



Is the system of higher education effective?

Executive report

Riga, 2017



Latvijas Republikas
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Foreword

The State Audit Office has completed an audit in the sphere of higher education “Is the system of higher education effective?”, preparing a summary of three audit reports.

The state-founded higher-education institutions included in the scope of the audit are subordinate to three ministries. Those are the Ministry of Education and Science (MoES), which is the leading public administration institution in the sphere of education and science, the Ministry of Culture (MoC), which is the leading public administration institution in the sphere of culture, and the Ministry of Agriculture, which is the leading public administration institution in the sphere of agriculture, fisheries and forestry. During the audit, we wanted to establish whether the planning of the higher education policy, the supervision of its implementation and the funding procedures ensure the achievement of goals set for the development of higher education, thus contributing to the development of the nation.

Crucial changes have been introduced to the system of higher education during the last ten years; however, rather ambitious goals set for the development of higher education have not yet been achieved. The latest higher education funding model relies on European Union structural funds and, thus, causes no confidence with regard to its sustainability.

In our opinion, good control systems over limited state budget resources for funding study places would encourage not only the more effective achievement of higher education goals but also the availability of study places funded from the state budget in Latvia.

We hope that the implementation of recommendations provided by the State Audit Office will help ministries and higher-education institutions under the supervision thereof to develop the system of higher education with purpose and the management of higher-education institutions, as well as to improve control over the efficient and effective management of state budget funds.

We express our gratitude to ministries, higher-education institutions and cooperation organisations in the sphere of higher education for cooperation within the framework of the audit, discussions and exchange of opinions, information and support provided to auditors.

Best regards,
Director of the Department
Inese Kalvāne

State institutions involved in the higher education management system

Ministry of Education and Science

the leading public administration institution in the sphere of education, science and sports, as well as in the area of the youth and official language policy

- implements the single national policy and development strategy in the sphere of education;
- develops draft policy planning documents, laws and regulations in the sphere of education;
- responsible for implementing the purpose set in the Education Law: to ensure that every resident of Latvia has the opportunity to develop his or her mental and physical potential, in order to become an independent and a fully developed individual, a member of the democratic State and society of Latvia;
- ensures the maintenance and updating of the State Education Information System;
- develops proposals and submits a request for the allocation of state budget funds to education and science according to the purpose of the Education Law pursuant to set procedures;
- controls the legal use of state budget funds allocated to education at education institutions subordinate thereto;
- organises the labour market development and workforce demand research and the professional orientation of students;
- organises and coordinates the crediting of studies and the crediting of students: disbursement, maintenance, administration and repayment of loans, as well as recovery of loans and loan interest;
- ensures that the state budget funds allocated to the MoES are used for intended purposes.

Ministries of sectors with subordinate higher-education institutions

- one of the MoC's sub-sectors is education in cinematography, culture and creative industries and its functions include the development of the culture policy, the organisation and coordination of the implementation of the culture policy;
- controls the financial and economic activities of education institutions subordinate thereto.

Administration of Studies and Science
a direct administration institution subordinate to the MoES

- participates in the making of the student loan policy in the country;
- disburses student loans from state budget funds;
- coordinates and administers the crediting of studies and students from the funds of credit institutions with a guarantee provided on behalf of the state;
- administers and ensures the repayment of a grant equivalent to loan for obtaining a scientific degree in cases stipulated by laws and regulations governing the crediting of studies.

Council of Higher Education

a public derived entity

- provides an opinion on the re-structuring or liquidation of higher-education institutions;
- develops the national concept of development of higher education and higher-education institutions, stipulating the development of higher-education institutions founded by the state, local governments and other legal and natural persons, and promotes the equal-in-rights and balanced development of all types of higher-education institutions and higher academic and higher professional education;
- develops long-term plans and proposals on the development of education and science in the system of higher education;
- develops proposals on the improvement of scientific work, personnel qualification and study programmes of higher-education institutions;
- forecasts the number of students necessary for the development of the nation in general and develops proposals on the number of students funded from the state budget in each sector;
- develops proposals on changes to the structure of higher-education institutions in the country;
- develops proposals on the improvement of higher education and tuition fees;
- provides an opinion on the prepared state budget project for the funding of higher-education institutions to the minister for education and science and the Cabinet;
- maintains contacts with institutions of other countries, which resolve matters of higher education.

