

PTE financial viability requirements: Questions and answers

Set out below are common questions and answers to issues raised by PTEs as part of the TEC consultation process.

Why have we revised our approach to assessing the financial viability of PTEs?

We are seeking a higher level of assurance of the viability of PTEs to ensure the ongoing protection of student delivery and Crown funds.

The previous approach had several limitations. These included:

- the NZQA attestation was not an audit and gave less assurance than an audit of a PTE's "going concern" status
- the independent accountant's review could only provide an assessment of a PTE's financial viability as at the date the financial accounts were prepared. This information could be between six and 18 months old. We require assurance as to an entity's ongoing financial viability over the full period of the Investment Plan
- generally, neither the TEC nor NZQA received copies of a PTE's financial statements for review and in some cases attestations were not available to inform TEC investment decisions
- a PTE's financial performance can change over time and the previous system may fail to identify PTEs of concern soon enough
- the assurance system did not provide for ongoing monitoring of higher risk PTEs.

Although the new process cannot totally prevent PTE failures, the requirements should allow PTEs to operate on a more stable footing and provide both the TEC and the PTE with earlier warning of deterioration in a PTE's financial health.

Have we considered the costs of the new monitoring arrangements?

We consciously considered the costs for providers when designing the new arrangements.

Where possible, we have sought to use readily available information to undertake our assessment work and/or information we could reasonably expect a larger PTE to produce as part of its normal financial management processes. We have also adopted a graduated approach to monitoring, with larger PTEs and those of greater risk required to provide additional information.

Will the financial viability requirements cover all PTEs in future?

The new arrangements have been applied in a graduated manner to all TEC-funded PTEs. We are considering whether the arrangements should apply to other TEC-funded providers in future.

We used the new prudential financial standards as part of the assessment criteria for PTE Investment Plans in the 2015 investment round. The requirement to meet the minimum financial criteria set out in the prudential financial standards applies to all TEC-funded PTEs from 31 December 2014.

For non-TEC funded PTEs the current financial monitoring arrangements in place with NZQA continue to apply.

Independent accountant attestations and new reporting arrangements

The requirement for TEC-funded PTEs to provide NZQA with a Chartered Accountant Professional Attestation (CAPA) return applied until the end of 2015.

NZQA has advised all PTEs that new assurance and attestation requirements for financial viability apply from 31 December 2015. We have also advised all TEC-funded PTEs of the changed requirements from 31 December 2015.

NZQA will continue to collect attestations in relation to the Student Fee Protection Mechanism from all PTEs and CAPA returns from all non-TEC-funded PTEs.

What are the new audit requirements?

PTEs receiving \$4 million or more of TEC funding per annum and PTEs funded from \$2 million of TEC funding per annum with a higher risk rating (i.e. risk category D or E) are required to have their annual accounts audited. This requirement replaces the need for a review and attestation by an independent accountant for those providers.

The legislated accountability requirements for PTEs (refer sections 159YD and 159ZE of the Education Act 1989) include an audit requirement. PTEs were previously exempted from the requirement. We consider there is no clear policy rationale to exempt larger or risky PTEs from the accountability requirements intended by Parliament. The changes bring larger PTEs into line with the requirements for tertiary education institutions. They will provide us with greater assurance around the future financial viability of the larger PTEs and some limited protection against the potential for fraud or mis-use of funding.

The audit requirements come into effect from accounts dated 31 December 2015.

Which agency should financial information be provided to?

Until the end of 2015, PTEs should continue to supply NZQA with Chartered Accountant Professional Attestations (CAPA). From 31 December 2015, all TEC-funded PTEs will need to provide financial returns to the TEC.

NZQA will continue to collect attestations in relation to the Student Fee Protection Mechanism from all PTEs and CAPA returns from all non-TEC-funded PTEs.

As TEC and NZQA work together in this area information provided to one of the agencies will be shared with the other.

What are the consequences of not meeting the prudential financial standards?

We expect PTEs to meet the prudential financial standards on an ongoing basis.

Where a PTE does not meet the minimum prudential financial standards we will have the option to not fund, or agree funding subject to conditions. PTEs that do not meet the minimum standards are likely to be required to enter into an action plan with the TEC to ensure they meet the guidelines within a specified period (i.e. usually within a year).

Where a PTE meets the minimum financial standards, and then subsequently fails to do so, we will require the PTE to let us know and enter into discussions to address the situation as soon as possible. These actions will be set out in an agreed action plan.

Failure to meet the minimum requirements may have an impact on future funding.

If there are material solvency issues, material amounts owing to the TEC, or doubt around whether a PTE can continue delivering to students, we reserve the right to take what action we consider suitable to protect TEC funding and student interests.

Is the financial viability methodology suitable for all types of PTEs and legal entities?

Based on experience from the PTE financial reviews to date, and previous work we have done, we consider the methodology and approach are suitable for any small and medium-sized entity, including companies, trusts, incorporated societies, charitable trusts, and any other form of legal entity seeking TEC funding.

We engaged Ernst and Young to review the suitability of the arrangements.

We would also clarify that it is not our intention to require charitable trusts or other not-for-profit organisations to produce a surplus¹.

How do the new requirements compare to those for tertiary education institutions (TEIs)?

TEIs have a specific legal status, accountability regime, and legal compliance requirements set out in legislation. The financial requirements for PTEs have been aligned to the financial viability requirements in place for TEIs but they also reflect PTE's different legal status, ownership arrangements and size of entity.

Is the proposed approach the best means of achieving assurance?

We have attempted to balance the need for assurance (by the TEC and students) around the continuing financial viability of PTEs; the need to protect student studies; the need for internationally comparable standards; and the costs of compliance. That is why we adopted a largely desk-based limited scope review process, with a focus on currently available financial information; and a graduated approach around reporting and monitoring which recognises the size of institution being dealt with and the risks presented.

Will “special circumstances” or abnormal events be considered?

As part of the methodology for undertaking the financial viability assessments we will contact PTEs that have been identified as being of greater risk to seek additional information and explanation. We will be interested in why a particular result has occurred and not just what the reported result was. We will take into consideration any evidenced-based factors that have a bearing on a PTE's financial performance and risk assessment.

How will the information provided to the TEC be used?

We treat all financial information we receive as part of this assessment process as “commercial, in-confidence”. We collect this information for financial viability assessment purposes only.

¹ Charitable trusts and other not-for-profit organisations will still be required to meet the minimum prudential financial standards to be eligible for TEC funding.

The information may be shared within the TEC if valid concerns arise over the repayment of a TEC debt. We have reciprocal arrangements with the NZQA's financial assessment team and may share the information with the NZQA, on a confidential basis, if the NZQA has a concern with a PTE's financial viability.

Will financial information provided remain confidential?

We are governed by the relevant provisions of the Official Information Act (OIA). We recognise that PTEs will be providing commercially sensitive information and will treat it in confidence. There are provisions of the OIA that provide for instances where information of this nature is collected and these provisions recognise the need for the protection of commercial and confidential information.

We do not propose to release our risk ratings to the public.

Will the analysis of financial viability be undertaken by suitably qualified accountants?

The financial assessments will be undertaken by the TEC Monitoring and Crown Ownership team which has a number of qualified accountants who have experience in dealing with different types of organisations within the tertiary sector.

Will PTEs be able to seek a review of TEC's financial assessments?

Yes, PTEs will be able to seek a review of the results of the financial assessments. We are happy to engage with PTEs to ensure there is an accurate understanding of their situation and any actions they have undertaken to mitigate any adverse risks.