



# Victorian Registration and Qualifications Authority





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Victorian  
Auditor-General

# Victorian Registration and Qualifications Authority

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October 2010



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The Hon. Robert Smith MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon. Jenny Lindell MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on the *Victorian Registration and Qualifications Authority*.

Yours faithfully



D D R PEARSON  
*Auditor-General*

7 October 2010



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# Audit summary

The Victorian Registration and Qualifications Authority (VRQA) was established in July 2007 to regulate and monitor school and higher education, and vocational education and training (VET). It replaced the Victorian Qualifications Authority.

VRQA registers education providers and monitors them for compliance with the *Education and Training Reform Act 2006* (the Act). VRQA's main role in relation to VET providers is to assure the public that providers comply with minimum standards established under state and Commonwealth legislation, and that the qualifications they award meet a standard that other providers and employers recognise. The education sector is a major source of export income amounting to billions of dollars annually, reinforcing the importance of VRQA's regulatory role.

Government policy is for VRQA to regulate the education sector with a 'light touch' approach, shifting from quality control over activities to quality assurance. This means VRQA's responsibility lies in assuring that providers meet regulatory standards, but not how they do so.

This audit assessed the effectiveness of VRQA in regulating VET providers. It examined whether VRQA registers and monitors these providers in line with the Act, including the requirement that providers meet national standards in the Australian Quality Training Framework 2007 (the framework). Within the VET sector, VRQA is responsible for regulating about 1 200, mostly private, providers.

## Conclusion

VRQA cannot reliably assure that it has effectively regulated VET providers.

When it was formed in July 2007, VRQA was aware of serious shortcomings in its predecessor's approach to registering VET providers. The actions it took to address these issues up to mid-2009 were steps in the right direction, but they did not resolve problems with both the operational shortcomings of its VET unit, or weaknesses in its own quality assurance processes.

In September 2009 VRQA identified a range of further corrective actions that it is still implementing. Those which it has completed have not been in place long enough to assess their effectiveness. Of most concern is that VRQA has yet to implement a quality assurance regime over the work performed by its contracted auditors. The auditors' work is fundamental to VRQA knowing whether or not providers meet regulatory standards.

These issues should be promptly addressed. Until they are, students, employers and other stakeholders cannot have the level of confidence in the quality of services from VET providers they deserve.

## Findings

### Governance

While VRQA has been progressively implementing a range of reforms to its regulation of VET providers, these have been slow when considered in the context, both of the significance of this sector to the economy, and the fast pace of change in the sector that has occurred since 2007.

The VRQA Board was slow to resolve two threshold issues known to exist at the time of VRQA's formation in July 2007:

- The lack of independence of the auditors that VET providers used to assess their compliance with the standards was not resolved until January 2009. The board originally decided in November 2007 that providers would be able to use their own auditors only up to 30 April 2008 to assess whether they could teach more courses and to check rectification of any minor non-compliance with the standards. In response to industry concerns, the board decided in April 2008 to extend the deadline by eight months to December 2008.
- Concerns with the performance of the VET unit's work were not decisively acted on until after August 2009. The operation of the unit was reviewed in December 2008, but the review did not address its quality assurance processes. Ongoing concerns by senior management prompted a further review of the unit in August 2009, leading to identification of a range of corrective actions. It is not evident the board has actively monitored the adequacy or impact of these actions.

Further, implementation of necessary corrective actions arising from the 2009 review of the VET unit has been delayed because of work required to introduce new ministerial guidelines to strengthen the criteria on which VRQA can assess providers.

A risk-based approach to auditing providers has yet to be fully introduced.

For new providers seeking registration a default 'high' risk rating is now assigned, but it is not evident that this rating is reviewed when a follow-up audit is undertaken after 12 months.

A risk-based audit approach for existing providers applying to teach more courses, and for those seeking re-registration, was not introduced until August 2009 and May 2010, respectively. Because of the five-year cycle for re-registration, it may take until 2015 before all existing providers are assessed and assigned an appropriate risk rating. Risk assessments are used by VRQA to establish the level of regulatory oversight applied to each provider.

Although the board recognised in July 2007 the need to calculate the cost of doing audits, and review its fees accordingly, it has yet to complete this fundamental work.

## Registering providers

VRQA adequately informs providers and potential applicants about Victoria's registration requirements.

There is, however, insufficient evidence to determine whether VRQA registers and monitors VET providers in line with the Act and the framework. The documentation that supports VRQA decisions to register VET providers is incomplete. It is not clear, therefore, when making decisions about providers that delegates know whether VRQA staff assessed auditors' reports in line with VRQA's expectations.

The power to register providers has been delegated to four VRQA senior managers, including the director and deputy director. The paper-based document trail supporting registration decision-making showed:

- files either not having a recommendation to the delegate, or a record of the delegate's decision
- inconsistent management of providers who do not comply with the standards.

VRQA is transitioning to an electronic filing system, which should allow it to store all relevant documents and decisions more efficiently. While this will support better documentation of decisions it will not assure the quality of those decisions.

VRQA is a quality assurance agency, but it does not quality assure the work of its staff or contracted auditors. Although adequate quality controls are in place for the work of contracted auditors, VRQA does not have a system for assessing whether these controls are actually operating as intended. Over the past two years VRQA has conducted about 5 000 audits, comprising registration, re-registration and audits to assess if providers can teach more courses. A quality assurance regime over the work of contracted auditors is expected to be implemented late in 2010.

## Recommendations

Number	Recommendation	Page
1.	<p>The Victorian Registration and Qualifications Authority should:</p> <ul style="list-style-type: none"> <li>• expedite establishment of comprehensive quality assurance processes over the delegate's decision-making, VET unit staff and contracted auditors</li> <li>• comprehensively document its decisions about registering, monitoring and re-registering providers</li> <li>• schedule post-implementation reviews of the actions to improve operational efficiency and quality assurance over contractors to assess the effectiveness of these actions and inform their refinement and revision.</li> </ul>	14

## Recommendations – continued

Number	Recommendation	Page
2.	<p>The Victorian Registration and Qualifications Authority Board should closely oversight the Victorian Registration and Qualifications Authority’s regulatory activities by:</p> <ul style="list-style-type: none"> <li>• promptly assessing whether all areas of concern about how well VRQA regulates the vocational education and training sector have been identified, appropriately prioritised and acted on</li> <li>• progressively evaluating whether actions to address shortcomings with regulatory practices have been effective</li> <li>• determining the full cost of regulating the vocational education and training sector and review its fee structure on this basis</li> <li>• regularly reviewing the efficiency and effectiveness of regulatory practices used in registering and monitoring vocational education and training providers.</li> </ul>	22

## Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to the Victorian Registration and Qualifications Authority with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments, together with my acquittal response to the Chair, Victorian Registration Qualifications Authority, are included in Appendix A.



# 1 Background

## 1.1 Role and functions

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The Victorian Registration and Qualifications Authority (VRQA) was set up in 2007 as a state-owned public authority to regulate and monitor school and higher education, and vocational education and training (VET).

It brought together the regulatory functions of the:

- Registered Schools Board
- Victorian Qualifications Authority
- Office of Training and Tertiary Education's (OTTE) higher education unit.

The Victorian Qualifications Authority had, however, fully delegated the registration and monitoring of VET providers to OTTE.

VRQA's functions are to register education providers and to monitor their performance for compliance with quality standards and ministerial directions. VRQA accredits courses that lead to nationally recognised qualifications, and decides whether providers can teach these courses and award qualifications. VRQA also publishes information about courses, qualifications and providers.

At June 2010 VRQA was responsible for regulating almost 2 300 schools, 1 200 VET providers, such as commercial colleges and technical and further education institutions; and more than 50 private higher education institutions. Among those it regulates are more than 300 providers offering Commonwealth-accredited courses to overseas students and home schoolers.

Since 2003 the structure of the VET industry in Victoria has shifted towards an increased number of private providers that compete to teach government funded training programs. Among private providers there are commercial operators offering courses for profit. In 2003, 457 of 1 173 VET providers, about 40 per cent, were commercial providers. By the time VRQA formed in 2007, there were 679 of 1 310 or about 50 per cent. As at June 2010 there were 712 commercial VET providers out of 1 232 providers—about 60 per cent.

There has also been a rapid growth in the number of overseas students. In 2009 the Australian VET sector generated more than \$4 billion of export income. Victorian government figures show about 500 000 students enrolled in a VET course in 2008, with about 40 per cent between 15 and 24 years of age.

In relation to VET providers, VRQA's main role is to regulate their compliance with minimum standards, and make sure that the qualifications they award meet a standard that other providers and employers recognise. Fulfilling this role effectively gives assurance to the public, including students, about the quality of education providers.

VRQA may refuse to register an applicant, or later amend, suspend or cancel a provider's registration if they do not meet minimum standards. VRQA may put conditions on a provider's registration, such as not allowing a provider to charge student tuition fees before teaching them.

In 2009–10, there were 185 VET providers who had their registrations cancelled. Of these, 141 were voluntary, 23 registrations expired, seven were for non-compliance with the standards, and 14 providers went bankrupt or into liquidation. There were 60 cancellations in 2007–08, 42 voluntary and 92 in 2008–09, 73 voluntary.

Funded mainly by the Department of Education and Early Childhood Development and the Department of Innovation, Industry and Regional Development, VRQA also receives income from fees and charges. About 25 per cent of VRQA's income in 2009 was from fees and charges.

VRQA also works with the Department of Planning and Community Development, but receives no funding from it. VRQA shares the responsibility with the three departments for delivering government policy in areas of education and skills, employment and lifelong learning.

Key drivers of change for VRQA have included Victorian government education and employment policies, changes to Commonwealth legislation dealing with the education of overseas students, and reviews of the national quality frameworks governing VET.

## 1.2 Legislation, regulation and policy

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### 1.2.1 The *Education and Training Reform Act 2006* and regulations

In pursuing the *Growing Victoria Together* goal of 'high quality education and training for lifelong learning', the *Education and Training Reform Act 2006* (the Act) set up VRQA. As provided for under the Act, a number of ministerial statements, orders and directions have also been made. In 2007 the Education and Training Reform Regulations, which govern VRQA were established.

During the audit, the Minister for Skills and Workforce Participation introduced legislation into Parliament to strengthen how VRQA regulates post-secondary school providers in particular. The legislation is based on a 2009 review of VET regulation that followed the collapse of several high-profile private VET providers.

## 1.2.2 Ministerial Statement of Expectations

In July 2006 the then Minister for Education and Training published a Ministerial Statement of Expectations for VRQA.

The statement said the minister wanted a new approach to regulation that shifted from quality control over activities to quality assurance about standards. The distinction was that VRQA would be 'responsible for ensuring providers meet minimum standards, not for how they do so. Ongoing quality assurance and provider improvement are the responsibilities of owners/operators of education and training providers'.

The minister referred to this as a 'light touch' approach to regulation and said VRQA was to base the discharge of its duties on this approach. The minister also wanted VRQA to be a 'one stop shop' for education providers, and where possible for it to avoid duplicating regulatory activities of other areas of government.

## 1.2.3 Ministerial directions

The Ministers for Education, and Skills and Workforce Participation are responsible for VRQA. Late in 2009 the Minister for Skills and Workforce Participation issued two ministerial directions aimed at strengthening VRQA's registration of all VET providers, including financial health assessments. Both were in effect at 1 January 2010. The directions required VRQA to introduce a new way to assess applications from these providers.

## 1.3 National and state contexts

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The regulation of training and education providers is also a national activity. Commonwealth legislation and regulations affect VRQA. For example, under the Act VRQA is required to regulate VET providers in line with the Australian Quality Training Framework 2007 (the framework)—a set of national standards designed to assure consistently high quality services in the VET sector.

The Act, which lists the requirements for registration in Victoria, requires VRQA to comply with the framework. The framework comprises:

- essential standards for registration
- standards for state registration and course accrediting bodies
- excellence criteria.

Except for Victoria and Western Australia, all states recently agreed to transfer their powers to register and monitor VET providers to a single national authority. Victoria, however, has not signed up to this authority, preferring to align its legislation with the Commonwealth's.

Providers wishing to offer courses to overseas students must also be registered on the Commonwealth Register of Institutions and Courses for Overseas Students. VRQA is a designated authority and as such is empowered to recommend to the Commonwealth the approval of providers to deliver courses to overseas students under the Commonwealth *Education Services for Overseas Students Act 2000*.

## 1.4 Audit objective

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### 1.4.1 Objective and criteria

This audit assessed the effectiveness of VRQA in regulating VET providers. It examines whether VRQA:

- registers and monitors VET providers according to national standards
- has a sound framework that it regularly uses to measure and review its own efficiency and effectiveness.

### 1.4.2 Method

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

### 1.4.3 Cost

The total cost of the audit was \$350 000.

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# 2 Registering VET providers

## At a glance

### Background

The Victorian Registration and Qualifications Authority (VRQA) is required to comply with the *Education and Training Reform Act 2006* (the Act), the Education and Training Reform Regulations and ministerial directions when it regulates vocational education and training (VET) providers.

### Conclusion

VRQA cannot reliably demonstrate that it has been registering and monitoring VET providers in line with the Act. Action has been taken to address shortcomings but this work is not yet complete.

### Findings

- VRQA adequately informs VET providers and potential applicants about the Act's registration requirements.
- VRQA does not have a system for quality assuring the work of its contracted auditors or its own staff.
- While VRQA has suitable quality controls for its auditors to assess VET providers' compliance with the Act, it does not have a system of assessing whether these controls are working as intended.
- VRQA has not managed provider non-compliance with regulatory requirements consistently. A clear policy for doing so was, however, set out in April 2010.
- There are significant gaps in documentation to support decisions about compliance with the standards.

### Recommendation

The Victorian Registration and Qualifications Authority should:

- expedite establishment of comprehensive quality assurance processes
- comprehensively document decisions about registering, monitoring and re-registering providers
- schedule post-implementation reviews of the actions to improve operational efficiency and quality assurance over contractors to assess the effectiveness of these actions and inform their refinement and revision.

## 2.1 Introduction

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The Victorian Registration and Qualifications Authority (VRQA) is required to register vocational education and training (VET) providers in line with the *Education and Training Reform Act 2006* (the Act), the Education and Training Reform Regulations 2007 and ministerial directions.

In addition, the Act requires VRQA to register VET providers in line with the Australian Quality Training Framework 2007 (the framework)—a national quality framework agreed by each state and territory. The framework includes:

- essential standards for registration
- standards for state registration and course accrediting bodies
- excellence criteria.

The Act requires VRQA to publish meaningful and accurate information on the VET providers it has registered in its state register. This is because students should have confidence in the quality of education providers. So too should employers and others who pay for a professional service from a registered VET provider. It is important that VRQA's decision-making about registration is sufficient to provide this confidence.

The audit reviewed VRQA's decision-making at the initial registration, 12-month and re-registration stages—the times when VRQA decides if a VET provider is fit to operate or continue to operate.

The audit sampled VET provider files from July to December 2009. This period predates VRQA's *Guidelines for VET Providers*, introduced on 1 January 2010 under direction from the Minister for Skills and Workforce Participation. These guidelines require VRQA to also assess the financial viability of VET providers before registering them. The 2010 guidelines broadened the scope of VRQA audits, but did not introduce a different step in the decision-making process. As VRQA had not yet completed a decision about registration using this new requirement at the time of the audit file review, its application could not be reviewed.

## 2.2 Conclusion

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VRQA cannot reliably demonstrate that it has registered and monitored VET providers in line with the Act. This in turn raises doubts about whether published information on VET providers is reliable, and whether stakeholders can have confidence in the outcome of VRQA's registration activities for VET and, therefore, the quality of VET providers.

VRQA has designed suitable quality controls for its contracted auditors to audit according to the framework. However, without quality assuring their work it cannot demonstrate that these controls are working as intended.

Gaps in the paper-based document trail evidencing and supporting registration decisions were identified. VRQA has, however, recently introduced an electronic management system for VET provider records. This should support better documentation, provided adequate controls are implemented over the creation and maintenance of the records.

VRQA has completed or commenced corrective actions as a result of an August–September 2009 review. However, it is too early to tell if these actions are effectively addressing these shortcomings.

## 2.3 Information for VET providers and applicants

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VET providers need to know about registration requirements as a first step to meeting the standards. Under the framework's *Standards for State and Territory Registering Bodies*, VRQA should clearly tell VET provider applicants and registered providers:

- the requirements for being registered
- their obligations for maintaining registration.

VRQA is meeting the framework's requirements for informing providers about the requirements for registration and maintaining registration. VRQA:

- has staff dedicated to answering enquiries, either by email or telephone
- publishes relevant and comprehensive information on its website about VET registration for applicants and existing providers, and updates its website as requirements change
- holds free information sessions for prospective applicants every two months
- provides links on its website to external organisations that can offer providers help and advice, including a link to a register of consultants maintained by the Australian Council for Private Education and Training
- publishes a quarterly e-newsletter on its website that provides current information on VRQA activities and changes to state and Commonwealth regulations.

VRQA monitors its information provision activities through an annual client satisfaction survey of all VET providers, feedback from attendees at its information sessions, feedback from VET providers at the end of an audit and monitoring activity on its website.

## 2.4 Quality assuring VET providers

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### 2.4.1 Decision-making process

Under the Act the VRQA Board has the authority to decide whether to register a VET provider. The board has delegated this authority to the VRQA Director, Deputy Director and two non-executive staff.

Before deciding whether to register a VET provider, VRQA staff first assess an applicant's written application for completeness. VRQA then typically contracts auditors to audit the applicant's corporate documents and premises to see if they meet the registration standard. VRQA has a panel of contracted auditors it uses to do this work. VRQA's VET unit staff, in turn, assess the auditor's report before recommending a decision.

VRQA typically registers VET providers for five years, and may re-register a provider if it still meets the required standard. VRQA monitors a provider's ongoing compliance by auditing them:

- 12 months after registration
- at least once more before the registration expires.

