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Review of Tertiary Education Organisation Monitoring Framework
New Zealand Qualifications Authority and the Tertiary Education Commission

21 April 2015

Contents

1. Executive Summary

Summary of key points

Overall Conclusion

The review concludes that the broad approach to monitoring TEOs has the principal elements expected of a comprehensive framework. It is a high trust model with a reliance on voluntary compliance. The educational outcomes aspect is anchored on the self-assessment and development approach inherent in the EER. Monitoring of funding has both a development focus (through Investment Plans) and an audit focus.

There is, however, a disconnect where the interests of the two organisations intersect around programme delivery. While NZQA's TEO review efforts in this area focus primarily on the quality of the learning outcomes, TEC is also concerned that the input mix that supports a quality outcome is delivered. This is because funding at the programme level is driven by learning inputs, with the funding at the TEO level an outcome of the programme funding and the EFTS contracted to be delivered.

It is noted that some of the issues that arose in the earlier TEO reviews conducted by TEC related to potential fraud. The current monitoring approach across both organisations is neither designed nor resourced to detect potential fraud. The recommendations made in those specific reviews, and augmented in this report, will assist in identifying material potential fraud. However, it should be noted that the resources required to identify potential fraud will be beyond both organisations' resources.

The application of the monitoring framework will also benefit from a strengthening of joint planning and the use of analytics, as well as a number of other opportunities for improvement. These are addressed in the recommendations.

Summary of Findings

The findings have been derived from an assessment of the monitoring practices and processes of both organisations against a model monitoring framework.

Are we doing the right things?

1. Both organisations have developed an approach to monitoring that reflects their respective responsibilities and outcomes sought. NZQA has embedded their approach to monitoring within an overall evaluative framework that encompasses entry, self-assessment intermediate monitoring and external review with clear feedback loops. TEC's approach is less clearly defined but includes the principal elements required to support their objectives.
2. A risk based approach is used (for example NZQA's EER categorisation and TEC's) but there is room to better use available data to analyse known risk factors to enable better targeting of monitoring activities. The combination of desk-based review and periodic site visits is appropriate.
3. Each organisation plans its own monitoring activities. While there is information sharing at the point of visits there is little evidence of information sharing in the planning of the monitoring approach and programme.

Are we doing them well?

4.   No material gaps in capability relative to current activities were noted.

5.   Resourcing for current activities is adequate, but there will be resource implications arising from some of the recommendations to address opportunities for improvement.

6.   The design of NZQA's evaluative framework provides for specific feedback loops that support continuous improvement. TEC's framework has a less structured approach.

7.   Accountability is clear at NZQA with all monitoring activity reporting to a single executive. Monitoring activities are spread across finance and different parts of operations within TEC. This requires mechanisms for coordination to ensure comprehensive monitoring coverage.

What service delivery imperatives do we have?

8.   The TEO registration and accreditation processes are appropriate and robust. (Note that registration applies to PTEs).

9.   The Qualifications and programme approval processes are appropriate and robust. The work on streamlining the number of qualifications in the New Zealand Qualifications Framework is noted and can be expected to provide material benefits. TEC appropriately relies on the qualification and course approvals provided by NZQA.

10. NZQA places most emphasis on the quality of the outcomes from programmes delivered. Although programme approval involves approval of the mix of learning inputs (for example teaching hours, self-directed hours, practical hours) and these will be reviewed as part of the EER process, material variations are not considered problematic provided learning outcomes sought are met. EERs review a relatively small number of programmes at the larger TEOs.

11. TEC determines programme level funding in part on the learning inputs required. It relies on the EER process to review the quality of programme delivery. TEC undertakes its own reviews of EFTS delivered, and as a result of the issues arising from the recent TEO reviews has increased its review of learning inputs.

12. TEC has a strong focus on the viability of the TEIs in which the Crown has an ownership interest. The approach to monitoring is appropriate, although there is an opportunity to increase coordination with the investment planning team. TEC also monitors the viability of the larger PTEs, and ITOs.

How do we measure how we are going?

13. The EER is the principal tool used by NZQA as it leads to a whole of organisation view of the TEO performance and its corresponding category. This is a maturing process. It is risk based with the more capable TEOs receiving fewer visits. While there are issues with the reliability of the categorisation of TEOs it is noted that there is a consistency review that seeks to moderate the EER assessments. A review of sample EERs noted the strong developmental focus. Noting the issues for the recent TEO reviews there is an opportunity to tighten the focus on inputs and governance.

14. While the EER process underpinning the Category based system is of good quality there is concern the frequency of TEO reviews may not be sufficient to identify risk issues.

15. The TEC investment planning approach is relatively new. As such it is expected there will be learnings from its implementation that will further strengthen the approach.

16. Both organisations are diligent in the analysis and follow-up of complaints.

17. The TEC audit approach involving site visits occurs every 3-4 years for a TEO or sooner if required. The auditors meet regularly with NZQA, TEC and Studylink to share their findings and keep each other abreast of emerging or current situations that require consideration from each respective agency.

What information is delivered and available and is it relevant and credible?

18. TEO registration applications and the accompanying data are extensive and appropriate.

19. The TEO self-assessments reviewed showed a variety of quality levels. While these are important tools for setting an environment of responsibility and continuous development they have their limitations as evidence of capability and performance. EER reviewers must retain their professional scepticism and look for verifiable or corroborative evidence.

20. The SDR is a key data source that supports TEC, but also NZQA, MoE and other agencies. It is scheduled for a refresh which is an opportunity to address issues related to timing and relevance of data captured, as well as the technology platform.

21. Attestations relating to financial viability are received by NZQA and a Statutory Declaration relating to financial viability is received by TEC (for those TEOs not already providing formal reporting to Government).

22. TEC has a core analytics capability which it is seeking to utilise more effectively. NZQA has only recently started to develop its analytics capability. There is good work being undertaken in the identification of risk factors (such as complaints, changes in senior management/governance, merger and acquisition activity, rapidly expanding curriculum, rapid changes in student numbers, financial viability issues, persistent late reporting). Neither organisation is using currently analytics to the extent possible to help identify and direct monitoring issues and efforts.

23. There is good sharing of entity level information between NZQA and TEC.

Summary of Recommendations

The recommendations in this section comprise those for joint consideration as well as a number for each of NZQA and TEC to consider. Taken together, if implemented, the overall monitoring of TEOs will be strengthened.

