

The Auditor-General
Audit Report No.50 2006–07
Performance Audit

The Higher Education Loan Programme

Department of Education, Science and Training

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of Australia 2007

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Canberra ACT
26 June 2007

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Education, Science and Training in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit and the accompanying brochure. The report is titled *The Higher Education Loan Programme*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Contents

Abbreviations.....	7
Glossary	8
Summary and Recommendations	11
Summary	13
Background	13
Audit objective and scope	15
Overall Conclusion	16
Key Findings.....	18
Setting Student Contributions	18
HECS–HELP Payments.....	18
ATO Recording of Student HECS–HELP Debts	19
Recommendations	20
DEST’s response	20
ATO’s response	21
Recommendations	22
Audit Findings and Conclusions	23
1. Introduction	25
Background	25
Audit objective.....	33
Audit scope and methodology.....	33
Audit cost	34
Structure of this report.....	34
2. Setting Student Contributions	35
Introduction	35
Monitoring legislative compliance	38
Conclusion	41
3. HECS–HELP Payments.....	43
Introduction	43
Estimating HECS–HELP payments to higher education providers	44
HECS–HELP advance payments	46
Reconciliation of HECS–HELP payments.....	47
Recording and reporting HECS-HELP payments	50
Conclusion	51

4. Australian Taxation Office Recording of Student HECS–HELP Debts	53
Introduction	53
Transfer of HECS-HELP data from higher education providers to DEST	54
Transfer of HECS-HELP data from DEST to the ATO.....	56
ATO recording of HECS-HELP debts to students' tax records.....	57
ATO notification to students of their HECS–HELP debt	58
ATO HECS–HELP debt dispute resolution	59
Conclusion	59

Appendices 61

Appendix 1: Calculation of HECS–HELP payment to higher education providers	63
Appendix 2: Calculation of HECS–HELP assistance provided to higher education providers	65
Appendix 3: DEST processes for verifying the accuracy of HECS–HELP data from higher education providers	69
Index.....	71
Series Titles.....	72
Current Better Practice Guides	77

Tables

Table 1.1 HELP Programmes.....	29
Table 2.2 Student contribution bands for 2006	37

Figures

Figure 3.1 Sources of revenue for higher education providers	44
Figure 3.2 Reconciliation of HECS–HELP payments to higher education providers in 2005	48

Abbreviations

ATO	Australian Taxation Office
DEST	Department of Education, Science and Training
HECS	Higher Education Contribution Scheme
HELP	Higher Education Loan Programme
TFN	Tax File Number

Glossary

Census date	A census date for a unit of study means a date determined by a higher education provider as the date for determining the population of students enrolled with the provider. This date is to be no earlier than 20 per cent of the period during which the unit is undertaken.
Commonwealth contribution amount	The Commonwealth contribution amount is the amount that the Commonwealth contributes to a Commonwealth supported student's unit of study under the Commonwealth Grant Scheme. The amount funded by the Commonwealth is legislated and depends on the funding cluster into which individual units of study are classified.
Commonwealth Grant Scheme	The Commonwealth Grant Scheme is the mechanism through which the Australian Government gives higher education providers a contribution towards the cost of an agreed number of Commonwealth supported places. Each higher education institution that receives funds under the Commonwealth Grant Scheme enters into a Funding Agreement with the Commonwealth with annual negotiations taking place over the number of places and discipline that the Commonwealth will support.
Commonwealth supported place	A Commonwealth supported place is a higher education place for which the Australian Government makes a financial contribution through the Commonwealth Grant Scheme to the higher education provider. It is one of the ways in which the Government contributes to the cost of students' education.

Course of study	<p>A course of study is:</p> <ul style="list-style-type: none"> • an enabling course; or • a single course leading to a higher education award; or • a course recognised by the provider as a combined or double degree leading to one or more higher education awards.
Enabling course (place)	A course of instruction provided to a person for the purpose of enabling the person to undertake a course leading to a higher education award.
Equivalent Full Time Student Load	This is an equivalent full-time student load. It is a measure of the study load, for a year, of a student undertaking a course of study on a full-time basis.
Funding Cluster	The categories into which individual units of study are classified and which determine the funding that the Commonwealth contributes.
Higher education award	<p>A higher education award is defined as:</p> <ul style="list-style-type: none"> • a degree, status, title or description of bachelor, master, or doctorate; or • an award of a graduate diploma or graduate certificate; or • any other award specified as a higher education award under the Australian Qualifications Framework.
Higher Education Provider	This is a body corporate that is approved to provide higher education under the <i>Higher Education Support Act 2003</i> .
Student learning entitlement	The student learning entitlement entitles a person to seven years of equivalent full-time study in a Commonwealth supported place. For certain courses and under specific circumstances, this entitlement may be increased.

Tuition fees	Tuition, examination or other fees payable to a provider by the student enrolled, or applying for enrolment, with the provider; and/or fees payable for the granting of a higher education award.
Up-front Payment	A payment (not via HECS-HELP or Fee-HELP) made on behalf of a student, before the census date, for tuition costs for a unit of study.

Summary and Recommendations

Summary

Background

1. The Australian Government, through the Department of Education, Science and Training (DEST), offers a range of assistance to approved higher education providers and eligible students to assist in providing and paying for education.
2. Since 1989, Australian students in Australian Government funded higher education places have been required to contribute towards the cost of their education through a variety of schemes, including through the Higher Education Contribution Scheme (HECS).
3. In response to a review of Australia's higher education system completed in 2002, the Australian Government announced changes to Australia's higher education policy, which it enacted through the *Higher Education Support Act 2003*. The changes are set out by the Australian Government in the *Our Universities: Backing Australia's Future (May 2003)* policy.¹
4. The changes affected the way the Commonwealth supports students' access to higher education. One of the key changes was the replacement of the four previous loan schemes and the introduction of the Higher Education Loan Programme (HELP). On 1 January 2005, the HELP replaced existing loan schemes² and became the primary source of Australian Government assistance to students with higher education costs. The HELP consists of three different loan programmes: HECS-HELP, FEE-HELP and OS-HELP.
5. In 2005, the total operating revenue of higher education institutions was \$14.3 billion. Of this revenue, \$5.9 billion was from Australian Government grants. Other Australian Government payments included \$1.9 billion³ for loans to assist students to meet their contribution towards the cost of education.⁴

¹ <<http://www.backingaustraliasfuture.gov.au/reforms.htm>>.

² The four schemes were the Postgraduate Education Loan Scheme, the Bridging for Overseas-Trained Professionals Loan Scheme, the Open Learning Deferred Payment Scheme and HECS.

³ This amount comprises \$1.6 billion for HECS-HELP and \$289 million for FEE-HELP.

⁴ Higher Education Report 2005, DEST, January 2007, p. 5.
<http://www.dest.gov.au/sectors/higher_education/publications_resources/profiles/highered_annual_report_2005.htm>.

6. HECS–HELP assistance comes as either a loan available to eligible students enrolled in Commonwealth supported places or as a discount for students paying all or part of their student contribution up-front. A HECS–HELP loan may cover all or part of the amount that a Commonwealth supported student is required to contribute towards their higher education tuition costs. A HECS–HELP discount of 20 per cent applies if the student pays at least \$500 of the student contribution up-front. In 2005, up-front student contributions amounted to \$396 million.⁵

7. For students that enter into a HECS–HELP loan or receive a HECS–HELP discount, the Australian Government pays the amount of assistance directly to the higher education provider on the student’s behalf. A HECS–HELP debt⁶ is recorded by the Australian Taxation Office (ATO) for each student that receives assistance. Repayments of the loan are required when the student earns a certain level of income per annum.⁷

8. In 2005, 957 176 students attended Australian higher education providers. Of these, 717 681 were domestic students and 239 495 were overseas students.⁸ In 2005, the Australian Government agreed to fund 409 393⁹ Commonwealth supported places at eligible higher education providers. Of those students required to pay student contributions, approximately 77 per cent deferred all or part of their student contribution and received a loan, and 21 per cent paid their full student contribution, up-front and received a discount.¹⁰

9. The recording of HECS–HELP loans has significant financial implications for students, the higher education providers and the Australian Government. At 30 June 2005, around 1.1 million people had a HELP¹¹ debt. The average debt was \$9 800.¹² The repayment of this debt, which can take in

⁵ *ibid.*, p. 5.

⁶ A HECS–HELP debt is the balance of the student’s loan.

⁷ In 2005–06 compulsory HECS–HELP repayments commenced when a student’s income reached \$36 184.

⁸ Higher Education Report 2005, *op. cit.*, p. 10.

⁹ *ibid.*, p. 27.

¹⁰ *ibid.*, p. 75.

¹¹ On 1 June 2006, all existing HECS debts were combined with HECS–HELP, FEE–HELP and OS–HELP debts, to become accumulated HELP debts.

¹² Higher Education Report 2005, *op. cit.*, p. 81.

excess of five years¹³, affects a person's disposable income. As such, the accurate charging of tuition costs by higher education providers and recording of student loans by DEST and the ATO is of particular interest to students.

10. HECS–HELP funding represents a major source of revenue for higher education providers.¹⁴ Underpayment of HECS–HELP assistance can have an adverse affect on the ability of higher education providers to deliver higher education.

11. The outstanding HECS–HELP debt represents an amount that is recoverable through the taxation system. At 30 June 2006, the fair value¹⁵ as reported by DEST of the loans owed by students for higher education assistance was \$8.2 billion.¹⁶ The nominal debt amount was \$12.9 billion at 30 June 2006 and \$11.5 billion at 30 June 2005. The valuation of the loans is currently subject to an actuarial review for 2006–07 financial statements.¹⁷ The accurate recording of this debt is important to provide assurance that DEST's, and the Government's, financial statements correctly reflect the amount recoverable.

Audit objective and scope

Audit objective

12. The objective of the audit was to assess the effectiveness of procedures and processes used by DEST and the ATO to record HECS–HELP student loans. To achieve this, the ANAO assessed the performance of DEST and the ATO against three criteria as follows:

- DEST monitored student contributions set by higher education providers for consistency with Australian Government policy;

¹³ The repayment term is determined by the size of the debt and the income of the person who has accumulated the debt. For example, a person with an average annual income of \$50 000 and a HELP debt of \$10 000, will take around five years to repay their debt if they make only compulsory repayments.

¹⁴ In 2005, HECS–HELP funding was in excess of 11 per cent of the total operating revenue of higher education providers as calculated from the Higher Education Report 2005, op. cit., p. 6.

¹⁵ The Australian equivalent to International Financial Reporting Standards (AIFRS), require the debt to be measured at fair value. Fair value is determined by taking the initial debt and deducting amounts that are not expected to be recovered, ie providing for bad and doubtful debts.

¹⁶ Department of Education, Science and Training, Annual Report 2005–06, pp. 314–315.
<http://www.dest.gov.au/portfolio_department/dest_information/publications_resources/profiles/dest_annual_report_2005_2006.htm>.

¹⁷ *ibid.*

- DEST paid HECS–HELP advance payments to higher education providers based on sound estimates, and recorded, reconciled and reported these payments; and
- the ATO has established procedures and processes to correctly record HECS–HELP loans against student tax records.