VRQA also monitors compliance by:

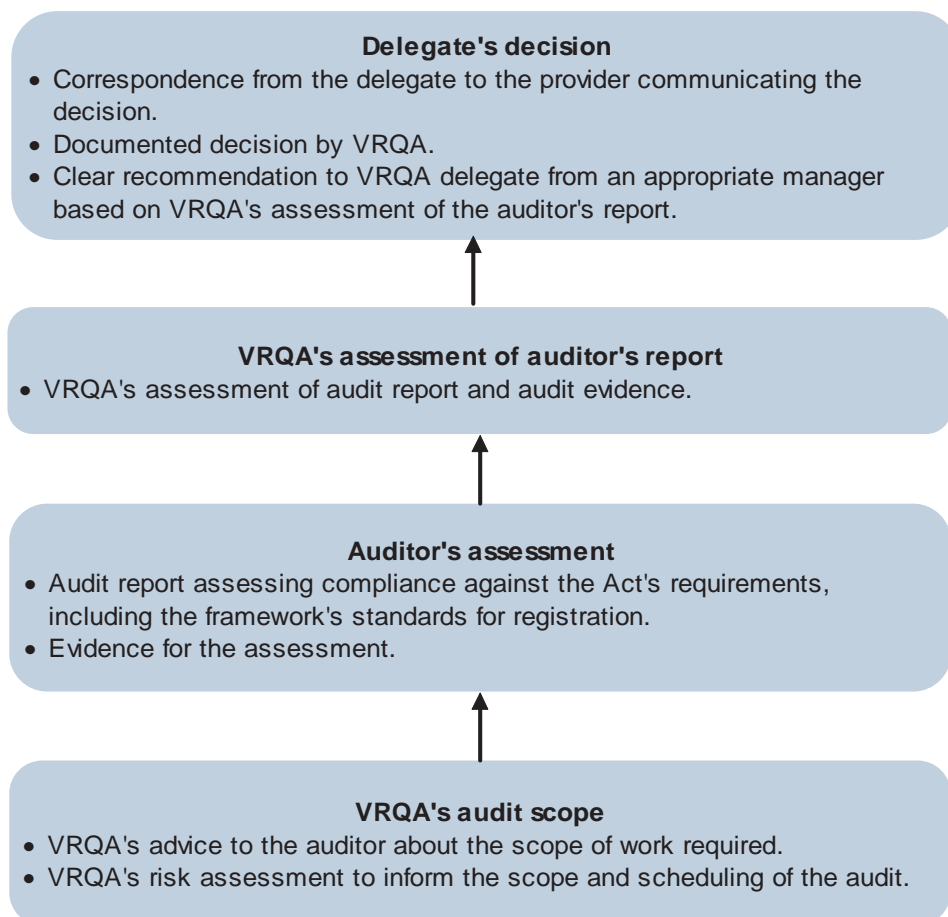
- investigating complaints against registered VET providers
- assessing subsequent applications from registered providers for approval to teach more courses and award more qualifications (amendments to scope).

VRQA also typically uses contractors for this work. For VET in 2009–10, including domestic and international providers, VRQA conducted 536 registration and re-registration audits, and 2 445 amendments to scope audits. In 2008–09 VRQA did 310 registration and re-registration audits, and 1 672 amendments to scope audits, including domestic and international providers. The total across the two years is 4 963 audits.

### 2.4.2 Review of VRQA's decision-making

Figure 2A outlines VRQA's registration assessment and decision-making process, and the evidence that would show that VRQA made its decisions in line with the Act's requirements.

**Figure 2A**  
**VRQA's registration assessment and decision-making process and expected documentation**



Source: Victorian Auditor-General's Office.

### 2.4.3 Findings of our audit

VRQA did not have adequate quality-assurance processes over the work of VET unit staff or of its contracted auditors. While suitable quality controls have been designed for contracted auditors, there is no process for assuring whether these procedures are operating well.

Better documentation of the decisions made by delegates is also required to demonstrate that due process was followed.

## Quality control and assurance

The audit examined what VRQA did to:

- control whether its staff and contracted auditors assess VET providers consistently in accordance with the Act and framework, and how its delegates make decisions
- assure itself that staff and contractors conduct each step in the process well, and that the delegate makes the right decision.

VRQA has designed suitable quality controls for its contracted auditors, including provision of training; providing auditing and reporting templates that are consistent with the framework; requiring auditors to declare they have no conflicts of interest in auditing a provider; and VET provider evaluations.

To assess auditors' reports, VRQA requires its staff to review the veracity of the auditors' assessment to make a judgement on the level of compliance with the standards, and whether the applicant or providers should be registered.

VRQA's main quality control for its own staff is its approach to human resource management, including training and performance review and monitoring achievements against key performance indicators.

However, VRQA does not have a system of assuring whether its quality controls work in practice, and whether each step in the registration and decision-making process is conducted well and leads to the delegate making the right decision. VRQA does not review the quality of the auditing and assessment process to establish whether they are conducted to a standard that means the process is effective.

VRQA staff assess whether auditors' reports are complete and evidenced based. However, VRQA does not routinely assure the quality of the work of its contracted auditors—that is, whether they are competently conducting their assessments. For example, staff do not assess whether auditors' reports accurately reflect the provider's business and its operations, including the standard of its facilities and training.

In some circumstances VET providers teach in specialised areas, such as automotive training and taxi driver training, which are co-regulated by other government agencies. In these circumstances, VRQA relies on these other agencies to assess whether providers meet the regulations. VRQA has memoranda of understanding with these agencies to co-regulate such providers. Providers are required to give VRQA a copy of any licence or accreditation by the agency when seeking registration or re-registration.

VRQA does not have processes to assure the quality of delegates' decisions, or the quality of advice delegates receive from the VET unit. Nor was it evident from the VRQA Board papers that the board routinely reviewed the decision-making process it delegated to VRQA senior managers.

VRQA has acknowledged that it needs to establish a quality-assurance system for VET auditors and has also indicated it will set up an annual internal audit of processes, and develop a policy and procedures document. VRQA will review how it can improve its quality assurance over its staff at the same time.

The policy and procedures document should comprehensively show how VRQA will assure each aspect of its regulatory activities.

### Documenting decisions to register providers

VRQA is changing how it keeps records on VET providers, from paper-based files to electronic files. The audit examined a sample of paper-based files and received a demonstration on the capability of VRQA's new system.

For paper-based files, evidence that the delegate knew if a VET provider complied with the Act and framework when they decided on a provider's registration, was either missing, or lacked sufficient detail to show they considered all necessary matters.

A completed audit report was held on all files we examined. VRQA staff document their assessment of an auditor's report on an 'audit review template'. However, on four of the 16 files we reviewed, we either did not see a recommendation to the delegate, or the delegate's decision recorded.

Of these four files, there was no documented decision about a provider's registration on two files. The only documentation that provided evidence of the delegate's decision was the letter to the provider telling them the outcome of their application. On the other two files there was no record of recommendation from the VET unit manager to the delegate about the decision. Without this record, the delegate cannot demonstrate they knew the basis of their decision.

For the other 12 files, the recommendation from the VET unit manager to the delegate, took the form of their initials on a 'file note' that contained cursory advice from a VET unit staff member about the provider's level of compliance. The limited nature of this advice was compounded by there being no clear link to any analysis that supported the VET unit staff member's opinion, or to an assessment of the quality of the audit report.

Without documentation that clearly shows the delegate knew that the VET unit had assessed the auditor's report in line with VRQA's expectations, we cannot confirm whether the delegate knew the basis of the recommendation.

Better practice would have been to either:

- Have the VET unit manager sign a memorandum or report to the delegate, setting out the basis on which they were satisfied that the VET unit assessed the provider's compliance with the required registration standards, and recommending a decision. The delegate should then explicitly record their decision.

- Have the VET unit manager and delegate explicitly record their respective recommendation and decision on the audit review template showing the VET unit's assessment of the auditor's report. This would demonstrate that the manager and delegate saw, and were satisfied with, the VET unit's assessment.

Given that VRQA currently regulates 1 200 providers over a five-year registration period—an average of about 250 per year—it is important that its decisions at all stages of a provider's registration are comprehensively documented.

VRQA has acknowledged the limitations of maintaining simultaneous paper-based and electronic records and the need to have one full record of a provider. It has committed to close each provider's paper-based file at the date of its next re-registration, and use its electronic system to document VET provider records.

VRQA's new electronic filing system will allow VRQA to store all relevant documents and decisions more efficiently. However, this will not guarantee quality. It remains for VRQA to:

- comprehensively document its regulation of each provider
- maintain appropriate controls over creating, accessing and storing records
- have quality-assurance arrangements that provide comfort that the records are being appropriately established and updated.

### Managing non-compliance

VRQA rates non-compliance on three levels—minor, significant and critical. Where VRQA finds a provider is non-compliant it may still allow them to operate. In these cases, verification is required that the provider rectifies the non-compliance.

Before April 2010 VRQA managed non-compliance inconsistently. Our file review showed that in two instances VRQA only required 'significantly' and 'critically' rated non-compliant providers to attest they had fixed their non-compliance, and did not obtain explanations or corroborating evidence.

In April 2010 VRQA changed the way it manages non-compliance to:

- give 'critically' non-compliant providers 28 days to show how they would fix their non-compliance and six months to rectify it, monitored by a senior VET unit audit officer
- renew 'significantly' non-compliant providers for up to five years and give them 28 days to show how they will rectify their non-compliance, which will be monitored by a VET unit officer
- renew providers with 'minor' non-compliance for up to five years and request the provider rectify non-compliance without further monitoring.

VRQA should quality assure how well its staff monitor VET providers who need to rectify non-compliance.



## 2.4.4 Other weaknesses in regulating VET

A review in December 2008 found that, 18 months after VRQA's establishment, the VET unit had not integrated well into the organisation.

As VRQA senior management's concerns about VET regulation remained, a further three-week review was completed in September 2009. Shortcomings identified included:

- a backlog of audits that were either not done or not reviewed by VET unit staff
- the absence of a risk-based approach to conducting audits
- inadequate tracking of audit activities
- inadequate management of contracted auditors.

The review also found significant levels of non-compliance, with 52 per cent of providers registered for 12 months, and 46 per cent of providers applying for re-registration, being either significantly or critically non-compliant.

Implementation of a range of recommended corrective actions then followed. Figure 2B shows their status.

**Figure 2B**  
**Status of recommended actions of the 2009 review of the VET unit**

Action	Implementation status
<b>Adopting a risk-based approach</b>	
1. Develop a risk assessment tool to review VET providers' activities	Completed
2. Allocate a risk rating to all registered VET providers when they apply for registration	Commenced/ongoing
3. Use this risk assessment to assign a suitable auditor, scope the audit and identify appropriate VRQA staff to manage the audit	Commenced/ongoing
4. Review each provider's risk rating during its registration cycle	To commence after 2010 re-registrations completed
<b>Improving audit administration</b>	
5. Develop an audit tracking and reporting system	Completed
<b>Improving contracted auditor management</b>	
6. Develop a comprehensive audit manual for auditors	Due October 2010
7. Conduct auditor briefing sessions every three to six months	Commenced
8. Introduce a quality assurance program over each VET provider audit once VRQA had reduced a backlog of auditing work and activity had stabilised	Incomplete—awaiting implementation of Recommendation 10
9. Require senior audit staff to periodically review audit assignments, with a focus on the standard of audit files and the consistency of audit work across auditors	Commenced
10. Review the panel of contracted auditors for their suitability and use the same standard contract for each contractor	Due September 2010

Source: Victorian Auditor-General's Office, based on information from the Victorian Registration and Qualifications Authority.

## Completed actions

Using a risk-based assessment to determine the method for auditing providers should make audits more efficient and help achieve 'light touch' regulation consistent with the ministerial direction.

To improve its audit administration, in May 2010 VRQA completed consolidating its records of VET registration and monitoring activities into a single database, its customer relationships management (CRM) system. Among other things the CRM tracks the audit history of each provider and flags upcoming audits.

## Incomplete actions

For the incomplete actions, VRQA advised:

- **Recommendation 6**—After VRQA drafted an audit manual in 2009, the Council of Australian Governments decided to update the Australian Quality Training Framework 2007. The revised framework was finalised in June 2010 and introduced on 1 July 2010. This decision delayed finalisation of the VRQA audit manual.
- **Recommendation 8**—As part of VRQA's re-tender process, due to be completed in September 2010, it intends to impose a contractual requirement for auditors to have in place proven quality assurance processes and to allow VRQA access to their records.
- **Recommendation 10**—Proposed amendments to VRQA's legislative powers have delayed this review. VRQA intends to re-tender for its panel of contracted auditors by September 2010.

## Recommendation

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1. The Victorian Registration and Qualifications Authority should:
    - expedite establishment of comprehensive quality assurance processes over the delegate's decision-making, VET unit staff and contracted auditors
    - comprehensively document its decisions about registering, monitoring and re-registering providers
    - schedule post-implementation reviews of the actions to improve operational efficiency and quality assurance over contractors to assess the effectiveness of these actions and inform their refinement and revision.
-

# 3 Governance of VRQA

## At a glance

### Background

Good governance is important for organisational effectiveness. Central to good governance is a board that actively sets an organisation's direction and oversees its management so it delivers on the organisation's objectives, efficiently and effectively.

### Conclusion

The Victorian Registration and Qualifications Authority (VRQA) Board and its management have been slow to address shortcomings with VRQA's regulatory practices. This has resulted in VRQA being unable to demonstrate that it is fulfilling its regulatory responsibilities.

### Findings

- Concerns over auditor independence were not effectively resolved until 1 January 2009—18 months after the organisation formed.
- It took more than two years to identify actions to decisively address concerns with the vocational education and training (VET) unit's performance.
- VRQA did not introduce a risk-based assessment for conducting re-registration audits until May 2010.
- Despite recognising in 2007 that VRQA needed to establish the cost of doing audits, and review its fees accordingly, this fundamental work has not been completed.

### Recommendation

The VRQA Board should closely oversight VRQA's regulatory activities by:

- assessing whether all actions to address shortcomings with regulatory practices have been identified, appropriately prioritised, acted on and their effectiveness progressively evaluated
- determining the full cost of regulating the VET sector and review its fee structure on this basis
- regularly reviewing the efficiency and effectiveness of regulatory practices.

## 3.1 Introduction

---

The board of the Victorian Registration and Qualification Authority (VRQA), the governing body, is responsible for VRQA's performance, including compliance with the *Education and Training Reform Act 2006* (the Act).

Good governance is important for an organisation's effectiveness. It helps identify and efficiently and effectively manage risks that could adversely impact on performance.

Good governance involves board members:

- knowing the role of the board, and their responsibilities to the organisation's stakeholders
- setting the organisation's strategic direction, and monitoring that its objectives are being achieved
- assuring the organisation's activities are of high quality, and that it is reliably identifying and appropriately addressing risks
- evaluating the organisation's performance.

Good governance also requires management to be accountable to the board through regular reporting on performance and matters of significance that affect the achievement of the organisation's objectives. In this chapter we highlight areas of governance that impacted on VRQA's ability to perform its role efficiently and effectively.

## 3.2 Conclusion

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Delays by the board and management in taking action to decisively address known problems means VRQA is unable to demonstrate that it is fulfilling its regulatory responsibilities. In a rapidly changing and complex industry like vocational education and training (VET), vigilance is required if VRQA is to establish and sustain an effective regulatory regime.

The board is now acting to address known problems. It has, however, been slow to do so. It took until August 2009 to act decisively to improve VRQA's regulation of VET providers, even though the weaknesses in regulatory practices were known from VRQA's establishment in July 2007.

Since July 2007, incremental improvements to the operation of its VET unit were made, however, they did not resolve the underlying issues. It was not until September 2009 when VRQA identified and initiated corrective actions that it started to adequately address the unit's performance.

Some actions are still to be completed and it is not evident whether all significant shortcomings have been identified and acted on. Completed actions have not been in place long enough to assess their effectiveness. The competing priority of VRQA also introducing new guidelines to expand the criteria for assessing providers, following a direction from the Minister for Skills and Workforce Participation, has contributed to it not yet completing corrective actions.

There is a clear need for a quality assurance regime to be established for VRQA's regulatory practices, both those carried out by contracted auditors and its own staff.

### 3.3 Governance roles and responsibilities

The board met five times before VRQA was formally established in July 2007. In its first five meetings it agreed that its governance model would require the board to make decisions on strategy and policy, and VRQA management to implement them. The board recognised its relationship with the director was key, and that this relationship needed to be clear.

In May 2009 and May 2010 board members were asked to complete an annual survey to assess the board's overall performance and evaluate the processes that support its operation and decision-making. Seven of thirteen members completed the survey in 2010. In the time between the two surveys, three new members joined the board. The survey results do not show which seven of the thirteen board members completed the survey.

The survey results for 2010 show board members are less confident about their role and their relationship with the VRQA Director than they were in 2009. Board members indicated that they trust the Director, but they are less certain about:

- where their role ends and the Director's begins
- whether they are adequately informed about what is happening at VRQA's operational level.

The results indicate board members know what is expected of them and that they believe they prepare well for board meetings. They also show that members are satisfied with VRQA's strategic plan and with how well the board's Audit and Risk Management Committee monitors VRQA's performance overall.

The 2010 results indicate reduced confidence, compared with 2009, about whether:

- members come to meetings well prepared
- all members participate in important board discussions.

When the board discussed the survey results at its meeting on 30 June 2010, the chair committed to speak with members individually about what needed to be done to improve the results by the next survey in 2011.

## 3.4 Governance of the VET regulatory function

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During the audit a number of problems with VRQA's governance were noted. Particularly evident were the delays in effectively dealing with significant issues impacting on the conduct of VET registration and monitoring activities. Specific examples are discussed below.

### 3.4.1 Independence of auditors

VRQA's predecessor, the Victorian Qualifications Authority, had delegated its responsibility for registering and monitoring VET providers to the Office of Training and Tertiary Education (OTTE). OTTE allowed providers to appoint and pay for their own auditors to assess their suitability for registration. OTTE, therefore, registered VET providers on the advice of auditors, but without assuring itself of the auditors' objectivity or independence, or the quality of their work. In this respect, the fee arrangement had the clear potential to compromise auditor independence.