Joint recommendations

1. It is recommended that NZQA and TEC jointly plan the overall approach to monitoring TEOs. The need for joint planning arises from the reliance that TEC places on the review activities of NZQA. A commitment to formal joint planning will enable coordinated risk assessment and enhance information sharing. It should help ensure that key risks receive appropriate focus from the organisation best placed to address them.

2. The joint planning process should resolve the required level of focus on the monitoring of programme inputs. While the NZQA focus on the quality of learner outcomes is appropriate, material departures in the actual course input mix from that proposed as part of the programme approval process raises questions about the credibility of that approval process. The requirement for re-approval of programmes where the mix of inputs materially changes should be enforced and result in funding adjustments.

3. There is significant scope to use data analytics more extensively, both in risk assessment, and also in identifying specific issues for review and investigation, including areas of potential fraud. NZQA has recently begun developing capability, and TEC has some existing core capabilities. It is questionable if each organisation on its own has the scale to sustain the desired capabilities. Both organisations should explore the case for a shared analytics capability.

4. Through the joint planning activity referred to above, the two organisations should determine the additional level of review that may be required around programme input mix. TEC has a stronger interest in this matter than NZQA and must make its own decisions on the extent to which the EER process needs to be augmented by its own activities.

NZQA

5. The risk framework for monitoring is in the early stages of development. This work should be completed as a priority, ideally as part of the joint approach referred to above.

6. NZQA should consider a greater focus on the mix of inputs as part of the EER process, including testing a larger number of programmes.

7. The analytics work on identifying risk factors should continue as a priority. This should be a key input into identifying TEOs for review and should influence the periodic review cycles currently driven by categorisation outcomes.

TEC

8. TEC should clarify where the overall accountability for monitoring of TEOs lies. Currently activities are dispersed over Finance (Audit), Crown Monitoring, and Investment Planning functions. This need not be structural change.

9. The SDR should be reviewed to ensure that the current data collection is fit for purpose. TEC and NZQA should engage with MoE through the SDR governance group to ensure the planned refresh fully supports its requirements.

10. TEC should obtain a single representation from TEO boards and Chief Executives attesting to compliance with funding conditions (including programme input mix) and the accuracy of reported SDR data.

2.   Introduction

Scope of the Engagement

Background

A number of agencies are collectively tasked with achieving Government outcomes for tertiary education. The New Zealand Qualifications Authority (NZQA) and the Tertiary Education Commission (TEC) work closely with the Ministry of Education (MoE), Careers New Zealand, Education New Zealand, the Education Review Office, the New Zealand Teachers Council, Immigration New Zealand, the Ministry of Foreign Affairs and Trade, Te Puni Kōkiri, the Ministry of Pacific Island Affairs, the Ministry for Business Innovation and Employment, and other agencies to support the Government's aims[1].

NZQA is the primary agency with responsibility for the robustness and credibility of New Zealand's educational qualifications, including the programmes it approves as part of the New Zealand Qualifications Framework.

TEC is the primary agency with responsibility for allocating funding to the tertiary sector, including funding for the delivery of programmes based on equivalent full time students (EFTS), and for monitoring the Crown's ownership interests in tertiary institutions.

The Tertiary Education Organisation (TEO) sector comprises Tertiary Education Institutions (TEIs), Private Training Establishments (PTEs) and Industry Training Organisations (ITOs). TEIs are Crown owned and comprise Universities, Institutes of Technology and Polytechnics (ITPs) and Wananga. There are currently eight Universities, 18 ITPs, three Wananga, 16 ITOs and more than 550 PTEs.

While all TEIs and ITOs receive TEC funding, not all PTEs do.

Recent reviews at four Tertiary Education Organisations (TEOs) identified a number of issues concerning programme quality and financial accountability.

As a result NZQA and TEC jointly commissioned an external review of their TEO monitoring processes and practices.

Objectives

The review is to answer two questions:

1.   Is the monitoring framework in place fit for purpose?
2.   Are there any improvements and learnings that, if implemented, could strengthen monitoring processes and practices?

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[1] *New Zealand Qualification's Authority, Statement of Intent 2014 – 2018, Wellington, New Zealand, 2014.*

Scope

The scope includes the quality assurance, delivery and financial monitoring activities undertaken by NZQA and TEC. It is noted NZQA's Evaluative Quality Assurance Framework was subject to review by an independent international panel in 2012 and as a result the review of this aspect of the monitoring process is limited to the implementation of its findings.

The review should include, but not be limited to:

- the effectiveness of the risk based approach,
- use of information and analytics,
- coordination between NZQA and TEC, and
- processes to ensure TEO accountability and capability.

While the University sector is not a primary focus of this review it is expected that some of the learnings may have applicability to it.

Timeframe and Reporting

The review commenced 20 January 2015 and a draft report was completed by 31 March 2015.
The report has been provided to both NZQA and TEC.

Structure of the Report

This report is structured into seven sections.

- Sections three and four provide background to the roles and responsibilities of NZQA and TEC respectively, detail on the monitoring practices specific to each organisation, and the processes used to underpin those practices.
- Section five compares the monitoring practices and processes against an expected framework so as to identify gaps and opportunities for improvement.
- Sections six and seven round out the findings, conclusions and recommendations.

Key Sources of Information

The review included 24 interviews with senior personnel across NZQA, TEC and the Ministry of Education (MoE).

In addition to the interviews the review was provided with all relevant and necessary materials from both NZQA and TEC to properly conduct the review.

Recent Reviews of Tertiary Education Organisations

The recent reviews of TEOs which experienced difficulties raised a number of themes that are useful in providing some context for this report. Those TEOs were:

- Te Whare Wananga o Awanuiarangi (TWWoA),

- Taratahi Agricultural Training Centre,

- Western Institute of Technology at Taranaki (WITT),

- Withheld under OIA section 9(2)(b)(ii)

The general themes that arose included:

- Inconsistency in teaching hours reported to TEC versus the hours actually delivered

- The number of EFTS reported to TEC versus the true number of EFTS

- Variations, some material, between the mix of learning inputs on which a programme was approved by NZQA versus the learning input mix actually delivered

- Whether the length of time between reviews for Category One TEOs (currently four years) is appropriate given the risks that may present.

Some of the issues identified involved potential fraud which was referred to the Serious Fraud Office.

