



# TEQSA's Approach to Risk Assessments of Stand-Alone ELICOS and Foundation Program Providers

## Background

TEQSA undertakes annual risk assessments of all entities it regulates. Risk assessments help to prioritise TEQSA's regulatory focus and provide TEQSA with sector-wide perspectives on risks to quality. TEQSA's approach to assessing risk is detailed in its Risk Assessment Framework available at: <http://www.teqsa.gov.au/regulatory-approach/risk-assessment-framework>.

TEQSA takes a tailored approach to risk assessments of stand-alone ELICOS and Foundation Program providers (i.e. ELICOS and Foundation Program providers that are CRICOS-registered but not registered higher education providers). This means that while the processes are the same as those outlined in the Framework, the information and risk indicators used in the risk assessments are shaped to reflect elements specific to these providers.

## Purpose

A risk assessment does not determine whether or not a provider is compliant with the ESOS Act, National Code, ELICOS National Standards or National Standards for Foundation Programs. Risk assessments among other things provide a tool for monitoring provider operations during registration periods and to inform assessment processes. Risk monitoring also supports TEQSA Case Managers and providers to engage in early discussion about emergent issues.

For ELICOS and Foundation Program providers, the information used to inform the risk assessment is drawn from a variety of sources: annual information reporting, PRISMS, and information received as part of regulatory processes (e.g. application for re-registration).

## Risk Assessment Process

- ▶ TEQSA prepares a risk assessment comprised of information and indicators in the areas of financial viability, regulatory history, students and staff.
- ▶ The risk assessment is shared with a provider where there are new or continuing concerns about risks, or if a provider requests a copy.
- ▶ Where a risk assessment is shared, the provider is invited to confirm the accuracy of data and/or respond to any identified risks with risk control information from their own risk management processes. For example, where significant growth in student numbers is identified, a possible risk control may be evidence demonstrating that the growth has been appropriately planned for and resourced.
- ▶ Any information received will then be considered by TEQSA and may lead to an update of the risk assessment. TEQSA will then provide advice as to whether any further steps are necessary.

## Key Components of Risk Assessments

In undertaking a risk assessment, TEQSA takes into account a provider's record of delivery, its operating context and its own risk management, where known. The key areas of risk considered in the assessment relate to student enrolments, staff resourcing, the financial viability of the provider, and the provider's regulatory history.

### Context

The following context is considered in a provider's risk assessment:

- ▶ provider corporate information (e.g. provider category, parent body, offshore ownership, higher education partnerships);
- ▶ operational details (e.g. number of education agents, location capacity, course offerings);
- ▶ student load and course composition information (e.g. students aged under 18 years of age, course details, agents); and
- ▶ complaints received by TEQSA (where there have been multiple/concentrated complaints).

### Regulatory History and Standing

The regulatory history and standing of a provider forms an important part of the risk assessment. Findings from previous regulatory assessments undertaken by TEQSA are considered (e.g. conditions on registration).

### Indicators

The risk indicators used in the risk assessment focus on areas common across the operations of all stand-alone ELICOS and FP providers.

▶ New delivery location	▶ Financial viability
▶ Student load	▶ Source Country Reliance
▶ Employee Benefits Ratio	

A description of each indicator can be found at Appendix A.

## Outcome of Risk Assessments

- ▶ TEQSA uses risk assessments to inform the level of engagement or action to be taken by TEQSA in its assessment activities. If a provider has a forthcoming regulatory process, such as renewal of registration, any risk issues may be a focus in that assessment.
- ▶ If TEQSA identifies significant risks, it may determine that action is necessary ahead of the next scheduled regulatory process. In such cases, it would be likely that a request for further information from the provider would be a first step.

For any queries regarding TEQSA's risk assessment process please contact [enquiries@teqsa.gov.au](mailto:enquiries@teqsa.gov.au).

# Appendix A: ELICOS and Foundation Program Provider Risk Indicators

## Risk Indicators

### 1. New delivery location

#### Description of Risk

A recently registered location with no proven track record in delivery presents a potential risk regarding the establishment of quality operations at that location. Factors that may be considered in assessing this indicator include the history and record of the provider in commencing ELICOS, Foundation Program or other education delivery at new locations. Consideration will be given to where new locations are being established (for example, delivery in a new state may present a higher level of risk compared to commencing delivery close to an existing location) and the provider's own mitigation strategies in establishing new delivery locations.

### 2. Student Load

#### Description of Risk

A significant increase in student load has the potential to impact on the quality of student experience unless planned for and managed, for example, through adequate investment in infrastructure, academic teaching staff, student support and teaching, and learning resources. A significant and continuing unplanned decline in student load has the potential to have negative financial impacts due to loss of fee revenue, and/or may signal a decline in the quality or value of the organisation's course offerings.

Factors that may be considered in assessing this indicator include, for example, the provider's objectives and strategic planning objectives; student support arrangements; and capacity to accommodate and manage changes in student population. Consideration is also given to trends and volatility in student load at the provider prior to the application of a rating.

### 3. Employee Benefits Ratio

#### Description of Risk

Staff typically comprise the major cost item for providers. Maintenance of the level of resource allocated to staffing is a critical component supporting the effective achievement of education objectives. This measure provides an indication of the change in total staff costs (academic & non-academic staff) averaged over a three-year period. Risk is viewed in relation to the entity's own expenditure on staffing over time, where reductions in the level of expenditure as a proportion of revenue are monitored.

Factors that may be considered in assessing this indicator include the scaling up or down of the staff profile in response to changes in the student load, as well as any institutional planning for structural changes to the staff profile including change management and workforce planning documentation. The provider's financial position and changes to course offerings may also be considered.

## 4. Financial Viability

### Description of Risk

This composite indicator considers risk to a provider's current and immediate-to-short term financial strength and capacity. Measures included within this indicator include profitability, liquidity, gearing, debt servicing and cash flow.

- i. *Operating profit margin %: Provides an indication of the provider's ability to manage revenues and control expenses in order to generate a surplus which can be used in the future to support the provider to sustain its operations.*
- ii. *Liquidity: Provides an indication of the provider's capacity to meet financial obligations within its ordinary operating cycle.*
- iii. *Total Liabilities-to-Tangible Assets: Provides an indication of assets available to satisfy the provider's financial obligations.*
- iv. *Debt Service Coverage: For providers with borrowings, provides an indication of the provider's capacity to amortise and service the debt whilst reinvesting in the fixed assets of the business.*
- v. *Operating cash flow ratio: Provides an indication of the provider's capacity to meet current financial obligations based on the cash flow generated from its operations*

The corporate structure and ownership model as well as the financial resources available through affiliated or related parties will be considered in applying a rating.

## 5. Source Country Reliance

### Description of Risk

Reliance on a single source country market poses a risk in that a provider is vulnerable to fluctuations in that student market. A high proportion of students from one country may pose a risk to financial viability and may signal issues regarding recruitment practices.

Factors that may be considered in assessing this indicator include the sample size of the student population (consideration of small number bias) and the breadth or otherwise of the entity's business operations and measures of the financial viability of the entity.