

SKILLS FIRST PROGRAM AUDIT AND REVIEW STRATEGY



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INTRODUCTION

The *Skills First* program is the Victorian Government's commitment to a high quality training and TAFE system that focuses on funding for courses that are aligned to industry and workforce needs.

Substantial taxpayers' funds are invested to provide quality training under the *Skills First* program. Accordingly, the Department of Education and Training (the Department) has an obligation to ensure that training providers meet Government expectations for training delivery and that Victorian taxpayers' funds are spent efficiently and for their intended purpose.

The Department recognises that the majority of training providers are committed to delivering quality training and assessment, and make their best efforts to comply with contractual requirements. The Department also has a rigorous Provider Selection Process that includes evaluation of training providers' previous performance to ensure that only training providers that have demonstrated the capacity to deliver quality training are able to access government funding.

The Department enters into VET Funding Contracts (the Contracts) with training providers to deliver vocational education and training to Eligible Individuals under the *Skills First* program. The Contract describes the range of obligations and standards that training providers are required to meet in order to receive funding from the Department for the delivery of Training Services.

The Contract includes clear provisions that allow the Department (or persons authorised by the Department) to conduct audits, reviews or investigations to assess whether training providers are meeting contractual requirements. This includes assurance activities to determine whether training and assessment services are of a high quality, and to investigate allegations of fraud or misuse of funds.

This Audit and Review Strategy reflects the Department's approach to assuring funding and quality under the Contracts.



AUDIT AND REVIEW STRATEGY: PURPOSE AND OBJECTIVES

The *Skills First* Audit and Review Strategy (the Strategy) guides the Department's funding and quality assurance activities. These assurance activities monitor training providers' performance against their contractual requirements.

The Strategy provides information about the Department's approach to conducting audits and reviews, and provides guidance to training providers regarding what to expect at an audit or review, how best to prepare, and possible outcomes.

SUPPORTING QUALITY IN THE TRAINING AND TAFE SYSTEM

Audits and reviews are part of a range of mechanisms used by the Department to monitor and manage provider performance. Other mechanisms include the Provider Selection Process, data reporting and monitoring, complaints investigation and special investigations.

To ensure that training providers have the knowledge and tools to deliver quality training in accordance with the terms and conditions of their Contracts, the Department offers a range of support services. These include regular information sessions, professional development opportunities, online enquiry support and a range of supporting documentation for key

Funding Assurance

To confirm that funds paid to training providers under the Contract have been used for the purpose for which they were provided - particularly with regard to the eligibility of students, the appropriate application of concessions or exemptions/waivers, and the collection and retention of evidence of students' participation in training.

Quality Assurance

To promote and seek assurance of the quality of training providers' business processes and systems; the quality of Pre-Training Reviews; and the quality of training and assessment.

aspects of the system. Continuous improvement for training providers is further supported through collaborative quality workshops, and the development of case studies highlighting examples of good and excellent practice.

The Department has also published the *Skills First* Quality Charter (the Quality Charter) to outline its expectations of training providers in the provision of key aspects of Training Services.



WHO DO WE AUDIT?

The Department's approach to provider monitoring is risk based. This approach results in two streams of audit activity:

- **Planned Audit Program:** planned in advance through the annual audit review
- **Targeted Audit Program:** triggered across the year in response to emerging issues and identified risk

Each year a review of the Victorian training market informs audit and review priorities, which in turn determine the parameters used to identify training providers for inclusion in the Department's planned audit program. A broad range of information is taken into account including:

- previous audit results;
- training activity data;
- claims and payment history;
- data on course duration and completion rates (with reference to similar providers);
- student and employer feedback as reflected in annual satisfaction surveys and other information sources; and
- other information available to the Department on the sector and risks that are identified.

Training providers are assessed against these parameters, and classified as presenting a high, moderate or low risk to funding and/or quality.

The majority of training providers selected for audit and review under the planned program are identified based on this profiling; although the program may also include a small random sample of training providers assessed as low risk.

