

Victorian Training Guarantee Contract Compliance Audit Strategy



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Introduction

The Department of Education and Early Childhood Development (the Department), enters into contracts with a network of training providers to deliver vocational education and training (VET) to eligible individuals under the *Victorian Training Guarantee* (VTG). The VTG contract describes the range of obligations and standards that each training provider is required to meet in order to receive funding from the Department.

The Department's '*Victorian Training Guarantee Compliance Framework*' (Compliance Framework) provides guidance for the administration of the VTG contract, in the context of a demand driven service delivery model.

To make sure that training providers have both the knowledge and tools to deliver training in accordance with the terms and conditions of the VTG contract, the Department offers a range of support services. This includes regular information sessions, an online enquiry service and a range of user guides for key aspects of the system.

Alongside these activities, the Department takes a risk management approach to verifying compliance. This includes monitoring data reporting and funding claims behaviour, investigating and responding to complaints, conducting exploratory meetings with training providers, and undertaking contractual, financial and forensic audits. The full spectrum of activities can be seen in Figure 1 opposite.

This document describes the VTG Contract Compliance Audit Strategy (VTG Audit Strategy) that guides the VTG Contract Compliance Audit Program (VTG Audit Program).

The VTG Audit Program supports a comprehensive and transparent approach to compliance, which is a key mechanism in assuring the public and other stakeholders of the integrity of the training system, and ensuring that the objectives of the government's policy for vocational education and training are met.

It also provides guidance for training providers on how to prepare for audit and the possible outcomes that can arise from audit results.

Figure 1: Compliance Framework

Phase	Activities	Compliance response
Ensuring Compliance	Withhold payment Recoup funds Suspend/Terminate contract Referral to regulator	Enforcement and Sanction
	Forensic investigations Financial investigations Off cycle audit	Correcting behaviour
	Correspondence Seeking further information Face to face meeting	
Monitoring and program management	Compliance Audit Program	Providing feedback
	Behaviour Monitoring Data reporting Claims Payments Interaction with Department Complaints investigation	
Information and Support	Providing help and support to comply Guides and information products Enquiries Information sessions User Groups	Supporting Compliance
Setting standards for entry and establishing the Service Agreement	Service Agreement Terms and Conditions	Setting standards
	Entry criteria	
	Registration with a regulator	

Purpose

The VTG Audit Strategy has been developed to assist training providers to understand the VTG Audit Program and to provide information on how to prepare for contract compliance audits.

The VTG Audit Strategy provides:

- the context and objectives of the VTG Audit Program – *Why do we audit?*
- information about the risk-based framework applied to audit selection – *Who do we audit?*
- an overview of the end to end audit process – *How do we audit?*
- preparation tips to assist training providers to plan for audit – *What, when and where do we audit?*
- information about next steps in instances where non-compliance(s) with the VTG contract are identified at audit
- information about the audit feedback process



Training provider responsibilities

As described in the Compliance Framework, the Department expects training providers to:

- be familiar and act in accordance with the requirements of the VTG contract, and understand their obligations
- co-operate with the Department to demonstrate and verify compliance
- ensure correct and timely reporting of training data
- be responsive to questions about their activities and compliance
- take a professional approach to compliance

In accordance with these general expectations, the VTG Audit Strategy is based on the understanding that a training provider has committed to:

- implement internal controls environment that promote training quality and compliance with the VTG contract
- maintain and prepare relevant audit evidence in accordance with the VTG contract
- cooperate and provide the Department and its auditors with access to all information reasonably required for the purpose of confirming compliance with the VTG contract
- be professional in its approach to audits and cooperate with auditors in the development and implementation of an Agreed Management Action Plan and any rectification actions if necessary.

Contract compliance audits are not a substitute for good contract management practices and support training providers to meet their responsibilities within the VTG contract.

The Department's *'Statement of Expectations: Principles and obligations for government contracted training providers in Victoria'* (the Statement) is also relevant in this regard. The Statement provides guidance on the responsibilities and ethical behaviour training providers should adopt in service provision and business practice. It is the responsibility of training providers to ensure they act in accordance with the Statement. The Statement can be found on the Department's website.