Council of Rectors
a collegial advisory institution

- develops proposals to the minister for education and science on the development of higher education;
- discusses matters concerning the creation of overall study programmes, the use of academic staff and resource base;
- prepares proposals and opinions on draft laws and other laws and regulations in the sphere of higher education;
- prepares proposals on the distribution of state budget funds between higher-education institutions;

Main Conclusions

Policy planning and implementation

Students, their parents, current and future employers want that the obtained higher education is the best or at least the best available in Latvia. It is important that every euro allocated to ensuring the excellence and accessibility of education is used for the intended purpose.

The Ministry of Education and Science (MoES) and ministries of other sectors shape the higher education policy, determine tasks to be fulfilled and results to be achieved. The mutually coordinated planning of the sector and development of higher-education institutions is a challenge for several ministries.

Despite that there have been changes taking place in the system of higher education during the last ten years, the MoES has still failed to resolve such crucial problems as a lack of an education monitoring system, the ineffective funding and management of higher education, the ineffective attraction of talented and qualified specialists to academic and scientific work at Latvian higher-education institutions, etc. **The goals set in policy planning documents are not a challenge for the development of the system of higher education**, but are rather aimed at maintaining the current success at the set level:

- ✓ the Education Development Guidelines (IDG) for 2007–2013 stipulate that at least 51% of the total amount of study places funded from the state budget is in natural sciences, engineering sciences, medicine and environmental sciences, while the EDG for 2014–2020 stipulate that 50% of the total number of study places funded from the state budget is in STEM (Science, Technology, Engineering, Mathematics) sectors;
- ✓ the EDG for 2007–2013 stipulate that the proportion of graduates from higher-education institutions in the total number of unemployed persons does not exceed 1.5%, while the EGD for 2014–2020 determines that the unemployment rate of graduates (bachelors, masters and doctors) within 18 months after graduation is 6.5%, which is a significantly lower challenge (16.7% of the total number of unemployed persons registered as at 31.03.2017 had higher education).

The Ministry of Agriculture (MoA) has partially determined strategic goals for higher education:

- ✓ it has outlined goals for the development needs of the forestry industry only, rather than for all MoA sectors;
- ✓ it has determined general activities with regard to the involvement of the Latvia University of Agriculture (LUA) in the implementation of the ministry's policy and achievement of defined goals; therefore, the significance of higher education in the development of the sector cannot be assessed;



MoES carries out various activities for achieving the set goals, yet does not resolve long-term issues that hinder the development of higher education



MoA policy planning documents determine goals and results to be achieved in relation to higher education for the forestry industry only

- ✓ therefore, **MoA sectors may not receive human resources with higher education suitable for their development needs in future.**

The Ministry of Culture (MoC) has outlined **measures** for achieving development, **but they are insufficient** because:

- ✓ for example, the development of a methodology for the performance of monitoring over the number of students at higher-education institutions of culture and colleges will fail to ensure cooperation between higher-education institutions and the labour market;
- ✓ The effective indicators of the Cultural Education Sector Development Strategy for 2014–2020 are set only until 2015.

MoC policy planning documents in the sphere of cultural higher education do not determine any results or indicators to be ensured, which would describe the progress of activities carried out by the MoC and involved institutions

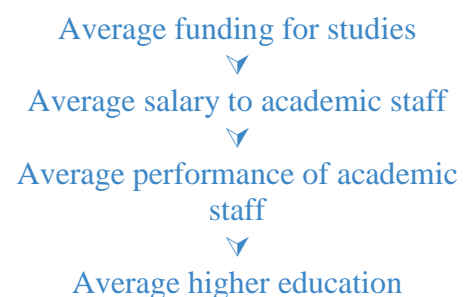
Council of Higher Education

One of the institutions involved in the system of higher education is the Council of Higher Education (CHE). Although upon the establishment of the CHE, laws and regulations determined the goals of its operation, not a single legal act has outlined these goals since 2001 and the CHE has not determined any effective results that would allow evaluating the effectiveness of CHE activities objectively.

MoES does not use resources available to the CHE sufficiently in organising, coordinating and implementing the policy of higher education. Therefore, **the State Audit Office is unable to gain assurance that the activities of the CHE within the period 2014–2016 were organised with a purpose.** For example, one of CHE tasks is to develop proposals on the number of study places funded from the state budget in each area of studies; however, the CHE does not develop them, instead it only clarifies the proposals developed by the MoES.