In addition to the planned program, the Department initiates a targeted audit program throughout the year to respond to, or establish further information about, identified market shifts and/or training provider behaviour. Broader system changes, including spikes in training activity in specific sectors, are monitored on an ongoing basis throughout the year, and guide the Department's approach to targeted audit and review activities. These audits and reviews take a more targeted approach with individual training providers as issues arise. They focus on specific funding or quality assurance issues (e.g. identifying evidence that eligible students have been suitably equipped with the skills they need to participate in the workforce) or issues relating to the quality of training and assessment delivered by a training provider.

Figure 1: Overview of Planned Audit and Assurance

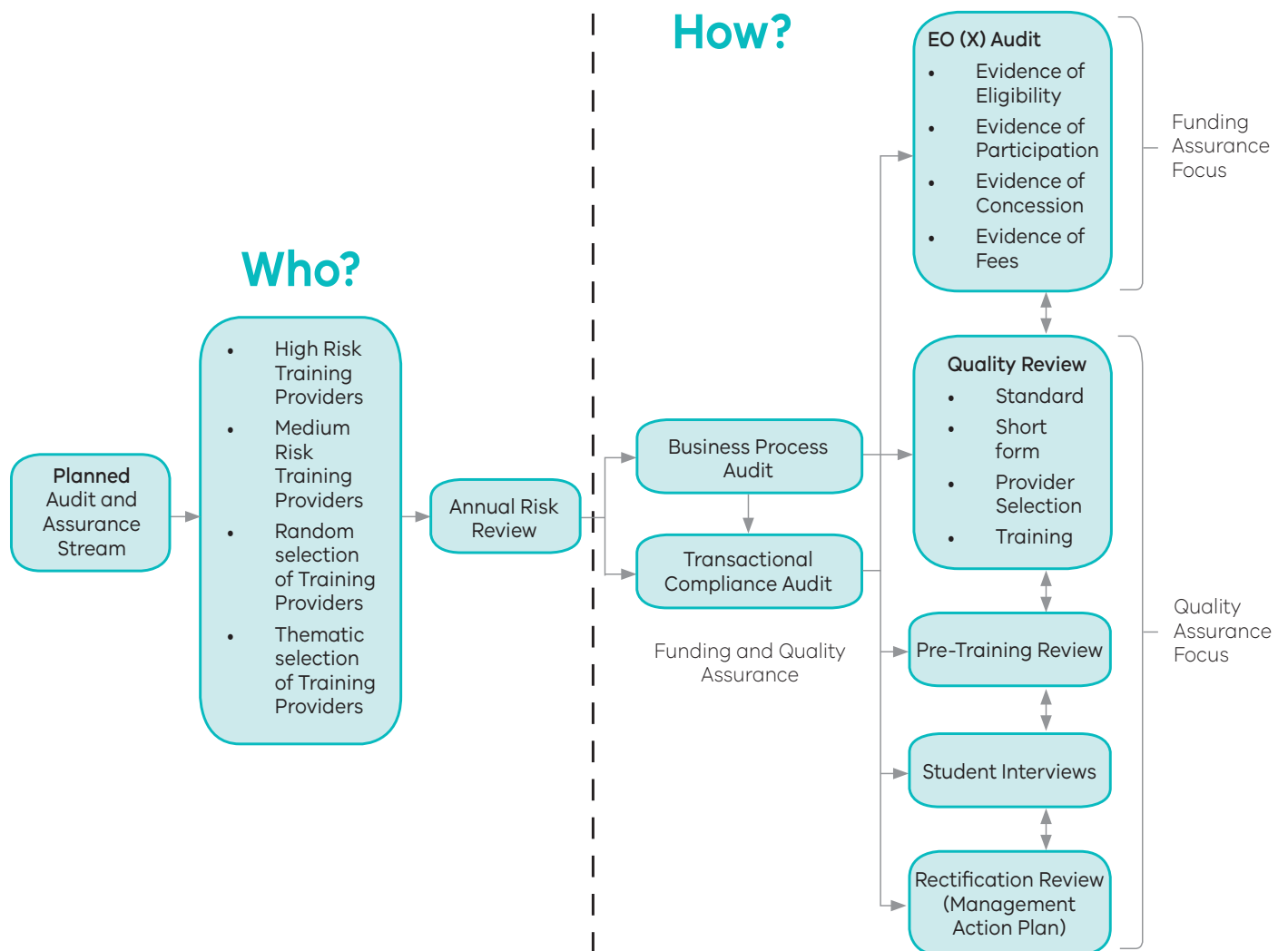
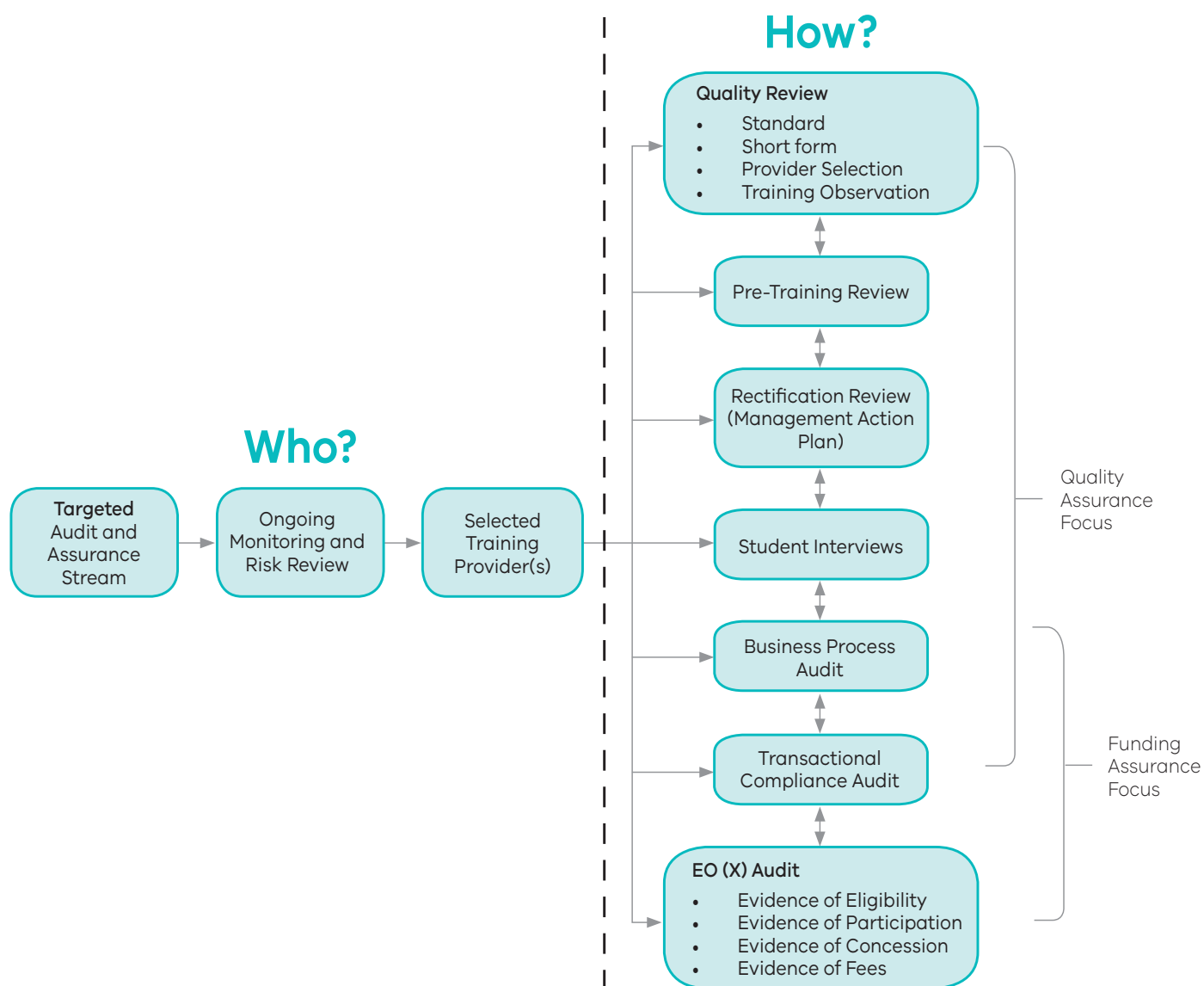


Figure 2: Overview of Targeted Audit and Assurance



HOW DO WE AUDIT?

