

# Technical and Further Education Institutes: 2016 Audit Snapshot





VICTORIA

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Victorian  
Auditor-General

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The Hon Bruce Atkinson MLC  
President  
Legislative Council  
Parliament House  
Melbourne

The Hon Colin Brooks MP  
Speaker  
Legislative Assembly  
Parliament House  
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report  
*Technical and Further Education Institutes: 2016 Audit Snapshot*.

Yours faithfully

A handwritten signature in black ink, appearing to read "Andrew Greaves", is written over a faint, light-colored rectangular stamp or watermark.

Andrew Greaves  
*Auditor-General*

7 June 2017



# Contents

Audit overview .....	vii
Conclusion .....	vii
Findings .....	vii
Recommendations .....	ix
Responses to recommendations .....	ix
1. Context .....	1
1.1 TAFE funding model .....	2
1.2 What we cover in this report .....	4
2. Results of audits .....	5
2.1 Financial report audit opinions .....	5
2.2 Performance report audit opinions .....	7
3. Internal controls .....	9
3.1 Assessment of internal controls .....	9
3.2 Asset maintenance .....	10
4. Financial sustainability .....	15
4.1 Short-term health of the sector .....	15
4.2 Maintaining and replacing assets .....	19
Appendix A. <i>Audit Act 1994</i> section 16—submissions and comments .....	23
Appendix B. Audit opinions issued .....	27
Appendix C. Management letter risk ratings .....	29
Appendix D. Financial sustainability risk indicators .....	31
Appendix E. Mandatory performance indicators .....	39
Appendix F. Glossary .....	45





# Audit overview

In the technical and further education (TAFE) sector, there are 12 state-owned TAFE institutes, which control a further 16 entities that operate in the vocational education and training (VET) sector. We conduct the financial audits of all of these 28 entities. This report outlines the results of, and our observations from, these financial audits for the year ended 31 December 2016. We also discuss the performance reports that TAFEs prepare and we audit, and analyse the financial results and outcomes for the 12 TAFEs.

## Conclusion

Financial and performance reporting are generally sound. Following a period of financial challenge, our assessment indicates that financial outcomes, such as net operating results, are improving.

## Findings

### Audit opinions

We issued clear opinions on the 2016 financial reports and performance reports that 11 TAFEs provided to us to audit. Our unmodified opinions mean that users can have confidence in these reports.

We have finalised the audit of the 2014 and 2015 financial reports of Federation Training. We disclaimed their 2014 financial report—in effect we gave no opinion on the transactions and balances in that report.

Management at Federation Training have worked to address issues identified in our audit of their 2014 statements. For 2015 they resolved all issues except those relating to their student management system. Although this is a positive outcome, it meant we were unable to get the evidence we needed to form an opinion on the 2015 numbers for student revenue, debtors, doubtful debts and revenue in advance. As a result, we issued a qualified audit opinion on their 2015 financial report.

We have begun our audit of their 2016 financial report and we expect the 2017 Federation Training financial report to meet the time frames in the *Financial Management Act 1994*.

### Internal controls

To the extent we tested them, the internal financial controls at the TAFEs were adequate for reliable financial reporting. We identified a small number of new control issues in our 2016 financial audits, and most of the issues we raised in prior years had been followed up and resolved.

## Financial sustainability

The short-term financial health of the TAFE sector is improving. Their net operating results over the past two financial years have improved, and there is more liquidity across the sector as a whole.

The improvement is largely due to the increase in government grants to the sector in 2015 and 2016. TAFEs received \$278.6 million in government grants in 2016, up from a low of \$74.6 million in 2014.

Falling student numbers over these years has meant that most of their other sources of revenue, including student fees and government contestable funding, have declined. The increase in government grant funding has more than offset the decline in other sources of revenue, allowing the TAFE sector to be more financially stable.

However, there are opportunities for the TAFEs to be more efficient and effective. The TAFEs' performance reports show that most are not achieving the ratio of training revenue to staff costs that they are aiming for.

## Asset management

The TAFE sector has a challenge to fund asset maintenance and renewal for their large asset portfolios. This year we focused on TAFE management, governance and oversight of their asset maintenance.

Eight TAFEs had asset maintenance strategies in place, although there were areas where these strategies could be improved. In particular, the life span of these strategies was short when compared to the life cycle of the TAFEs' major infrastructure assets and the requirements of the Department of Treasury and Finance's *Asset Management Accountability Framework*. Four TAFEs do not have an asset maintenance strategy.

All 12 TAFEs report to management, boards and audit committees on asset maintenance, although the frequency and detail vary. Five TAFEs report only on the amount they spend, which makes it difficult to have sound oversight of asset maintenance.

TAFEs' ability to report on asset maintenance in more detail is limited because they do not have systems in place to capture, record and report on asset planning. Only five TAFEs have asset maintenance software, and only one of these five is able to provide detail on maintenance and condition at an individual asset level.

In their oversight role for the sector, the Department of Education and Training is doing work on asset maintenance in TAFEs. Their analysis shows that the sector is spending on average 0.7 per cent of total asset replacement value annually on maintenance. This is significantly lower than the benchmark of 2–2.5 per cent considered necessary to maintain asset condition.

Our capital replacement indicator shows a decline in the amount spent on assets when compared to depreciation from 2012 to 2015. There has been an improvement in this indicator in 2016, but this is due to spending on specific projects that received significant government funding.

An ongoing lack of asset maintenance creates a maintenance backlog that can affect asset condition. We see this as an emerging risk for the sector. The TAFEs' self-assessments of asset condition have confirmed that there are some present risks for their asset portfolios.

While seven TAFEs' asset portfolios have been assessed as being in a good condition overall, there are five whose portfolios have been rated as in fair or poor condition. Government funding of \$41.6 million for asset maintenance will be provided to TAFEs in 2017 to address these issues.

## Recommendations

We recommend that technical and further education institutes:

1. develop asset maintenance strategies if they do not already have them (see Section 3.2.1)
2. expand their asset management strategies to include short-term (one to three years), medium-term (four to nine years) and long-term (10+ years) plans (see Section 3.2.1)
3. work with the Department of Education and Training to identify a suitable software solution to effectively capture and record asset information to support strategic asset planning (see Section 3.2.2).

## Responses to recommendations

We have consulted with the Department of Education and Training and the 12 TAFEs, and we considered their views when reaching our audit conclusions. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report to those agencies and asked for their submissions and comments.

The following is a summary of those responses. The full responses are included in Appendix A.

The Department of Education and Training and Federation Training responded, and accepted the recommendations.



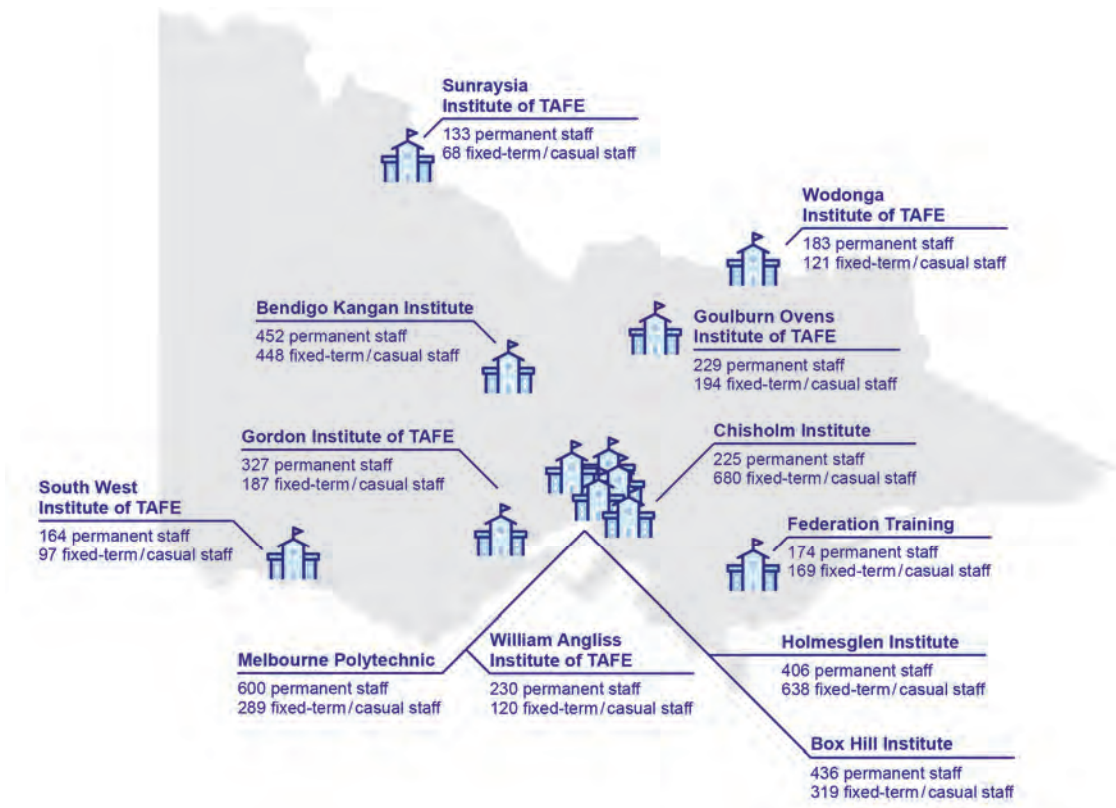
# 1 Context

The Victorian technical and further education (TAFE) sector delivers vocational education and training (VET) throughout Victoria. VET courses equip students with the practical and educational skills required for a variety of careers.

The sector is made up of 12 TAFE institutes and their 16 controlled entities. Since the financial result of each controlled entity is consolidated into its parent entity, we do not discuss them separately. Appendix B lists all 28 entities.

Figure 1A shows the TAFEs that operate across Victoria.

**Figure 1A**  
**TAFE locations and staff profiles in Victoria**



Source: VAGO.

In addition to the 12 TAFE institutes, four dual-sector universities also operate within the VET sector. They are included in our *Universities: 2016 Audit Snapshot* report.

TAFE institutes are established and governed under the *Education Training and Reform Act 2006* (ETRA). The main provisions of ETRA are to:

- outline the requirements for establishing a TAFE board and its governance responsibilities
- define the function and powers of TAFEs
- define the objectives of TAFEs.

