McGrathNicol

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1 Glossary

Glossary

Name	Description
BGA	Block Grant Authority
CPC	Capital Program Committee
TCEO	Tasmanian Catholic Education OfficeThe BGA comprises TCEO staff that perform the functions of the BGA.
TCEC	Tasmanian Catholic Education Commission
CGP	Capital Grants Program for Non-government Schools
Department	Department of Education and Training
Objectives	The objectives of the CGP
Operating Manual	CGP Operating Manual 2016
Participant Agreement	Agreement between the school and the Tasmanian Catholic BGA entered into prior to the advancement of any grant funds
Requirements	Requirements under the CGP Operating Manual 2016, Australian Education Act 2013 and Australian Education Regulation 2013
TAS Catholic BGA	Catholic Education Centre
SSGC	Systematic Schools Governing Council
SSBC	Systematic Schools Budget Committee

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of Tasmanian Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of Tasmanian Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program (CGP) for Non-government Schools is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the TAS Catholic BGA. The review examines the efficiency and effectiveness of the TAS Catholic BGA in administering the CGP and evaluates the TAS Catholic BGA's compliance with key areas of the Requirements.

The review will be conducted in the context of the Requirements which govern the administration of the program.

In reviewing the TAS Catholic BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the TCEO;
- meetings and discussions with representatives of the TAS Catholic BGA, in particular:
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of the TAS Catholic BGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of the TAS Catholic BGA.

Provided below is a listing of the sample case files selected for the review testing:

Table 1: List of sample case files

Tasmanian Catholic BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2014/17219/1	St Brendan-Shaw College	313,811
2014/145569/1	Sacred Heart College	305,833
2013/14566/1	Dominic College	712,103
2015/15939/1	St Virgil's College	123,236
<i>New projects (Unacquitted projects)</i>		
2017/17224/1	Marist Regional College	830,088
2017/00027/1	St Peter Chanel Catholic School	519,465
2017/00056/1	Star of the Sea Catholic College	200,000
2016/14566/1	Dominic College	450,000
2015/00013/1	St James' Catholic College	400,000
2016/14569/1	Sacred Heart College	115,000
2016/00040/1	St Mary's College	293,374
2016/15939/1	St Virgil's College	475,000
2015/00024/1	St Aloysius Catholic College	307,994

3.4 Findings

3.4.1 Governance arrangements

The TAS Catholic BGA has well documented processes and procedures which provide a transparent overview of the activities of the BGA.

The TAS Catholic BGA does not appear to have documented conflict of interest risk management.

Participant agreements are comprehensive and contain the provisions specified in the Operating Manual.

3.4.2 Methodology to determine eligibility and ranking of projects

Schools are provided support to complete applications, to develop maintenance and master plans that are in line with the overall strategy for TAS Catholic education, understand what works are needed and assist with project design.

School visits are undertaken by CPC Sub-Committee to review suitability and need for the proposed project.

When selecting and ranking projects, various factors are considered and given different levels of priority to determine the overall project ranking. This ranking is well documented and provides a transparent overview of the selection and ranking process.

3.4.3 Financial systems and practices for acquitting project funds

The TAS Catholic BGA maintains a separate bank account for all Capital Grant Funds received from the Department.

The TAS Catholic BGA reduces financial viability risk within schools by paying progress claims on presentation of paid invoices by schools.

The TAS Catholic BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple representatives required prior to payments being made.

3.4.4 Project monitoring

The TAS Catholic BGA requires schools to have a strong tender process, with tenders to be obtained from multiple parties and a requirement to utilise the lowest tenderer's quotation (except in special circumstances).

Ongoing project monitoring is largely informal at the BGA level. A formal monitoring process occurs at the TCEO level under the Facilities Section. The representatives of the TAS Catholic BGA were able to discuss the current status of projects. However, limited documentation of status checks were on file (other than the project progress updates provided in the CPC meeting minutes).

3.4.5 Records management

The majority of electronic and physical documents reviewed were in good order and readily accessible. However, because the BGA is involved in other aspects of school planning for systemic schools, many of the documents were held by the BGA in other locations but not in the file for a particular project.

There is currently no retention of a final progress payment amount until completion documentation is received from schools. However, due to the TAS Catholic BGA fully committing available funds, often requests for progress payments were received by schools when there were insufficient funds available until further monthly grant instalments were received from the Department. This time lag often resulted in funds being paid to schools after the projects had been completed.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the TAS Catholic BGA and the Department to consider:

- To strengthen the governance process, the TAS Catholic BGA should maintain a register of relationships with applicant schools or any (other potential conflicts of interest) and, when a committee member's school is discussed, they should leave the room. This should be documented in the minutes. Guidelines surrounding conflict of interest management should be set out in policy documents by the TAS Catholic BGA.
- To ensure that the level of support provided to schools is consistent across systemic and non-systemic schools, the TAS Catholic BGA should document the support available to all schools. This could be provided in the form of annual reminders to schools of the resources available.
- School visit reports should be held on project files for all projects for file completeness.
- As part of project monitoring, documented interim checks of physical project status should be undertaken prior to each progress payment of grant funding. File notes of telephone conversations, school visit reports and projects photographs should be documented and kept on file.
- The TAS Catholic BGA should retain copies of all key agreements and documents on individual project files for completeness and ease of reference, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- The TAS Catholic BGA should retain the final grant payment until required documentation is submitted and ensure schools have complied with recognition requirements prior to project acquittal. This should be documented on file.

4 Background

4.1 Overview of the Capital Grants Program for Non-government Schools and role of the TAS Catholic BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The Catholic Education system in TAS consists of 38 schools providing education for almost 16,000 students. There are four types of member schools:

- systemic schools;
- schools managed by the archdiocese;
- schools managed by Edmund Rice; and
- schools managed by the Salesian Society Incorporated.

The funding mix is determined taking into account the schools:

- SES score;
- current and future enrolment; and
- ability to service additional debt.

The TAS Catholic BGA utilises a number of documents and reference materials to administer the CGP. Provided below is summary of the key internal and external documents that shape the delivery of the TAS Catholic BGA's CGP:

Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials

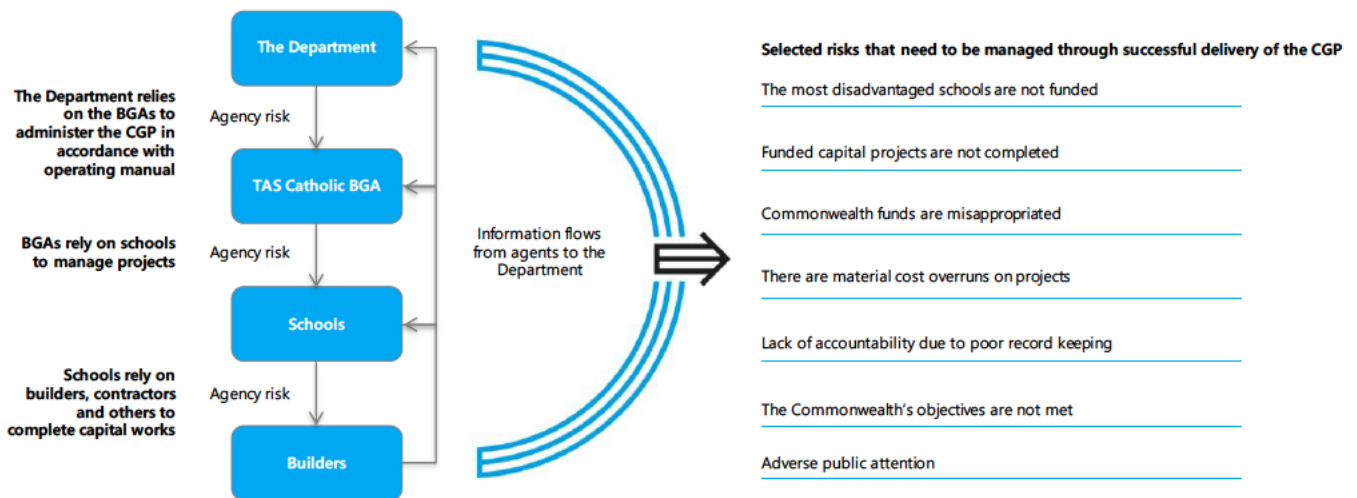
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> ▪ <i>Australian Education Act 2013</i> ▪ <i>Australian Education Regulation 2013</i>
Regulatory guidance material	<ul style="list-style-type: none"> ▪ CGP Operating Manual 2016
TAS Catholic BGA internal policy documents	<ul style="list-style-type: none"> ▪ Capital Projects Committee Procedures Manual
TAS Catholic BGA policy documents for schools	<ul style="list-style-type: none"> ▪ Membership agreement ▪ Capital Projects Committee Design Guidelines

In our dealings with the representatives of the TAS Catholic BGA, we found them to be well aware of the particular requirements that the TAS Catholic BGA and the schools must meet and can articulate their obligations clearly. Furthermore, the TAS Catholic BGA internal policy documents, policy documents for schools and the guidance material are comprehensive, and broadly consistent with the legislation and the Capital Grants Program Operating Manual.

4.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:



Figure 1: Agency risk created by the operating framework of the CGP



4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the TAS Catholic BGA. We have sought to summarise the key steps taken in the table below:

Table 3: Overview of the Capital Grants Program Administration

Overview of the Capital Grants Programme Administration		
Step	Stage	Milestone
Step 1	 Application Process	All member schools are advised via the intranet to lodge a Notice of Intention to Apply to the TAS Catholic Education Office ("TCEO") should they be intending to apply for a grant
Step 2		School completes a Notice of Intention to Apply
Step 3		Application packages are sent electronically to schools that have submitted an expression of interest form
Step 4		Facilities Manager and/or Executive Secretary meet with schools to discuss the application process and assist with details regarding the application
Step 5		School submits application documentation
Step 6		Committee meets to consider applications, discuss information required from site visits
Step 7		School visits are undertaken by committee members, report from visit prepared for the Committee meeting
Step 8		Committee meets to discuss report, ranks projects in order of priority based on educational disadvantage, facility standards and financial need. Indicators to assist the ranking include: SES score, enrolment, number of students to benefit, educational pedagogy, condition of current conditions, configuration and value for money and financial benchmarks
Step 9		The TAS Catholic BGA sends successful schools Notification of Project Approval and Grant Recommendation, the school responds acknowledging the recommendation to the Department
Step 10		Unsuccessful schools are provided with detailed reasons for the rejection
Step 11	 Monitoring stage	The Department notifies the successful School of approval. This is followed by a letter of approval from the TAS Catholic BGA
Step 12		School sends Acknowledgement of Advice of Project Approval, acknowledging receipt of the initial grant offer agreement
Step 13		TCEO facilities staff and BGA Executive Secretary liaise with school on design guidelines and processes
Step 14		School submits any relevant documents (sketch plans, budget and timeline) and Request for Approval to Tender to the TAS Catholic BGA
Step 15		TAS Catholic BGA provide approval to proceed to tender via email
Step 16		School proceeds to tender advertising for expressions of interest
Step 17		School and architect review tenders and conduct any required post tender negotiation with tenderers prior to preparing a tender report with recommendations

Overview of the Capital Grants Programme Administration



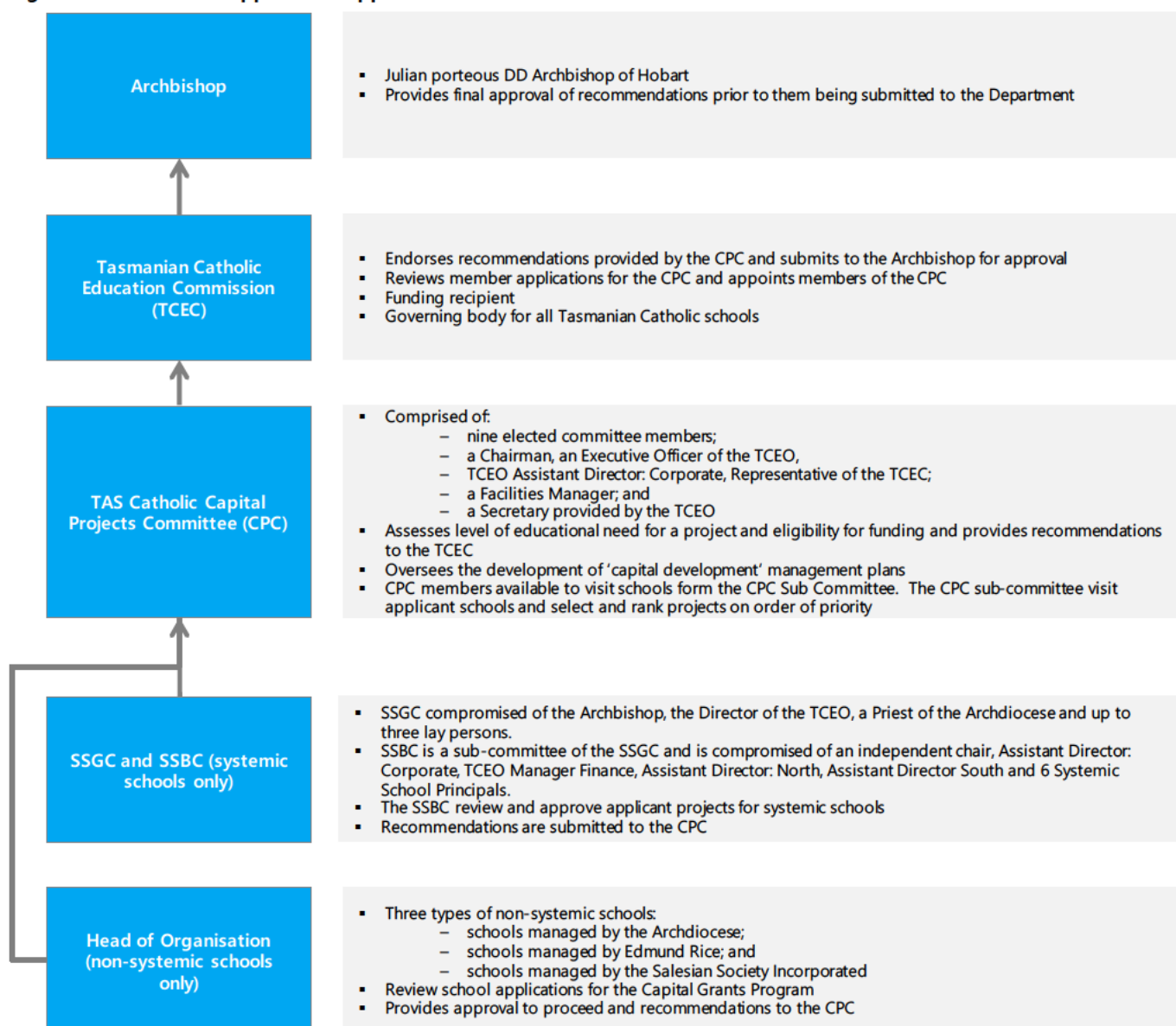
Step 18	 Monitoring stage	School requests approval from Committee members (including revised budget approval to reflect tender outcomes if required)
Step 19		After Committee members approve proposed tender and issue approval to proceed to construction, the school can enter into contract with builder and commence works
Step 20		School provides progress claim with copies of invoices and supporting documentation
Step 21		The TAS Catholic BGA pays progress claims
Step 22		School visits are undertaken by Committee member
Step 23		Committee meets, update to members on progress of current projects provided
Step 24	 Finalisation and completion	Final progress claim submitted with architect's/supervisor's progress claim certificate
Step 25		Final progress claim paid by TAS Catholic BGA
Step 26		Official opening / blessing held at the school
Step 27		School provides certificate from an independent qualified accountant and architect's statement of final costs
Step 28		Committee meeting held on site and a tour arranged for members
Step 29		Project acquitted by 30 June of the year following final payment

Figure 2: Structure of application approval



The above structure fits within the TCEO which performs a range of functions for Tasmanian Catholic Education. Staff which carry out the functions of the BGA are employed by the TCEO and also perform other duties for the TCEO such as funds management and project management.

The four types of member schools within the TAS Catholic BGA are as follows:

- systemic schools;
- non systemic schools managed by the archdiocese;
- non systemic schools managed by Edmund Rice; and
- non systemic schools managed by the Salesian Society Incorporated.

The TAS Catholic BGA has different member agreements and other template documents for each type of school. Member agreements are renewed every three years.

The TAS Catholic BGA is involved in many aspects of capital planning and management for systemic schools including but not limited to developing maintenance and master plans, preparing financial information, managing facilities and various administrative tasks.

5 Key findings

5.1 Governance arrangements

The TAS Catholic BGA has well documented processes and procedures which provide a transparent overview of the activities of the BGA.

Detailed policy and process documents (which are made available to member schools) provide transparency on how the Capital Grants Program is administered and decisions made.

The TAS Catholic BGA does not appear to have documented conflict of interest management.

We did not identify any conflict of interest registers or any other documentation specifying how specific conflicts of interest have been managed within the TAS Catholic BGA.

We have been verbally advised that if there is a committee member with an interest in a current application they are asked to leave the room when the school's application is discussed and abstain from voting for that school.

To strengthen governance, we recommend the TAS Catholic BGA maintain a register of relationships with applicant schools (or any other potential conflicts of interest) and, when a committee member's school is discussed they should leave the room. This process should be documented in the minutes. Guidelines surrounding conflict of interest management should be set out in the policy documents from the TAS Catholic BGA.

Participant agreements are comprehensive and contain the provisions specified in the Operating Manual.

Each school is required to sign a participant agreement prior to receiving funding. The purpose of this agreement is to bind the school to the Requirements specified in the Operating Manual and provide for recoverability of funds in certain circumstances.

The Participant Agreements reviewed were comprehensive and contained the required provisions.

5.2 Methodology to determine eligibility and ranking of projects

Schools are provided support to complete applications, to develop maintenance and master plans that are in line with the overall strategy for TAS Catholic education, understand what works are needed and assist with project design.

The TAS Catholic BGA provide resources to assist schools complete their applications and to develop master and maintenance plans. We have been advised by the TAS Catholic BGA that this assistance is available to all schools that require assistance (i.e. both systemic and non-systemic schools).

The TAS Catholic BGA prepares long term master and maintenance plans for all systemic schools. A detailed five-year development plan was created in 2011 and refreshed in 2016 for the current year. The maintenance program for systemic schools is separated into two parts with stage one dealing with one off repairs and stage two providing for ongoing routine maintenance.

Non-systemic schools are required to submit their master and maintenance plans to the TAS Catholic BGA with their applications. A number of the maintenance and master plans were not readily available on file, however, once requested the TAS Catholic BGA were able to supply these plans. We are currently waiting on the maintenance plan for the s 47G

To ensure that the level of support provided to schools is consistent across systemic and non-systemic schools we recommend that the TAS Catholic BGA document the support available from representatives to all schools. This could be provided in the form of annual reminders to schools of the resources available.

School visits are undertaken by CPC Sub-Committee to review suitability and need for the proposed project.

The CPC Sub-Committee visits each school that has lodged an application prior to the TAS Catholic BGA ranking projects and making recommendations.

A detailed school visit report is completed to ensure the school has properly considered the proposed project. School visit reports were not readily available on file for all projects although were supplied once requested.

We recommend school visit reports for all projects are kept on the projects files for completeness.

When selecting and ranking projects, various factors are considered and given different levels of priority to determine the overall project ranking. This ranking is well documented and provides a transparent overview of the selection and ranking process.

The following factors are considered and ranked by the TAS Catholic BGA when reviewing projects:

- SES score;
- current enrolment information;
- number of students to benefit from the project;
- existing school/area conditions;
- configuration/design of current school/area;
- existing size and number of spaces available;
- whether the school currently meets contemporary educational pedagogy;
- size and number of spaces available with the proposed project;
- configuration/design of new project;
- whether the proposed project meets contemporary educational pedagogy;
- value for money;
- whether the proposed project meet the criteria of the CGP Operating Manual;
- how the proposed project will impact enrolments; and
- the urgency of the project.

Each factor above is considered for the schools that have applied for the CGP. Each applicant is given a score (with a lower number being a higher priority); these are then added up and ranked accordingly with the lowest total being ranked first.

Financial benchmarks are also considered when assessing projects, these include:

- total project costs;
- grant requested;
- how the school contribution will be funded;
- previous funding received from the Australian Government and the State Government;
- recurrent income;
- debt servicing expenses;
- balance outstanding on loans;
- debt per student; and
- current cash balance value and as a percentage of recurrent income.

Types of projects are assigned the following priority levels:

- Category A – Essential general purpose learning areas;
- Category B – Specialist learning areas (including library facilities), and administration facilities;
- Category C – Facilities providing primarily for sporting and cultural activities, and for meetings and assemblies; and
- Category D – Student facilities primarily for shelter, circulation areas and community activities when unconnected to A, B or C above.

5.3 Financial systems and practices for acquitting project funds

The TAS Catholic BGA maintains a separate bank account for all Capital Grant Funds received from the Department.

The TAS Catholic BGA maintains a separate bank account to deposits the funds provided by the Department. This simplifies tracking unallocated funds, and reconciliation and audit processes. The use of a separate bank account also reduces any risk of funds mistakenly being used to meet other costs.

The TAS Catholic BGA reduces financial viability risk within schools by paying progress claims on presentation of paid invoices by schools.

Grant funds are transferred to schools following presentation of paid invoices and Architect's Progress Payment Certificate. For larger projects, multiple payment claims are submitted and payments are made in stages.

Paying grant monies following the presentation of progress claims (with paid invoices attached) reduces the risk of funds being misappropriated or projects not being completed.

The TAS Catholic BGA implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple representatives required prior to payments being made.

The following process is undertaken to release funds to schools:

- the Executive Secretary reviews the payment request from schools in conjunction with invoices and progress certificates;
- the Facilities Manager provides authorisation by way of signature;
- the Assistant Director-Corporate provides authorisation by way of signature;
- the Executive Secretary uploads the payment online;
- the Manager of Finance authorises the payment online. Should the Manager of Finance be absent the payment can be approved by either the Financial Data Analyst or Assistant Director-Corporate;
- the TAS Catholic BGA provides the school with a letter notifying of a direct credit payment; and
- the electronic transfer receipt is kept on file.

Segregation of duties reduces the risk of fund misappropriation and multiple stages of review reduces the risk of input errors in payment information not being detected.

5.4 Project monitoring

The TAS Catholic BGA requires schools to have a strong tender process, with tenders to be obtained from multiple parties and a requirement to utilise the lowest tenderer's quotation (except in special circumstances).

Prior to going to tender the school submits a Request for Approval to Tender to the TAS Catholic BGA, the TAS Catholic BGA provide approval to proceed to tender via email.

The school is required to obtain multiple tenders for each project. A Tender Report Form is submitted to the TAS Catholic BGA providing details of all the tenders received, quotes and a recommendation.

If the lowest cost tender is not selected an explanation must be provided by the school to the TAS Catholic BGA with the reason for selecting the preferred tender.

The TAS Catholic BGA respond to the school granting approval to proceed with the approved tender via email.

Ongoing project monitoring is largely informal at the BGA level. A formal monitoring process occurs at the TCEO level under the Facilities Section. The representatives of the TAS Catholic BGA were able to discuss the current status of projects. However, limited documentation of status checks were on file (other than the project progress updates provided in the CPC meeting minutes).

Documentation regarding school visits following project commencement and project monitoring was, in most instances, not on file. Progress updates that were on files during construction appear to be primarily in the form of funding requests and attached documentation (invoices, progress updates).

We were advised by the TAS Catholic BGA that due to their small size there is an awareness of the activities of each school and they communicate closely with schools through telephone conversations and regular site visits. Project updates in CPC meeting minutes show a thorough understanding of the status of each ongoing project, confirming this.

