

# Governance, a special skill

Public management letter for Secondary  
Vocational Education and Training



April 2013

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NBA

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van Accountants



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To the directors and supervisors of VET colleges and other stakeholders

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Dear directors and supervisors,

Secondary Vocational Education and Training (hereinafter referred to as VET) has been under close public scrutiny in recent years. Incidents have fuelled the discussion about the social function of schools in the region, quality of education and governance. The position of accountants also features in this.

VET is one of the four educational sectors in the Netherlands. VET receives 4 billion euros in government subsidies every year. With 70 colleges, 1,300 courses, 55,000 employees and 523,000 students, VET forms an important sector in Dutch society. Traditionally there is a strong link to the business community, especially with small and medium-sized enterprises (SME's). In the last decade particularly there has been a great deal of change to laws and regulations, continued cuts, many educational and organisational changes and an uncertain future.

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In this public management letter (PML) 'Governance, a special skill', we present five signals and recommendations. It is primarily intended for directors and supervisory bodies of VET colleges, sector organisations, national government and accountants in the sector:

**NBA**

1. Leap forward required in governance quality
2. Need for financial professionalism underestimated
3. Property constitutes a financial risk
4. Private activities: seizing opportunities, recognising risks
5. Accountants are mostly involved with the past

A turbulent sector requires professional directors and supervisory bodies, with extra attention paid to the financial function. The management of property and the exploitation of private activities must take place with caution. The accountant also plays a role in this. Therefore the last message is intended for our own members: pay more attention to your signalling role. In this sector particularly accountants can fulfil their role as trustee of public interest. The need for this is unmistakable to the public and politicians.

This PML is based on the knowledge of our members who work in the sector. Various stakeholders including the Association of VET colleges (MBO raad), Association of Supervisors in Educational Institutions (VTOI), the Ministry of Education, Culture and Science (OCW) and the Inspectorate of Education (IvO) have provided us with their comments. We are grateful to all of them for their contributions.

Yours faithfully,



Drs. Huub Wieleman RA  
Chairman NBA



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# Governance, a special skill

## Signals:

1. Leap forward required in governance quality
2. Need for financial professionalism underestimated
3. Property constitutes a financial risk
4. Private activities: seizing opportunities, recognising risks
5. Accountants are mostly involved with the past



# Secondary Vocational Education and Training: a turbulent educational sector

Secondary vocational education and training (hereinafter referred to as VET) forms one of the four educational sectors in the Netherlands. The sector promotes itself with some accuracy as the backbone of the Netherlands<sup>1</sup>. Almost 40 percent of the working population was trained in VET. In the 2011-2012 academic year 523,000 students followed 1,300 courses, spread across over 70 schools. VET is also a large employer; approximately 55,000 people work in it. VET receives 4 billion euros annually in subsidies from national government.

## The sector in a nutshell

The VET sector came into being in the nineties with the introduction of the Vocational Education and Training Act (WEB). This led to the merger of numerous schools and institutions into three types of educational establishments: Regional training centres (ROC's), Agricultural training centres (AOC's) and the Vocational institutions (intended for a specific industry). The Association of VET colleges and the AOC Council are the sector organisations<sup>2</sup>. The scope of the colleges varies considerably. ROC's in the Randstad can sometimes have 30,000 students spread across various educational sites. Subsidy of the sector takes place through the ministries of Education, Culture and Science (OCW) and Economic Affairs (EZ). Student numbers and the numbers of diplomas are the most significant funding factors in the national government contribution.

VET colleges are social non-profit organisations (legal entities with a statutory role or RWT's). They prepare students for professional practice or further training with good vocational education. This is designated as the primary process of

