

VAGO

Victorian Auditor-General's Office



Results of 2018 Audits: Technical and Further Education Institutes

May 2019



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VAGO

Victorian Auditor-General's Office

The Hon Shaun Leane 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 *Results of 2018 Audits: Technical and Further Education Institutes*.

Yours faithfully



Andrew Greaves
Auditor-General

30 May 2019

Contents

At a glance	7
1 Audit context	9
1.1 Legislative framework	11
1.2 TAFE funding model	11
1.3 Report structure	12
1.4 Submissions and comments	12
2 Results of audits	13
2.1 Conclusion	13
2.2 Findings	13
3 Financial sustainability	19
3.1 Conclusion	19
3.2 Financial results	20
3.3 Student enrolments	22
Appendix A. <i>Audit Act 1994</i> section 16—submissions and comments	27
Appendix B. Audit opinions	31
Appendix C. Control issues risk ratings	33
Appendix D. Mandatory performance indicators	35
Appendix E. Financial sustainability risk indicators	41
Appendix F. Glossary	45

Acronyms

DET	Department of Education and Training
EBA	Enterprise Bargaining Agreement
FMA	<i>Financial Management Act 1994</i>
KPI	key performance indicator
RTO	registered training organisation
TAFE	technical and further education
VAGO	Victorian Auditor-General's Office
VET	vocational education and training
VTG	Victorian Training Guarantee

At a glance



27 Unqualified opinions

All 12 TAFEs and their 15 controlled entities presented their financial reports fairly



All 12 TAFEs finalised their financial report audits within the statutory deadline



We identified **15** errors across the sector

Of these, **10** were disclosure errors, which indicates that the sector should improve quality assurance procedures over its draft accounts

13

New high and medium-rated internal control issues



Management are actively addressing their control deficiencies

75%

Prior year issues were resolved



13%

Decrease in the sector's net result, mainly due to increasing employee costs

BUT

The sector remains sustainable due to a strong balance sheet and continued diversification of revenue



Source: VAGO.

1

Audit context

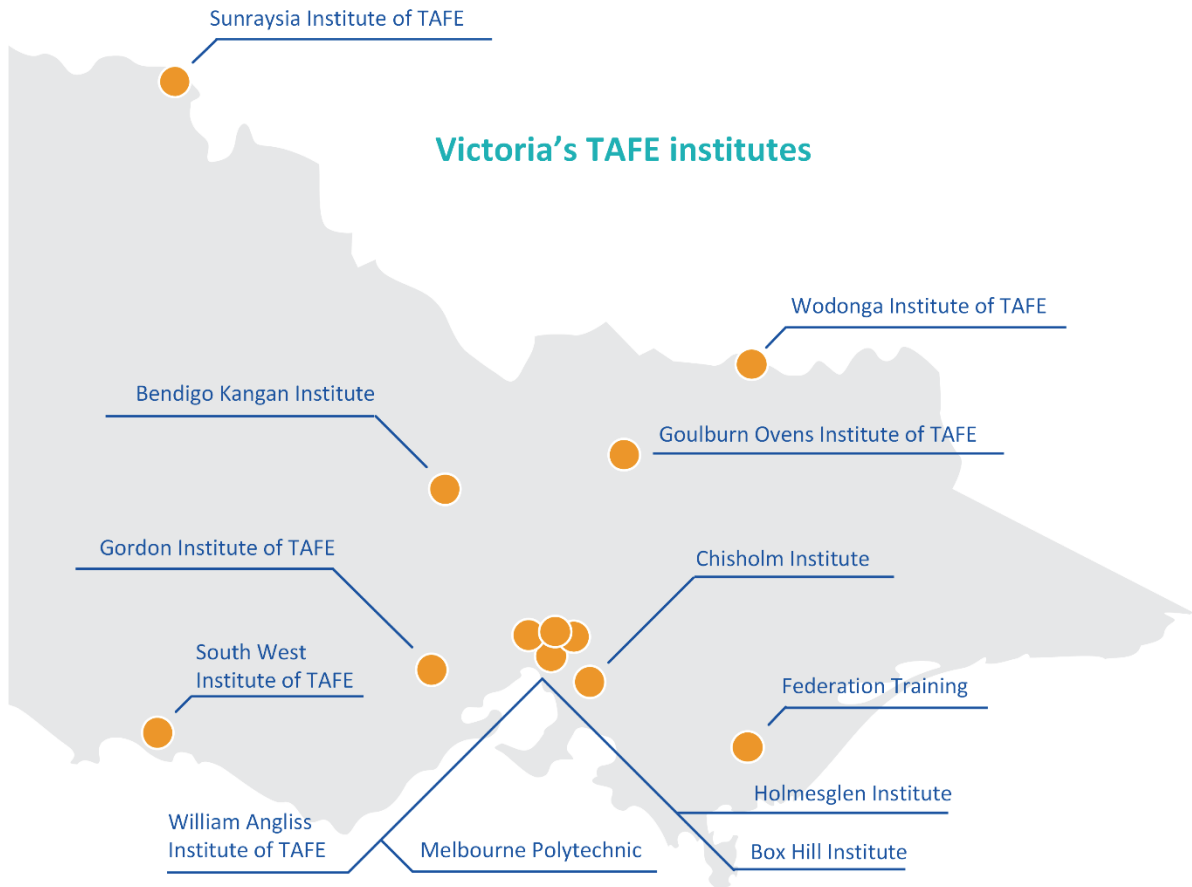
The technical and further education (TAFE) sector delivers vocational education and training (VET) to equip students with practical and educational skills for a variety of careers, and provides pathways to university courses.