The TCEO facilities section which operates separately to the TAS Catholic BGA is heavily involved in the capital works project monitoring process. We were advised that a full time project manager is available to assist and monitor all schools participating in the capital works program. The TCEO facilities section provides a variety of services to schools and colleges, these services include:

- educational facilities planning and design;
- liaising with internal and external stakeholders and governments;
- capital works programming and co-ordination;
- project management of capital works projects;
- facility management – maintenance planning, programming, statutory maintenance compliance, facility risk management and compliance upgrades
- the development and maintenance of asset information; and
- technical building advice.

In addition to the above services, the TCEO facilities section provide assistance with the following tasks:

- project identification including project team establishment;
- consultation;
- master planning;
- selection and engagement of consultants;
- concept/options planning, costing and the selection of a preferred concept/option;
- preparation of the project brief including detailed scope of works, design development and costing;
- preparation of tender documents, cost estimate and selection of contractors;
- preparation and awarding contract documents;
- co-ordination of commencement of construction, including contractor induction, site safety, communication protocols;
- attendance at site meetings and site visits to monitor progress (usually fortnightly);
- project budget/financial management;
- monthly receipt and processing of contractor claims and consultant progress certification;
- defects identification and monitoring;
- complaints/queries during and following construction; and
- co-ordination of acquittal documents.

The assistance and monitoring undertaken by the TCEO facilities section was not documented in files provided to us.

In addition, the TAS Catholic BGA relies on the declaration in the Architect's Progress Payment Certificate in relation to the validity of claimed amounts.

As part of project monitoring, we recommend documented interim checks of physical project status prior to each progress payment of grant funding. File notes of telephone conversations, visit reports and photographs should be documented and kept on file.

5.5 Records management

The majority of electronic and physical documents reviewed were in good order and readily accessible. However, because the BGA is involved in other aspects of school planning for systemic schools, many of the documents were held by the BGA in other locations but not in the file for a particular project.

The TAS Catholic BGA maintains reasonably strong documentation and information management systems. The TAS Catholic BGA is involved with other aspects of schools resource and capital planning and as a result some of the information required for our review was stored in other locations. Documentation for each project was spread across different files, such as applications, agreements and payments (stored according to year).

The bulk of the records on file relate to application assessment, project commencement, payment and completion.

A number of documents which were required to be reviewed as part of the testing process was not readily available but were requested and provided at a later date. These included:

- relevant member agreements;
- school visit reports;
- maintenance plans; and
- financial statements.

The TAS Catholic BGA advised that due to the small number of schools they were able to build good relationships and communication was often verbal, these interactions were not documented on the file. This is discussed further in section 5.4 of this report.

We recommend that the TAS Catholic BGA retain copies of all key agreements and documents on individual project files for completeness and ease of reference, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.

There is currently no retention of a final progress payment amount until completion documentation is received by schools. However, due to the TAS Catholic BGA fully committing available funds, often requests for progress payments were received from schools when there were insufficient funds available until further monthly grant instalments were received from the Department. This time lag often resulted in funds being paid to schools after the projects had been completed.

The TAS Catholic BGA does not currently retain a portion of the grant payment until the school has submitted completion documentation.

The TAS Catholic BGA could encourage schools to submit project completion documentation in a timely manner by withholding final payment in cases where there are delays in submitting completion documentation. We note that we did not identify any examples of difficulty obtaining completion documentation from schools on the sample files reviewed.

This risk is partially mitigated as, due to the TAS Catholic BGA fully committing available funds to schools in each period, there is some time lag between claims being submitted by schools and funds becoming available to pay schools. When a school submits a final progress payment, the TAS Catholic BGA will advise the school that they do not have sufficient funds and will make the payment when the next funding instalment is received from the Department. As such, often projects are completed before the TAS Catholic BGA has received funding from the Department to enable payment of final progress payments to schools.

Although not a specific BGA policy to issue funding to schools once projects are completed, the time lag reduces the risk of funds being misappropriated or projects not being completed.

After completion of a project, a committee meeting is held on site and a tour arranged for members. The Certificate of Completion by Independent Qualified Accountant is provided once the project has been completed and all funds distributed to the school.

We identified strong project completion documentation on each file; however the post completion site visits were not well documented. As discussed above, the TAS Catholic BGA should ensure all site visits are documented.

There was no evidence the TAS Catholic BGA monitor each school's compliance with recognition requirements to determine whether or not they have obtained a plaque or arranged an opening ceremony (where applicable).

We recommend the TAS Catholic BGA retain the final grant payment until required documentation is submitted and ensure schools have complied with recognition requirements prior to project acquittal. This should be documented on file.

6 Conclusion

Generally, the TAS Catholic BGA maintains a close working relationship with member schools and provides extensive support to ensure that the school's capital works fit into a long-term strategic plan and are well designed. This allows the TAS Catholic BGA to plan for capital needs at a state-wide level.

In light of the findings set out in this report, we have made the following recommendations for the TAS Catholic BGA and the Department to consider:

- To strengthen governance, the TAS Catholic BGA should maintain a register of relationships with applicant schools or any (other potential conflicts of interest) and, when a committee member's school is discussed, they should leave the room. This should be documented in the minutes. Guidelines surrounding conflict of interest management should be set out in policy documents by the TAS Catholic BGA.
- To ensure that the level of support provided to schools is consistent across systemic and non-systemic schools, the TAS Catholic BGA should document the support available from representatives to all schools. This could be provided in the form of annual reminders to schools of the resources available.
- School visit reports should be held on project files for all projects for file completeness.
- As part of project monitoring, documented interim checks of physical project status should be undertaken prior to each progress payment of grant funding. File notes of telephone conversations, school visit reports and projects photographs should be documented and kept on file.
- The TAS Catholic BGA should retain copies of all key agreements and documents on individual project files for completeness and ease of reference, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- The TAS Catholic BGA should retain the final grant payment until required documentation is submitted and ensure schools have complied with recognition requirements prior to project acquittal. This process should be documented on file.

Block Grant Authority

Independent Schools Block Grant Authority of Tasmania

13 July 2017



McGrathNicol

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1 Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
CGP	Capital Grants Program for Non-government Schools
Department	Department of Education and Training
EOI	Expression of interest
TAS Independent BGA	The Independent Schools Block Grant Authority of Tasmania Pty Ltd (ISBGAT)
Objectives	The objectives of the CGP
Operating Manual	CGP Operating Manual 2016
Participant Agreement	Agreement between the school and the Tasmanian TAS Independent BGA entered into prior to the advancement of any grant funds
Requirements	Requirements under the CGP Operating Manual 2016, Australian Education Act 2013 and Australian Education Regulation 2013

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of Tasmania Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of Tasmania Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program (CGP) for Non-government Schools is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the TAS Independent BGA. The review examines the efficiency and effectiveness of the TAS Independent BGA in administering the CGP and evaluates the TAS Independent BGA's compliance with key areas of the Requirements.

The review will be conducted in the context of the Requirements which govern the administration of the program.

In reviewing the TAS Independent BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the TAS Independent BGA;
- meetings and discussions with representatives of the TAS Independent BGA, in particular;
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of the TAS Independent BGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of the TAS Independent BGA.

Provided below is a listing of the sample case files selected for the review testing:

Table 1: Listing of sample case files

TAS Independent BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2014/00005/1	Geneva Christian College	617,182
2013/77047/1	Primary Campus (Launceston Church Grammar School)	241,000
2014/15873/1	Newstead Christian School	253,500
2013/13525/1	Devonport Christian School	600,630
2013/05918/1	Southern Christian College	151,000
2012/02802/1	Leighland Christian College	430,060
2012/00005/2	Geneva Christian College	56,850
<i>New projects (Unacquitted projects)</i>		
2016/13277/1	Tarremah Steiner School □	300,000
2017/16957/1	Peregrine	150,000
2017/15873/1	Newstead Christian School	300,000
2017/05918/1	Southern Christian College	200,000
2017/77709/1	Northern Christian School	200,000
2017/05272/1	Circular Head Christian School	390,000
2016/00012/1	Launceston Church Grammar School	200,000
2016/13525/1	Devonport Christian School	120,000

3.4 Findings

3.4.1 Governance arrangements

We identified limited materials documenting internal processes and procedures of the TAS Independent BGA.

The TAS Independent BGA does not have a documented conflict of interest risk management policy.

The Participant Agreement attached to the letter of offer contains a condition binding the school to terms outlined in the School's Capital Grant Application, the Australian Government Guidelines for the Capital Program, ISBGAT Guidelines and the Member Agreement; however they do not fully incorporate all provisions listed in the CGP Operating Manual.

3.4.2 Selection and ranking of projects

Schools are provided support to complete applications and to develop a master plan. This ensures upfront costs of preparing applications are not prohibitive and disadvantaged schools are able to apply for funding under the Program.

School visits are undertaken by at least three committee members to review suitability and need for the proposed project.

The TAS Independent BGA uses a detailed application process which is designed to prevent funds being advanced to schools that do not have a high education or financial need, schools that are not financially viable or for projects that are not well designed.

3.4.3 Financial systems and practices for acquitting project funds

The TAS Independent BGA reduces financial viability risk by requiring schools to expend their internal contribution in full prior to receiving grant funding. Schools provide comprehensive documentation to support requests for each grant payment.

There are minimal controls in place at the TAS Independent BGA to prevent misappropriation of grant funds or detect errors in account details prior to funds being transferred to schools, with no segregation of duties for the electronic payment approval process. Payments made are subsequently reviewed by the Treasurer on a quarterly basis.

3.4.4 Project monitoring

The TAS Independent BGA requires schools to have a strong tender process, with tenders to be obtained from multiple parties and a requirement to utilise the lowest tenderer's quotation (except in special circumstances).

Ongoing project monitoring is largely informal with telephone conversations taking place at least quarterly and site visits occurring when required. The limited number of projects allows the TAS Independent BGA to have a thorough

understanding of the status of each project at any point in time; however, status updates are not documented on project files.

3.4.5 Records management

Whilst the majority of electronic and physical documents reviewed were in good order and readily accessible, a number of documents had to be requested from various third parties. Due to the informal nature of the relationships between the TAS Independent BGA and the member schools, various conversations and visits were not documented.

Retention of at least 10% of grant funds until all completion documentation has been received and the school has been inspected by at least one committee member provides an incentive for schools to complete documentation quickly.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the TAS Independent BGA and the Department to consider:

- To demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, we recommend the TAS Independent BGA document its internal processes and procedures.
- The TAS Independent BGA should maintain a register of relationships with applicant schools (or any other potential conflicts of interest) and when a committee member's school is discussed they should leave the room whilst the recommendation is formed. This should be documented in the minutes. Guidelines surrounding conflict of interest management should be set out in policy documents by the TAS Independent BGA.
- In order to demonstrate compliance with the requirements of the CGP Operating Manual we recommend that all provisions required in the Operating Manual be incorporated in Participant Agreements executed by schools.
- In order to improve transparency, the TAS Independent BGA document the selection and ranking discussions and rationale for decisions made in a greater level of detail.
- To mitigate the risk of funds being misappropriated, or an error in payment information not being detected as a result of a single person uploading and authorising payments, a separate online authorisation should be implemented before all payments are processed.
- File notes should be made of conversations that monitor project status. Furthermore, documented interim checks of physical project status should be undertaken prior to each progress payment of grant funding. To mitigate costs, methods other than physical attendance at the site may be appropriate such as obtaining photographs to demonstrate project progress. All visit reports and photographs should be documented and kept on file.
- The TAS Independent BGA retain copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- The TAS Independent BGA include checks that the school has ordered a plaque and contacted the Minister to schedule an Opening Ceremony (if applicable) prior to the release of the final grant payment.

4 Background

4.1 Overview of the Capital Grants Program for Non-government Schools and role of the TAS Independent BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The Independent Schools of TAS is an association of non-government schools. The Association comprises 33 schools (39 campuses) from the Independent and Catholic sectors and it is affiliated to the Independent Schools Council of Australia (ISCA).

The TAS Independent BGA is a non-profit body whose members are not-for-profit independent schools located in Tasmania. Membership includes schools of many different:

- sizes;
- structures;
- financial positions;
- cultural backgrounds;
- religious affiliations; and
- educational philosophies.

The funding mix is determined taking into account the school's educational disadvantage.

The TAS Independent BGA utilises a number of documents and reference materials to administer the CGP. Provided below is summary of the key internal and external documents that shape the delivery of the TAS Independent BGA's CGP:

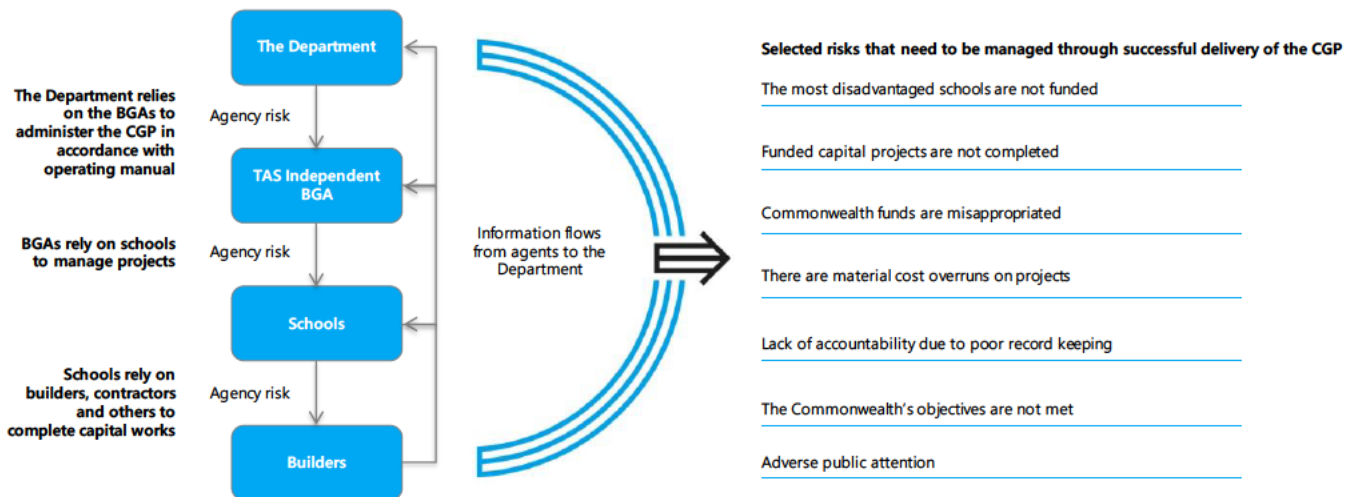
Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	▪ <i>Australian Education Act 2013</i>
	▪ <i>Australian Education Regulation 2013</i>
Regulatory guidance material	▪ CGP Operating Manual 2016
TAS Independent BGA policy documents for schools	▪ Membership agreement
	▪ Participant agreement
	▪ Guidelines for Independent Schools
TAS Independent BGA guidance materials	▪ Capital Grants Program Tendering Principles and Processes and Project and Construction Management Guidelines
	▪

4.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP



4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the TAS Independent BGA. We have sought to summarise the key steps taken in the table below:

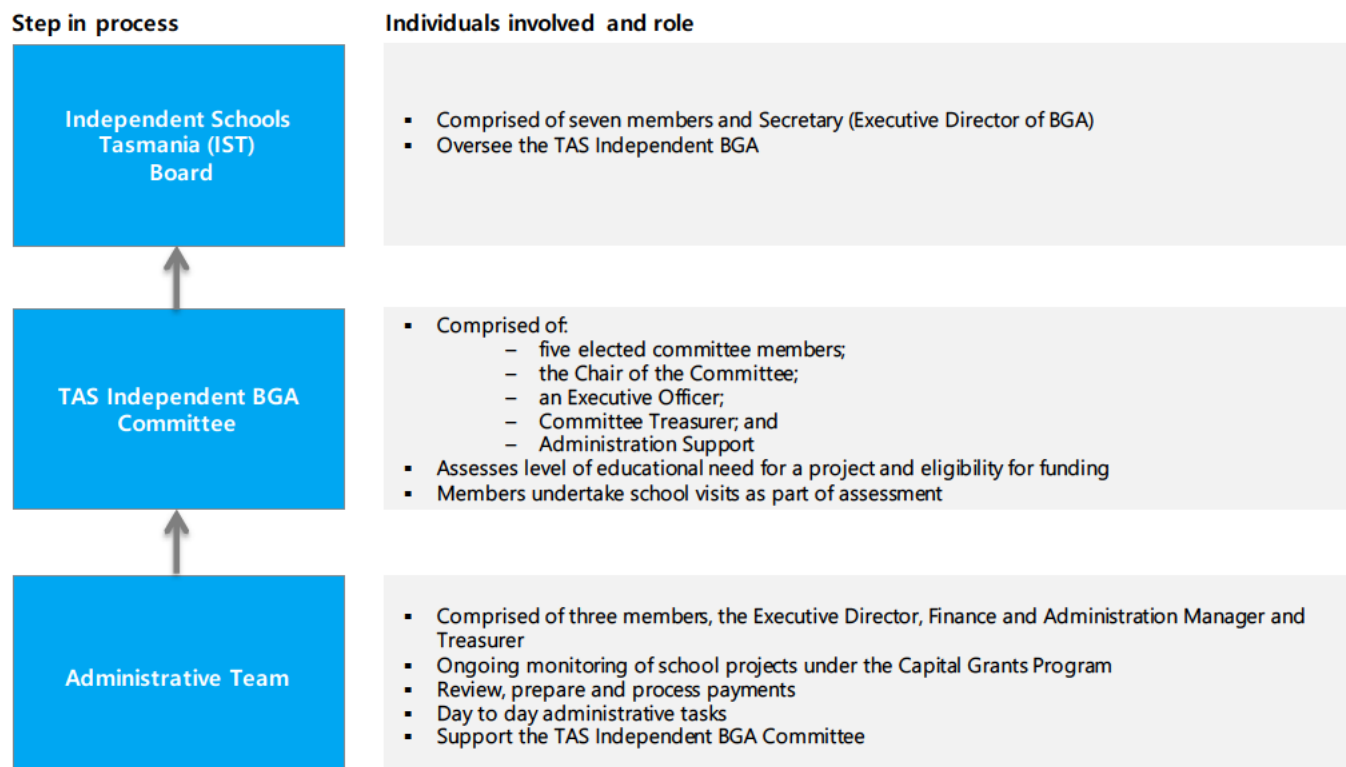
Table 3: Overview of the Capital Grants Program Administration

Overview of the Capital Grants Program Administration		
Step	Stage	Milestone
Step 1	Application Process	Application forms and guidelines are made available on the TAS Independent BGA website members' page. On request schools can be provided with application documentation
Step 2		School submits application including strategic plan, master plan, asset management plan and maintenance record
Step 3		Committee meets to consider applications, discuss information required from visits
Step 4		School visits are undertaken by at least three committee members, report from visit prepared
Step 5		Committee meets to discuss reports, lists projects in order of priority and make recommendations. Projects are ranked based on educational disadvantage
Step 6		The TAS Independent BGA notify successful schools of recommendation to the Department by telephone
Step 7	Monitoring stage	The Department notifies the successful school of approval, followed by a letter of approval from the TAS Independent BGA
Step 8		School and BGA enter into a written Agreement
Step 9		Tender process commences
Step 10		School submits tender documents, final plans and recommendations to the TAS Independent BGA for approval
Step 11		School receives notification letter with final approval of tender from Tasmanian Independent BGA
Step 12		School enters into contract with builder
Step 13		School spends contribution in full
Step 14		School provides progress claim with copies of invoices/supporting documentation for amounts over contribution
Step 15		The Tasmanian Independent BGA pays progress claims
Step 16		School provides Tasmanian Independent BGA with regular updates (at least quarterly) by telephone or in writing
Step 17	Finalisation and completion	Final progress claim submitted with certificate from a qualified accountant and architect's/supervisors statement of final costs
Step 18		School inspected by at least one Committee member after completion
Step 19		The final payment to the school is paid by the TAS Independent BGA
Step 20		Committee member attends the opening ceremony

The TAS Independent BGA is currently working to move the application process online. We have been advised that the TAS Independent BGA will use the same online portal system that is currently used by the NSW Independent BGA.

In reference to the process outlined above, we have set out a summary below of how applications are approved by the TAS Independent BGA:

Figure 2: Structure of application approval



5 Key findings

5.1 Governance arrangements

We identified limited materials documenting internal processes and procedures of the TAS Independent BGA.

We found limited policy and process documentation available at the TAS Independent BGA. The TAS Independent BGA provides some guidance material and process and procedures documentation for schools to follow, however we did not identify documents which set out the internal processes and procedures of the TAS Independent BGA.

Detailed policy and process documentation would provide transparency on how the Capital Grants program is administered and decisions are made.

In order to demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, we recommend the TAS Independent BGA document its internal processes and procedures.

The TAS Independent BGA does not have a documented conflict of interest risk management policy.

We did not identify any conflict of interest registers or any other documentation specifying how specific conflicts of interest have been managed within the TAS Independent BGA.

Committee members may have the following interests in projects being considered:

- principals or business managers of schools who have submitted applications; or
- architects who have been engaged by schools for the project under consideration.

We have been verbally advised by the TAS Independent BGA that where committee members have an interest in the school or project being applied for, they declare these interests and stay in the room when the school/project is discussed to answer any questions but are not allowed to advocate for the project.

As committee meeting discussions are not minuted in detail, the level of involvement in decision making by committee members with potential conflicts is not currently documented.

We recommend that the TAS Independent BGA should maintain a register of relationships with applicant schools (or any other potential conflicts of interest) and when a committee member's school is discussed they should leave the room whilst the recommendation is formed. This should be documented in the minutes. Guidelines surrounding conflict of interest management should be set out in policy documents by the TAS Independent BGA.

The Participant Agreement attached to the letter of offer contains a condition binding the school to terms outlined in the School's Capital Grant Application, the Australian Government Guidelines for the Capital Program, ISBGAT Guidelines and the Member Agreement; however they do not fully incorporate all provisions listed in the CGP Operating Manual.

Each school is required to sign an acceptance to be bound to requirements listed in the Operating Manual prior to receiving funding. The Operating Manual provides detailed guidance on specific information required to be contained in each agreement.

Schools enter into the following agreements with the TAS Independent BGA in relation to the CGP:

- School Authority Participation Agreement; and
- Agreement entered into once the project funding has been approved.

The following provisions required by the CGP Operating Manual pursuant to Attachment 1 were not included in the above agreements.

Table 4: Provisions from Attachment 1 of Operating Manual not incorporated in Participant Agreements

Provisions not incorporated in Participant Agreements	
Operating Manual Reference	Description
3(c)	Requirement for school to contribute amount specified in grant offer
3(d)	Requirement for school to apply funds only for the purpose specified
3(e)	Acceptance that the BGA may delay payment to school for non-compliance with Requirements
3(f)	Agreement to repay funds if the school fails to comply with a condition of the grant
3(g)	Spend all grant payments as soon as possible and not later than six months from receipt.
3(h)	Agreement to repay the grant if the school is not properly approved/registered within the required timeframe
3(i)	Maximise employment opportunities for Indigenous Australians
3(m)	Identify any perceived or actual conflict and notify the BGA in writing of resolution
3(n)	Identify any subcontract provisions which contain incentive payments
3(t)	Not transfer to another BGA unless certain conditions are met
3(u)	In the case of a BGA transfer, ensure the new BGA accepts responsibility for Department's right to repayment
3(y)	Acknowledge the BGA may assign to the Commonwealth recovery rights

Provisions not incorporated in Participant Agreements

- 3(z) Comply with any additional conditions imposed by the Minister in relation to the grant

This risk is mitigated somewhat as the agreement contain the following all-encompassing undertaking for the school to agree to comply with the Requirements:

"The Approved Authority shall use the grant funds only for the purposes outlined in the School's Capital Grant Application and in accordance with Australian Government Guidelines for the Capital Program; ISBGAT Guidelines and the Agreement between ISBGAT and the Approved Authority on becoming a member of the BGA."