The Department uses a range of audit types and reviews to support training providers to maximise their performance and ensure that contractual requirements are met.

The basic types of audit conducted under the Planned Audit Program are the Business Process Audit (BPA) and the Transactional Compliance Audit (TCA).

The BPA is designed as a 'walk-through' examination of a training provider's key business processes and systems to identify areas of weakness relating to its compliance with the funding related aspects of the Contract, and also with particular reference to those elements of the Contract that underpin the delivery of quality training and assessment services.

The TCA focusses on funding assurance and examines a relatively small sample of transactions to identify instances of non-compliance at a transactional level.

If the findings from the BPA and/or the TCA identify significant non-compliance, additional audits or reviews (outlined in **Figure 1**) may be undertaken with their scope determined by the patterns of non-compliance initially identified. Refer to **Appendix 1** for a detailed description of each type of audit and review.

The sequence in which the above audits or reviews may occur, and the scope of each audit or review, will depend on the issue(s) identified prior to audit. Depending on a training provider's risk profile analysis and/or specific audit findings, the Department will determine the type, and the scope of audit or review activity that should occur.

Generally, supplementary audit activity will continue to target areas of identified risk until the Department is satisfied that all risks or issues have been adequately addressed.

Where a finding is considered significant or systemic, the Department may instigate a detailed audit or review focussing on the area of identified risk. For example, where a training provider continues to have findings through the audit process in the area of eligibility, a more detailed Evidence of Eligibility Audit may be instigated to examine a larger sample of transactions and/or student files.

The results of targeted audits or reviews (outlined in **Figure 2**) may trigger the need for additional audit(s), review(s) or investigative activity, which could include a financial or forensic audit depending on the risks identified and/or the matters being investigated.



WHO WILL CONDUCT THE AUDIT?

The Department has engaged a panel of independent contracted auditors and reviewers to carry out audits and reviews under the *Skills First* Program.

The audit and review panel is appointed on the basis of professional competence in audit capability and experience, flexibility and responsiveness and quality systems. Industry and sector experts with specific expertise and knowledge relevant to key quality issues are also engaged by the Department from time to time to assist with audits and reviews.

Auditors conduct audits and/or reviews in accordance with the Department's requirements and provide a report to detail the factual findings identified during the audit and/or review.

Auditors discuss findings with training providers and identify business process weaknesses, quality findings, and opportunities for improvement to ensure providers are well placed to meet their contractual requirements.

Auditors provide a report with their factual findings to the Department, but are not able to discuss the potential actions that might be taken by the Department with training providers.

Departmental observers may occasionally attend an audit and/or review. Attendance at audits by Department staff provides the Department with improved insight into the operational and policy issues that may arise at audits. On these occasions, the Departmental staff member attending usually does not have an active role in the audit/review itself.



TRAINING PROVIDER RESPONSIBILITIES

In accordance with the Contract and the Quality Charter the Department expects training providers to:

- understand their obligations and comply with the VET Funding Contract, and meet the objectives of the *Skills First* program;
- cooperate with the Department to demonstrate and verify compliance with the Contract and the Quality Charter;
- ensure accurate and timely reporting of required training data;
- be responsive to questions from the Department and the auditors/reviewers regarding their activities and performance; and
- take a professional approach to performance and seek to continually improve.