Why do we audit?

The Department recognises that the majority of training providers want to do the right thing. The Compliance Framework, therefore, emphasises the Department's commitment to supporting and ensuring high levels of performance so that government funds are used appropriately and the public can have confidence in the quality of the Victorian government subsidised training system.

Therefore, the specific objectives of the Audit Strategy are to:

- **Confirm that funding has been expended appropriately:**
To confirm that funds paid to training providers under the contract have been expended for the purpose they were provided and to seek reimbursement of those funds where this has not occurred in a clear and transparent manner.
- **Promote training provider regulatory and standards compliance:**
To confirm that training providers meet contract *requirements* and where this has not occurred, to recommend options for remedy or penalties and sanctions as appropriate in a clear and transparent manner.
- **Promote training provider process quality:** To identify opportunities for improvement in training providers' business processes and controls and identify good practices.



Who do we audit?

The Department's approach to contract performance is risk-based and an annual review of the Victorian training market informs the strategic approach to audit priorities each year. Market shifts are also monitored on an ongoing basis throughout the year. Information from the Market Monitoring Unit also informs the annual Audit Strategy.

The Audit Strategy draws on the annual review to identify detailed risk parameters to select training providers for audit. A broad range of information is taken into account including previous audit results, training activity data, and claims and payment history. Training providers are then assessed against these parameters and classified as either high, moderate or low risk. The majority of training providers selected for audit are chosen based on their risk profile, although the program is rounded out by the inclusion of a small random sample of training providers, regardless of their level of risk. A planned audit program and schedule is developed from the annual risk review.

The Department also initiates off-cycle audits throughout the year to respond to, or establish further information about, an identified market shift or behaviour.

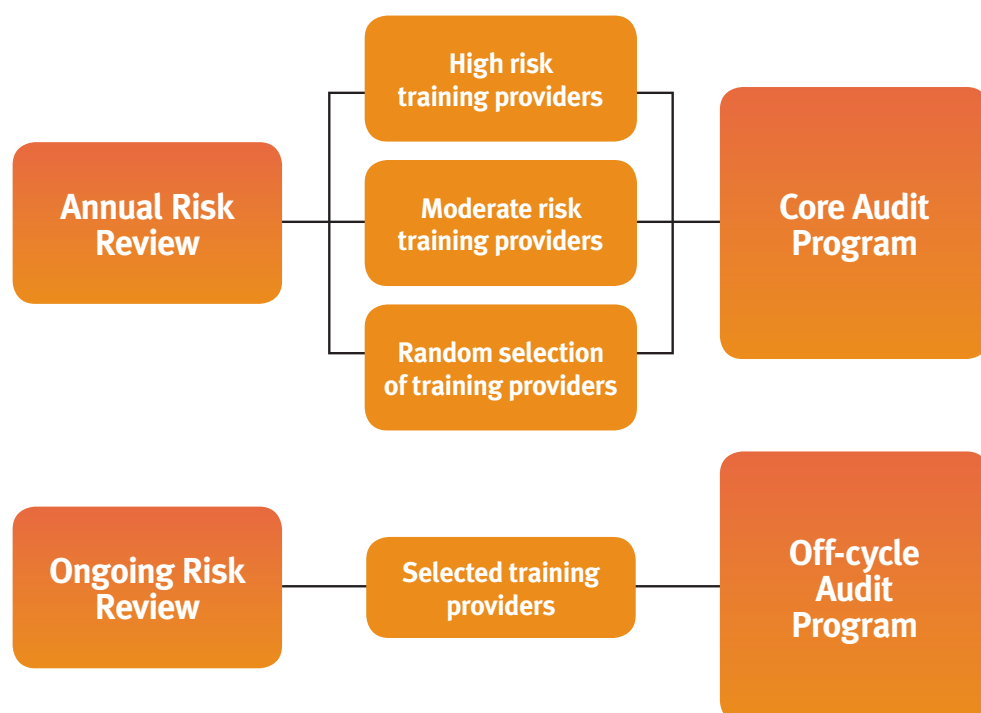
This approach results in two streams of audit activity – a Core Audit program, planned in advance through the annual audit review; and an Off-cycle Audit Program, triggered across the year in response to emerging issues.