Amending the Participant Agreements to include the above specific clauses would ensure the TAS Independent BGA and the school have agreed upon (and are aware) of all the provisions contained in the CGP Operating Manual.

In order to demonstrate compliance with the requirements of the CGP Operating Manual we recommend that all provisions required in the Operating Manual be incorporated in Participant Agreements executed by schools.

5.2 Methodology to determine eligibility and ranking of projects

Schools are provided support to complete applications and to develop a master plan. This ensures upfront costs of preparing applications are not prohibitive and disadvantaged schools are able to apply for funding under the Program.

The TAS Independent BGA offers support to schools to complete applications and master plans. Schools are able to apply for a grant under the Program to assist with these planning aspects.

We were advised that a number of the smaller schools did not have the capacity to complete applications and master plans. By assisting schools who may not have the in-house resources or expertise with their applications, the TAS Independent BGA ensures that all schools are able to prepare comprehensive, complete applications and that all schools are able to apply.

School visits are undertaken by at least three committee members to review suitability and need for the proposed project.

At least three committee members visit applicant schools prior to the TAS Independent BGA ranking projects and making recommendations. This ensures the proposed project is well planned, assists the TAS Independent BGA with determining need for the project and provides an opportunity to clarify any aspects of the proposed project that were unclear from the application.

A detailed school visit report is completed to ensure the school has properly considered the proposed project. School visit reports were on file for all projects.

The TAS Independent BGA uses a detailed application process which is designed to prevent funds being advanced to schools that do not have a high education or financial need, schools that are not financially viable or for projects that are not well designed.

Projects are assessed from an educational and financial need perspective. The applications reviewed by the TAS Independent BGA contain the following information:

- school's financial information, including debt levels;
- enrolment details (historical and projections);
- staff numbers;
- socio-economic information (including SES score); and
- strategic and master plans.

A school visit is undertaken by a committee member and the findings from the visit are discussed at the committee meeting.

Minutes of the committee meetings show that the committee discusses the educational and financial need of each project and projects are not recommended if there is no educational or financial need.

A range of factors are considered to determine the level of need and ranking. These factors include debt per student, SES score, enrolments, strategic and master planning and how the project aligns with the needs of the community as a whole.

The minutes for selection and ranking discussions held by the TAS Independent BGA are relatively high level and do not provide in-depth detail regarding discussions held in relation to each project.

In order to improve transparency around the rationale for recommending or not recommending a project and the level of funding provided, we recommend the TAS Independent BGA document the selection and ranking discussions and rationale for decisions made in a greater level of detail.

5.3 Financial systems and practices for acquitting project funds

The TAS Independent BGA reduces financial viability risk by requiring schools to expend their internal contribution in full prior to receiving grant funding. Schools provide comprehensive documentation to support requests for each grant payment.

Schools are required to expend their contribution in full before receiving funding from the TAS Independent BGA. The requirement for the school to expend its contribution first assists in reducing the risk of projects not being completed due to schools not having sufficient funds to meet their contribution.

Schools provide copies of supplier invoices and architect progress certificates to support requests for each grant payment.

For the majority of projects (particularly larger projects) payments are made in stages, further reducing the risk of funds being misappropriated or projects being not completed due to cost increases.

There are minimal controls in place at the TAS Independent BGA to prevent misappropriation of grant funds or detect errors in account details prior to funds being transferred to schools, with no segregation of duties for the electronic payment approval process. Payments made are subsequently reviewed by the Treasurer on a quarterly basis.

The following process is in place to release progress payment funds to schools:

- the school submits a Funds Claim Form with supporting documentation (invoices and progress updates);
- the Executive Director reviews and approves the request;
- the Finance and Administration Officer uploads the payment into the TAS Independent BGA's accounting system;
- the Finance and Administration Officer approves the payment online;
- the TAS Independent BGA provides the school with a letter notifying of a direct credit payment and the school is required to respond with confirmation that the funds have been received;
- the Finance and Administration Officer reconciles bank accounts at least monthly; and
- the Treasurer reviews payments and bank reconciliations quarterly.

Adding an additional review step when payments are authorised online would reduce the risk that any data entry errors are not detected until after funds are transferred.

To mitigate the risk of funds being misappropriated, or an error in payment information not being detected as a result of a single person uploading and authorising payments, we recommend that a separate online authorisation should be implemented before all payments are processed.

The TAS Independent BGA has advised they do not have sufficient staff resources available to implement segregation of duties in the payment process.

5.4 Project monitoring

The TAS Independent BGA requires schools to have a strong tender process, with tenders to be obtained from multiple parties and a requirement to utilise the lowest tenderer's quotation (except in special circumstances).

The BGA's Capital Grants Program Tendering Principles and Processes and Project and Construction Management Guidelines provide support to schools through the tendering and construction process.

Each project requires quotes from multiple tenders. A summary of the tenders received (including quotes) is then supplied to the TAS Independent BGA with a recommendation by the school.

If the lowest cost tender is not selected an explanation must be provided by the school to the TAS Independent BGA with the reason for selecting the preferred tender.

Projects which utilise project managers are not required to go through this tender process.

Ongoing project monitoring is largely informal with telephone conversations taking place at least quarterly and site visits occurring when required. The limited number of projects allows the TAS Independent BGA to have a thorough understanding of the status of each project at any point in time; however, status updates are not documented on project files.

Documentation regarding school visits for ongoing projects and other project monitoring was, in most instances, not on file.

Documented progress updates that were on files during construction are primarily in the form of Progress Claim Forms and attached documentation (invoices etc.).

We were advised by the TAS Independent BGA that due to their small size there is an awareness of the activities of each school and the majority of communication with schools is verbal. The TAS Independent BGA calls each school at least quarterly to discuss the status of projects prior to committee meetings. These phone calls are not currently documented.

We recommend file notes should be made of conversations that monitor project status. Furthermore, documented interim checks of physical project status should be undertaken prior to each progress payment of grant funding. To mitigate costs, methods other than physical attendance at the site may be appropriate such as obtaining photographs to demonstrate project progress. All visit reports and photographs should be documented and kept on file.

5.5 Records management

Whilst the majority of electronic and physical documents reviewed were in good order and readily accessible, a number of documents had to be requested from various third parties. Due to the informal nature of the relationships between the TAS Independent BGA and its member schools, various conversations and visits were not documented.

We found that the TAS Independent BGA maintains strong documentation and information management systems, with documentation for each project kept on its individual file and in good order with checklists maintained for each file to track the receipt of relevant documentation. The bulk of the records on file relate to the application assessment, project commencement, payment and completion.

A small number of documents which were reviewed as part of the testing process was not readily available but were requested from the relevant schools and provided at a later date. These included some:

- maintenance plans;
- financial statements; and
- tender documentation.

The TAS Independent BGA advised that due to the small number of schools they were able to build good relationships and communication was often verbal, these interactions were not documented on the project file. Further detail regarding documented monitoring of project status is discussed in Section 5.4.

The TAS Independent BGA does not currently obtain copies of the executed contracts between the school and the architect or builder; however we identified examples of the TAS Independent BGA reviewing these documents prior to execution by the school.

We recommend that the TAS Independent BGA retain copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.

Retention of at least 10% of grant funds until all completion documentation has been received and the school has been inspected by at least one committee member provides an incentive for schools to complete documentation quickly.

The final grant payment of 10% of the grant amount is retained until the TAS Independent BGA receives the following documentation:

- Certificate of Completion by Independent Qualified Accountant;
- Certificate of Completion by Architect or Project Manager; and
- Architect's or Supervisor's Statement of Final Costs.

A site visit is also conducted by a committee member prior to the final grant payment being released.

This encourages schools to submit project completion documentation in a timely manner. We identified strong project completion documentation on each file; however the site visits were not always documented. As discussed above, TAS Independent BGA should ensure all site visits are documented.

On completion, photographic evidence of the plaque is sent to the TAS Independent BGA and kept on file.

We identified one project (2012/00005/2) where there was no copy of plaque on file. We have been advised that the school mistakenly thought the grant was part of the Building Education Revolution program and have now ordered a plaque.

We recommend the TAS Independent BGA include checks that the school has ordered a plaque and contacted the Minister to schedule an Opening Ceremony (if applicable) prior to the release of the final grant payment.

6 Conclusion

Generally, the TAS Independent BGA maintains a close working relationship with member schools in administering the Program; however this could be documented in more detail.

In light of the findings set out in this report, we have made the following recommendations for the TAS Independent BGA and the Department to consider:

- To demonstrate compliance with the requirements of the CGP Operating Manual, and improve transparency over how the CGP is administered and decisions are made, we recommend the TAS Independent BGA document its internal processes and procedures.
- The TAS Independent BGA should maintain a register of relationships with applicant schools (or any other potential conflicts of interest) and when a committee member's school is discussed they should leave the room whilst the recommendation is formed. This should be documented in the minutes. Guidelines surrounding conflict of interest management should be set out in policy documents by the TAS Independent BGA.
- In order to demonstrate compliance with the requirements of the CGP Operating Manual we recommend that all provisions required in the Operating Manual be incorporated in Participant Agreements executed by schools.
- In order to improve transparency, the TAS Independent BGA document the selection and ranking discussions and rationale for decisions made in a greater level of detail.
- To mitigate the risk of funds being misappropriated, or an error in payment information not being detected as a result of a single person uploading and authorising payments, a separate online authorisation should be implemented before all payments are processed.
- File notes should be made of conversations that monitor project status. Furthermore, documented interim checks of physical project status should be undertaken prior to each progress payment of grant funding. To mitigate costs, methods other than physical attendance at the site may be appropriate such as obtaining photographs to demonstrate project progress. All visit reports and photographs should be documented and kept on file.
- The TAS Independent BGA retain copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- The TAS Independent BGA include checks that the school has ordered a plaque and contacted the Minister to schedule an Opening Ceremony (if applicable) prior to the release of the final grant payment.

Block Grant Authority

Catholic Capital Grants (Victoria) Ltd

3 September 2018



McGrathNicol

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1 Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
CGP	Capital Grants Program for non-government schools
Department	Department of Education and Training
EOI	Expression of interest
CEO	Catholic Education Office
CDF	Capital Development Fund
CCG (Vic) Ltd	Catholic Capital Grants (Victoria) Limited, the approved authority for the distribution of all Government capital grants to the Catholic Sector within Victoria.
CECV	Catholic Education Commission of Victoria Ltd
CEM	Catholic Education Melbourne
Objectives	The objectives of the CGP
Operating Manual	Capital Grants Program Guidelines 2018
BGA School Agreement	Agreement between the School or Legal Entity responsible for the School and Catholic Capital Grants (Victoria) Limited entered into to record the terms and conditions upon which the funds will be distributed
SEP	Schools Entry Point
Requirements	Requirements under the CGP Operating Manual 2016, Australian Education Act 2013 and Australian Education Regulation 2013

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of Victorian Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of Victorian Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program (CGP) for non-government schools is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by CCG (Vic) Ltd. The review examines the efficiency and effectiveness of CCG (Vic) Ltd in administering the CGP and evaluates CCG (Vic) Ltd's compliance with key areas of the Requirements.

The review was conducted in the context of the Requirements which govern the administration of the program.

In reviewing CCG (Vic) Ltd we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the CECV;
- meetings and discussions with representatives of CCG (Vic) Ltd, in particular:
 - s 47F
 - s 47F
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of CCG (Vic) Ltd, including:
 - internal policies and procedures documents; and

- sample case files at the offices of CCG (Vic) Ltd.

As discussed with the Department we have chosen a sample of 15 files to review from a population of 86 projects in the 2015 to 2018 CCG (Vic) Ltd Commitment Ledgers. Provided below is a listing of the sample case files selected for the review testing:

Table 1: Sample case files

Sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2015/17811/1	Catholic Regional College, Caroline Springs	950,000
2015/00932/1	Sacred Heart School, Colac	1,060,000
<i>New projects (un-acquitted projects)</i>		
2018/00771/1	Christ the King Primary School, Braybrook	1,300,000
2018/00882/1	Our Lady Help of Christians School, Wendouree	1,280,000
2018/03418/1	Queen of Peace Primary School, Altona Meadows	1,500,000
2018/30347/1	Siena Catholic Primary School, Lucas	1,500,000
2017/08828/1	St Kevin's School, Hampton Park	1,700,000
2017/01202/1	Catholic College, Sale	2,000,000
2017/00772/1	Christ the King School, Newcomb	1,450,000
2017/00776/1	Clonard College, Herne Hill, Geelong	1,500,000
2016/30053/1	St Clare's Primary School, Officer	2,000,000
2016/30051/1	St John the Apostle Catholic Primary School, Tarneit	1,500,000
2016/01165/1	St Mary's School, Mooroopna	1,100,000
2016/77571/1	St Peter's College - Cranbourne East	1,300,000
2016/30054/1	Marist College Bendigo	1,500,000

3.4 Findings

3.4.1 Governance arrangements

The CCG (Vic) Ltd has documentation in place which shows how its processes and procedures are carried out. The CCG (Vic) Ltd also provides detailed guidelines and pro-formas to schools at each stage of the process.

A number of BGA School Agreements were dated after the date the project had commenced as per the Notification of Commencement of Project form.

The CCG (Vic) Ltd does have a documented draft conflict of interest risk management policy.

3.4.2 Selection and ranking of projects

Grant funding is initially separated into primary and secondary. The CCG (Vic) Ltd deal with the selection and ranking of primary and secondary schools separately with different sub committees. This allows the committees to be specialised in each of the school types.

Not all schools that have submitted an application are subject to a school visit. The CCG (Vic) Ltd will visit applicant schools every two to three years. School visit reports are not consistently completed and kept on file.

Projects are initially ranked by school SES. The amount of funding received is based on an assessment of the schools' borrowing capacity prepared by the CEM Business Advisory Services. This assessment takes into account all available funding that a school could contribute to a capital project that is not committed and includes any capacity of the school community to make a contribution including borrowings. The CCG (Vic) Ltd are looking to move to rank schools by the Index of Community Socio-Educational Advantage (ICSEA).

3.4.3 Financial systems and practices for acquitting project funds

Grant payments are paid to schools on a reimbursement basis. Cost details are entered into Webcert with supporting documentation, including invoices and progress certificates.

The CCG (Vic) Ltd implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple representatives required prior to payments being made.

3.4.4 Project monitoring

The project architect is to input data into Webcert on a monthly basis, including in circumstances when a payment is not expected. The data to be provided includes project updates, progress certificates, site minutes and progress photos. This will give CCG (Vic) Ltd a good idea of how the project is progressing without being on site.

The CCG (Vic) Ltd requires schools to have a strong tender process, with tenders to be obtained from multiple parties and a requirement to utilise the lowest tenderer's quotation (except in special circumstances). This is documented in the Results of Tender Process form.

3.4.5 Records management

The majority of electronic and physical documents reviewed were in good order and readily accessible.

There is currently no retention of a final progress payment amount until completion documentation is received from schools.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the CCG (Vic) Ltd and the Department to consider:

- CCG (Vic) Ltd should put checks in place to ensure that all BGA School Agreements are signed and returned prior to the project commencing.
- School visit reports that document the educational and financial need should be prepared and kept on file for each project.
- CCG (Vic) Ltd could put a policy in place that would require schools to expend their local contribution in full prior to receiving grant funding or to pro-rata grant payments. This would encourage schools to ensure Webcert is updated each month throughout the life of the project. This should be done on a case-by-case basis to minimise a negative impact on the cash flow of any low resourced schools.
- CCG (Vic) Ltd should retain copies of all key agreements and documents such as contracts on individual project files for completeness and ease of reference, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- In order to improve transparency, CCG (Vic) Ltd should ensure all documents relating to a project are on the project file. This should include documentation setting out the selection and ranking discussions and rationale for decisions.
- To ensure all completion documentation is obtained from schools, CCG (Vic) Ltd could implement a policy such as retaining the final grant payment until completion documentation has been submitted and the school has demonstrated it has complied with recognition requirements.

4 Background

4.1 Overview of the Capital Grants Program for non-government schools and role of the CCG (Vic) Ltd

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

CCG (Vic) Ltd is the approved authority for the distribution of all Government (State and Federal) capital grants to the Catholic Sector within Victoria. It was established by the Bishops and Leaders of Religious Congregations in Victoria to form the Company which is limited by guarantee as the BGA for Catholic schools in Victoria. As such the role of the BGA is carried out by CCG (Vic) Ltd with administrative support from CEM.

The CECV has responsibility for the education of about 207,000 students across 495 schools within Victoria (2015 census) over four Dioceses being:

- Archdioceses of Melbourne;
- Diocese of Ballarat;
- Diocese of Sandhurst; and
- Diocese of Sale.

All Victorian Catholic Schools are part of the system and are all members of the BGA.

CCG (Vic) Ltd utilises a number of documents and reference materials to administer the CGP. Provided below is a summary of the key internal and external documents that shape the delivery of the CCG (Vic) Ltd's CGP:

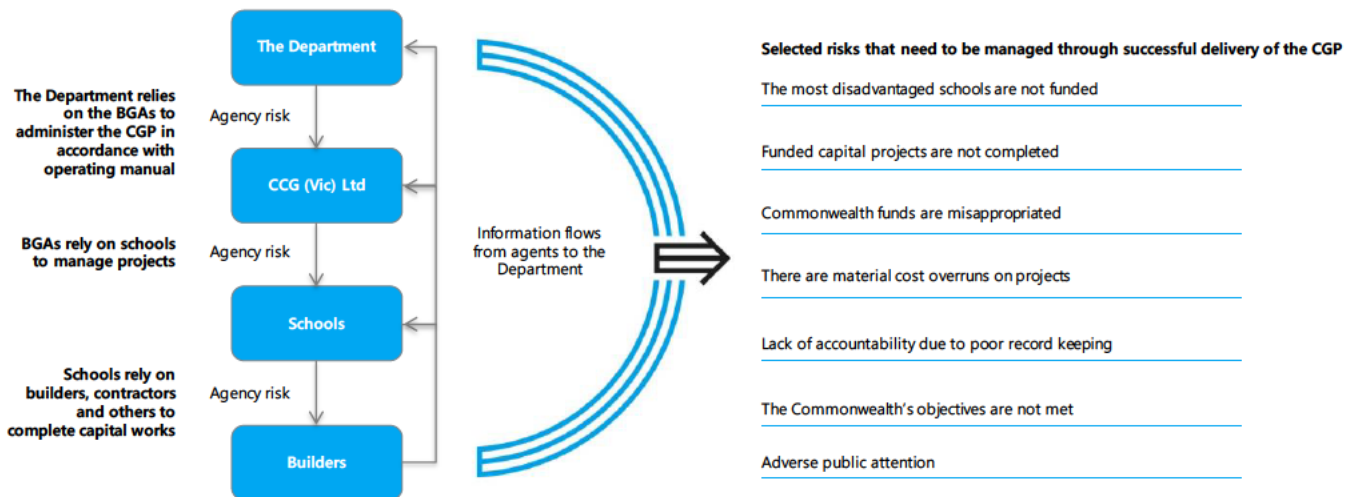
Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials		
Category of documents	Title of document	
Legislation and regulations	▪	Australian Education Act 2013
	▪	Australian Education Regulation 2013
Regulatory guidance material	▪	CGP Operating Manual 2018
CCG (Vic) Ltd internal policy and procedure documents	▪	Draft Conflict of Interest Procedure
	▪	Capital Grants Programme Procedures Manual
CCG (Vic) Ltd policy documents for schools	▪	Participant Agreement
CCG (Vic) Ltd guidance materials for schools	▪	Project information
	▪	Requirements for Engagement of Architects/Designers
	▪	Sustainable Design Guidelines
	▪	Tender procedures for Approved Building Projects
	▪	Recognition of Australian Government Assistance for Non-Government Schools Capital Grant Projects and Guidelines for Openings
	▪	Certification by an Independent Qualified Accountant and Architect's/Supervisor's Statement of Final Costs: Explanatory Notes

4.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:


Figure 1: Agency risk created by the operating framework of the CGP



4.3 Key steps in administering the Capital Grants Program (CGP) for non-government schools

The CGP is administered on an ongoing basis by CCG (Vic) Ltd. We have sought to summarise the key steps taken in the table below:

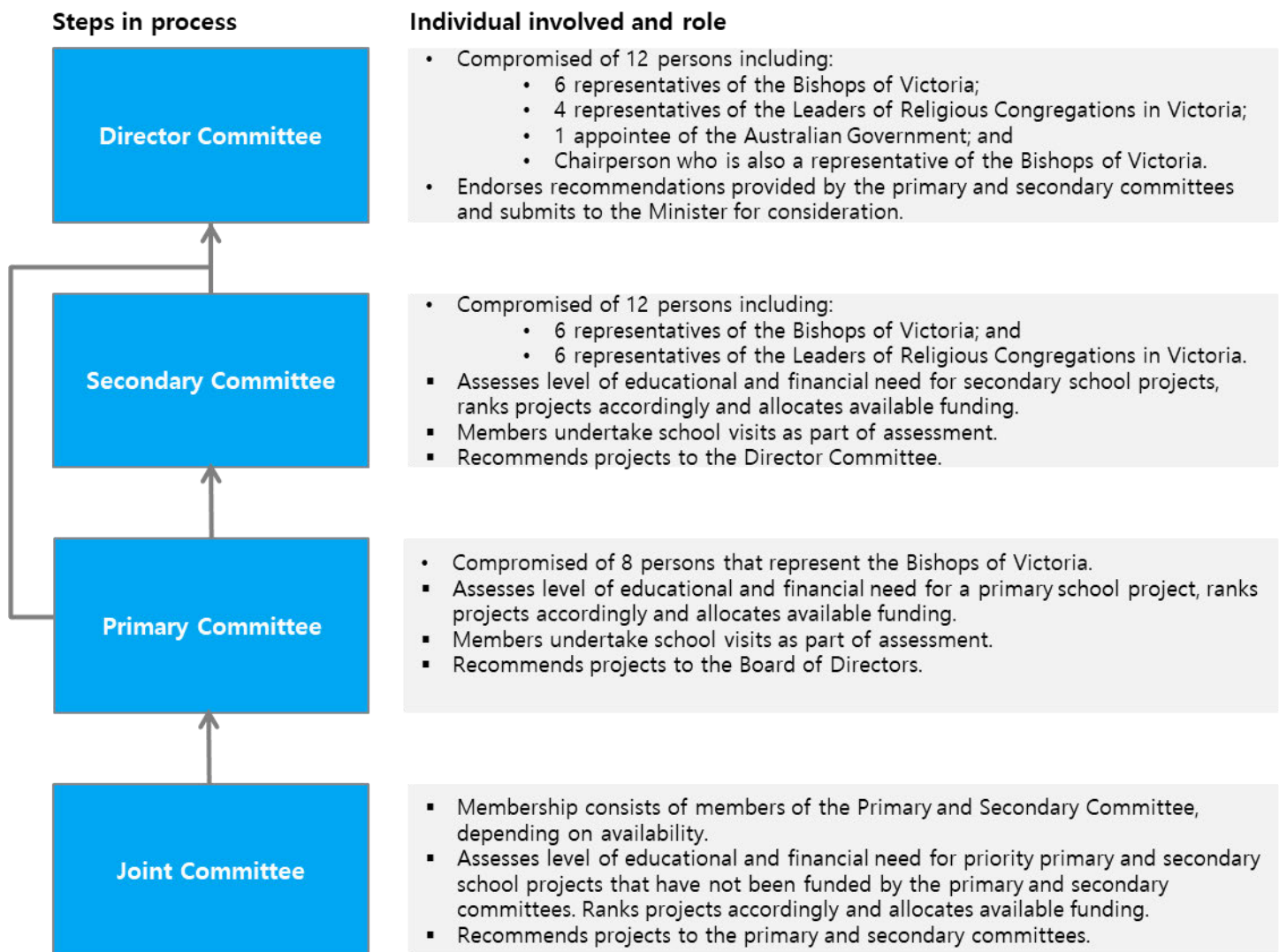
Table 3: Overview of the Capital Grants Program Administration

An Overview of the Capital Grants Programme Administration		
Step	Stage	Milestone
Step 1		Member schools prepare and submit an initial application for a grant online through Archibus.
Step 2		Representatives of CCG (Vic) Ltd may attend the applicant school for a school visit to discuss the application with the principal. School visits are undertaken on a 2 to 3 year rotation; as such not all applicant schools undergo a school visit. For primary schools, a member of the CCG (Vic) Ltd Primary Committee and the secretariat will attend the school. For secondary schools, two members of the CCG Secondary Committee and the secretariat will attend the school.
Step 3		Meetings are held for both the Primary and Secondary committees, and the committee members will review the projects and shortlist the projects that will move on to the next stage. This is largely based on SES score.
Step 4		CCG (Vic) Ltd issue a letter to the school to advise the application is in consideration and has progressed to the next stage. All documentation / information required to complete the application is attached to the letter.
Step 5		School submits a more detailed application. The application includes detailed project information, master plan, drawings, maintenance plans, a copy of the signed building design services agreement and the quantity surveyor's cost estimate. Schools may not progress to the recommendation to the Government.
Step 6		The Primary Committee and Secondary Committee review their relevant school applications which are ranked by SES until grant funding has been exhausted. The amount of funding is determined based on a financial assessment prepared by the CEM Business Advisory Services financial team. The Committees will then review those schools with similar SES scores that were not successful to ensure the funds are being allocated to schools with the greatest educational need.
Step 7		The Primary and Secondary Committees recommend grants to the Board of Directors for approval.
Step 8		Schools submit Acceptance of Australian Government Capital Grants Program Project Proposal to the CCG (Vic) Ltd.
Step 9		A Directors' meeting is held where projects are reviewed and endorsed to be recommended to the Minister. The Department notifies CCG (Vic) Ltd and the successful school of approval.
Step 10		CCG (Vic) Ltd issue a letter of Initial Offer to the school informing the school of Department approval and to provide the BGA School Agreement and Results of Tender Process form.