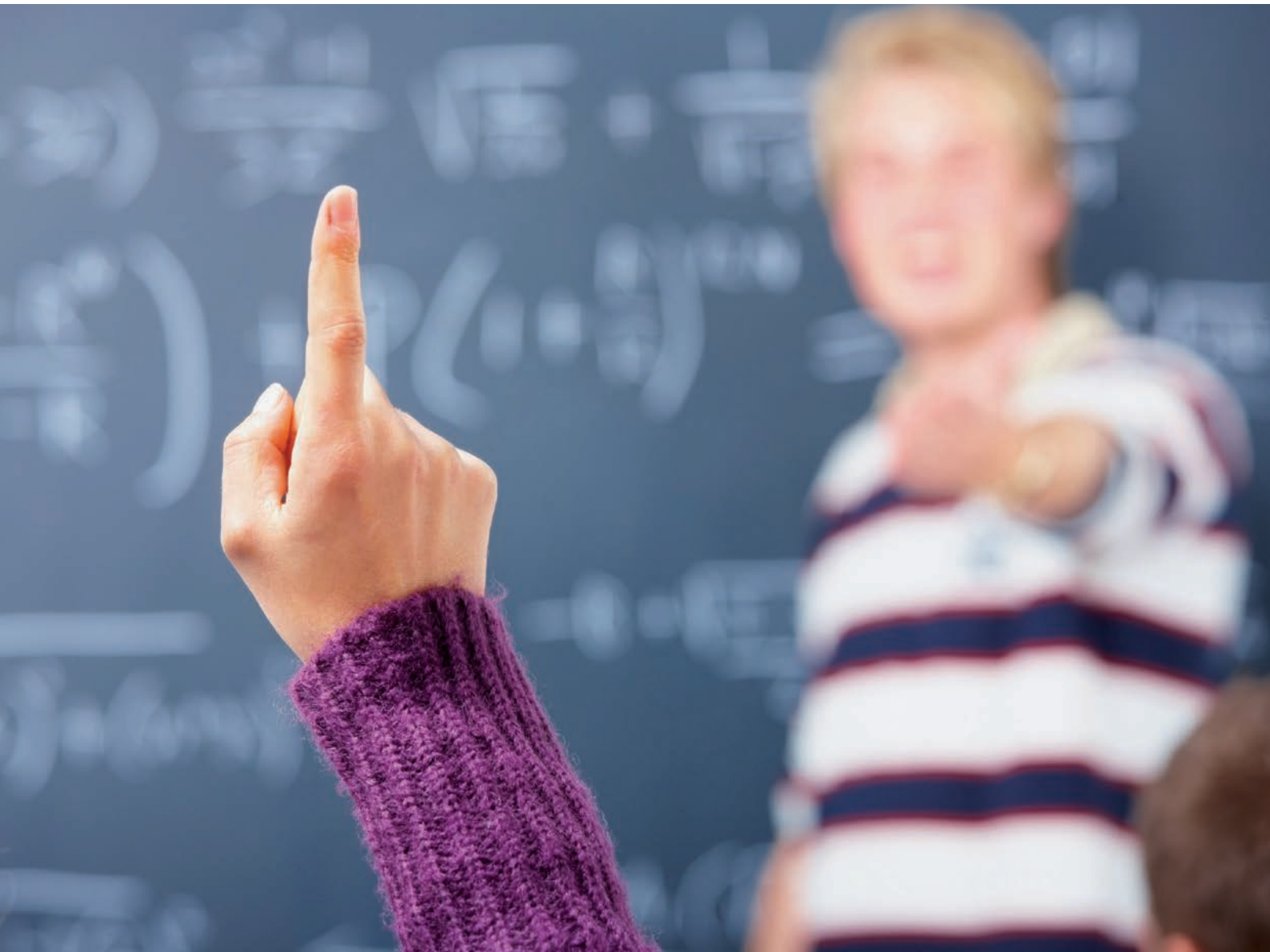
the college. All supporting functions and services including the financial function are referred to as secondary processes. In order to preserve good links with the employment market, the colleges often have extensive contact with the regional business community, local authorities and social institutions. On one hand the business community is a customer of VET colleges when hiring graduates and on the other hand it is also a supplier of practical knowledge and work experience placements.

Training may take the form of a professionally trained learning path (BOL) or a professionally supervised learning path (BBL). In the first case the emphasis is on learning and in the second case it is on work. Study can be at four levels, the highest of which entitles continued education at Higher Vocational Education (HBO) level. The most important provider of students to VET is Preparatory Secondary Vocational Education (VMBO). This means that VET colleges also maintain contacts with educational institutions in other educational sectors.

In addition to internal supervision in the form of a Supervisory Board (RvT) colleges also have to undergo external supervision by the Inspectorate of Education (IvO). This supervision follows two paths: on one hand the quality of the education and on the other hand financial stability and compliance with law and regulations (legality). Each year colleges must submit their annual report, complete with audit opinion by the accountant, to the IvO. The educational control protocol published annually by the IvO for accountants in all educational sectors amounts to more than 100 pages. The protocol is insightful and is created by a careful process, yet in its scope reflects the complexity of law and regulations and audit. At the end of 2012, 5 of the 70 VET colleges were undergoing extra supervision by the IvO.

<sup>1</sup> Source: [www.mboraad.nl](http://www.mboraad.nl)

<sup>2</sup> Because adult education has been attributed to the sector, the term Secondary Vocational and Adult Education (BVE) is also used.





## A complicated playing field

VET is also a turbulent and complex sector. This is to do with its background. The sector has a wide variety of courses, various income streams and many stake-holding parties. Directors and supervisory bodies of VET colleges must not only pay attention to the quality of vocational education but also have an understanding of financial matters. The sector is under scrutiny from the public and politicians. The political vision for education is subject to constant change, which is continuing to place new demands on teachers, accommodation and facilities.

VET also has to cope with cuts and complicated demands are made of cooperation with private parties. Incidents can quickly lead to a loss of image for the entire sector and expansion of the already complex legislation. The art in adapting law and legislation is not to introduce more rules, but to demand that attention be paid to the correct application of the underlying principles. Duty of care is one of those principles. For example this becomes evident from the recent discussion about the 850 hours norm as a factor for funding. The quality of the education must be central to this, less so than compliance with a formal norm<sup>3</sup>.