This report does not revisit the detailed matters raised in the reviews but does consider the implications of the themes for the effectiveness of TEO monitoring practices and processes.

3. New Zealand Qualifications Authority

Role and Purpose

The role of NZQA (Mana Tohu Matauranga o Aotearoa) is to ensure that New Zealand qualifications are regarded as credible and robust, nationally and internationally. Learners from all ages and stages, whānau, teachers, educators, iwi, industry - all depend on NZQA to support their aims through:

- managing and improving the New Zealand Qualifications Framework (NZQF)
- administering the secondary school assessment system
- providing independent quality assurance of tertiary education organisations
- engaging internationally to support people coming from and going overseas.

NZQA's Strategic Priorities

NZQA's strategic objective: Increasing learner achievement for all and contributing to New Zealand's economic prosperity.

NZQA's four strategic priorities:

1. Increasingly moving NZQA's services to being online, accessible at any time and from anywhere
2. Continuing to strengthen quality assurance across both tertiary and secondary education
3. Deepening the global reach of the New Zealand Qualifications Framework (NZQF)
4. Continuing to contribute to improvements in education system performance by engaging with families and communities (in particular Māori and Pasifika)[2].

Monitoring Practices

The basis for NZQA's monitoring rests in the primary legislation (the Education Act 1989 and its various amendment acts and the Industry Training and Apprenticeships Act 1992) and in secondary regulation embodied by various sets of rules. These rules cover, among other things, requirements for registration of relevant TEOs, accreditation to provide approved programmes and consent to enable assessment against standards.
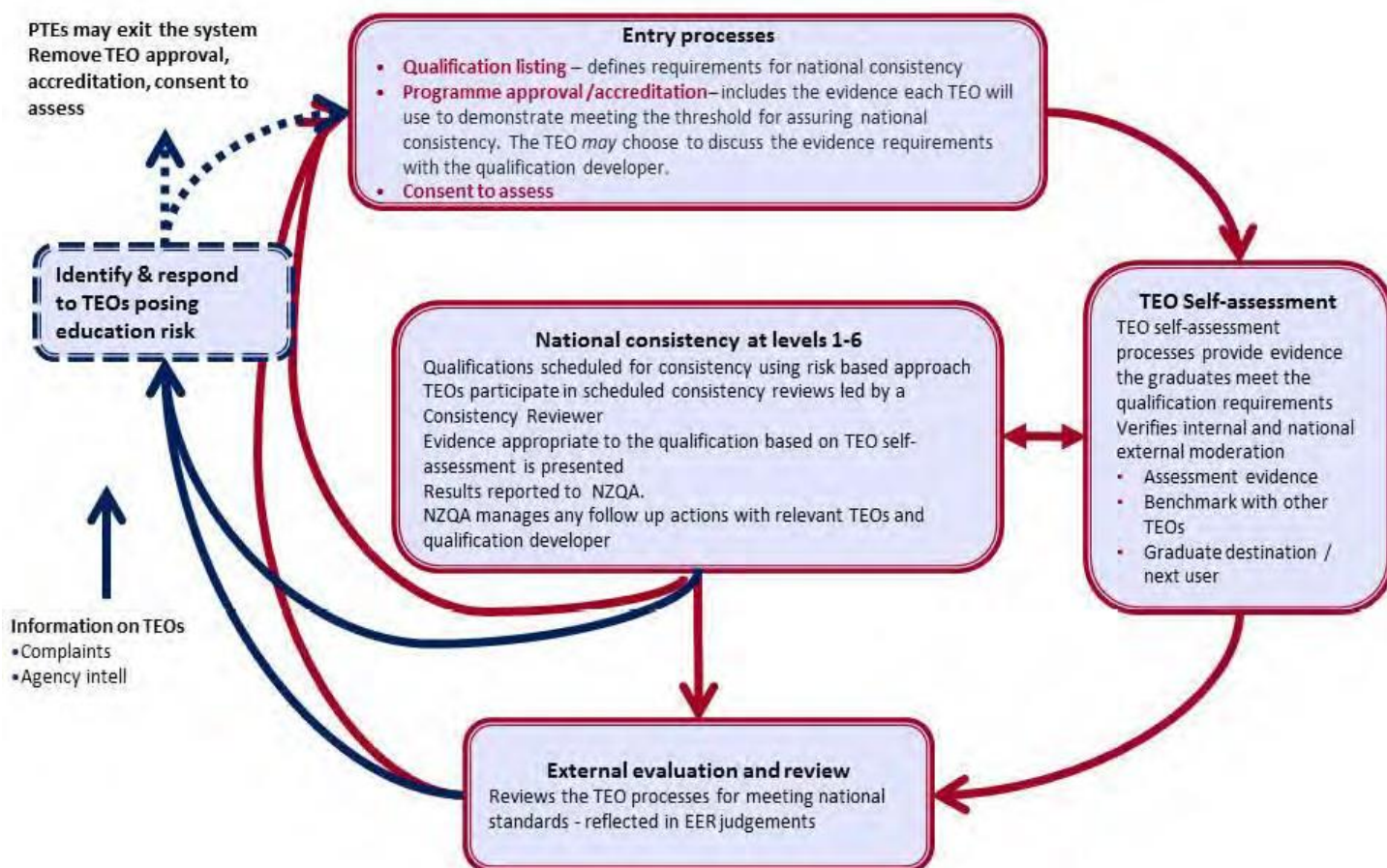
Within the Tertiary Education sector, NZQA's core focus remains at all times on the learner and the learner's outcomes. The following diagram outlines the activities involved in assuring national consistency at each step of the quality assurance framework. Assuring consistency is a newly introduced quality assurance process supplementing overall monitoring of qualification quality and is happening in the period between EERs.

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[2] New Zealand Qualifications Authority, *Briefing for the Incoming Ministers of Education and Tertiary Education, Skills and Employment,* Wellington, New Zealand, 2014

There is a clear connection between policy thinking and implementation of the maintenance of quality delivered by TEOs. This provides a holistic approach to monitoring qualification quality that focusses on capability of organisations at entry, and on-going monitoring through consistency reviews, external moderation ad acting on sector intelligence in conjunction with periodic external review, underpinned by a self-assessment framework designed to encourage continuous improvement. The guiding Statutes and NZQA Rules provide clarity and a robust set of guidelines ensures potential TEOs wanting to enter the market understand how to satisfy those standards. NZQA's review processes ensures the quality of those standards are held to a minimum with feedback reflecting both the positives and opportunities for improvement necessary for retaining, as appropriate, registration and accreditation status.