The objectives of TAFEs are to:

- perform functions for the public benefit
- facilitate student learning
- collaborate as part of a strong network of public training providers.

TAFEs are 'public bodies' under the *Financial Management Act 1994* (FMA). They are required to comply with the FMA and with any general or specific direction given by the Minister for Finance. They are also subject to the *Public Administration Act 2004*, which provides a framework for governance in the public sector. Each TAFE board is accountable to the Minister for Training and Skills (the minister).

The Department of Education and Training (DET) is responsible for overseeing the sector on behalf of the minister. This includes the quality of the training TAFEs provide under VET contracts with Registered Training Organisations (RTO). DET funds the delivery of this training via a subsidy for each training hour delivered—known as contestable funding. RTOs compete with one another for this funding.

TAFEs compete directly with private training providers to deliver training to students in Victoria. Both the TAFEs and private providers are registered as RTOs with either the Victorian Registration and Qualifications Authority or the Commonwealth equivalent, the Australian Skills and Qualifications Authority.

## 1.1 TAFE funding model

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The TAFE funding model in Victoria has changed significantly over the past five years. In 2013 and 2014, TAFEs received only contestable funding and no recurrent grants from government. TAFEs were given one-off grants to fund the structural adjustments needed to transform their business operating models so that they could be competitive in a contestable environment.

We noted in our *Technical and Further Education Institutes: 2014 Audit Snapshot* report that most TAFEs were not able to adjust quickly enough to the funding model changes, and this resulted in significant deficits across the sector.

In November 2014, the government announced additional funding for TAFEs. This funding was to address the significant losses and the emerging going-concern risk in the short term because TAFE student numbers were falling.

Figure 1B illustrates the pattern of student enrolments from 2012 to 2015.

**Figure 1B**  
**Number of government-subsidised students in accredited and pre-accredited training by sector, 2012–2015**

	2012	2013	2014	2015
Private RTO	259 723	254 229	253 998	210 579
Learn Local <sup>(a)</sup>	57 414	51 656	47 851	48 344
TAFE	192 660	178 880	141 838	118 908
<b>Total</b>	<b>509 797</b>	<b>484 765</b>	<b>443 687</b>	<b>377 831</b>
TAFE market share	38%	37%	32%	31%

(a) In the Learn Local program, accredited community organisations offer tailored education and training.

Note: 2016 data was not available at the time of publishing this report.

Source: VAGO, based on Table 5-1, *Victorian Training Market Report 2015*, DET.

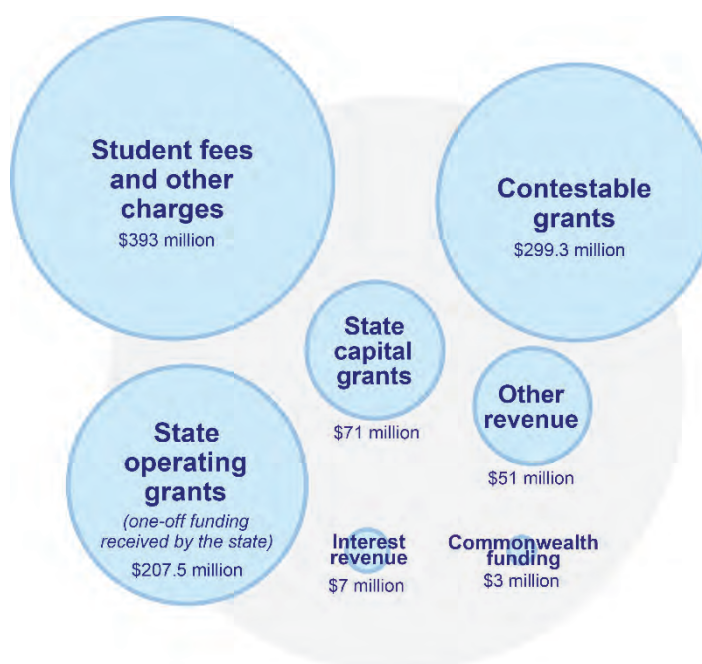
A TAFE Rescue Fund was introduced, with funding to be allocated over five years starting in 2014–15. The Rescue Fund included \$200 million for Community Service Funding over four years, and \$20 million to provide cash support where necessary across the sector.

The government has also set up additional funding to assist the sector:

- \$50 million—TAFE Funding Boost to improve training levels
- \$50 million—TAFE Back to Work Fund.

Figure 1C illustrates the TAFE funding sources for 2016.

**Figure 1C**  
**TAFE funding sources for 2016**



Source: VAGO.

To address the longer-term structural funding issue, an independent VET funding review was conducted and a report published in December 2015. The report made 109 recommendations on how to improve the TAFE sector in Victoria.

The government's response to this report included an outline of a new funding model, known as Skills First, which began in January 2017. The new model provides an initial \$114 million to TAFEs for the additional costs they face as public providers, and gives them opportunities to apply for additional funding for:

- high needs learners
- training in new, emerging and priority areas
- training in regional and rural communities
- community service obligations to support students
- building organisational capabilities.

## 1.2 What we cover in this report

In this report, we provide information on the outcomes of our financial audits of the 12 TAFEs and their 16 controlled entities for the year ended 31 December 2016.

We identify and discuss the key matters arising from our audits, and provide an analysis of the information included in the TAFEs' financial and performance reports. Figure 1D outlines the structure of the report.

**Figure 1D**  
**Report structure**

Part	Description
2 Results of audits	Comments on the results of the financial and performance report audits of the 12 TAFEs for the 2016 financial year. Includes a short overview of the performance reporting framework.
3 Internal controls	Summarises the internal control issues observed during our audits and comments on the asset maintenance policies and processes in place in the sector.
4 Financial sustainability	Provides an insight into the TAFE sector's financial sustainability risks and financial challenges.

Source: VAGO.

We carried out the financial audits of the 28 entities included in this report in accordance with section 8 of the *Audit Act 1994* and the Australian Auditing Standards. Each entity pays the cost of its audit.

The cost of preparing this report was \$154 000, which is funded by Parliament.



# 2 Results of audits

## 2.1 Financial report audit opinions

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Independent audit opinions add credibility to financial reports by providing reasonable assurance that the information reported is reliable and accurate. A clear audit opinion confirms that the financial report presents fairly the transactions and balances for the reporting period, in line with relevant accounting standards and applicable legislation. We carried out our financial audits of the technical and further education (TAFE) sector entities in accordance with the Australian Auditing Standards.

We issued 27 clear audit opinions for the financial year ended 31 December 2016 to 11 TAFEs and their 16 controlled entities. This year we did not need to include any emphasis of matter paragraphs in these opinions to draw attention to matters disclosed in the financial reports. We had included such a paragraph in some of our 2014 and 2015 audit opinions—Sunraysia in 2014 and 2015 and Melbourne Polytechnic in 2014—to highlight disclosures about their status as a going concern.

Each year, as part of our audit, we assess each TAFE's ability to meet its financial obligations. Although there were some TAFEs where this was considered a risk, these TAFEs provided adequate disclosure of their risks in the notes to their accounts, and received support from the Department of Education and Training (DET). As a result, we have not needed to mention any going-concern issues in our audit opinions in 2016.

These positive outcomes mean the financial reports of the sector are materially correct and reliable, with the exception of Federation Training.

### 2.1.1 Federation Training

We issued our audit opinion on Federation Training's 2014 financial report on 29 July 2016. We disclaimed our opinion on this financial report, which means we gave no assurance that the numbers were materially correct, because we could not obtain enough appropriate evidence to support them.

As explained in our opinion, Federation Training encountered a number of issues that adversely affected the preparation of its 2014 financial report:

- difficulties combining the financial records of Advance TAFE and Central Gippsland TAFE, which had merged to form Federation Training
- its inability to substantiate the records of Advance TAFE at 30 April 2014, the date of the merger
- issues with the implementation of a new student management system
- non-performance of key internal control activities
- the departure of senior staff.

As a result of these issues, we were unable to obtain enough appropriate evidence to substantiate the completeness, accuracy and validity of:

- underlying transactions and balances
- adjustments made to correct numbers coming from the student management system
- the classification of 2014 numbers and the reclassification of some of the 2013 numbers.

As the impact of these factors was material, and affected the whole financial report, we determined that we could not provide an audit opinion.

In our disclaimed opinion we also drew attention to the following matters:

- references in the notes to the financial report that some information was unaudited, which could be incorrectly interpreted as information outside the scope of the audit
- events that occurred after the balance date of 31 December, which should have been disclosed but were not
- a breach of the *Financial Management Act 1994* (FMA) because bank reconciliations were not performed each month
- discrepancies and inconsistencies between the main statements and the notes to the financial report.

Management at Federation Training have been working to address all of the issues we raised with them in the 2014 audit process. They have resolved many of these issues and improved their financial reporting. We have therefore been able to complete the audit of the 2015 financial report of Federation Training. We issued a qualified audit opinion on 9 May 2017.

We moved from a disclaimed financial report to a qualified financial report for 2015. We were unable to issue a clear opinion because not all issues relating to recording and recognition of revenue balances had been resolved in time to ensure the completeness and accuracy of information derived from the student management system. We were therefore unable to form an opinion on the transactions and balances drawn from this system for both 2014 and 2015. Those transactions and balances include sale of goods and services revenue, accounts receivable, revenue received in advance and the provision for doubtful debtors.

Due to the work done by management, we were able to go back and conduct audit testing that verified the 2014 transactions and balances that were not drawn from the student management system. As a result, we did not qualify these numbers in our 2015 audit opinion.

We have started our audit of the 2016 financial report of Federation Training. We expect to finish that audit in 2017. In future years, we expect that Federation Training will be able to report in line with the FMA time frames.

## 2.2 Performance report audit opinions

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The *Education and Training Reform Act 2006* requires TAFEs to submit an annual statement of corporate intent (SOCl) to the Minister for Training and Skills (the minister), for the minister's agreement for each calendar year.

The SOCl includes compulsory key performance indicators (KPI) set by the minister, as well as performance indicators developed by the particular TAFE, and approved by its board.