Concerns with auditor independence were known when VRQA was formed in July 2007. At that time VET providers were appointing and paying the same consultants to advise them on compliance with existing standards and to audit them against the standards. The board allowed VET providers to continue this practice up to 31 December 2008 for most audits.

From 1 July 2007 VRQA was empowered to appoint and pay for its own contracted auditors. The board decided in September 2007 to use only VRQA contracted auditors to assess applications for initial registration and re-registration, and to verify if providers rectified any significant or critical non-compliance with the standards. VRQA charged providers for these audits. In 2007–08 there were 125 new registration or re-registration audits.

In November 2007, the VRQA Board decided to extend until 30 April 2008 the practice of VET providers using their own auditors to assess whether they could teach more courses, and to check if the provider had rectified any minor non-compliance with the standards. The board also recognised the need to separate the consulting and auditing arrangements so that only VRQA-appointed auditors would audit providers. However, it agreed to consult industry on this change. In 2007–08 and 2008–09, audits to assess if providers could teach more courses totalled 1 557, and 1 381, respectively, which constituted the bulk of VET provider audits.

In response to industry concerns, however, the board decided in April 2008 to allow the providers to use and pay for their own auditors for these types of audits until 31 December 2008. The industry was concerned that the audits would cost providers more and take longer to complete under VRQA's regulatory regime. The industry also wanted to explore whether the conflict in the consultant-auditor arrangement could be resolved, allowing providers to continue using their consultants to audit them. The board had already decided in November 2007 that this arrangement could not be resolved.

The board allowed the delay of eight months from the original cut-off date knowing that this was poor regulatory practice. Consequently, it was not until 18 months after VRQA was established that the issue of auditor independence was fully resolved.

### 3.4.2 Quality assurance

The board and senior management did not act effectively to address concerns with the performance of the VET unit until August 2009.

VRQA management was aware that when VRQA formed in July 2007, the problem of auditor independence was being compounded because staff in the VET unit were not critically assessing, auditors' findings. Moreover, in some cases, auditors' report findings were changed by VET unit staff without an evidentiary basis.

Despite this, VRQA did not introduce routine reviews of whether it registered providers in line with the Act, and did not review the VET unit until December 2008.

As a new organisation, and as a regulator of education provider quality, it would have been prudent to have fully assessed whether the system of VET regulation it inherited was sound. Given the known problems with how VET was regulated, it is concerning that VRQA did not immediately review all areas of VET regulation, including staff performance, and put in place a strategy for reform from the beginning.

The December 2008 review, initiated by VRQA's senior management, assessed the VET unit's application processes and workload but not its quality assurance processes. The review found that VRQA management had tried to improve the VET unit's performance by:

- contracting more auditors to assess VET providers
- restructuring the unit, setting up a separate team to regulate international VET providers.

The review also found:

- there had been no planning, scheduling, monitoring and tracking of VET activities
- staff responsibilities and accountability for tasks had not been clearly articulated
- the lack of a VET unit manager for 12 months was the primary cause of the VET unit's underperformance. VRQA had appointed an acting VET unit manager in October 2008, and then appointed a permanent manager in January 2009.

Following the 2008 review VRQA held a VET unit development workshop in April 2009. However, in August 2009, senior management remained concerned with the quality and timeliness of the unit's work. The VRQA Board then agreed to:

- set up a Quality Assurance Subcommittee to recommend and develop proposals for the board on VET quality assurance
- engage an audit specialist to manage the VET unit's audit branch, further review the unit, and recommend and implement actions to address any issues identified.

The audit specialist reviewed the VET unit over three weeks before recommending actions to the Quality Assurance Subcommittee at its first meeting in September 2009. The subcommittee accepted the recommendations and then asked the board to endorse them in October 2009.

There was no evidence that the board discussed the recommendations in detail, or endorsed or noted them. Since October 2009 the subcommittee has received progress reports on implementing the recommendations. It has not recommended any further action to the board on VET quality assurance. Neither the board, nor the subcommittee have recorded whether they are satisfied that the actions the subcommittee endorsed have covered all areas of concern.

It is not evident the board actively followed up how well VRQA was implementing the recommendations from the audit specialist's review, or that it has determined the impact of its actions. The subcommittee has reported to the board after each of its meetings and the board noted each report. There is no record that the board discussed VET quality assurance or VRQA's progress to improve it, despite setting up the subcommittee for this purpose.

### 3.4.3 Risk assessment

Meeting the registration criteria at the time of registration does not guarantee continuing compliance with them. The Australian Quality Training Framework 2007 (the framework) *National Guidelines for Risk Management* explains the risk-based approach that state regulatory bodies should adopt when monitoring VET providers. The guidelines work on the principle that the higher a provider's risk of not meeting the framework's standards, the greater the regulator's effort should be to monitor its performance.

The guidelines require regulators to assess a provider's risk rating according to three performance risk indicators:

- history of audit compliance
- data from quality indicators
- history of complaints.

VRQA advised that the quality indicators were not implemented nationally until 2010 and so they could not collect data from VET providers to use in rating their risk. The two other risk indicators were available to VRQA.

VRQA is only meeting the risk management guidelines for providers seeking re-registration or applying to teach more courses. The guidelines require regulators to assess a provider's risk rating each time they are audited. There are three risk ratings—high, medium and low. The guideline requires regulators to audit high-risk providers every year, medium-risk providers every three years and low-risk providers every five years.



VRQA assigns a default high-risk rating to all new providers at registration and maintains this for the 12-month follow up audit. However, it was not evident that VRQA reviewed this default rating at the 12-month stage. From the point of view of proportionate response under the 'light touch' regulatory model, rating every provider as 'high risk' defeats the purpose of a rating, because all are treated equally.

Since May 2010 VRQA has started to assess the risk rating of VET providers applying for re-registration. Audits have been scheduled according to whether the providers are assessed as high, medium or low risk. The criteria are consistent with the framework.

VRQA's approach is to do:

- full on-site audits for high-risk providers
- targeted audits for medium-risk providers, following a self-assessment by the provider about their compliance with the standards
- desktop audits for low-risk providers, following a self-assessment by the provider about their compliance with the standards.

We did not verify whether VRQA conducted risk-based audits in line with its stated approach, as the approach was introduced during the audit.

By August 2009 VRQA had introduced a similar risk-based approach to auditing providers when they apply to teach more courses. Unless an existing provider applies to teach more courses, and because of the five-year cycle for re-registration, it may take until 2015 before all existing providers are assessed and assigned an appropriate risk rating.

Until VRQA assesses each provider, it will not have a complete risk profile of registered providers or an indication of how many of each type of audit it needs to do each year. In turn, VRQA cannot know the resource mix it needs to regulate the sector according to risk.

### 3.4.4 Resources and fees

The board recognised in July 2007 that VRQA needed to comprehensively review the cost of its audits, and to review its fees accordingly. This work, however, remains to be completed.

The Act gives VRQA authority to recommend to the Minister for Skills and Workforce Participation the fees and charges that VRQA can recoup from providers for regulating the education sector.

The VRQA Board set up a Fees Working Group in 2007 to recommend what its fees should be. Two of the working group's principles are that fees must reflect the cost or value of services, and fees from one sector must not cross-subsidise another.

Since 2007 VRQA has reviewed its fee structure for registration audits, using feedback from industry stakeholders on what VET providers are willing to pay, and by comparing charges imposed by its equivalent Commonwealth, state and territory agencies.

In 2008 the VRQA Fees Working Group estimated the cost of doing audits to assess VET providers who apply to teach more courses according to risk. The fee depends on whether a course is related or unrelated to those a provider already teaches. For unrelated courses VRQA may decide to visit the provider's premises based on its own assessment of the provider, which adds to the cost. Charges for these two types of audits, and the site visit, reflect VRQA's estimate for the number of hours it will take to do them.

VRQA has not calculated the time it takes to conduct initial registration, 12-month follow-up, or re-registration audits. Nor has it calculated the time it would take to conduct high-, medium- and low-risk audits for re-registration, notwithstanding having introduced a risk-based approach in May 2010.

Understanding the number of hours it takes to do such audits is important, as VRQA currently caps the cost at \$1 600. There is no clear rationale for this cap, as the hours needed to complete these audits and the cost to register or re-register VET providers is not known.

Without a comprehensive analysis of the cost of doing audits, including the cost of staffing and operating its VET unit, VRQA cannot demonstrate that the fees it charges for VET accurately reflect the cost of regulating the sector, or that the level of public funding it receives for VET regulation is appropriate. Further, VRQA cannot show whether its VET activities are subsidising, or being subsidised, by other areas of the organisation.

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## Recommendation

2. The Victorian Registration and Qualifications Authority Board should closely oversight the Victorian Registration and Qualifications Authority's regulatory activities by:
    - promptly assessing whether all areas of concern about how well VRQA regulates the vocational education and training sector have been identified, appropriately prioritised and acted on
    - progressively evaluating whether actions to address shortcomings with regulatory practices have been effective
    - determining the full cost of regulating the vocational education and training sector and review its fee structure on this basis
    - regularly reviewing the efficiency and effectiveness of regulatory practices used in registering and monitoring vocational education and training providers.
-

# Appendix A.

## *Audit Act 1994* section 16— submissions and comments

### Introduction

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In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Victorian Registration and Qualifications Authority with a request for submissions and comments.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

A submission was also received from the Authority raising concerns with our representation of discussions regarding the issue of a preliminary the draft report. As the Authority's assertion is factually incorrect, I have also included the Authority's letter and my response.

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## Submissions and comments received

### **RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority**



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Your ref: 26464/1

Mr Des Pearson  
Victorian Auditor General  
Level 24  
35 Collins Street  
MELBOURNE VIC 3000

Dear Mr Pearson

Re: Audit Act 1994, s16(3) - Proposed Audit Report  
*Victorian Registration and Qualifications Authority*

Thank you for your letter of 17 September 2010 enclosing your proposed performance audit report on the Victorian Registration and Qualifications Authority (VRQA). The Board of the authority has concerns with the proposed report and the process leading to its creation.

The title of the performance audit - '*Victorian Registration and Qualifications Authority*' - implies that the audit encompassed the principal activities and outputs of the VRQA as a whole. However, the audit dealt only with the administration of VET registration and re-registration activity under the now defunct AQTF 2007. It excluded:

- providers approved to deliver courses to overseas students;
- applications by providers for variations to their business model or scope of registration;
- the VRQA's activities in the schools and higher education sectors; and
- the VRQA's other operations.

The audit largely ignored important aspects of the vocational education and training (VET) sector, including the educational outcomes being achieved, and the effectiveness of oversight of institutions providing services to overseas students. Instead, the audit largely concerned itself with secondary matters of process and administration.

The five main findings in the report relate to:

- the timeliness of actions to improve the independence of contract auditors;
- quality assurance of the work of contract auditors and VRQA staff;
- implementation of a risk-based approach to auditing VET providers;
- documentation relating to the registration of VET providers; and
- audit fees.

Some of the findings in these areas are incorrect, whilst others are subjective. Issues with the five findings are discussed in more detail in Appendix 1.

The VRQA disputes the conclusion to the performance audit report which states that the VRQA 'cannot reliably assure that it has effectively regulated VET providers'. In Part 2 this is rephrased as the 'VRQA cannot reliably demonstrate that it has been registering and monitoring VET providers in line with the Act. Action has been taken to address shortcomings but this work is not yet complete.' In Part 3 it is stated that

Victoria's education and training regulator

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**

the VRQA 'Board and its management have been slow to address shortcomings with VRQA's regulatory practices'. Similar comments occur through the report. The VRQA considers there is a gulf between the audit evidence and the findings. Detailed evidence has been provided to demonstrate actions which have been taken to reform the registration and monitoring process since VRQA's inception in July 2007.

The VRQA in particular contends there is no evidence of non-compliance with the Education and Training Reform Act 2006 or the Australian Quality Training Framework (AQTF). 'Slow' is a subjective judgement, made without reference to clear benchmarks or criteria. The context within which the VRQA's regulation of VET takes place is not adequately described in the performance audit report.

**Context - Vocational education and training (VET) in Victoria**

Regulation of VET providers incorporates national standards (AQTF) for domestic training delivery and, in relation to delivery of courses to overseas students, the additional requirements of the *Education Services for Overseas Students Act 2000* (ESOS) and the National Code. The VRQA's establishment in July 2007 coincided with the implementation date for the AQTF 2007 and a revised National Code.

Since July 2007, the VRQA has operated in a dynamic environment that has seen significant changes within the VET sector. The VRQA has moved to mitigate emerging concerns in relation to the quality of VET providers and also their financial viability.

The detailed chronology provided by the VRQA to VAGO provided an overview of the VET reform process in Victoria, including several reviews, some of which were commissioned by the VRQA. In January 2010 the Department of Innovation, Industry and Regional Development (DIIRD), which has policy responsibility for VET regulation, completed the *Review of Vocational Education & Training Industry Regulation*. That review outlined some weaknesses in the current VET regulatory framework and detailed a range of strategic measures aimed at:

- ensuring compliance with the law;
- mitigating the consequences of financial failure;
- providing students with pastoral care and resolving disputes; and
- simplifying and reducing the cost of regulation.

Many of the measures detailed in the review report have been incorporated into the *ETRA Amendment (Skills) Bill 2010* currently before Parliament.

It is therefore fair to observe that the 2007-09 period (that of your review) was a period of significant change and uncertainty, driven by new legislation, new VET standards, the activities of private-sector providers and the creation of the VRQA. We needed to, and did, articulate a clear vision for the regulation of the sector, and took a careful and considered approach in our response to this context.

**Comment on VAGO recommendations**

The report selectively references board minutes, papers and reports. The VRQA considers that the report lacks a direct and relevant evidentiary basis for its findings and conclusions, and therefore does not meet the standards established by the *Audit Act* and Australian auditing standards. In light of these concerns with the audit method and the quality of the audit findings and conclusions, the VRQA cannot:

- see the relationship between the evidence and the recommendations and
- support most of the recommendations.

I provide below a response to each recommendation.

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**

**Recommendation 1**

*The Victorian Registration and Qualifications Authority should:*

- *expedite establishment of comprehensive quality assurance processes over the delegate's decision making, VET Unit staff and contracted auditors.*

VRQA's quality assurance system is outlined in Appendix 1 to this letter. The VRQA's Board has in place formal delegations with senior management. Delegates are required to provide detailed reports on their activity to all Board meetings. VRQA staff are Victorian public sector employees and are employed under the *Public Administration Act*. Staff have clear lines of accountability and are provided with supervision on a daily basis.

VRQA contract auditors are formally engaged, managed and monitored by the VRQA. The VRQA introduced processes in 2009 to strengthen the monitoring and quality assurance of auditors through the use of authorised officers at over 70 audits. This process has not identified any issues with the quality of auditors or audit processes.

While the VRQA has a comprehensive quality assurance system it will prepare a policy and procedure document describing the system in one place. This document will be considered by the VRQA Board at its December 2010 meeting.

- *comprehensively document its decisions about registering, monitoring and re-registering providers.*

The VRQA has a comprehensive system for documenting its decision-making processes. VAGO's auditors chose to focus on paper-based files only, despite the VRQA demonstrating that since May 2009 all VET provider records have been recorded on an electronic system.

- *schedule post-implementation reviews of the actions to improve operational efficiency and quality assurance over contractors to assess the effectiveness of these actions and inform their refinement and revision.*

VRQA's quality assurance system is consistent with its statutory obligations. While the VRQA has a comprehensive quality assurance system it will prepare a policy and procedure document. This document will be considered by the VRQA Board at its December 2010 meeting.

**Recommendation 2**

*The Board should closely oversight the Victorian Registration and Qualifications Authority's regulatory activities by:*

- *promptly assessing whether all areas of concern about how well the VRQA regulates the vocational education and training sector have been identified, appropriately prioritised and acted on.*

The VRQA already has in place effective governance arrangements to identify, prioritise and act on any regulatory matters. Quality assurance matters are within the province of a dedicated Board sub-committee.

- *progressively evaluating whether actions to address shortcomings with regulatory practices have been effective.*

The VRQA has engaged qualified and independent advisors to review and assess its regulatory practices. This will continue.

- *determining the full cost of regulating the vocational education and training sector and review its fee structure on this basis.*

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**

All VRQA fees are reviewed annually, as is the full cost to the VRQA of regulating the sector. The Victorian Government provides the VRQA with recurrent funding. The VRQA is responsible for recommending a fee schedule to its Ministers, having regard to levels of recurrent funding and its obligations to ensure that fees are set consistent with Department of Treasury and Finance Guidelines.

- *regularly reviews the efficiency and effectiveness of regulatory practices used in registering and monitoring vocational education and training providers.*

The VRQA has a continuous improvement culture and will continue to engage qualified and independent advisors to review and assess its regulatory practices.

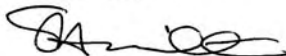
**Conclusion**

The VRQA assisted VAGO throughout the conduct of the performance audit. Formal written feedback was provided on the draft audit scope, the mid conduct report and the Audit Issues Paper. Senior management met with VAGO's auditors to assist with their understanding of the VRQA's operating environment, legislation and performance. During the course of the audit, we provided VAGO with over 7000 pages of written material, access to the VRQA's electronic business system, and in excess of 50 hours of interview time with Board members, senior management and staff.

Regrettably, evidence submitted by the VRQA to provide an accurate picture of the VRQA's performance and approach appears to have been dismissed by VAGO without explanation. Appendix 2 details a number of other errors or misinterpretations that, despite our repeated efforts to correct them, remain in the proposed report. We therefore find ourselves unable to agree with the findings or most of the recommendations of the audit.

If you decide to make any changes to your report, I request that the VRQA be provided with a copy of the revised report so that we can reconsider our response.

Yours sincerely



Stuart Hamilton  
Chair, VRQA

1 October 2010

Att.