Figure 2 provides an overview of the way in which training providers are selected for audit and the resulting audit streams.

Figure 2: Performance based selection of training providers for audit

Who?

Risk-based selection of training providers for audit



How do we audit?

A suite of audit types is used to support training providers to maximise their contract performance and ensure that key contractual requirements are met.

A performance based approach is also used to determine the type of audit(s) that will be undertaken at each training provider.

Audits conducted under either the Core or Off-cycle Audit Program include:

- **Business Process Audits (BPA)** are designed for training providers and the Department to gain an understanding of key business processes used by a training provider to facilitate good practice and processes and to meet contract requirements. The BPA process is an opportunity for the Department to assist training providers to make improvements to their key business systems and ultimately improve contract performance.
- **Transactional Compliance Audits (TCA)** are used to highlight examples where there may be non compliance at a transactional level and involve the detailed examination and testing of records in specific areas, such as, enrolment and completion.
- **Evidence of Eligibility Audits (EoE)** identify whether a training provider has evidence of eligibility to support student course enrolments for which government funding has been claimed.
- **Evidence of Concession Audits (EoC)** determine whether a training provider has evidence that supports the granting of a Fee Concession or Fee Waiver for which government funding has subsequently been claimed.
- **Evidence of Participation Audits (EoP)** assess whether a training provider has evidence of participation to support a claim for payment for training against units of competency/modules in which students are enrolled.
- **Follow up audits** determine whether providers have addressed the issues identified in previous audits. The Department's auditors review whether the actions outlined in an Agreed Management Action Plan that has arisen from any of the audits listed above have been satisfactorily completed.

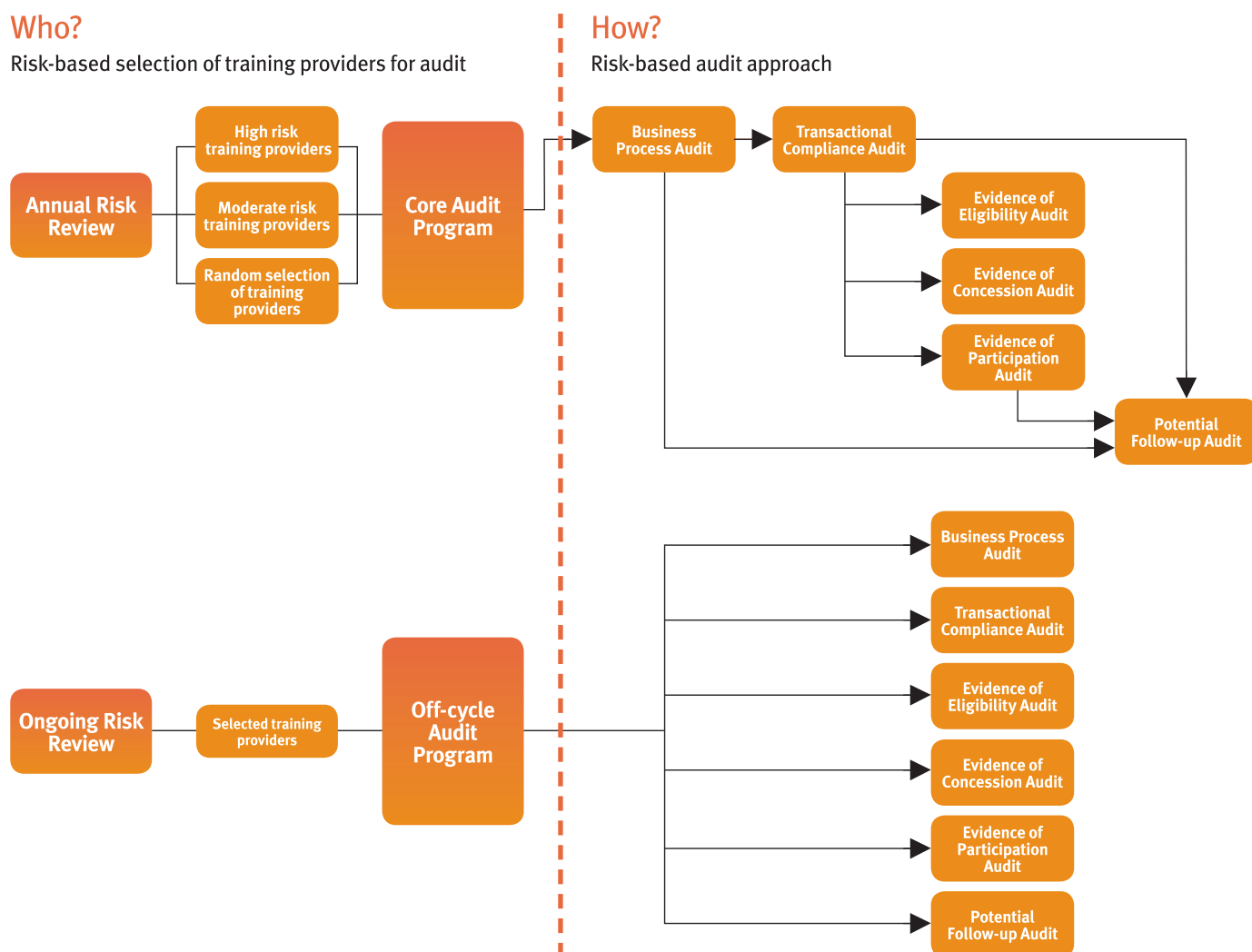
Follow up audits are particularly relevant for Business Process and Transactional Compliance Audits, where auditors will work with training providers to develop an Agreed Management Action Plan to address any instances of risk and contract performance based on specific actions, responsibilities and timelines.