TAFEs must establish a target for each KPI and report the actual result achieved against the target in their annual performance statement. We also audit these performance statements and they are published in each TAFE's annual report.

We issued clear audit opinions on 11 TAFE performance reports for the financial year ended 31 December 2016. We have not yet begun to audit Federation Training's 2016 performance report. A clear audit opinion confirms that the actual results are fairly presented. We do not form an opinion on whether the KPIs are relevant or appropriate as a measure of the performance of the TAFE.

A summary of the targets and actual results for each TAFE against the four mandatory KPIs is provided in Appendix E of this report. We provide some analysis and commentary of each TAFE's performance against the KPIs that measure efficiency and effectiveness in Part 4 of this report.

In our *Technical and Further Education Institutes: 2015 Audit Snapshot*, we commented that there was an opportunity for performance reporting to be enhanced if TAFEs linked performance indicators to strategic objectives in the performance report, and provided more comprehensive explanations of the variation between the target and the actual result for each KPI. These opportunities for improvement remain.

Assessment of a TAFE's performance needs to take into account what the TAFE was planning to achieve in the year. The performance indicators should measure whether and how well the TAFE achieved these objectives set out in the SOCl.

Our review of the 11 performance statements found that only Gordon TAFE demonstrated the link between its strategic objectives and performance indicators. Without this link, it is difficult for the public to determine if a TAFE is delivering as intended, and in all areas of strategic importance.

Explanations of variations between targets and results would be more useful if they included information about the underlying reason for the difference between a performance result and the target. The explanations provided often don't reveal the root cause or how a target was estimated. The absence of such information reduces understanding of how a TAFE has actually performed.

## 2.2.1 Performance reporting framework

DET implemented a performance reporting framework for the vocational education sector in March 2016 for the December 2015 year end.

The framework contains 29 indicators that measure performance on training delivery, outcomes, operating effectiveness, sustainability and compliance. DET has developed and implemented a web-based performance reporting tool to collect data for these indicators.

DET collects the underlying data from the sector at specific intervals:

- monthly collection of data on training delivery
- quarterly collection of data on sustainability
- annual collection of data on student satisfaction, operational effectiveness, compliance and outcomes.

The tool captures all of the performance data for the sector and can be accessed by all TAFEs, enabling them to benchmark their performance against a group of similar providers or the sector as a whole.

The tool can also be used by TAFE chief executive officers, chief finance officers, some chief operating officers, and relevant DET employees, who use it to monitor activities of the sector.

Of the 29 indicators recorded in the tool:

- 12 form a dashboard overview for each TAFE
- 16 are updated quarterly, with the remainder updated every year
- four are mandatory and are reported annually in the performance statement of each TAFE's audited and published performance report.

DET has a long-term plan to publicly report the outcome survey results for all Registered Training Organisations in the market. We support this plan as it will provide transparency on the sector's performance for students and the community.

DET is considering including additional mandatory indicators as part of this plan. Until then, the published performance statement will not include any measures of outcomes, so that TAFEs are not disadvantaged by reporting what could be commercial data.

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# 3 Internal controls

Effective internal controls help entities to meet their objectives reliably and cost-effectively. Strong internal controls are a prerequisite for delivering sound, accurate and timely external and internal financial reports.

In our annual financial audits, we consider the internal controls relevant to financial reporting and assess whether entities have managed the risk that their financial reports will not be complete and accurate. Poor internal controls make it more difficult for management of entities to comply with relevant legislation, and increase the risk of fraud and error.

## 3.1 Assessment of internal controls

To the extent we test them, we found that the internal controls at technical and further education (TAFE) institutes for financial reporting were adequate for ensuring that their financial reporting is reliable. However, we found some instances where important internal controls need to be strengthened, and financial reporting matters need to be addressed.

During our 2016 audits, we identified 25 internal control weaknesses and financial reporting issues across the 11 TAFEs, excluding Federation Training. This is a small number of issues and is a positive outcome for the sector.

We communicated all internal control weaknesses and financial reporting issues identified at TAFEs to their management and audit committees. Figure 3A shows the risk rating of the issues we identified, excluding the seven low-risk issues we reported. Low-risk issues are normally minor control weaknesses or opportunities to improve existing processes or internal controls. We define our risk ratings in Appendix C.

**Figure 3A**  
Reported issues by area and risk rating

Area of issue	Risk rating			Total
	Extreme	High	Medium	
Property, plant and equipment	–	1	4	5
Expenditure/accounts payable	–	–	2	2
Financial reporting	–	–	2	2
Governance	–	1	1	2
Information technology (IT) controls	–	1	3	4
Revenue/receivables	–	–	2	2
Reconciliations	–	–	1	1
<b>Total</b>	–	<b>3</b>	<b>15</b>	<b>18</b>

Source: VAGO.

Common issues across the sector related to:

- identification and recording of property, plant and equipment at some TAFEs
- IT controls, which are needed to protect computer applications, infrastructure and information assets from threats to security and access.

Some of the issues we reported related to poor access controls, and weaknesses in system user security.

### Status of matters raised in previous audits

As part of the financial audit process, we monitor internal control weaknesses and financial reporting issues identified in previous audits to ensure they are promptly resolved. We provide information to TAFE management and their respective audit committees about the status of these issues.

Figure 3B shows the number of internal control weaknesses and financial reporting issues raised in previous audits, with the resolution status by risk.

**Figure 3B**  
**Prior year issues by resolution status at 31 December 2016**

Status of prior period issue	Risk rating			Total
	Extreme	High	Medium	
Resolved	1	4	10	15
Unresolved	–	3	2	5
<b>Total</b>	<b>1</b>	<b>7</b>	<b>12</b>	<b>20</b>

Source: VAGO.

Twenty issues remained open at the start of 2016. Encouragingly, 75 per cent of these matters were resolved during 2016, including one extreme risk relating to a breach of the Standing Directions of the Minister for Finance in the *Financial Management Act 1994*, regarding delegations.

TAFEs are responding to the issues in our management letters, and as a result are strengthening the effectiveness of their internal control environment and financial reporting.

## 3.2 Asset maintenance

Each year we select one area of internal control and perform a more detailed review of the controls and related operating environment. For our 2016 audits we focused on asset maintenance, which underpins the value and useful lives assigned to assets.

TAFEs need well maintained assets to help them deliver educational services to the community efficiently and effectively. They also need to ensure that the assets they use are safe, in line with a legal and expected standard.

At 31 December 2016, the TAFE sector owned a portfolio of property, plant and equipment assets valued at \$1.95 billion. Seventy per cent of these assets require ongoing maintenance, and include buildings, plant and equipment, classroom fitout facilities and IT equipment.

Asset maintenance involves continuously monitoring the state of an asset, and undertaking works to keep it in a pre-determined state. To do this, each TAFE should have a sound asset maintenance framework in place.

The key elements of an effective asset maintenance framework are detailed in Figure 3C. We created Figure 3C from the following sources:

- *Sustaining Our Assets* policy, Department of Treasury and Finance, 2012
- *Guidelines for Developing an Asset Management Policy, Strategy and Plan*, Department for Victorian Communities, 2004
- *Better Practice Guide on the Strategic and Operations Management of Assets by Public Sector Entities*, Australian National Audit Office, 2010
- *Asset Management Accountability Framework*, Department of Treasury and Finance, 2016.

**Figure 3C**  
**Elements of an asset maintenance framework**

Component	Key elements
Asset management policies and strategies	<p>An asset maintenance strategy is in place that aligns with business strategy and comprises:</p> <ul style="list-style-type: none"> <li>• a maintenance plan</li> <li>• regular reviews</li> <li>• a funding plan</li> <li>• a risk management plan</li> <li>• appropriate reporting to board and executive management.</li> </ul> <p>An asset maintenance policy exists that includes:</p> <ul style="list-style-type: none"> <li>• regulatory requirements</li> <li>• roles and responsibilities—including authorisation requirements</li> <li>• an approach to asset maintenance and replacement—including when maintenance is required and what procedures need to be undertaken</li> <li>• the requirement to maintain an asset register</li> <li>• systems and procedures for measurement of asset performance</li> <li>• methods of disposal</li> <li>• adequacy of maintenance spending</li> <li>• life cycle maintenance and costing—including future requirements</li> <li>• funding requirements</li> <li>• contingency plans for maintenance of assets after natural disasters.</li> </ul>

**Figure 3C**  
**Elements of an asset maintenance framework— *continued***

Component	Key elements
Management practices	<ul style="list-style-type: none"> <li>• Adhering to asset maintenance policies and relevant legislative requirements</li> <li>• Evaluating asset performance, through assessment of physical condition, utilisation, functionality and financial performance</li> <li>• Periodic review of policies, practices and processes</li> <li>• Comprehensive review of assets held, condition of significant assets, and the replacement cycle</li> <li>• Ranking and evaluating acquisition proposals to determine the most effective use of limited capital funding</li> <li>• Comprehensive reporting to the board and executive</li> </ul>
Governance and oversight	<ul style="list-style-type: none"> <li>• Monitoring compliance with policy requirements</li> <li>• Reviewing and approving the asset management strategy</li> <li>• Assessing the risks associated with asset maintenance</li> <li>• Engaging internal audit to review policy compliance and practices</li> </ul>

Source: VAGO

Having an appropriate asset maintenance framework in place helps TAFEs plan and undertake targeted asset maintenance at the appropriate time for each asset. It also helps TAFEs comply with their legislative framework.

Under the TAFE Commercial Guidelines—which help TAFEs to comply with section 5.2.1 of the *Education and Training Reform Act 2006*—TAFEs must have an asset management plan in place. The plan needs to provide general guidance on the acquisition, operation and maintenance, renewal and disposal of assets.

Identifying the necessary level of investment in assets is important, but having enough money to meet this investment can be a challenge. This has been particularly so in the TAFE sector, which has faced significant financial challenges over the past three financial years. We discuss the spending on asset maintenance and the maintenance gap in Part 4 of this report.

### 3.2.1 TAFE asset maintenance frameworks

We observed many better practice components of an asset maintenance strategy in place at TAFEs. All TAFEs with asset maintenance strategies had incorporated them into their strategic plans. The linking of these key documents means capital works plans take into account the life of each asset, its potential maintenance needs and the time frame for replacement.