An Overview of the Capital Grants Programme Administration

Step 11	↑ Application Process ↓	The school or Approved Authority sign and return the BGA School Agreement to the CCG (Vic) Ltd.
Step 12		School proceeds to tender advertising for expressions of interest.
Step 13		School prepares the Results of Tender Process form with recommendations and requests approval.
Step 14		The school must wait to enter into a contract or otherwise enter into a commitment until advised to do so by the CCG (Vic) Ltd.
Step 15		CCG (Vic) Ltd issue a letter of Final Offer of Grant to the school informing the school of final approval and to provide the Acceptance of Final Capital Grant Offer and Notification of Commencement of Project School documents.
Step 16	↑ Monitoring stage ↓	The school signs and returns the Acceptance of Final Capital Grant Offer.
Step 17		The Notification of Commencement of Project document is provided to notify the CCG (Vic) Ltd of project commencement and the project is set up in Webcert, a project cost management system.
Step 18		The architect enters progress claims into Webcert on a monthly basis. The claim is to include budget, actual, forecast expenses and general project progress. Supporting documentation such as invoices and progress photos are also uploaded.
Step 19		The CCG (Vic) Ltd pays progress claims through the Catholic Education Melbourne business systems.
Step 20	↑ Finalisation and completion ↓	Final progress claim submitted.
Step 21		Final progress claim paid by the CCG (Vic) Ltd.
Step 22		Certificate from a qualified accountant and architect's / supervisor's statement of final costs to be submitted within four weeks of the date of the final payment or following completion of the project.
Step 23		For projects over \$100,000 schools must install a plaque and hold an opening ceremony, for projects under \$100,000 schools can choose to install a plaque only.
Step 24		Schools then hold an opening ceremony. Where possible, a representative of the CCG (Vic) Ltd will attend.

Figure 2: Structure of application approval



5 Key findings

5.1 Governance arrangements

The CCG (Vic) Ltd has documentation in place which shows how its processes and procedures are carried out. The CCG (Vic) Ltd also provides detailed guidelines and pro-formas to schools at each stage of the process.

CCG (Vic) Ltd has a Procedures Manual which provides information about the Capital Grants Program (CGP). The manual provides detailed information on the following areas of the CGP:

- CCG (Vic) Ltd structure and staffing;
- timing for the CGP;
- CGP application and assessment of projects;
- processes and procedures for active CGP projects including:
 - acceptance of grants;
 - project variations;
 - grant payments; and
 - project completion including recognition requirements.

The Procedures Manual is available to be downloaded by schools through the CCG (VIC) Ltd school portal at any time providing transparency on how the CGP is administered and decisions are made. We have been advised that the Procedures Manual is under a comprehensive review and will be updated again later this year. The CCG (Vic) Ltd provide a range of guidelines and pro-formas to schools to assist them throughout the process covering the following areas:

- initial project information;
- project design, costing and planning;
- the tender process;
- acceptance of grant and commencement of project;
- completion documentation; and
- recognition requirements.

A number of BGA School Agreements were dated after the date the project had commenced as per the Notification of Commencement of Project form.

Schools are provided with a copy of the BGA School Agreement to execute with the Initial Offer of Capital Grant. The BGA School Agreement is signed by both parties being the CCG (Vic) Ltd and the school or legal entity responsible for the acceptance of a grant and to acknowledge they are aware of the conditions of receiving funding and their subsequent obligations.

The CGP Operating Manual specifies that BGAs should ensure that there is a legally binding agreement executed between the BGA and the school or school system prior to the BGA making any payment of Commonwealth CGP funds to a school.

Of the sample of 15 projects reviewed, we found that five projects (33%) had BGA School Agreements dated after the project had commenced, with the largest difference being 51 days. There are no steps in place to prevent a school project commencing construction prior to the execution of the BGA School Agreement however, CCG (Vic) Ltd will not release any grant funds to a school without an executed BGA School Agreement. This was supported as all BGA School Agreements in the sample reviewed had been executed prior to a payment being made.

CCG (Vic) Ltd should put checks in place to ensure that all BGA School Agreements are signed and returned prior to the project commencing.

The CCG (Vic) Ltd has a documented draft conflict of interest risk management policy to assist with identifying and managing potential conflicts of interest.

The Conflict of Interest Policy document was approved by the Directors at the June 2018 meeting. The policy will be progressively rolled out for use by Board members and Committee members of CCG (Vic) Ltd. The document defines a conflict and documents how to effectively disclose and manage actual, perceived or potential conflicts.

Where committee members have an interest in the school or project being applied for, they declare these interests and the board will determine the most appropriate action to take. We have been advised that as part of the roll out of the policy, a register of interests will also be developed.

5.2 Selection and ranking of projects

Grant funding is initially separated into primary and secondary. The CCG (Vic) Ltd deal with the selection and ranking of primary and secondary schools separately with different sub committees. This allows the committees to be specialised in each of the school types.

The CCG (Vic) Ltd have established a Primary Committee, a Secondary Committee, and a Joint Committee to advise its Directors and make recommendations about the allocation of available funds.

Each year when the CCG (Vic) Ltd receive funding for the CGP they allocate 90% to the Primary and Secondary Committees and 10% to the Joint Committee. Funding between the Primary and Secondary Committees is then split based on enrolments. There was evidence of these discussions and calculations in the meeting minutes.

For schools that have both Primary and Secondary students on the site, the applicant school must show both the location of the proposed capital works and what level of student education will be provided. This information is then considered by the Committees in evaluating which Committee is best placed to consider the request.

Kindergarten spaces of a school are ineligible under the CGP and not considered. An application from a K-10 or K-12 school would be considered by the appropriate committee as described above in accordance to the education outcomes proposed in the application. Any unfunded priority projects from the Primary and Secondary Committee could be passed through to the Joint Committee. The Joint Committee will then establish priority projects and refer these projects back to the relevant committee to include in the recommendation to the Directors. The Joint Committee ensures that the overall allocation of funds within the funding year is fair and projects in need are not missed due to the splitting of funds between Primary and Secondary. The Joint committee does not need to convene if the available funds are allocated with agreement between the Primary and Secondary Committees.

The allocation of CGP funds to the Committees is considered to be notional. During any round a Committee does not necessarily have to fully allocate the notional funding pool. Primary Schools in comparison to the Secondary Schools within the system have considerably less capacity to contribute to capital projects. Consequently it is not unusual that the Secondary Committee may not need its full allocation and have no projects to present to the Joint Committee and therefore these Joint Committee funds become available for the Primary Committee to distribute, if needed.

It is under these circumstances that the Joint Committee does not convene. Unallocated funds that are notionally split between the Committees. These notional splits do not carry forward from one round to the next.

Not all schools that have submitted an application are subject to a school visit. The CCG (Vic) Ltd will visit applicant schools every two to three years. School visit reports are not consistently completed and kept on file.

Once applications have been received, as part of the assessment of the project, school visits are undertaken. We have been advised by the CCG (Vic) Ltd that, due to the number of applications, it is unreasonable to visit every applicant school. As such, all applicant schools would receive a school visit every two to three years.

The decision to visit a school is determined by:

- when the last visit occurred;
- has there been infrastructure changes at the school; and
- does the Secretariat or the Committee Members understand enough of the project application to make a sound assessment of the education need of the school.

Primary schools are visited by a member of the Primary Committee and a member of CCG (Vic) Ltd. Secondary schools are visited by two members of the Secondary Committee and a member of CCG (Vic) Ltd.

The school visit report template for 2018 looks at the rationale for seeking funding, the enrolment projections for the school and the school's ability to self-fund the project, which is prepared by the CEM Business Advisory Services. Master plans are also to be reviewed as part of this assessment and comment made on the school visit report.

We were advised by CCG (Vic) Ltd that not all site visit reports were completed and kept on file; this was evidenced, as there were no site visit reports on file for the majority of projects. CCG (Vic) Ltd are aware of the lack of documentation on file for site visits and advised it is open to improvement in this area by consistently completing site visit reports and by keeping site visits on project files.

School visit reports that document the educational and financial need should be prepared and kept on file for each project.

Projects are initially ranked by school SES. The amount of funding received is based on an assessment of the schools' borrowing capacity prepared by the CEM Business Advisory Services. This assessment takes into account all available funding that a school could contribute to a capital project that is not committed and includes any capacity of the school community to make a contribution including borrowings. The CCG (Vic) Ltd are looking to move to rank schools by the Index of Community Socio-Educational Advantage (ICSEA).

The first stage of the application process is to shortlist applicant schools to allow for a more detailed study of the priority projects. Information required for the first application is relatively high level and does not require the school to spend extensive amounts of time and funds on preparation. This will limit schools using resources for unsuccessful projects.

All eligible projects are firstly ranked according to the level of educational disadvantage of the students, using SES to determine this. We have been advised by the CCG (Vic) Ltd that they are looking to update this index and intend to move to the Index of Community Socio-Educational Advantage (ICSEA) for the next round of the CGP.

CCG (Vic) Ltd considers that in contrast to the SES score, ICSEA has the following strengths:

- ICSEA scores are explicitly designed to measure educational disadvantage, the ICSEA estimation methodology seeks to most accurately predict school performance in NAPLAN;
- ICSEA scores use actual student data on disadvantage – direct data collected from student families, rather than indirectly from student addresses;
- ICSEA scores are dispersed, fewer schools have the same ICSEA score than SES score; and
- ICSEA scores are published annually by ACARA.

The committees then assess and rank projects based on educational and financial need.

Educational need is based on an area guideline per student of 6.13 m² in primary and 9.75 m² in secondary schools. All areas used by the school have to be included in the measurement. The Committee will take into account special circumstances which justify costs or areas in excess of the guidelines.

The assessment of the school's financial need is undertaken by the CEM Business Advisory Services. The CEM Business Advisory Services provide data on each of the considered schools and a detailed assessment of financial need is prepared. The CEM Business Advisory Services have good insight into each school's financial position and prepare complex modelling to demonstrate a school's ability to fund the project through the school's borrowing capacity.

The CEM Business Advisory Services rely upon audited financials and interactions with the school when preparing the assessment. This data is not further reviewed by the CCG (Vic) Ltd and the source documentation is not stored on project files.

The assessment of a school's capacity to contribute is undertaken as a standalone exercise by the CEM Business Advisory Services who rely upon audited financials and interactions with the school. The same methodology is applied to all schools and there are system benchmarks to be met, whilst ensuring that a commitment to a capital project does not jeopardise a school's operations. The Benchmarks include an assessment of the school's borrowing capacity as a percentage of the total school fees collected and the level of reserves above 10% the total annual recurrent income. All schools are advised by the Secretariat that they are required to contribute the maximum that they can afford to a potential project through loans and any uncommitted cash reserves. That is, that by contributing the maximum local contribution the school demonstrates that the capital project is the priority both educationally and financially.

Once the assessments have taken place and it has been established that the schools meet eligibility criteria, the projects are then ranked for funding on the basis of:

- the relative educational disadvantage of students at the schools;
- the extent of the shortfall against area standards;
- the relative contributions of the projects to the Program's other objectives;
- the condition (and number) of existing facilities in relation to the level of facilities needed;
- where relevant, the extent to which the projects affect economies through the shared provision of educational or recreational services otherwise provided independently by State governments, local governments and non-government schools; and
- the extent to which the school is making adequate and regular provision for the upkeep of its facilities.

Schools progressing to the next stage are then notified and asked to engage an architect / designer to prepare final sketch plans and detailed cost estimates. Once these have been received, the Primary and Secondary Committees may meet again to reassess the applicants if there is a material change from the projects recommended and to enable projects to move to the Next Stage of Assessment, the committees will discuss:

- finalisation of scope and project budget; and
- confirmation the project is within area and cost guidelines.

Once this stage of assessment is completed, the Committee's final recommendations are forwarded to the Board of Directors for approval of those projects to be included on the next annual schedule.

5.3 Financial systems and practices for acquitting project funds

Grant payments are paid to schools on a reimbursement basis. Cost details are entered into Webcert with supporting documentation, including invoices and progress certificates.

Webcert is a cost management system for major infrastructure projects. Grant monies are released to schools on a reimbursement model and upon submission of the relevant supporting documentation to Webcert, including supplier invoices and progress certificates.

There was comprehensive supporting documentation on file for all payments.

The CCG (Vic) Ltd implements strong controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple representatives required prior to payments being made.

The following process is in place to release progress payment funds to schools:

- Webcert is updated by the architect;
- Project Officer assesses payments and supporting documentation in Webcert;
- once the payment has been approved the Project Officer will send an approval email to the Finance Officer;
- Therese will double check the payment and supporting documents in Webcert before approving to pay;
- a spreadsheet is prepared or updated that details the payment amount, previous payments and remaining grant;
- the payment is uploaded to the general ledger template and signed off in turn by the following individuals:
 - Finance Officer;
 - Team Leader;
 - Manager; then before being released to CEM Business Advisory Services;
 - Administrative Officer;
- the approved payment and general ledger are then provided to the CEM Business Advisory Services where an invoice is created;
- the invoice creates a 'pink slip' which is then reviewed and approved by four signatories if under \$250,000 and five signatories if over \$250,000. The signatories are:
 - originator;
 - treasury;

- management accountant;
- Manager, Finance; and
- CFO (if over \$250,000).
- the approved pink slip is then uploaded to NAB and requires two online approvals from:
 - Manager, Finance; and
 - finance officer.
- remittance advice (NAPS) is then provided to schools to confirm payment.

Segregation of duties reduces the risk of fund misappropriation and multiple stages of review reduces the risk of input errors in payment information not being detected.

The CCG (Vic) Ltd maintains a separate bank account to deposit the funds provided by the Department. This simplifies tracking unallocated funds, and reconciliation and audit processes. The use of a separate bank account also reduces any risk of funds mistakenly being used to meet other costs.

5.4 Project monitoring

The CCG (Vic) Ltd use Webcert as a tool to monitor project progress. Webcert is to be updated on a monthly basis by the project architect. Webcert provides an update on costs, timing, variations and the general progress of the project.

In order for a payment to be made, the architect must update Webcert and upload the relevant supporting documentation.

Schools are expected to ensure the project architect updates Webcert on a monthly basis including in circumstances when a payment is not expected. The data to be provided includes project updates, progress certificates, site minutes and progress photos. Webcert also has the ability to provide variance reports. This gives CCG (Vic) Ltd good visibility of project progress without being on site.

Although Webcert is a strong tool to monitor project progress, there is a risk that if all grant funds have been paid out, the school and architect may be less incentivised to update Webcert due to the effort involved in collating and uploading information into the system. There was no evidence on file to show that Webcert is updated once the grant payment is paid out or in circumstances when a payment is not being requested.

Whilst physical project checks are not undertaken during construction, we have been advised by the CCG (Vic) Ltd that they have a close relationship with member schools and there is an awareness of the activities of each school as the CCG (Vic) Ltd assists member schools in other areas outside the CGP. This is supported by the evidence we have identified on files of regular email correspondence to follow up or request documentation.

CCG (Vic) Ltd could put a policy in place that would require schools to expend their local contribution in full prior to receiving grant funding or to pro-rata grant payments. This would encourage schools to ensure Webcert is updated each month throughout the life of the project. This should be done on a case-by-case basis to minimise a negative impact on the cash flow of any low resourced schools.

The CCG (Vic) Ltd requires schools to have a strong tender process, with tenders to be obtained from multiple parties and a requirement to utilise the lowest tenderer's quotation (except in special circumstances). This is documented in the Results of Tender Process form.

CCG (Vic) Ltd work closely with the school to ensure project design and cost estimates are as accurate as possible during the application process. In the first instance of applications being received, the CCG (Vic) Ltd will assess the proposed project cost and design for reasonableness.

Guidelines for tender procedures and the Results of Tender Process pro forma are provided to the school with the Initial Offer of Capital Grant letter. Each project is required to obtain a minimum of six tenders. Of the projects reviewed, all projects had at least six tenders except for three projects which had five tenders.

The architect / project manager and the school then produce the Results of Tender Process form, providing detail on each tender, cost estimates, any variations to the project budget, building areas and timing. In each test file reviewed, the lowest cost tender was selected, which supports the principle of value for money as required by the Operating Manual.

There was no Results of Tender Process form on file for the 2018 projects as those projects have not yet gone to tender. The 2018 projects are required to commence by 31 December 2018.

Executed copies of contracts with architects and builders were not sighted during the onsite testing however, confirmation of contract signing is detailed on the Notification of Commencement of Project form provided to schools with the Final Offer of Capital Grant letter.

The CCG (Vic) Ltd should retain copies of all key agreements and documents such as contracts on individual project files for completeness and ease of reference, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.

5.5 Records management

The majority of electronic and physical documents reviewed were in good order and readily accessible.

The CCG (Vic) Ltd maintains detailed records, with documentation for each project kept on its individual file and in good order. The bulk of the records on file relate to the application, project commencement, payment and completion.

Documents for each project are stored as hard copy files and on the various software programs that are used. Application information is stored on Archibus and project monitoring and payment information on Webcert.

Documentation relating to the selection and ranking of each project was located in the meeting minutes and not kept on the individual project file.

Whilst the majority of documentation reviewed was in good order, a number of documents were not on hand and were provided at a later date.

CCG (Vic) Ltd are currently looking into replacing the record system with Rex or HPE Content Manager. The new system would be an enterprise document and records management system for physical and electronic information designed to help capture, manage, and secure business information in order to meet governance and regulatory compliance obligations. The new system will be developed to provide an electronic workflow that will eventually replace the paper-based processes.

In order to improve transparency, CCG (Vic) Ltd should ensure all documents relating to a project are on the project file. This should include documentation setting out the selection and ranking discussions and rationale for decisions.

There is currently no retention of a final progress payment amount until completion documentation is received from schools.

The CCG (Vic) Ltd does not currently retain a portion of the grant payment until the school has submitted completion documentation.

The CCG (Vic) Ltd could encourage schools to submit project completion documentation in a timely manner by withholding final payment in cases where there are delays in submitting completion documentation. Withholding funds would also reduce the risk of funds being misappropriated or projects not being completed.

There was no evidence that CCG (Vic) Ltd monitor each school's compliance with recognition requirements to determine whether or not they have obtained a plaque or arranged an opening ceremony. Schools are provided guidelines regarding the recognition requirements, outlined in the Recognition of Australian Government Assistance for Non-Government Schools Capital Grant Projects and Guidelines for Openings. These are provided with the Initial Offer of Capital Grant letter.

There were some invitations for opening ceremonies on file. Photographs of plaques are not requested.

We were advised by the CCG (Vic) Ltd that it was assumed it was the responsibility of the Department to follow up Schools to ensure recognition requirements had been completed.

To ensure all completion documentation is obtained from schools, CCG (Vic) Ltd could implement a policy such as retaining the final grant payment until completion documentation has been submitted and the school has demonstrated it has complied with recognition requirements.

6 Conclusion

The CCG (Vic) Ltd has good internal policies and procedures and provides close support to schools throughout each stage of the Capital Grants Program.

In light of the findings set out this report, we have made the following recommendations for CCG (Vic) Ltd and the Department to consider:

- CCG (Vic) Ltd should put checks in place to ensure that all BGA School Agreements are signed and returned prior to the project commencing.
- School visit reports that document the educational and financial need should be prepared and kept on file for each project.
- CCG (Vic) Ltd could put a policy in place that would require schools to expend their local contribution in full prior to receiving grant funding or to pro-rata grant payments. This would encourage schools to ensure Webcert is updated each month throughout the life of the project. This should be done on a case-by-case basis to minimise a negative impact on the cash flow of any low resourced schools.
- CCG (Vic) Ltd should retain copies of all key agreements and documents such as contracts on individual project files for completeness and ease of reference, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- In order to improve transparency, CCG (Vic) Ltd should ensure all documents relating to a project are on the project file. This should include documentation setting out the selection and ranking discussions and rationale for decisions.
- To ensure all completion documentation is obtained from schools, CCG (Vic) Ltd could implement a policy such as retaining the final grant payment until completion documentation has been submitted and the school has demonstrated it has complied with recognition requirements.

Block Grant Authority

Victorian Independent Schools Block Grant Authority

23 July 2018



McGrathNicol

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1 Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
CGP	Capital Grants Program for Non-government Schools
Department	Department of Education and Training
EOI	Expression of interest
ISV	Independent Schools Victoria
MOU	Memorandum of Understanding
MPER	Monthly Progress and Expenditure Report
Objectives	The objectives of the CGP
CGP Guidelines	Capital Grants Program Guidelines 2018
Participant Agreement	Agreement between the School and the VIC Independent Schools BGA entered into for the School to become a member of the VIC Independent Schools BGA.
Requirements	Requirements under the CGP Guidelines, Australian Education Act 2013 and Australian Education Regulation 2013
SES	Socio-economic Status
VIC Independent Schools BGA or VISBGA	The Victorian Independent Schools Block Grant Authority

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of Victorian Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of Victorian Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program (CGP) for non-government schools is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the VIC Independent Schools BGA. The review examines the efficiency and effectiveness of the VISBGA in administering the CGP and evaluates the VISBGA's compliance with key areas of the Requirements.