## Quality of education first and foremost

The quality of education in the Netherlands has always been able to count on a high level of political interest. The choices made have not always been successful. In 2007-2008 a parliamentary enquiry was held into educational reforms<sup>4</sup>. At the end of 2010 the BVE Education and Governance Committee<sup>5</sup> concluded that the quality of education and examinations was inadequate in too many colleges. Quality improvement is necessary to improve the image of the sector and to maintain educational standards at a sufficient level. On the other hand it was established that demands placed on colleges were increasing whilst the flow of subsidies from the government was being cut and the effects of the crisis were beginning to be felt. This forced VET colleges to adopt more efficient business operations. In response to this the Minister of Education, Culture and Science set up the 'Focus on Craftsmanship 2011-2015' action plan. The measures contained in the action plan are far-reaching. They focus on the shortening and intensification of courses, the introduction of a new funding system, the reassessment of educational final terms (via qualification files) and the

strengthening of the partnership between ROC's in the same region. Demographic developments and the economic crisis demand more management attention and regional cooperation in the area of courses, staff and accommodation. All of these measures create increased pressure from regulations and a rising need for transparent accounting by the VET colleges. An important tool for this is the Integrated Annual Document. This document must also include non-financial developments in the primary process, for example diploma results and student satisfaction. Ambitions, policy, performance and finances can thus be presented in conjunction with one another.

## Management decisiveness

A turbulent sector demands that professional directors and supervisory bodies pay extra attention to the financial function. The provision of good education is no longer sufficient. Directors and supervisory bodies must act professionally and decisively and know how to form the correct link between educational quality and financial management. Good cost control is essential. The management of property and the development of private activities requires care. Also the accountant plays a meaningful role, especially in the annual report and by expanding his<sup>6</sup> signalling role.

3 Court of Audit's report Administrative burdens of educational time in VET (2013)

4 Final Report Time for education. House of Representatives Document 31007, no. 6.

5 Advisory report Towards more focus on VET. November 2010

6 Throughout this publication, the use of the masculine gender is also intended to mean he/she.

# Signal 1 | for VET colleges

## Leap forward required in governance quality

*The turbulent and complex environment of a VET college places great demands on the quality of governance. In addition to the provision of good education the college must also be professionally organised. The Executive Board and the Supervisory Board must always keep in mind the social objective of the college. The sector code 'Good governance in the BVE sector' has been in force since 2009. This provides important frameworks for the control of a VET college, including a proper planning and control cycle. In practice it appears that there are regular shortcomings in the fulfilment of the code. As a counterpart to the Executive Board, the Supervisory Board of a college plays a key role which in many colleges is still inadequately realised in practice.*

### In further detail

As with any other professional organisation a college must possess a good governance structure. Directors and Supervisory bodies are responsible for the quality of the education provided as well as the secondary processes and the quality of the college as a whole. In doing so attention must be paid to the organisational layout, financial management and reporting. The sector code provides frameworks for management, supervision, risk management and dialogue with stakeholders. For the correct planning and control cycle three levels are assumed: a strategic multi-year plan with a long term vision, an annual plan with a final annual budget and periodic monitoring and reporting of the actual state of affairs. In practice the frameworks are not always complied with. Multi-year planning, multi-year budgeting or monitoring are often lacking. Risk management still forms an insufficient part of the planning and control cycle and is too often approached from an isolated position. In periodic management reports

there is still no standard report about risks, control measures and being 'in control'.

There are however sufficient risks: if it's not about the quality of education or the ever-changing laws and regulations, it concerns demographic developments, the effect of the crisis or property problems. A VET college has to cope with a large number of stakeholders. In addition to students, representative advisory boards, VET and AOC Councils, the ministry and inspectorate, bankers, local authorities and other social organisations are also involved.

The Supervisory Board fulfils a key role in the governance of the school. On the one hand as the supervisor and counterpart of the Executive Board, focused on the achievement of the educational goals and the financial health of the college. On the other hand, as the liaison with the accountant, paying attention to the quality of the internal organisation, reporting and continuity. It is a regular occurrence for members of the Board not to have sufficient expertise. The complexity of the environment requires a diverse composition of the Board. Knowledge of education is no longer sufficient. It is not a job to be done on the side.

## Negative example

### Dated multi-year budget

The drafting of a multi-year budget is a time-consuming activity for college A. It has therefore been decided to update the previous version on the basis of index figures and external information. The link to the current educational policy of the college and the effect of internal and external developments is restricted as a result. Factors such as the progress of student numbers, study yields and required accommodation are insufficiently expressed. As a result, the effects of these on income, expenses, investments and finance cannot be properly determined. The term for which forecasts are made is too short, as a result of which investments which are necessary in the future in accommodation and automation are inadequately expressed in the financial plan. The risks to A are not sufficiently mapped out, expressed in figures or incorporated in potential future scenarios. Due to the outdated nature of the multi-year budget it is unsuitable as management information.