However, four TAFEs did not have an asset maintenance strategy in place during 2016. Of those TAFEs that did have asset maintenance strategies, we found that some did not have all elements of better practice.



The common weaknesses across the plans included:

- aspects of asset maintenance procedures not specified, such as who conducts and approves maintenance
- qualifications and experience not documented of those assessing asset maintenance requirements
- no contingency plans for maintenance of assets after natural disasters
- the level of accepted asset maintenance and associated risk not stated.

We noted that the asset maintenance strategies in place were focused on the short to medium term. These plans typically looked at time frames of five years or less. The Department of Treasury and Finance *Asset Management Accountability Framework* requires an asset maintenance strategy to incorporate plans for the short term (one to three years), medium term (four to nine years) and long term (10+ years). Given that most depreciating assets have a useful life of between five and 50 years, a long-term plan would enable TAFEs to make more accurate decisions about their asset maintenance and replacement needs.

All TAFEs have developed an asset maintenance program outlining the level of work to be achieved in a year. The actual delivery and spending against this program is regularly reported to management. At 10 TAFEs, the asset maintenance program contains detailed current information on asset condition. This is updated at least yearly, which assists with asset planning.

Other components of better practice we found at TAFEs included the existence of a current asset register and regular reporting to the board.

### 3.2.2 Governance and oversight

Management oversight of a TAFE's asset maintenance strategy, plan and spending is essential for ensuring that asset performance remains at appropriate levels to support the TAFE's goals.

All 12 TAFEs report information on asset maintenance to management, their boards and audit committees. At five TAFEs, this reporting is limited to just the amounts spent on asset maintenance. The frequency and detail of the reporting varied significantly between TAFEs.

Asset maintenance reporting could be improved by:

- better monitoring and reporting of compliance with policy requirements, including acquisition, operation and disposal policies
- periodically engaging internal audit to review compliance and practice
- including long-term maintenance requirements and progress against those requirements.

A lack of system support to capture, record and report on asset planning and maintenance contributes to limitations in reporting. Although five TAFEs use asset maintenance software, only one was able to provide us with:

- maintenance expenditure per asset
- ranking of assets based on risk
- condition assessment information for each asset.

For those TAFEs without asset maintenance software, manual reporting on asset performance such as budgeting and tracking expenditure against individual assets, condition assessments and life cycle information is time consuming and difficult.

DET is aware of this gap in the sector, and is currently considering options as part of its work on TAFE asset management.

---

# 4 Financial sustainability

An entity is considered to be financially sustainable if it can maintain operations over the long term based on existing revenue and expenditure policies. It must also be able to absorb short-term fluctuations to income and expenditure from reasonably foreseeable internal and external factors.

If an entity needs to significantly alter revenue or expenditure policies to maintain operations, in the absence of major external shocks, this indicates that the entity is not operating sustainably. Observations about sustainability can be made from examining past and projected trends in underlying financial data and in key indicators.

In this Part of the report, we analyse data for the past five years. The detailed data and calculations that underpin the analysis are provided in the appendices. Appendix D lists our financial sustainability risk indicators, risk assessment criteria, benchmarks and results against each indicator for the 12 TAFEs over the five financial years 2012 to 2016. Appendix E contains a summary of the four mandatory performance indicators that each TAFE reports on, with results and targets for 2015 and 2016.

## 4.1 Short-term health of the sector

The short-term financial health of the TAFE sector can be judged by looking at:

- the financial results achieved in a year
- the financial position at the end of the reporting year, and
- patterns and trends in financial results over time.

We have considered all these elements and find improvements across the board in the short-term financial health of the TAFE sector, which indicate to us that the financial health of the TAFE sector is improving. We looked at the net result over the past five years and noted a positive outcome at the sector level in 2016. Figure 4A shows that this is the second year of positive operating results for the sector—a turnaround from losses in 2013 and 2014—with a resulting improvement in liquidity.

**Figure 4A**  
**The TAFE sector's short-term sustainability 2012 to 2016**

Indicator	Average across all entities in the sector per year				
	2012	2013	2014	2015	2016
Net result	5.42%	-5.71%	-13.57%	4.01%	3.41%
Liquidity	1.87	1.81	2.25	2.89	3.06

*Note:* Figures from 2012–2015 will not match prior year snapshot reports because Federation Training, Advance TAFE and Central Gippsland TAFE were not previously included.

*Note:* 2015 figures include Federation Training's qualified revenue figures and 2016 includes Federation Training's unaudited figures.

*Source:* VAGO.

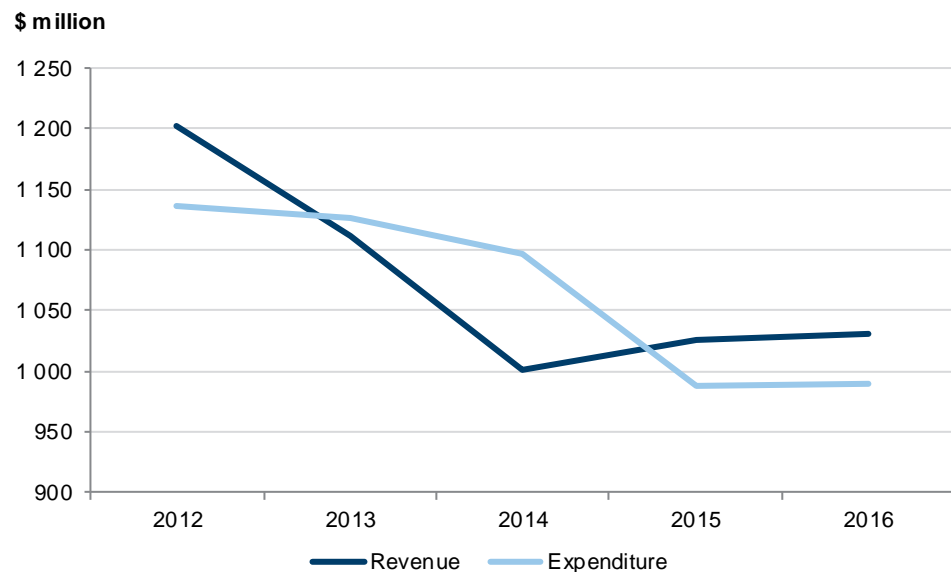
Despite losses in 2013 and 2014, the liquidity of the sector has been strong and is getting stronger. Liquidity measures whether the sector has enough liquid assets, such as cash, to meet short-term commitments. The sector average result of 3.06 for 2016 indicates that the sector as a whole should be able to meet all commitments as they fall due during 2017.

The TAFE sector generated a combined net profit of \$42.9 million in 2016. This is an increase of \$5.1 million (13 per cent) on 2015 and a significant turnaround of \$139.5 million from the \$96.6 million loss in 2014.

### 4.1.1 How the sector improved

The net result of the sector has improved because revenue has been increasing in 2015 and 2016 while expenditure continues to decline. Figure 4B shows the trend in both revenue and expenditure for the sector over the past five years.

**Figure 4B**  
**Financial overview of TAFE sector, 31 December 2012 to 2016**



Source: VAGO.

From 2012 to 2014, the TAFE sector's revenue decreased substantially due to a change in the way government funded the sector.

Government funding became contestable in 2013. This meant TAFEs no longer received financial support for operations and were funded based on student enrolments. They had to compete with the private sector for students, while total student numbers were falling, which reduced the available revenue pool.

This change in the funding model, coupled with declining student numbers, led to financial viability issues for the sector in 2013 and 2014.

The improvement in revenue in 2015 and 2016 has been driven by additional government grant funding, rather than growth in revenue. Student numbers continued to fall, and all other sources of revenue such as student fees and contestable funding declined in 2015 and 2016.

The decline in revenue from income rather than grants ultimately reduces TAFEs' financial flexibility, and thereby their fiscal autonomy. The sector received a total of \$278.6 million in state government grants in 2016, up from a low of \$74.6 million in 2014 and \$211.9 million in 2015.

The new Skills First funding model will apply in 2017. This is expected to provide opportunities for TAFEs to receive further government financial support in targeted areas. As a result, we expect revenue growth to be maintained, and there are opportunities for the financial sustainability of the sector to further improve.

#### 4.1.2 Opportunity for further improvement

The sector continues to focus on efficiency and reducing expenditure to improve its financial outcomes.

Total expenditure in the sector declined by \$147.3 million (13 per cent) from 2012 to 2016. Most of these savings were achieved by reductions in employee benefits payments. Redundancy payments made in 2013 and 2014 added to employee costs, while recent decreases reflected no further significant redundancies and savings achieved through lower staff numbers.

The results from the TAFEs' performance reporting indicate they expect to achieve further efficiencies in operations. Efficiency and effectiveness is measured in the performance statement of each TAFE through two measures:

- employment costs as a percentage of revenue
- training revenue per full-time-equivalent (FTE) teaching staff member.

The board of each TAFE sets targets for these measures before the start of the financial year.

The performance statement results for 2016 show that most TAFEs have not achieved their own set targets for these two measures. They also show that for some TAFEs the actual result in 2016 is less than what was achieved in 2015.

Figure 4C provides a summary of the results of these two mandatory indicators against the target for each TAFE. The 2015 targets and results are included in Appendix E.

**Figure 4C**  
**Results for mandatory indicators reporting in**  
**TAFE performance reports, at 31 December 2016**

TAFE institute	Employment costs as a proportion of training revenue		Training revenue per teaching FTE	
	Target	Actual	Target	Actual
Bendigo Kangan Institute	83.1%	81.2%	\$242 826	\$238 521
Box Hill Institute	82.0%	107.0%	\$156 500	\$156 300
Chisholm Institute	65.0%	69.8%	\$200 000	\$192 752
Gordon Institute of TAFE	97.0%	125.0%	\$147 905	\$123 009
Goulburn Ovens Institute of TAFE	108.7%	109.8%	\$151 568	\$127 815
Holmesglen Institute	74.0%	76.4%	\$213 034	\$195 111
Melbourne Polytechnic	88.4%	97.4%	\$153 492	\$198 008
South West Institute of TAFE	96.4%	134.0%	\$164 003	\$120 002
Sunraysia Institute of TAFE	85.0%	133.0%	\$200 000	\$117 517
William Angliss Institute of TAFE	65.0%	73.1%	\$220 000	\$223 740
Wodonga Institute of TAFE	86.9%	97.7%	\$165 178	\$171 123

Note: Actual results in red = target not achieved. Actual results in green = target achieved.