Assuring national consistency of *graduate* outcomes

NZQA adds value to the NZQF by protecting the integrity of NZ qualifications on the framework.

PTEs may exit the system Remove TEO approval, accreditation, consent to assess

Identify & respond to TEOs posing education risk

Information on TEOs
• Complaints
• Agency intell

Entry processes
• **Qualification listing** – defines requirements for national consistency
• **Programme approval /accreditation** – includes the evidence each TEO will use to demonstrate meeting the threshold for assuring national consistency. The TEO *may* choose to discuss the evidence requirements with the qualification developer.
• **Consent to assess**

TEO Self-assessment
TEO self-assessment processes provide evidence the graduates meet the qualification requirements Verifies internal and national external moderation
• Assessment evidence
• Benchmark with other TEOs
• Graduate destination / next user

National consistency at levels 1-6
Qualifications scheduled for consistency using risk based approach TEOs participate in scheduled consistency reviews led by a Consistency Reviewer Evidence appropriate to the qualification based on TEO self-assessment is presented Results reported to NZQA. NZQA manages any follow up actions with relevant TEOs and qualification developer

External evaluation and review
Reviews the TEO processes for meeting national standards - reflected in EER judgements

Registration of PTE Process

Those seeking to register as a PTE follow a rigorous process designed to ensure the requirements of the Education Act 1989 are adhered to as well as ensure that the newly created PTE can sustain itself in the best interests of the students.

NZQA assess each application for registration as a PTE on a case by case basis against the requirements of the Act and the Private Training Establishment Registration Rules 2013. When evaluating an application for registration, NZQA may request further information from the applicant. Where key documents are missing or incomplete, the applicant will be advised and required to resubmit the information within an agreed timeframe. If the information is not received within the agreed timeframe, NZQA may close the application and all documents will be returned to the applicant. In most cases, NZQA will make a site visit to verify the application details. NZQA sets a timeframe of six months to complete the registration process.

The information requirements are extensive and include details of education proposed to be provided, governance structures and arrangements, staffing and other resources, quality management processes, and evidence of acceptable financial management processes and performance.

If all requirements are met an application is approved. If not, approval may be grated with conditions attached, or declined.[3]

The moment an application is approved, the PTE is then subjected to NZQA's monitoring processes.

External Evaluation Review

EER is a key part of NZQA's integrated framework for evaluative quality assurance. It is an independent evaluation of a TEO that leads to a statement of confidence by NZQA in the institution's educational performance and organisational capability in self-assessment. Universities fall under the responsibility of Universities New Zealand.

The EER is used to monitor and assure the level of quality of qualifications being delivered by TEOs. An EER is typically carried out once every four years or more frequently if required. Approximately 180 reviews take place annually across 600 TEOs for both Government funded and non-funded organisations. Each review spans about seven months duration including the four months' notice given to the TEO.

A report is drafted by the evaluation team, is internally quality assured and then released for comment to the TEO. A draft report is provided to NZQA (and TEC if the TEO is funded) and other business units within NZQA. . Feedback is invited to correct, validate and verify all the findings information contained in that report. Once the draft report is finalised it is logged in NZQA's system and published. Depending on the findings of the EER, an earlier EER may be deemed necessary.

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[3] New Zealand Qualification's Authority, *Guidelines for Private Training Establishment Registration,* Wellington, New Zealand, 2013.

The EER report evaluates the quality of the organisation and its educational performance.

- whether past recommendations have been implemented
- a summary of the visit
- outcomes for learners, employers and other stakeholders
- compliance with approved programmes as checked against the compliance declaration submitted by the organisation prior to the EER
- a review of the structure of a programme to identify what has been added and what may have been removed e.g. the addition of elective subjects
- analysis of learner achievement including completion rates, grade spreads, and overall support for learners
- the effectiveness of teachers and their methods of teaching within the context of learner achievement
- assessment including internal moderation
- Resourcing with a notable focus on teacher quality and appropriate number of staff
- effectiveness of stakeholder involvement measured through external advisory feedback
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- the quality of research in organisations which deliver degrees
- governance and management arrangements
- any issues and challenges facing the TEO,
- recommendations for future improvement

The EERs are based on a sample of programmes particular to the respective TEO being reviewed. As part of that review, NZQA focus on the performance structure of management and governance, as well as any external advisory group.

It should also be noted that the EER process reflects NZQA's intent of ensuring the attainment of outcomes, in particular for learners, meaning the process tends not to focus on any input based measure such as funds invested.

It was highlighted during the interview process that it is not uncommon for TEOs to second guess NZQA's reporting requirements and this appears to be increasing. The motives vary and can add to the length of time it takes to complete a review.
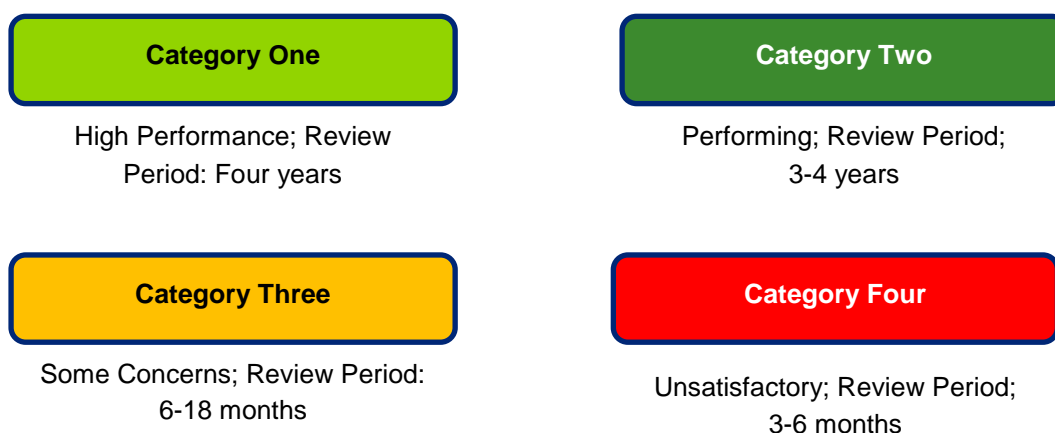
It was also highlighted during the interview process that the number of TEOs pursuing legal avenues to overturn the findings of an EER is increasing. The extra work and stress associated with this development has resulted in at least three external reviewers withdrawing from the review process as well as added pressure to existing reviewers to carefully and accurately record their findings. NZQA retains a high success rate at defending litigation.