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



**Appendix 1**

**VRQA Response**

**Re: Audit Act 1994, s16(3) - Proposed Audit Report**

*Victorian Registration and Qualifications Authority*

**VAGO Findings - Errors, Misinterpretations and Contextual Gaps**

This appendix to the VRQA's response identifies where the VAGO findings are questioned and on which clarity is required, to ensure that the VRQA's work is correctly on the public record.

**1. The timeliness of actions to improve the independence of contract auditors**

***VAGO findings:***

- *'Concerns with auditor independence were known when the VRQA was formed in July 2007, the Board allowed VET providers to continue this practice up to 31 December 2008 for most audits, and concerns over auditor independence were not effectively resolved until 1 January 2009 - 18 months after the organisation formed.'*
- *'The Board allowed the delay of 8 months from the original cut off date in the knowledge that this was poor regulatory practice. Consequently, it was not until 18 months after VRQA was established that the issue of auditor independence was fully resolved.'*

***VRQA response:***

The timelines for Board action on this issue are misrepresented. The report also fails to give due weight to the risks associated with the different types of audit involved.

In September 2007, two months after the VRQA was established, the VRQA Board set a deadline of 30 April 2008, after which time VET providers would not be permitted to engage their own auditors. From that date, audits for high-risk providers were required to be undertaken by the VRQA itself through contracted auditors. For low-risk audits and extensions to scope only, the Board introduced a transition period to December 2008.

The issue of auditor independence was substantively addressed within 8 months of the Board's first decision, allowing a suitable time for transition. Consultation with the industry on this change was considered highly appropriate, as was distinguishing between high- and low-risk audits in the implementation of the change.

The VRQA's approach to regulation is well illustrated by the example the audit report examines - the Training Recognition Consultants reform. In this respect, the VRQA took the initiative to separate the role of auditor from business advisor in relation to the administration of VET registration. This was done to avoid conflicts of interest rather than in response to concerns about quality. There was no compelling evidence in 2007 that providers were not providing satisfactory education and training to students.

The VRQA Board decision to split the auditor/advisor roles in September 2007 highlights the commitment by the Board to reform VET regulation. After making this decision, the VRQA Board embarked on a systematic process of consultation with industry and affected parties to roll out this and further reforms.

The VRQA Board believes consultation and engagement with industry is a key component of good regulatory practice. Indeed, 'consulting effectively with affected



**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



key stakeholders at all stages of the regulatory cycle' is recognised as an important principle in the Council of Australian Government's (COAG's) 2007 principles of Best Practice Regulation.

**2 Quality assurance of the work of contracted auditors and VRQA staff**

**VAGO findings:**

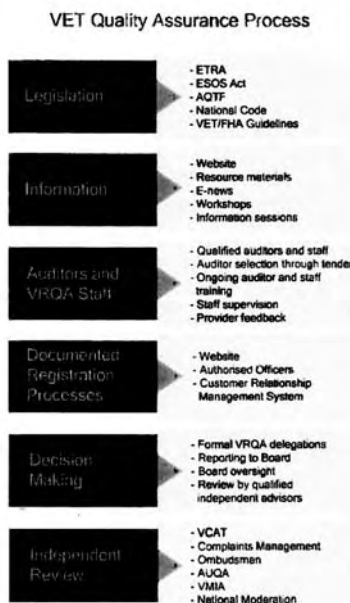
- *The VRQA 'does not quality assure the work of its staff or contracted auditors' and 'does not have a system for quality assuring the work of its contracted auditors or its own staff'.*
- *'While suitable quality controls have been designed for contracted auditors, there is no process for assuring whether these procedures are operating well'.*
- *'VRQA has acknowledged that it needs to establish a quality assurance system for VET auditors and has also indicated it will review how it can improve its quality assurance over its staff at the same time'.*

**VRQA response:**

The VRQA believes VAGO's findings in this regard reflect a misunderstanding of a quality assurance approach to regulation.

The VRQA has an extensive quality assurance system in place which encompasses key elements of legislation, market information, use of contracted auditors and VRQA staff reviews, documented referral processes, decision making and reporting, and independent review.

VRQA's quality assurance process for VET is illustrated by the diagram below.



**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



In the two years to July 2010, the VRQA commissioned approximately 5,000 external audits of VET providers. During 2009, the VRQA's authorised officers closely monitored audits of more than 70 high-risk providers; in doing this they performed an

important role in assuring that the contracted auditors reached correct conclusions and that their work stood up to scrutiny. Merit reviews by VCAT of VRQA decisions have consistently found the decisions to be fair and the associated processes sound.

The VRQA considers this constitutes an effective quality assurance system for a regulator, regardless of how the system is labelled or presented. Based on this quality assurance system, the VRQA is able to achieve a high degree of confidence that VET providers are meeting their obligations, that auditors and VRQA staff and management are making correct registration decisions, and their roles are being carried out efficiently and effectively.

Importantly, VAGO's performance audit report acknowledges that, under the current regulatory framework for VET providers in Victoria, the owners and operators of Registered Training Organisations have responsibility for adopting quality assurance systems and processes at the organisational level. These arrangements complement the higher layers of quality assurance applied by the VRQA and other regulators and oversight bodies who operate in the VET system.

The measure of an effectively operating quality assurance system is also whether it delivers positive outcomes for students and the people of Victoria more broadly. VAGO's performance audit report is very light on performance data, yet these data show that the VRQA has successfully cracked down on unsatisfactory operators in the VET sector, and is operating at least as efficiently and effectively as its peers in other Australian jurisdictions. Victoria's approach to checking the financial and business operations of providers supporting international students was strongly endorsed by the 2009 *Review of the Education Services for Overseas Students Act 2000* (the Baird Review). At the same time, that review identified the importance of avoiding an undue regulatory burden on VET providers, a goal that is consistent with Victorian Government policy.

The VRQA accepts continuous improvement as an objective and has undertaken to document the policy and procedures that it has in place, including procedures for staff quality assurance.

The VRQA further notes that, in 2011, the National Centre for Vocational Education Research (NCVER) will be undertaking a review to ensure that all VET regulators are meeting the national standards for regulators and that the AQTF is being implemented appropriately. The VRQA welcomes notice of this review and looks forward to contributing to its conduct, by independent experts.

**3. Implementation of a risk-based approach to auditing VET providers**

**VAGO findings:**

- *'For new providers seeking registration a default "high" risk rating is now assigned, but it is not evident this rating is reviewed when a follow-up audit is undertaken after 12 months..... Because of the five-year cycle for re-registration, it may take until 2015 before all existing providers are assessed and assigned an appropriate risk rating'.*

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



- *VRQA assigns a default high risk rating to all new providers at registration and maintains this for the 12 month follow up audit. However it was not evident that VRQA reviewed this default rating at the 12 month stage.'*

**VRQA response:**

These findings are partially incorrect.

In the early stages of the VRQA's establishment, the VRQA Board recognised flaws in the audit regime that it had inherited. Accordingly, the Board acted to address the shortcomings. Risk ratings for providers which recognised high- and low-risk activities were assigned as a transitional measure. Over time, risk ratings have been reassessed through the course of the VRQA's audit regime.

The record of VRQA decision making from 1 July 2007 until now reflects a consistent approach to risk assessment in the VET sector. Key features of the model are that:

- All VET providers delivering courses to overseas students are treated as high-risk;
- Extensions to scope may be high-, medium- or low-risk, and the VRQA has a documented risk-assessment process; and
- All initial registrations are assigned a high-risk rating (this is a prudent regulatory approach).

Appropriately, the VRQA regards all VET providers as high-risk until they are systematically reviewed by the regulating body.

A review of risk ratings after 12 months may not be appropriate, as providers may not have taken on students by that time or achieved full operations (and therefore fully tested their capabilities). The VRQA is reluctant to change risk ratings unless sufficient time has elapsed, as experience has shown that very few providers are fully compliant at the time of the 12 month audit, and risk ratings need to be maintained until such time as the VRQA is confident that they can be revised.

The claim that 'it may take until 2015 before all existing providers are assessed and assigned an appropriate risk rating' is therefore misleading. In any event, the great majority of institutions whose risk ratings are not revisited at the 12 month stage will have their risk ratings revisited as part of the process for applying to extensions to scope.

**4. Documentation relating to the registration of VET providers**

**VAGO findings:**

- *'Gaps in the paper-based document trail evidencing and supporting registration decisions were identified. VRQA has however recently introduced an electronic management system for VET provider records.'*
- *'A completed audit report was held on all files we examined. VRQA staff document their assessment of an auditor's report on an "audit review template". However on four of the 16 files we reviewed we either did not see a recommendation to the delegate, or the delegate's decision recorded.'*
- *'Better documentation of the decisions made by delegates is also required to demonstrate that due process was followed.'*

**VRQA response:**

The performance audit report presents the results of file reviews conducted by the auditors and concludes that 'the documentation that supports VRQA decisions to register VET providers is incomplete'.

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



The VRQA indicated during the course of the audit that, from May 2009, it recorded audit outcomes in its Customer Relationships Management system (CRM). In the period subject to the audit, provider files were therefore partially paper-based and partially electronic. Delegate decisions were recorded on the electronic filing system.

All VET files are now on CRM. The VRQA strongly disputes the suggestion that its files are in some way incomplete.

The VRQA considers the move to electronic record management to be best practice within a modern regulatory regime. The VRQA has however agreed to develop a document that encapsulates the relevant policies and procedures.

**5. Audit fees**

**VAGO findings:**

- *'Although the Board recognised in July 2007 the need to calculate the cost of doing audits, and review its fees accordingly, it has yet to complete this fundamental work'.*
- *'Without a comprehensive analysis of the cost of doing audits...VRQA cannot demonstrate that the fees it charges for VET accurately reflect the cost of regulating the sector, or the level of public funding VRQA receives for VET regulation is appropriate'.*

**VRQA response:**

Section 5.2.13 of the *Education and Training Reform Act 2006* provides for the fixing of fees by the Minister, by Order, on advice from the VRQA's Board.

As evidenced by Board papers provided to VAGO's auditors for review during audit conduct, the VRQA's Board reviews fees annually. These arrangements are wholly consistent with Victorian Government policy.

The VRQA receives funding from the Victorian Government in addition to revenue from fees and charges which are set on a partial cost-recovery basis. The VRQA complies with Department of Treasury and Finance Guidelines regarding the setting of fees and charges. These fees and charges are also reflected in the annual financial reports which are subject to annual financial audit by VAGO.

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



**Appendix 2  
VRQA Response  
Re: Audit Act 1994, s16(3) - Proposed Audit Report  
Victorian Registration and Qualifications Authority  
Other Errors or Misinterpretations**

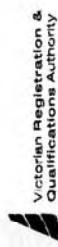
Section/reference	VAGO finding	VRQA response
Audit Summary	(the VRQA) replaced the Victorian Qualifications Authority (VQA)	In fact, as advised during the course of the audit, the VRQA was formed from an amalgam of the VQA and Registered Schools Board and the transfer of regulatory functions, apart from regulation policy, from the Office of Training and Tertiary Education.
Audit Summary-Conclusion	When it was formed in July 2007, the VRQA was aware of serious shortcomings in its predecessor's approach to registering VET providers. The actions it took to address these issues up to mid 2009 were steps in the right direction.....	At the time of its formation, a new national framework, the Australian Quality Training Framework 2007, was being introduced. Reference to 'serious shortcomings' is considered a gross generalisation as this refers to one aspect only of the system inherited by the VRQA, ie Training Recognition Consultants (TRCs). Actions taken to address issues identified were also taken by the end of 2008, not up to mid 2009 as indicated.
1.1 Background-Role and Functions	Since 2003 the structure of the VET industry in Victoria has shifted towards an increased number of private providers that compete to teach government funded training programs.	This statement is inaccurate as private providers do not compete to teach "government funded" training programs and, alongside for-profit business enterprises, VET providers comprise a diverse group of legal entities including registered schools, Adult and Community Education Providers, TAFE Institutes, Enterprise-based organisations, government departments and private companies. This spread is overlooked in the report and highlights the complexity of the VET sector and the need for a differentiated approach to its regulation which also requires co-regulation with other agencies.

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



Section/reference	VAGO finding	VRQA response
	<p>In 2009-10, there were 185 VET providers who had their registrations cancelled. Of these 141 were voluntary, 23 registrations expired, seven were for non compliance with the standards, and 14 providers went bankrupt or into liquidation. There were 60 cancellations in 2007-08 with 42 voluntary, and 92 in 2008-2009 with 72 voluntary.</p>	<p>The VRQA considers these figures are incomplete and provide only partial description of the VET system in Victoria and the effectiveness of the Rapid Audit Program (RAP).</p>
1.2.3 Ministerial Directions	<p>Late in 2009, the Minister for Skills and Workforce Participation issued two ministerial directions aimed at strengthening VRQA's registration of all VET providers, including financial health assessments. Both were in effect at 1 January 2010. The directions required VRQA to introduce a new way to assess applications from these providers.</p>	<p>VAGO has conflated a number of references provided during the conduct of the audit and has failed to adequately distinguish the role of VET Guidelines and Financial Health Assessments in strengthening regulation of the sector. Separate Ministerial Directions were issued in September 2009 and December 2009 and VRQA considers these Directions have been misrepresented. The Directions did not require VRQA to introduce a new way to assess applications from these providers.</p>
1.3 National and State Contexts	<p>Except for Victoria and Western Australia, all states recently agreed to transfer their powers to register and monitor VET providers to a single national authority, Technical and Vocational Education and Training Australia Limited (TVET)</p>	<p>TVET is not the new national VET regulator. Victoria will not refer powers to a new national authority. The auditor was directed to the Department of Industry, Innovation and Regional Development during the course of the audit for correct reference to this development, but does not appear to have taken up the opportunity.</p>
2.2 Registering VET providers-Conclusions	<p>VRQA has completed or commenced corrective actions as a result of an August-September 2009 review. However it is too early to tell if these actions are effectively addressing these shortcomings.</p>	<p>The audit specialist was engaged to manage the audit function, not to undertake a review per se. The report fails to recognise this fact.</p>
2.4.2 Review of VRQA decision-making	<p>Figure 2A outlines VRQA's registration assessment and decision making process, and the evidence that would show that VRQA made its decisions in line with the Act's requirements.</p>	<p>There is no connection between Figure 2A and statements of requirements contained in the <i>Education and Training Reform Act 2006</i>. The VRQA adheres to everything contained in the Act.</p>

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



Section/reference	VAGO finding	VRQA response
2.4.4 Other Weaknesses in regulating VET	A review in December 2008 found that, 18 months after VRQA's establishment, the VET Unit had not integrated well into the organisation	The VRQA considers this statement subjective and factually incorrect in material ways. All issues identified have been dealt with.
2.4.3 Managing non-compliance	Prior to April 2010 VRQA managed non-compliance inconsistently	The VRQA acknowledges this finding and has taken significant steps to change the way it manages non-compliance. The past practice of negotiating a date for a verification audit has ceased and been replaced by a consistent timeframe and process which is followed by all staff. A critically non-compliant RTO is also required to attend an interview within 7 days of receiving the report.
	Figure 2B Status of Recommended actions of the 2009 review of the VET Unit	As indicated above and throughout audit conduct, there has been no "2009 review of the VET Unit" other than analysis undertaken by the Audit Manager engaged to improve audit administration. The VRQA observes that some of the dates identified in Figure 2B will have passed and actions completed by the time of the report's tabling in Parliament.
	To improve its audit administration, from March 2010 VRQA consolidated its records of VET registration and monitoring into a single database - its Customer Relations Management (CRM) system	This development in fact occurred in May 2009 at which time the Customer Relationships Management System (CRM) new IT operating system was established.
3 Governance of VRQA-Findings	The VRQA did not introduce a risk based assessment for conducting re-registration audits until May 2010, although the need was identified in September 2007.	This is incorrect. A detailed chronology provided to VAGO during the course of the audit attests to this fact.
3.3 Governance roles and responsibilities	In the time between the two surveys, four new members joined the Board. The survey results do not show which of the seven members completed the survey	This is incorrect in fact three new members joined the Board. The survey results do not show which seven of the thirteen members completed the survey.

**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



Section/reference	VAGO finding	VRQA response
3.4 Governance of the VET Regulatory Function	During the audit a number of examples of problems with VRQA's governance were noted. Particularly evident was the delays in effectively dealing with significant issues impacting on the conduct of VET registration and monitoring activities.	The VRQA disputes the finding that there were delays. The VRQA provided an extensive chronology of decision-making events undertaken by the VRQA Board which demonstrated that the approach took account of the important function of consulting with stakeholders to ensure they were brought along with the process.
3.4.2 Quality Assurance	VRQA management were aware that when auditor independence was being compounded because staff in the VET Unit were not critically assessing, auditor's findings. Moreover, in some cases auditor's report findings were changed by the VET Unit staff without an evidentiary basis. ... It is of concern that VRQA did not immediately review all areas of VET regulation, including staff performance, and put in place a strategy for reform from the beginning	The VRQA rejects this observation and considers it misrepresents the process.  The VRQA was established from 1 July 2007 through the <i>Education and Training Reform Act 2006</i> . It is important to recognise that the new Australian Quality Training Framework 2007 was introduced on the same date. It would have been inappropriate for the VRQA as regulatory body to review all areas of VET regulation at the time when implementation of the new Act and AQTF was paramount.  This observation is inaccurate as previously noted.
	The audit specialist reviewed the VET Unit over three weeks before recommending actions to the Quality Assurance subcommittee at its first meeting in September 2009.  There was no evidence that the Board discussed the recommendations in detail, or endorsed or noted them	The VRQA provided full sets of papers and minutes for the Board and sub-committees, including the Quality Assurance Sub-Committee, during the course of the audit. These papers confirm discussions, endorsement and noting by the VRQA Board.
3.4.3 Risk Assessment	VRQA advised that the quality indicators were not implemented nationally until 2009 and so they could not collect data from VET providers to use in rating their risk.	Quality indicators were not implemented nationally until June 2010 and have now been submitted for the first time.