In accordance with these general expectations, this Strategy is based on the understanding that training providers have committed to:

- implementing internal controls that promote training quality and compliance with the Contract, including conducting internal audits;

- maintaining and preparing relevant evidence in accordance with the Contract;
- cooperating with and providing the Department and its auditors with access to all information reasonably required for the purpose of confirming compliance with the Contract; and
- being professional in their approach to audits and reviews, and cooperating with auditors in the development and implementation of Management Action Plans¹ and any rectification actions deemed to be necessary.

The outcomes from audits and reviews may offer training providers useful guidance in meeting their contractual requirements and identifying areas for quality improvement. The Quality Charter is especially relevant in this regard as it sets out what a training provider must do to satisfy the Department's expectations in the provision of quality Training Services. It is the responsibility of training providers to ensure its staff and any subcontracted entities act in accordance with the Quality Charter.



¹ Refer to page 11 for further information regarding Management Action Plans.

HOW TO PREPARE AND WHAT TO EXPECT ON THE FIRST DAY

Each contracted training provider is required to complete an internal audit during each calendar year, and each training provider's Chief Executive Officer (CEO) is required to sign off on the outcomes of the internal audit. Presentation of evidence of completion of internal audits will normally be required as part of the Department's audits and/or reviews.

In addition to completing internal audits, undertaking the following preliminary activities prior to an audit and/or review will greatly assist training providers, and provide auditors with a sound platform to conduct the audit/review:

- ensuring the availability of the CEO, or other senior members of the organisation to attend the initial meeting and other key meetings for the duration of the audit or review;
- assigning an appropriate staff member to be responsible to support the audit/review process (many organisations engage dedicated staff to coordinate and promote organisational quality assurance and compliance processes);
- collating all required data and files at the site of the audit/review in a logical manner, with particular consideration for tracking the end-to-end service delivery for Eligible Individuals, and preparing the organisation's processes for quality assurance for training and assessment delivery;
- ensuring that records in the training provider's Student Management System (SMS) and the Victorian data submission system are up to date;
- reviewing findings from previous audits and ensuring that any actions in Management Action Plans have been implemented or that progress towards implementation can be demonstrated;

- reviewing any correspondence from the Department or the auditors regarding the audit/review; and
- ensuring familiarity with this Strategy and other relevant policy and strategic documents.

On the first day of the audit or review, the auditor will arrive at the scheduled date and time and conduct an initial entry meeting with the CEO, or formally nominated delegate, to confirm the scope and process of the audit/review.

During the audit/review process, the auditor may need to discuss items with staff, *Skills First* Teachers, students and employers (if relevant) to inform their assessment of the training provider's performance and compliance with the Contract.

The duration of the audit/review will be determined by a range of factors including the size of the training provider, identified level of risk, availability of required records and personnel, and the complexity of issues that may arise during the audit/review.

The audit/review will conclude with an exit meeting between the auditor and CEO or formally nominated delegate to discuss the preliminary findings and develop a Management Action Plan if necessary. The exit meeting may not occur immediately following the completion of the auditor's work at the training provider's premises. However, the auditor will discuss the timing of the exit interview with the training provider in advance.

AUDIT LOGISTICS

Timing

All types of audits and reviews can occur at any time throughout the year. For initial audits conducted under the Planned Audit Program such as a BPA and TCA, the auditor will normally seek to contact a training provider at least **two weeks** prior to the commencement of an audit. For supplementary audits under the Planned Audit Program, and targeted audits and reviews, the Department and its auditors will generally notify a training provider **two business days** prior to the commencement of the audit/review. This limited period of notification is consistent with standard practice for audit and risk management in other comparable industries and government agencies. In a small number of instances, the Department may seek to conduct an audit or review with less notice, but this typically occurs only in the most urgent cases where significant concerns are identified.

Duration

The duration of the audit or review on site at a training provider's premises will normally be determined by the size of the organisation, the complexity of issues identified and the volume and accessibility of the files and other evidence to be examined. Typically, the BPA will require 4-5 days on site and the TCA a similar duration (in some instances the BPA and TCA are conducted at the same time). Other more complex audits and reviews may require additional time.