The review will be conducted in the context of the Requirements which govern the administration of the program.

In reviewing the VISBGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Guidelines;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the VISBGA;
- meetings and discussions with representatives of the VISBGA, in particular;
 - s 47F
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of the VISBGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of the VISBGA.

As discussed with the Department we have chosen a sample of 15 files to review from a population of 86 projects in the 2015 to 2018 VISBGA Project Summary Reports. Provided below is a listing of the sample case files selected for the review testing:

Table 1: Listing of sample case files

VIC Independent BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2015/29729/1	Cornish College, Bangholme	500,000
2015/77671/1	Fitzroy Community School Thornbury Campus	400,000
2015/17742/1	Mildura Christian College, Irymple	585,000
<i>New projects (un-acquitted projects)</i>		
2018/28556/1	Al Siraat College, Epping	1,583,750
2018/04000/1	Bayside Christian College, Langwarrin South	598,000
2018/17939/1	Cathedral College Wangaratta	1,500,000
2018/77314/1	Chairo Christian School - Pakenham Campus, Nar Nar Goon	900,000
2017/27586/1	Balcombe Grammar School, Mt Martha	2,000,000
2017/15834/1	Bayview College, Portland	450,000
2017/30222/1	Cire Community School, Yarra Junction	29,904
2017/30327/1	Giant Steps Melbourne, Kew	1,278,000
2016/03420/1	Creek Street Christian College, Bendigo	300,000
2016/05557/1	Sophia Mundi Steiner School, Abbotsford	160,000
2016/15322/1	Victory Lutheran College, Wodonga	600,000
2016/17939/2	Cathedral College Wangaratta	300,000

3.4 Findings

3.4.1 Governance arrangements

The VISBGA has in place adequate documentation which outlines how its CGP funding process is carried out. The VISBGA also provides detailed guidelines and pro formas to schools at each stage of the process.

The VISBGA has a conflict of interest risk management process, however does not have a documented conflict of interest register, policy or procedure.

The Participant Agreement executed by schools is comprehensive and includes the required provisions specified in the CGP Guidelines.

3.4.2 Selection and ranking of projects

Schools are notionally recommended for grants by the VISBGA Board based on detailed applications and school visits. School visits are undertaken for all applications by Board members and Secretariat staff.

The assessment of schools' financial need is undertaken by one of the two Board members with financial backgrounds. The financial assessment procedure is not documented, and each individual financial assessment is only documented at a high-level in the Project Assessment Report.

The Board makes recommendations for approval based on educational need, financial need and contribution to program objectives.

3.4.3 Financial systems and practices for acquitting project funds

VISBGA appears to have adequate controls to prevent misappropriation of grant funds prior to disbursement to schools.

VISBGA pays grant funds to schools on a pro rata basis throughout the life of the project. This reduces the risk the project will not be successfully completed.

Grant payments are made based on Monthly Progress and Expenditure Reports signed off by an independent consultant. The VISBGA does not obtain any underlying invoices to substantiate grant payments.

Schools are required to engage an accountant upon project completion to certify the total amount expended on the project and to confirm that an amount equal to the total grant was expended on the project.

3.4.4 Project monitoring

The VISBGA requires schools to formally engage a consultant to oversee the project and sign off on all Monthly Reports.

Monthly Progress and Expenditure Reports are the only formal project monitoring documentation required from schools. Schools must provide these reports to the VISBGA from approval to acquittal of the project.

3.4.5 Records management

The electronic and physical documents reviewed were in good order and readily accessible.

VISBGA does not actively obtain evidence from schools that recognition requirements were met.

VISBGA retains 10% of grant funds until all completion documentation is received in order to provide incentive for schools to complete their documentation promptly.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the VISBGA and the Department to consider:

- The VISBGA should maintain a register of relationships with applicant schools (or any other potential conflicts of interest). The VISBGA should implement a conflict of interest policy and procedure which defines perceived, potential and actual conflicts of interest, and outlines how conflicts of interest are to be managed.
- The VISBGA should document the procedure used to assess the financial need of the school, specifically including detail regarding how the proposed grant amount is calculated. Detailed financial assessments for each application should be maintained on project file.
- The VISBGA should obtain copies of supporting documentation (e.g. main builder's progress payment invoices) to substantiate the majority (if not the entirety) of the project expenditure claimed in each Monthly Progress and Expenditure Report.
- The VISBGA should specify what procedures the accountants must undertake in order to certify project expenditure, and include these requirements in the Certificate by an Independent Qualified Accountant.
- The VISBGA should request progress photographs as part of the Monthly Progress and Expenditure Report process to confirm project progress. Progress photos should be kept on file.
- The VISBGA should retain copies of relevant contracts (such as with consultants and builders) for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- The VISBGA should obtain photographs of plaques and copies of invitations to opening ceremonies (where applicable) to ensure schools comply with recognition requirements.

4 Background

4.1 Overview of the Capital Grants Program for non-government schools and role of the VIC Independent Schools BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

Independent Schools of Victoria ("ISV") is an association of non-Government, non-Catholic schools. Members of the Independent Schools Victoria Board control and own the Victorian Independent schools BGA Limited ("VISBGA"). Responsibility for the management of the business and affairs of the VISBGA is delegated to the VISBGA Board of Management. VISBGA Board members are appointed by members of the ISV Board. There are currently nine VISBGA Board members. All VISBGA Board members have experience and expertise in capital development programs in Independent schools and / or in other areas relating to the legal obligations of the VISBGA Board.

The VISBGA is a non-profit entity whose members are not-for-profit independent schools located in Victoria. Members are not required to be members of ISV. Membership includes schools of many different:

- sizes;
- structures;
- financial positions;
- cultural backgrounds;
- religious affiliations; and
- educational philosophies.

The VISBGA utilises a number of documents and reference materials to administer the CGP. Provided below is a summary of the key internal and external documents that shape the delivery of the VISBGA's CGP:

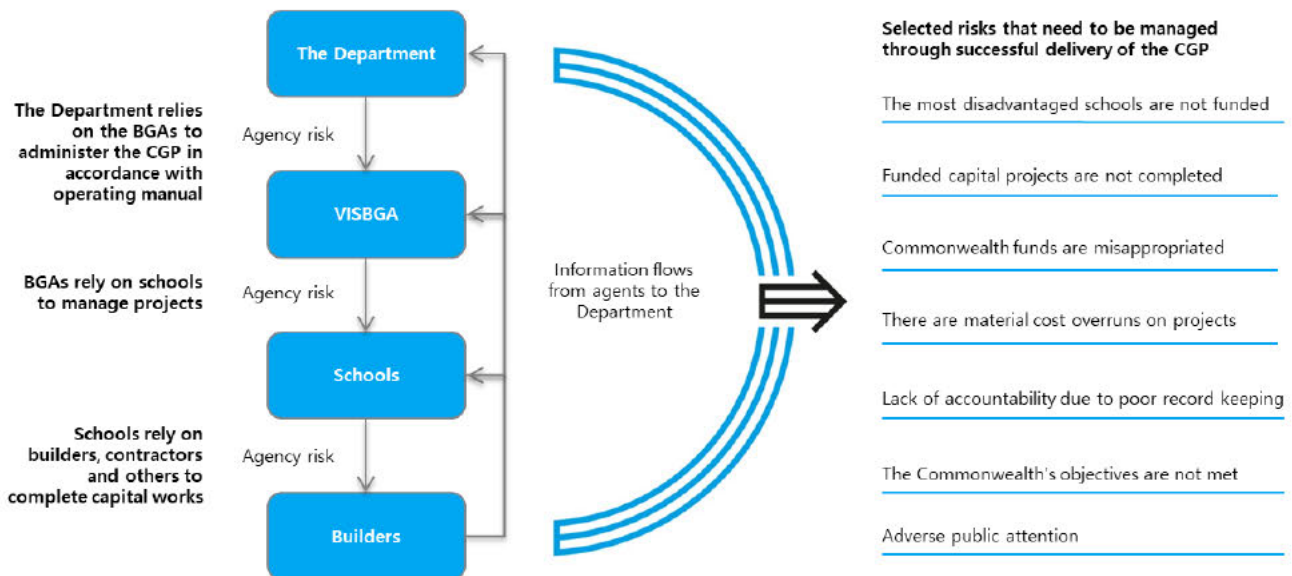
Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	▪ Australian Education Act 2013
	▪ Australian Education Regulation 2013
Regulatory guidance material	▪ CGP Guidelines 2018
VISBGA policy documents and agreements	▪ VIS BGA Ltd Directors' Manual
	▪ Participant agreement
VISBGA guidance materials	▪ Independent Consultant Guidelines
	▪ Project Implementation and Tendering Guidelines
	▪ Guidelines for Construction Management
	▪ Monthly Reporting Guidelines
	▪ Application Guidelines

4.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP



4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the VISBGA. We have sought to summarise the key steps taken in the table below:

Table 3: Overview of the Capital Grants Program Administration

Overview of the Capital Grants Programme Administration		
Step	Stage	Milestone
Step 1	Application Process	Schools are advised of the upcoming funding round through weekly memoranda and the VISBGA website, and schools are invited to attend a briefing.
Step 2		The VISBGA conducts briefing to outline application process, assessment process and program timeframes.
Step 3		The VISBGA calls for EOIs through weekly memoranda and the VISBGA website.
Step 4		Schools complete and submit EOI form.
Step 5		The VISBGA reviews the EOI forms and contacts schools where it considers a project may be ineligible.
Step 6		All schools (including ones which did not submit an EOI form) are advised applications are open through weekly memoranda and the VISBGA website.

Overview of the Capital Grants Programme Administration

Step 7	↑ ↓	Schools lodge the application, which includes project details, alignment of proposed project to objectives of the CGP, information regarding the area of existing facilities, enrolment data, school finance information, and cost plan summary.
Step 8	↑ ↓	The VISBGA sends a letter to each applicant school which advises that VISBGA representatives, as part of the assessment process, will be visiting the school on a certain date.
Step 9		Schools are visited by two members of the Secretariat and two Board members.
Step 10		The VISBGA prepares a Project Assessment Report, which includes: <ul style="list-style-type: none"> ▪ project details; ▪ assessment of financial need; ▪ assessment of educational need; ▪ assessment of alignment to objectives of CGP; ▪ preliminary recommendation to support or not support; and ▪ suggested grant amount.
Step 11		Assessment Process The VISBGA Board meets to consider all applications and confirm notional support for projects.
Step 12		The VISBGA sends a letter to each school which receives notional support to instruct them to prepare a Developed Design Report, which includes updated plans and costings.
Step 13		The VISBGA Board meets to consider the Developed Design Reports of each school which received notional support. Notional support is either confirmed or, if the project has been varied, variations to the size of the grant may be recommended and supported.
Step 14		The VISBGA recommends grants to the Minister for approval. A letter is provided by the VISBGA to the School to advise of the recommendation.
Step 15	↑ ↓	If the Minister approves the recommended projects, the VISBGA will notify the successful schools and issue a Schedule to the Participant Agreement, which includes approved project details. Schools are required to sign and return the Schedules to the VISBGA.
Step 16		The VISBGA countersigns the Schedules and return copies to the schools, along with the following documents: <ul style="list-style-type: none"> ▪ Monthly Reporting Template; ▪ Independent Consultant Guidelines; ▪ Independent Consultant Certification; ▪ Guidelines for Tendering; ▪ Guidelines for Construction Management; and ▪ Project Delivery Details form.
Step 17		Monitoring Stage Schools commence submitting Monthly Progress and Expenditure Reports ("MPERs") to the VISBGA. MPERs include: <ul style="list-style-type: none"> ▪ Expenditure within the reporting period; ▪ Financial tracking; ▪ Actual / forecast milestone dates; and ▪ Any risks or issues identified.
Step 18		Schools commence the tender process (noting that schools may commence the tender process prior to receiving Ministerial Approval if schools wish to be able to commence construction earlier).

Overview of the Capital Grants Programme Administration

Step 19	↑ ↓	Schools submit Project Delivery Details forms with tender results and a recommended tenderer to the VISBGA for approval.
Step 20		The VISBGA provides written approval of the tenderer to the schools.
Step 21		Once a building contract is executed, the VISBGA disburses grant funding to schools based on MPERs on a monthly pro rata basis. Recipient created tax invoices are created for each payment and provided to schools.
Step 22	↑ ↓	The VISBGA withholds 10% of grant funding until schools submit a Close Out Report, including: <ul style="list-style-type: none"> ▪ Project Summary prepared by the Independent Consultant; ▪ Certificate of Occupancy / Certificate of Final Inspection; ▪ Final Expenditure Report; and ▪ Certificate by an Independent Qualified Accountant.
Step 23		The VISBGA pays the final disbursement and issues a letter to the school to acknowledge receipt of the Accountant's Certificate and advise that the project will now be acquitted with the Australian Government.
Step 24		For projects over \$100,000 schools must install a plaque and hold an opening ceremony, for projects under \$100,000 a schools can choose to install a plaque only.

In reference to the process outlined above we have set out a summary below of how applications are approved by the VISBGA:

Figure 2: Structure of application approval

Steps in process

Individual involved and role



VISBGA Board

- Comprised of 10 Board members.
- All VISBGA Board members participate in the assessments of schools' educational need.
- The two VISBGA Board members with financial backgrounds undertake the assessment of financial need.

VISBGA Secretariat

- Comprised of Company Secretary, General Manager, Capital Funding Manager, and Grants Administration Manager.
- Carries out administrative duties of VISBGA.

5 Key findings

5.1 Governance arrangements

The VISBGA has in place adequate documentation which outlines how its CGP funding process is carried out. The VISBGA also provides detailed guidelines and pro formas to schools at each stage of the process.

The VISBGA has the following process documentation, guidance material and pro formas in place:

- VIS BGA Ltd Directors' Manual;
- Participant agreement;
- Independent Consultant Guidelines;
- Project Implementation and Tendering Guidelines;
- Guidelines for Construction Management;
- Monthly Reporting Template;
- Independent Consultant Certification; and
- Project Delivery Details form.

The VISBGA has a conflict of interest risk management process, however does not have a documented conflict of interest register, policy or procedure.

VISBGA Board members may be affiliated with schools which have submitted applications through being:

- former principals;
- former business managers; or
- current school Board members.

Accordingly, it is important that perceived, potential and actual conflicts of interest are actively managed by the VISBGA.

When the VISBGA is organising which Board members will be conducting each school visit, it requests that Board members identify if any schools on the visit schedule would represent a conflict of interest. If a Board member declares a conflict of interest, the VISBGA ensures the Board member does not conduct that school visit.

However, the VISBGA does not:

- maintain a conflict of interest register;
- have a conflict of interest policy which defines perceived, potential and actual conflicts of interest; and
- have a document which outlines the above conflict of interest procedure.

Furthermore, the Board meeting minutes do not disclose how perceived, potential and actual conflicts of interest of Board members are dealt with during Board meetings.

The VISBGA should maintain a register of relationships with applicant schools (or any other potential conflicts of interest). The VISBGA should implement a conflict of interest policy and procedure which defines perceived, potential and actual conflicts of interest, and outlines how conflicts of interest are to be managed.

The Participant Agreement executed by schools is comprehensive and includes the required provisions specified in the CGP Guidelines.

Under the CGP Guidelines, each school is required to enter into a legally binding written agreement accepting to be bound by all requirements listed in the CGP Guidelines prior to receiving funding. The CGP Guidelines provide detailed guidance on specific conditions required to be contained in each agreement.

The VISBGA Participant Agreement appears to include all provisions contained in the CGP Guidelines ensuring schools are aware of and agree upon their obligations prior to receiving funding.

5.2 Selection and ranking of projects

Schools are notionally recommended for grants by the VISBGA Board based on detailed applications and school visits. School visits are undertaken for all applications by Board members and Secretariat staff.

Schools prepare detailed applications which include:

- a project description;
- ownership or leasing details;
- an explanation of how the proposed project addresses the Objectives;
- financial information and planned capital expenditure;
- audited financial statements;
- fee schedule;
- lease or land title documentation;
- insurance certificates;
- Maintenance policy;
- MOU with consultant (registered building practitioner or architect);
- information regarding area of existing facilities;
- historical and forecast enrolment numbers over a five year period;
- a cost plan summary based on Quantity Surveyor estimates;
- proposed timeframes; and
- a Feasibility report prepared by a qualified design consultant.

Applications are reviewed by the Secretariat for eligibility, quality and completeness. If an application meets these initial requirements, two Board members and two members of the Secretariat will undertake a visit to the school.

Based on the application and school visit, a Project Assessment Report is prepared by the Secretariat, the Board members who visited the school, and one of the Board members with a financial background. The Project Assessment Report includes:

- assessment of the school's:
 - financial viability;
 - financial need for the grant;
 - educational need for the project;
 - strategic direction and master plan; and
 - grant history;
- assessment of the project's:
 - compliance with building codes and town planning requirements;
 - cost planning;
 - delivery arrangements and proposed consultants;
 - proposed schedule; and
 - alignment to program objectives;
- preliminary recommendation to support or not support; and
- suggested grant amount.

Where applications are not recommended in the Project Assessment Report due to a lack of educational planning, we were advised schools may be able to apply for a grant under the CGP to assist with the preparation of a master plan.

The assessment of schools' financial need is undertaken by the two Board members with financial backgrounds. The financial assessment procedure is not documented, and each individual financial assessment is only documented at a high-level in the Project Assessment Report.

As part of the Project Assessment Report, one of the two Board members with financial backgrounds will assess the following:

- level of debt per student;
- financial assets and borrowing capacity;
- student fees and contributions;
- level of school contribution;
- school fundraising capacity; and
- school SES.

Based on the review of the sampled projects files, there appeared to be a general consideration of financial capacity of the schools, however we were unable to determine:

- what specific factors had been considered by the Board member (e.g. cash position, capacity to repay loan amounts); or
- the actual basis upon which the grant amount was calculated (e.g. excess of maximum loan amount).

Accordingly, while it appears the Board may carry out particular procedures to determine specific grant amounts, these procedures were not adequately documented.

The VISBGA should document the procedure used to assess the financial need of the school, specifically including detail regarding how the proposed grant amount is calculated. Detailed financial assessments for each application should be maintained on project file.

The Board makes recommendations for approval based on educational need, financial need and contribution to program objectives.

The Board considers schools' Project Assessment Reports, including a suggested grant amount, and provides notional approval to selected projects. Projects which receive notional support are instructed to prepare a Developed Design Report, which includes the finalisation of designs and costings.

After submission of the Developed Design Reports, any variations to projects and consequent variations to grant amounts are considered by the Board. The Board approves final grant amounts and the VISBGA's recommendations are provided to the Minister for consideration.

5.3 Financial systems and practices for acquitting project funds

VISBGA appears to have adequate controls to prevent misappropriation of grant funds prior to disbursement to schools.

The following process appears to be in place to release grant funds to schools:

- a school submits a Monthly Progress and Expenditure Report;
- the Capital Funding Manager confirms the MPER complies with requirements and confirms amount to be paid;
- the Grants Administration Manager prepares a recipient created tax invoice and adds the payment to the payment schedule;
- the Grants Administration Manager forwards the payment schedule and recipient created tax invoice to the ISV accounts payable team;
- the ISV accounts payable team enter the payments into the financial management system;
- two of the following delegated authorities approve each payment:
 - Chief Executive, ISV;
 - Finance Director, ISV;
 - Director of Strategic Relations, ISV;

- Company Secretary, VISBGA; or
- General Manager, VISBGA;
- the ISV accounts payable team process the payment.

Segregation of duties reduces the risk of fund misappropriation and multiple stages of review reduces the risk of input errors in payment information not being detected.

VISBGA pays grant funds to schools on a pro rata basis throughout the life of the project. This reduces the risk the project will not be successfully completed.

Schools are paid on a pro rata basis once the Monthly Progress and Expenditure Report is submitted to the VISBGA (e.g. if the grant is for 10% of the total project cost, 10% of the amounts reported in the MPERs would be disbursed). The VISBGA will disburse all grant funding on this basis except for the final 10%, which it retains until all completion documentation is provided by the school to the VISBGA.

This pro rata basis reduces the risk of projects not being completed.

Grant payments are made based on Monthly Progress and Expenditure Reports signed off by an independent consultant. The VISBGA does not obtain any underlying invoices to substantiate grant payments.

Monthly Progress and Expenditure Reports outline the following:

- actual expenditure for the month and to date;
- anticipated expenditure to project completion;
- a general progress summary;
- forecast and actual milestone dates; and
- risk and issues update.

The consultant engaged by the school (refer to Section 5.4 for details) certifies each MPER as true and correct. The VISBGA does not obtain any underlying invoices to substantiate the amounts stated in the MPERs. Accordingly, the VISBGA is reliant on the schools' consultants to ensure grant funding is expended on the purpose for which it was provided.

The VISBGA should obtain copies of supporting documentation (e.g. main builder's progress payment invoices) to substantiate the majority (if not the entirety) of the project expenditure claimed in each Monthly Progress and Expenditure Report.

Schools are required to engage an accountant upon project completion to certify the total amount expended on the project and to confirm that an amount equal to the total grant was expended on the project.

The accountant is required to be:

- a Certified Practising Accountant or Chartered Accountant;
- not an employee of the school or School Authority; and
- not a Council Member or Director of the school.

The accountant completes the Certificate by an Independent Qualified Accountant upon project completion. This Certificate requires the accountant to examine the books and financial documents of the school to their satisfaction in order to certify:

- the project was completed;
- the amount paid to the school for the project to date;
- the amount of the grant to be paid to the school on acquittal;
- the total amount expended on the approved project;
- the amount equal to the total grant has been expended on the project; and
- the project has been insured for all normal risks to protect the full value of the grant.

The VISBGA does not specify what procedures the accountants should carry out in order to certify the project expenditure. Based on the Certificate by an Independent Qualified Accountant, it is unclear whether an accountant would consider it necessary to examine:

- the school's bank statements;
- the school's financial management system; and
- any invoices related to the project.

Accordingly, only limited reliance can be placed on the Certificate by an Independent Qualified Accountant.

The VISBGA should specify what procedures the accountants must undertake in order to certify project expenditure, and include these requirements in the Certificate by an Independent Qualified Accountant.

5.4 Project monitoring

The VISBGA requires schools to formally engage a consultant to oversee the project and sign off on all Monthly Reports.

Schools must appoint a consultant to supervise and oversee all aspects of the project. The consultant must:

- be a Victorian Registered Building Practitioner or Architect;
- have the appropriate skills, experience and qualifications to oversee the project;
- not be an employee or officer of the Approved Authority or the School;
- not be an employee or officer of any contractors or other persons carrying out work on the construction of the project; and
- have an acceptable level of professional indemnity and public liability insurance.

The contract under which schools engage consultants must:

- be based on the Australian Standard contracts;
- clearly state the responsibilities of the parties to the contract; and
- include the condition that the consultant will ensure that the terms and conditions of all contracts with other contractors are complied with.

The consultant's duties include, but are not limited to:

- assist the school with the submission of its CGP application;
- in conjunction with the school, manage the tender process and select the successful tenderer;
- ensure appropriate contracts are executed between the school and contractors;
- collate the project construction requirements including budget and timeframes;
- certify all claims for payment by contractors and consultants;
- prepare and endorse Monthly Progress and Expenditure Reports to be submitted to VISBGA; and
- provide an executed statement of project completion and final project cost.