**RESPONSE provided by the Chair, Victorian Registration and Qualifications Authority – continued**



Section/reference	VAGO finding	VRQA response
	VRQA is only meeting the risk management guidelines for providers seeking re-registration or applying to teach more courses	There is no evidence to support this contention. It implies the VRQA is not meeting requirements for registration (as compared with re-registration) which is not the case. The VRQA has a customised audit program for variations to scope; 5000 audits were conducted in the two years to July 2010.

**Auditor-General's acquittal response to the Chair, Victorian Registration and Qualifications Authority**

**VAGO**

Victorian Auditor-General's Office

5 October 2010

File No: 26464/01

Mr Stuart Hamilton  
Chair  
Victorian Registration and Qualifications Authority  
Level 6, 35 Spring Street  
Melbourne Vic 3000

Dear Mr Hamilton

**Performance Audit - Victorian Registration and Qualifications Authority**

I refer to your letter of 1 October 2010 commenting on the proposed audit report and I note that you have dismissed its findings, conclusions and most of its recommendations.

This is disappointing.

The conduct of this audit, which commenced on 20 January, 2010 and has been foreshadowed since May 2007 has been marked by levels of resistance and obfuscation by your Authority, rare in my experience in almost 20 years as an Auditor-General. Indeed over the past fortnight, your Director and the Chair of your Audit Committee simply declined to engage with my Office despite the efforts of my Assistant Auditor-General, Performance Audit and the audit's engagement leader to discuss the proposed report.

This, and a range of other instances belie your assertion of "repeated efforts" to correct what you believe to be errors or misinterpretations. In fact, the extensive nature of your comments are a direct result of your organisation's unwillingness to engage productively with the audit team throughout this audit. In effect, much of your commentary on the proposed report is a re-prosecution of issues which have previously been comprehensively addressed and acquitted by VAGO.

Regrettably, it is difficult not to conclude that the Authority's quite unsatisfactory engagement with this Office over the course of the audit has been sanctioned by your Board.

Further it appears disingenuous to refer now to what you assume the title of the audit "implies", because, and let us be clear about this, the scope, objectives and sub-objectives of this audit were discussed extensively with your senior management from the inception of this audit.

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Telephone 61 3 8601 7000 Facsimile 61 3 8601 7010 Email [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au) Website [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

*Auditing in the Public Interest*

**Auditor-General's acquittal response to the Chair, Victorian Registration and Qualifications Authority – continued**

You may feel disappointed that the audit didn't encompass "...the principal activities and outputs of the VRQA as a whole", but that is not the point. The Authority has known the parameters of this audit from the beginning and to object now that this wasn't the audit the Authority was looking for is to ignore fundamentally, my role and discretion as Auditor-General and the rules of engagement in the audit process. This is my audit, not the Authority's.

It is also specious to refer gratuitously to VAGO's selective referencing of Board minutes papers and reports when the Authority does not itself produce the Board minutes, papers and reports to counter or contradict VAGO's conclusions. When VRQA responds to some audit findings with "These findings are partially incorrect", do you actually mean that the findings are largely correct?

Notwithstanding, your 1 October 2010 comments have been reviewed and acquitted in the attached work sheet to demonstrate once again that the audit findings are based on a careful assessment of the information and evidence available to audit.

Your comments offer no new evidence to warrant change to the audit findings and conclusions. They therefore serve only to reinforce the substantive issues raised by this audit, in particular the absence of a quality assurance regime over staff and contracted auditors, and the Board's slowness to address this and related matters.

In terms of the report's material findings, I can only await the opportunity to provide government and the Public Accounts and Estimates Committee with the benefit of audit's view as they consider their respective approaches to dealing with these audit findings which go to the core of VRQA's accountability obligations.

A copy of this letter and attachments will be included in my report to Parliament, along with your 1 October 2010 response.

Yours sincerely



D D R Pearson  
Auditor-General

Attachments:

- 1: VAGO acquittal of VRQA comments on proposed audit report – Part 1 Letter
- 2: VAGO acquittal of VRQA comments on proposed audit report – Part 2 Appendix 1
- 3: VAGO acquittal of VRQA comments on proposed audit report – Part 3 Appendix 2

**VAGO acquittal of VRQA Comments on proposed audit report Victorian Registration and Qualifications Authority, 5 October 2010**  
**Part 1 - Letter**

No	Letter reference	VAGO acquittal
L-1	Thank you for your letter of 17 September 2010 enclosing your proposed performance audit report on the Victorian Registration and Qualifications Authority (VRQA). The Board of the authority has concerns with the proposed report and the process leading to its creation.	
L-2	<p>The title of the performance audit—'Victorian Registration and Qualifications Authority'—implies that the audit encompassed the principal activities and outputs of the VRQA as a whole. However, the audit dealt only with the administration of VET registration and re-registration activity under the now defunct AQTF 2007. It excluded:</p> <ul style="list-style-type: none"> <li>• providers approved to deliver courses to overseas students</li> <li>• applications by providers for variations to their business model or scope of registration</li> <li>• the VRQA's activities in the schools and higher education sectors, and</li> <li>• the VRQA's other operations.</li> </ul>	<p>In line with our <i>Audit Act</i> section 15 (2) obligations, we consulted with VRQA and the Public Accounts and Estimates Committee regarding the specification for this audit's objective and scope in the first quarter of 2010. VRQA did not raise this issue.</p> <p>The rationale for the audit set out in the draft audit specification referred to the media coverage of failures by VET providers, and stated the audit would inform stakeholders about how well VRQA was regulating these providers.</p> <p>It was not practicable nor ever intended to cover all of VRQA functions.</p>
L-3	<p>The audit largely ignored important aspects of the vocational education and training (VET) sector, including the educational outcomes being achieved, and the effectiveness of oversight of institutions providing services to overseas students. Instead, the audit largely concerned itself with secondary matters of process and administration.</p>	<p>The audit objective and scope has always been to assess VRQA's activities in registering and monitoring VET providers. This is a significant core function for VRQA as Victoria's regulator for education services under <i>the Education and Training Reform Act 2006</i>. It was selected as part of usual audit sampling of material functions for review, to indicate the standard of management control and provide reliable insight to whether VRQA is operating effectively and doing so economically and efficiently and in compliance with all relevant Acts.</p> <p>VAGO focused on the underlying approach VRQA adopts to fulfil its function with regard to VET.</p> <p>Providers to overseas students represent a minority of providers that VRQA regulates.</p> <p>It was not appropriate to examine educational outcomes, as part of this audit as they are affected by multiple factors, not just VRQA's regulatory activities.</p>
L-4	<p>The five main findings in the report relate to:</p> <ul style="list-style-type: none"> <li>• the timeliness of actions to improve the independence of contract auditors;</li> <li>• quality assurance of the work of contract auditors and VRQA staff</li> </ul>	<p>These points are acquitted in Appendix 1:</p> <ul style="list-style-type: none"> <li>• the timeliness of actions to improve the independence of contract auditors—see Apx1-2, pages 1-4</li> </ul>

No	Letter reference	VAGO acquittal
	<ul style="list-style-type: none"> <li>implementation of a risk-based approach to auditing VET providers</li> <li>documentation relating to the registration of VET providers</li> <li>audit fees.</li> </ul>	<ul style="list-style-type: none"> <li>quality assurance of the work of contract auditors and VRQA staff—see Apx1-3, pages 4–6</li> <li>implementation of a risk-based approach to auditing VET providers—see Apx1-4, page 6-7</li> <li>documentation relating to the registration of VET providers—see Apx1-5, page 8</li> <li>and audit fees—see Apx1-6, page 9.</li> </ul>
L-5	Some of the findings in these areas are incorrect, whilst others are subjective issues with the five findings are discussed in more detail in Appendix 1.	Refer to VAGO acquittal of Appendix 1 issues
L-6	The VRQA disputes the conclusion to the performance audit report which states that the VRQA 'cannot reliably assure that it has effectively regulated VET providers'; in Part 2 this is rephrased as the 'VRQA cannot reliably demonstrate that it has been registering and monitoring VET providers in line with the Act. Action has been taken to address shortcomings but this work is not yet complete.' In Part 3 it is stated that the VRQA Board and its management have been slow to address shortcomings with VRQA's regulatory practices'. Similar comments occur through the report. The VRQA considers there is a gulf between the audit evidence and the findings. Detailed evidence has been provided to demonstrate actions which have been taken to reform the registration and monitoring process since VRQA'S Inception in July 2007.	<p>The audit conclusion is based on:</p> <ul style="list-style-type: none"> <li>the absence of a quality assurance regime over the critical work performed by contracted auditors and staff</li> <li>gaps in the evidentiary base supporting registration decisions</li> <li>the ad hoc approach to applying risk management principles.</li> </ul> <p>As required by Australian Auditing and Assurance Standards, VAGO operates a comprehensive quality assurance regime to demonstrate the rigour of our audits. This extends to independent checking of evidence that support findings and conclusions.</p> <p>Aside from VAGO professional practice, VAGO is subjected at least once every three years to a full performance audit that covers all aspects of my role. (see section 19 of the <i>Audit Act 1994</i>). The most recent performance audit report was tabled in Parliament on 14 September 2010. This report once again confirmed that VAGO operates in full compliance with the <i>Audit Act</i> and professional standards, including the ethical and quality controls standards.</p>
L-7	The VRQA in particular contends there is no evidence of non-compliance with the <i>Education and Training Reform Act 2006</i> or the Australian Quality Training Framework (AQTF). 'Slow' is a subjective judgement, made without reference to clear benchmarks or criteria. The context within which the VRQA's regulation of VET takes place is not adequately described in the performance audit report.	<p>The audit report does not state there have been instances of non-compliance, but rather that VRQA cannot assure VAGO, as the Victorian Parliament's independent auditor, that it is fulfilling its role and functions under Parliament's legislation.</p> <p>The report notes the fast pace of change that VRQA faced. However, as the report notes in section 3.2 (page 16):</p> <p><i>'in a rapidly changing and complex industry like VET, vigilance is required if VRQA is to establish and sustain an effective regulatory regime.'</i></p> <p>In response to VRQA's comments that responded to an earlier summary of findings, which included VRQA's chronology of decisions and actions taken since July 2007, VAGO explained why we concluded there were unexplained delays in the board acting to address shortcomings with its regulatory approach to VET.</p>

No	Letter reference	VAGO acquittal
		VAGO's acquittal of VRQA's 27 August 2010 comments specifically refer:
		2. GOVERNANCE BY THE VRQA BOARD
		Further in section 3, VAGO findings indicate the audit opinion that:
		...
		<ul style="list-style-type: none"> <li>• <i>'it took more than two years for the board to act decisively to address concerns with the VET unit</i></li> </ul>
L-8	<p><b>Context—Vocational education and training (VET) in Victoria</b></p> <p>Regulation of VET providers incorporates national standards (AQTF) for domestic training delivery and, in relation to delivery of courses to overseas students, the additional requirements of the <i>Education Services for Overseas Students Act 2000</i> (ESOS) and the National Code. The VRQA's establishment in July 2007 coincided with the implementation date for the AQTF 2007 and a revised National Code.</p> <p>Since July 2007, the VRQA has operated in a dynamic environment that has seen significant changes within the VET sector. The VRQA has moved to mitigate emerging concerns in relation to the quality of VET providers and also their financial viability.</p> <p>The detailed chronology provided by the VRQA to VAGO provided an overview of the VET reform process in Victoria, including several reviews, some of which were commissioned by the VRQA. In January 2010 the Department of Innovation, Industry and Regional Development (DIIRD), which has policy responsibility for VET regulation, completed the Review of Vocational Education 8 Training Industry Regulation. That review outlined some weaknesses in the current VET regulatory framework and detailed a range of strategic measures aimed at:</p> <ul style="list-style-type: none"> <li>• ensuring compliance with the law;</li> <li>• mitigating the consequences of financial failure;</li> <li>• providing students with pastoral care and resolving disputes; and</li> <li>• simplifying and reducing the cost of regulation.</li> </ul> <p>Many of the measures detailed in the review report have been incorporated into the <i>ETRA Amendment (Skills) Bill 2010</i> currently before Parliament.</p> <p>It is therefore fair to observe that the 2007–09 period (that of your review) was a period of significant change and uncertainty, driven by new legislation, new VET standards, the activities of private-sector providers and the creation of the VRQA. We needed to, and did, articulate a clear vision for the regulation of the sector, and took a careful and considered approach in our response to this context.</p>	<p>The report addresses this context. The level of detail in the report is influenced, among other things, by audience, the relevance to the focus of the audit and the importance of the information. There are a range of stakeholders with differing interests making it difficult to meet all their needs.</p> <p>Our unequivocal approach, however, is to provide concise coverage for our primary client, Parliament.</p>

No	Letter reference	VAGO acquittal
L-9	<p><b>Comment on VAGO recommendations</b></p> <p>The report selectively references board minutes, papers and reports. The VRQA considers that the report lacks a direct and relevant evidentiary basis for its findings and conclusions, and therefore does not meet the standards established by the <i>Audit Act</i> and Australian Auditing Standards. In light of these concerns with the audit method and the quality of the audit findings and conclusions, the VRQA cannot:</p> <ul style="list-style-type: none"> <li>• see the relationship between the evidence and the recommendations and</li> <li>• support most of the recommendations.</li> </ul>	<p>VAGO's acquittal of VRQA's chronology shows that the audit team examined relevant board minutes and papers covering the period October 2006 to June 2010.</p> <p>Only those papers judged as relevant have been referenced in the report. Our fact checking process, which also involves direct checking with VRQA management has not disclosed other relevant information warranting inclusion.</p> <p>The basis for VRQA's judgement that VAGO does not meet the standards is not provided.</p> <p>This view is at variance with that of successive performance auditors of the Auditor-General and VAGO, appointed by and reporting to the Victorian Parliament.</p>
L-10	I provide below a response to each recommendation.	
L-11	<p><b>Recommendation 1</b></p> <p><i>The Victorian Registration and Qualifications Authority should:</i></p> <ul style="list-style-type: none"> <li>• expedite establishment of comprehensive quality assurance processes over the delegate's decision making, VET unit staff and contracted auditors.</li> </ul>	
L-12	<p>VRQA's quality assurance system is outlined in Appendix 1 to this letter. The VRQA's Board has in place formal delegations with senior management. Delegates are required to provide detailed reports on their activity to all Board meetings. VRQA staff are Victorian public sector employees and are employed under the <i>Public Administration Act</i>. Staff have clear lines of accountability and are provided with supervision on a daily basis.</p>	<p>Appendix 1 sets out comments on VRQA's quality assurance system covering contracted auditors and staff.</p> <p>It is acknowledged that delegates report to the board on their activity. The point being made, however, is that the quality of the work that underpins this activity is not addressed.</p> <p>Such an approach does not constitute an effective quality assurance system.</p>
L-13	<p>VRQA contract auditors are formally engaged, managed and monitored by the VRQA. The VRQA introduced processes in 2009 to strengthen the monitoring and quality assurance of auditors through the use of authorised officers at over 70 audits. This process has not identified any issues with the quality of auditors or audit processes.</p>	<p>As acknowledged in Appendix 1, authorised officers are seen as part of the audit team.</p> <p>VRQA however did not provide sufficient appropriate evidence to demonstrate that it used these authorised officers to quality assure the work of its contracted auditors.</p>
L-14	<p>While the VRQA has a comprehensive quality assurance system it will prepare a policy and procedure document describing the system in one place. This document will be considered by the VRQA Board at its December 2010 meeting.</p>	<p>VAGO regards this development as appropriate, however, this prospective action cannot retrospectively address the issue that the absence of such a document until now raises doubts about whether staff were fully aware of their responsibilities and their actions were consistent during the period subject to audit.</p>
L-15	<ul style="list-style-type: none"> <li>• comprehensively document its decisions about registering, monitoring and re-registering providers.</li> </ul>	

No	Letter reference	VAGO acquittal
L-16	<p>The VRQA has a comprehensive system for documenting its decision-making processes. VAGO's auditors chose to focus on paper-based files only, despite the VRQA demonstrating that since May 2009 all VET provider records have been recorded on an electronic system.</p> <ul style="list-style-type: none"> <li>• <i>schedule post-implementation reviews of the actions to improve operational efficiency and quality assurance over contractors to assess the effectiveness of these actions and inform their refinement and revision.</i></li> </ul> <p>VRQA's quality assurance system is consistent with its statutory obligations. While the VRQA has a comprehensive quality assurance system it will prepare a policy and procedure document. This document will be considered by the VRQA Board at its December 2010 meeting.</p>	<p>Our concern was not just about the system itself, but also the completeness of the documentation supporting the decision. Both paper based and electronic records were reviewed.</p> <p>VAGO does not accept that VRQA has a comprehensive quality assurance system in place. There is a need to be able to demonstrate reliability and consistency of staff decision-making, and to assess the effectiveness of actions taken to systematically address shortcomings identified in the regulatory approach.</p>
L-17	<p><b>Recommendation 2</b></p> <p><i>The Board should closely oversight the Victorian Registration and Qualifications Authority's regulatory activities by:</i></p> <ul style="list-style-type: none"> <li>• <i>promptly assessing whether all areas of concern about how well the VRQA regulates the vocational education and training sector have been identified, appropriately prioritised and acted on.</i></li> </ul> <p>The VRQA already has in place effective governance arrangements to identify, prioritise and act on any regulatory matters. Quality assurance matters are within the province of a dedicated Board sub-committee.</p>	<p>The results of this audit do not support VRQA's assertion that it has effective governance arrangements.</p> <p>For example, there is not sufficient evidence that the board had satisfied itself that all concerns with VRQA regulatory practices had been identified and addressed.</p>
L-18	<ul style="list-style-type: none"> <li>• <i>progressively evaluating whether actions to address shortcomings with regulatory practices have been effective.</i></li> </ul> <p>The VRQA has engaged qualified and independent advisors to review and assess its regulatory practices. This will continue.</p>	<p>The audit did not find evidence to support this view. The appointment of qualified and independent advisors in itself is not sufficient to acquit VRQA's obligation to assure itself that intended priorities and outcomes are being achieved.</p>
L-19	<ul style="list-style-type: none"> <li>• <i>determining the full cost of regulating the vocational education and training sector and review its fee structure on this basis.</i></li> </ul> <p>All VRQA fees are reviewed annually, as is the full cost to the VRQA of regulating the sector. The Victorian Government provides the VRQA with recurrent funding. The VRQA is responsible for recommending a fee schedule to its Ministers, having regard to levels of recurrent funding and its obligations to ensure that fees are set consistent with Department of Treasury and Finance Guidelines.</p>	<p>It is acknowledged that fees are reviewed annually, however, the point being made is that VRQA has not determined the full cost of regulating the sector, which is a prerequisite for demonstrating that fee levels are adequate. Further comment is provided in VAGO's acquittal of Appendix 1.</p>