Funding of the system of higher education

The number of students in Latvia falls every year; however, the number of neither higher-education institutions, nor study programmes decreases. There was one higher-education institution per 34,543 persons living in Latvia in 2016. In the opinion of the State Audit Office, the funding intended for the development of the system of higher education and the achievement of set goals is used in a dissipated and fragmented manner; thus, competition between higher-education institutions is not promoted and the system of ‘average’ higher education is being maintained, instead of encouraging competition between higher-education institutions in their efforts to ensure and offer excellent education to students.



The country lacks a clear system how the necessary number of study places funded from the state budget and specialists is determined for the economic year to come. The State Audit Office draws attention to **absurdity** in planning the preparation of specialists necessary for the labour market. *Those*

are not ministries (the state) that determine which specialists and how many of them have to be prepared in particular sectors; those are higher-education institutions (HEIs) that provide ministries with information about the number of necessary study places funded from the state budget and specialists to be prepared in the economic year to come. Thus, there is a risk that the preparation of specialists with higher education necessary for the national economy in the first place is not facilitated, and the funds intended for study places are used for funding the activities of a higher-education institution rather than for educating a certain number of students.

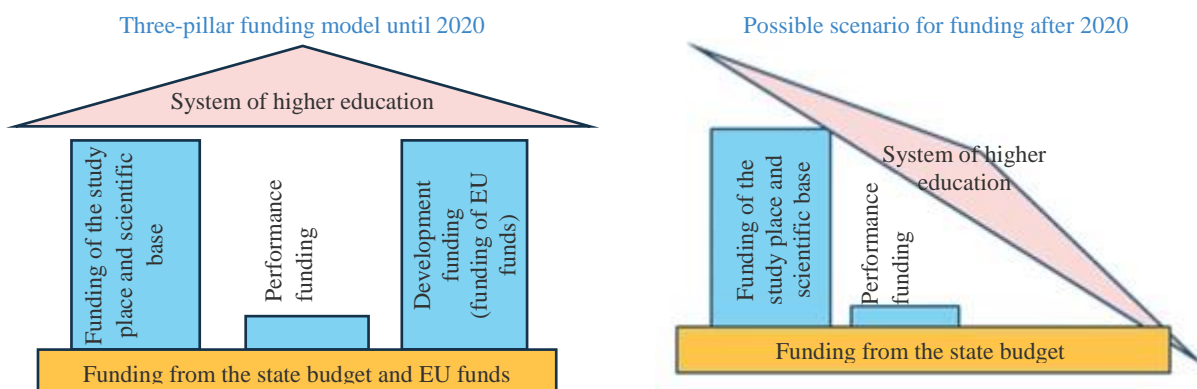
In 2015, the Cabinet supported the proposal on changing the higher education funding model by introducing a three-pillar model aimed at the introduction of balanced funding for higher education:

- pillar I — funding to the study and research facilities;
- pillar II — funding for the achieved results of activities (ex post): for example, the number of scientific articles, attracted industry funding, the number of graduates in a certain sphere;
- pillar III — funding intended for developing the higher education and research offer.

The current distribution of funding between pillars does not change the existing funding procedure and fails to ensure systematic, long-term and stable funding to HEIs, as well as the development of HEIs in general, because:

- stable funding is planned for pillar I. Its amount is determined pursuant to procedures laid down by the Cabinet based on the number of study places determined by HEIs, costs of the study place base, costs of social security and coefficients of costs of studies in the technical areas of education. Shortcomings in control over the use of this funding are presented in the next section;
- although the funding for pillar II is planned to be the same at least until 2019, it has decreased (from 11% in 2015 to 9% in 2017) compared with the total funding allocated by the MoES to higher education;
- currently, the introduction of pillar III is being implemented using the funding of European Union funds, which is planned until 2020. It is unknown whether the funding will be available for the development of the higher education and research offer after 2020.

HEI funding model development scenario



The Education Development Guidelines (EDG) for 2014–2020 stipulate restructuring the state aid for the areas of studies according to the medium-term performance forecasts of the labour market, **ensuring 50% of study places funded from the state budget for STEM programmes. However, in practice, this plan is being implemented on a wider scale**, using the investments of EU structural funds for the development of study programmes in medicine and creative industries.

The State Audit Office draws attention to the fact that no legal act provides the definition of STEM; as a result, the MoES automatically includes the thematic area “Arts” in STEM fields when distributing the funding of EU structural funds for the modernisation of study programmes. The thematic area “Arts” includes such study programmes as “Conducting”, “Instrumental music”, “Music and scenic art”, “Vocal music”, “History and theory of music”, “Music”, “Musicology”, etc.