Twelve TAFE institutes and their 15 controlled entities make up the TAFE sector in Victoria.

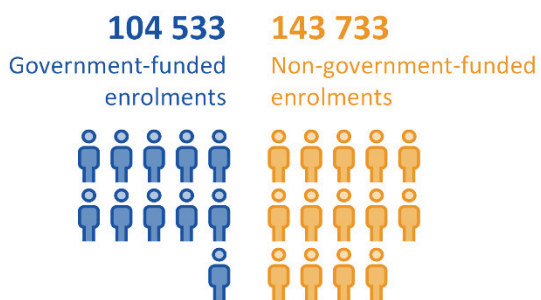
In Victoria, registered training organisations (RTO) also provide VET courses to students. RTOs are private-sector organisations and are not included in this report.

Figure 1A provides an overview of the TAFE sector in Victoria.

Figure 1A
TAFE sector at a glance



TAFE student enrolments



Net result



Workforce profile



53% teaching staff
47% non-teaching staff

Source: VAGO.

1.1 Legislative framework

TAFE institutes are established and governed under the *Education and Training Reform Act 2006*. This Act:

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

TAFEs aim 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 Assistant Treasurer. 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 and Minister for Higher Education.

The Department of Education and Training (DET) oversees the sector on behalf of the Minister for Training and Skills and Minister for Higher Education. This includes overseeing the governance, breadth, depth and appropriateness of the training delivery provided by TAFEs. DET funds the delivery of this training through a subsidy for each training hour delivered.

1.2 TAFE funding model

The predominant revenue source for TAFEs is derived through delivering training courses. In 2018, the TAFE sector received \$1 149.7 million from course delivery (\$1 083.1 million in 2017). The sector generates additional ancillary revenue from the sale of goods, interest revenue and other income—these streams totalled \$63.3 million in 2018 (\$60.5 million in 2017).

Student revenue

The TAFE sector has two broad student categories—government subsidised and full-fee paying.

Government subsidised students are domestic students studying courses that are eligible for a government grant. Full-fee-paying students consist of private domestic students and international students. Domestic students may self-fund their course, or access Commonwealth VET student loan funding. In this case, the Commonwealth pays the TAFE the course fees, which the students then repay through the Australian taxation system when they earn above a minimum threshold.

1.3 Report structure

In this report, we provide information on the outcomes of our financial audits of the 12 TAFEs and their 15 controlled entities for the year ended 31 December 2018. The financial results of controlled entities are consolidated into those of their respective parent entities, and we do not discuss them separately in this report.

We identify and discuss the key matters arising from our audits and analyse the information included in the TAFEs' financial and performance reports.

Figure 1B outlines the structure of the report.

Figure 1B
Structure of this report

Part	Description
2 Results of audits	Comments on the results of the financial and performance report audits of the 12 TAFEs for the 2018 financial year. Summarises the internal control issues observed during our audits.
3 Financial sustainability	Provides an insight into the TAFE sector's financial sustainability risks and efficiency and effectiveness of operations.

Source: VAGO.

Appendix B provides a list of the 12 TAFEs and their 15 controlled entities included in this report, and details the financial audit opinions issued for the year ended 31 December 2018.

We carried out the financial audits of these entities under section 8 of the *Audit Act 1994*, the FMA and the Australian Auditing Standards. Each entity pays the cost of its audit.

The cost of preparing this report was \$175 000, which is funded by Parliament.