No	Letter reference	VAGO acquittal
L-20	<p>● <i>regularly reviews the efficiency and effectiveness of regulatory practices used in registering and monitoring vocational education and train log providers.</i></p> <p>The VRQA has a continuous improvement culture and will continue to engage qualified and independent advisors to review and assess its regulatory practices.</p>	<p>The audit issue is that there is not a basis to demonstrate the extent to which continuous improvement is being achieved. The appointment of advisors is an input activity which does not provide assurance regarding the achievement of the desired outcome.</p>
L-21	<p><b>Conclusion</b></p> <p>The VRQA assisted VAGO throughout the conduct of the performance audit. Formal written feedback was provided on the draft audit scope, the mid conduct report and the Audit Issues Paper. Senior management met with VAGO's auditors to assist with their understanding of the VRQA's operating environment, legislation and performance. During the course of the audit, we provided VAGO with over 7000 pages of written material, access to the VRQA's electronic business system, and in excess of 50 hours of interview time with Board members, senior management and staff.</p>	<p>This conclusion accurately reflects the feedback provided. The volume of information provided attests to the thoroughness of the audit process. It does not, however, reflect the level of cooperation we received. VRQA was unwilling to engage constructively with the audit team and held back critical information which further frustrated the audit process.</p>
L-22	<p>Regrettably, evidence submitted by the VRQA to provide an accurate picture of the VRQA'S performance and approach appears to have been dismissed by VAGO without explanation. Appendix 2 details a number of other errors or misinterpretations that, despite our repeated efforts to correct them, remain in the proposed report. We therefore find ourselves unable to agree with the findings or most of the recommendations of the audit.</p>	<p>Evidence and comments provided by VRQA on my draft report were fully examined and a comprehensive acquittal provided to VRQA. To influence audit conclusions the evidence and advice first needs to meet the tests of sufficiency and appropriateness in terms of Australian Auditing and Assurance Standards. VAGO's acquittal in Appendix 2 addresses VRQA's other concerns.</p>
L-23	<p>If you decide to make any changes to your report, I request that the VRQA be provided with a copy of the revised report so that we can reconsider our response.</p> <p>Yours sincerely Stuart Hamilton Chair, VRQA 1 October 2010</p>	<p>As detailed in Appendix 2, there are only minor changes to the report for clarity and accuracy. The findings and conclusions have not changed.</p>

**VAGO acquittal of VRQA Comments on proposed audit report Victorian Registration and Qualifications Authority, 5 October 2010**  
**Part 2—Appendix 1**

No	Letter reference	VAGO acquittal
ApX1-1	<p><b>Appendix 1</b>            VRQA Response            Re: <i>Audit Act 1994, s16(3)</i>—Proposed Audit Report            Victorian Registration and Qualifications Authority            VAGO Findings—errors, misinterpretations and contextual gaps            This appendix to the VRQA's response identifies where the VAGO findings are questioned and on which clarity is required, to ensure that the VRQA's work is correctly on the public record.</p>	
ApX1-2	<p><b>1. The timeliness of actions to improve the independence of contract auditors</b>  <b>VAGO findings</b></p> <ul style="list-style-type: none"> <li>• <i>'Concerns with auditor independence were known when the VRQA was formed in July 2007, the Board allowed VET providers to continue this practice up to 31 December 2008 for most audits, and concerns over auditor independence were not effectively resolved until 1 January 2009—18 months after the organisation formed</i></li> <li>• <i>'The board allowed the delay of 8 months from the original cut-off date in the knowledge that this was poor regulatory practice. Consequently, it was not until 18 months after VRQA was established that the issue of auditor independence was fully resolved.'</i></li> </ul> <p><b>VRQA response</b></p> <p>The timelines for Board action on this issue are misrepresented. The report also fails to give due weight to the risks associated with the different types of audit involved.</p> <p>In September 2007, two months after the VRQA was established, the VRQA Board set a deadline of 30 April 2008, after which time VET providers would not be permitted to engage their own auditors. From that date, audits for high-risk providers were required to be undertaken by the VRQA itself through contracted auditors. For low-risk audits and extensions to scope only, the Board introduced a transition period to December 2008.</p> <p>The issue of auditor independence was substantively addressed within 8 months of the Board's first decision, allowing a suitable time for transition. Consultation with the industry on this change was considered highly appropriate, as was</p>	<p>The facts presented are supported by the evidence provided by VRQA during the audit. The key dates and board actions described by VRQA in its response are consistent with those present in the report.</p> <p>The risk associated with the type of audit is one consideration, but also important is the volume of audits, and likelihood and consequence of a registered provider not complying with the standards.</p> <p>VRQA's advice is that all providers attracted a high risk rating. Assigning a rating of 'high' to all providers defeats the purpose of a risk rating, as all providers would be treated equally.</p>

No	Letter reference	VAGO acquittal
	<p>distinguishing between high- and low-risk audits in the implementation of the change.</p> <p>The VRQA's approach to regulation is well illustrated by the example the audit report examines the—Training Recognition Consultants reform. In this respect, the VRQA took the initiative to separate the role of auditor from business advisor in relation to the administration of VET registration. This was done to avoid conflicts of interest rather than in response to concerns about quality. There was no compelling evidence in 2007 that providers were not providing satisfactory education and training to students.</p> <p>The VRQA Board decision to split the auditor/advisor roles in September 2007 highlights the commitment by the Board to reform VET regulation. After making this decision, the VRQA Board embarked on a systematic process of consultation with industry and affected parties to roll out this and further reforms.</p> <p>The VRQA Board believes consultation and engagement with industry is a key component of good regulatory practice. Indeed, 'consulting effectively with affected key stakeholders at all stages of the regulatory cycle' is recognised as an important principle in the Council of Australian Government's (COAG's) 2007 principles of Best Practice Regulation.</p>	<p>VAGO has noted the board's agreement to consult industry. However, consultation should not delay the improvement of regulation where it is recognised there are critical problems.</p> <p>The report notes a delay of eight months in disallowing Training Recognition Consultants from doing audits was a direct result of this consultation.</p> <p>VAGO has previously acquitted to VRQA comments on a lack of compelling evidence that providers were not giving students satisfactory education and training (comment 161 of the previous acquittal). This acquittal and current report text is provided below:</p> <p><b>Original VAGO text</b></p> <p><i>'VRQA management advised us that when VRQA formed in July 2007, the problem of auditor independence was compounded because staff in the VET unit were accepting, rather than critically assessing, auditors' findings. In some cases auditor's report findings were changed by the VET unit staff'</i></p> <p><b>VRQA response</b></p> <p><i>'In fact, a more accurate reflection of the context prevailing in 2006 is that the VET market was considered to be mature and capable of a high degree of self regulation, and there were no emerging public concerns regarding provider quality. As a result, OTTE operated a model which processed rather than analysed audit reports.'</i></p> <p><b>VAGO acquittal</b></p> <p><i>'The context of the audit is what VRQA encountered with when it was proclaimed, rather than VQA's view of the sector's maturity.</i></p> <p><i>VQA, like VRQA, was required to regulate according to legislation, not according to concerns emerging in the public domain. In addition, it was incumbent on VRQA as a new organisation and as a quality assurance regulator, to assess whether the regulation of VET was sound, not to rely on the pre-existing system, which was known to have problems.</i></p> <p><i>Inheriting a system where public concern was the main determinant for the regulatory approach, or where performance was considered poor should have led VRQA to immediately review of all areas of VET regulation, including staff performance.</i></p> <p><i>The report has been updated to explain this responsibility.</i></p> <p><i>VRQA has acknowledged that using Training Recognition Consultants (TRCs) was unacceptable practice. VAGO notes VRQA's immediate action to remove the TRCs from registration and re-registration audits, and verification audits</i></p>

No	Letter reference	VAGO acquittal
		<p>on significant and critical non-compliance with AQTF 2007. This is acknowledged elsewhere in the report (see section 3.4.1 Independence of auditors, p17–18)</p> <p><b>Current report text (Section 3.4.2 Quality assurance)</b></p> <p><i>‘As a new organisation and as a regulator of education provider quality, it would have been prudent to have fully assessed whether the system of VET regulation it inherited was sound. Given the known problems with how VET was regulated, it is of concern that VRQA did not immediately review all areas of VET regulation, including staff performance, and put in place a strategy for reform from the beginning.’</i></p>
ApX1–3	<p><b>2. Quality assurance of the work of contracted auditors and VRQA staff</b></p> <p><b>VAGO findings:</b></p> <p><i>The VRQA ‘does not quality assure the work of its staff or contracted auditors’ and ‘does not have a system for quality assuring the work of its contracted auditors or its own staff’</i></p> <p><i>‘While suitable quality controls have been designed for contracted auditors, there is no process for assuring whether these procedures are operating well’</i></p> <p><i>‘VRQA has acknowledged that it needs to establish a quality assurance system for VET auditors and has also indicated It will review how it can improve its quality assurance over its staff at the same time.’</i></p> <p><b>VRQA response</b></p> <p>The VRQA believes VAGO’s findings in this regard reflect a misunderstanding of a quality assurance approach to regulation.</p> <p>The VRQA has an extensive quality assurance system in place, which encompasses key elements of legislation, market information, use of contracted auditors and VRQA staff reviews, documented referral processes, decision making and reporting, and independent review.</p> <p>VRQA’s quality assurance process for VET is illustrated by the diagram below.</p> <p>VET Quality Assurance Process</p> <p>(VRQA’s diagram not reproduced)</p> <p>In the two years to July 2010, the VRQA commissioned approximately 5,000 external audits of VET providers. During 2009, the VRQA’s authorised officers closely monitored audits of more than 70 high-risk providers; in doing this they performed an important role in assuring that the contracted auditors reached correct conclusions and that their work stood up to scrutiny. Merit reviews by</p>	<p>VRQA’s diagram of VET quality assurance processes is a holistic framework within which VRQA operates. This framework does not assure the quality of VRQA’s work. The Victorian Civil and Administrative Tribunal, for example, is responsible for resolving disputes, not for assuring the quality of VRQA’s work as VRQA suggests. It is for VRQA to take responsibility for checking the quality of its work.</p> <p>We fully understand the quality ‘controls’ in place and have acknowledged their adequacy in the report.</p> <p>The point we reiterate is that there is no evidence which shows that VRQA quality assures the frontline work performed by the contracted auditors, or its staff who assess the report.</p>

No	Letter reference	VAGO acquittal
Apx1—4	<p>VCAT of VRQA decisions have consistently found the decisions to be fair and the associated processes sound.</p> <p>The VRQA considers this constitutes an effective quality assurance system for a regulator, regardless of how the system is labelled or presented. Based on this quality assurance system, the VRQA is able to achieve a high degree of confidence that VET providers are meeting their obligations, that auditors and VRQA staff and management are making correct registration decisions, and their roles are being carried out efficiently and effectively.</p> <p>Importantly, VAGO's performance audit report acknowledges that, under the current regulatory framework for VET providers in Victoria, the owners and operators of Registered Training Organisations have responsibility for adopting quality assurance systems and processes at the organisational level. These arrangements complement the higher layers of quality assurance applied by the VRQA and other regulators and oversight bodies who operate in the VET system.</p> <p>The measure of an effectively operating quality assurance system is also whether it delivers positive outcomes for students and the people of Victoria more broadly. VAGO's performance audit report is very light on performance data, yet these data show that the VRQA has successfully cracked down on unsatisfactory operators in the VET sector, and is operating at least as efficiently and effectively as its peers in other Australian jurisdictions. Victoria's approach to checking the financial and business operations of providers supporting international students was strongly endorsed by the 2009 <i>Review of the Education Services for Overseas Students Act 2000 (the Baird Review)</i>. At the same time, that review identified the importance of avoiding an undue regulatory burden on VET providers, a goal that is consistent with Victorian Government policy.</p> <p>The VRQA accepts continuous improvement as an objective and has undertaken to document the policy and procedures that it has in place, including procedures for staff quality assurance.</p> <p>The VRQA further notes that, in 2011, the National Centre for Vocational Education Research (NCVER) will be undertaking a review to ensure that all VET regulators are meeting the national standards for regulators and that the AQTf is being implemented appropriately. The VRQA welcomes notice of this review and looks forward to contributing to its conduct, by independent experts.</p>	<p>As indicated elsewhere, VRQA has not provided sufficient or appropriate evidence to show that the authorised officer is performing a quality assurance role. The evidence provided shows them as part of the audit team, a role inconsistent with providing objective assurance that the 'controls' are operating effectively.</p> <p>The VRQA has a fundamental misunderstanding of the different functions and features of quality 'control' and quality 'assurance' and its inability to provide evidence to the contrary further demonstrates this misunderstanding. The audit comment stands.</p> <p>The need to 'crack down' on providers is itself evidence of weaknesses, and potentially failures, in the approach to regulating providers. As the report recommends, VRQA should regularly review the efficiency and effectiveness of its regulatory practices used in registering and monitoring vocational education and training providers. Doing so in a measured and systematic way should also contain exceptions and reduce the need for 'crack downs'.</p>
	<p><b>3. Implementation of a risk-based approach to auditing VET providers</b> <b>VAGO findings</b></p>	<p><i>'For new providers seeking registration a default high risk rating is now assigned,</i></p>

No	Letter reference	VAGO acquittal
	<p>but it's not evident this rating is reviewed when a follow-up audit is undertaken after 12 months... because of the five-year cycle for re-registration, it may take until 2015 before all existing providers are assessed and assigned an appropriate risk rating.</p> <p>VRQA assigns a default high risk rating to all new providers at registration and maintains this for the 12-month follow up audit. However it was not evident that VRQA reviewed this default rating at the 12-month stage.'</p> <p><b>VRQA response:</b></p> <p>These findings are partially incorrect.</p> <p>In the early stages of the VRQA's establishment, the VRQA Board recognised flaws in the audit regime that it had inherited. Accordingly, the Board acted to address the shortcomings. Risk ratings for providers which recognised high- and low-risk activities were assigned as a transitional measure. Over time, risk ratings have been reassessed through the course of the VRQA's audit regime.</p> <p>The record of VRQA decision making from 1 July 2007 until now reflects a consistent approach to risk assessment in the VET sector. Key features of the model are that:</p> <ul style="list-style-type: none"> <li>• All VET providers delivering courses to overseas students are treated as high- risk;</li> <li>• Extensions to scope may be high-, medium- or low risk, and the VRQA has a documented risk-assessment process</li> <li>• All initial registrations are assigned a high-risk rating (this is a prudent regulatory approach)</li> <li>• Appropriately, the VRQA regards all VET providers as high-risk until they are systematically reviewed by the regulating body.</li> </ul> <p>A review of risk ratings after 12 months may not be appropriate, as providers may not have taken on students by that time or achieved full operations (and therefore fully tested their capabilities). The VRQA is reluctant to change risk ratings unless sufficient time has elapsed, as experience has shown that very few providers are fully compliant at the time of the 12 month audit, and risk ratings need to be maintained until such time as the VRQA is confident that they can be revised.</p> <p>The claim that 'it may take until 2015 before all existing providers are assessed and assigned an appropriate risk rating' is therefore misleading. In any event, the great majority of institutions whose risk ratings are not revisited at the 12 month stage will have their risk ratings revisited as part of the process for applying to</p>	
		<p>The AQTF 2007 National Guidelines for Risk Management require regulators to assess a provider's risk rating according to three performance risk indicators:</p> <ul style="list-style-type: none"> <li>• history of audit compliance</li> <li>• data from quality indicators</li> <li>• history of complaints.</li> </ul> <p>Criteria for assessing high, medium and low-risk ratings, according to these criteria, are included in the guidelines.</p> <p>According to the guidelines, in the case of a new application for registration, a risk rating will not be assigned until performance data is available.</p> <p>Effectively, this means that risk ratings should be assessed and applied when VRQA does a 12-month post initial, any interim monitoring and also at renewal of registration. Assigning a 'high' risk rating to new providers is not in accordance with the guidelines. Continuing to assign a high-risk rating to a provider who, after 12-months, is not yet fully operating is also at odds with the principles of effective risk management.</p> <p>Further, under the AQTF 2007 <i>National Guidelines for Risk Management</i>, regulatory bodies should do a site audit of high risk providers every 12 months. This guideline also requires that a provider's risk rating should be reviewed 'on the basis of new information about an RTO's performance and each time an application (e.g. for re-registration or extension to scope) is received.'</p> <p>Maintaining a high-risk rating for providers after 12 months requires VRQA to audit them another 12 months later. It is not evident that VRQA does this. It is not evident that VRQA revises a provider's risk rating during their registration period in such a way that the risk-assessment remains with the provider and influences the scope and timing of the next audit.</p> <p>The August–September 2009 review showed, there was little effort to allocate work based on risk, and that the focus of the audit approach should be re-engineered to be based more on risk.</p> <p>In the absence of evidence to disprove the case, our comment that it may</p>