Prior to an EER being undertaken, NZQA meets with TEC to share insights and related information. Upon the conclusion of an EER, NZQA, shares that review (provided the TEO is funded) with TEC.

Category System

NZQA follows a categorisation system for determining the overall performance level of TEOs. Those in Categories One and Two require less frequent visits from reviewers while those in Three and Four require more frequent visits. TEOs can elect if they wish to have an earlier than usual visit.

DIAGRAM 2: NZQA Category Review Period

Category One	Category Two
High Performance; Review Period: Four years	Performing; Review Period; 3-4 years

Category Three	Category Four
Some Concerns; Review Period: 6-18 months	Unsatisfactory; Review Period; 3-6 months

Currently there are between 10-20 TEOs in Category Three and three-four in Category Four. Most TEO's which have found themselves in Category Four in the past have exited the sector because they cannot meet required standards.

If a TEO is rated a Category Three or Four it is because there are critical issues that need to be dealt with.

International Panel

The International Panel headed by Doctor Ranginui Walker in 2012 highlighted the need for greater interaction with TEOs in the sector. However, the panel's report suggested NZQA should, as much as possible, allow for the highest possible levels of autonomy among TEOs[4]. While the Categorisation system rewards those performing well and reinforces Dr. Walker's notion of autonomy some of those interviewed were concerned that changes in categorisation could adversely impact the integrity of the EER process. Further, if a TEO is moved to Category Four it can be too late to assist that particular TEO in which case NZQA, focussing on the learners, may work to shift those learners to another Organisation. TEOs are required to alert NZQA at the earliest instance to issues that may impact on their ability to deliver quality education with some TEOs taking up the opportunity to request an earlier review from NZQA.

The Panel also identified a dependency on key resources. NZQA is alert to this and has been managing a staged transition.

Attestation Required by NZQA

PTEs are required to send a Chartered Accountant Professional Attestation to NZQA every year within five months of their financial year end.

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[4] *International Panel Report,* New Zealand Qualification's Authority, Wellington, New Zealand, 2012

This attests to the financial viability and financial practices of the PTE based on a financial audit or review.

However for Category One providers the Chartered Accountant Professional Attestation is only required every two years.

4. Tertiary Education Commission

Role and Purpose

The TEC (Te Amorangi Mātauranga Matua) invests government funding of approximately $2.8 billion in tertiary education in New Zealand each year.

TEC is responsible for monitoring and managing the performance of organisations funded, and provides information and advice to government about the tertiary education sector. It should be noted that not all TEOs receive funding from TEC.

It gives effect to the Government's requirements for tertiary education as outlined in the Tertiary Education Strategy and acts in accordance with its role and responsibilities as set out in the Education Act 1989.

Monitoring Practices

TEC is responsible for the investment of funds to organisations within the Tertiary Education Sector. Section 159I of the Education Act enables Ministerial determinations on funding by way of direction to TEC in respect of individual funds. Each determination will contain details such as the period to which funding applies, the funding available, the funding formula(e) and rates, TEO eligibility, eligible programmes and funding conditions. The Investment Plan, prepared in tandem with the TEO, provides the basis for the funding allocation to a TEO and sets out the Funding Conditions on which the funding is provided. These investment plans and funding conditions are monitored across funded TEOs by Investment Managers.

TEC assigns Investment Managers to each TEI, ITO and larger PTE to:

- provide advice to TEOs on the development of Investment Plans to ensure they align with the Government's expectations as set out in the Tertiary Education Strategy and Plan Guidance
- ensure good investment decisions are made
- monitor the delivery and follow-up of Plans to ensure outcomes are achieved
- monitor the financial and educational viability of institutions
- monitor the financial and operational viability of TEIs, including sustainability and governance considerations, as well as overseeing the Crown's financial interests

Initially, NZQA will approve qualifications and programmes which a particular TEO may seek to provide. TEC will then determine if the programme is suitable to fund. The objectives of each organisation shape their respective monitoring focus. For instance, NZQA is primarily concerned with maintaining high standards of qualification quality while TEC is concerned about the specific deliverables that it has funded such as teaching hours, the number of EFTS and course completions. Both lead to the overall outcome of the 'learner' as well as ensuring consistency across all processes of 'learning' albeit in different ways.

Financial monitoring framework overview

TEC has recently implemented a new Financial Monitoring Framework (FMF). This framework allows TEC to apply a transparent and consistent approach to monitoring the financial performance of TEIs.

TEC uses the FMF to ensure that its response to financial risk is appropriate, graduated, and focuses resources on the areas of greatest need. It also assesses whether certain TEIs require more support, guidance or, if necessary, a formal intervention to return them to a more stable financial position.

TEC considers more than just the current financial performance of TEI's. The framework utilises historical reported performance, and forward-looking forecast information supplied by TEI's. These measures are combined into an overall risk rating. An increased weighting is applied to the forecast information when the TEC has higher confidence in the forecasts being supplied. This allows the framework to be as forward looking as possible.

The framework uses a series of measures that reflect different elements of TEIs' financial performance. These measures are grouped into two main categories:

- Viability, which provides a shorter term view, and
- Sustainability, which provides a longer term view.

The measures assess financial ratios related to profitability, liquidity, the level of borrowings, a TEI's ability to service any borrowings, along with a range of measures that look at how stable the operations of a TEI are.

These scores result in an overall FMF risk rating. This rating categorises TEI's as:

- Low risk (a score of 3 or higher)
- Moderate risk (a score between 2 and 3)
- High risk (a score of below 2)

If TEC has very low confidence in the forecast supplied, the best risk rating achievable is moderate risk, due to the uncertainty such a situation presents.

TEC produces a one page summary report for each TEI when there is enough new information available. This typically occurs when TEI's provide audited results and -year forecasts to TEC, although these can occur more frequently for moderate or high-risk TEI's.

The overall risk assessment determines the level of monitoring TEC undertakes and the level of reporting required from TEI's. This also applies to ITOs and PTEs.