We were advised that for many projects, the consultant will often have a prior relationship with the school through previous CGP projects or other capital works. The VISBGA is not involved in the selection of the consultant, however schools must propose a consultant to the VISBGA during the application process for VISBGA approval. We were advised that if the VISBGA was concerned with a proposed consultant, it would likely suggest to the school that it select a different consultant. If the VISBGA was concerned that an appointed consultant was not acting in accordance with the VISBGA requirements, then it would appoint a more appropriate consultant on behalf of the school to fulfil the role. These actions were not carried out in relation to any of the projects selected in our sample, however we were advised that the VISBGA has previously carried out these actions in relation to other projects.

Monthly Progress and Expenditure Reports are the only formal project monitoring documentation required from schools. Schools must provide these reports to the VISBGA from approval to acquittal of the project.

MPERs are provided to the VISBGA every month from approval of the project to its acquittal, irrespective of whether a grant disbursement is being claimed.

Whilst there are no scheduled physical checks of project status during construction, the VISBGA maintains close working relationships with the schools, and we identified frequent emails with schools on project files. Furthermore, we were advised that the VISBGA will carry out physical checks if concerns with the Monthly Reports arise during construction.

Requiring schools to provide evidence of physical project status prior to approving progress payments may provide further confidence that the project is progressing in accordance with the approved plans.

The VISBGA should request progress photographs as part of the Monthly Progress and Expenditure Report process to confirm project progress. Progress photos should be kept on file.

5.5 Records management

The electronic and physical documents reviewed were in good order and readily accessible.

The VISBGA maintains detailed records, with documentation for each project kept in individual files and files were in good order. The bulk of the records on file relate to the application assessment, project commencement, payment and completion.

However it is noted that the VISBGA does not currently obtain copies of the executed contracts between the school and the consultant or builder.

The VISBGA should retain copies of relevant contracts (such as with consultants and builders) for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.

VISBGA does not actively obtain evidence from schools that recognition requirements were met.

The VISBGA notifies the school of the recognition requirements as the project nears completion. However, the VISBGA does not currently actively obtain photographs of plaques and copies of invitations to opening ceremonies. It is noted that the CGP Guidelines state "BGAs should ensure schools are aware of their obligations concerning recognition and should monitor their compliance." We were advised that the VISBGA intends to improve its monitoring activities in regards to the recognition requirements.

The VISBGA should obtain photographs of plaques and copies of invitations to opening ceremonies (where applicable) to ensure schools comply with recognition requirements.

VISBGA retains 10% of grant funds until all completion documentation is received in order to provide incentive for schools to complete their documentation promptly.

The final grant payment of 10% of the grant amount is retained until the VISBGA receives the following documentation:

- Project Summary prepared by the Independent Consultant;
- Certificate of Occupancy / Certificate of Final Inspection;
- Final Expenditure Report; and
- Certificate by an Independent Qualified Accountant.

This encourages schools to submit project completion documentation in a timely manner.

6 Conclusion

The VISBGA maintains a close working relationship with member schools in administering the Program and all records and files were kept in good order.

In light of the findings set out this report, we have made the following recommendations for the VISBGA and the Department to consider:

- The VISBGA should maintain a register of relationships with applicant schools (or any other potential conflicts of interest). The VISBGA should implement a conflict of interest policy and procedure which defines perceived, potential and actual conflicts of interest, and outlines how conflicts of interest are to be managed.
- The VISBGA should document the procedure used to assess the financial need of the school, specifically including detail regarding how the proposed grant amount is calculated. Detailed financial assessments for each application should be maintained on project file.
- The VISBGA should obtain copies of supporting documentation (e.g. main builder's progress payment invoices) to substantiate the majority (if not the entirety) of the project expenditure claimed in each Monthly Progress and Expenditure Report.
- The VISBGA should specify what procedures the accountants must undertake in order to certify project expenditure, and include these requirements in the Certificate by an Independent Qualified Accountant.
- The VISBGA should request progress photographs as part of the Monthly Progress and Expenditure Report process to confirm project progress. Progress photos should be kept on file.
- The VISBGA should retain copies of relevant contracts (such as with consultants and builders) for file completeness, particularly as it may become difficult to obtain this documentation from other parties if required after project completion.
- The VISBGA should obtain photographs of plaques and copies of invitations to opening ceremonies (where applicable) to ensure schools comply with recognition requirements.

Block Grant Authority

Catholic Education Commission of Western Australia BGA

14 June 2017



McGrathNicol

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1 Glossary

Glossary

Name	Description
BGA	Block Grant Authority
Capital Development Consultants	Primarily responsible for assisting schools with planning for future capital needs. Capital Development Consultants prepare, evaluate and present Capital Development Plans to the SRC. Capital Development Consultants also monitor ongoing capital projects and assist schools to resolve any issues which arise during the course of the project.
CECWA	Catholic Education Commission of Western Australia
CGP	Capital Grants Program for Non-government Schools
Department	Department of Education and Training
Objectives	The objectives of the CGP
Operating Manual	CGP Operating Manual 2016
Participant Agreement	Agreement between the school and the WA Catholic BGA entered into prior to the advancement of any grant funds
Requirements	Requirements under the CGP Operating Manual 2016, Australian Education Act 2013 and Australian Education Regulation 2013
SRC	School Resources Committee
WA Catholic BGA	Catholic Education Commission of Western Australia Block Grant Authority (incorporated name Catholic Education Commission of Western Australia Trustees Association Incorporated)

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of WA Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of WA Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program (CGP) for Non-government Schools is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the WA Catholic BGA. The review examines the efficiency and effectiveness of the WA Catholic BGA in administering the CGP and evaluates the WA Catholic BGA's compliance with key areas of the Requirements.

The review will be conducted in the context of the Requirements which govern the administration of the program.

In reviewing the WA Catholic BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the WA Catholic BGA;
- meetings and discussions with representatives of the WA Catholic BGA, in particular:
 - s 47F ;
 - s 47F
- information obtained during our site visits to the offices of the WA Catholic BGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of the WA Catholic BGA.

Provided below is a listing of the sample case files selected for the review testing:

Table 1: List of sample case files

WA Catholic BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2014/13781/1	St Mary Mackillop College	576,562
2013/13635/1	Ursula Frayne Catholic College	318,290
2013/08785/1	Aranmore Catholic Primary School	175,879
2013/00230/1	St Vincent's School	900,185
2013/00165/1	St Gerard's School	906,597
2013/00224/1	St Peter's Primary School	124,292
<i>New projects</i>		
2016/77658/1	Bunbury Catholic College	3,450,000
2016/27905/1	Holy Cross College	3,450,000
2016/02157/1	Queen of Apostles School	700,000
2016/30059/1	St John Bosco College	1,600,000
2016/00200/1	St Maria Goretti's Catholic School	900,000
2016/02713/1	Whitford Catholic Primary School	304,968
2016/00163/1	Xavier Catholic School	600,000

3.4 Findings

3.4.1 Governance arrangements

The WA Catholic BGA has well documented processes and procedures which provide a transparent overview of the activities of the BGA.

Conflict of interest risk management processes are in place which reduce the threat of conflicts impacting the selection process and schools are required to notify the WA Catholic BGA of any conflicts which arise.

Participant agreements are comprehensive and provisions specified in the Operating Manual were contained in the Conditions of Funding.

3.4.2 Selection and ranking of projects

Schools are required to maintain long term Capital Development Plans and applications for grants are required to be consistent with these plans or the plans amended. School visits are undertaken to ensure current facilities are being maintained, to review suitability and need for the proposed project and discuss potential cost savings.

Optional information sessions and ongoing support from Capital Development Consultants reduce the risk of schools not providing sufficiently detailed applications or not meeting their ongoing obligations following project approval.

The WA Catholic BGA uses a detailed application process which considers a broad range of factors designed to prevent funds being advanced to schools that do not have a high level of educational or financial need or projects that are not well designed.

Financial viability is monitored on an ongoing basis and documentation on file demonstrates an active assessment of a school's capacity to pay, calculated based on assets available and projected revenue. This amount is then adjusted for other relevant factors based on the judgement of the WA Catholic BGA.

Projects are costed using standardised costing and Quantity Surveyors are engaged during the application process to provide more reliable cost estimates.

Whilst schools with an additional governing authority comprise a relatively small proportion of the WA Catholic BGA's member schools, we identified some examples of applications being made and capital grants being advanced to these schools.

3.4.3 Financial systems and practices for acquitting project funds

The WA Catholic BGA implements controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple staff required prior to payment being made.

The WA Catholic BGA reduces financial viability risk by requiring schools to expend their internal contribution in full prior to receiving grant funding and paying progress claims on presentation of paid invoices.

3.4.4 Project monitoring

The WA Catholic BGA requires a strong tender process with comprehensive documentation detailing how contractors are selected identified on each file. The WA Catholic BGA also undertakes due diligence to ensure contractors are reputable and financially viable.

Ongoing projects are closely monitored, by Capital Development Consultants who (in addition to other responsibilities) regularly monitor project progress from commencement to completion, enabling early identification of risks or issues.

Schools provide comprehensive documentation to support requests for each grant payment.

3.4.5 Records management

The WA Catholic BGA retains \$1,000 of grant funds until the notice of practical completion is provided to the BGA. A post completion audit is undertaken by Capital Development Consultants to ensure the works undertaken align with the approved project.

Whilst the majority of documentation reviewed was in good order and readily accessible, a number of documents were not collected or retained by the WA Catholic BGA and were requested from architects engaged to manage projects.

3.5 Recommendations

In light of the above findings, we have made the following recommendations for the WA Catholic BGA and the Department to consider:

- when school principals of applications leave the room whilst the application is discussed by the Assessment Panel and SRC, this is documented in the minutes;
- the WA Catholic BGA ensure that it retains copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation if required after project completion; and
- the WA Catholic BGA retain the final \$1,000 until all completion documentation is submitted to provide an incentive for schools to submit this documentation in a timely manner.

4 Background

4.1 Overview of the Capital Grants Program for Non-government Schools and role of the WA Catholic BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The Catholic Education system in Western Australia provides education for approximately 72,000 students in 163 schools and colleges across Western Australia. These schools belong to four dioceses and 12 schools which are members of the WA Catholic BGA have a separate governing authority.

The Catholic Education Commission of WA (CECWA) currently has 14 members and who are appointed by the Bishops of Western Australia. The CECWA has a standing committee, the School Resources Committee which has responsibility for management of the Capital Grants Program.

The WA Catholic BGA is able to fund capital projects in schools through:

- the Capital Grants Program;
- state government low interest loans; and

- the WA Catholic BGA's Capital Development Fund.

The funding mix is determined taking into account the school's:

- SES score; and
- ability to service additional debt.

The WA Catholic BGA utilises a number of documents and reference materials to administer the CGP. Provided below is summary of the key internal and external documents that shape the delivery of the WA Catholic BGA's CGP:

Table 2: Documented policies, procedures and guidance materials

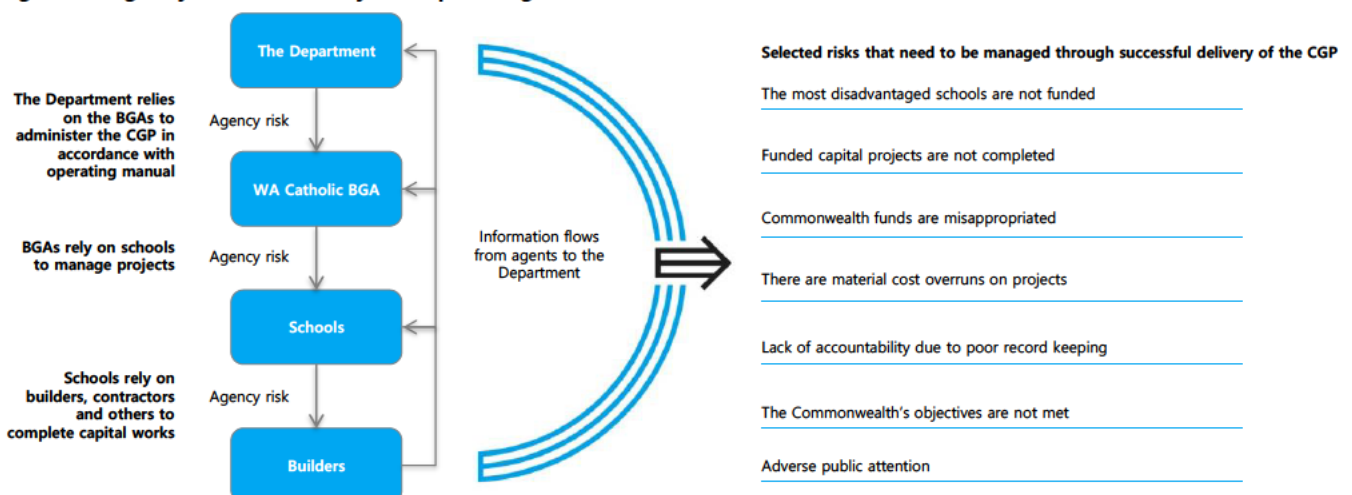
Documented policies, procedures and guidance materials	
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> ▪ <i>Australian Education Act 2013</i> ▪ <i>Australian Education Regulation 2013</i>
Regulatory guidance material	<ul style="list-style-type: none"> ▪ CGP Operating Manual 2016
WA Catholic BGA policy documents	<ul style="list-style-type: none"> ▪ Processes and Procedures Manual – 2017 Schedule ▪ Debt Servicing Income and Assistance Policy ▪ Administrative Procedures ▪ Guidelines for Considering Applications
WA Catholic BGA policy documents for schools	<ul style="list-style-type: none"> ▪ Conditions of Funding ▪ Capital Planning and Development Policy
WA Catholic BGA guidance materials	<ul style="list-style-type: none"> ▪ Recognition Requirements Booklet

In our dealings with the representatives of the WA Catholic BGA, we found them to be well aware of the particular requirements of the WA Catholic BGA and the schools and can articulate their obligations clearly. Furthermore, the WA Catholic BGA internal policy documents, policy documents for schools and guidance material are comprehensive, and aligned and broadly consistent with the legislation, regulation and the Capital Grants Program Operating Manual.

4.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP



4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

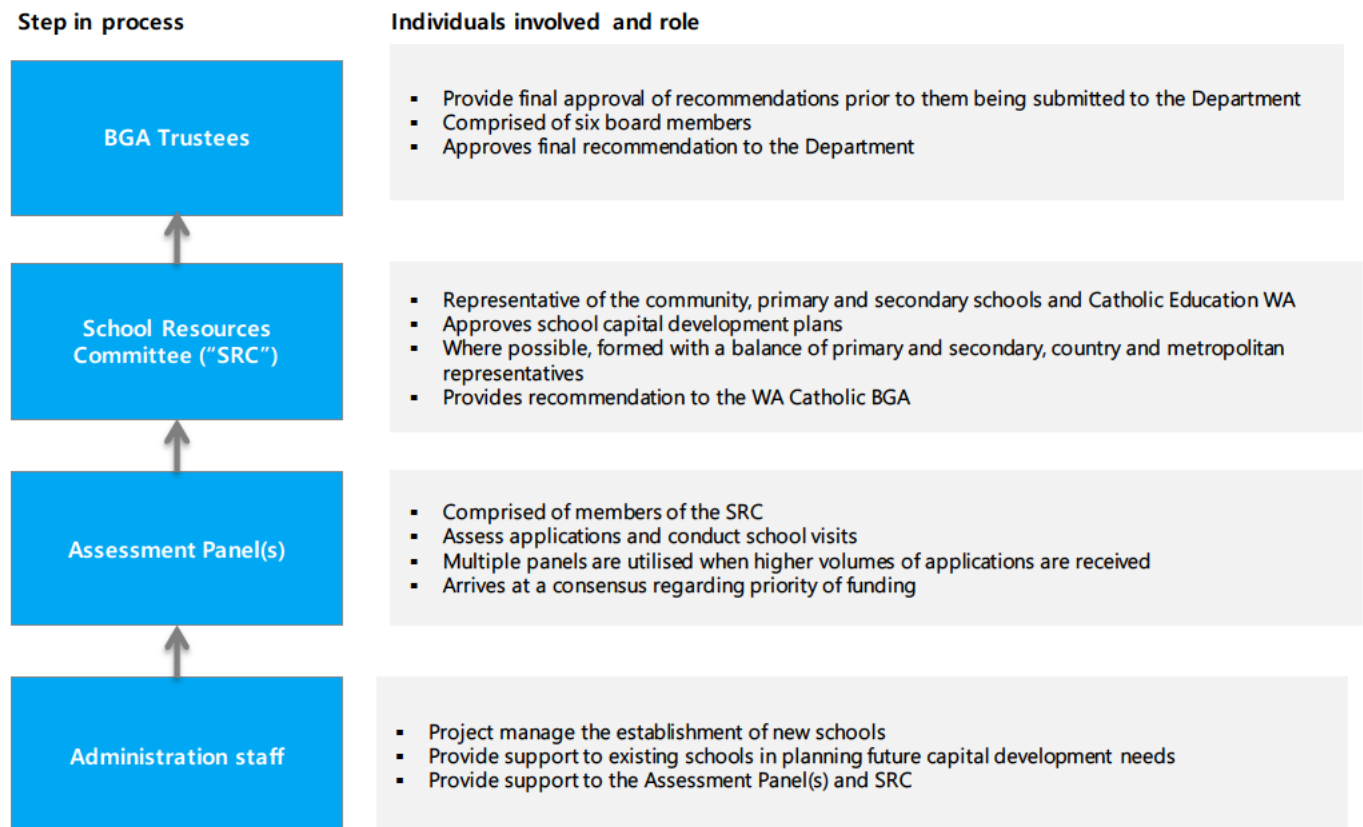
The annual CGP is administered on an ongoing basis by the WA Catholic BGA. We have sought to summarise the key steps taken in the table below:

Table 3: Overview of the Capital Grants Program Administration

Overview of the Capital Grants Program Administration		
Step	Stage	Milestone
Step 1	Application process	Application forms made available to schools
Step 2		School completes application form and arranges preparation of sketch plans.
Step 3		Preliminary cost indication prepared by a Quantity Surveyor from a list of three approved firms.
Step 4		If application inconsistent with Capital Development Plan, this will need to be amended or completed and approved by the SRC.
Step 5		CEC Resources team prepares costing, financial and socio economic data for school.
Step 6		Assessment panel meets to discuss project in advance of visit where a project is considered complex.
Step 7		Schools are notified of their interview or visit.
Step 8		Information sessions held for schools.
Step 9		Financial information summary sheet is given to schools to provide an opportunity to interpret and comment on information.
Step 10		Members of assessment panel visit and interview each applicant school. Where a school has been visited a number of times and is well known to the panel an interview may be arranged as an alternative. The visiting panel members complete the School Interview Report and provide guidance on the scope of the proposed development. Part of the School Interview Report is executed by the school to confirm the report is an accurate record of the school visit.
Step 11		Assessment panel reviews projects and provides rankings, recommended funding amounts and time frames.
Step 12		Ranked list of projects recommended for funding provided for approval to SRC, CECWA, WA Catholic BGA and Department.
Step 13		Detailed costing obtained from Quantity Surveyor.
Step 14		List of projects recommended for funding provided to Catholic Education Commission of Western Australia.
Step 15		Recommendation letters mailed to schools.
Step 16		Schools required to respond to notices accept and agree to be bound by recommendations and conditions and/or give notice of intention to appeal the recommendation.

Overview of the Capital Grants Program Administration

Step 17	↑ Application process	BGA trustees meet to consider recommendations, schedule of recommended projects submitted to Department of Education.
Step 18		WA Catholic BGA provides letter containing provisional grant allocation and Acceptance of the Building Project Processes and Procedures Manual to school for execution.
Step 19	↓ ↑ Monitoring stage	School executes Acceptance of the Building Project Processes and Procedures Manual.
Step 20		WA Catholic BGA issues Go to Working Drawings Letter.
Step 21		Quantity Surveyor prepares pre tender cost estimates.
Step 22		If pre tender cost estimates are within budget, schools obtain tenders by public tender. At least six tenders (four for regional areas) are required. Approval from the BGA required if public tender is not used.
Step 23		Results of tender form provided by the School to the WA Catholic BGA.
Step 24		WA Catholic BGA approves recommended tender.
Step 25		School board accepts tender.
Step 26		Based on an assessment of the level of support required, Capital Development Consultants attend site meetings as often as fortnightly and also has phone and email contact with school and architect.
Step 27		Progress claims are submitted for reimbursement by the WA Catholic BGA.
Step 28		Post completion evaluation of the projects design and effectiveness of the process is undertaken.
Step 29	↑ Finalisation and completion	Post occupancy audit is undertaken by Capital Development Consultants.
Step 30		Notice of practical completion provided to WA Catholic BGA.
Step 31		Final \$1,000 released.
Step 32		Accountability documents submitted by the school to the WA Catholic BGA.

Figure 2: Structure of application approval

We have been advised that if any principals from schools in current application rounds are on the assessment panel or SRC, they leave the room when that particular application is being discussed. This is not currently documented in the minutes.

The SRC is formed from the following members:

- Chair appointed by CECWA from existing SRC members;
- Deputy Chair appointed by CECWA;
- Member of Executive – CFO of CEOWA;
- Director's Representative – Chief Strategy and Governance Officer CEOWA;
- Team Leader, Resources CEOWA;
- Archdiocesan Financial Administrator;
- one primary principal nominated by the Catholic Primary Principals' Association;
- one self-nominated primary principal appointed by CECWA;
- one secondary principal nominated by the Catholic Secondary Principals' Association;
- one self-nominated secondary principal appointed by CECWA;
- parent or community member nominated by the Parents & Friends' Federation of WA; and
- three other members with areas of expertise required nominated by the CECWA.

We have been advised by the WA Catholic BGA that the appointment process is not recorded in minutes.

5 Key findings

5.1 Governance arrangements

The WA Catholic BGA has well documented processes and procedures which provide a transparent overview of the activities of the BGA.

Detailed policy and process documents (which are made available to member schools) provide transparency on how the Capital Grants Program is administered and decisions are made.

Conflict of interest risk management processes are in place which reduce the threat of conflicts impacting the selection process and schools are required to notify the WA Catholic BGA of any conflicts which arise.

The WA Catholic BGA has a documented conflict of interest policy. In accordance with this policy, in order to mitigate risk of conflict of interest impacting the selection and ranking process, assessment panel members do not visit their own schools as part of the selection and ranking process.

We have been advised by the WA Catholic BGA that school principals of applications being assessed leave the room whilst that particular application is being discussed. This is not currently documented in the minutes.

As part of the Conditions of Funding schools agree to notify the WA Catholic BGA of any perceived or actual conflict of interest and notify the WA Catholic BGA of how it is resolved in writing. We did not identify any examples of potential conflicts being identified by schools and reported to the WA Catholic BGA on the files reviewed.

We recommend that when school principals of applications leave the room whilst the application is discussed by the Assessment Panel and SRC, this is documented in the minutes.

Participant agreements are comprehensive and provisions specified in the Operating Manual were contained in the Conditions of Funding.

Each school is required to sign an acceptance to be bound to the Conditions of Funding prior to receiving funding. The Operating Manual provides detailed guidance on specific information required to be contained in each agreement.

The Conditions of Funding document is comprehensive and contained all conditions specified in the Requirements.

5.2 Methodology to determine eligibility and ranking of projects

Schools are required to maintain long term Capital Development Plans and applications for grants are required to be consistent with these plans or the plans amended. School visits are undertaken to ensure current facilities are being maintained, to review suitability and need for the proposed project and discuss potential cost savings.

Schools maintain strategic Capital Development Plans for a period of at least five years which are required to be approved by the SRC. Any application for funding is then assessed within the framework of the CDP and any variances reviewed. This ensures that any projects undertaken are consistent with long-term strategy and enrolment projections and patterns for the school and applications can be considered with reference to future stages.