The sequence in which the above audits may occur will depend on the issue(s) identified prior to audit. Depending on specific audit findings, the Department will determine if, and what type of, additional audit activity should occur. Where additional audits are carried out in the Core Audit Program this is referred to as Supplementary Audit activity.

Supplementary Audit activity will continue to target areas of identified risk until the Department is satisfied that all risks or issues that can be clarified or verified through audit are complete. Where a finding is considered significant or systemic, the Department may instigate a detailed audit focusing 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 that examines a larger number of transactions.

The results of any off-cycle audit may sometimes progress to additional audit activity, which could include a financial or forensic audit, depending on the risks identified or matter being investigated.

Figure 3: Contract Compliance Audit methodology overview



When will training providers be audited?

All types of audits can occur throughout the year and at any time.

For audits conducted under the Core Audit Program such as Business Process Audits, Transactional Compliance Audits and Follow up Audits, the auditor will seek to contact a training provider at least two weeks prior to the commencement of an audit.

For Off-cycle and some Supplementary Audits, regardless of the type of audit, the Department and auditors will generally notify a training provider two business days prior to the commencement of an audit.



Where will audits be undertaken?

Audits will usually be conducted at the training provider's premises. If a training provider operates over multiple sites, the audit may focus on the location where administrative processes and transactions typically occur. Alternatively, a multi-site audit 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 will occur.

Regardless of the location of the audit, a training provider is bound by its VTG contract to permit auditor(s) to enter its premises to conduct audits, and to participate in and assist, as required, with any audits required. This includes making available to the auditor(s) records relating to the training services, including Evidence of Eligibility, Evidence of Concession and Evidence of Participation in respect of each eligible individual. It is therefore the responsibility of each training provider to ensure that all files and relevant documents are accessible throughout the audit as requested by the auditors.

Who will conduct the audit?

Audits within the VTG Audit Program will be undertaken by a member of the Department's panel of independent contracted auditors.

The audit panel is appointed on the basis of professional competence in terms of audit capability and experience, flexibility and responsiveness, value for money and quality systems.

Auditors will conduct audits in accordance with the Department's requirements and provide a report that details the factual findings identified at the audit.