At the conclusion of on site work, the auditor will continue to analyse the evidence collected and prepare their report(s). The duration of this phase of the audit process can vary dependent on the training provider's cooperation when given additional time and the length of their management comments in response to draft reports.

Location

Audits and reviews will normally be conducted at the training provider's premises. If a training provider operates over multiple sites, the audit/review may focus on the location where administrative processes and transactions typically occur. Alternatively, a multi-site audit/review may be required. The training provider should advise the auditor of any multi-site considerations at the time of scheduling. The auditor will then advise the training provider of the location(s) at which the audit or review will occur.

Regardless of the location of the audit/review, a training provider is required under its Contract to permit the auditor(s) to enter its premises to conduct audits/reviews, and to participate in and assist, as required, with any audits/reviews. This includes providing access to suitable office space, telephones and photocopy facilities for the duration of the site visit, making staff available to the auditor(s), and providing access to relevant business process and transactional documentation relating to the Training Services (enrolment records, Pre-Training Review results, evidence of participation, statements of fees etc.).

Cost

The Contract requires that training providers reimburse any costs incurred by the Department in conducting audits and reviews, if directed to do so. The Department will notify training providers in advance of an audit/review of the anticipated reimbursement costs, noting that these estimates are based on the standard duration assumed for each audit type. However, as noted above, the duration of an audit or review may vary from provider to provider depending on the circumstances. For example, if a training provider is unable to provide access to the required records during the auditor's visit or if the management comments provided in response to the draft audit report are lengthy, the initial cost estimate provided by the Department may be affected.

FEEDBACK AND REPORTING

At the conclusion of each audit/review, the auditor will prepare a report that details the findings including opportunities for improvement and, where relevant, develop a Management Action Plan to address the findings.

A Management Action Plan is developed jointly by the auditor and the training provider to describe specific activities to be undertaken by the training provider to address the audit/review findings identified, including the name of the individual or team responsible and the agreed date for implementation. In cases where systemic issues or process weaknesses have been identified, the Department expects that a training provider will develop a credible plan to address systemic issues. A training provider will be held to account for the implementation of the agreed Management Action Plans in follow up audit or review activities.

The report will initially be provided to the CEO or formally nominated delegate of the training provider as a draft for acknowledgement and management comment. The training provider will have a period of time to provide management comments to the auditor, including comments in relation to the findings and the Management Action Plan. The auditor will review any management comments and, if considered necessary or appropriate, provide their own response to the Department. All management comments submitted by the training provider will be included in the report and submitted to the Department.

Where significant comments are provided by the training provider, this may delay provision of the auditor's report. However, the Department will advise the training provider if this is the case.

Following consideration of the findings, a final copy of the report will be provided to the training provider and the Department. This will normally be

within one week of submission of the draft report to the training provider; however, timing will vary depending on the complexity of the findings and size of the report. The timeliness of the training provider's response and the extent of their management comments can also impact the time required to finalise the report.

Subsequent correspondence from the Department regarding the findings will consider all management comments provided by the training provider as part of the report.

Upon completion of an audit or review, the training provider is given the opportunity to complete an audit and review satisfaction survey². This is an opportunity for training providers to offer open and honest feedback on their experience of the *Skills First* Audit and Review Program. The Department is committed to ensuring that it's Audit and Review Program is effective and fair for all stakeholders. The satisfaction survey, which is administered by the Department independently of its auditors, allows training providers to give formal feedback on all elements of the audit/review including the planning, execution and closing stages of the process.

In the event that a training provider wishes to raise a matter or has any concerns relating to the *Skills First* Audit and Review Program process which cannot be addressed through the satisfaction survey or via contact with the auditor(s) or relevant Departmental staff member(s), the training provider should submit formal correspondence addressed to:

Director, Funding and Assurance Services, Higher Education and Skills Group, Department of Education and Training, P.O Box 4367, Melbourne VIC 3001.

² If a number of audits or reviews have been undertaken in sequence, over a period of weeks or months, training providers may be requested to complete the survey once and address comments to the entire series of audits or reviews in which they have participated.