Audit scope

13. The audit focussed on the HECS–HELP because these loans constitute approximately 83 per cent of all HELP loans. The audit examined whether:

- student contribution amounts that are being set by higher education providers are consistent with Australian Government policy;
- the advance payments¹⁸ to higher education providers for student loan assistance are based on reasonable estimates;
- the advance payments provided to higher education providers are compared to actual student loan data, and any over or under payments are treated appropriately;
- amounts for student loan assistance are paid to higher education providers and recorded in DEST’s financial accounts; and
- the ATO correctly recorded students’ loan amounts against the students’ tax records.

14. The audit excluded the repayment phase of HECS–HELP loans administered by the ATO through the Income Tax Assessment process.

Overall Conclusion

15. Overall, DEST was effectively monitoring student contributions set by higher education providers for consistency with Australian Government policy. DEST has also established effective procedures and processes to pay HECS–HELP advance payments to higher education providers based on sound estimates, and to record, reconcile and report these payments.

16. There were two main areas in the administration of HECS–HELP where the ANAO considered DEST could improve administrative practices. The first

¹⁸ The Australian Government, through DEST, provides the amount of student contribution that students are borrowing to higher education providers throughout the year in which the students incur the debt. DEST pays the higher education providers based on how much DEST considers students will borrow. This payment is referred to as an ‘advance payment’.

concerned strengthening its monitoring role in relation to student contribution amounts charged by higher education providers, confirming that they were acting in a manner consistent with the legislation. The second concerned the need for a more timely reconciliation of HECS–HELP payments to enable DEST to report HECS–HELP payments in the financial year that they were made.

17. DEST has implemented controls to provide assurance on the integrity, completeness and accuracy of HECS–HELP data transferred from the higher education providers to DEST, and also from DEST to the ATO to record student HECS–HELP loans. The ATO has established effective procedures and processes to record HECS–HELP loans against student tax records.

Key Findings

Setting Student Contributions (Chapter 2)

18. DEST has established procedures and processes for ensuring the requirements of the *Higher Education Support Act 2003* are met by higher education providers, and that amounts charged to students, are accurate. Specifically, DEST developed sound guidance to assist higher education providers to interpret and implement the requirements of the *Higher Education Support Act 2003*. DEST also implemented a series of controls designed to provide assurance that higher education providers comply with legislative requirements on the charging of fees.

19. However, DEST would benefit from documenting its compliance procedures. This would assist staff to monitor higher education providers' compliance with legislative requirements on the publishing¹⁹ and charging of student contribution amounts and tuition fees.

20. DEST performed a number of validation checks on the accuracy of amounts charged to students. However, as part of its monitoring role, DEST could institute sample checks of amounts charged by higher education providers for consistency with published rates or with the schedules of student contribution amounts provided to its Minister. This would provide further assurance that higher education providers were acting in a manner consistent with the legislation.

HECS–HELP Payments (Chapter 3)

21. DEST has procedures for the estimation, payment and reconciliation of HECS–HELP payments. DEST's approach to calculating the estimate for 2005 produced a reasonably accurate result. DEST estimated an amount of \$1.72 billion for HECS–HELP payments to higher education providers whereas the actual amount of HECS–HELP assistance accessed was \$1.65 billion. This was a difference of approximately \$70 million (four per cent).

22. However, DEST has not documented its procedures for the preparation and approval of the HECS–HELP estimate. This increases the risk of inconsistency in the preparation and approval of the HECS–HELP estimate which could affect its accuracy.

¹⁹ Higher education providers are required to publish schedules of student contributions.

23. DEST made advance payments to higher education providers based on the estimated value of HECS–HELP assistance that each higher education provider will require, and in accordance with the payment schedule that was specified in the manual for providers.²⁰ DEST has implemented processes and controls to provide assurance that these payments are made as required.

24. DEST received the data required to perform a reconciliation of HECS–HELP by 31 March 2006.²¹ However, internal validation processes delayed completion of the reconciliation until December 2006, eight months after the scheduled date.²² This resulted in delayed recovery of HECS–HELP assistance overpayments made to higher education providers and an opportunity cost to the Commonwealth.

25. The net reconciliation variance of approximately \$70 million represents an amount that was receivable by the Department. Although not material from a financial statement perspective, the receivable would have been better accounted for in the Department’s financial statements at 30 June 2006. DEST was not in a position to do this because of the delay in completing its reconciliation. The delay meant that all recoveries and additional payments were made in one instalment (the final instalment for the calendar year), in mid December 2006. DEST accounted for these variances at the time of these adjustments in December 2006, rather than in the earlier financial year, 2005–06.

26. DEST procedures for the reconciliation of HECS–HELP assistance were not documented to support the correct and consistent implementation of these procedures. This could result in higher education providers being incorrectly funded.

Australian Taxation Office Recording of Student HECS–HELP Debts (Chapter 4)

27. Higher education providers must transmit to DEST student enrolment information captured on the census date.²³ This enrolment information

²⁰ Administrative information for providers: student support, DEST Funding and Student Support Branch, Higher Education Group, April 2006.
<http://www.dest.gov.au/sectors/higher_education/publications_resources/summaries_brochures/resources_for_student_administrators.htm>.

²¹ DEST completed its first reconciliation process in December 2006 for the 2005 calendar year.

²² Administrative information for providers: student support, op. cit., p. 101.

²³ 31 August for census dates in the first half of the year and 31 March for census dates in the second half of the previous year.

includes the actual amount of HECS–HELP assistance provided to the student, and is the source for the ATO recording of student HECS–HELP debts.

28. DEST has implemented controls to provide assurance on the integrity, completeness and accuracy of HECS–HELP data transferred from the higher education providers to DEST. However, these controls could be enhanced to manage the risk that a higher education provider will not follow the correct submission processes by submitting an unencrypted enrolment file to DEST. DEST advised that it will enhance its controls in 2008, by using new software which will prevent higher education providers from submitting unencrypted files to DEST. DEST has also established processes to provide assurance on the complete and accurate transmission of this data to the ATO to record student HECS–HELP loans.

29. The ATO has established processes to provide assurance that HECS–HELP debt indexation is applied correctly and debts are recorded against the correct student tax file records. The ATO produces and distributes HELP information statements for each person with a HELP debt, after the indexation process. The notice details the balance of each person’s HECS–HELP debt and any movements that have occurred during the year, such as new debts, repayments and indexation. The ATO has established a mechanism to resolve disputes about the accuracy and the amount of HECS–HELP student debt.

30. The ATO received 44 000 enquiries about HECS–HELP in 2005–06, of which only 37 were categorised as complaints. Some of the 37 complaints were customer service issues rather than higher education loan enquiries.

Recommendations

31. The ANAO made two recommendations concerning DEST’s recording of student loans. DEST has agreed to both recommendations.

DEST’s response

32. The Department of Education, Science and Training (DEST) welcomes the findings of the Australian National Audit Office (ANAO) that overall DEST effectively monitored student contributions for consistency with Australian Government policy and had established effective procedures to pay advance payments based on sound estimates and to record, reconcile and report these payments. DEST accepts the ANAO’s recommendations that documentation of existing procedures and processes be improved, further checks on charging of student contributions be introduced and improvements

be made to the timeliness of reconciling HECS–HELP advance payments. DEST has already completed part of the work to consolidate existing documentation of processes and procedures. DEST believes that existing mechanisms allow students to ensure they are charged the correct student contribution for their studies but will undertake a sampling of student records to check whether there are instances of providers charging incorrect amounts. DEST has developed further the processes for reconciling HECS–HELP payments in a more timely manner. DEST has conducted a mid-year review which will adjust 2006 HECS–HELP advance payments so that the variance in the final reconciliation should be reduced.

ATO's response

33. The correct recording and ongoing management of student loans under the Higher Education Loan Programme is important to the Tax Office. We welcome the ANAO's recognition of the Tax Office's established processes which provide assurance that HECS–HELP debt indexation is applied correctly and that debts are recorded against the correct student tax file records.

34. The Tax Office notes there are no recommendations concerning our performance in your report.

Recommendations

Set out below are the ANAO's recommendations. Report paragraph references and abbreviated DEST responses are also included.

Recommendation No. 1

Para 2.24

The ANAO recommends that, to reduce the risk of inaccurately charging student contributions, DEST perform sample checks to confirm that amounts charged by higher education providers are consistent with their published rates and with the schedule of student contribution amounts provided to the Minister.

DEST's response: Agreed.

Recommendation No. 2

Para 3.24

The ANAO recommends that DEST:

- documents procedures to assist in consistently and correctly:
 - monitoring higher education providers' compliance with legislative requirements on the accurate publishing of HECS-HELP student contribution amounts and tuition fees; and
 - estimating, paying and reconciling HECS-HELP payments to higher education providers; and
- establishes procedures and processes that will allow completion of the HECS-HELP reconciliations in a timely manner.

DEST's response: Agreed.

Audit Findings and Conclusions

1. Introduction

This Chapter describes the background to the audit, and sets out the audit objective and scope, methodology, and structure of the report. It includes discussion of the Australian higher education framework, and recent changes that have led to the implementation of the Higher Education Loan Programme.

Background

1.1 The Australian Government, through the Department of Education, Science and Training (DEST), and its predecessors, have provided financial support to higher education students for many years. The Australian Government's higher education policy enables eligible students studying with approved higher education providers to receive financial assistance towards their higher education costs.

1.2 In 2005, 957 176 students attended Australian higher education providers. Of these, 717 681 were domestic students and 239 495 were overseas students.²⁴

1.3 The Australian Government offers a range of assistance to approved higher education providers and their students to assist in providing and paying for education. Since 1989, Australian students in Australian Government funded higher education places have been required to contribute towards the cost of their education through a variety of schemes, including through the Higher Education Contribution Scheme (HECS).

1.4 In 2005, the total operating revenue of higher education institutions was \$14.3 billion, this included \$5.9 billion from Australian Government grants and \$1.9 billion²⁵ for loans to assist students to meet their contribution towards the cost of education.²⁶

1.5 The Commonwealth Grant Scheme is the mechanism through which the Australian Government offers higher education providers a contribution towards the cost of an agreed number of Commonwealth supported places. Each higher education institution that receives funds under the Commonwealth Grant Scheme enters into a Funding Agreement with the

²⁴ Higher Education Report 2005, op. cit., p. 6.

²⁵ This amount comprises \$1.6 billion for HECS–HELP and \$289 million for FEE–HELP.

²⁶ Higher Education Report 2005, op. cit., p. 5.

Commonwealth, with annual negotiations taking place over the numbers of places and disciplines that the Commonwealth will support.

1.6 In 2005, the Australian Government agreed to fund 409 393²⁷ Commonwealth supported places at eligible higher education providers. Of those students required to pay student contributions, approximately 77 per cent deferred all or part of their student contribution and received a loan, and 21 per cent paid their full student contribution up-front and received a discount.²⁸

1.7 At 30 June 2005, around 1.1 million people had a Higher Education Loan Programme (HELP)²⁹ debt. The average debt was \$9 800.³⁰ The repayment of this debt, which can take in excess of five years³¹, affects a person's disposable income. As such, the accurate charging of tuition costs by higher education providers and recording of student loans by DEST and the Australian Taxation Office (ATO), is of particular interest to students.