Auditors will discuss findings with training providers and identify opportunities for improvement as well as highlighting good business practices to ensure that providers are well placed to meet their contract terms. Auditors are not, however, able to discuss with training providers potential actions that might be taken by the Department in regard to audit findings.

On occasion, Departmental observers may attend the audit but do not usually have an active role in the audit itself.

How can training providers prepare for audit?

Undertaking the following activities prior to a contract compliance audit will greatly assist training providers and the auditors in the conduct of the audit:

- Understanding the requirements of the VTG contract
- Completion of the Internal Audit Checklist in accordance with timelines specified in the VTG contract including sign off by the CEO
- Progressing any actions required following completion of the Internal Audit Checklist
- Assigning an appropriate staff member to be responsible to support the audit process
- Collating all required data and files at the site of the audit in a logical manner, with particular consideration for tracking the end to end service delivery for eligible individuals
- Ensuring that records in a training provider's Student Management System and the Skills Victoria Training System are up to date
- Reviewing findings from previous audits and ensuring that any actions in an Agreed Management Action Plan have been implemented
- Reviewing any correspondence from the Department or the auditors regarding the audit
- Ensuring familiarity with the VTG Audit Strategy



What can training providers expect on the audit day(s)?

The auditor(s) 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.

A training provider is bound by its VTG contract to permit auditor(s) to enter its premises to conduct audits, and to participate in and assist, as required, with any audits. This includes making available to the auditor(s) records relating to the training services, including Evidence of Eligibility, Evidence of Concession and Evidence of Participation in respect of each eligible individual.

During the audit process, the auditor(s) may need to discuss items with relevant staff, students and employers (if relevant) to inform their assessment of compliance with the VTG contract.

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

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



Audit feedback and reporting

At the completion of each audit, the auditor(s) will prepare an audit report that details the findings of the audit, including opportunities for improvement and an Agreed Management Action Plan to address the findings, where relevant.

Agreed Management Action Plans will be developed jointly by the auditor(s) and the training provider and will describe specific activities to be undertaken by the training provider to address audit findings identified, including the name of the individual or team responsible and the agreed date for implementation.

The audit 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(s), including comments in relation to the audit findings and Agreed Management Action Plan.

The auditor(s) will review any management comments provided and amend the report, if considered necessary or appropriate. All management comments submitted by the training provider will be included in the audit report and submitted to the Department.

If the training provider does not give a response to the auditors within the designated period of time, the training provider will have waived its right to comment on the audit report.

Following consideration of the audit findings, a final copy of the audit report will be provided to the training provider and the Department in a timely manner.

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

Contract Compliance Audit satisfaction survey

The Department is committed to ensuring that its VTG Audit Strategy is effective and fair for all stakeholders of the VTG Program.

Training providers will be given the opportunity to complete a contract compliance audit satisfaction survey upon the completion of an audit to encourage open and honest feedback on the performance of the VTG Audit Program.

The contract compliance audit satisfaction survey, which will be administered by the Department independently of its auditors, allows training providers to give formal feedback on all elements of the audit including audit planning, audit execution and audit closing.

In the event that a training provider wishes to raise a matter relating to the VTG Audit Program process which cannot be addressed through the contract compliance audit satisfaction survey or via contact with the auditor(s) or relevant Departmental staff member(s), a training provider should submit formal correspondence addressed to the:

Director
Funding and Quality Assurance Services
Training Market Operations, Higher Education and Skills Group
Department of Education and Early Childhood Development
Level 3
2 Treasury Place
East Melbourne VIC 3002

Cost of Audit

The VTG contract requires that training providers reimburse any costs incurred by the Department in conducting audits. However, in a number of instances, the Department does not seek reimbursement of costs.

The Department will notify training providers in advance of an audit if they are required to reimburse audit costs.



Audit Outcomes

The Department recognises that its activities and responses need to be appropriate to the nature of the issues it encounters, and it works within a Compliance Framework that features an escalating and proportionate spectrum of interventions.

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

Where non-compliance is more systemic or of a significant nature the Department may seek recovery of funds and consider undertaking further audit or investigation activities.