PTEs have a graduated framework of analysis applied. Those with funding in excess of $2 million have financial information collected and assessed against a set of prudential financial standards, and a wider set of financial indicators which results in a risk assessment. Where there are concerns an action plan is agreed with the PTE. For smaller PTEs TEC relies on the NZQA Chartered Accountant's Professional Attestation (CAPA) and assessments on a sample basis using risk triggers.

Single Data Return System

TEC relies on those TEOs it funds to self-assess and report those results back to TEC. This data is captured by the Single Data Return System (SDR), three times a year and often in retrospect. While the SDR is functioning it is considered out-of-date and in need of significant updating, to meet TEC's evolving systems for monitoring. There were significant concerns raised across all three agencies interviewed about the SDR including:

- Timeliness issues for collecting, collating, synthesising and reporting on data received from TEOs. (For example there are challenges for a TEO which is relying on the next round of funding to arrive, but must, however, wait for the SDR reporting process to be completed for TEC to verify the amount of funding.)
- The transactional burden driven by the Annual Maximum Fee Movement. TEC funds courses not qualifications meaning TEOs wishing to adjust the fees within their respective caps have to account for this in their SDR reports. TEC cannot process these movements until the April SDR information is filed. It is noted that with the intention to bring the current April (2015) SDR return forward TEC will have fewer working days to process a large volume of transactions
- Impacts on TEOs which have the best intentions to report and meet their obligations
- Extra work to be completed within a shorter timeframe if a TEO has incorrectly reported on its data-sets (for example an incorrect number of EFTS relative to its funding received)
- TEOs have themselves moved to new reporting systems that are more advanced compared with the SDR
- Whether the cost of the SDR is outweighed by the benefit from monitoring
- The ability of the SDR to cope with supplementary 'add-ons' that allow it to receive, process and transmit data on time.

It has been acknowledged that the SDR would be very expensive to replace in its entirety. However, a "refresh" of the technology is due for implementation in early 2016 which will extend its life to 2019 at least. The data and information provided by the SDR system is considered critical to TEC's monitoring processes and therefore needs to support such processes adequately and efficiently.

From a risk management point of view the amount of meta-data available can make it difficult to detect risk without the use of sophisticated analytical tools and capabilities.

Review Process of the Auditors

TEC has two full time auditors who review PTEs, Wananga, ITOs and ITPs. Their primary role is to validate information issued by that TEO, to TEC, via the SDR system. Extra emphasis recently has been placed on the number of teaching hours being delivered as well as conditions attached to funding.

The audit process is carried out once every 3-4 years. TEOs can request a more frequent review subject to TEC's capacity.

At the conclusion of each audit process, a report is produced that is first reviewed by the TEO and, on confirmation of all facts, finalised by TEC. If any items arise that require attention, TEC produces an action plan for follow up.

Attestation Required by TEC

To maintain TEC funding, TEO's other than institutions not providing financial performance information to the Government, including Government agencies such as NZQA and MoE, must make an annual attestation, in the form of a Statutory Declaration, as to the financial stability of the TEO.

The attestations must be provided to the TEC within 90 days of the TEO's financial year end.
The Chairperson of the TEO Board would normally be the authorised person to make the declaration.

For those organisations receiving funding of $50,000 (excl. GST) or less TEC relies on the NZQA Chartered Accountant's Professional Attestation.

From 2016 TEC will also take over the collection of the Chartered Accountant's Professional Attestation for funded PTEs from NZQA and will modify the format to ensure compliance with prudential financial standards is confirmed.

All SDR data submitted must be signed off by the Chief Executive of the TEO.

5. Model Monitoring Framework

The typical components of a monitoring framework are set out in Diagram 3. The framework can be used to apply to an organisation (such as NZQA or TEC), to a policy area (such as funding for youth training), or to an activity. For the purposes of this review we apply the framework to the activity of monitoring TEOs.

As TEOs both deliver programmes approved by NZQA and may receive funding from TEC, applying the framework begins with defining the expectations both organisations have of TEOs. The expectations are shaped by the different outcomes NZQA and TEC seek.

DIAGRAM 3: Typical Monitoring Framework
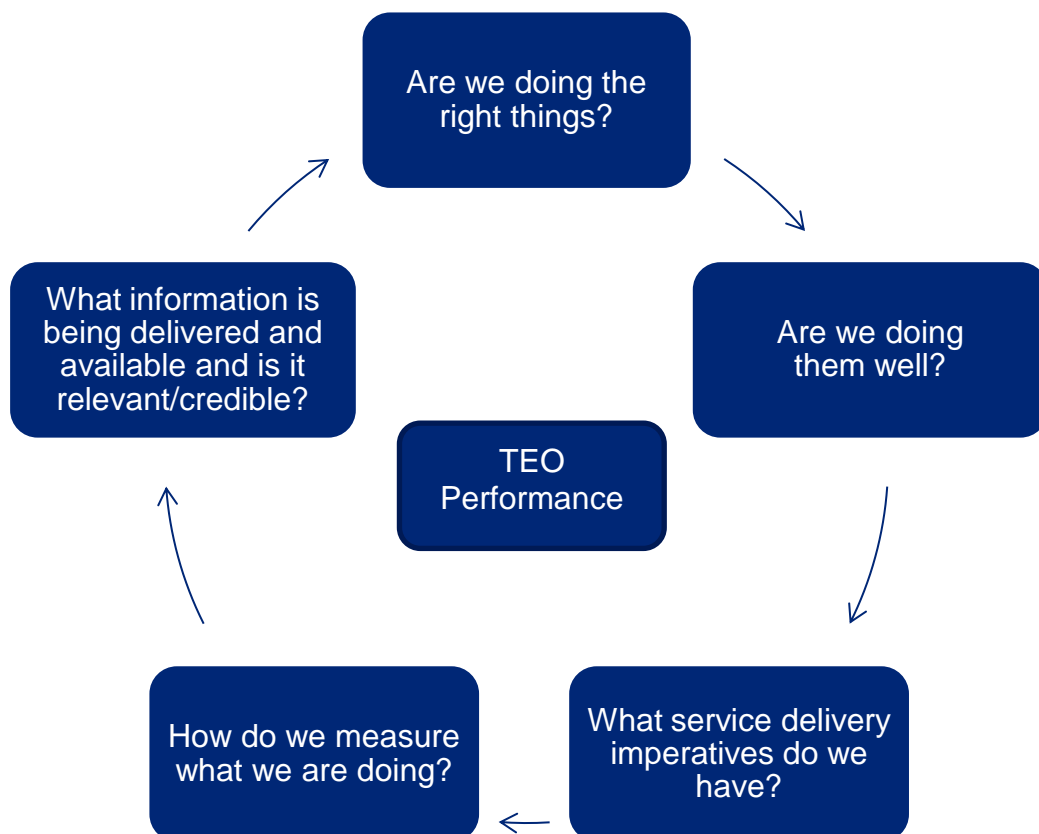
From NZQA's perspective TEOs are expected to be capable of offering qualifications it has approved as part of the New Zealand Qualifications Framework, and to deliver approved programmes to a required standard of quality. TEC expects TEOs to deliver programmes and EFTS it has approved for funding within the agreed funding conditions. It also expects TEOs in which the Crown has an ownership interest (the TEIs) to be sustainable businesses. While there are some shared expectations (for example both NZQA and TEC are concerned to ensure that qualifications and programmes are delivered to a required level of quality), there will also be different expectations in some areas (for example the delivery of teaching hours).