Source: VAGO.

Declining student revenue would have affected the results in Figure 4C. However, taking this into account, the results against the targets show that the TAFEs themselves expected to operate more efficiently and effectively in 2016 than they did.

Figure 4C also shows that there is a wide variation in the targets set by TAFEs for each indicator. There is no benchmark as to what the targets for these measures should be for an efficient and effective TAFE.

Some variation in targets would be expected to account for the different metropolitan, regional and rural locations where courses are delivered, and differences in the mix of courses and teaching requirements. However, the absence of a benchmark makes it difficult to determine whether the targets we are using to assess the actual performance of TAFEs are reasonable.

## 4.2 Maintaining and replacing assets

Asset maintenance and renewal is an emerging risk for the sector. The TAFE sector is asset rich and its large investment in long-lived physical assets presents longer-term financial sustainability challenges.

With such a large portfolio of assets and a constrained financial environment, it is difficult for the TAFE sector to make funding available for new assets, major maintenance and renewal.

We have flagged this challenge in previous reports and noted that, if not addressed, over time the assets of the TAFE sector may no longer be fit to deliver the educational outcomes the community is seeking. This has not changed in 2016.

At the end of 2016, the TAFE sector had total assets of \$2 659.7 million, of which about 73 per cent is property, plant and equipment. Figure 4D provides a summary of the total assets of the TAFE sector from 31 December 2012 to 2016.

**Figure 4D**  
**Summary of TAFE sector assets at 31 December, 2012 to 2016**

Indicator	2012 (\$m)	2013 (\$m)	2014 (\$m)	2015 (\$m)	2016 (\$m)
Total assets	2 455.3	2 509.2	2 419.8	2 495.3	2 659.7

*Note:* 2014, 2015 and 2016 figures include Federation Training results.

*Source:* VAGO.

Figure 4D shows that a decrease in assets occurred in 2014. At that time, some TAFEs sold off assets as part of their response to the changing funding environment and the need to reduce costs and overheads. The recent growth in 2016 is due to the revaluation of existing assets.

We measure the level of spending on asset renewal and replacement using a capital replacement indicator. It compares spending on asset renewal and replacement in a year to depreciation, which is an approximation of the level of assets consumed.

Figure 4E shows our capital replacement indicator results for the sector for the past five financial years.

**Figure 4E**  
**Financial sustainability of the TAFE sector, 2012 to 2016**

Indicator	Average across all entities in the sector per year				
	2012	2013	2014	2015	2016
Capital replacement ratio	1.47	1.15	0.69	0.55	1.48

*Note:* Figures from 2012–2015 will not match prior year snapshot reports because Federation Training, Advance TAFE and Central Gippsland TAFE were not previously included.

*Source:* VAGO.

Figure 4E shows a downward trend from 2012 to 2015, with the TAFE sector only spending half the amount on asset replacement and renewal compared to the amount of assets consumed. This is significantly below a ratio of one to one, which is the long-term benchmark we consider is needed to maintain asset function.

The improvement in capital replacement results in 2016 is because the sector received \$71 million in capital grants from government. The bulk of this funding was for three TAFEs and specific projects:

- \$22.6 million to Bendigo Kangan Institute, of which \$17.7 million is for a new Health and Community Centre of Excellence
- \$17.8 million to Chisholm Institute, most of which is for the Frankston campus redevelopment
- \$9.1 million to Box Hill for the Yarra Ranges technical school.

This funding on a limited number of projects masks much lower expenditure on self-funded asset renewal and replacement in the 2016 year than our capital replacement ratio recommends.

#### 4.2.1 Asset maintenance spending

We also looked at the level of spending on asset maintenance across the TAFE sector to see if this spending mirrored the trend in capital replacement. The results show that the level of spending on maintenance is not enough to sustain the TAFE asset portfolio.

Asset maintenance spending has remained consistently low over the past five years, fluctuating between \$15.8 million and \$19 million.

During 2016, the Department of Education and Training (DET) gathered detailed information from the TAFEs and performed an analysis to quantify the maintenance spending and needs of the sector.

The DET analysis of maintenance spending has been done in the context of asset replacement value, which is the amount that will be required to replace an asset if the asset is lost. It is different to the fair value that is reported in the financial statements, which is the market value or written down value of the asset.

Figure 4F shows each TAFE's asset maintenance expenditure for 2016 as a percentage of the estimated total asset replacement value.



**Figure 4F**  
**Spending on maintenance as a percentage of asset replacement value for each TAFE in 2016**

TAFE institute	Maintenance expenditure 2016 (\$m)	Asset replacement value (\$m)	Percentage
Bendigo Kangan Institute	1.154	461.2	0.3%
Box Hill Institute	2.203	354.4	0.6%
Chisholm Institute	2.878	372.0	0.8%
Federation Training	1.459	180.5	0.8%
Gordon Institute of TAFE	1.589	86.3	1.8%
Goulburn Ovens Institute of TAFE	0.766	175.0	0.4%
Holmesglen Institute of TAFE	2.932	447.9	0.7%
Melbourne Polytechnic	2.159	225.9	1.0%
South West Institute of TAFE	0.403	91.8	0.4%
Sunraysia Institute of TAFE	1.152	87.9	1.3%
William Angliss Institute of TAFE	1.498	120.0	1.25%
Wodonga Institute of TAFE	0.844	71.4	1.2%
<b>Total</b>	<b>19.037</b>	<b>2 674.3</b>	<b>0.7%</b>

Source: VAGO, based on data from DET.

DET's general guideline is that a TAFE should spend between 2 and 2.5 per cent of the asset replacement value on asset maintenance every year.

Figure 4F illustrates that in 2016 the TAFE sector did not achieve this, and spending in the sector was significantly lower than needed at an average of only 0.7 per cent. No individual TAFE achieved the 2 per cent benchmark.

Over time, the year-on-year underspend on asset maintenance creates a backlog of maintenance that increases the cost of bringing an asset up to an acceptable standard. This is currently creating challenges for some TAFEs.

DET asked each TAFE to estimate the condition of its assets and its maintenance backlog. The results are summarised in Figure 4G.

Using the backlog figure, DET has been able to calculate a facilities condition index for each TAFE. This measure allows comparison of relative asset condition across the sector.

**Figure 4G**  
**Backlog maintenance estimate and facilities condition index**

TAFE institute	Maintenance backlog estimate (\$m)	Asset replacement value (\$m)	Facilities condition index (FCI)	Condition scale assessment <sup>(a)</sup>
Bendigo Kangan Institute	15.3	461.2	3.30%	Good
Box Hill Institute	5.4	354.4	1.53%	Good
Chisholm Institute	17.0	372.0	4.57%	Good
Federation Training	10.1	180.5	5.59%	Fair
Gordon Institute of TAFE	9.9	86.3	11.48%	Poor
Goulburn Ovens Institute of TAFE	3.3	175.0	1.88%	Good
Holmesglen Institute of TAFE	6.9	447.9	1.55%	Good
Melbourne Polytechnic	32.8 <sup>(b)</sup>	225.9	6.9%	Fair
South West Institute of TAFE	2.2	91.8	2.36%	Good
Sunraysia Institute of TAFE	10.1	87.9	11.47%	Poor
William Angliss Institute of TAFE	2.1	120.0	1.78%	Good
Wodonga Institute of TAFE	5.7	71.4	7.98%	Fair
<b>Total</b>	<b>120.8</b>	<b>2 674.3</b>	<b>5.03%</b>	<b>Fair</b>

(a) Good = 0–5, Fair = 5–10, Poor = 10+.

(b) This excludes \$100 million required for the Aradale Asylum site, which was allocated to Melbourne Polytechnic and is currently in very poor condition.

Source: VAGO, based on data from DET.

DET's assessment shows that the condition of assets has been rated as good at seven TAFEs. There is a larger challenge at the five TAFEs whose asset condition is rated as fair or poor. At the two TAFEs with assets assessed as poor, there is a higher risk that some of their assets may become unfit for purpose due to a lack of maintenance.

All the evidence shows that asset maintenance is an emerging risk for the sector. DET is aware of the risk and has begun work on the strategic asset planning and maintenance issues in the TAFE sector.

TAFEs are to receive maintenance funding from government starting in 2017, with \$41.6 million to be distributed to the sector in 2017, followed by more in future years to address the maintenance backlog. It is important that TAFEs quickly use the funding to reduce the maintenance backlog.

## Appendix A.

# *Audit Act 1994* section 16— submissions and comments

We have consulted with all technical and further education institutes and the Department of Education and Training throughout the course of the audit. As required by section 16(3) of the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those entities and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the entity head.

Responses were received as follows:

Department of Education and Training.....	24
Federation Training .....	26

**RESPONSE provided by the Secretary, Department of Education and Training**



Department of  
Education & Training  
Office of the Secretary

2 Treasury Place  
East Melbourne Victoria 3002  
Telephone: +613 9637 2000  
DX210083

BRI012257

Mr Andrew Greaves  
Auditor-General  
Victorian Auditor-General's Office  
Level 24, 35 Collins Street  
MELBOURNE 3000



Dear Mr Greaves

Thank you for your letter of 12 May 2017 providing the Department of Education and Training with the opportunity to comment, under section 16(3) of the *Audit Act 1994*, on the proposed audit report *Technical and Further Education Institutes: 2016 Audit Snapshot*.

The Department has reviewed the report provided and accepts VAGO's recommendations. The Department is committed to addressing the recommendations and its action plan is at **Attachment 1**.

Completion of the actions addressing the recommendations will be monitored via the Department's internal audit tracking registers and reviewed regularly by the Executive Board and the Portfolio Audit and Risk Committee as part of the Department's standard procedures.

If you would like further information, you may contact Heather Whitaker, Acting Executive Director, TAFE and Participation, Higher Education and Skills Group, Department of Education and Training, on 9637 2496 or by email: whitaker.heather.h@edumail.vic.gov.au.