1.8 HECS–HELP funding represents a major source of revenue for higher education providers.³² Underpayment of HECS–HELP assistance can have an adverse affect on the ability of higher education providers to deliver higher education.

1.9 The outstanding HECS–HELP debt represents an amount that is recoverable through the taxation system. At 30 June 2006, the fair value³³ as reported by DEST of the loans owed by students for higher education assistance was \$8.2 billion.³⁴ The nominal debt amount was \$12.9 billion at 30 June 2006 and \$11.5 billion at 30 June 2005. The valuation of the loans is currently subject to an actuarial review for 2006–07 financial statements.³⁵ The

²⁷ *ibid.*, p. 27.

²⁸ *ibid.*, p. 75.

²⁹ On 1 June 2006, all existing HECS debts were combined with HECS–HELP, FEE–HELP and OS–HELP debts, to become accumulated HELP debts.

³⁰ Higher Education Report 2005, *op. cit.*, p. 81.

³¹ The repayment term is determined by the size of the debt and the income of the person who has accumulated the debt. For example, a person with an average annual income of \$50 000 and a HELP debt of \$10 000, will take around five years to repay their debt if they make only compulsory repayments.

³² In 2005, HECS–HELP funding was in excess of 11 per cent of the total operating revenue of higher education providers as calculated from the Higher Education Report 2005, *op. cit.*, p. 6.

³³ The Australian equivalent to International Financial Reporting Standards (AIFRS), require the debt to be measured at fair value. Fair value is determined by taking the initial debt and deducting amounts that are not expected to be recovered, ie providing for bad and doubtful debts.

³⁴ Department of Education, Science and Training, Annual Report 2005–06, *op. cit.*, pp. 314–315.

³⁵ *ibid.*

accurate recording of this debt is important to provide assurance that DEST's, and the Government's, financial statements correctly reflect the amount recoverable.

Higher education changes

1.10 Prior to 1 January 2005 there were four schemes administered under the *Higher Education Funding Act 1988*. These schemes offered Commonwealth loans to assist students to pay their higher education tuition costs. The four schemes were the Postgraduate Education Loan Scheme, the Bridging for Overseas-Trained Professionals Loan Scheme, the Open Learning Deferred Payment Scheme and HECS.

1.11 In response to a review of Australia's higher education system completed in 2002, the Australian Government announced changes to Australia's higher education policy, which it enacted through the *Higher Education Support Act 2003*. The changes are set out by the Australian Government in the *Our Universities: Backing Australia's Future (May 2003)* policy.³⁶

1.12 The changes affected the way the Commonwealth provides support to students to access higher education. One of the key changes was the replacement of the four previous loan schemes and the introduction of the HELP. On 1 January 2005, the HELP replaced existing loan schemes and became the primary source of Australian Government assistance to students with higher education costs. All debts incurred by students under the previous scheme became an accumulated HELP debt at 1 June 2006.

1.13 Under the previous scheme the Australian Government provided higher education providers with an operating grant based on a broad educational profile (block funding). Subsequent to the above-mentioned review, block funding was replaced by place based funding. This means that higher education providers receive funding based on the actual number of students, the value of loans which they access, and the discount payable for up-front payments.

Proposed review of the changes

1.14 On 19 December 2006, the Minister for Education, Science and Training announced the commencement of a review of the impact on the higher

³⁶ Available from <<http://www.backingaustraliasfuture.gov.au/reforms.htm>>.

education sector of the *Our Universities: Backing Australia's Future* (May 2003) policies. DEST will conduct the review in 2007 and 2008 and will report to the Minister. The review results 'may be used to inform consideration of further reforms to the relationship between the Government and higher education providers'.³⁷

The HELP

1.15 The HELP is the primary source of Australian Government assistance for students to assist with higher education costs. It consists of three different loan programmes: HECS-HELP, FEE-HELP and OS-HELP as described in Table 1.1.

³⁷ The Hon Julie Bishop MP, Minister for Education, Science and Training, Media Release, *Review of University Reforms*, 19 December 2006.
<<http://www.dest.gov.au/Ministers/Media/Bishop/2006/12/B001191206.asp>>.

Table 1.1**HELP Programmes**

HELP programme	Programme description
HECS-HELP	<ul style="list-style-type: none"> • For eligible students studying in Commonwealth supported places (previously known as HECS places). • Students have the option of taking out a loan for their student contributions, or paying their student contributions up-front and receiving a 20 per cent discount for full up-front payments or partial up-front payments of \$500 or more. • The Australian Government assists by providing the HECS-HELP student contribution loan, or funding the discount received on up-front payments, to the higher education providers.
FEE-HELP	<ul style="list-style-type: none"> • For students who enrol in an eligible unit of study that is not Commonwealth supported. That is, the student pays the tuition fees without a subsidy from the Australian Government. • Students can take out a loan for the full amount of their tuition fees, up to a lifetime limit (\$50 950 in 2006). A loan fee of 20 per cent applies to undergraduate courses of study. The fee is payable on the day the loan is paid to the student. • FEE-HELP is available for students who enrolled in non-Commonwealth supported places for undergraduate or postgraduate studies. It is also available to assist with the costs of bridging study for overseas-trained professionals.
OS-HELP	<ul style="list-style-type: none"> • For eligible Commonwealth supported students to complete part of their course overseas. In 2006, the maximum loan was \$5 095 and a 20 per cent loan fee is applicable. The fee is payable on the day the loan is paid to the student. • Individual students may have two OS-HELP loans.

Source: DEST.

1.16 HELP loans are recorded against a student's tax record and are repayable through the taxation system. HELP debtors are not required to repay their loans until their incomes exceed the minimum amount for compulsory repayment. The minimum amount was \$36 184 in 2005–06.³⁸ The Australian Government indexes the repayment threshold annually in line with the movement in average weekly earnings. HELP debtors may also make

³⁸ Information for Commonwealth supported students 2006, p. 25.
<http://www.goingtouni.gov.au/NR/rdonlyres/9A024399-A4F6-411D-9012-5FA4C3003DD5/0/icss_booklet_2006.pdf>.

voluntary repayments towards their HELP debts and a 10 per cent bonus³⁹ is provided for any voluntary repayments of \$500 or more.⁴⁰

HECS–HELP

1.17 HECS–HELP is the largest of the HELP programmes. In 2005, the Australian Government provided over \$1.9 billion in HECS–HELP assistance to students.⁴¹ This assistance is paid directly to higher education providers on behalf of students.

1.18 HECS–HELP assistance comes as either a loan available to eligible students enrolled in Commonwealth supported places or as a discount for students paying all or part of their student contribution up-front as follows:

- a HECS–HELP loan may cover all or part of the amount that a Commonwealth supported student is required to contribute towards their higher education tuition cost; and
- a HECS–HELP discount of 20 per cent applies if the student pays at least \$500 of the student contribution up-front.

Eligibility for HECS–HELP

1.19 To be eligible for a Commonwealth supported place and HECS–HELP assistance, a student must meet certain eligibility requirements. Specifically, the student must be:

- an Australian citizen; or
- a New Zealand citizen who will reside in Australia for the duration of the unit of study; or
- a holder of a permanent visa who will reside in Australia for the duration of the unit of study; and
- have sufficient remaining Student Learning Entitlement;⁴² and

³⁹ The student's tax record is credited with an additional 10 per cent of the voluntary payment amount (where the amount paid is \$500 or more).

⁴⁰ Information for Commonwealth supported students 2006, p. 32.
<http://www.goingtouni.gov.au/NR/rdonlyres/9A024399-A4F6-411D-9012-5FA4C3003DD5/0/icss_booklet_2006.pdf>.

⁴¹ This amount comprises \$1.6 billion for HECS–HELP and \$289 million for FEE–HELP.

⁴² A student is entitled to seven years of equivalent full-time study in a Commonwealth supported place. The seven year limit does not take into account any study undertaken before 2005, or any units that wholly consist of work experience in industry.

- be enrolled in a Commonwealth supported unit of study before the census date; and
- submit a completed *Request for Commonwealth support and HECS–HELP* form on or before the census date.

Repayment of HECS–HELP loans

1.20 Students who accept a HECS–HELP loan must repay their loans through one of two methods as follows:

- compulsory repayments through the income tax system. In 2006–07, four per cent of a taxpayer’s income⁴³ will be paid towards their HECS–HELP loan, when their income is between \$38 149 and \$42 494. A sliding scale applies whereby up to eight per cent of a taxpayer’s income is to be paid towards their loan if their income is \$70 847 or higher; or
- voluntary repayments made to the Australian Taxation Office (ATO). Repayments of \$500 or more made in 2006–07 attract a bonus and reduce the outstanding debt by an additional 10 per cent of the amount repaid.

Administering HECS–HELP

1.21 The three parties involved in the administration of HECS–HELP are the higher education providers, DEST and the ATO.

Higher Education Providers

1.22 The higher education sector includes 47 institutions that are approved education providers and are allocated Commonwealth supported places. The largest of these higher education providers are universities.

1.23 In the HECS–HELP process, the higher education providers are responsible for:

- receiving student requests for assistance;
- the collection of loan and payment information;
- the receipt of up–front payments; and
- the provision of liability information to DEST.

⁴³ Equal to taxable income plus any net rental losses, total reportable fringe benefit amounts and exempt foreign employment income.

Department of Education, Science and Training

1.24 DEST administers the *Higher Education Support Act 2003*, and funds, in whole or part, a number of significant programmes and projects which are part of the *Backing Australia's Future* changes to support the higher education sector and students undertaking higher education.⁴⁴

1.25 DEST's role in the administration of HECS–HELP includes:

- collecting student data including loan and payment data from higher education providers;
- estimating the amount of HECS–HELP assistance that eligible students are likely to access;
- providing funding to higher education providers to cover the students' contribution to tuition costs;
- providing student HECS loan data to the ATO; and
- monitoring compliance with the *Higher Education Support Act 2003*.

Australian Taxation Office

1.26 The ATO is responsible for managing the HECS–HELP debt accumulated by students in Commonwealth supported units of study.

1.27 The ATO's role includes:

- receipt of student loan data from DEST;
- recording the HECS–HELP debts as part of overall HELP debts against student taxation records;
- the indexation of outstanding loan balances;
- the notification of loan balances to students on an annual basis; and
- collecting and recording compulsory and voluntary repayments.

⁴⁴ DEST 2006–07 Portfolio Budget Statements – Agency Budget Statements–Outcomes–DEST, p. 63. <http://www.dest.gov.au/portfolio_department/dest_information/publications_resources/resources/budget_information/2006/pbs.htm>.

Audit objective

1.28 The objective of the audit was to assess the effectiveness of procedures and processes used by DEST and the ATO to record HECS–HELP student loans. To achieve this, the ANAO assessed the performance of DEST and the ATO against three criteria as follows:

- DEST monitored student contributions set by higher education providers for consistency with Australian Government policy;
- DEST paid HECS–HELP advance payments to higher education providers based on sound estimates, and recorded, reconciled and reported these payments; and
- the ATO has established procedures and processes to correctly record HECS–HELP loans against student tax records.