No	Letter reference	VAGO acquittal
ApX1-5	<p>extensions to scope.</p> <p><b>4. Documentation relating to the registration of VET providers</b></p> <p><b>VAGO findings</b></p> <ul style="list-style-type: none"> <li>‘Gaps in the paper-based document trail evidencing and supporting registration decisions were identified. VRQA has, however, recently introduced an electronic management system for VET provider records.’</li> <li>‘A completed audit report was held on all files we examined. VRQA staff document their assessment of an auditor’s report on an ‘audit review template’ However on four of the 16 files we reviewed we either did not see a recommendation to the delegate, or the delegate’s decision recorded.’</li> <li>Better documentation of the decisions made by delegates is also required to demonstrate that due process was followed.’</li> </ul> <p><b>VRQA response</b></p> <p>The performance audit report presents the results of file reviews conducted by the auditors and concludes that ‘the documentation that supports VRQA decisions to register VET providers is incomplete’.</p> <p>The VRQA indicated during the course of the audit that, from May 2009, it recorded audit outcomes in its Customer Relationships Management system (CRM). In the period subject to the audit, provider files were therefore partially paper-based and partially electronic. Delegate decisions were recorded on the electronic filing system.</p> <p>All VET files are now on CRM. The VRQA strongly disputes the suggestion that its files are in some way Incomplete.</p> <p>The VRQA considers the move to electronic record management to be best practice within a modern regulatory regime. The VRQA has however agreed to develop a document that encapsulates the relevant policies and procedures.</p>	<p>take until 2015 before all existing providers are assessed and assigned an appropriate risk rating, stands.</p> <p>VRQA has not addressed the issue we raised regarding the quality of the documentary evidence supporting decision-making.</p> <p>Audit examination did not find reliable evidence that the delegate knew if a VET provider complied with the Act and framework when deciding on a provider’s registration or re-registration application. On files examined there was either no relevant information, or what existed lacked sufficient detail to show they considered all relevant matters. The electronic records did not ‘bridge’ the information gap.</p> <p>While preparation of a policies and procedures manual will be an improvement in order to better guide VRQA staff on the organisation’s requirements, it will be important that appropriate quality assurance is in place to drive compliance with those requirements and the hygiene of its records.</p> <p>The audit comment stands.</p>
ApX1-6	<p><b>5. Audit fees</b></p> <p><b>VAGO findings</b></p> <ul style="list-style-type: none"> <li>‘Although the board recognised in July 2007 the need to calculate the cost of doing audits and review its fees accordingly, it has yet to complete this fundamental work</li> <li>Without a comprehensive analysis of the cost of doing audits... VRQA cannot demonstrate that the fees it charges for VET accurately reflect the cost of</li> </ul>	

No	Letter reference	VAGO acquittal
	<p><i>regulating the sector, or the level of public funding VRQA receives for VET regulation is appropriate.</i></p>	
	<p><b>VRQA Response</b></p>	
	<p>Section 5.2.13 of the <i>Education and Training Reform Act 2006</i> provides for the fixing of fees by the Minister, by Order, on advice from the VRQA's Board.</p>	<p>Although VRQA state the full cost to regulate the sector is reviewed annually (see VRQA letter, page 4), no evidence was available to support this claim.</p>
	<p>As evidenced by Board papers provided to VAGO's auditors for review during audit conduct, the VRQA's Board reviews fees annually. These arrangements are wholly consistent with Victorian Government policy.</p>	<p>This comment, however, does not address the issue that VRQA's work to review its fee structure is not based on a comprehensive analysis or understanding of the cost of regulating the sector.</p>
	<p>The VRQA receives funding from the Victorian Government in addition to revenue from fees and charges which are set on a partial cost-recovery basis. The VRQA complies with Department of Treasury and Finance Guidelines regarding the setting of fees and charges. These fees and charges are also reflected in the annual financial reports which are subject to annual financial audit by VAGO.</p>	<p>Setting fees on a partial cost-recovery basis is consistent with government policy, but it does not in itself show that VRQA understands the actual cost of regulation as the regulatory activities have not been separately costed.</p> <p>The audit comment stands.</p>



**VAGO acquittal of VRQA Comments on proposed audit report Victorian Registration and Qualifications Authority, 5 October 2010**  
**Part 3 – Appendix 2**

**VRQA Response**

Re: Audit Act 1994, s16(3)- Proposed Audit Report  
 Victorian Registration and Qualifications Authority  
 Other Errors or Misinterpretations

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
Ap2-1	Audit Summary	(the VRQA) replaced the Victorian Qualifications Authority (VQA)	In fact, as advised during the course of the audit, the VRQA was formed from an amalgam of the VQA and Registered Schools Board and the transfer of regulatory functions, apart from regulation policy, from the Office of Training and Tertiary Education.	The full reference to VRQA's predecessor organisations is included in the Background chapter.  See page 1 of the report.	No change
Ap2-2	Audit Summary- Conclusion	When it was formed in July 2007, the VRQA was aware of serious shortcomings in its predecessor's approach to registering VET providers. The actions it took to address these issues up to mid 2009 were steps in the right direction...	At the time of its formation, a new national framework, the Australian Quality Training Framework 2007, was being introduced. Reference to 'serious shortcomings' is considered a gross generalisation as this refers to one aspect only of the system inherited by the VRQA i.e. Training Recognition Consultants (TRCs). Actions taken to address issues identified were also taken by the end of 2008, not up to mid 2009 as indicated.	The introduction of a new framework for regulating the VET sector in July 2007 is separate to the issue of how well VRQA's predecessor's performed regulation under the previous framework.  The lack of auditor independence was a serious shortcoming in the approach to regulation that VRQA inherited.  VRQA senior management indicated at the mid-conduct briefing of 15 July 2010 that they were aware that when VRQA was formed, staff who transferred into its VET unit from the Office of Training and Tertiary Education, to whom the Victorian Qualifications Authority had fully delegated the task of regulating VET providers, did not properly assess the reports of these non-independent auditors, and in some cases changed the reports.	No change

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
Apx2-3	1.1 Background- Role and Functions	Since 2003 the structure of the VET industry in Victoria has shifted towards an increased number of private providers that compete to teach government funded training programs.	This statement is inaccurate as private providers do not compete to teach 'government funded' training programs and, alongside for-profit business enterprises, VET providers comprise a diverse group of legal entities including registered schools, Adult and Community Education Providers, TAFE Institutes, Enterprise-based organisations, government departments and private companies. This spread is overlooked in the report and highlights the complexity of the VET sector and the need for a differentiated approach to its regulation which also requires co-regulation with other agencies.	As part of its comment on the late conduct issues paper (VRQA comment no. 31), VRQA provided VAGO with additional background information. This information included the following:  <i>Significant changes have been occurring in the external operating environment during the period under review which have had a profound influence on where the VRQA places its effort and its performance.</i>  Chief among these have been: <ul style="list-style-type: none"> <li>• <i>significant change and transition in the Vocational Education and Training (VET) industry. <b>During this time, the structure of the VET industry shifted towards a significant number of private providers and contestability for government funded programs [emphasis added].</b> There has also been a rapid growth in overseas students which in turn has increased the capacity of the industry, generating export revenue and providing a context for greater private sector participation in the provision of government funded training.</i></li> </ul> <p>The proposed report is consistent with the emboldened text, as contestability implies competition. VAGO included reference to the</p>	No change

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
Ap2-4		In 2009–10, there were 185 VET providers who had their registrations cancelled. Of these 141 were voluntary, 23 registrations expired, seven were for non compliance with the standards, and 14 providers went bankrupt or into liquidation. There were 60 cancellations in 2007–08 with 42 voluntary and 92 in 2008–2009, with 72 voluntary.	The VRQA considers these figures are incomplete, and provide only partial description of the VET system in Victoria and the effectiveness of the Rapid Audit Program (RAP).	Evidence provided on the Rapid Audit Program show that 40 providers were audited by VRQA in 2009 and 2010—mostly coinciding with the 2009–10 financial year period. Of these, 7 providers had their registration cancelled. When compared to the 185 cancellations in 2009–10, of which 141 were voluntary and 23 registrations expired, it is not possible to reliably measure the effect of the RAP.	No change
Ap2-5	1.2.3 Ministerial Directions	Late in 2009 the Minister for Skills and Workforce Participation issued two ministerial directions aimed at strengthening VRQA's registration of all VET providers, including financial health assessments. Both were in effect at 1 January 2010. The directions required VRQA to introduce a new way to assess applications from these providers.	VAGO has conflated a number of references provided during the conduct of the audit and has failed to adequately distinguish the role of VET Guidelines and Financial Health Assessments in strengthening regulation of the sector. Separate Ministerial Directions were issued in September 2009 and December 2009 and VRQA considers these Directions have been misrepresented. The Directions did not require VRQA to introduce a new way to assess applications from these providers.	In previous comments on the draft report text VRQA did not indicate VAGO had misrepresented these directions. VRQA suggested the following text to clarify the directions: <i>The directions 'enabled' (rather than prompted) VRQA to introduce a new way to assess applications from organisations (rather than 'these providers'). It should be noted that the VRQA requested at a meeting of the Minister for Skills and Workforce Participation a direction regarding guidelines for VET providers and then prepared the first draft of the direction for consideration by the Department.</i>	No change

As VAGO indicated in its first

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
Ap2-6	1.3 National and State Contexts	Except for Victoria and Western Australia, all states recently agreed to transfer their powers to register and monitor VET providers to a single national authority, Technical and Vocational Education and Training Australia Limited (TVET).	TVET is not the new national VET regulator. Victoria will not refer powers to a new national authority. The auditor was directed to the Department of Industry, Innovation and Regional Development during the course of the audit for correct reference to this development, but does not appear to have taken	<p>acquittal to VRQA:</p> <p><i>Rather than enabled, we have used required, as VRQA must comply with the directions.</i></p> <p>VAGO accepts that further clarification is required.</p> <p>This section has been revised.</p>	<p>Except for Victoria and Western Australia, all states recently agreed to transfer their powers to register and monitor VET providers to a single national authority <del>Technical and Vocational Education and Training Australia Limited (TVET)</del>. Victoria, however, has not signed up to this authority, preferring to align its legislation with the Commonwealth's. <del>Instead, VRQA has delegated authority to TVET to regulate about 50 Victorian-based providers who operate in multiple states.</del></p>
Ap2-7	2.2 Registering VET providers- Conclusions	VRQA has completed or commenced corrective actions as a result of an August-September 2009 review. However it is too early to tell if these actions are effectively addressing these shortcomings.	<p>The audit specialist was engaged to manage the audit function, not to undertake a review per se. The report fails to recognise this fact.</p> <p>VAGO accepts the report should be clearer about the role of the audit specialist. The report is amended.</p>	<p>(page 19)</p> <p>Following the 2008 review VRQA held a VET unit development workshop in April 2009. However, in August 2009, senior management remained concerned with the quality and timeliness of the unit's work. The VRQA Board then agreed to:</p> <ul style="list-style-type: none"> <li>• set up a Quality Assurance Subcommittee to recommend and develop proposals for the board on VET quality assurance</li> <li>• engage an audit specialist to manage the <u>Vet unit's audit branch, de-another further review of the VET unit, and</u> recommend and implement actions to address any issues identified.</li> </ul>	<p>(page 19)</p> <p>Following the 2008 review VRQA held a VET unit development workshop in April 2009. However, in August 2009, senior management remained concerned with the quality and timeliness of the unit's work. The VRQA Board then agreed to:</p> <ul style="list-style-type: none"> <li>• set up a Quality Assurance Subcommittee to recommend and develop proposals for the board on VET quality assurance</li> <li>• engage an audit specialist to manage the <u>Vet unit's audit branch, de-another further review of the VET unit, and</u> recommend and implement actions to address any issues identified.</li> </ul>

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
ApX2-8	2.4.2 Review of VRQA decision-making	Figure 2A outlines VRQA's registration assessment and decision-making process, and the evidence that would show that VRQA made its decisions in line with the Act's requirements.	There is no connection between Figure 2A and statements of requirements contained in the <i>Education and Training Reform Act 2006</i> . The VRQA adheres to everything contained in the Act.	<p>In previous comments VRQA noted that Figure 2A 'described accurately ... the decision making process and the review of VRQA decision making' and did not raise the issue of misalignment with the process and the Act.</p> <p>VAGO notes that the Act does not specify the decision-making process that VRQA should follow to fulfil its function to register and monitor VET providers.</p> <p>The phrase 'in line with the Act's requirements' in this context relates to whether VRQA is fulfilling the Act's requirements.</p> <p>Section 4.2.2 of the Act requires that VRQA:</p> <ul style="list-style-type: none"> <li>• use its powers to 'ensure that minimum standards are maintained ... by providers and organisations it has registered'</li> <li>• '<i>ensure the public availability of meaningful and accurate information</i>' about registered education and training organisations and their compliance with the Act and any standards in the regulations, as well as persons or bodies whose registrations have been cancelled or suspended.</li> </ul> <p>In order to fulfil these functions, VRQA must have a meaningful decision-making process.</p> <p>As VRQA notes elsewhere in its response, it has not fully</p>	No change

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
Apx2-9	2.4.4 Other weaknesses in regulating VET	A review in December 2008 found that, 18 months after VRQA's establishment, the VET unit had not integrated well into the organisation.	The VRQA considers this statement subjective and factually incorrect in material ways. All issues identified have been dealt with.	<p>documented its quality control process. In the absence of such documentation, VAGO prepared its own diagram about VRQA's decision-making process, with which VRQA previously agreed in its previous comments of 27 August 2010 (comment no136 from previous VRQA acquittal):</p> <p><i>'The Quality Assurance of VET providers (section 2.4) is described accurately on page 7 in terms of the decision making process and the review of VRQA decision making.'</i></p>	No change
				<p>The statements are based on the findings of a consultant's review, reported in the 'Findings and Draft Report' of 16 January 2009.</p> <p>The January report reads on page 13:</p> <p><i>'Conclusion—VET unit clearly displays underperformance in engagement/Lack of unit management for 12 months is a primary cause'</i></p> <p>The basis on which this conclusion was drawn is the results of DEECD's <i>Your Job Your Say Survey 2008</i>.</p> <p>The consultant's findings also show that the VET unit reported a disconnect between VRQA's leadership team (page 16) and a lack of understanding of roles within the VET unit and across VRQA (page 16).</p> <p>The report found that VRQA staff</p>	

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text	
				<p>outside the VET unit saw the VET unit as 'very siloed' and 'bunkered down' (page 27).</p> <p>These findings are consistent with Section 2.4.2 of Attachment 1 to VRQA Board Paper B/19/14 of 12 August 2009, which reads on page 3:</p> <ul style="list-style-type: none"> <li>• <i>The review found that there was lack of engagement in the VET Unit; lack of Unit management; no link between operational plans and performance plans and a lack of Unit and individual role clarity; there was a need to improve the teamwork within the Unit, and there was no alignment with the rest of the VRQA.</i></li> </ul> <p>These findings are indicative of a unit that has not integrated well into an organisation. The review was done in December 2008—18 months after VRQA formed.</p>		
Apx2-10	2.4.3 Managing non-compliance	Prior to April 2010 VRQA managed non-compliance inconsistently	The VRQA acknowledges this finding and has taken significant steps to change the way it manages non-compliance. The past practice of negotiating a date for a verification audit has ceased and been replaced by a consistent timeframe and process which is followed by all staff. A critically non-compliant RTO is also required to attend an interview within 7 days of receiving the report.	The report acknowledges VRQA changed the way it managed non-compliance in April 2010. This is the report on page 12.	No change	
Apx2-11		Figure 2B Status of recommended action of the 2009 review of the	As indicated above and throughout audit conduct, there	When VRQA Board agreed in August 2009 to employ a manager	No change	

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
		VET unit	<p>has been no '2009 review of the VET unit' other than analysis undertaken by the Audit Manager engaged to improve audit administration. The VRQA observes that some of the dates identified in Figure 2B will have passed and actions completed by the time of the report's tabling in Parliament.</p>	<p>for the VET unit's audit branch, it agreed that the person would 'undertake technical auditing/risk assessment and strategically plan the audit workload, as well as driving improvement in the audit model and in service to clients.' The board took this decision on the basis of advice that the VET sector represented the 'highest risk to the board', that the VET unit was unable to cope with its workload and that the solution required more than just additional staff (Board Paper B/19/14 Attachment 1, page 1).</p> <p>The Chair had also been advised in June 2009 of VRQA's ongoing concern about the quality and time lines of VRQA's audit services in the VET area.</p>	<p>The board also decided on 12 August 2009 to set up a Quality Assurance Subcommittee to 'oversee quality provision and ensure implementation of the Board's quality assurance responsibilities, with a particular focus on the VET sector'.</p> <p>Agenda Paper 5.1 of the 1<sup>st</sup> meeting of the VRQA Quality Assurance Subcommittee on 15 September 2009 reports that upon arrival the audit manager 'completed an initial review of the activities of the audit branch' [emphasis added] over a two week period. Nine areas were reviewed. The paper then set out seven dot-point recommendations which,</p>



No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
				<p>for clarity, the proposed report has shown as 10 recommendations.</p> <p>As it was three weeks between the audit unit manager starting work and the QA Subcommittee report, VAGO's proposed report refers to it as a 'three-week' review.</p> <p>VRQA advised there are no documented findings for this work other than what was reported to the subcommittee. Rather than indicate the lack of a review, it indicates a lack of documentation.</p> <p>The context of VET unit's operation in mid-2009 and the language used in the Subcommittee paper of 15 September 2009 support the argument that a review of the VET unit took place in 2009.</p> <p>The actions taken after the December 2008 review did not address the problems for the VET unit, and further review was taken upon the appointment of an audit specialist as a branch manager, which was then reported as such to the Quality Assurance Subcommittee.</p> <p>VAGO's reporting of these VRQA reviews to date has not referred specifically to the 'audit branch'. This was because VRQA officers requested of VAGO at the mid-conduct briefing on 15 July 2010, that the audit branch not be 'singled out' when referring to previous VRQA reviews—in particular the 2008 consultant's</p>	