Yours sincerely

Gill Callister  
Secretary  
26/5/2017



**RESPONSE provided by provided by the Secretary, Department of Education and Training – continued**

Attachment 1

VAGO Report – Technical and Further Education Institutes: 2016 Audit Snapshot

Recommendation	Actions	Indicative Timeframe
1. TAFEs without asset maintenance strategies develop them	<p><b>Accept</b></p> <p>The Department commissioned, in consultation with TAFEs, the TAFE Asset Decision-making Strategy (the Strategy). The Strategy captures key metrics to assist the Department, Ministers, TAFE and dual sector universities to better manage the sector's assets.</p> <p>The Strategy provides opportunities to:</p> <ul style="list-style-type: none"> <li>strategically align all TAFE assets with current and future service delivery expectations, supporting the sector to achieve key objectives and priorities;</li> <li>establish a comprehensive understanding of the ownership and management arrangements of the portfolio, supporting the attestation requirements of the Department of Treasury and Finance's Asset Management Accountability Framework (AMAF);</li> <li>develop and support consistent standards, process and asset management capability; and</li> <li>support institutes to improve and enhance the student experience across the Victorian VET sector.</li> </ul> <p>The Department confirms that all TAFEs have an asset management strategy, including maintenance strategies, in place. The Department will require TAFEs to keep asset management strategies current.</p>	June 2017, Ongoing
2. TAFE asset management strategies be expanded to include short (1-3 year) medium (4-9 years) and long term (10+ years) plans	<p><b>Accept</b></p> <p>The Department confirms that all TAFEs have expanded their asset management strategies to include short, medium and long-term asset plans.</p>	June 2017
3. TAFEs work with the Department of Education & Training to identify a suitable software solution to facilitate effective capture and recording of asset information to support strategic asset planning	<p><b>Accept</b></p> <p>To comply with the Department of Treasury and Finance's AMAF, the Department has approved a project management system for monitoring and reporting on all capital works projects for the past year. The Department is working to improve the functionality of the project management system, ensuring that it captures a variety of reporting information required by TAFEs, including the totality of the maintenance program.</p> <p>The Department will work with TAFEs to:</p> <ul style="list-style-type: none"> <li>purchase an <b>Integrated Asset Management System</b> that is a systematic process of deploying, operating, maintaining, upgrading, and disposing of assets cost-effectively. Given that TAFEs each employ an individual asset management system, a grant is being offered to develop a system, that the Department anticipates will be employed by all 12 Victorian TAFE Institutes; and</li> <li>conduct a <b>Coordinated Condition Assessment</b>, including an environmental audit.</li> </ul>	December 2017

**RESPONSE provided by the Managing Director, Federation Training**



26 May 2017

Attention: Auditor General  
VAGO  
Level 24  
35 Collins Street  
MELBOURNE VIC 3000



Dear Mr Greaves,

**Re: Technical and Further Education Institutes: 2016 Audit Snapshot**

You have requested feedback in relation to the 2016 VAGO Audit Snapshot report.

Federation Training concur with your recommendations relating to the asset management and maintenance strategies and we have included these recommendations as actions during the 2017 calendar year. The remainder of the report presents a fair view of Federation Training.

If you have any questions in relation to this matter, please contact Darrin Day on 03 9251 3029 or Joe Piper on 03 5127 0230.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jonathan Davis".

Jonathan Davis  
Managing Director

BAIRNSDALE | CHADSTONE | LAKES ENTRANCE | LEONGATHA | MORWELL | SALE | TRARALGON | WARRAGUL | YALLOURN

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## Appendix B.

# Audit opinions issued

Figure B1 lists the entities included in this report. It details the date an audit opinion was issued to each entity for their 2016 financial statements, and the nature of that opinion.

**Figure B1**  
**Audit opinions issued**

Entity	Clear audit opinion issued	Auditor-General's report signed
<b>TAFEs</b>		
Bendigo Kangan Institute	✓	6 Mar 17
Box Hill Institute	✓	23 Mar 17
Chisholm Institute	✓	7 Mar 17
Federation Training	Not signed yet	Not signed yet
Gordon Institute of TAFE	✓	22 Mar 17
Goulburn Ovens Institute of TAFE	✓	17 Mar 17
Holmesglen Institute	✓	23 Mar 17
Melbourne Polytechnic	✓	7 Mar 17
South West Institute of TAFE	✓	23 Mar 17
Sunraysia Institute of TAFE	✓	30 Mar 17
William Angliss Institute of TAFE	✓	17 Mar 17
Wodonga Institute of TAFE	✓	9 May 17
<b>Controlled entities</b>		
William Angliss Institute Foundation	✓	10 Mar 17
William Angliss Institute Pty Ltd	✓	17 Mar 17
Angliss Consulting Pty Ltd	✓	10 Mar 17
Angliss Multimedia Pty Ltd	✓	10 Mar 17
Angliss Solutions Pty Ltd	✓	10 Mar 17
Box Hill Enterprises Ltd	✓	23 Mar 17
Caroline Chisholm Foundation	✓	7 Mar 17
Chisholm Academy Pty Ltd	✓	10 Mar 17
Driver Education Centre Australia	✓	9 May 17
Glenuc Pty Ltd	✓	10 Mar 17
Gotec Limited	✓	23 Mar 17

**Figure B1**  
**Audit opinions issued – *continued***

Entity	Clear audit opinion issued	Auditor-General's report signed
<b>Controlled entities</b>		
Holmesglen Foundation	✓	10 Mar 17
Holmesglen International Training Services Pty Ltd	✓	10 Mar 17
John Batman Consultancy and Training Pty Ltd	✓	18 May 17
TAFE Online Pty Ltd	✓	7 Mar 17
TAFE Kids Incorporated	✓	24 Mar 17

Source: VAGO.





# Appendix C.

## Management letter risk ratings

Figure C1 shows the risk ratings applied to management letter issues raised during a financial audit.

**Figure C1**  
Definitions of risk ratings for issues reported in audit management letters

Rating	Definition	Management action required
<b>Extreme</b>	<p>The matter represents:</p> <ul style="list-style-type: none"> <li>a control weakness that could cause or is causing <b>severe</b> disruption of the process or severe adverse effect on the ability to achieve process objectives and comply with relevant legislation, or</li> <li>a <b>material</b> misstatement in the financial report has occurred.</li> </ul>	<p>Requires immediate management intervention with a detailed action plan to be implemented within one month.</p> <p>Requires executive management to correct the material misstatement in the financial report as a matter of urgency to avoid a qualified audit opinion.</p>
<b>High</b>	<p>The matter represents:</p> <ul style="list-style-type: none"> <li>a control weakness that could have or is having a <b>major</b> adverse effect on the ability to achieve process objectives and comply with relevant legislation, or</li> <li>a <b>material</b> misstatement in the financial report that is likely to occur.</li> </ul>	<p>Requires prompt intervention by managers with a detailed action plan implemented within two months.</p> <p>Requires executive management to correct the material misstatement in the financial report to avoid a qualified audit opinion.</p>
<b>Medium</b>	<p>The matter represents:</p> <ul style="list-style-type: none"> <li>a control weakness that could have or is having a <b>moderate</b> adverse effect on the ability to achieve process objectives and comply with relevant legislation, or</li> <li>a misstatement in the financial report that is not material and has occurred.</li> </ul>	<p>Requires intervention by managers with a detailed action plan implemented within three to six months.</p>
<b>Low</b>	<p>The matter represents:</p> <ul style="list-style-type: none"> <li>a <b>minor</b> control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation, or</li> <li>a misstatement in the financial report that is likely to occur but is not expected to be material, or</li> <li>an opportunity to improve an existing process or internal control.</li> </ul>	<p>Requires management intervention with a detailed action plan implemented within six to 12 months.</p>

Source: VAGO.



## Appendix D.

# Financial sustainability risk indicators

Figures D1 and D2 set out the definitions and criteria applied in this report from prior years that we use when assessing risks to financial sustainability in the TAFE sector.

The financial sustainability indicators used in this report are indicative and highlight risks to ongoing financial sustainability at a sector level.

It is important to note that forming a definitive view of financial sustainability requires a holistic analysis that moves beyond historical financial considerations to also include consideration of financial forecasts and plans, operations and an entity's environment.

Figure D1 shows the indicators we used to assess the financial sustainability risks of the entities covered in this report. These indicators should be considered collectively, and are more useful when assessed over time as part of a trend analysis.

**Figure D1**  
**Financial sustainability risk indicators**

Indicator	Formula	Description
Net result (%)	$\frac{\text{Net result}}{\text{Total revenue}}$	A positive result indicates a surplus, and the larger the percentage, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Net result and total revenue is obtained from the comprehensive operating statement.
Liquidity (ratio)	$\frac{\text{Current assets}}{\text{Current liabilities}}$	This measures the ability to pay existing liabilities in the next 12 months. A ratio of one or more means there are more cash and liquid assets than short-term liabilities.
Capital replacement (ratio)	$\frac{\text{Cash outflows for property, plant and equipment}}{\text{Depreciation}}$	Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the rate of depreciation. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are not enough funds available from operations, and borrowing is not an option. Cash outflows for infrastructure are taken from the cash-flow statement. Depreciation is taken from the comprehensive operating statement.
Internal financing (%)	$\frac{\text{Net operating cash flow}}{\text{Net capital expenditure}}$	This measures the ability of an entity to finance capital works from generated cash flow. The higher the percentage, the greater the ability for the entity to finance capital works from their own funds. Net operating cash flows and net capital expenditure are obtained from the cash flow statement.

Source: VAGO.

Our analysis of financial sustainability risk in this report reflects on the position of each TAFE and its controlled entities (each consolidated TAFE).

## Financial sustainability risk assessment criteria

The financial sustainability risk of each TAFE has been assessed using the criteria outlined in Figure D2.