Audit scope and methodology

1.29 The audit focussed on the HECS–HELP because these loans constitute approximately 83 per cent of all HELP loans. The audit examined whether:

- student contribution amounts that are being set by higher education providers are consistent with Australian Government policy;
- the advance payments⁴⁵ to higher education providers for student loan assistance are based on reasonable estimates;
- the advance payments provided to higher education providers are compared to actual student loan data, and any over or under payments are treated appropriately;
- amounts for student loan assistance are paid to higher education providers and recorded in DEST’s financial accounts; and
- the ATO correctly recorded students’ loan amounts against the students’ tax records.

1.30 The audit excluded the repayment phase of HECS–HELP loans administered by the ATO through the Income Tax Assessment process.

⁴⁵ The Australian Government, through DEST, provides the amount of student contribution that students are borrowing to higher education providers throughout the year in which the students incur the debt. DEST pays the higher education providers based on how much DEST considers students will borrow. This payment is referred to as an ‘advance payment’.

1.31 The ANAO audit methodology included quantitative and qualitative analysis, file and documentation reviews, and interviews with agency officers. The ANAO engaged KPMG to provide assistance with the audit.

Audit cost

1.32 The audit was undertaken in accordance with ANAO Auditing Standards, at a cost of \$270 500.

Structure of this report

1.33 This report is structured into the following four Chapters:

- Chapter 1—Introduction: This Chapter described the background to the audit, and sets out the audit objective and scope, methodology, and structure of the report. It discusses higher education, and recent changes that have lead to the implementation of the HELP;
- Chapter 2—Setting Student Contributions: introduces the legislation for the administration of higher education and reports on how DEST monitors compliance with legislative requirements by higher education providers;
- Chapter 3—HECS—HELP Payments: examines the accuracy of DEST's estimate and payments of HECS—HELP to higher education providers, and DEST's reconciliation, recording and reporting of HECS—HELP; and
- Chapter 4—Australian Taxation Office Recording of Student HECS—HELP Debts: examines the transfer of HECS—HELP data from higher education providers to DEST, and subsequently from DEST to the Australian Taxation Office. It also considers the Australian Taxation Office's recording of HECS—HELP debts to student tax records, notification to students of their HECS—HELP debt and dispute resolution.

2. Setting Student Contributions

This Chapter outlines the legislation for the administration of higher education and reports on how DEST monitors higher education providers' compliance with legislative requirements.

Introduction

2.1 Australian Government policy on higher education student contributions is reflected through the following legislation and guidelines:

- the *Higher Education Support Act 2003*;
- the *Higher Education Support Act 2003 (Transitional Provisions and Consequential Amendments)*;
- the *Higher Education Funding Act 1988*; and
- the *Higher Education Support Act 2003 Guidelines*.⁴⁶

2.2 Key requirements established by the *Higher Education Support Act 2003* and the associated guidelines include:

- higher education providers must determine student contribution amounts for all Commonwealth supported places in accordance with *Higher Education Provider Guidelines*⁴⁷ and they must provide Schedules of these amounts to the Minister by specified dates;
- higher education providers must determine for each unit of study they provide, the Equivalent Full Time Student Load⁴⁸ value for each unit;
- the student contribution amounts must not exceed a certain amount;⁴⁹ and
- higher education providers must not accept up front payments of more than 80 per cent of student contribution amounts for a unit of study.⁵⁰

⁴⁶ As defined in Section 238-10 of the *Higher Education Support Act 2003*.

⁴⁷ Section 19-F *Higher Education Support Act 2003*. The Higher Education Provider Guidelines are one example of advice provided under the Higher Education Support Act Guidelines, s238-10.

⁴⁸ Equivalent Full Time Student Load is a measure of the study load for a year of a student undertaking that course of study on a full-time basis.

⁴⁹ Calculated as the product of the maximum student contribution for a place (as defined in the *Higher Education Support Act 2003*) and the Equivalent Full Time Student Load value of the unit.

⁵⁰ This reflects the 20 per cent discount that must be given on up-front payments of \$500 or more.

Tuition costs

2.3 There are associated costs of tuition for each course of study provided by a higher education provider. These tuition costs are passed on wholly or partly to students, through either full 'tuition fees' for non-Commonwealth supported students⁵¹ or a 'student contribution amount' for Commonwealth supported students.

Commonwealth supported students

2.4 Table 2.1 shows the Commonwealth Contribution Amounts for each Commonwealth supported place for 2006.⁵²

Table 2.1

Commonwealth contribution amount

Funding Cluster	Commonwealth Contribution \$
Law	1 499
Accounting, administration, economics, commerce	2 466
Humanities	4 156
Mathematics, statistics	4 908
Behavioural science, social studies	6 598
Computing, built environment, health	7 349
Foreign languages, visual and performing arts	9 037
Engineering, science, surveying	12 232
Dentistry, medicine, veterinary science	15 332
Agriculture	16 299
Education	7 251
Nursing	9 692

Source: DEST, Administrative information for providers: student support, Funding and Student Support Branch, Higher Education Group, p. 46.
<http://www.dest.gov.au/sectors/higher_education/publications_resources/summaries_brochures/resources_for_student_administrators.htm>.

Student contribution

2.5 The student contribution is the amount that a Commonwealth supported student must contribute to the cost of the unit of study. The student

⁵¹ Non-Commonwealth supported students are referred to as 'fee-paying students'.

⁵² The Commonwealth contribution amounts are for each equivalent full-time student load and are indexed each year.

contribution varies depending on when the student commenced study and the course undertaken.⁵³

2.6 A HECS–HELP loan may cover all or part of the student contribution amount. A discount of 20 per cent applies if the student pays at least \$500 of the student contribution up-front.

2.7 Table 2.2 outlines the range of student contribution bands for one full time student load in 2006.

Table 2.2

Student contribution bands for 2006

Student Contribution Band	Student contribution range (students commencing on or after 1 January 2005) \$	Student contribution range (pre-2005 HECS students who began their course on or after 1 January 1997) \$	Student contribution range (pre-2005 HECS students who began their course before 1 January 1997) \$
Band 3 (law, dentistry, medicine, veterinary science)	0–8 170	0–6 535	0–2 943
Band 2 (accounting, administration, economics, commerce, mathematics, statistics, computing, built environment, health, engineering, science, surveying, agriculture)	0–6 979	0–5 583	0–2 943
Band 1 (humanities, behavioural science, stoical studies, foreign languages, visual and performing arts)	0–4 899	0–3 920	0–2 943
National priorities (education, nursing)	0–3 920	0–3 920	0–2 943

Source: Information for Commonwealth supported students 2006. <<http://www.goingtouni.gov.au>>.

⁵³ The variation in the student contribution amounts coincides with the dates of implementation of new higher education legislation. It affords students the benefits of earlier legislation where they commenced their study under previous legislation.

2.8 As reported in Chapter 1, students can pay their student contribution amount either in full up-front, in part up-front with the remainder to be paid through a HECS-HELP loan, or by deferring the entire amount through a HECS-HELP loan.⁵⁴

Non-Commonwealth supported students

2.9 All higher education providers are required to set tuition fees for non-Commonwealth supported students, for each unit of study offered in a year.

2.10 The legislation requires that the tuition fees must not be less than the student contribution amount charged for a Commonwealth supported student for the same unit of study.⁵⁵ There are no requirements that limit the maximum chargeable fees.

Monitoring legislative compliance

2.11 One element of DEST's responsibility is to check that amounts charged by higher education providers for student contributions comply with legislative requirements. The ANAO reviewed DEST's approach to ensuring higher education providers' compliance with the law.

2.12 DEST has developed sound guidance⁵⁶ to help higher education providers interpret and implement the student support policies enacted under Commonwealth legislation.

2.13 DEST has also implemented a series of manual and system based checking procedures designed to provide assurance that higher education providers comply with legislative requirements on the charging of fees.

2.14 Specifically, DEST monitors the student contribution set by higher education providers primarily through checks of information provided by those providers. These checks provided assurance that each student:

- was entitled to receive HECS-HELP;
- was not charged more than was allowed by the legislation;
- was paying the correct fee; and

⁵⁴ Full up-front payment of the student contribution attracts a 20 per cent discount. A partial up-front payment of \$500 or more attracts a 20 per cent discount on the amount paid up-front.

⁵⁵ Section 19-100, the *Higher Education Support Act 2003*.

⁵⁶ Administrative information for providers: student support, op. cit.

- received the correct discount where he or she paid \$500 or more of their contribution up-front.

2.15 DEST performed other checks to provide assurance that:

- higher education providers published timely schedules of student contributions for each unit of study;⁵⁷ and
- Commonwealth supported students are not charged more than other students.

2.16 However, DEST has not documented these checking procedures. Without documented procedures, there is a risk that procedures will not be implemented correctly or in a consistent manner. This could result in non-compliance by higher education providers with the legislation going undetected. For example, higher education providers may charge student contribution amounts that are not consistent with the legislation.

2.17 The ANAO found that DEST had not completed its manual compliance checks in a timely manner. The higher education providers were required to publish student contributions data for 2007 by 1 October 2006. However, DEST had not completed its checks by mid-December 2006 which was after the application closing date for many higher education providers. As a consequence, potential students would not know, prior to the closing date for applications with many providers, whether the student contribution amounts published by these providers was consistent with the allowable student contribution range (Table 2.2 refers).

2.18 The ANAO also found that the majority of higher education providers had correctly published their student contribution data. However, one higher education provider had not published any 2007 data and in three instances, there were minor discrepancies between the maximum student contribution amount allowed and the amounts published.⁵⁸

2.19 Since students may rely on the published fee information when deciding which higher education provider to choose, it is important that published amounts be consistent with the requirements of the *Higher Education Support Act 2003*.

⁵⁷ By the required dates (i.e. 1 April and 1 October).

⁵⁸ In one case a higher education provider published student contribution amounts for two courses of study which exceeded the legislated maximums by \$243 and \$343.

Amounts charged to students

2.20 Each semester, higher education providers provide a notice⁵⁹ to each student enrolled as a Commonwealth supported student, outlining the details of the courses in which the students have enrolled. These details include:

- the course of study in which the person is enrolled;
- the total amount of up-front payment made;
- the total amount of HECS–HELP discount; and
- the total amount of HECS–HELP loan.

2.21 This process provides students with the opportunity to identify any inaccuracies in their student records and notify the higher education provider. The student has 14 days from the date of receiving the notice to contest the details and advise the higher education provider of any inaccuracies.

2.22 This process reduces the risk that higher education providers may charge students incorrect amounts. In addition, the ANAO found that DEST performed a number of validation checks that contributed to ensuring the accuracy of amounts charged to students.

2.23 However, DEST did not confirm that amounts charged by higher education providers were consistent with published rates or with the schedules of student contribution amounts provided to its Minister. As such, there remained a risk that amounts charged by higher education providers to students were incorrect. For example, even though a higher education provider was charging in accordance with the approved contribution bands, the provider could be charging students a greater amount than the provider included in the schedule to the Minister, and published. If this were occurring, the higher education provider would not be acting in a manner consistent with the legislation and students would be disadvantaged.