The table overleaf identifies the components of the TEO monitoring framework and the roles of NZQA and TEC. In each case we have evaluated how well we assess these components are performed. The evaluation is based on our review of documentation and the interviews conducted. We have not conducted extensive testing to verify the documentation and have relied on the views expressed in the interviews.

Stakeholder Interaction

NZQA and TEC meet regularly with each other as well as other key partners as captured above. The overall approach to monitoring is made up of individual approaches (NZQA EER process, TEC SDR/ITR) reliant on a series of meetings between different tiers within each respective Organisation. The content of each meeting varies from high-level strategy setting through to data comparison of EFTS. Meetings are typically held at the correct tier levels with content largely retrospective. Minutes provided to the reviewer show good levels of discussion around issues creating risk currently but less on determining or how to determine future risk.

Table 1: Components of TEO Monitoring Framework

	NZQA	TEC
1. Are we doing the right things?	- Link to outcomes - Risk based approach - Planning	- Link to outcomes - Risk based approach - Planning
2. Are we doing them well?	- Capability - Resourcing - Continuous improvement - Accountability	- Capability - Resourcing - Continuous improvement - Accountability
3. What service delivery imperatives do we have?	- TEO registration/accreditation - Qualification approval - Programme approval - Programme quality - Credit value of qualifications - Course completions - TEO viability	- Programme quality - EFTS delivery - Course completions - TEO viability
4. How do we measure how we are doing?	- EERs - Complaints - Moderation of standards - Consistency	- EPI's - Investment Plans - Complaints - TEO Audits
5. What information is delivered and available and is it relevant/credible?	- TEO applications - TEO self-assessments - Single Data Return - Attestations - TEO financial statements - Complaints - Analytics	- Single Data Return - Attestations - TEO financial statements - Complaints - Analytics

Note: A number of reviews, documents and information are shared between NZQA and TEC

6. Findings

The table below sets out the evaluation of the components of the monitoring framework. The findings that arise from the evaluation are summarised using the monitoring framework.

Table 2: Evaluation of Components of TEO Monitoring Framework

	NZQA		TEC	
1. Are we doing the right things?	- Link to outcomes - Risk based approach - Planning	green / orange	- Link to outcomes - Risk based approach - Planning	green / orange
2. Are we doing them well?	- Capability - Resourcing - Continuous improvement - Accountability	green	- Capability - Resourcing - Continuous improvement - Accountability	green / orange
3. What service delivery imperatives do we have?	- TEO registration/accreditation - Qualification approval - Programme approval - Programme quality - Credit value of qualifications - Course completions - TEO viability	green / green / orange / green / orange	- Course quality - EFTS delivery - Programme completions - TEO viability - TEI performance	green / green / green
4. How do we measure how we are doing?	- EERs* - Complaints - Moderation of Standards - Consistency review	green / green	- EPIs - Investment plans - Complaints - TEO Audits	green / orange / green / green
5. What information is delivered and available and is it relevant/credible?	- TEO applications - TEO self-assessments* - Single Data Return - Attestations - TEO financial statements - Complaints - Analytics	green / orange / green / orange	- Single Data Return - Attestations - TEO financial statements - Complaints - Analytics	orange / green / orange

*** Note that these are shared across NZQA and TEC**

Key

green	Practices are processes are in place and effective, some improvement possible
orange	Practices and processes in place but areas for improvement needed to improve effectiveness
red	No or weak practices in place

Are we doing the right things?

1. Both organisations have developed an approach to monitoring that reflects their respective responsibilities and outcomes sought. NZQA has embedded their approach to monitoring within an overall evaluative framework that encompasses entry, self-assessment and external review with clear feedback loops. TEC's approach is less clearly defined but includes the principal elements required to support their objectives.

2. A risk based approach is used (for example NZQA's EER categorisation and TEC's) but there is room to better use available data to analyse known risk factors to enable better targeting of monitoring activities. The combination of desk-based review and periodic site visits is appropriate.

3. Each organisation plans its own monitoring activities. While there is information sharing at the point of visits there is little evidence of information sharing in the planning of the monitoring approach and programme.

Are we doing them well?

4. No material gaps in capability relative to current activities were noted.

5. Resourcing for current activities is adequate, but there will be resource implications arising from some of the recommendations to address opportunities for improvement.

6. The design of NZQA's evaluative framework provides for specific feedback loops that support continuous improvement. TEC's has a less structured approach.

7. Accountability is clear at NZQA with all monitoring activity reporting to a single executive. Monitoring activities are spread across finance and different parts of operations within TEC. This requires mechanisms for coordination to ensure comprehensive monitoring coverage.

What service delivery imperatives do we have?

8. The TEO registration and accreditation processes are appropriate and robust. (Note that registration applies to PTEs).

9. The Qualifications and programme approval processes are appropriate and robust. The work on streamlining the number of qualifications in the New Zealand Qualifications Framework is noted and can be expected to provide material benefits. TEC appropriately relies on the qualification and course approvals provided by NZQA.

10. NZQA places most emphasis on the quality of the outcomes from programmes delivered. Although programme approval involves approval of the mix of learning inputs (for example teaching hours, self-directed hours, practical hours) and these will be reviewed as part of the EER process, material variations are not considered problematic provided learning outcomes sought are met. EERs review a relatively small number of programmes at the larger TEOs.