AUDIT AND REVIEW OUTCOMES

Audit and review findings may identify instances of non-compliance which may be of a relatively minor nature and easily addressed with corrective actions and business improvement processes developed and implemented by the training provider. In other instances, non-compliances of a more significant nature may be identified. The Department recognises that its activities and responses need to be appropriate and proportionate to the risks to funding and quality, and the nature of the issues it encounters. As such, the Department's responses normally occur along an escalating and proportionate spectrum of interventions.

In cases of limited or low risk non-compliance, the Department seeks to help training providers avoid future non-compliance by requiring the development of a Management Action Plan with the auditor(s).

Where non-compliance is systemic or of a significant nature the Department may seek recovery of funds as appropriate and/or consider undertaking further audit, review or investigation activities or the application of penalties as specified in the Contract.

The Department recognises that a small number of training providers may seek to gain a benefit or advantage to which they are not entitled to or deliberately exploit the *Skills First* program. The Department's response in these situations will be appropriate and proportionate to the nature of the issues identified, noting that the Department has an obligation to identify potentially fraudulent activities and to deal with this behaviour according to the law. If necessary, the Department will refer matters for criminal prosecution.

The Department will also consider management comments provided by the training provider in the audit or review reports, and where further clarification is needed, it will seek additional information. Any action taken by the Department will be communicated formally to the training provider.

When assessing audit and/or review outcomes for each training provider, the Department takes into consideration a broad range of possible remediation and intervention actions including:

"Identify and assist" actions

- document and agree a Management Action Plan with an individual training provider
- identify opportunities for improvement to assist a training provider to maintain their contractual performance and deliver quality training and assessment

"Monitor and detect" activities

- monitor training activity data
- review any complaints received and other information available
- conduct further audit or review activity
- meet with a training provider where more information is required
- consider a training provider for inclusion in a subsequent year's Audit and Review Program

"Sanction and enforcement" actions

- meet with a training provider to review findings and discuss implications
- review training data to identify inaccuracies
- recoup, withhold or prevent future payments of funding
- consider the suspension or termination of a Contract, where significant non-compliances is identified
- consider whether a training provider should be contracted in a future year
- notify the relevant regulator of any quality issues identified through audits
- consider applying penalties or a monetary amount where appropriate and permitted under the Contract

FURTHER INFORMATION

For further information or enquiries about the *Skills First* Audit and Review Strategy please send an enquiry, with "Audit and Review" in the subject line to the Department via the usual web based portal for training providers.



APPENDIX 1: TYPES OF AUDITS AND REVIEWS

Business Process Audit (Funding and Quality Assurance) (BPA) has a dual focus on funding and quality assurance. In the first instance, the BPA is designed as a “walk-through” examination of a training provider’s key business processes and systems to identify areas of weakness relating to its compliance with the funding related aspects of the Contract. In addition, the BPA also examines a training provider’s key business processes and systems with particular reference to the delivery of quality training and assessment.

- Processes, tools and systems examined in the BPA testing the compliance of the training provider with the funding assurance requirements of the Contract include: student enrolment processes (including processes for assessing eligibility), fees and concession information (including student invoices), and collection and retention of the required evidence of participation.
- Processes, tools and systems examined in the BPA testing the compliance of the training provider with its requirements to deliver quality training and assessment include: Training and Assessment Strategies, Pre-Training Reviews, Program Delivery including Training Plans, learning materials and facilities, *Skills First* Teacher’s competency and professional development support, and course review processes including monitoring and third party arrangements.
- Outcomes from the BPA may be used by the training provider to identify opportunities for improvements to their key business systems and ultimately improve contract performance.
- Outcomes identifying significant weaknesses in processes and systems may lead to further funding or quality assurance audit activity such as a Transactional Compliance Audit, a Pre-Training Review Audit or a targeted Quality Review.

Transactional Compliance Audit (TCA) has a focus on funding assurance and is used to highlight instances of non-compliance at a transactional level.