The Department recognises that a small number of training providers may seek to gain a benefit or advantage to which they are not entitled or deliberately exploit the VTG program. The Department's response in these situations will be appropriate 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 report and where further clarification is needed, seek additional information. Any action taken by the Department will be communicated formally to the training provider.

When reviewing audit 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 individual training providers
- identify opportunities for improvement to assist training providers to maintain their contractual performance

Monitor and detect activities

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

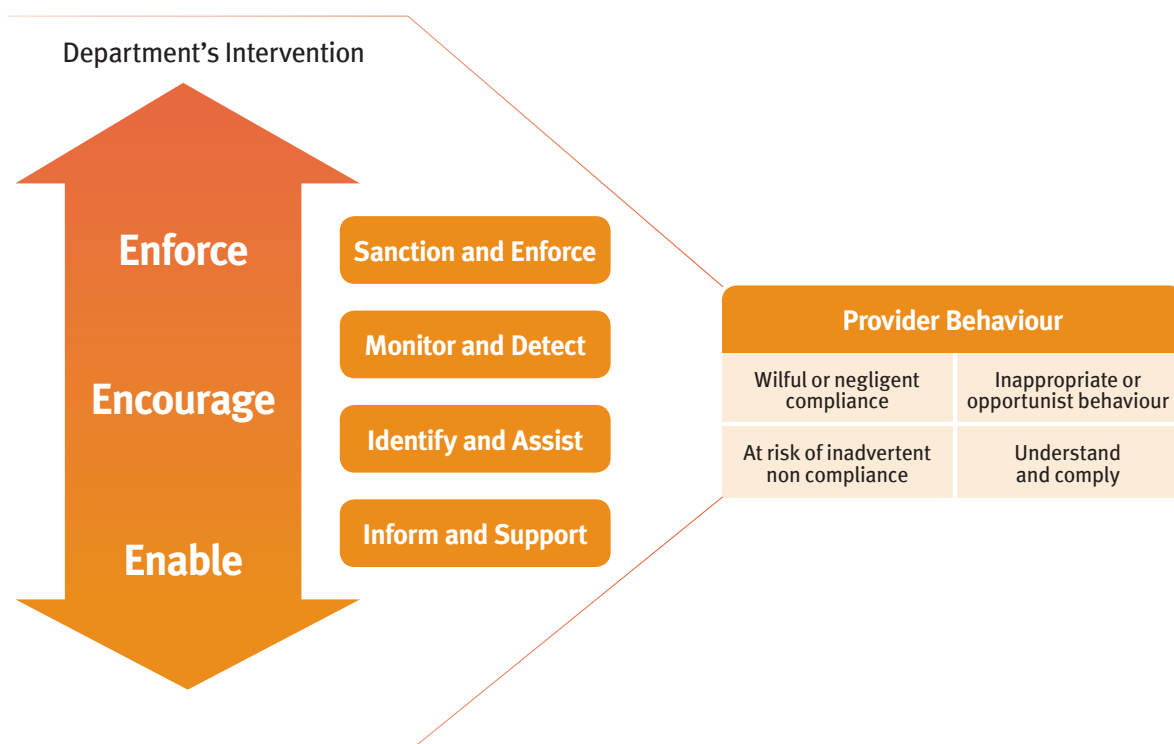
Sanction and enforcement actions

- meet with training providers to review findings and discuss implications
- review training data to identify inaccuracies
- recouping, withholding or preventing future payments of funding
- consider the termination of contracts, where significant non-compliances are identified
- consider whether training providers should be contracted in a future year
- notify the relevant regulator of any quality issues identified through audits
- consider applying penalties where appropriate.

Figure 4 below, describes the types of remediation and intervention various responses that the Department may choose to use.

While the above deals with the responses of the Department to the outcomes of audit, information and support is also provided to training providers prior to the conduct of any audit. Information and support includes the preparation and distribution of an Internal Audit Checklist and the sharing of training market information and audit priorities at regular information sessions.

Figure 4: Levels of compliance and response



Notes