Recommendation No.1

2.24 The ANAO recommends that, to reduce the risk of inaccurately charging student contributions, DEST perform sample checks to confirm that amounts charged by higher education providers are consistent with their published rates and with the schedule of student contribution amounts provided to the Minister.

⁵⁹ Referred to as the Commonwealth Assistance Notice.

DEST's response

2.25 Agreed. DEST has commenced work on sampling student contributions charged in 2005. A random sample of records for 2000 units of study will be drawn from the records submitted by higher education providers. The sample will be used to compare amounts in schedules published by the higher education provider with actual amounts reported as charged to students. The results of this exercise will be used to inform the sampling approach to be used for 2006 data, which will be available in final form in the second half of 2007. DEST considers that ongoing sample checking would need to be cost-effective, especially in light of the systems in place for students to check their own charges. A decision on ongoing sample checking will be taken in the light of outcomes of the 2006 check.

2.26 DEST considers that the measures already in place should be sufficient to enable students to determine whether they are charged the amount published by the higher education provider. The requirement for providers to publish information is in itself an important mechanism to enable students to determine what they should pay for their units of study. Students are also given by their provider information about what they have been charged. For those receiving HELP assistance this includes the Commonwealth Assistance Notice and Australian Taxation Office information statement. Both notices are generated as a result of a person incurring a new HELP debt. It is expected that by mid-2008 students will also be able to access information about what they have been charged for a unit of study from the *MyUniAssist* section of the *Going to Uni* website maintained by DEST. DEST has not received any recent complaint about a student being charged a rate other than the published amount applicable to them.

Conclusion

2.27 DEST has established procedures and processes for ensuring the requirements of the *Higher Education Support Act 2003* are met by higher education providers, and that amounts charged to students, are accurate. Specifically, DEST developed sound guidance to assist higher education providers to interpret and implement the requirements of the *Higher Education Support Act 2003*. DEST also implemented a series of controls designed to provide assurance that higher education providers comply with legislative requirements on the charging of fees.

2.28 However, DEST would benefit from documenting its compliance procedures. This would assist staff to monitor higher education providers' compliance with legislative requirements on the publishing⁶⁰ and charging of student contribution amounts and tuition fees.

2.29 DEST performed a number of validation checks on the accuracy of amounts charged to students. However, as part of its monitoring role, DEST could institute sample checks of amounts charged by higher education providers for consistency with published rates or with the schedules of student contribution amounts provided to its Minister. This would provide further assurance that higher education providers were acting in a manner consistent with the legislation.

⁶⁰ Higher education providers are required to publish schedules of student contributions.

3. HECS–HELP Payments

This Chapter examines the accuracy of DEST's estimate and payments of HECS–HELP to higher education providers, and DEST's reconciliation, recording and reporting of HECS–HELP.

Introduction

3.1 A significant change arising from the Australian Government's new higher education policy is in the way DEST provides HECS–HELP funding to higher education providers. Under the previous policy, higher education providers received an operating grant⁶¹ to cover costs including student loans and discount amounts. In contrast, the current policy requires that higher education providers receive funding only for the value of loans and discounts accessed by its students.

3.2 To implement this change, DEST estimates the amount of HECS–HELP assistance that students will request, and provides this amount to higher education providers in fortnightly instalments over the calendar year. This report refers to these payments as advance payments.

3.3 At specified times during the year⁶², higher education providers must provide DEST with details of how many students have actually requested HECS–HELP assistance. DEST uses this data to provide assurance that higher education providers receive the exact funding required to cover the assistance accessed by students. Specifically, DEST compares the advance payments made with the actual amount of loans and discounts accessed, and recovers any over-payments or remits any underpayments.

3.4 2005 was the first year in which DEST made advance payments under the new higher education policy (referred to in paragraph 3.1 above). For that year, DEST estimated that students would access \$1.72 billion in HECS–HELP assistance, and paid this amount to higher education providers over the calendar year.⁶³

⁶¹ Referred to as block funding.

⁶² Referred to as the census dates.

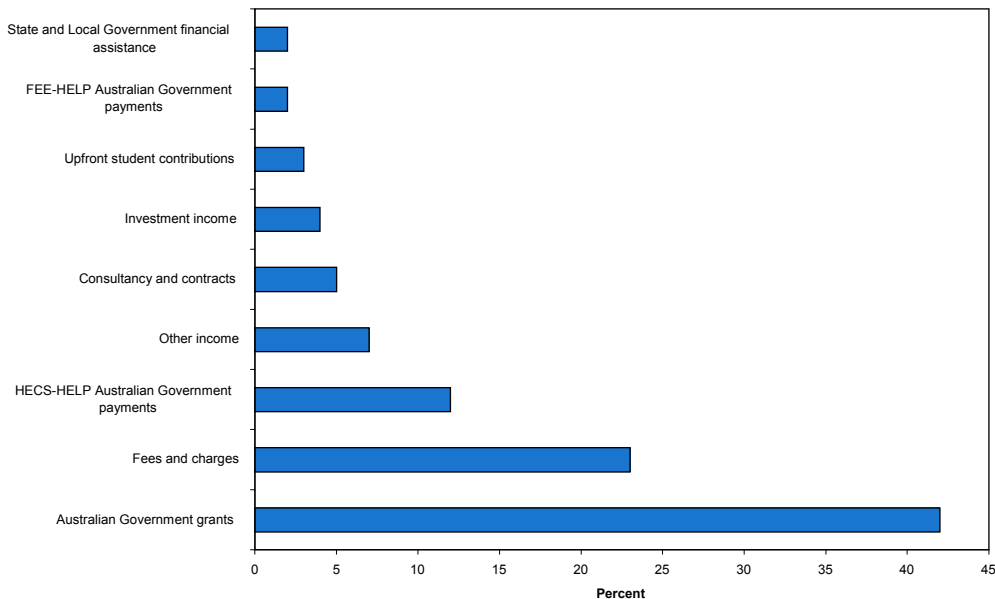
⁶³ Sourced from DEST estimate and payment records.

Estimating HECS–HELP payments to higher education providers

3.5 In 2005, HECS–HELP funding represented almost 12 per cent⁶⁴ of total higher education provider’s revenue. DEST provides advance payments to higher education providers so that higher education providers are not ‘out of pocket’ for the student contributions which are owed by students accessing HECS–HELP assistance. Figure 3.1 shows sources of revenue for higher education providers.

Figure 3.1

Sources of revenue for higher education providers



Source: DEST, *Higher Education Report 2005*, Chapter 1 – Higher Education Sector in Australia in 2005, p. 6.

3.6 In order to provide higher education providers with an appropriate amount of advance funding for HECS–HELP assistance, DEST must estimate the level of HECS–HELP assistance that students will access as accurately as possible. If these estimates are significantly different from what the higher education providers should receive based on actual data, higher education providers would be temporarily under or over funded. This may cause

⁶⁴ Higher Education Report 2005, op. cit., p. 6.

difficulties for higher education providers in meeting operating costs or to later repay funds that have been spent.

3.7 The accuracy of the advance payments is also important to the Commonwealth which must ensure that funds are used as effectively as possible. An inaccurate estimate may result in an insufficient or excess advance payment to a higher education provider. An insufficient payment could mean that a higher education provider has difficulty in delivering educational courses. Conversely, an excess payment would mean that the Australian Government is without funds that could be used for other purposes. Also, the Australian Government would forego any interest that could have been earned on the excess funds.

3.8 DEST developed advance payment estimates for the 2005, 2006 and 2007 calendar years. To determine the amount of advance payments, DEST estimated the number of students in Commonwealth Supported places that would:

- defer payment and access a HECS–HELP loan;
- pay some of their student contribution up-front, receive HECS–HELP discounts and access HECS–HELP loans for the remainder; and
- pay their student contribution up-front in full and receive HECS–HELP discounts.

3.9 Appendix 1 provides examples of how estimates are calculated for each of the above-mentioned points.

Methodology for estimating HECS–HELP assistance⁶⁵

3.10 DEST estimates the amount of HECS–HELP assistance for a higher education provider being dependent on the:

- number of Commonwealth supported places;
- HECS–HELP assistance expected to be accepted by students; and
- student contribution amounts set by the higher education provider.

⁶⁵ DEST calculate the estimated level of HECS–HELP assistance that students will seek to access using the following formula:

Estimated HECS–HELP assistance (advance payments) = number of Commonwealth supported students X HECS–HELP assistance expected to be taken up X Student contribution amount.

3.11 Details of how DEST calculated HECS–HELP assistance for higher education providers in 2005 are provided in Appendix 2.

Accuracy of the HECS–HELP estimate

3.12 The ANAO examined the accuracy of DEST’s HECS–HELP estimate for 2005. The ANAO found the difference between DEST’s estimate of HECS–HELP assistance required by students and the actual take-up by students approximated four per cent. As such, the ANAO considers that DEST’s approach to calculating the estimate for 2005 produced a reasonably accurate result.

3.13 However, DEST has not documented its procedures for the preparation and approval of the HECS–HELP estimate. This increases the risk of inconsistency in the preparation and approval of the HECS–HELP estimate which could affect its accuracy.

HECS–HELP advance payments

3.14 DEST makes advance payments to higher education providers for the estimated amount of HECS–HELP assistance that students will access. Higher education providers receive these payments in instalments over the calendar year.

3.15 DEST’s manual for providers⁶⁶ specifies a payment schedule which details when DEST will pay each higher education provider. The dates specified in the schedule provide for fortnightly payments in the calendar year to which they relate, with minor exceptions in January and April.

3.16 The ANAO found that DEST makes advance payments to higher education providers based on the estimated value of HECS–HELP assistance that each higher education provider will require, and in accordance with the payment schedule that is included in the manual.⁶⁷ DEST implemented processes and controls to provide assurance that these payments are made as required.

3.17 When providing funding to higher education providers, DEST must comply with the *Financial Management and Accountability Act 1997* (FMA Act). The ANAO found that DEST has authorisations, controls and processes so that HECS–HELP advance payments are made in accordance with the FMA Act.

⁶⁶ Administrative information for providers: student support, op. cit.

⁶⁷ *ibid.*

Reconciliation of HECS–HELP payments

3.18 Reconciling the amount of advance payments made to higher education providers for HECS–HELP assistance is of particular importance to higher education providers and DEST. Higher education providers expect to receive the correct HECS–HELP payments for those students with HECS–HELP loans. Whereas DEST expects to only pay higher education providers the HECS–HELP payments they are entitled to receive.

3.19 As DEST makes HECS–HELP payments based on an estimate, it reconciles these payments with data from higher education providers on the actual amount of HECS–HELP loans requested by students to determine whether the amounts paid by DEST are correct.⁶⁸ Any differences require either a recovery of over payments from the higher education providers, or the payment of additional amounts to the higher education providers.

3.20 The ANAO found that although DEST has procedures for the reconciliation of HECS–HELP assistance, these procedures are not documented.⁶⁹ Without documented procedures, there is a risk that procedures will not be implemented correctly or in a consistent manner. This could result in higher education providers being incorrectly funded and the Commonwealth being out of pocket.