1.4 Submissions and comments

We have consulted with DET and the 12 TAFE entities and considered their views when reaching our 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 or comments. We also provided a copy of the report to the Department of Premier and Cabinet.

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

DET has noted our report and the key findings that the sector remains sustainable and that the financial and performance reports are reliable.

Goulburn Ovens Institute of TAFE noted that they incurred a small deficit for the year, due to students withholding enrolment until 2019 to take advantage of Free TAFE (see Section 3.2).

2

Results of audits

In this Part of the report, we summarise the results of our financial and performance statement audits and observations for the TAFE sector for the year ended 31 December 2018.

2.1 Conclusion

The financial and performance reports of the TAFE sector are reliable. Parliament and the community can use them with confidence.

2.2 Findings

Audit opinions

Financial reports

A clear audit opinion confirms that the financial report fairly presents the transactions and balances for the reporting period, in keeping with the requirements of relevant accounting standards and applicable legislation. Appendix B lists each TAFE sector entity, types of audit opinions issued and the sign-off dates.

For the year ended 31 December 2018, we issued clear audit opinions for all 12 TAFEs and their 15 controlled entities.

Performance reports

TAFEs are required under a ministerial instruction to report against four mandatory key performance indicators (KPI) in their annual performance reports:

- training revenue diversity
- employment costs as a proportion of training revenue
- training revenue per teaching full-time equivalent
- operating margins percentage.

They must establish targets and report on the actual results for each KPI, and also disclose the prior year's results. All TAFEs certified their 2018 performance reports on the same day as their 2018 financial reports.

We issued clear audit opinions on the performance reports of all 12 TAFEs, consistent with the prior year. A clear audit opinion confirms that the actual results for each performance indicator are presented fairly. We do not form an opinion on the relevance or adequacy of the performance indicators.

Prior to 2018, TAFEs were required to include these four mandatory indicators in their performance report, and any additional ones they wished to include. This led to significant variations in the reported number and types of indicators among TAFEs, making it difficult to compare results and benchmark sector performance. Starting with the 2018 reports, DET required TAFEs to report only on the four mandatory indicators.

Descriptions of the four indicators and the formulas used to calculate them are provided in Appendix D. The appendix also includes a summary of the targets and actual results for each TAFE.

Timeliness of reporting

Timely financial reporting enables TAFE governing boards and other stakeholders to have informed views about management's accountability for financial and operational performance. The later financial reports are produced after the end of the financial year, the less useful they become.

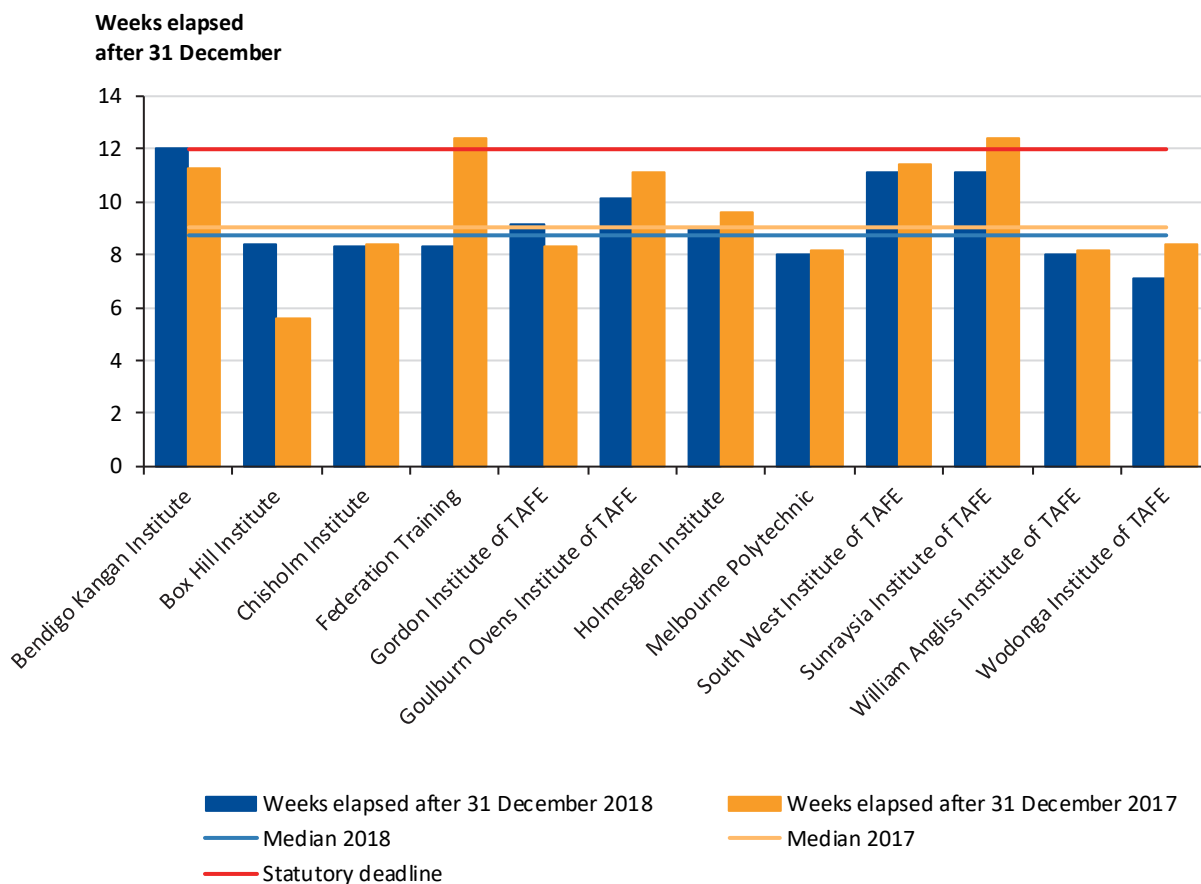
The FMA requires public sector entities to finalise their audited financial reports within 12 weeks of the end of the financial year. This year, all TAFEs achieved this for the first time since 2012. We commend the sector for this outcome.