## Positive example

### Risk management gets off to a flying start

College B has submitted its vision for risk management in a strategic memo. A risk management system was set up the previous year, in which the strategic aims of the college are linked to internal and external developments. This led to the mapping of the most significant risks and the establishment of the desired measures to manage them. This year the system was incorporated in the planning and control cycle. The selected management measures are implemented and reporting on them will take place more frequently. The Directors of B have the long term aim of delivering an 'In Control Statement' (ICS) and including it in the Integrated Annual Document.

## RECOMMENDATION 1: Ensure strong management and supervision

- Ensure a decisive Executive Board with a composition and scope which suits the complexity and diversity of the college. The management culture must be focused on the public interest. As directors, update the multi-year policy on a regular basis. Establish whether ambitions are linked to the developments in the region. Translate the multi-year policy into a financial forecast and work with various scenarios in the areas of personnel, accommodation and ICT. Organise regional coordination on important issues with other colleges, local authorities and supervisory bodies.
- Arrange the adequate integration of risk management in the planning and control cycle. Regularly reassess identified risks. In the Integrated Annual Document outline explicitly the management measures taken and their effectiveness, for example via an 'In Control Statement' (ICS).
- Ensure the adequate composition of the Supervisory Board as counterpart to the directors. In addition to expertise in the area of educational quality, experience in finance, property and operational management is also desirable. In conjunction with the other participants create a profile, paying attention to competences, portfolios and diversity. Use a public procedure. Evaluate annually which areas require professional development. As a Board, give annual account on vision and tasks, the establishment and composition of the Board based on the profiles, compliance with the governance code and an opinion on the quality of the management.
- Install an audit committee in which in each case, management, Supervisory Board and accountant evaluate matters such as the multi-year budget, the financial position and accommodation policy at least twice a year. Agree what action points are to be selected for audit during the coming year.

# Signal 2 | for VET colleges

## Need for financial professionalism underestimated

*In recent years, financial risks for VET colleges have increased dramatically. Whilst the income side is beginning to show more fluctuations due to fluctuations in the student population, the cost structure is fixed. Approximately 72 percent of costs consist of personnel costs, 81 percent of which relate to front-line teaching staff. In addition to this accommodation is a major fixed cost item. With such a mismatch in flexibility a professional financial function is absolutely crucial. In practice it appears that not all VET colleges recognise the need for this. Making costs more flexible is a laborious task, whereas when cost-savings are made, it is often support services which are cut first, including the financial function.*

### In further detail

In recent years great changes have taken place in the sector. Not only in the area of the primary process and educational quality, but also in terms of income and expenditure. The nature and extent of the incoming cash flow is much less predictable than before and is showing increasing fluctuation. Examples are the new funding system (more emphasis on performance) and the shortening of the course duration in accordance with the 'Focus on Craftsmanship' action plan by the ministry of Education, Culture and Welfare, the cuts in adult education and company training offered on the commercial market. Due to the economic crisis the priority of businesses for private activities from colleges is under pressure. In addition the demographic developments in the region play a part and the sector has to cope with a sometimes negative image. Student numbers are fluctuating more than ever due to these developments. In contrast to the diminishing certainty over incomes there is a more or less fixed cost structure. The greatest proportion of the college's expenditure

consists of personnel expenses and accommodation costs. Saving on teachers is expensive due to higher redundancy costs and suspension schemes. The quality of the education must remain paramount. There is a relatively high level of population ageing resulting in higher costs for the college as an employer. In addition many colleges manage their own premises. The related expenses in the form of depreciation, finance costs and maintenance place a great burden on financial results. Such a variance in flexibility of incoming and outgoing cash flows can only be managed if the VET college's financial function is of a professional quality.

A college must have access to professionals in the field of financial management and integral operational management. Having experienced administrators is no longer sufficient; the entire cycle of (financial) planning and control must be in order as part of the total business operation. Solid budget discipline and timely adjustment are essential, with the possibility to be flexible in grasping new opportunities. Multi-year estimates and the calculation of alternative scenarios are important tools in achieving this.

It appears in practice that in various VET colleges, changing and making internal control more flexible receives insufficient priority. The quality of the financial function is generally not up to the necessary and desired standard. Because the quality of the primary education process is paramount it is always more attractive to cut support services first when making savings, including the financial function. This is despite the fact that adequate information provision is absolutely crucial in order to be able to adapt quickly.

## Negative example

### Inadequate information provision

College C's administrative organisation is not sufficiently in order. The financial function is not able to provide insight into the results achieved by course, let alone a multi-year forecast for the future. C must take into account regional decline in student numbers and cuts made by the government. Management must make choices regarding the management model and the structure of the organisation. In order to make the right strategic decisions, various measures must be able to be evaluated swiftly in terms of their budgetary consequences. The current financial function is unable to supply the financial and non-financial information necessary for this purpose. As a result management does not have enough material available to it to create good scenario analyses.