Reconciliation of 2005 HECS–HELP payments

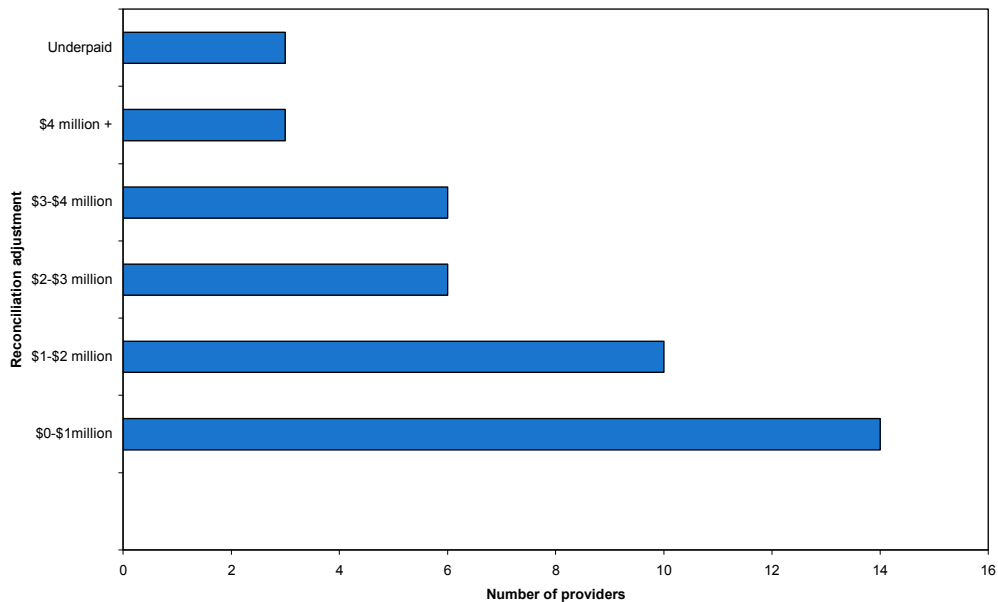
3.21 DEST completed its first reconciliation process in December 2006 for the 2005 calendar year. During the 2005 calendar year, DEST gave higher education providers \$1.72 billion for students' HECS–HELP assistance (based on the amount estimated by DEST). However, the actual amount of HECS–HELP assistance accessed was \$1.65 billion. Consequently, DEST overpaid higher education providers by approximately \$70 million (four per cent). The reconciliation covered 42 higher education providers. Of these providers, DEST had overpaid 38 and underpaid three. Figure 3.2 provides a summary of the reconciliation results.

⁶⁸ Under the *Higher Education Support Act 2003*, each higher education provider is required to provide data to DEST on the actual amount of HECS–HELP loans requested by students. DEST's Administrative Information for Providers manual prescribes key reporting and publishing dates, and dates by which the submission of data is required.

⁶⁹ The *Higher Education Support Act 2003*, requires a place based amount of funding to be paid to higher education providers. DEST's reconciliation process is designed to provide assurance that this happens. The proper control and management of public money is also a requirement of the *Financial Management and Accountability Act 1997*.

Figure 3.2

Reconciliation of HECS–HELP payments to higher education providers in 2005



Source: DEST.

Notes: 1. Underpaid amounts were for \$388, \$192 657 and \$662 229.

3.22 DEST received the data required to perform the reconciliation by 31 March 2006.⁷⁰ After performing initial validations, the data was given to the ATO to revise student’s tax records, within two months of DEST having received the data. However, further data validation was required before the reconciliation could be completed. These validation processes are discussed in Chapter 4 and Appendix 3 of this report.

3.23 Although DEST had received the data required to perform the reconciliation by 31 March 2006, internal validation processes delayed completion until December 2006. This was eight months after the scheduled date for completion specified in DEST’s manual for providers.⁷¹ This resulted in delayed recovery of HECS–HELP assistance overpayments made to higher education providers and an opportunity cost to the Commonwealth.

⁷⁰ DEST completed its first reconciliation process in December 2006 for the 2005 calendar year.

⁷¹ Administrative information for providers: student support, op. cit.

Recommendation No.2

3.24 The ANAO recommends that DEST:

- documents procedures to assist in consistently and correctly:
 - monitoring higher education providers' compliance with legislative requirements on the accurate publishing of HECS–HELP student contribution amounts and tuition fees; and
 - estimating, paying and reconciling HECS–HELP payments to higher education providers; and
- establishes procedures and processes that will allow completion of the HECS–HELP reconciliations in a timely manner.

DEST's response

3.25 Agreed. DEST has commenced work on developing comprehensive documentation of procedures for compliance and financial processes. In general, the new documentation will integrate existing materials to provide an overview of a process or procedure. Documentation of procedures for monitoring compliance with publication requirements has been completed and work has commenced on documenting more fully procedures for estimating the HECS–HELP advance and reconciling HECS–HELP payments. It is expected that comprehensive documentation for HELP financial processes will be completed by August 2007.

3.26 DEST notes that the first reconciliation of HECS–HELP advance payments for 2005 was under a new data collection system. There were delays associated with outputs from the new system that should not recur. DEST is committed to more timely reconciliations and has completed a review of the 2006 HECS–HELP advance using final first half year and preliminary full year data and will adjust providers' payments based on that review. These adjustments should ensure that the reconciliation for the full year 2006 advance will result in only minor adjustments. DEST is also confident that data used to inform a final adjustment to the HECS–HELP advance will now be available in a more timely manner. It is anticipated that final full year data for the reconciliation of the 2006 HECS–HELP advance will be available in July 2007, compared with data for the 2005 HECS–HELP advance which did not become available fully until December 2006.

Recording and reporting HECS–HELP payments

3.27 The outstanding HECS–HELP debt represents an amount that is recoverable through the taxation system. At 30 June 2006, the fair value⁷² as reported by DEST of the loans owed by students for higher education assistance was \$8.2 billion.⁷³ The nominal debt amount was \$12.9 billion at 30 June 2006 and \$11.5 billion at 30 June 2005. The valuation of the loans is currently subject to an actuarial review for 2006–07 financial statements.⁷⁴ The accurate recording of this debt is important to provide assurance that DEST’s, and the Government’s, financial statements correctly reflect the amount recoverable.

3.28 DEST records four main transactions to recognise the payment of HECS–HELP to higher education providers. Specifically:

- the liability to reflect the total value of advance payments that are payable to higher education providers based on the estimated amount of HECS–HELP assistance that students will access;
- the reduction of that liability when advance payments are made;
- the recognition of the amount receivable by the Australian Government from students, for HECS–HELP loans that have been accessed; and
- the amount that higher education providers are required to repay or the additional amounts due as a result of any difference between the advance payments and the actual HECS–HELP accessed by students.

3.29 The ANAO examined whether DEST had recorded the above-mentioned transactions in its accounts in a timely manner. The ANAO found that only the first two transactions mentioned above were recorded in a timely manner. The net reconciliation variance of approximately \$70 million represents an amount that was receivable by the Department. Although not material from a financial statement perspective, the receivable would have been better accounted for in the Department’s financial statements at 30 June 2006. DEST was not in a position to do this because of the delay in completing its reconciliation. The delay meant that all recoveries and additional payments were made in one instalment (the final instalment for the calendar year), in

⁷² The Australian equivalent to International Financial Reporting Standards (AIFRS), require the debt to be measured at fair value. Fair value is determined by taking the initial debt and deducting amounts that are not expected to be recovered, ie providing for bad and doubtful debts.

⁷³ Department of Education, Science and Training, Annual Report 2005–06, op. cit., pp. 314–315.

⁷⁴ *ibid.*

mid December 2006. DEST accounted for these variances at the time of these adjustments in December 2006, rather than in the earlier financial year, 2005–06.

Conclusion

3.30 DEST has procedures for the estimation, payment and reconciliation of HECS–HELP payments. DEST’s approach to calculating the estimate for 2005 produced a reasonably accurate result. DEST estimated an amount of \$1.72 billion for HECS–HELP payments to higher education providers whereas the actual amount of HECS–HELP assistance accessed was \$1.65 billion. This was a difference of approximately \$70 million (four per cent).

3.31 However, DEST has not documented its procedures for the preparation and approval of the HECS–HELP estimate. This increases the risk of inconsistency in the preparation and approval of the HECS–HELP estimate which could affect its accuracy.

3.32 DEST made advance payments to higher education providers based on the estimated value of HECS–HELP assistance that each higher education provider will require, and in accordance with the payment schedule that was specified in the manual for providers.⁷⁵ DEST has implemented processes and controls to provide assurance that these payments are made as required.

3.33 DEST received the data required to perform a reconciliation of HECS–HELP by 31 March 2006.⁷⁶ However, internal validation processes delayed completion of the reconciliation until December 2006, eight months after the scheduled date.⁷⁷ This resulted in delayed recovery of HECS–HELP assistance overpayments made to higher education providers and an opportunity cost to the Commonwealth.

3.34 The net reconciliation variance of approximately \$70 million represents an amount that was receivable by the Department. Although not material from a financial statement perspective, the receivable would have been better accounted for in the Department’s financial statements at 30 June 2006. DEST was not in a position to do this because of the delay in completing its reconciliation. The delay meant that all recoveries and additional payments were made in one instalment (the final instalment for the calendar year), in

⁷⁵ Administrative information for providers: student support, op. cit.

⁷⁶ DEST completed its first reconciliation process in December 2006 for the 2005 calendar year.

⁷⁷ Administrative information for providers: student support, op. cit., p. 101.

mid December 2006. DEST accounted for these variances at the time of these adjustments in December 2006, rather than in the earlier financial year, 2005–06.

3.35 DEST's procedures for the reconciliation of HECS–HELP assistance were not documented to support the correct and consistent implementation of these procedures. This could result in higher education providers being incorrectly funded.

4. Australian Taxation Office Recording of Student HECS–HELP Debts

This Chapter examines the transfer of HECS–HELP data from higher education providers to DEST, and subsequently from DEST to the Australian Taxation Office. It also considers the Australian Taxation Office’s recording of HECS–HELP debts to student tax records, notification to students of their HECS–HELP debt and dispute resolution.

Introduction

4.1 The process of recording HECS–HELP loans against student tax records involves three parties:

- the higher education providers receive student information and applications for HECS–HELP assistance and transmit this information to DEST;
- DEST performs checks on the accuracy of the student and HECS–HELP data and transmits the data to the Australian Taxation Office (ATO); and
- the ATO uses the data to revise students’ taxation records.

Higher education providers

4.2 When a student enrolls with a higher education provider, the student must specify whether he or she requires HECS–HELP assistance to help pay for their contribution to tuition costs.

4.3 The higher education provider is required to provide details of Commonwealth supported students enrolled in each course of study, to DEST, by specific times during the year. These times are the census dates. Each semester the census date is the date by which students must:

- finalise enrolments with the higher education provider;
- apply for HECS–HELP assistance;
- pay all or part of their student contributions up-front (optional); and
- provide their Tax File Number (TFN), if they are seeking a HECS–HELP loan.