Funding of study places and supervision over the use of funding

During the audit, critical shortcomings were established in the procedure of the internal control system introduced by the MoES, MoC and MoA. Both ministries and higher-education institutions highlight the insufficient funding to higher education on a regular basis; however, **no sufficient supervision has been ensured over the expedient and effective use of this funding** within the period 2014–2016:

- although memorandums of understanding between the MoES and the Riga Technical University (RTU), the Liepāja University (LiepU), the Rēzekne Academy of Technologies (RAT) on the funding of study places stipulated that higher-education institutions would use both the state budget funding and their own income for funding the planned study places, the State Audit Office **has not obtained any evidence that this agreement is being fulfilled**. The State Audit Office has not gained assurance that RTU, LiepU and RAT would have used their own income for funding study places in 2016 for the total amount of **at least EUR 3,274,799.00** for study places funded by higher-education institutions.
- HEIs **have not calculated how much one study place at a higher-education institution actually costs** and have adhered to procedures laid down by the Cabinet in 2007 for determining the cost of a study place in planning the funding. According to the auditors’ calculation, the actual state budget funding (using minimal coefficients of costs in the calculation) allocated for a study place in individual cases was ensured in the amount that was theoretically greater than necessary (up to 118% of the amount stipulated by Cabinet Regulations), as opposed to the statements by the ministries that the minimum coefficient of costs was ensured at only 86% and, therefore, the funding allocated to higher education was insufficient;
- higher-education institutions included in the scope of the audit **have determined a lower tuition fee for studies than the state budget funding allocated by ministries for one study place**, which causes a risk that the funding allocated from the state budget is used for fee-based study places instead of using state budget funds for the full funding of study places of the most financially intensive education programmes. For example:
 - ✓ the MoES allocates the state budget funding of EUR 2,431 for mastering the basic study programme “Mechatronics” to three higher-education institutions — RTU, RAT and Vidzeme University of Applied Sciences (VUAS), while the higher-education institutions have set a tuition fee of EUR 1,490 to EUR 1,800;

- ✓ the MoES allocates the state budget funding of EUR 2,164 for mastering the basic study programme “Information technology” to three higher-education institutions — RTU, LiepU and VUAS, but only LiepU has determined a tuition fee greater than the funding allocated by the state;
- ✓ a greater difference in the fee for a study place is observed for doctoral study programmes, reaching up to EUR 14,452 per study place (the MoES allocates EUR 17,632 for the LiepU study programme “New media art”, while the tuition fee determined by the higher-education institution is EUR 3,180; LUA has determined a tuition fee of EUR 3,200 for the study programme “Veterinary medicine”, while the funding allocated from the state budget amounts to EUR 15,458).

- for the purposes of funding the study process, higher-education institutions included in the scope of the audit have used **EUR 5,971,652** of the state budget funding for ensuring study places **at their own discretion**,

- ✓ failing to fill in study places funded from the state budget,
- ✓ including students on a study leave in reports on the fulfilment of agreements;
- ✓ distributing study places from study programmes with low coefficients of costs to programmes with higher coefficients and from studies of a lower level to studies of a higher level, exceeding the permitted limit of 10%.
- ✓ Although in the case of the MoA, memorandums of understanding stipulate no opportunity to distribute study places between the areas of studies, sectors, programmes and levels, LUA has performed this distribution;



Ministries have failed to ensure sufficient control over the fulfilment of the task set for higher-education institutions and the use of state budget funding of at least EUR 5,971,652.

- a study grant of EUR 1,024 for obtaining a scientific degree (a grant equivalent to a loan) is intended for each place of the full-time doctoral study programme in the thematic area of education approved by the minister for education and science. However, not all doctoral students used this grant within the period 2014–2016; as a result, higher-education institutions included in the scope of the audit **used the funding of the grant fund of EUR 1,267,002 for other purposes**.



The funding of at least EUR 1,267,002, which was intended for grants for obtaining a scientific degree, was used for other purposes

Academic staff remuneration policy and HEI management structure

One of the problems specified in the EDG for 2014–2020 is the inability of the existing academic staff remuneration policy to motivate young, talented and qualified specialists to choose academic and

scientific work in higher-education institutions of Latvia; **however, the country has failed to develop a single academic staff renewal and succession policy**, wherein guidelines would be defined for the academic staff, renewal goals and tools (remuneration, motivating measures, etc.) and anticipated effective results for the attraction of academic staff and its direction within the system of higher education.