## Positive example

### Clear, strategic multi-year policy

College D has established a multi-year strategic policy in a separate vision. This has led to project X with the following key measures: reduction in personnel, optimisation of the educational choice, improvement in occupancy levels of buildings, cancellation of unprofitable courses and rearrangement of the offer in the region. Indicators have been set up to evaluate the effects of the measures. The progress of project X is reported to the Executive Board and the Supervisory Board via a separate project monitor. Roll-out of project X is progressing well.

## RECOMMENDATION 2: Professionalise the financial function

- Ensure that the planning and control cycle is in order as part of financial management. The financial function must occupy a connecting role in the primary educational process of the college, with a direct line to management. Ensure sufficiently qualified (public) controllers and other employees.
- Improve the timeliness and reliability of financial and non-financial information provision. Pay attention to multi-year information about results, liquidity and capital, both in the past and in the future (anticipated developments and potential scenarios). Develop for management a summary information dashboard which is periodically updated and provides swift insight into the effects of the decisions taken on the relevant subjects. Also convert this into the information in the Integrated Annual Document.
- Improve the budget discipline of the individual executive directors and teams. Expenditure which is outside of budget must be approved in advance and be sufficiently supported. Ensure correct allocation of budgets to the profit-accountable units. Monitor expenditure and ensure timely updating.
- Always build sufficient flexibility into internal control. The financial function must be prepared for the introduction of new or changed tasks. Do not be too hasty therefore in making cuts to the financial function, even if this is perceived to be bureaucratic ballast.

# Signal 3 | for VET colleges

## Property constitutes a financial risk

*Accommodation is important to the primary educational process and forms a significant part of business operations. Due to changing student numbers and courses and the current property crisis, property is a continuing source of attention. New construction or renovations are costly and take time to complete. College buildings can become empty or ageing. The resulting depreciation required can put the capital position under pressure. This can have a detrimental effect on the modification of loans. Many boards have difficulty in translating current developments into their policy and information provision about their property.*

### In further detail

As a secondary process, accommodation is an important part of business operations and budgeting for VET colleges. Colleges themselves are responsible for the construction, finance and management of their educational property. New construction or renovation often goes hand in hand with high levels of investment, completion times of several years and a long time horizon.

Demographic developments, declining student numbers, government cutbacks and the effects on the personnel situation require a critical vision of accommodation policy in the longer term. Cuts in adult education and the shortening of course duration in accordance with the 'Focus on Craftsmanship' action plan may lead to overcapacity. Educational property often has a limited potential use and is less easy to decommission. The current property crisis only makes this more difficult. In addition to potential lack of use, buildings can also become out of date functionally due to innovations in teaching methods or become unprofitable due to increasing maintenance costs. As a result, buildings come to the

end of their useful life more quickly, which has a negative effect on their residual value.

These developments may lead to an over-valuation of property under the college's own administration. Devaluation of property leads to capital loss, as a result of which the financial position comes under pressure. Because this is a paper exercise in terms of depreciation this does not lead directly to a negative cash flow. That is only the case if financiers demand higher rates of interest as a result of the poorer ratio figures or even call in their loan. This occurs mainly in the adjustment of loans which can lead to severe continuity problems. In order to limit interest rate risks approximately one third of VET colleges have purchased interest rate derivatives. These derivatives do not initially appear to be able to cause great financial problems, but they do require extra attention, for example during re-financing. Reduced equity also creates a weaker negotiating position. The implementation of new construction or renovation plans is also made more difficult as a result. In practice many colleges appear to have difficulty with their property portfolio. Current developments are not directly translated into property strategy, the accommodation policy to be used and multi-year budget. Internal control of new construction and renovation projects can also be improved upon. Colleges should make more work of periodically monitoring their property portfolio. The adequate provision of information to the Supervisory Board also fits into this. The implementation of valuation analyses (impairment tests) and the assessment of their financial effects should be on the annual management agenda. This is essential to be able to determine whether property is still profitable or if an amendment to policy is required. Partnerships with other colleges may deliver a positive contribution to occupation levels.

## Negative example

### Property portfolio requires updating

College E does not have a detailed multi-year budget in the area of property portfolio. There is currently no reason for concern as all sites are in full use. It is evident from calculations however that the intake of students will decrease in the near future and that the number of sites required must be greatly reduced. A number of scenarios have been drawn up but nothing has yet been decided. In view of the current property market there is a likelihood that the market value of premises will fall well below book value on the date of the balance sheet. Because management has not yet made a decision about future accommodation, no impairment tests have been carried out. The book value of the premises has been maintained and depreciation takes place as before. There is therefore a very real likelihood that the balance sheet contains a concealed capital loss and that equity is valued too highly in the accounts.