4.4 When the census date has passed, if a student remains enrolled in a Commonwealth supported unit of study, he or she will:

- consume part of their student learning entitlement;
- be liable to pay their student contribution; and
- incur a HECS–HELP debt, if they have requested HECS–HELP assistance for their studies.

4.5 Higher education providers must provide student enrolment information captured on the census date⁷⁸, to DEST. This enrolment information includes the actual amount of HECS–HELP assistance provided to the student, and it is the source for ATO recording of student HECS–HELP debts.

Transfer of HECS–HELP data from higher education providers to DEST

4.6 The ANAO examined whether DEST has implemented controls to provide assurance that the integrity of HECS–HELP data transferred from the higher education providers to DEST.

4.7 The ANAO found that DEST has implemented controls—including using specialised software to check the validity of the data and encryption⁷⁹—to protect files from unauthorised access during transmission.⁸⁰ The validation checks are designed to provide assurance that student enrolment data meets key legislative, DEST and ATO requirements and that any errors in the data are corrected before the information was submitted to DEST.⁸¹ DEST also provided each higher education provider with a report that summarised the

⁷⁸ DEST required higher education providers to have submitted data collected on the census dates by 31 August for census dates in the first half of the 2005 calendar year and 31 March 2006 for census dates in the second half of the 2005 calendar year.

⁷⁹ Encryption prevents a file from being opened by unauthorised persons. There are two levels of encryption applied, one that encrypts the student's tax file number and allows only the ATO access; and another that protects all other information sent to DEST.

⁸⁰ DEST provided higher education providers with software called DESTPAC to assist in the preparation, validation and encryption of data files submitted to DEST. Higher education providers are required to perform validation checks in DESTPAC prior to providing the information to DEST. The validation checks provide assurance that student enrolment data meets key legislative, DEST and ATO requirements.

⁸¹ Higher education providers must provide DEST with a copy of the validation report to demonstrate that the validation process on the information they provide, identified no errors.

information they had received. Higher education providers were asked to provide confirmation that the report matched the data they had submitted.⁸²

4.8 The ANAO found that it is possible for a higher education provider to submit an unencrypted enrolment file to DEST if the higher education provider does not follow the correct submission processes. DEST advised that it will enhance its controls in 2008, by using new software which will prevent higher education providers from submitting unencrypted files to DEST.

Completeness of HECS–HELP data

4.9 It is important that DEST has processes to provide assurance on the complete receipt of HECS–HELP data transmitted from higher education providers to DEST.

4.10 To assist in ensuring that DEST received all HECS–HELP data from higher education providers, DEST:

- reminded each higher education provider of the deadlines for submitting student enrolment information;
- offered assistance with any issues that the higher education providers may have encountered with the information submission process; and
- used methods to monitor the receipt of HECS–HELP data from higher education providers, and followed-up with higher education providers if they did not submit data by the required date.

4.11 These processes helped DEST to provide assurance that they received student enrolment and HECS–HELP data from all higher education providers on a timely basis.

Verifying the accuracy of data

4.12 It is necessary for DEST to verify the accuracy of HECS–HELP data received from higher education providers prior to DEST transmitting the data to the ATO. This assists the ATO to correctly record student HECS–HELP loans.

⁸² For the 2005 year, the confirmation was by way of negative assurance, that is, if the higher education provider did not report any discrepancies DEST deemed the data to be correct.

4.13 For the 2005 calendar year, DEST had processes in place to test the accuracy of the information received from higher education providers. These were:

- data checks performed by higher education providers;
- data checks performed by DEST; and
- statistical validation performed by DEST.

4.14 The above processes included system based validation checks to identify potential data errors, and statistical checks which would highlight incompleteness of data. Each of these processes is discussed in detail in Appendix 3. These validation processes assisted DEST to verify the accuracy of the data received from higher education providers.

Transfer of HECS–HELP data from DEST to the ATO

4.15 The complete, timely and accurate transfer of student HECS–HELP data from DEST to the ATO is critical to the proper recording of student HECS–HELP debts by the ATO for income tax assessment purposes. Accordingly, the ANAO examined the completeness and accuracy of this data transfer.

Completeness and timeliness of data transfer

4.16 The ANAO found that DEST monitored the transfer of HECS–HELP data to the ATO to provide assurance that the ATO received all the data transmitted⁸³ once only.⁸⁴ Also, DEST and the ATO communicated regularly to check that the ATO received all data in a timely manner.⁸⁵

⁸³ DEST notified the ATO of the numbers of higher education provider files and the identity of the higher education providers for each submission run. The ATO maintains a listing of the expected files and checks that all higher education providers have submitted their data by the required date. When the ATO receive a file, the listing is marked to indicate that the ATO has received the data.

⁸⁴ When the ATO's system obtains a file from DEST, the system generates an email to notify DEST and the ATO that this process has occurred. When the files have been received by the ATO, the system automatically removes the files from the DEST server to prevent duplicate delivery.

⁸⁵ The process of transferring the files from DEST to the ATO occurs by the ATO accessing the files from DEST, using a secure server. The ATO's system automatically retrieves the files from DEST through periodic checks during the submission period.

Accuracy of data transfer

4.17 The transmission of HECS–HELP data from DEST to the ATO occurred over a secure Australian Government link, which reduced the risk that data would be intercepted on its way to the ATO.

4.18 The ATO performed validation checks to provide assurance that the files received matched those sent by DEST. This included checking the completeness of data in DEST’s reports for each higher education provider.⁸⁶ The encryption of the higher education provider files helped to maintain the confidentiality of students’ TFNs.

ATO recording of HECS–HELP debts to students’ tax records

4.19 The accurate recording of student HECS–HELP debts is important so that students do not pay any more or less than the amounts for which they are liable, and also so the Commonwealth receives the correct repayment.

4.20 The recording of the HECS–HELP debts to students’ tax records involves, first, identifying the taxpayer to which the HECS–HELP debt belongs, and second, indexing the HECS–HELP loan for the cost of living (indexation of loans).⁸⁷

Indexing HECS–HELP debts

4.21 The indexation of HECS–HELP student debts occurs on 1 June each year. The process involves applying an indexation rate to the student loan balances. The ATO determined the indexation rate using data from the Australian Bureau of Statistics (ABS) and the formula specified in the *Higher Education Support Act 2003*.⁸⁸

4.22 The ANAO examined whether the ATO has processes to provide assurance that HECS–HELP debt indexation is applied correctly. The ANAO found that this has been done.

⁸⁶ These reports showed, the total number of data records, the breakdown of the HELP amount and the number of course enrolments.

⁸⁷ HECS–HELP loans are indexed on 1 June every year.

⁸⁸ The ATO’s Legal Adviser provides technical clearance and the Commissioner of Taxation approves the indexation rate before it is applied. The ATO publishes the rate of indexation in the Australian Government Gazette.

4.23 Prior to the ATO applying the indexation amount to student loan balances, the ATO performed a series of test runs to provide assurance that the indexation process would occur accurately.⁸⁹ The final indexation process occurred after the ATO was satisfied that the process would work.

4.24 On 1 June, after indexation occurred, the ATO performed further testing to provide assurance that the indexation was successful. This included:

- manually checking a sample of accounts to provide assurance that the indexation was applied correctly; and
- system queries to check that indexation was applied only to those records that required indexation.

Identifying the taxpayer

4.25 The ANAO found that the ATO has implemented a process to provide assurance that HECS–HELP debt details are correctly recorded against student tax file records. Specifically, the ATO used a data matching process to match student loans with student tax records based on the student’s tax-file number and other personal details.⁹⁰

ATO notification to students of their HECS–HELP debt

4.26 It is important that students are made aware of the amount of HECS–HELP debt owed to assist them in managing this debt. The ANAO found the ATO informs students of this.

4.27 The ATO produces HELP information statements for each person with a HELP debt, after the indexation process. The notice details the balance of each person’s HECS–HELP debt and any movements that have occurred during the year, such as new debts, repayments and indexation.

4.28 The information statement is only issued to students where:

- a new debt is being added to the HECS–HELP balance;
- a notice of assessment is being issued;
- a compulsory repayment is being raised; or

⁸⁹ The test runs simulate the indexation process using sample data in a test environment.

⁹⁰ The ATO investigates any unmatched data. The investigation may involve the ATO contacting the higher education provider to verify or obtain further details of the student to provide assurance that correct information is used to amend tax records.

- a voluntary repayment has been made by the student or someone on the student's behalf.⁹¹

ATO HECS–HELP debt dispute resolution

4.29 The ATO needs to provide a mechanism to resolve any disputes that people may have relating to the accuracy of the amount of their HECS–HELP debt. The ANAO found the ATO has done this.

4.30 Where a person considers their HELP statement is incorrect, they are able to contact the ATO to have the matter investigated. The ATO received over 44 000 enquiries in 2005–06, of which only 37 were categorised as a complaint (challenge or dispute). Some of the 37 complaints related to customer service issues rather than higher education loan balances. Other disputes were over the validity of the debt given up-front payments made or withdrawal from the course.

4.31 The ANAO found that upon receipt of a complaint or dispute, the ATO investigates the details to determine whether an error exists. Where necessary, the ATO refers the dispute to DEST or the appropriate higher education provider for assistance. The ATO notifies the student of their amended loan liability where the investigation identifies an error in the debt. The investigation also considers whether the error may be the result of a systemic problem. The potential for other like errors is also considered.

4.32 If the student is dissatisfied with the ATO's response, he or she is able to request a further review or make a complaint to the Ombudsman.

Conclusion

4.33 Higher education providers must transmit to DEST student enrolment information captured on the census date.⁹² This enrolment information includes the actual amount of HECS–HELP assistance provided to the student, and is the source for the ATO recording of student HECS–HELP debts.

4.34 DEST has implemented controls to provide assurance on the integrity, completeness and accuracy of HECS–HELP data transferred from the higher education providers to DEST. However, these controls could be enhanced to


⁹¹ The ATO's print provider mails the notices to students at their last recorded address and the ATO reconciles to number of notices with the print provider records to check that all statements were dispatched.

⁹² 31 August for census dates in the first half of the year and 31 March for census dates in the second half of the previous year.

manage the risk that a higher education provider will not follow the correct submission processes by submitting an unencrypted enrolment file to DEST. DEST advised that it will enhance its controls in 2008, by using new software which will prevent higher education providers from submitting unencrypted files to DEST. DEST has also established processes to provide assurance on the complete and accurate transmission of this data to the ATO to record student HECS-HELP loans.

4.35 The ATO has established processes to provide assurance that HECS-HELP debt indexation is applied correctly and debts are recorded against the correct student tax file records. The ATO produces and distributes HELP information statements for each person with a HELP debt, after the indexation process. The notice details the balance of each person's HECS-HELP debt and any movements that have occurred during the year, such as new debts, repayments and indexation. The ATO has established a mechanism to resolve disputes about the accuracy and the amount of HECS-HELP student debt.

4.36 The ATO received 44 000 enquiries about HECS-HELP in 2005-06, of which only 37 were categorised as complaints. Some of the 37 complaints were customer service issues rather than higher education loan enquiries.