**Figure D2**  
**Financial sustainability risk indicators—risk assessment criteria**

Risk	Net result	Liquidity	Capital replacement	Internal financing
<b>High</b>	<b>Negative 10% or less</b> Insufficient revenue is being generated to fund operations and asset renewal.	<b>Less than 0.75</b> Immediate sustainability issues with insufficient current assets to cover liabilities.	<b>Less than 1.0</b> Spending on capital works has not kept pace with consumption of assets.	<b>Less than 10%</b> Limited cash generated from operations to fund new assets and asset renewal.
<b>Medium</b>	<b>Negative 10%–0%</b> A risk of long-term rundown of cash reserves and inability to fund asset renewals.	<b>0.75–1.0</b> Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	<b>1.0–1.5</b> Could indicate that not enough is being spent on asset renewal.	<b>10–35%</b> Might not be generating enough cash from operations to fund new assets.
<b>Low</b>	<b>More than 0%</b> Generating surpluses consistently.	<b>More than 1.0</b> No immediate issues with repaying short-term liabilities as they fall due.	<b>More than 1.5</b> Low risk of not spending enough on asset renewal.	<b>More than 35%</b> Generating enough cash from operations to fund new assets.

Source: VAGO.

## Financial sustainability risk analysis results

Figures D3 to D17 show the financial sustainability risk for each consolidated TAFE institute from 2012 to 2016.

**Figure D3**  
**Advance TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	-3.36%	1.65	0.84	34%
2013	-50.94%	1.01	0.22	0.00%
2014	–	–	–	–
2015	–	–	–	–
2016	–	–	–	–

Note: Advance TAFE merged with Central Gippsland Institute of TAFE on 1 July 2014 to form Federation Training.

Source: VAGO.

**Figure D4**  
**Bendigo Kangan Institute**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	0.53%	1.10	0.60	286%
2013	0.30%	1.37	0.30	134%
2014	-13.42%	2.35	0.11	488%
2015	2.17%	2.37	0.23	751%
2016	2.72%	2.86	0.53	166%

Note: Bendigo TAFE merged with Kangan Institute on 1 July 2014. Results for 2012 to 2014 represent Bendigo TAFE only. From 2015, the combined results of Bendigo Kangan Institute are shown.

Source: VAGO.

**Figure D5**  
**Box Hill Institute**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	7.99%	2.44	2.85	81%
2013	-2.77%	2.27	3.49	0%
2014	-7.50%	2.14	0.66	0%
2015	7.23%	2.83	1.18	194%
2016	2.13%	2.16	5.10	25%

Source: VAGO.

**Figure D6**  
**Central Gippsland Institute of TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	12.65%	1.10	2.91	148%
2013	-14.96%	1.28	1.05	1.57%
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-

Note: Advance TAFE merged with Central Gippsland Institute of TAFE on 1 July 2014 to form Federation Training.

Source: VAGO.

**Figure D7**  
**Chisholm Institute**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	2.66%	1.48	1.02	78%
2013	22.65%	2.40	2.73	160%
2014	20.67%	3.02	3.83	116%
2015	4.84%	4.10	0.58	391%
2016	9.51%	4.55	0.98	362%

Source: VAGO.

**Figure D8**  
**Federation Training**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	-	-	-	-
2013	-	-	-	-
2014	-26.76%	0.87	0.49	0%
2015	-0.65%	2.02	0.10	1192%
2016	1.96%	2.44	0.27	804%

Note: Advance TAFE merged with Central Gippsland Institute of TAFE on 1 July 2014 to form Federation Training.

Note: 2014 figures are disclaimed, 2015 are qualified and 2016 are unaudited.

Source: VAGO.

**Figure D9**  
**Gordon Institute of TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	13.16%	3.98	1.49	200%
2013	0.79%	4.49	0.23	305%
2014	-18.51%	5.30	0.33	0%
2015	-1.65%	6.28	0.37	869%
2016	1.61%	5.77	0.96	238%

Source: VAGO.

**Figure D10**  
**Goulburn Ovens Institute of TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	15.40%	3.29	0.72	506%
2013	11.21%	3.19	0.50	741%
2014	-31.23%	3.60	0.27	0%
2015	-2.97%	3.55	0.34	87%
2016	2.05%	3.90	0.33	444%

Source: VAGO.

**Figure D11**  
**Holmesglen Institute**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	5.35%	1.02	1.75	127%
2013	-4.20%	0.41	0.64	937%
2014	-7.90%	1.80	0.73	0%
2015	9.88%	2.16	0.68	138%
2016	10.43%	2.54	0.79	404%

Source: VAGO.

**Figure D12**  
**Kangan Institute of TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	-0.71%	1.69	1.13	26%
2013	3.18%	1.41	0.97	199%
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-

Note: Kangan Institute merged with Bendigo TAFE on 1 July 2014. The combined results are shown as Bendigo Kangan Institute.

Source: VAGO.

**Figure D13**  
**Melbourne Polytechnic**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	3.34%	2.19	2.07	100%
2013	-28.05%	1.03	1.06	0%
2014	-16.90%	0.62	0.23	0%
2015	-2.50%	1.08	0.04	29783%
2016	-1.84%	1.18	1.12	64%

Source: VAGO.

**Figure D14**  
**South West Institute of TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	-1.73%	1.08	0.97	78%
2013	-12.59%	1.45	0.67	0%
2014	-31.60%	0.86	0.22	0%
2015	3.47%	2.75	0.25	23%
2016	0.38%	2.21	1.76	80%

Source: VAGO.



**Figure D15**  
**Sunraysia Institute of TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	0.28%	1.68	0.62	199%
2013	4.54%	1.61	1.40	166%
2014	-44.34%	0.72	0.98	30%
2015	16.92%	1.53	1.81	188%
2016	1.15%	1.86	2.50	60%

Source: VAGO.

**Figure D16**  
**William Angliss Institute of TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	-2.22%	1.38	0.65	0%
2013	-11.34%	1.20	0.46	0%
2014	-1.65%	1.37	0.17	0%
2015	5.09%	1.49	0.25	1666%
2016	9.09%	1.89	1.92	144%

Source: VAGO.

**Figure D17**  
**Wodonga Institute of TAFE**

Year	Net result	Liquidity	Capital replacement	Internal financing
2012	22.52%	2.12	3.00	149%
2013	2.19%	2.28	2.39	0%
2014	2.44%	3.00	0.75	200%
2015	1.60%	3.66	0.31	754%
2016	0.25%	4.73	0.27	1471%

Source: VAGO.



## Appendix E.

# Mandatory performance indicators

Figures E1 to E12 show each technical and further education (TAFE) institute's reported performance against the four mandatory performance indicators for 2016 and 2015.

**Figure E1**  
**Bendigo Kangan Institute**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	49.9%	50.3%	48.9%	49.5%
• Fee for service	50.2%	49.7%	51.0%	50.5%
Employment costs as a proportion of training revenue	83.1%	81.2%	75.3%	82.2%
Training revenue per teaching FTE <sup>(a)</sup>	\$242 826	\$238 521	\$289 751	\$241 853
Operating margin percentage	0.3%	-17.6%	-6.6%	1.5%

(a) FTE = full-time equivalent.

Source: VAGO.

**Figure E2**  
**Box Hill Institute**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	63.0%	68.0%	66.0%	64.0%
• Fee for service	37.0%	33.0%	34.0%	36.0%
Employment costs as a proportion of training revenue	82.0%	107.0%	63.0%	89.0%
Training revenue per teaching FTE	\$156 500	\$156 300	\$334 400	\$217 400
Operating margin percentage	-8.2%	-8.8%	10.0%	-2.0%

Source: VAGO.

**Figure E3**  
**Chisholm Institute**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	50.1%	54.7%	56.5%	51.1%
• Fee for service	32.1%	25.7%	29.2%	31.1%
• Student fees and charges	17.8%	19.6%	16.8%	17.8%
Employment costs as a proportion of training revenue	65.0%	69.8%	65.7%	67.3%
Training revenue per teaching FTE	\$200 000	\$192 752	\$199 067	\$174 932
Operating margin percentage	0.0%	1.0%	2.7%	3.4%

Source: VAGO.

**Figure E4**  
**Federation Training**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	–	–	–	–
• Fee for service	–	–	–	–
Employment costs as a proportion of training revenue	–	–	–	–
Training revenue per teaching FTE	–	–	–	–
Operating margin percentage	–	–	–	–

Note: Federation Training performance statements were not complete at the time of reporting.

Source: VAGO.

**Figure E5**  
**Gordon Institute of TAFE**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	69.1%	69.2%	n/a	70.2%
• Fee for service	30.8%	30.8%	n/a	29.8%
Employment costs as a proportion of training revenue	97.0%	125.0%	n/a	110.0%
Training revenue per teaching FTE	\$147 905	\$123 009	n/a	\$134 517
Operating margin percentage	–31.8%	–4.9%	n/a	–6.9%

Note: n/a = target not set by TAFE.

Source: VAGO.

**Figure E6**  
**Goulburn Ovens Institute of TAFE**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	70.6%	58.0%	62.0%	57.9%
• Fee for service	29.4%	41.9%	38.0%	42.0%
Employment costs as a proportion of training revenue	108.7%	109.8%	58.3%	109.7%
Training revenue per teaching FTE	\$151 568	\$127 815	\$176 729	\$126 679
Operating margin percentage	-39.8%	3.6%	-8.9%	-3.6%

Source: VAGO.

**Figure E7**  
**Holmesglen Institute**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	32.0%	34.9%	n/a	30.7%
• Fee for service	68.0%	65.1%	n/a	69.3%
Employment costs as a proportion of training revenue	74.0%	76.4%	74.1%	81.4%
Training revenue per teaching FTE	\$213 034	\$195 111	n/a	\$215 128
Operating margin percentage	0.3%	3.6%	0.5%	0.9%

Note: n/a = target not set by TAFE.

Source: VAGO.

**Figure E8**  
**Melbourne Polytechnic**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	40.2%	34.4%	32.4%	30.5%
• Fee for service	59.8%	65.6%	67.6%	69.5%
Employment costs as a proportion of training revenue	88.4%	97.4%	75.4%	83.1%
Training revenue per teaching FTE	\$153 492	\$198 008	\$213 795	\$255 141
Operating margin percentage	0.0%	-1.9%	-8.1%	-2.5%

Source: VAGO.

**Figure E9**  
**South West Institute of TAFE**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	65.3%	64.0%	65.4%	62.3%
• Fee for service	34.7%	36.0%	34.6%	37.7%
Employment costs as a proportion of training revenue	96.4%	134.0%	78.4%	109.6%
Training revenue per teaching FTE	\$164 003	\$120 002	\$187 646	\$147 373
Operating margin percentage	-25.4%	-1.1%	-7.6%	-6.7%

Source: VAGO.