## Positive example

### Adequate valuation analysis

Based on the impairment analyses carried out by college F it appears that no college buildings are currently standing empty or will become empty on an ongoing basis in the near future. The aim of college F is to continually utilise college property for the educational process. The potentially accelerated devaluation of buildings is therefore not required. It also applies to property of a more private nature that lease agreements continue and tenants fulfil their obligations on time. These analyses are comprehensively reported to management and the Supervisory Board.

### RECOMMENDATION 3: Property requires constant control

- Update the current property portfolio. Check that property strategy is still linked to the multi-year plan and student and personnel development, especially in view of government policy. Consider the choice of self-administration or renting, the incorporation of flexibility in accommodation and potential regional alignment with other colleges or the business community. Ensure there is sufficient expertise to enable impairment tests to be carried out and update valuations.
- Ensure an adequate system of internal control in multi-year planning and completion of new construction and renovation of property. Project phasing with measurable forecasts, interim calculations, risk analyses and scenario calculations are essential to this.
- Inform management and the Supervisory Board transparently and swiftly about the property portfolio. Action points are the progress of new construction or renovation, the results of impairment tests, the development of the property portfolio and the consequences for solvency, liquidity and funding.
- Pay particular attention to the use and planning of interest rate derivatives, funding facilities and associated obligations when re-financing. Ensure sufficient expertise and the correct accounting of this. Monitor compliance with additional agreements carefully.

# Signal 4 | for VET colleges

## Private activities: seizing opportunities, recognising risks

*Partly as compensation for the decreasing government contribution, more and more VET colleges are working to increase their incomes through private activities. In addition to educational added value and commercial benefits, these also involve risks. These can be financial risks and potential loss of image. Public funds may not be used for private activities. Although the government promotes private activities, law and regulation is complicated. Private activities increase the risk profile of a VET college and place extra demands on control. Transparent accounting of this is essential.*

### In further detail

Private activities can take many forms, including partnership with third parties. For example this may involve making college buildings available, providing private training courses, contract education, the operation of a hotel or restaurant, in which students can gain experience or a contribution to the government's Top Sector policy. Private parties can make financial investments in a college.

Private activities can make a positive contribution to the quality of education. Practical education acquires more depth and students can be better prepared for the labour market. Current expertise and experience from the business community directly benefits the education whilst businesses can assess the requirements of the labour market more effectively. In addition to educational added value and commercial benefits, private activities also involve risks. This depends to a significant extent on government policy. Public funds may not be used for private activities and cost-covering rates must be used. In administration and annual reporting there must be a clear distinction between

public and private capital. There are various risks: unlawful expenditure of public funds on private activities, incorrect application of tax law and regulation, conflicts of interest, unfair competition, liability for declining educational quality and potential loss of image. Poorly yielding private activities or failing projects can even threaten continuity.

The importance attached to the lawful expenditure of public funds has dramatically increased in recent years. The delineation between private and public activities is receiving increasing attention from politics and external supervisory bodies such as the ministry of Education, Culture and Science and the Inspectorate of Education. The government is promoting private activities. Information and the publication of memos and guidelines are attempts to provide more clarity. In addition to these semi-law and regulations, VET colleges have to deal with various other national and European laws and legislation, such as the public tender legislation. A clear framework has not yet been created, as identified by the Court of Audit in a recent publication. In the meantime the government is working on clarifying the law and regulations.

VET colleges which are also involved in private activities have a higher risk profile than colleges which only provide public education. It also places exceptional demands on the public and private expertise of directors and supervisory bodies. It is important to recognise that there are threats as well as opportunities. Transparent accounting is essential.



## Negative example

### Faltering project administration

College G is also involved in commercial service provision and education for third parties. A project administration is conducted for these private cash flows. This system is intended to provide management information, on which basis policy decisions can be made. The information is also intended to make the distinction between the private and public shares more clearly in the results. In practice the system appears not to work properly. The allocation of costs requires improvement. Even the registration of hours and the loading of files requires attention. Although the private activities form no material item in the results, proper separation of the public education task is important for compliance with the legality requirements of the ministry of Education, Culture and Science.

## Positive example

### Adequate accounting of private projects

Various projects are outsourced by college H to private organisation Y and vice versa. A large part of the agreements are formalised in contracts. The annual report outlines in a transparent manner the accounting of this mutual service provision and its associated costs. Private and public activities are visibly distinguished. In this way the stakeholders in college H receive adequate insight into the nature and scope of the activities and the associated risks.

## RECOMMENDATION 4: Be clear about private activities

- As management, ensure a clear policy vision on private activities. This vision must be supported in the multi-year plan and the budget. Calculate scenarios and make a clear analysis of opportunities and threats. Dare to be critical about the anticipated added value. Also pay attention to administration, control and accounting.
- Set up an adequate system of planning and control surrounding private activities. Action points include cost allocation, setting of rates, potential conflicts of interest and the risk of claims for loss. Provide sufficient legal and financial expertise when entering into commitments. Pay attention to administrative separation of public and private activities.
- Ensure adequate and transparent accounting. Provide stakeholders with insight into the extent of private activities, the control measures taken, the effects on results and capital and the actual added value for public educational tasks.
- Consult with the Inspectorate of Education if doubt exists about the correct interpretation of laws and regulations. In doing so, ensure sufficient recording. The government can help in this by laying down more clearly in law and regulations the norms for private activities and to what extent public funds may be used for these.