Ian McPhee
Auditor-General

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26 June 2007

Appendices

Appendix 1: Calculation of HECS–HELP payment to higher education providers

No up-front payment made by student

1. If an eligible student does not contribute to their tuition costs up-front the Commonwealth is required to:
 - lend the amount of HECS–HELP assistance to the student; and
 - pay the amount lent to the student to the higher education provider to discharge the student contribution liability.

Example:

An eligible HECS–HELP student has a total student contribution amount for four units of study of \$3 000 and makes no up-front payment. The student's HECS–HELP debt will therefore be \$3 000. The Australian Government will pay \$3 000 to the student's higher education provider on the student's behalf.

Partial up-front payment made by student

2. If a student is entitled to HECS–HELP assistance and pays \$500 or more of the student contribution amount to the higher education provider up-front, the Commonwealth is required to:
 - lend the student the difference between the student contribution and the amount paid;⁹³ and
 - pay the higher education provider the amount lent to the student and the amount of the discount applied to the up-front payment.

⁹³ Where the amount paid is the amount of payment and the upfront discount applied to that payment.

An Example:

An eligible HECS-HELP student has a total student contribution amount for four units of study of \$3 000 and makes a partial up-front payment of \$500. The partial up-front payment of \$500, equates to a repayment, including the discount, of $\$500 \times 1.25 = \625 (i.e. a repayment of \$625 attracts a 20 per cent discount of \$125, which means payment of \$500). The student's HECS-HELP debt will therefore be $\$3\,000 - \$625 = \$2\,375$. The Australian Government will pay the loan amount (\$2 375), plus the amount of the discount (\$625 - \$500 = \$125) to the student's higher education provider on the student's behalf.

Full up-front payment made by student

3. If a student is entitled to HECS-HELP assistance and the student pays the whole amount to the higher education provider up-front, the Commonwealth is required to pay the higher education provider the HECS-HELP discount amount to discharge the remainder of the student's liability.

An Example:

A Commonwealth supported student eligible for HECS-HELP has a total student contribution for four units of study of \$3 000 and wishes to make a full up-front payment of the student contribution to the higher education provider. The student must pay \$2 400 (\$3 000 less 20 per cent discount) to their higher education provider by a given date. The Australian Government will pay the remaining \$600 HECS-HELP discount to the student's higher education provider.

Appendix 2: Calculation of HECS–HELP assistance provided to higher education providers

Formula

1. DEST calculated the estimated level of HECS–HELP assistance that students will seek to access using the following formula: Estimated HECS–HELP assistance (advance payments) = number of Commonwealth supported students X HECS–HELP assistance expected to be taken up X Student contribution amount.

Number of Commonwealth supported places

2. The number of Commonwealth supported places used in the estimate is based on the number agreed in the annual funding agreement between DEST and the higher education provider. Each funding agreement identifies the agreed number of Commonwealth supported places by funding cluster.⁹⁴
3. During the transition to HECS–HELP, the legislation allowed higher education providers to over-enrol students in Commonwealth supported places by up to five per cent over the numbers specified in their funding agreement, with access to HECS–HELP funding and without penalty.
4. Table A2.1 shows the factors and assumptions that are relevant to estimating the number of Commonwealth supported places.

⁹⁴ The categories into which individual units of study are classified and which determine the funding that the Commonwealth contributes.

Table A2.1**Estimating Commonwealth supported places**

Factor	Assumption
Number of Commonwealth supported places (at the HEP).	As per the number specified in the annual funding agreement.
Number of students in each funding cluster (at each HEP).	As per the numbers specified in the annual funding agreement.
Number of transitional over enrolments (at each HEP). Note: Transitional legislation allowed higher education providers to over-enrol Commonwealth supported students by up to 5 per cent in 2005, without penalty.	higher education providers will over-enrol by transitional over enrolment agreed for the period 2005-2008.
Over-enrolments above the funding agreements but below the 5% tolerance allowed in <i>Higher Education Support Act 2003</i> .	Provider will continue to be over-enrolled where they have done so previously.
Number of enabling students (at each HEP). Note: Students undertaking enabling courses are exempt from student contributions for those courses.	As per the amount specified in the annual funding agreement.

Source: DEST.

HECS–HELP assistance expected to be accepted

- The assumptions that are applied by DEST to estimate the expected HECS–HELP to be accepted by students is based on historical data from each higher education provider. DEST determined the acceptance ratios at the whole of higher education provider level (for example the acceptance ratio at one higher education provider may be 40 per cent i.e. 40 per cent of students at that higher education provider will accept a HECS debt). The higher education provider acceptance ratio was applied to the range of student contribution amounts that applied to the higher education provider. Table A2.2 shows the factors and assumptions that are relevant to estimating the level of HECS–HELP expected to be taken-up by students.

Table A2.2**Estimating HECS–HELP expected to be accepted**

Factor	Assumption
Amount of Commonwealth supported load expected to take up HECS–HELP loans (at each HEP).	Assumed to be in the same ratio as the actual HECS–HELP loan take up in the prior year, at the institution (HEP) level. (100 per cent of this amount is paid to the HEP).
Amount of Commonwealth supported load expected to pay up-front and receive a 20 per cent discount (at each HEP).	Assumed to be in same ratio from the prior year at the institution (HEP) level. (20 per cent of the student contribution amount (equal to 25 per cent of the amount paid by the student) will be paid to the HEP).
Amount of Commonwealth supported load expected to pay full up-front without discount(at each HEP).	Assumed to be in the same ratio from the prior year at the institution (HEP) level. The Commonwealth makes no payments to providers for HECS–HELP assistance for this load.

Source: DEST.

Student contribution amount

6. The student contribution amounts used in the estimates are the student contribution amounts set by each higher education provider. The estimated institution level acceptance ratio is applied to the student contribution amount for each funding cluster.
7. Appendix 2 outlines the specific factors and assumptions that were used to estimate the 2005 advance payment in relation to the number of Commonwealth supported places, the assistance to be accepted and the student contribution amounts.
8. Table A2.3 shows the factors and assumptions that were applied to estimate the student contribution amounts for 2005.

Table A2.3**Estimating student contribution amounts**

Factor	Assumption
The amount of load allocated to each funding cluster (at each HEP).	The student contribution amount equals the amount advised by the HEP to the Minister for the cluster each student is enrolled in, but will not exceed the legislated maximum.
<p>The amount of load allocated to the three categories (at each HEP), i.e.:</p> <ul style="list-style-type: none">• Commenced prior to 1 January 1997;• Commenced between 1 January 1997 and 31 December 2004; and• Commenced on or after 1 January 2005.	<p>Students will be charged the student contribution rate set by the institution applicable based on the year they commenced study. (up to the legislated maximum).</p> <p>In 2005, it was assumed that 70 per cent of students commenced pre 2005 (69.3 per cent between 1997-2005, 0.7 per cent pre 1997), and 30 per cent commenced 2005 onwards.</p>

Source: Discussions with DEST.

Appendix 3: DEST processes for verifying the accuracy of HECS–HELP data from higher education providers

1. DEST's processes for testing the accuracy of the information received from higher education providers, included:
 - Data checks performed by higher education providers using DEST's DESTPAC⁹⁵ software;
 - Data checks performed by DEST using DESTPAC and the Higher Education Information Management System (HEIMS) software; and
 - Statistical validation performed by DEST.

DESTPAC validation

2. The validations performed by the higher education providers and DEST using DESTPAC software provided assurance that the data provided meets certain legislative, DEST and ATO requirements before it was loaded into DEST's Higher Education Information Management System (HEIMS).
3. DEST is currently planning to replace DESTPAC with a new system, called HEPCAT, in 2008. DEST advised the ANAO that improvements in the HEPCAT system will eliminate the need for duplicate validations by both the higher education providers and DEST, thus making the process more efficient.

HEIMS Validation

4. After DEST performed the DESTPAC validation checks they performed a series of checks using HEIMS. The HEIMS validations check a broader range of data, including data across multiple years and institutions.⁹⁶
5. DEST ensured that any errors or inconsistencies identified through the HEIMS validation check were resolved by contacting the higher education provider for investigation and/or review. In some cases, the

⁹⁵ DESTPAC is software provided to HEPs to use in preparing, validating and encrypting data files to be submitted to DEST. DEST use the software to perform validation checks.

⁹⁶ These checks provide assurance that students do not exceed their loads and student learning entitlements.

resolutions required modification of higher education provider data already provided, or the submission of revised data files. The ANAO found that DEST has established appropriate controls around updating files to correct errors that are identified by the validation checks.

Statistical validation

6. Once all system based validation checks are completed, DEST examined the data for any statistical anomalies. These statistical validations included checks such as an analysis of the indigenous and male versus female statistics compared across years. This process would have helped to identify incompleteness in the data provided by higher education providers.
7. The ANAO found that the statistical validation process on the 2005 data occurred late in 2006 and this contributed to the delays in performing the reconciliation between advance payments and actual HECS-HELP assistance taken-up. DEST advised the ANAO that changes to the data structure in HEIMS caused inefficiencies and contributed to delays in completing the statistical validation process.
8. DEST advised the ANAO that they are planning to modify the way that they perform statistical validations, by conducting the validations on a higher education provider by higher education provider basis rather than waiting for all higher education providers to submit data.
9. When the statistical validation process was complete, the data was provided to each higher education provider for confirmation that it is accurate.
10. The ANAO found that these validation processes assisted DEST to verify the accuracy of data received from higher education providers. The processes included system based validation checks to identify potential data errors, and statistical checks which would highlight incompleteness of data.

Index

C

Commonwealth Grant Scheme, 8, 25
Commonwealth supported students,
29-30, 36-39, 53, 65-66
Compliance procedures, 18, 42

D

Debt indexation, 20-21, 32, 57-58, 60
Department of Foreign Affairs and
Trade, 75

H

HECS-HELP – accuracy of data, 6,
17-18, 20, 34, 40, 42-43, 45-46, 51,
53, 55-57, 59-60, 69-70
HECS-HELP – administration, 31, 77
HECS-HELP - advance payments, 5,
16, 19-20, 33, 43-47, 49-51, 65, 70
HECS-HELP – completeness of data,
17, 20, 55-57, 59
HECS-HELP – data transfer, 17, 20,
54, 56-57, 59

HECS-HELP – eligibility, 13-14,
25-26, 29-30, 32, 63-64
HECS-HELP – estimating assistance,
45
HECS-HELP – reconciliation of
payments, 5-6, 17-19, 21, 34, 43,
47-52, 70
HECS-HELP – repayment, 14-16, 26,
29, 31, 33, 57-59, 64
HELP Programmes, 6-7, 13, 21,
25-26, 28-30, 32, 72, 75, 77
Higher education changes, 27
Higher education providers, 18, 19, 42,
46-47, 53-55, 59

S

Student contributions, 6, 14-18, 20, 22,
26, 29-30, 33, 35-42, 44-45, 49,
53-54, 63-68

T

Tuition costs, 10, 14-15, 26-27, 32, 36,
53, 63

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Centrelink

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