**Figure E10**  
**Sunraysia Institute of TAFE**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	71.0%	74.0%	86.0%	73.0%
• Fee for service	29.0%	26.0%	14.0%	27.0%
Employment costs as a proportion of training revenue	85.0%	133.0%	89.0%	109.0%
Training revenue per teaching FTE	\$200 000	\$117 517	\$191 891	\$156 231
Operating margin percentage	0.0%	-8.2%	6.2%	-2.7%

Source: VAGO.

**Figure E11**  
**William Angliss Institute of TAFE**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	22.0%	20.0%	n/a	25.0%
• Fee for service	78.0%	80.0%	n/a	75.0%
Employment costs as a proportion of training revenue	65.0%	73.1%	n/a	76.7%
Training revenue per teaching FTE	\$220 000	\$223 740	n/a	\$222 540
Operating margin percentage	n/a	9.4%	n/a	5.1%

Note: n/a = target not set by TAFE.

Source: VAGO.

**Figure E12**  
**Wodonga Institute of TAFE**

Performance indicator	2016		2015	
	Target	Actual	Target	Actual
Training revenue diversity:				
• Victorian Training Guarantee	52.3%	50.0%	n/a	54.0%
• Fee for service	48.8%	50.0%	n/a	46.0%
Employment costs as a proportion of training revenue	86.9%	97.7%	71.5%	82.1%
Training revenue per teaching FTE	\$165 178	\$171 123	n/a	\$150 075
Operating margin percentage	-11.8%	-0.1%	-2.5%	3.8%

Note: n/a = target not set by TAFE.

Source: VAGO.





# Appendix F.

## Glossary

### Accountability

Responsibility of public entities to achieve their objectives in reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

### Asset

An item or resource controlled by an entity that will be used to generate future economic benefits.

### Asset replacement value

The cost of rebuilding or replacing an existing capital asset to its initial standard.

### *Audit Act 1994*

Victorian legislation establishing the Auditor-General's operating powers and responsibilities and detailing the nature and scope of audits that the Auditor-General may carry out.

### Audit opinion

A written expression within a specified framework, indicating the auditor's overall conclusion about a financial (or performance) report based on audit evidence.

### Calendar year

A period of a year beginning with January 1 and ending with December 31.

### Capital expenditure

Money an entity spends on:

- new physical assets, including buildings, infrastructure, plant and equipment
- renewing existing physical assets to extend the service potential or life of the asset.

### Carrying value

The original cost of an asset, less the accumulated amount of any depreciation, less the accumulated amount of any asset impairment.

## Clear audit opinion

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in keeping with the requirements of the relevant legislation and Australian Accounting Standards—also referred to as an unqualified audit opinion.

## Current asset

An asset that will be sold or realised within 12 months of the end of the financial year being reported on, such as term deposits maturing in three months or stock items available for sale.

## Current liability

A liability that will be settled within 12 months of the end of the financial year being reported on, such as payment of a creditor for services provided to the entity.

## Deficit

When total expenditure is more than total revenue.

## Depreciation

The systematic allocation of the value of an asset over its expected useful life, recorded as an expense.

## Disclaimer of opinion

Conclusion expressed if the auditor is unable to obtain sufficient appropriate audit evidence on which to base an audit opinion, and the auditor concludes that the possible effects on the financial (or performance) report of undetected misstatements, if any, could be both material and pervasive.

## Emphasis of matter

A paragraph included in an audit opinion that refers to a matter appropriately presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.

## Entity

A corporate or unincorporated body that has a public function to exercise on behalf of the state or is wholly owned by the state, including departments, statutory authorities, statutory corporations and government business enterprises.

## Equity or net assets

Residual interest in the asset of an entity after deduction of its liabilities.

## Expense

The outflow of assets or the depletion of assets an entity controls during the financial year, including expenditure and the depreciation of physical assets. An expense can also be the incurrence of liabilities during the financial year, such as increases to a provision.

## Facilities condition index

The current condition of the asset measured relative to its as-new condition. The facilities condition index (FCI) is determined by the formula:  $FCI = 1 - (\text{Backlog maintenance} / \text{Asset replacement value})$

## Fair value

The price that would be received if an asset was sold or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## *Financial Management Act 1994*

Victorian legislation governing public sector entities, as determined by the Minister for Finance, including their financial reporting framework.

## Financial report

A document reporting the financial outcome and position of an entity for a financial year, which contains an entity's financial statements, including a comprehensive income statement, a balance sheet, a cash flow statement, a comprehensive statement of equity and notes.

## Financial Reporting Directions

Issued by the Minister for Finance for entities reporting under the *Financial Management Act 1994*, with the aim of:

- achieving consistency and improved disclosure in financial reporting for Victorian public entities by eliminating or reducing divergence in accounting practices
- prescribing the accounting treatment and disclosure of financial transactions in circumstances where there are choices in accounting treatment, or where existing accounting procurements have no guidance or requirements.

## Financial sustainability

An entity's ability to manage financial resources so it can meet its current and future spending commitments, while maintaining assets in the condition required to provide services.

## Financial year

A period of 12 months for which a financial report is prepared, which may be a different period to a calendar year.

## Going concern

An entity that is expected to be able to pay its debts when they fall due, and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

## Governance

The control arrangements used to govern and monitor an entity's activities to achieve its strategic and operational goals.

## Impairment

The amount by which the value of an entity's asset exceeds its recoverable value.

## Internal audit

A function of an entity's governance framework that examines and reports to management on the effectiveness of risk management, internal controls and governance processes.

## Internal control

A method of directing, monitoring and measuring an entity's resources and processes to prevent and detect error and fraud.

## Issues

Weaknesses or other concerns in the governance structure of an entity identified during a financial audit, which are reported to the entity in a management letter.

## Liability

A present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow of assets from the entity.

## Maintenance backlog

Essential maintenance work that has not been carried out and is deemed necessary to bring the condition of a maintainable asset up to a standard or acceptable level of risk to enable the required service delivery functions of the asset to continue.

## Management letter

A letter the auditor writes to the governing body, the audit committee and management of an entity outlining issues identified during the financial audit.

## Net result

The value that an entity has earned or lost over the stated period (usually a financial year or calendar year), calculated by subtracting an entity's total expenses from the total revenue for that period.

## Non-current asset

An asset that will be sold or realised later than 12 months after the end of the financial year being reported on, such as investments with a maturity date of two years or physical assets the entity holds for long-term use.

## Non-current liability

A liability that will be settled later than 12 months after the end of the financial year being reported on, such as repayments on a five-year loan that are not due in the next 12 months.

## Performance report

A statement detailing an entity's predetermined performance indicators and targets for the financial year, and the actual results achieved, along with explanations for any significant variations between the results and targets.

## Physical asset

A non-financial asset that is a tangible item an entity controls, and that will be used by the entity for more than 12 months to generate profit or provide services, such as building, equipment or land.

## Qualified audit opinion

An opinion issued when the auditor concludes that an unqualified opinion cannot be expressed because of:

- disagreement with those charged with governance or
- conflict between applicable financial reporting frameworks or
- limitation of scope.

A qualified opinion is considered to be unqualified except for the effects of the matter that relates to the qualification.

## Relevant measures and indicators

Measures and indicators an entity uses if they have a logical and consistent relationship to its objectives and are linked to the outcomes to be achieved.

## Revaluation

The restatement of a value of non-current assets at a particular point in time.

## Revenue

Inflows of funds or other assets or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of an entity, other than those relating to contributions by owners, that result in an increase in equity during the reporting period.

## Risk

The chance of a negative or positive impact on the objectives, outputs or outcomes of the entity.

## Risk register

A tool an entity uses to help identify, monitor and mitigate risks.

## Self-funding entities

Entities that generate most of their revenue from their operations, rather than from government funding.

## Strategic plan

A document an entity uses to communicate to its staff and board its organisational goals, the actions needed to achieve those goals and other critical elements developed during the planning exercise.

## Unmodified opinion

The audit opinion that the auditor expresses when concluding that the financial (or performance) report is prepared, in all material respects, in keeping with the applicable reporting framework.

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# Auditor-General's reports

## Reports tabled during 2016–17

<b>Report title</b>	<b>Date tabled</b>
Enhancing Food and Fibre Productivity (2016–17:1)	August 2016
Audit Committee Governance (2016–17:2)	August 2016
Meeting Obligations to Protect Ramsar Wetlands (2016–17:3)	September 2016
Efficiency and Effectiveness of Hospital Services: Emergency Care (2016–17:4)	October 2016
High Value High Risk 2016–17: Delivering HVHR Projects (2016–17:5)	October 2016
Security of Critical Infrastructure Control Systems for Trains (2016–17:6)	November 2016
Financial Systems Controls Report: 2015–16 (2016–17:7)	November 2016
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015–16 (2016–17:8)	November 2016
Water Entities: 2015–16 Audit Snapshot (2016–17:9)	November 2016
Portfolio Departments and Associated Entities: 2015–16 Audit Snapshot (2016–17:10)	November 2016
Local Government: 2015–16 Audit Snapshot (2016–17:11)	November 2016
Public Hospitals: 2015–16 Audit Snapshot (2016–17:12)	November 2016
Access to Public Dental Services in Victoria (2016–17:13)	December 2016
Managing the Performance of Rail Franchisees (2016–17:14)	December 2016
Managing Community Corrections Orders (2016–17:15)	February 2017
Regulating Gambling and Liquor (2016–17:16)	February 2017
Managing Public Sector Records (2016–17:17)	March 2017
Effectiveness of the Environmental Effects Statement Process (2016–17:18)	March 2017
Managing Victoria's Planning System for Land Use and Development (2016–17:19)	March 2017
Public Participation in Government Decision-Making (2016–17:20)	May 2017
Public Participation and Community Engagement: Local Government Sector (2016–17:21)	May 2017
Board Performance (2016–17:22)	May 2017
Managing School Infrastructure (2016–17:23)	May 2017
ICT Strategic Planning in the Health Sector (2016–17:24)	May 2017

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## Availability of reports

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