# Signal 5 | for accountants

## Accountants are mostly involved with the past

*At the moment the accountant only fulfils a role in the financial supervision of a VET college. His role in the annual report is limited, whereas users attach more and more weight to the information contained in it. Stakeholders have a need for different information, such as multi-year forecasts, compliance with the sector code for Good governance and information about the quality of the business operation and management. Recent incidents such as the Amarantis case have contributed to this. Stakeholders expect the accountant to fulfil a role which he is not yet required to fulfil. That's why it is important that he expands his role in the annual report and pays more attention to his signalling role.*

### In further detail

According to the Educational control protocol issued annually by the Inspectorate of Education (IvO) the public accountant only plays a role in financial supervision at a VET college. He issues an audit opinion of fairness and legality in the annual accounts and provides the funding statement with an assurance report. The focus is on financial information and compliance with law and regulations in the past. As far as the annual report (management report) is concerned the accountant establishes whether the report complies with statutory conditions and the protocol and if it is compatible with the annual accounts. He gives no opinion on the report as such, or on its contents. The accountant plays no role in the Supervisory Board's report. This also applies to the Results box with various indicators as part of the Integrated Annual Document (GJ). VET schools deal with the GJ in different ways; there is no uniformity.

The importance of the annual report is increasing. Due to the many developments in the sector, stakeholders expect more and more information. In addition to educational quality, interest is extending to the quality of governance and the interpretation of the moral compass or the tone set by management. Whether the college has an 'In Control Statement', business operation is arranged professionally and continuity adequately protected are questions which arise more and more frequently. In this, the accountant is also being looked to, in the assumption that approved annual accounts imply that all is well in terms of business operations, risk management and continuity. Although the accountant may give an opinion, this is not part of his assignment. There is clear evidence of an expectation gap; more is expected of the accountant than is actually required of him. Additional requirements lead to the expansion of activities and extra costs. Stakeholders mainly have a need for the accountant to have a signalling role. It is expected that he will also look critically at the primary process and the non-financial information in the annual report. If something is not right he should take corrective action and/or issue a (confidential) signal in consultation with the audit committee to third parties (including the IvO). This was also a theme during the political discussions surrounding the Amarantis case. From his role as trustee of public interest, it is important that the accountant also pays attention to this discussion. It is therefore a good thing for the accountant to expand his role in the annual report and to give an opinion on the content of this report or the statements made in it by the management. The NBA advisory report 'Robust gatekeeper's role, more certainty in more informative reporting' made a number of recommendations regarding the extension of the accountant's signalling role. It is now time to take definitive steps.

## Negative example

### Signalling role not picked up

According to the Commission's investigation into the Amarantis financial problems, the role of the institution's accountant in a system which assumes the autonomy of college management boards is of great importance. In the chain of management and supervision the assumption is that the information audited by the accountant provides a fair picture of the state of affairs in the organisation. The expectations held by parties in the chain of management and supervision – but also stakeholders in society in general – regarding the audit by the accountant must also be in keeping with the actual role he fulfils within the system. The commission concludes that the accountant has operated within the applicable rules, including the Educational control protocol. The commission also rules that the Executive Board of Amarantis sought the maximum scope in the annual documents to represent solvency within the desired level. According to the commission, within the context of his natural advisory role, the accountant saw no, or insufficient reason to amend this conduct.

## Positive example

### Scenario analysis for managing towards flexible cost structure

In college I the accountant assesses the risk management system with the COSO ERM risk model as a guiding principle. In doing so he identifies significant risks to the continuity in the long term. The accountant establishes that no adequate multi-year budget has been set up and no scenario analyses carried out for the case of falling student numbers or failing private activities. On the basis of the accountant's findings and recommendations, scenario analyses are carried out. This leads to I working on flexibilising the cost structure. In doing so an acceptable relationship between premises which the college owns and leased premises and the right combination of fixed and flexible personnel were explored.