Higher-education institutions included in the scope of the audit have developed staff development planning documents; however, each higher-education institution has its own understanding of the renewal and succession of academic staff and necessary measures for achieving this goal. It is enough with introducing a transparent and systematised employee recruitment system for ensuring the single recruitment approach and principles for one higher-education institution to achieve the set goal, while for another one — the provision of access to the academic data transmission network of Latvia will be a sufficient measure to motivate young, talented and qualified specialists to get involved in academic and scientific work.

The remuneration systems and workload determination systems of higher-education institutions are complicated and non-transparent; moreover, the equality principle is not observed. Therefore, a monthly salary determined for one position differs not only between higher-education institutions but also within one higher-education institution or structural unit, as:

- there is a situation allowed when one employee's remuneration consists of various components and coefficient systems developed by higher-education institutions, the use of which is not described in detail;
- within the framework of full-time workload of one position (40-hour working week), duties of six positions are fulfilled.



The remuneration system and workload determination system of higher-education institutions are complicated and non-transparent; moreover, the equality principle is not observed.

Example: differences in the remuneration determination method and the remuneration amount for various positions at HEIs in 2016

Position	Remuneration for single workload in 2016
Rector of RTU	0.17% (a year) of the average equity capital of the higher-education institution within the last three years; amounted to EUR 8,875 a month in 2016
Prorector of RTU	80% of the monthly salary determined for the rector and amounted to EUR 7,100
Chair of the RTU Senate	25% of the monthly salary determined for the rector and amounted to EUR 2219
Dean	EUR 1,963–5,976
Assistant	EUR 699-1032
Professor	EUR 1910-5289

A higher-education institution has the right to determine its organisational and administration structure; moreover, the autonomy of the higher-education institution includes the right to use financial and

material resources in a targeted and rational manner; **however, out of the higher-education institutions included in the scope of the audit, RTU RAT and LUA have failed to ensure the effective administration of a higher-education institution** and have failed to dispose of their financial and material resources in a targeted and rational manner, as:

- RTU administrative structural units consist of many smaller structural units that employ a small number of employees, and despite that there is an administrative structural unit established for a certain purpose, its tasks are fulfilled by employees of other structural units. Moreover, based on the information provided by RTU on staff, it was impossible to determine the number of persons employed by all structural units;
- LUA has created several smaller structural units within the framework of one structural unit, has created positions for the fulfilment of duties that are already included in the tasks of other structural units, as well as has failed to evaluate the significance of several groups of positions;
- RAT has created 18 small structural units, frequently employing only one person therein.

Main Recommendations

Based on the conclusion of the regulatory and performance audit “Is the system of higher education effective?”:

- MoES as the leading public administration institution in the sphere of education was provided with recommendations, as a result of implementation of which:
 - ✓ the procedures for the supervision of higher education policy implementation will be improved;
 - ✓ competences and tasks determined by the CHE will be evaluated, if necessary, introducing relevant changes to legal acts, and the goals of CHE activities, results to be achieved and effective indicators will be determined for assessing achievements;
 - ✓ procedures will be developed and the process of planning study places funded from the state budget, the process of calculating necessary funding and the process of supervising their use will be determined, ensuring the planning and preparation of specialists necessary for state needs, as well as the effective administration of state budget funding;
- MoES, MoC and MoA will:
 - ✓ update and clarify development planning documents according to the current situation in the sphere of higher education in order to ensure the planned and result-oriented development of the sphere of higher education; moreover, the MoA will include therein the MoA’s vision of the development of higher education in agriculture and the development of LUA in general;
 - ✓ ensure the expedient and effective use of funds, improve control procedures for the supervision of HEI operations;

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- ✓ improve control procedures for the supervision of HEI operations, ensuring that the use of funds of higher-education institutions and the filling-in of study places funded from the state budget will be evaluated, and prior to the distribution of study places between the areas of studies, sectors, programmes and levels, the calculation of funding is carried out to establish the effects of distribution of study places;
- ✓ assess structure optimisation possibilities, revising the staff policy and organisational structure of higher-education institutions (MoA and MoES);
- ✓ improve accounting, specifying granted tuition fee discounts therein.