The costs of master planning and initial planning for Capital Development Plans are met by the school. The WA Catholic BGA has advised that they have not had any instances and are not aware of any circumstances where a school has been unable to meet the costs of the Capital Development Planning process.

Applicant schools are visited by members of the assessment panel prior to completion of the assessment and prioritisation of applications. A detailed school interview report is completed to ensure that schools are assessed using a consistent framework. Careful consideration is given to how a proposed project fits into long term plans and projections for each school.

Optional information sessions and ongoing support from Capital Development Consultants reduce the risk of schools not providing sufficiently detailed applications or not meeting their ongoing obligations following project approval.

The WA Catholic BGA holds annual information sessions to communicate to schools who have submitted applications their obligations under the program and provide guidance on the process generally. These information sessions are not mandatory, however we have been advised by the WA Catholic BGA that all applicant schools usually attend.

In addition, Capital Development Consultants through the application process and Schools are provided detailed guidance materials to assist with preparing Capital Development Plans and applications.

The WA Catholic BGA uses a detailed application process which considers a broad range of factors designed to prevent funds being advanced to schools that do not have a high level of educational or financial need or projects that are not well designed.

The following documents are reviewed by assessment panel members when assessing applications:

- school's Capital Funding Assistance Form;
- school's Capital Development Plan;
- Quantity Surveyor prepared costing for the proposed building project;
- sketch plans;
- enrolment details;
- five year maintenance plan;
- evidence of school's insurance cover for buildings and contents;
- school's fee brochure;
- school's financial information (proposed school's cash contribution); and
- Debt servicing assistance data.

A combination of factors is used to determine the ranking of projects including:

- SES score;
- the urgency of works to be undertaken;
- school specific issues including the number of:
 - indigenous students;
 - students who speak English as a second language;
 - students with low income families (health care card recipients);
- financial information including:
 - financial statements;
 - debt servicing sheets;
 - existing loans;
 - % of recurrent income;
 - budget for following year; and
- other relevant factors raised during interviews.

Financial viability of schools is monitored on an ongoing basis and documentation on file shows an active assessment of a school's capacity to pay, calculated based on assets available and projected revenue. This amount is then adjusted for other relevant factors based on the judgement of the WA Catholic BGA.

Whilst financial viability assessment is not undertaken at the time applications are assessed, the WA Catholic BGA monitors financial viability of all member schools on an ongoing basis through:

- half yearly and yearly budget reviews;
- annual financial statement reviews; and
- twice yearly census (containing enrolment information).

The WA Catholic BGA assess financial viability of a school prior to:

- preparation of a Capital Development Plan;
- allowing the school to undertake any capital projects (funded by the CGP or other means); and
- allowing an application for capital funding.

As such, a school must meet financial viability assessment at multiple stages prior to being recommended for funding under the CGP.

The WA Catholic BGA have advised that they have not had any examples of schools closed as a result of insolvency but there have been some cases where a school was closed due to changing enrolment patterns.

Financial viability risk is further mitigated as the School Resources Committee makes financial assistance available to schools to service debt and liabilities of schools are guaranteed by the relevant bishop or archbishop. This increases the total funding available to schools who can borrow additional funds which they may not have access to without this support.

The schools contribution is initially calculated as a formula based on available assets and fee revenue. This contribution amount may then be adjusted based on other relevant factors such as existing commitments and loans which require servicing.

The availability of funding from other sources (for example, state government low interest loans and the WA Catholic BGA's Capital Development Fund also provides some further flexibility for the WA Catholic BGA in allocating Capital Grants, and, as a result, the required school contribution).

Projects are costed using standardised costing and Quantity Surveyors are engaged during the application process to provide more reliable cost estimates.

Projects are costed using State Government area standards and standard furniture schedules and costs.

A Quantity Surveyor from a list of three approved firms is engaged to provide detailed cost estimates to improve the reliability of cost estimates when assessing funding requirements.

Whilst the costs of projects were broadly in line with Quantity Surveyor estimates, where additional funds were required due to changes in scope or additional costs, these were met by other sources, so additional funds were not sought from the Department.

Whilst schools with an additional governing authority comprise a relatively small proportion of the WA Catholic BGA's member schools, we identified some examples of applications being made and capital grants being advanced to these schools.

Twelve schools which belong to the CECWA and WA Catholic BGA, also have another governing authority.

Of these twelve schools:

- Catholic Agricultural College, Bindoon (2010/15658/1) received a grant of \$190,514 in 2010; and
- s 47G made an application for funding in the 2015 funding schedule but was unsuccessful as the project was not assigned a high priority.

We have been advised by the WA Catholic BGA that many of these schools with a separate governing authority currently have facilities over and above State Government area standards.

5.3 Financial systems and practices for acquitting project funds

The WA Catholic BGA implements controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple staff required prior to payment being made.

The following process is undertaken to release funds to schools:

- the Finance and Funding Officer reviews the payment request from schools in conjunction with invoices and progress certificates and provides authorisation;
- the WA Catholic BGA finance department uploads the payment;
- the payment is signed by the Finance and Funding Officer and Team Leader prior to the uploaded payment being released; and
- a memorandum is issued to the school providing details of the payment made and the balance of the approved grant remaining.

The WA Catholic BGA reduces financial viability risk by requiring schools to expend their internal contribution in full prior to receiving grant funding and paying progress claims on presentation of paid invoices.

Funding is advanced to schools on an as-needs basis. This funding is usually paid:

- after an invoice is issued to the school prior to payment becoming due if the school has insufficient funds; or
- after payment on the invoice has been made by the school.

Documentation submitted to the WA Catholic BGA prior to funds being advanced includes:

- architect sign off and/or QS sign off;
- claim form; and
- invoices.

Schools are required to expend their contribution to the project in full before receiving funding from the WA Catholic BGA.

Payments are made in stages to reduce the risk of funds being misappropriated or projects not being completed.

The requirement for the school to expend its contribution first also assists in reducing the risk of projects not being completed due to schools being financially unviable or schools not having sufficient funds to meet their contribution.

We identified on one file where grant funds were advanced to the school on presentation of invoices prior to the school using its contribution first as the school had insufficient cash flow to meet the upfront cost. This shows that the WA Catholic BGA is sensitive to the circumstances of individual schools and provides a more flexible approach when required. This can be authorised by the Resources Team Leader when required.

5.4 Project monitoring

The WA Catholic BGA requires a strong tender process with comprehensive documentation detailing how contractors are selected identified on each file. The WA Catholic BGA also undertakes due diligence to ensure contractors are reputable and financially viable.

Each project is required to obtain tenders and a summary of the tenders received and methods of advertising for tenders is provided to the WA Catholic BGA in a Results of Tender form.

In each test file reviewed, the lowest cost tender was selected.

Whilst copies of all tenders are not on file, sufficient detail is set out to enable the WA Catholic BGA to contact the tenderer (if required) and understand the breakdown of total estimated project costs.

The WA Catholic BGA has recently moved from undertaking their own review of contractors to engaging a third party. The cost of this due diligence is included in the project cost.

Ongoing projects are closely monitored, by Capital Development Consultants who (in addition to other responsibilities) regularly monitor project progress from commencement to completion, enabling early identification of risks or issues.

We have been advised by the WA Catholic BGA that Capital Development Consultants monitor progress on projects by either attending physical sites for meetings on a monthly or fortnightly basis or liaising with architects and reviewing minutes from regular site meetings.

This enables identification of any potential issues/delays on projects at an early stage and ensures the WA Catholic BGA is well informed of progress.

We have been advised that the total costs of utilising Capital Development Consultants are:

- salary costs of approximately \$125,000 per annum; and
- travel costs for school visits of approximately;
 - \$850 for remote schools;
 - \$210 for outer regional schools; and
 - \$38 for major city schools.

The utilisation of Capital Development Consultants is an effective way of mitigating risks of projects not progressing as planned and ensuring issues with projects are identified at an early stage.

Schools provide comprehensive documentation to support requests for each grant payment.

Schools provide copies of supplier invoices/progress claims to support requests for each grant payment. Funds are either advanced after the school has made these payments or if the school does not have sufficient funds to meet these costs, funds are paid after the invoice is issued to the school.

Architects are also required to review contractor/builder invoices and provide sign-off. We identified examples of architects reducing the value of claims made where appropriate, saving costs for the project.

5.5 Records management

Whilst the majority of documentation reviewed was in good order and readily accessible, a number of documents were not collected or retained by the WA Catholic BGA and were requested from architects engaged to manage projects.

Copies of a number of documents which are reviewed as part of our sample file testing were not readily accessible by the WA Catholic BGA, but were requested from the relevant architects. These included:

- agreements between the school and the architect;
- agreements between the school and the builder;
- notification of Development Application approval; and
- as constructed drawings for completed projects.

The majority of these documents were made available to us following a request to the WA Catholic BGA to collate these documents, with the following exceptions:

Table 4: Overview documents not provided

Overview of the Capital Grants Program Administration	
Project	Comments regarding documentation
2014/13781/1	Unable to locate contract between school and builder
2013/13635/1	Unable to locate contract between school and builder
2013/00230/1	Unable to locate architect agreement
2013/00224/1	Unable to locate contract between school and builder
2016/30059/1	Unable to locate architect agreement
2016/02713/1	Unable to provide architect agreement, contract between school and builder or development application approval due to architect illness.

We recommend that the WA Catholic BGA retain copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation if required after project completion.

The WA Catholic BGA retains the final \$1,000 of grant funds until the notice of practical completion is provided to the BGA. A post completion audit is undertaken by Capital Development Consultants to ensure the works undertaken align with the approved project.

\$1,000 is retained until the notice of practical completion is submitted. This provides schools with an incentive to submit this documentation in a timely manner.

The following documentation is submitted following release of the final \$1,000 retention:

- architects statement of final costs; and
- accountant's certificate.

A post completion audit is undertaken by Capital Development Consultants to ensure that the capital works undertaken align with the approved project.

Whilst we did not identify any issues with schools providing completion documentation on test files, we recommend that the WA Catholic BGA retain the final \$1,000 until all completion documentation is submitted to provide an incentive for schools to submit this documentation in a timely manner.

6 Conclusion

The WA Catholic BGA has strong internal policies and procedures and provides close support and monitoring to schools through all stages of the process of applying for capital grants and completing projects with regular progress checks.

We have made the following recommendations for the WA Catholic BGA and the Department to consider:

- when school principals of applications leave the room whilst the application is discussed by the Assessment Panel and SRC, this is documented in the minutes;
- the WA Catholic BGA ensure that it retains copies of all key agreements and documents for file completeness, particularly as it may become difficult to obtain this documentation if required after project completion; and
- the WA Catholic BGA retain the final \$1,000 until all completion documentation is submitted to provide an incentive for schools to submit this documentation in a timely manner.

Block Grant Authority

AIS WA Capital Grant Association

6 June 2017



McGrathNicol

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1 Glossary

Glossary	
Name	Description
BGA	Block Grant Authority
CGP	Capital Grants Program for Non-government Schools
Department	Department of Education and Training
EOI	Expression of interest
WA Independent BGA	The Association of Independent Schools of Western Australia (AISWA) Capital Grant Association
Objectives	The objectives of the CGP
Operating Manual	CGP Operating Manual 2016
Participant Agreement	Agreement between the school and the WA Independent BGA entered into prior to the advancement of any grant funds
Requirements	Requirements under the CGP Operating Manual 2016, Australian Education Act 2013 and Australian Education Regulation 2013
SEP	School Entry Point – the online system through which BGAs provide information to the Department

2 Disclaimer

Restrictions on use

This report has been prepared for the Department of Education and Training ("the Department") under the instruction of the Capital Funding Team of the Schools Assurance Branch for the provision of WA Block Grant Authorities.

This report should not be disclosed, be reproduced in whole or in part or supplied to any other party, without our consent in writing. It may not otherwise be reproduced in whole or in part supplied, without our consent in writing.

We have carried out a review of WA Block Grant Authorities in accordance with the Official Order. McGrathNicol has not carried out an audit, nor have we verified any of the information given to us by the Department and the identified service provider, except where expressly stated. We have relied upon assurances from the identified service provider as to the accuracy of the information provided.

The scope of our work is different to that of an audit and it cannot be relied upon to provide the same level of assurance.

We highlight that our work, by necessity, has involved sampling transactions and selected reports rather than looking at all information that may exist. Accordingly, our findings and conclusions are based on the sample of information reviewed.

Limitations

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person or organisation, other than the Department in respect of the information set out in this report, including any errors, omissions or negligence however caused.

3 Executive summary and recommendations

3.1 Introduction

The Capital Grants Program (CGP) for Non-government Schools is an Australian Government program, administered by the Department of Education and Training. The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources.

The objectives of the CGP are to:

- provide and improve school capital infrastructure, particularly for the most educationally disadvantaged students;
- ensure attention to refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment trends; and
- pursue the Commonwealth's other priorities and objectives for schooling.

Funding can be used for a wide range of infrastructure projects from the planning to the fit out stage. Typically, projects funded include school master-planning, classroom and other facility construction or refurbishment and the upgrading of IT or electrical services.

3.2 Scope

We have undertaken an operational review of the administration of the CGP by the WA Independent BGA. The review examines the efficiency and effectiveness of the WA Independent BGA in administering the CGP and evaluates the WA Independent BGA's compliance with key areas of the Requirements.

The review will be conducted in the context of the Requirements which govern the administration of the program.

In reviewing the WA Independent BGA we have focused on:

- Governance arrangements;
- Methodologies to determine eligibility and ranking of projects;
- Financial systems and practices;
- Project monitoring; and
- Records management.

3.3 Information relied on and consultation undertaken

The information contained in the report has been prepared on the basis of:

- the Australian Education Act 2013;
- the Australian Education Regulation 2013;
- the CGP Operating Manual;
- meetings and discussions with representatives from the Department;
- information provided by the Department, including electronic information;
- information available on the website of the WA Independent BGA;
- meetings and discussions with representatives of the WA Independent BGA, in particular;
 - s 47F
 - s 47F
 - s 47F
- information obtained during our site visits to the offices of the WA Independent BGA, including:
 - internal policies and procedures documents; and
 - sample case files at the offices of the WA Independent BGA.

Provided below is a listing of the sample case files selected for the review testing:

Table 1: Listing of sample case files

WA Independent BGA sample files		
Project ID	School name	Funding (\$)
<i>Acquitted projects</i>		
2015/13867/1	Kalamunda Christian School	230,000
2014/30237/1	St James Anglican School	685,000
2014/27701/1	Esperance Anglican Community School	710,000
2014/23696/1	Peter Carnley Anglican Community School	200,000
2014/13603/1	Wongutha Christian Aboriginal Parent-Directed School	153,000
2014/04226/1	Dale Christian School	1,000,000
2013/17162/1	The Silver Tree Steiner School	49,978
<i>New projects</i>		
2016/29057/1	Austin Cove Baptist College	1,050,000
2016/02766/1	Emmanuel Christian Community School	937,871
2016/18017/1	Heritage College Perth	260,000
2016/02752/1	Kerry Street Community School	225,000
2016/13320/1	The King's College	405,000
2016/04231/1	Thornlie Christian College	400,000
2016/29953/1	Yiramalay/Wesley Studio School	665,000
2016/30268/1	Northshore Christian Grammar School	1,600,000

3.4 Findings

3.4.1 Governance arrangements

Conflict of interest documentation and risk management reduces the threat of conflicts impacting the selection process and schools are required to notify the WA Independent BGA of any conflicts which arise.

The WA Independent BGA has well documented processes and procedures which provide a transparent overview of the activities of the BGA.

We recommend the WA Independent BGA undertake a review of Form 1 and Form 2 documentation held for all member schools and arrange for documentation to be executed as required to ensure that schools' obligations are adequately documented. Moving forward, in assessing applications, the WA Independent BGA may wish to include confirming this documentation is in place as part of the assessment process.

The administration amount available to the WA Independent BGA allows for one full time employee to deal with the day to day administration of the Program. This creates business continuity risks for the WA Independent BGA in the event of that employee's absence.

3.4.2 Selection and ranking of projects

Applications contained capital works outside the scope of the program which were then excluded from amounts recommended for funding. Information sessions could reduce the risk of schools not providing a sufficiently detailed application or not meeting their ongoing obligations following project approval.

School visits are undertaken to ensure current facilities are being maintained, review suitability and need for the proposed project and discuss potential cost saving options/scope amendments.

The WA Independent BGA uses a detailed application process which is designed to prevent funds being advanced to schools that do not have a high level of education or financial need, schools that are not financially viable or for projects that are not well designed.

Documentation of test files shows an active assessment of the schools' financial capacity to pay based on a range of factors. School contribution amounts are determined based on the committee's judgement.

3.4.3 Financial systems and practices for acquitting project funds

The WA Independent BGA reduces financial viability risk by providing pro rata progress payments.

Financial viability risk could be further mitigated by requiring schools to spend their contribution amount in full prior to receiving grant payments.

Whilst a multiple stage approval process is implemented, it appears there may be some scope for a closer level of attention to detail when approving payments.

3.4.4 Project monitoring

The WA Independent BGA requires a strong tender process, with tenders obtained from multiple parties and a requirement to utilise the lowest tenderer except in special circumstances.

Ongoing project monitoring is at a high level and heavily reliant on representations made by the funded school. The limited ongoing project monitoring by the WA Independent BGA exposes them to risks that project updates are not accurate or project issues are not identified until after the grant funds have been advanced.

The administration amount available to the WA Independent BGA allows for one full time employee to deal with the day to day administration of the Program which creates some risk that issues on projects may not be identified on a timely basis.

3.4.5 Records management

Other than some issues with Form 1 and Form 2, electronic and physical documents reviewed were in good order and readily accessible, with activities of the WA Independent BGA well documented.

Retention of 10% of grant funds until completion documents are received provides a strong incentive for schools to complete documentation quickly.

3.5 Recommendations

In light of the above findings, we have identified the following recommendations for consideration by the WA Independent BGA and the Department:

- whilst some processes are in place to reduce business continuity risk, a risk remains and additional ways to mitigate this risk should be considered;
- the WA Independent BGA undertake a review of Form 1 and Form 2 documentation held for all member schools and arrange for documentation to be executed as required to ensure that schools' obligations are adequately documented;
- application forms could be amended to include a separate section for any parts of projects which are ineligible for funding under the program to ensure it is clearly identifiable in the application form;
- provide additional support to any schools who are having difficulty ensuring applications are within the scope of the program;
- financial viability risk could be further mitigated by requiring schools to spend their contribution amount in full prior to receiving grant payments;
- there may be some scope for a closer level of attention to detail when approving payments;
- we recommend interim checks of physical project status prior to each progress payment of grant funding be included as part of project monitoring and inspections as part of school visits for other matters be documented; and
- additional funds (or a reallocation of funds) may increase the level of oversight and attention to each project and therefore reduce the risk that problems or issues are not identified until after funding is advanced.

4 Background

4.1 Overview of the Capital Grants Program for Non-government Schools and role of the WA Independent BGA

The CGP provides funding for non-government school communities to assist primary and secondary schools to improve capital infrastructure where they otherwise may not have access to sufficient capital resources. The CGP grants to non-government schools are administered by BGAs who assess applications from schools and make recommendations for funding to the Minister. Schools apply on a competitive need basis to the BGA for initial assessment of proposed projects.

The Association of Independent Schools of WA (AISWA) was established in 1962 as a non-profit organisation to support, represent and promote the interests of Independent Schools. AISWA is incorporated under the Industrial Relations Act.

AISWA's constituent members include over 155 schools. Its member schools educate over 75,000 students accounting for just over 16% of Western Australian school enrolments.

The AISWA is able to fund capital projects in schools through the State Government Low Interest Loan Scheme (administered by the AISWA/Department of Education Services) or the Capital Grants Program (administered by the WA Independent BGA). The applications for funding from each of these programs are run separately.

The WA Independent BGA is a non-profit body whose members are not-for-profit independent schools located in WA. Membership includes schools of many different:

- sizes;
- structures;
- financial positions;
- cultural backgrounds;
- religious affiliations; and
- educational philosophies.

The WA Independent BGA utilises a number of documents and reference materials to administer the CGP. Provided below is summary of the key internal and external documents that shape the delivery of the WA Independent BGA's CGP:

Table 2: Documented policies, procedures and guidance materials

Documented policies, procedures and guidance materials

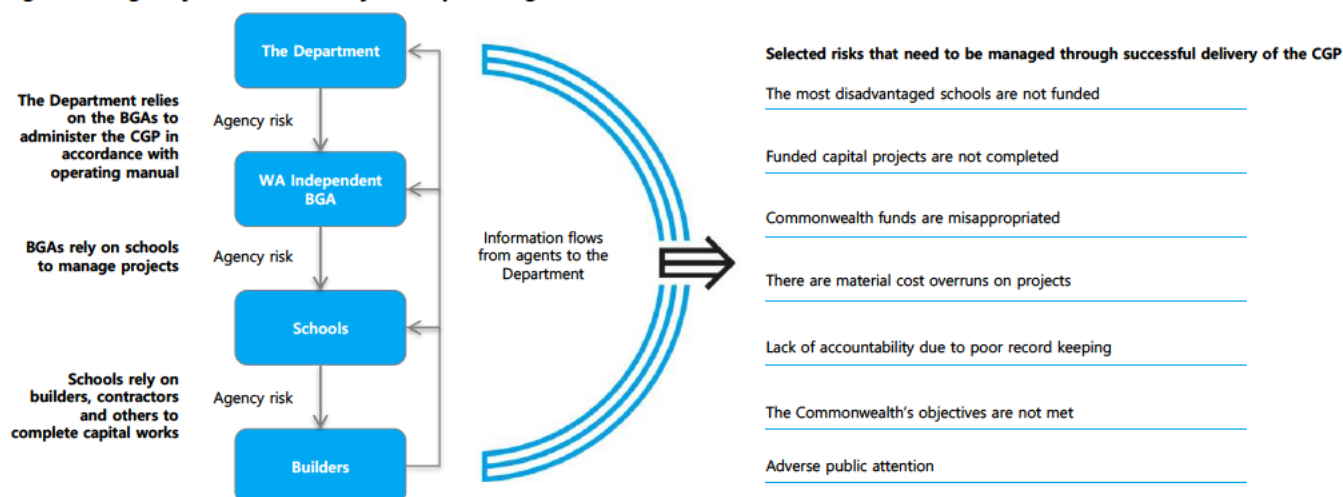
Category of documents	Title of document
Legislation and regulations	<ul style="list-style-type: none"> ▪ <i>Australian Education Act 2013</i> ▪ <i>Australian Education Regulation 2013</i>
Regulatory guidance material	<ul style="list-style-type: none"> ▪ CGP Operating Manual 2016
WA Independent BGA policy documents	<ul style="list-style-type: none"> ▪ AISWA Capital Grant Association Policies and Procedures Manual ▪ CGA Processes and Procedures Manual ▪ AISWA Capital Grant Association Constitution ▪ AISWA CGA Review Process ▪ Recovery of funds file note ▪ Guidelines for AISWA CGA School Visits
WA Independent BGA policy documents for schools	<ul style="list-style-type: none"> ▪ Form 1: "Participating School" Funding Agreement ▪ Form 2: "Applicant Participating School" Funding Agreement ▪ Form 3: "Capital Grant Recipient School" Funding Agreement
WA Independent BGA guidance materials	<ul style="list-style-type: none"> ▪ Cost standards ▪ Acceptance letter ▪ Application and instructions ▪ Approval of tender letter ▪ Information available on the CGA Portal ▪ Sample maintenance plan for schools ▪ AISWA CGA review process ▪ Information sessions

In our dealings with the representatives of the WA Independent BGA, we found them to be well aware of the particular requirements of the WA Independent BGA and the schools and can articulate their obligations clearly. Furthermore, the WA Independent BGA internal policy documents, policy documents for schools and guidance material are comprehensive, and aligned and broadly consistent with the legislation, regulation and the Capital Grants Program Operating Manual.