## RECOMMENDATION 5: Accountant must signal as well as control

- As NBA, Association of VET colleges and ministry of Education, Culture and Science, work toward a more informative and uniform Integrated Annual Document, the expansion of the audit and its reporting. Action points are quality of risk management, compliance with the governance code, continuity, Supervisory Board report and future expectations. This can be incorporated in Directive 660 Educational Institutions of the Dutch Accounting Standards Board and in the Education Protocol of the ministry of Education, Culture and Science/Economic Affairs.
- Inform the stake-holding internal parties of the college about the results of the audit. For example by including more information in the accountant's report on the materiality used, significant estimates by management, assumptions about continuity and subjects which required special attention during the audit. Take stakeholders' expectations into account.
- On the basis of the annual accounts audit and a risk analysis, signal developments which are important to the future of the school. Report the findings on, for example, the quality of business operations, the relationship between public/private activities, internal control and the multi-year financial position to the Supervisory Board. The quality of governance and the 'Tone at the Top' are also important points requiring attention. If necessary, in specific situations, organise a coordination meeting with external supervisory bodies and the institution and/or a potential confidential report or statement to the IvO via the audit committee (the need for a legal basis for this is still to be investigated).
- In view of the risks in the sector, make more use of the existing opportunity to incorporate additional information in the audit opinion. NBA Practical Guide 11 19 'Further notes in the audit opinion' provides support for this.



# Summary of stakeholders' responses

At the request of the NBA four stakeholders in the VET sector have responded to the public management letter and their responses have been incorporated in their entirety in the Dutch PML. What follows is a brief summary:

## MBO Raad (Association of VET colleges)

The Association of VET colleges thanks the NBA and the working group for bundling their knowledge and experience in the VET PML as part of the Knowledge Sharing programme. The General Members Meeting of the Association of VET colleges has also discussed the appropriate management culture and the turbulence in and around the VET colleges. The Good Governance Code has been declared binding and the colleges report on this in the 2012 Integrated Annual Document.



The signals formulated are fully recognisable and the recommendations are endorsed. Colleges are seeking to apply the Code correctly and in doing so can make good use of the recommendations. The Association of VET colleges is critical of the suggested amendments to the annual document and its proposed audit.

## Vereniging van Toezichthouders in Onderwijsinstellingen (VTOI, Association of Supervisors in Educational Institutions)

In the opinion of the VTOI the PML provides a clear analysis of the problems in the sector. Achievement of the recommendations would signify a big step forward. Primary responsibility for this lies with directors and supervisory bodies. The accountant can make an important contribution to this by paying more attention to the five signals for an institution in his reporting. A view from the accountant which focuses on the future may keep directors and supervisory bodies on their toes. A view in which figures constitute a reflection of policy, management culture and business operations, as was evident from the Amarantis case.



The VTOI requests, as for the accountant, an independent position and role of the controller, with appointment and dismissal carried out by the supervisory body.

## Ministerie van Onderwijs, Cultuur en Wetenschap (OCW, Ministry of Education, Culture and Science)

The ministry welcomes the attention paid by the NBA to the VET sector via the PML. The accountant constitutes an essential link in the corrective mechanism of an educational organisation. The ministry thoroughly endorses the recommendations and the PML makes worthwhile and useful suggestions for the sector. The themes in the PML correspond largely to the issues considered by the ministry arising from the Amarantis case. This concerns for example the moral conscience of directors and supervisory bodies, the improvement of financial management and the rules governing the annual report. The ministry shall inform the House of Representatives in a letter on the strengthening of governance in education.



**Ministerie van Onderwijs, Cultuur en  
Wetenschap**

## Inspectie van het Onderwijs (IvO, Inspectorate of Education)

In the opinion of the Inspectorate, accountants can fulfil their function in society better by taking timely action on their own initiative in the event of deficiencies in governance. The NBA's initiative with the PML is appreciated and the PML also applies to other educational sectors with similar risks. The first part of the PML gives an analysis of the cause of the risks. The role and responsibility of management, internal supervisory bodies and the accountant is significant to the areas of risk as outlined in the PML in signals and recommendations. It is of great importance that accountants where appropriate, report on the signals immediately and clearly.



**Inspectie van het Onderwijs  
Ministerie van Onderwijs, Cultuur en  
Wetenschap**

# Colofon

## Knowledge Sharing in VET

In the NBA Knowledge Sharing policy programme the expertise of accountants is collectively applied to signal risks early in social sectors. In doing so the accent is on management risks to do with the control of financial and administrative affairs. In this public management letter the NBA presents five signals and recommendations to stakeholders and interested parties in VET colleges. The VET sector is the ninth theme selected by the Identification Board of the NBA. A working group of public accountants in the sector gathered anonymised findings and discussed them. This was then discussed at a meeting with stakeholders. The Identification Board then applied a social assessment to the signals. Sector organisations and other stakeholders in the sector were willing to respond in writing to the PML. Coordination and final editing was provided by the Knowledge Sharing programme team.

## More information

A public management letter is one of the publications from the Knowledge Sharing programme. The NBA previously published management letters about Insurance (June 2010), Long-term care (November 2010), Commercial Property (June 2011), Greenhouse horticulture (November 2011), Municipalities (June 2012) and Charities (December 2012). An open letter about Pensions (February 2011) and a discussion report about Tone at the Top (September 2012) have also been published. All publications are public and are intended for a broad audience.

## Identification Board

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Prof. dr. M.N. Hoogendoorn RA  
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