- TCAs involve the detailed examination and testing of records in specific areas, such as student eligibility, fees and concessions, and training participation. The number of records examined in a TCA is generally between 30 and 40 randomly selected student files.

- Outcomes identifying a significant proportion of non-compliances may lead to further audit activity such as those described below.
- In some instances, involving training providers assessed to be in the higher risk category, the BPA and the TCA may be conducted concurrently.

Evidence of Eligibility Audit (EOE) examines whether a training provider has the required evidence to support the enrolment of eligible students in courses or qualifications for which government funding has been claimed. In some instances, where a training provider is found at audit to have claimed funds for training delivered to ineligible students they may be required under the terms of the Contract to re-pay the funds to the Department. EOE findings may also lead to further assurance or enforcement activity (e.g. Quality Review or Special Investigation) and may be taken into account when considering future contractual arrangements.

Evidence of Concession Audit (EOC) determines whether a training provider has the required evidence that supports the granting of a fee concession or fee waiver/exemption to a student for whom government funding has subsequently been claimed. In some instances, where a training provider is found at audit to have claimed the Fee Concession Contribution or Fee Waiver/Exemption Contribution for students who were ineligible to receive a concession or fee waiver/exemption, it may be required under the terms of the Contract to re-pay the funds to the Department.

Evidence of Fees Audit (EOF) examines whether a training provider has the required evidence to demonstrate that it has charged student fees and charges in accordance with the Contract and the Guidelines About Fees.

Evidence of Participation Audit (EOP) assesses whether a training provider has the required Evidence of Participation that aligns with the training data and claims for payment submitted to the Department. In some instances, where a training provider is found at audit to have claimed funds for training delivery that is not supported by the required EOP it may be required under the terms of the Contract to re-pay the funds to the Department. EOP findings may also lead to further assurance or enforcement activity (e.g. Quality Review or special investigation) and may be taken into account when considering future contractual arrangements.

Pre-Training Review (PTR) Audit examines whether processes and systems are in place to support a Training Provider's assessment of the suitability and appropriateness of the proposed training for each individual student and that documentation and records that meet the requirements of the Contract have been collected and retained by the provider. In some instances, where the training provider is found at audit not to have complied with the PTR requirements it may be required under the terms of the Contract to pay a monetary amount (penalty) to the Department.

Quality Review aims to examine the extent to which contracted training providers are delivering quality training and assessment services that align with the Contract. Quality Reviews are occasionally conducted with the assistance of subject or industry experts. The Reviews typically examine a similar range of items and aspects of a provider's services to those examined in the BPA but with a sharpened focus on specific elements and examined in greater depth. Reviewers may inspect facilities and observe training and/or assessment taking place in the classroom or other training locations. Students and trainers also participate in interviews with reviewers about their overall experience of training and assessment at the training provider. It is important to note that the purpose of the Quality Review is primarily for quality assurance under the Contract and is independent of the regulatory functions of ASQA or the VRQA and is not in any way intended to duplicate those functions. The findings of Quality

Reviews help inform the Department whether a training provider is meeting its minimum expected performance requirements under the Contract to provide high quality training. In some instances, the findings may lead to further assurance and enforcement activity (e.g., EOE, EOP or PTR audits or special investigation) and may be taken into account when considering future contractual arrangements.

Rectification Review (Management Action Plan) determines whether a training provider has addressed the issues identified in previous audits or reviews. The Department's auditors review whether the implementation status of actions outlined in a Management Action Plan that has arisen from any of the audits or reviews listed above have been satisfactorily completed. Rectification Reviews are particularly relevant for Business Process and Transactional Compliance Audits, where auditors will work with training providers to develop a Management Action Plan to address any weaknesses or instances of risk based on specific actions, responsibilities and timelines.

Other types of audits, reviews and assurance: The Department has flexibility under the Contract to design and undertake targeted audits and reviews to investigate specific issues that may include a combination of the above audit and review types as well as student interviews and training observations. Pre-contracting quality assurance reviews may also be conducted as part of the Department's Provider Selection Process.



