ONE of Australia's highest-paid school principals is under investigation following allegations the nation's top indigenous college used "ghost" students to rake in government funding.

Djarragun College principal Jean Illingworth has been suspended on full pay pending the outcome of a police investigation into alleged misappropriation of funds by the college due to grossly exaggerating the number of students at the taxpayer-funded school at Gordonvale, south of Cairns.

It is understood there are no "missing millions" or claims of lavish lifestyles.

Under an audit prepared for the Department of Education, Employment and Workplace Relations, there was a recurring overpayment between 2008 and 2011 of $5,391,863 to Djarragun College Ltd.

It is alleged Djarragun wrongly claimed for 250 students over three years, equating to funding of about $20,000 per student.

Detectives are investigating allegations one student aged 32 was enrolled at the school, ex-students were not taken off the roll after they left, and claims others were fictitious names or "ghost" pupils.

Ms Illingworth, 66, is a high-profile educator, former Australian of the Year award winner, and is paid a base salary of $283,500 a year, plus benefits on a package worth about $300,000.

Zimbabwean-born Ms Illingworth has steadfastly maintained her innocence.

Efforts by The Courier-Mail to contact Ms Illingworth for comment at her home and by phone were unsuccessful.

One senior police source said there was no allegation she was "living the high life".

"There was no trips to the French Riviera for expensive champagne and super yachts," the officer said.

"We are investigating whether the number of students was misrepresented to
obtain funds.

``The basis of this is whether the way the funds were obtained was not consistent with the legislation.

``All the money appears to have gone back into the school. This is not a case of missing millions.''

Ms Illingworth, a Queensland Senior Australian of the Year in 2009, described at the time by Cape York Institute for Policy and Leadership director Noel Pearson as a "true social entrepreneur", was credited with transforming the dysfunctional school into a model of success.

She used tough love to end drugs, violence and truancy and make it a safe place of learning for students from north Queensland and the Torres Strait, her award said.

Mr Pearson is chairman of the school's new board and is in the process of taking over from the Anglican Church, with the alleged funding flaws occurring before his takeover.