4.2 Agency risk

In order for the Australian Government to achieve the objectives of the CGP, the Department is reliant on the BGAs recommending funding for capital applications in accordance with the objectives of the program. The Department also requires BGAs, schools, builders and other parties to complete capital works in schools efficiently and effectively. The delegation of responsibility from the Department to the BGAs (and then to other stakeholders) is required to deliver the CGP and achieve the program's objectives. However, this devolved approach creates agency risk for the Department as illustrated in Figure 1 below:

Figure 1: Agency risk created by the operating framework of the CGP



4.3 Key steps in administering the Capital Grants Program (CGP) for Non-government Schools

The annual CGP is administered on an ongoing basis by the WA Independent BGA. We have sought to summarise the key steps taken in the table below:

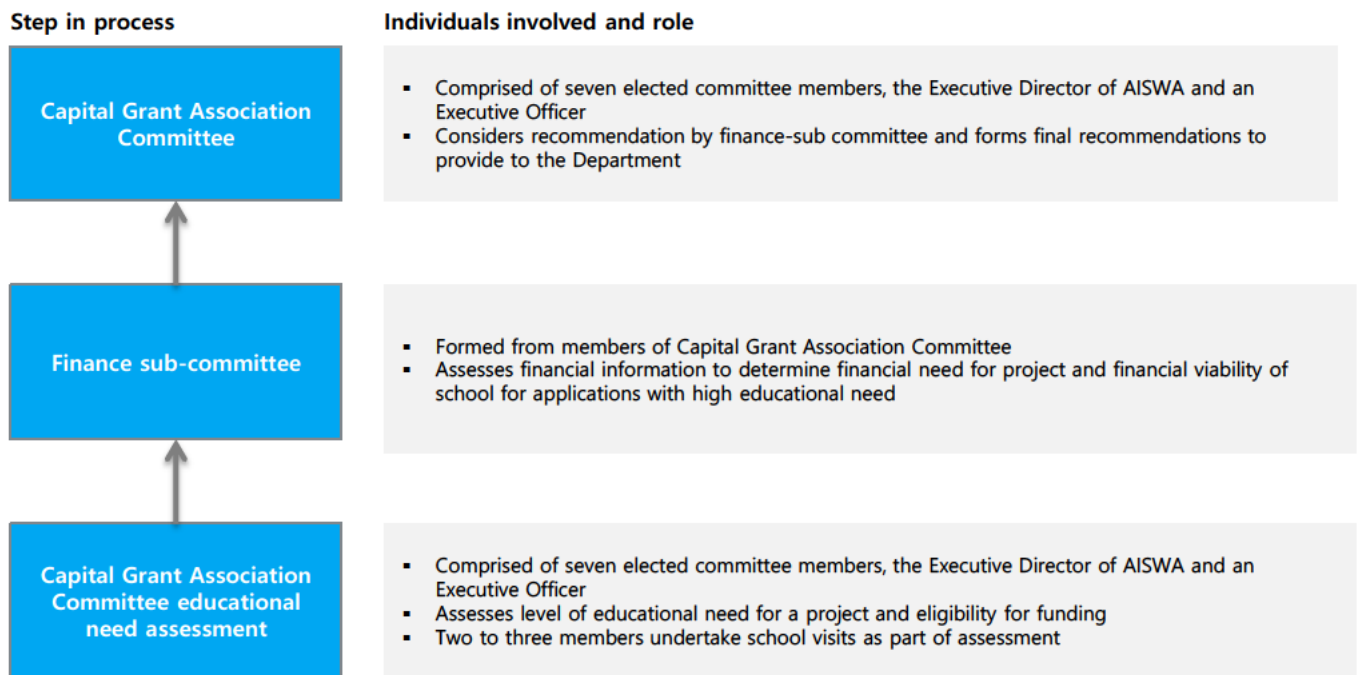
Table 3: Overview of the Capital Grants Program Administration

Overview of the Capital Grants Program Administration		
Step	Stage	Milestone
Step 1	Application Process	School completes an expression of interest form
Step 2		School is provided with application documentation
Step 3		Optional information session is held to assist schools with application process. Materials from the information session is available for schools who are unable to attend.
Step 4		School submits application
Step 5		Capital Grants Association Committee meets to consider applications, discuss information required from visits
Step 6		School visits are undertaken, report from visit prepared
Step 7		Committee meets to discuss report, undertakes educational need assessment
Step 8		Schools are provided the opportunity to appeal educational need assessment
Step 9		Financial subcommittee undertake financial need assessment. This includes consideration of the school's financial viability.
Step 10		Committee considers and approves financial subcommittee recommendations
Step 11		Recommendations and rankings are provided to the Department
Step 12		WA Independent BGA notifies schools of recommendation
Step 13	Monitoring stage	Department notifies school of approval
Step 14		Form 3 and other documentation sent to school. School completes and returns Form 3
Step 15		School submits sketch plans, budget and timeline for approval by the WA Independent BGA
Step 16		Final drawings and project specifications submitted to WA Independent BGA for approval to proceed to tender
Step 17		Schools provide summary of tenders with rationale for selection
Step 18		After WA Independent BGA approves proposed tender, school can enter into contract with builder
Step 19		School provides progress claim with copies of invoices/supporting documentation
Step 20		WA Independent BGA pays progress claims on a pro rata basis (i.e. if claim is for 10% of total estimated cost, 10% of grant amount is paid)
Step 21		10% of grant funds are retained until completion documentation is submitted
Step 22		Representative of WA Independent BGA attends opening ceremony
	Finalisation and completion	

We have been advised by the WA Independent BGA that there have been no major changes to the process undertaken in the files we have reviewed however they are constantly seeking to refine their processes and procedures.

In reference to the process outlined above, we have set out a summary below of how applications are approved by the WA Independent BGA through its multi-layered approval structure:

Figure 2: Structure of application approval



5 Key findings

5.1 Governance arrangements

The WA Independent BGA has well documented processes and procedures which provide a transparent overview of the activities of the BGA.

Detailed policy and process documents (which are made available to member schools) provide transparency on how the Capital Grants Program is administered and decisions are made.

Conflict of interest documentation and risk management reduces the threat of conflicts impacting the selection process and schools are required to notify the WA Independent BGA of any conflicts which arise.

The WA Independent BGA has a documented conflict of interest policy.

In accordance with this policy, committee minutes show that committee members were advised to declare any interests they have in schools or relevant organisations and these are recorded. When relevant schools are considered, members who have declared an interest in that particular school are not present when the application is discussed.

In the Capital Grant Recipient School Agreement, schools agree to:

- advise the WA Independent BGA of any incentive payments for completion under budget or ahead of time;
- advise the WA Independent BGA of any perceived or actual conflict of interest when it first occurs;
- ensure that any conflicts are resolved; and
- provide written advice to the WA Independent BGA regarding the nature of the conflict and how it is resolved.

Participant agreements are comprehensive and provisions specified in the Operating Manual were contained in the "Form 3: Capital Grant Recipient School" Funding Agreement".

Each school is required to sign a Participant Agreement prior to receiving funding. The purpose of the Participant Agreement is to bind the school to the Requirements, agree certain timeframes for project milestones and provide for the recoverability of grant funds in certain circumstances. The Operating Manual provides detailed guidance on specific information required to be contained in each agreement.

The participant agreements reviewed were comprehensive and contained an all-encompassing undertaking for the school to agree to comply with the Requirements.

Some issues were identified with management of other membership agreements between the WA Independent BGAs and schools.

In addition to the Form 3, schools are required to execute:

- Form 1: "Participating School" Funding Agreement in which the school agrees to become a member of the WA Independent BGA; and
- Form 2: "Applicant Participating School" Funding Agreement in which the school agrees to adhere to certain requirements prior to submitting an application.

Some of the Form 1 and Form 2 were:

- not made available (we were subsequently advised that a number of these had been archived);
- executed under a different entity name to other documentation, including the name of the school per the Department's records; or
- dated after the school had applied for and received grants.

A summary of the agreements reviewed for each test file is below.

Table 4: Overview of issues with Forms reviewed

Overview of the Capital Grants Program Administration	
School	Comments regarding forms
Kalamunda Christian School	Advised Form 2 had been archived
Wongutha Christian Aboriginal Parent-Directed School	Advised Form 2 for this project had been archived
Dale Christian School	Advised that Form 2 had been archived
Austin Cove Baptist College	Advised that Form 2 had been archived
Emmanuel Christian Community School	Form 2 executed on 20 October 2016. We were advised by the WA Independent BGA that this form had originally been missed as an oversight.
Heritage College Perth	Form 1 provided which was executed by the School but not the WA Independent BGA. Advised that a new form had been issued for execution. Advised that Form 2 had been archived
Kerry Street Community School	Advised that Form 2 had been archived
The King's College	Advised that Form 2 had been archived
Thornlie Christian College	Advised that Form 2 had been archived
Yiramalay/Wesley Studio School	Advised Form 2 had not been executed by the school and a new agreement has now been sent for completion
Northshore Christian Grammar School	Form 1 and Form 3 both executed by the WA Independent BGA on 27 April 2016, after the date that the school had accepted the recommended tender. We were advised that the Form 1 and Form 3 were returned executed by the school prior to the school proceeding to tender, but were not executed by the WA Independent BGA until 27 April 2016.

The WA Independent BGA have advised that as a result of our findings they have:

- undertaken a review of the forms held to ensure Schools have executed all of the above forms and agreements are compliant with the Requirements; and
- implemented a procedure to date stamp agreements when they are received by the school.

We recommend the WA Independent BGA undertake a review of Form 1 and Form 2 documentation held for all member schools and arrange for documentation to be executed as required to ensure that schools' obligations are adequately documented. Moving forward, in assessing applications, the WA Independent BGA may wish to include confirming this documentation is in place as part of the assessment process.

The WA Independent BGA have since advised that they have implemented the above recommendation.

The administration amount paid to the WA Independent BGA allows for one full time employee to deal with the day to day administration of the Program. This creates business continuity risks for the WA Independent BGA in the event of absence.

The WA Independent BGA has one full time paid employee responsible for day to day management of Capital Grants. The other panel/committee members are all representatives of schools and are not remunerated for their time.

We identified correspondence on test files which demonstrated that prior to going on leave documentation was proactively chased to ensure outstanding matters such as progress payments were dealt with.

The Policies and Procedures Manual lists s 47F as a backup contact. In addition, a schedule is maintained showing the status of each project.

We have been advised by the WA Independent BGA the following documents and procedures in place to mitigate business continuity risk:

- a master cash flow document is maintained;
- detailed policies and procedures manuals exist which can be followed in the event of unexplained absences;
- a monthly calendar of key events is maintained;
- when extended leave is planned:
 - all schools are contacted in advance; and
 - a handover is undertaken with s 47F .

The WA Independent BGA has advised that they consider the current level of work does not necessitate an additional member of staff.

Whilst we acknowledge processes are in place to reduce business continuity risk we consider some level of risk remains. We recommend further consideration be given to whether an additional person is required at certain times or part of the role could be shared. We recognise that this would likely require additional funds (or a reallocation of funds) to be achieved by the WA Independent BGA.

5.2 Methodology to determine eligibility and ranking of projects

Applications contained capital works outside the scope of the program which were then excluded from amounts recommended for funding. Information sessions could reduce the risk of schools not providing a sufficiently detailed application or not meeting their ongoing obligations following project approval.

The WA Independent BGA holds annual information sessions to communicate to potential applicants their obligations under the program and provide guidance on the process generally.

Despite this, a number of the initial applications made by schools included requests for works which are outside the scope of the CGP and, as such, needed to be revised or were partially rejected. Applications for works outside the scope of the program on test files included:

- early learning spaces (referred to as Kindergarten in WA); and
- building to be partially used for religious purposes.

Whilst this indicates that the WA Independent BGA is ensuring projects meet the Requirements, providing more training/support for schools may reduce the number of applications being received with proposed works outside the scope

of the program. However, we appreciate that providing additional support may involve an additional cost to the WA Independent BGA.

We have been advised by the WA Independent BGA that Kindergarten learning spaces, which are funded by the state government low interest loan scheme, are included in applications in order to understand the full scope of the project and the full financial impact on the school. Schools are reminded at the information session that Kindergarten spaces are not eligible for funding. The ineligible component of the project is then discussed at the school visit, and the cost is then excluded from the recommended project.

We recommend application forms be amended to include a separate section for any parts of projects which are ineligible for funding under the program and consideration be given to how best to provide additional support to any schools who are having difficulty ensuring applications are within the scope of the program. This could include requiring architects to attend information sessions with schools or providing additional support to schools who have not applied for grants previously.

School visits are undertaken to ensure current facilities are being maintained, review suitability and need for the proposed project and discuss potential cost saving options/scope amendments.

Applicant schools are visited by three members of the Committee prior to completion of the educational need assessment. A detailed project assessment report is completed to ensure the school has properly considered the proposed project. The reports reviewed on files we tested include documentation that confirms that the value and design of the project is actively considered and varied if necessary and the scope of the approved project is based on the outcome and recommendations from this visit.

The WA Independent BGA uses a detailed application process which is designed to prevent funds being advanced to schools that do not have a high level of education or financial need, schools that are not financially viable or for projects that are not well designed.

Projects are assessed from an educational need perspective and a financial need perspective and are required to adhere to State Government standards to be eligible for funding.

In assigning a project's level of educational need, following the completion of school visits the committee discusses each application and agree the level of educational need and project scope. Educational need is assessed as being either:

- low;
- medium; or
- high.

In some cases, part of the proposed project will be allocated a high education need and other parts a lower educational need.

In assessing educational need, a range of factors are considered including:

- whether the proposed project falls within the requirements of the CGP;
- enrolment projections;
- the age and condition of existing facilities; and
- whether there is an immediate need or the existing facilities are adequate in the short term;

The WA Independent BGA allows schools whose projects are assigned a low educational priority to appeal the decision made on procedural grounds. A pool of committee members is selected to form an independent panel to reassess applications.

Rationale for educational need assessment for each proposed project is well documented in the committee meeting minutes.

In assessing financial need, the Financial Need Sub-Committee considers a range of factors including:

- cash available;
- existing debt levels and the ability to borrow to fund the project;
- enrolment trends and projections;
- fee revenue;
- estimated costs; and

- staff salaries.

Applications are ranked by educational need and then by SES score. Reasons are documented in financial need subcommittee minutes for any projects not being recommended in part or in full.

Documentation of test files shows an active assessment of schools' financial capacity to pay based on a range of factors. School contribution amounts are determined based on the committee's judgement.

School contribution amounts are determined with reference to:

- school financial information including:
 - financial statements;
 - forecasts;
 - enrolment projections; and
 - existing debts;
- the level of funding available; and
- the amount of funding requested by other schools with a high financial and educational need.

The contribution amount is allocated based on a judgement, rather than a set formula or calculation. We consider this flexible approach appropriate as it allows the WA Independent BGA to take into account a school's individual circumstances.

We highlight that in the 2016 application round, insufficient funds were available to fund all recommended projects. The WA Independent BGA contacted applicants to determine if they could progress with a lower grant amount and an applicant withdrew, allowing a higher fund allocation to remaining schools. This school did not reapply in a subsequent year.

5.3 Financial systems and practices for acquitting project funds

The WA Independent BGA reduces financial viability risk by providing pro rata progress payments.

Funding is advanced to schools on a pro rata basis after the school has paid invoices (i.e. if the grant is for 10% of the total project cost, 10% of each invoice submitted would be reimbursed). Invoices or progress claims are submitted to the WA Independent BGA along with these requests for funds.

Financial viability risk could be further mitigated by requiring schools to spend their contribution amount in full prior to receiving grant payments.

The WA Independent BGA implements controls to prevent misappropriation of grant funds prior to them being paid to schools, with segregation of duties and approval from multiple staff required prior to payment being made. On one sample file, a progress payment contained an error and was above the amount being claimed by the school.

The following process is undertaken to release funds to schools:

- the Executive Officer reviews the request and documents submitted;
- the Executive Officer provides authorisation to process the payment to the WA Independent BGA accounts department;
- the accounts department uploads the payment into the WA Independent BGA's Triumph accounting system; and
- both the Executive Director and Business Manager are required to authorise payments.

We have been advised that to date it has not been necessary for payments to be made in the Executive Officer's absence, however documentation is left with the Executive Director to enable urgent payments if required. In addition, following our review, the Executive Director has been registered for access to SEP.

Following receipt of each payment of grant funds, the school is required to provide an executed pro forma letter confirming that the funds have been received and were deposited into a bank account of the school.

On one test file reviewed (Emmanuel Christian Community School (2016/2766/1)) the initial progress claim was mistakenly overpaid by an amount of \$71,552.45. This overpaid amount was then deducted from the following progress claim. We have been advised by the WA Independent BGA that this error was the result of an error in GST calculations for the calculation of the pro rata payment amount and that the template has now been amended so that these amounts automatically calculate correctly and a higher level of scrutiny is undertaken.

Whilst a multiple stage approval process is implemented, it appears there may be some scope for a closer level of attention to detail when approving payments.

5.4 Project monitoring

The WA Independent BGA requires a strong tender process, with tenders obtained from multiple parties and a requirement to utilise the lowest tenderer except in special circumstances.

Tender documentation and a detailed summary of tenders are provided to the WA Independent BGA as well as documentation to support the selection of preferred tenderer if it is not the lowest quote. The recommended tender is then approved by the Executive Officer.

We have been advised by the WA Independent BGA that they do not have any examples where the tender recommended by the school was not approved by the WA Independent BGA.

Ongoing project monitoring is high level and heavily reliant on representations made by the funded school. The limited ongoing project monitoring by the WA Independent BGA exposes them to risks that project updates are not accurate or project issues are not identified until after the grant funds have been advanced.

Progress updates on files during construction appear to primarily be in the form of funding requests and attached documentation (invoices, progress updates etc.).

The WA Independent BGA limits its ability to identify issues by relying heavily on representations from the funded schools. There is a risk that issues which could be detected at an earlier stage in the project will not be identified until closer to completion, after the majority of grant funds have been advanced.

We identified from minutes of the committee that the WA Independent BGA closely monitors projects which encounter issues for example:

- awareness of a significant number of closures of grant recipient schools and monitoring repayment requirements and estimated returns in situations when the school is not solvent;
- recovery of funds from closed schools where possible;
- when notified by the Department of issues regarding the governance of a school in receipt of recurrent assistance and CGP funding, the school's CGP payment was withheld until the Department had confirmed CGP funding could be released to the school; and
- when a school managed to reduce costs on a property purchase subject to grant funding but had higher than anticipated ancillary costs, the scope of the project was amended.

Whilst physical project checks are not undertaken during construction, we have been advised by the WA Independent BGA that due to their small size, there is an awareness of the activities of each school. This is supported by the evidence we have identified on files of regular email correspondence where the WA Independent BGA follows up documentation and progress claims.

The WA Independent BGA have advised that:

- s 47F also inspects projects when she attends schools for other matters; and
- Nearmaps, is used to remotely view projects regularly. We have been advised by the WA Independent BGA that the satellite image maps are updated approximately six times per year for metropolitan areas and at least once per year for regional areas.

Interim checks of project status were not documented on the test files provided to us.

In order to strengthen risk management, we recommend interim checks of physical project status prior to each progress payment of grant funding be included, and documented, as part of project monitoring. The level of monitoring implemented should be reflective of the risk level of the project. In addition, when a project is inspected as part of visits to schools for other matters, we recommend this be documented on project files.

The WA Independent BGA has advised that following our review, the claim form has been amended to require:

- an update on the general progress of the project;
- identification of any project issues; and
- include up to five photographs documenting the progress of the project since the last claim.

The administration amount paid to the WA Independent BGA allows for one full time employee to deal with the day to day administration of the Program which creates some risk that issues on projects may not be identified on a timely basis.

The WA Independent BGA has one full time paid employee responsible for the day to day management of the Capital Grants Program. The other panel/committee members are all representatives of schools and are not remunerated for their time. The administration payment received in 2015 was supplemented by \$9,824 from accrued interest funds to meet costs.

This creates business continuity risks and risks that issues may not be identified in a timely manner if this member of staff is absent.

The WA Independent BGA was formerly able to achieve some cost saving as there were a number of Australian Government grant programs being run simultaneously. As various other grant programs have ended, the pool of funds available to cover administration costs/overheads has reduced. The WA Independent BGA has advised that costs involved in managing the program can be significant and due to the large number of remote member schools, depending on the applications received, travel costs for school visits can be significant. Additional funds (or a reallocation of funds) may allow projects to be more closely monitored.

Additional funds (or a reallocation of funds) may increase the level of oversight and attention to each project and therefore reduce the risk that problems or issues are not identified until after funding is advanced.

5.5 Records management

Other than the issues with Form 1 and Form 2 mentioned in Section 5.1 above, electronic and physical documents reviewed were in good order and readily accessible, with activities of the WA Independent BGA well documented.

We found that the WA Independent BGA maintains detailed files, with the majority of documentation the WA Independent BGA requires on each file in good order. The bulk of the records on project files relate to application assessment, project commencement and completion, progress claims and plans.

Retention of 10% of grant funds until completion documents are received provides a strong incentive for schools to complete documentation quickly.

10% of funds are retained until an Opening Ceremony is held and Statement of Completion documents are submitted to the WA Independent BGA to provide an incentive for schools to submit completion documentation in a timely manner. Completion documents required include:

- Certificate of Occupancy;
- accountant's certificate to confirm:
 - that the approved project has been completed;
 - the CGP grant amount paid to the school is correct;
 - the total expended amount and any retentions;
 - the cost of the total project where the approved project is part of a larger project;
 - that the approved project is insured;
- architect's/supervisor's statement confirming:
 - the project has been completed in accordance with approved plans and applicable building requirements;
 - major costs of the approved project and (if applicable) the total costs of the larger project and the amount attributable to the approved project; and
- photographic evidence of the plaque or evidence exemption was granted.

The WA Independent BGA maintains a schedule of completed projects' opening ceremonies.

6 Conclusion

The WA Independent BGA has strong internal policies and procedures and conflict of interest management. Based on our assessment of the files sampled, the WA Independent BGA appeared to achieve a high level of compliance with the Requirements and Operating Manual.

It was observed that the level of oversight during the monitoring stage was heavily reliant on progress claims provided by the schools rather than regular progress checks.

In our view, increased oversight during the monitoring stage would reduce the risk of projects not progressing as planned or grant funds not being used as intended.

We have made the following recommendations for the WA Independent BGA and the Department to consider:

- consideration be given to additional ways to mitigate business continuity risk;
- the WA Independent BGA undertake a review of Form 1 and Form 2 documentation held for all member schools and arrange for documentation to be executed as required to ensure that schools' obligations are adequately documented;
- application forms could be amended to include a separate section for any parts of projects which are ineligible for funding under the program to ensure it is clearly identifiable;
- provide additional support to any schools who are having difficulty ensuring applications are within the scope of the program;
- financial viability risk could be further mitigated by requiring schools to spend their contribution amount in full prior to receiving grant payments;
- there may be some scope for a closer level of attention to detail when approving payments;
- we recommend interim checks of physical project status prior to each progress payment of grant funding be included as part of project monitoring and inspections as part of school visits for other matters be documented; and
- additional funds (or a reallocation of funds) may increase the level of oversight and attention to each project and therefore reduce the risk that problems or issues are not identified until after funding is advanced.