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
Apx2-12		To improve its audit administration, from March 2010 VRQA consolidated its records of VET registration and monitoring into a single database - its Customer Relationships Management (CRM) system.	This development in fact occurred in May 2009 at which time the Customer Relationships Management System (CRM) new IT operating system was established.	<p>The point here is about consolidation of audit data into CRM, not the development of CRM itself.</p> <p>VRQA advised in its chronology (comment no.111) that it was in fact in May 2010 that</p> <p><i>All VRQA VET audit data migrated from RAMS to CRM to enable single IT system to track and report full workflow process from application to approval by delegate.</i></p>	<p>Section 2.4.4 (page 14)</p> <p>To improve its audit administration, <del>from March in May 2010</del> VRQA <del>consolidated-completed</del> consolidating its records of VET registration and monitoring activities into a single database—its Customer Relationships Management (CRM) system.</p>
Apx2-13	3 Governance of VRQA-Findings	The VRQA did not introduce a risk based assessment for conducting re-registration audits until May 2010, although the need was identified in September 2007.	This is incorrect. A detailed chronology provided to VAGO during the course of the audit attests to this fact.	<p>VAGO removed from the body of the previous draft the reference to a trial in September 2007 of a risk-based approach to auditing VET providers. The reference was not removed from the <i>At a glance</i> section of Chapter 3. This was a drafting oversight.</p> <p>The report does not now reference September 2007.</p> <p>VAGO remains of the view that VRQA did not introduce a risk-based approach to re-registering providers until May 2010.</p> <p>VAGO acquitted VRQA's previous assertion that it has adopted a risk-based approach to auditing providers by treating all providers as high risk.</p> <p>Further, the proposed report explains that treating all providers</p>	<p>Chapter 3, <i>At a glance, findings</i></p> <p>The VRQA did not introduce a risk based assessment for conducting re-registration audits until May 2010, <del>although the need was identified in September 2007.</del></p>

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
Apx2-14	3.3 Governance roles and responsibilities	In the time between the two surveys four new members joined the board. The survey results do not show which of the seven members completed the survey.	This is incorrect in fact three new members joined the Board. The survey results do not show which seven of the thirteen members completed the survey.	The report has been corrected for accuracy and now refers to three members joining the board in this period. VAGO accepts VRQA's clarification on the survey results.	In the time between the two surveys <del>four</del> three new members joined the board. The survey results do not show which <del>of the seven</del> <u>of the</u> <u>thirteen board</u> members completed the survey.
Apx2-15	3.4 Governance of the VET Regulatory Function	During the audit a number of examples of problems with VRQA's governance were noted. Partly evident was the delays, in effectively dealing with significant issues impacting on the conduct of VET registration and monitoring activities.	The VRQA disputes the finding that there were delays. The VRQA provided an extensive chronology of decision-making events undertaken by the VRQA Board which demonstrated that the approach took account of the important function of consulting with stakeholders to ensure they were brought along with the process.	VAGO carefully considered and provided an extensive acquittal of VRQA's chronology. VAGO's acquittal explains the reasons why it considers there were delays in the VRQA Board dealing with significant issues. See in particular VAGO's response to VRQA's comment in section 2 of its acquittal. Text from this section is quoted below to show the reference:	
				<p><b>2. GOVERNANCE BY THE VRQA BOARD</b></p> <p><i>Further in section 3, VAGO findings indicate the audit opinion that...</i></p> <ul style="list-style-type: none"> <li><i>It took more than two years for the Board to act decisively to address concerns with the VET Unit</i></li> </ul> <p>These reasons are supported by evidence and fully explained in Chapter 3.</p>	
Apx2-16	3.4.2 Quality Assurance	VRQA management were aware that when VRQA formed in July 2007, the problem of auditor independence was being compounded because staff in the	The VRQA rejects this observation and considers it misrepresents the process.	VRQA senior management advised VAGO officers of these shortcomings in the mid-conduct meeting of 15 July 2010.	

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
		<p>VET unit were not critically assessing, audits findings. Moreover, in some cases auditor's report findings were changed by the VET unit staff without an evidentiary basis.</p>		<p>VRQA previously commented on this text that:</p> <p><i>In fact, a more accurate reflection of the context prevailing in 2006 is that the VET market was considered to be mature and capable of a high degree of self regulation, and there were no emerging public concerns regarding provider quality. As a result, OTTE operated a model which processed rather than analysed audit reports.</i></p> <p>As VAGO explained in its earlier acquittal:</p> <p><i>VQA [Victorian Qualifications Authority], like VRQA, was required to regulate according to legislation, not according to concerns emerging in the public domain. In addition, it was incumbent on VRQA as a new organisation and as a quality assurance regulator, to assess whether the regulation of VET was sound, not to rely on the pre-existing system which was known to have problems.</i></p> <p><i>Inheriting a system where public concern was the main determinant for the regulatory approach, or where performance was considered poor should have led VRQA to immediately review all areas of VET regulation, including staff performance.</i></p>	<p>This is further explained in the</p>

No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
Ap2-17		... It is of concern that VRQA did not immediately review all areas of VET regulation, including staff performance, and put in place a strategy for reform from the beginning.	The VRQA was established from 1 July 2007 through the <i>Education and Training Reform Act 2006</i> . It is important to recognise that the new Australian Quality Training Framework 2007 was introduced on the same date. It would have been inappropriate for the VRQA as regulatory body to review all areas of VET regulation at the time when implementation of the new Act and AQTF was paramount.	report at Section 3.4.2, page 19. Ap2-16 above also refers.  Further, the fact that a new national regulatory framework was being introduced at the time VRQA formed was all the more reason to review the quality of the regulatory activities or practices of the staff it inherited from its predecessor organisations.	No change
Ap2-18		The audit specialist reviewed the VET unit over three weeks before recommending actions to the Quality Assurance Subcommittee at its first meeting in September 2009.	This observation is inaccurate as previously noted.	Refer to Ap2-11 above.	No change
Ap2-19		There was no evidence that the Board discussed the recommendations in detail, or endorsed or noted them.	The VRQA provided full sets of papers and minutes for the Board and subcommittees, including: the Quality Assurance Subcommittee, during the course of the audit. These papers confirm discussions, endorsement and noting by the VRQA Board	This comment relates specifically to the QA Subcommittee's report to the Board on 7 October 2009 – its first report since its first meeting on 15 September 2009 where the audit branch manager made recommendations on how to improve the VET unit. VRQA board considered the QA Subcommittee report at item 12 (page 6 of the minutes).  VAGO has re-examined the minutes. There is no mention of the review or its recommendations  VAGO has re-examined the board and subcommittee papers and holds to its findings.	No change
Ap2-20	3.4.3 Risk	VRQA advised that the quality	Quality indicators were not	VAGO accepts the clarification.	VRQA advised that the quality

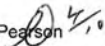
No.	Section/ reference	VAGO finding	VRQA response	VAGO acquittal	Report text
	Assessment	indicators were not implemented nationally until 2009 and so they could not collect data from VET providers to use in rating their risk.	implemented nationally until June 2010 and have now been submitted for the first time.	The report is amended for accuracy.	indicators were not implemented nationally until 2009 and so they could not collect data from VET providers to use in rating their risk.
Apx2-21		VRQA is only meeting the risk management guidelines for providers seeking re-registration or applying to teach more courses.	There is no evidence to support this contention. It implies the VRQA is not meeting requirements for registration (as compared with re-registration) which is not the case. The VRQA has a customised audit program for variations to scope; 5 000 audits were conducted in the two years to July 2010.	<p>It is not evident that VRQA is meeting the AQTF 2007 guidelines for risk management.</p> <p>VRQA has not shown that it has assessed the risk rating of all providers that have been registered for more than 12 months. Rather, it has advised that it assigns a high risk rating to all providers. The report notes this.</p> <p>VRQA has not shown that it audits high risk providers every 12 months on site, as the guidelines require.</p> <p>VRQA has not shown that risk assessments done of providers at the time they apply to teach more courses (variations to scope audits) have then led VRQA to schedule future audits according to the risk rating.</p>	No change

**Further submissions related to the audit conduct received from the Victorian Registration and Qualifications Authority**



Mr Des Pearson  
Victorian Auditor General  
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MELBOURNE VIC 3000

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Dear Mr Pearson 

I write to express my concern in relation to a matter contained in your letter of 17 September which accompanied the VAGO Report in relation to the Authority. This letter is not part of the VRQA's formal response to that Report, and is not referenced in it.

I draw your attention to the second paragraph of that letter.

*At the request of ██████████ Chair of your Audit and Risk Management Committee, I did not issue a preliminary draft of the report. ██████████ expressed a preference for providing detailed feedback on the final audit issues paper received by your Director and nominated audit contact, ██████████ on 18 August 2010.*

The paragraph misrepresents ██████████ position. No such request or preference for providing feedback was expressed by ██████████

I understand that at a meeting with Messrs Greaves, ██████████ and ██████████ of your office on 20 August 2010, to discuss the matters raised in the *VRQA Issues Paper: Findings at the late conduct stage, August 2010* our Board members Messrs ██████████ and ██████████ were told that only a final issues paper would be provided to the VRQA, upon which comments could be provided. Board members present did not express a preference to provide detailed feedback just on the 18 August issues paper as against on a preliminary draft report.

Messrs ██████████ and ██████████ attended the VRQA Audit and Risk Management Committee (the Committee) meeting on 24 August to discuss with members the *VRQA Issues Paper: Findings at the late conduct stage, August 2010* (the issues paper) and to hear members' questions in regard to the paper and the process for finalising the performance audit. ██████████ is Chair of that committee and other members present were ██████████ and ██████████. I attended that meeting for this item of the agenda as did ██████████. During the discussion the question arose of timing in relation to process – it was known that the VAGO officers would be meeting with VRQA management on 26 August to discuss detail of matters raised in the issues paper.

A direct question was asked of the VAGO officers in regard to whether after feedback from the VRQA the issues paper would be followed by a preliminary draft report. The VAGO officers stated that what VRQA was responding to at that point was in effect the preliminary draft report in the form of an issues paper. Not surprisingly those in attendance found this confusing, however they accepted what was said and subsequently acknowledged that a VRQA response would be made to the issues paper after the meeting between management and VAGO Officers on 26 August, and that no further draft would be provided by VAGO until the Proposed Audit Report was provided for formal response. As far as we are concerned however, this approach was determined by your staff on their own judgment, not in accordance with any view expressed by the Chair of our Audit Committee.

I have been asked by the members of the Audit and Risk Management Committee to make known to you our concern that, in your letter, ██████████ position, the events at the meeting at your office on 20 August, events at the Audit Committee meeting and hence events around the late conduct stage of the audit report have been incorrectly reported.

Yours sincerely

Stuart Hamilton  
Chair, VRQA

30 September 2010

Victoria's education and training regulator

**Auditor-General's response to the Chair, Victorian Registration and Qualifications Authority**

VAGO

Victorian Auditor-General's Office

4 October 2010

File No: 26464/01

Mr Stuart Hamilton  
Chair  
Victorian Registration and Qualifications Authority  
Level 6, 35 Spring Street  
Melbourne Vic 3000

Dear Mr Hamilton

**Performance Audit - Victorian Registration and Qualifications Authority**

I refer to your letter of 30 September 2010 which was received this morning. You allege misrepresentation of the views of the chair of the audit committee, in my 17 September 2010 letter to the Authority seeking Audit Act section 16 submissions and comments on the proposed audit report.

It is disappointing that you have not availed yourself of all relevant facts. It is a further demonstration to me of the unsatisfactory way that your Authority has dealt with my Office throughout the conduct of the audit.

For your information I attach an email to the audit committee chair from the Assistant Auditor-General sent on 21 August 2010, to which he replied on 22 August 2010. The email from the Assistant Auditor-General clearly sets out his understanding and recollection of the meeting held on 20 August. In particular I draw your attention to the opening wording of the second paragraph - "As requested we will not issue a preliminary draft of the report..."

It is clear from the email that this was the understanding taken from that meeting by the Assistant Auditor-General, and it is also clear from the audit committee chair's response that he did not seek to correct this understanding. I can only take from this evidence, that this was the agreed position.

I also note in the audit committee chair's email reply he observed "It is really important that we keep an open channel on this performance audit...". I am therefore bemused that a subsequent email of 29 September 2010 was not acknowledged or replied to. This is of particular concern given your section 16 response to my report and your assertion of "repeated efforts" to correct facts.

Recognising the context in which this audit has been undertaken I shall also be including your 30 September letter and this response in the report to Parliament.

Yours sincerely



D D R Pearson  
Auditor-General

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*Auditing in the Public Interest*



***Auditor-General's response to the Chair, Victorian Registration and Qualifications Authority – continued***

**From:** Andrew.Greaves@audit.vic.gov.au  
**Sent:** Saturday, 21 August 2010 8:41 AM  
**To:** [REDACTED]  
**Subject:** \*Confidential: Confidential: VRQA audit report  
**Importance:** High

Dear [REDACTED]

Thank you for meeting with us yesterday. It was good to have the opportunity to discuss and clarify some issues ahead of next week's Audit and Risk Management subcommittee meeting.

As requested we will not issue a preliminary draft of the report, but instead await VRQA comments on the issues paper we provided last Tuesday, 17 August. As I indicated we have been writing the preliminary draft in parallel with this issues paper and they are substantially the same. As agreed, we expect comments by 12.00pm Friday 27 August, but there may be discussion with VRQA before this. We will take the comments on the issues paper in effect, to be comments on the preliminary draft. On this basis, as agreed, we will issue the proposed report (the final report) to the VRQA Chair on the following Friday, 3 September. This timing will depend to some degree on the nature of your comments and whether we need to review any evidence not previously made available to us. VRQA will have 10 working days to provide an official response to the proposed report. The response will be included in the tabled report which is scheduled for 6 October.

Regards

Andrew Greaves  
Assistant Auditor-General, Performance Audit

**Auditor-General's response to the Chair, Victorian Registration and Qualifications Authority – continued**

**RE:** \*Confidential: Confidential: VRQA audit report  
**From:** [REDACTED]  
**To:** Andrew.Greaves@audit.vic.gov.au  
**Date:** 22/08/2010 06:28 PM

Dear Andrew,

Thanks very much for your note below and for our discussions last Friday. I did appreciate your frankness during our meeting.

Late on Friday I met with [REDACTED] and [REDACTED] and went over our discussions and your agreement to give management till next Friday (27 August) to respond to the Issues Paper as provided to VRQA.

You should be aware I was advised that the Issues Paper was not actually provided to the VRQA till Wednesday 18 August and this timing makes more sense as it was last Wednesday that I called [REDACTED] to arrange a preliminary meeting prior to Audit & Risk Management Committee and he advised that the paper had just been given to management.

I was also told that VRQA management had not been asked to respond to the Issues Paper by last Friday, in fact they were not asked to respond at all.

Further to clarify, [REDACTED] has not prepared or issued a report, but has merely reported on the status of [REDACTED] work with the VRQA auditors.

The above is provided for clarification.

With the ARMCTee meeting next Tuesday, it would be greatly appreciated if your team can attend for approximately 30 minutes at 10am and present their findings. I think this timing is before management have previously advised your team, but I do think this matter is critical and should be addressed first up. I have also suggested to [REDACTED] and [REDACTED] that they meet with your team on Wednesday or Thursday and go through their specific issues and provide their appropriate evidence to them and to then formally respond to the Issues Paper from a management and Board perspective by Friday 27 August as agreed at our meeting.

I do not see the ARMCTee as the place to focus on specific management responses to the Issues Paper. This should be done subsequent to the meeting.

It is really important that we keep an open channel on this performance audit as the whole context and legislative framework in which the VRQA has operated has been very fluid. Aligning what the VRQA has provided to your team what VAGO believes has been received is important. I have now reviewed a register of documents the VRQA has recorded as provided and there certainly appears considerable evidence of governance and quality reviews. I believe this should be re looked at as part of the discussions between management and your team on Wednesday or Thursday.

I will call you on tomorrow (Monday) to further discuss the way forward.

Kind regards

[REDACTED]

**Auditor-General's response to the Chair, Victorian Registration and Qualifications Authority – continued**

**From:** Andrew Greaves/Operations/VIC-AUD-GEN/AU

**To:** [chair of audit committee]

If [redacted] summation of [redacted] conversation with [redacted] is accurate, from my perspective it is disappointing that we will not be provided the opportunity to address or respond to what the Board perceives to be factual errors. As our acquittal demonstrates we take very seriously the need to produce an accurate report, and if there is any misunderstanding on our behalf, we will address it.

We at all times try to act in good faith. If the response to the report is as set out below, we will need to assess its fairness and accuracy in terms of whether any further audit comment is warranted.

Happy to discuss.

Andrew Greaves  
Assistant Auditor-General, Performance Audit  
Level 24, 35 Collins Street

- Forwarded by Andrew Greaves/Operations/VIC-AUD-GEN/AU on 29/09/2010 07:57 AM -

**From:** [redacted]  
**To:** Andrew Greaves/Operations/VIC-AUD-GEN/AU@VIC-AUD-GEN  
**Date:** 28/09/2010 05:06 PM  
**Subject:** VRQA

Finally got to speak with [redacted]. [redacted] explained the Board were still working on VRQA's response and that they will consider VAGO's request to be provided with the list of factual errors and let us know. They seem uneasy about getting our response in time to reconsider their formal response and if we did not act on the factual error they raised in their comments why would we change. I didn't get the impression our request would be accommodated. [redacted] indicated VRQA's response would comprise a one page commentary on the recommendations as a letter and then an attachment detailing the factual errors all of which [redacted] would expect is reproduced in the report.



# Auditor-General's reports

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## Reports tabled during 2010–11

<b>Report title</b>	<b>Date tabled</b>
Portfolio Departments: Interim Results of the 2009–10 Audits (2010–11:1)	July 2010
Taking Action on Problem Gambling (2010–11:2)	July 2010
Local Government: Interim Results of the 2009–10 Audits (2010–11:3)	August 2010
Water Entities: Interim Results of the 2009–10 Audits (2010–11:4)	August 2010
Public Hospitals: Interim Results of the 2009–10 Audits (2010–11:5)	September 2010
Business Continuity Management in Local Government (2010–11:6)	September 2010
Sustainable Farm Families Program (2010–11:7)	September 2010
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