11. TEC determines programme level funding in part on the learning inputs required. It relies on the EER process to review the quality of programme delivery. TEC undertakes its own reviews of EFTS delivered, and as a result of the issues arising from the recent TEO reviews has increased its review of learning inputs.

12. TEC has a strong focus on the viability of the TEIs in which the Crown has an ownership interest. The approach to monitoring is appropriate, although there is an opportunity to increase coordination with the investment planning team. TEC also monitor the viability of the larger PTEs, and ITOs.

How do we measure how we are going?

13. The EER is the principal tool used by NZQA as it leads to a whole of organisation view of the TEO performance and its corresponding category. This is a maturing process. It is risk based with the more capable TEOs receiving fewer visits. While there are issues with the reliability of the categorisation of TEOs it is noted that there is a consistency review that seeks to moderate the EER assessments. A review of sample EERs noted the strong developmental focus. Noting the issues for the recent TEO reviews there is an opportunity to tighten the focus on inputs and governance.

14. While the EER process underpinning the Category based system is of good quality there is concern the frequency of TEO reviews may not be sufficient to identify risk issues.

15. The TEC investment planning approach is relatively new. As such it is expected there will be learnings from its implementation that will further strengthen the approach.

16. Both organisations are diligent in the analysis and follow-up of complaints.

17. The TEC audit approach involving site visits occurs every 3-4 years for a TEO or sooner if required. The auditor's meet regularly with NZQA, TEC and Studylink to share their findings and keep each other abreast of emerging or current situations that require consideration from each respective agency.

What information is delivered and available and is it relevant and credible?

18. TEO registration applications and the accompanying data are extensive and appropriate.

19. The TEO self-assessments reviewed showed a variety a quality levels. While these are important tools for setting an environment of responsibility and continuous development they have their limitations as evidence of capability and performance. EER reviewers must retain their professional scepticism and look for verifiable or corroborative evidence.

20. The SDR is a key data source that supports TEC, but also NZQA, MoE and other agencies. It is scheduled for a refresh which is an opportunity to address issues related to timing and relevance of data captured, as well as the technology platform.

21. Attestations relating to financial viability are received by NZQA and a Statutory Declaration relating to financial viability is received by TEC (for those TEOs not already providing formal reporting to Government.

22. TEC has a core analytics capability which it is seeking to utilise more effectively. NZQA has only recently started to develop its analytics capability. There is good work being undertaken in the identification of risk factors (such as complaints, changes in senior management/governance, merger and acquisition activity, rapidly expanding curriculum, rapid changes in student numbers, financial viability issues, persistent late reporting). Neither organisation is using currently analytics to the extent possible to help identify and direct monitoring issues and efforts.

23. There is good sharing of entity level information between NZQA and TEC.

Overall Conclusion on Findings

The review concludes that the broad approach to monitoring TEOs has the principal elements expected of a comprehensive framework. It is a high trust model with a reliance on voluntary compliance. The educational outcomes aspect is anchored on the self-assessment and development approach inherent in the EER. Monitoring of funding has both a development focus (through Investment Plans) and an audit focus.

There is, however, a disconnect where the interests of the two organisations intersect around programme delivery. While NZQA's TEO review efforts in this area focus on the quality of the learning outcomes, TEC is also concerned that the input mix that supports a quality outcome is delivered. This is because funding at the programme level is driven by learning inputs, with the funding at the TEO level an outcome of the programme funding and the EFTS contracted to be delivered.

It is noted that some of the issues that arose in the earlier reviews conducted by TEC related to potential fraud. The current monitoring approach across both organisations is neither designed nor resourced to detect potential fraud. The recommendations made in those specific reviews, and augmented in this report, will assist in identifying material potential fraud. However, it should be noted that the resources required to identify potential fraud will be beyond both organisations' resources.

The application of the monitoring framework will also benefit from a strengthening of joint planning and the use of analytics, as well as a number of other opportunities for improvement. These are addressed in the recommendation section.

7. Recommendations

The recommendations in this section comprise those for joint consideration as well as a number for each of NZQA and TEC to consider. Taken together, if implemented, the overall monitoring of TEOs will be strengthened.

Joint recommendations

1. It is recommended that NZQA and TEC jointly plan the overall approach to monitoring TEOs. The need for joint planning arises from the reliance that TEC places on the review activities of NZQA. A commitment to formal joint planning will enable coordinated risk assessment and enhance information sharing. It should help ensure that key risks receive appropriate focus from the organisation best placed to address them.
2. The joint planning process should resolve the required level of focus on the monitoring of programme inputs. While the NZQA focus on the quality of learner outcomes is appropriate, material departures in the actual course input mix from that proposed as part of the programme approval process raises questions about the credibility of that approval process. The requirement for re-approval of programmes where the mix of inputs materially changes should be enforced and result in funding adjustments.
3. There is significant scope to use data analytics more extensively, both in risk assessment, and also in identifying specific issues for review and investigation, including areas of potential fraud. NZQA has recently begun developing capability, and TEC has some existing core capabilities. It is questionable if each organisation on its own has the scale to sustain the desired capabilities. Both organisations should explore the case for a shared analytics capability.
4. Through the joint planning activity referred to above determine the additional level of review that may be required around programme input mix. TEC has a stronger interest in this matter than NZQA and must make its own decisions on the extent to which the EER process needs to be augmented by its own activities.

NZQA

5. The risk framework for monitoring is in the early stages of development. This work should be completed as a priority, ideally as part of the joint approach referred to above.
6. NZQA should consider a greater focus on the mix of inputs as part of the EER process, including testing a larger number of programmes.
7. The analytics work on identifying risk factors should continue as a priority. This should be a key input into identifying TEOs for review and should influence the periodic review cycles currently driven by categorisation outcomes.

TEC

8. Clarify where the overall accountability for monitoring of TEOs lies. Currently activities are dispersed over Finance (Audit), Crown Monitoring, and Investment Planning functions. This need not be structural change.
9. The SDR should be reviewed to ensure that the current data collection is fit for purpose. TEC and NZQA should engage with MoE through the SDR governance group to ensure the planned refresh fully supports its requirements.

10. TEC should obtain a single representation from TEO boards and Chief Executives attesting to compliance with funding conditions (including programme input mix) and the accuracy of reported SDR data.