



Information Sheet: TEQSA's approach to financial assessment

Why does TEQSA do financial assessments?

The financial status of a higher education provider can significantly affect its ability to deliver quality in higher education to students. It can influence, for example, the quality of its infrastructure; the availability of staff to support academic quality and integrity; its capacity to provide support services to students; and the extent to which a provider has adequate physical and electronic resources to support student learning.

A registered higher education provider is required under the *Tertiary Education Quality and Standards Agency Act 2011* (TEQSA Act) and the Higher Education Standards Framework 2011 (Threshold Standards) to ensure that it has the financial resources and financial management capability to sustain its higher education operations.

This information sheet explains how TEQSA assesses a provider's ability to meet the requirements of the TEQSA Act and the Threshold Standards on an on-going basis.

Legislated requirements

Under the TEQSA Act a higher education provider must operate in compliance with the Provider Registration Standards of the Higher Education Standards Framework ('the Standards'). These are set out in the table below:

2.1	The higher education provider is financially viable and has the capacity to sustain quality in its current and planned higher education operations, using realistic projections of student demand and income from all sources.
2.2	The higher education provider applies, and demonstrates the capacity to continue to apply, sufficient financial resources to ensure the achievement of its higher education objectives.
2.3	The higher education provider has business continuity plans and financial and tuition safeguards in place for students should the higher education provider cease to provide a course of study, cease to operate as a higher education provider or suffer a major incident affecting the operations of the higher education provider.
2.4	Financial aspects of the higher education provider's higher education operations are well-managed in accordance with legal requirements and Australian accounting standards and the higher education provider has effective arrangements for the detection and prevention of fraud and mismanagement.
2.5	The financial records of the higher education provider are accurate and independently audited by an appropriately qualified auditor.

Under section 27 of the TEQSA Act providers are also required to provide TEQSA with annual audited financial statements no later than 6 months from the end of the provider's financial year. Providers, would, as matter of financial good practice, have these prepared for their own business management purposes.

TEQSA's approach to financial assessment

TEQSA assesses compliance with the financial aspects of the Threshold Standards at the time of a scheduled review, such as an application for registration, or in response to emerging issues, such as those identified through a material change notification or a TEQSA risk assessment.

In undertaking its assessment, TEQSA considers a range of financial and non-financial Key Performance Indicators (KPIs). The KPIs recognise that providers operate in a constantly changing environment influenced by a range of internal and external factors, such as changes in higher education policy, international and domestic competition for students, changes in industry demand for graduates, and the availability of academic staff. The way in which a provider plans for and responds to these factors will have a direct impact on the provider's financial status. TEQSA's approach recognises and respects the diversity of provider operating models in the sector and focuses on the provider's compliance with the Standards within its own operating context.

Key concepts

TEQSA employs an approach to financial analysis that is similar to that used by financial assessors, lending institutions and credit ratings agencies. TEQSA considers a higher education provider's:

- ▶ financial capacity
- ▶ financial capability; and
- ▶ financial trajectory.

These inter-related concepts are explained below.

Financial capacity

Financial capacity is the ability to apply and to continue to apply sufficient financial resources to achieve higher education objectives. This considers a provider's capacity to operate in the short-term (viability) and over the longer-term (sustainability). Both are

pre-requisites and on-going requirements for higher education providers.

Financial capability

Financial capability is determined by a combination of a provider's resources (tangible and intangible) and evidence of its management capability.

A provider's resources are constituted by factors such as its earnings and cash, assets, credit rating, insurance, quality of brand, capacity to grow revenue and maintain appropriate levels of operating expenditure.

A provider's management capability is critically influenced by the emphasis accorded to financial management in the organisation, business planning and budgeting, ongoing financial monitoring, reporting and analysis, fraud and risk management and the prudential management of resources.

Financial trajectory

A provider's financial trajectory is a key element in demonstrating its ability to sustain quality in higher education. When TEQSA assesses a provider's viability and sustainability, it uses both historical and forecast information together. Some of the questions that may be considered by TEQSA to determine financial viability and sustainability in line with the Standards include:

- ▶ Does the provider have a consistent track record of financial performance and prudence?
- ▶ Has the provider maintained sufficient levels of liquidity and investment to support key academic functions?
- ▶ Has there been rigorous business planning undertaken, including assumptions that support realistic projections?
- ▶ What is the level and relevance of experience of key academic staff and management?
- ▶ Has there been reliance on a related party and what controls are in place?
- ▶ How has the provider anticipated and responded to key trends that may affect the business model?

How TEQSA collects financial data

TEQSA collects financial information through various channels in a way which is designed to be efficient and that minimises the administrative burden for the provider. This includes accessing financial information already held by other government departments, rather than requesting this directly from providers. Due to the diversity of providers in the sector, information

requirements may be tailored to reflect the specific circumstances of the provider, taking into account TEQSA's regulatory principles. For example, where there may be potential risks identified through an assessment of the financial information held by TEQSA, further information may be requested specific to the provider's circumstances.

The table below shows the ways through which TEQSA obtains financial data.

	New application or renewal	Annual information	Ongoing disclosure
Source	<ul style="list-style-type: none"> ▶ Provider registration/ re-registration ▶ Course accreditation/ re-accreditation ▶ CRICOS registration/ re-registration 	<ul style="list-style-type: none"> ▶ DIICCSRTE ▶ Provider Information Request ▶ Provider – section 27 requirement ▶ Audited financial statements 	<ul style="list-style-type: none"> ▶ Material change notifications

Information about TEQSA's overall approach to assessing risk can be found at <http://www.teqsa.gov.au/regulatory-approach/regulatory-risk-framework>.