The median time taken for TAFEs to certify their financial reports also improved from the prior year. In 2018, TAFEs took a median of 8.7 weeks to finalise their financial reports, compared to 9.0 weeks in 2017.

Figure 2A shows the time taken after year end for each TAFE to certify its financial report.

Figure 2A

Weeks taken after 31 December 2018 for TAFEs to certify their financial reports



Source: VAGO.

Quality of financial reporting

During our 2018 audits, we identified 15 material errors across the sector that required correction before we could issue a clear opinion. This is an improvement on past years. Ten of the 15 material adjustments were related to either how an item was classified or disclosed, which did not affect the entities' net results. The remaining five adjustments related to correcting financial errors totalling \$1.2 million.

Figure 2B summarises the common audit adjustments made as a result of our audit work across the 2018 reporting period.

Figure 2B
Common adjustments identified across the 2018 reporting period



**Dollar
adjustments**

We identified five financial adjustments across the 12 TAFEs, totalling \$1.2 million. Common financial adjustments related to:

- incorrect fair value assessments and errors in depreciation
- non-recognition of expenditure.



**Classification
and disclosure
adjustments**

Common classification and disclosure adjustments related to:

- classification of term deposits with a maturity date of three months or less as investments and other financial assets instead of cash and cash equivalents
- additional disclosures required due to the adoption of the Accounting Standard, *AASB9 Financial Instruments*, which resulted in new approaches to classifying and measuring financial instruments.

Source: VAGO.

Internal controls over financial reporting

Internal controls include an entity's:

- control environment
- risk-assessment process
- information systems
- control activities
- control monitoring.

In our financial audit process, we consider the internal controls relevant to financial reporting and assess whether TAFEs have relevant internal controls to manage the risk of material errors.

Overall, the TAFEs' internal controls remain adequate for reliable financial reporting. However, we found instances where important control activities could be improved. This year, we identified one high- and 12 medium-rated control activity issues, compared to 16 in the prior year. The number of control activity issues identified is small relative to the number of entities, and has decreased compared to the prior year. The remediation of identified issues demonstrates managements' commitment to good internal controls.

Figure 2C provides a breakdown of the internal control issues by area and risk rating. Appendix C provides additional information on our risk ratings and our expected timelines for TAFEs to resolve issues we find during our audit work.

Figure 2C
Internal control issues identified at TAFEs during 2018 audits, by area and risk rating

Area of issue	Risk rating		Total
	High	Medium	
IT general controls	–	5	5
Revenue/receivable	1	2	3
Expenditure/accounts payable	–	3	3
Financial reporting	–	1	1
Governance	–	1	1
Total	1	12	13

Note: We reported 15 low-rated internal control issues in 2018. As these issues are minor and/or may present opportunities to improve existing processes, they have been excluded from this figure.

Source: VAGO.

High-rated issue

We identified one high-rated issue at William Angliss Institute of TAFE relating to non-compliance with the Victorian Training Guarantee (VTG) contract. The TAFE was not able to provide sufficient documentation to support student participation and eligibility. This lack of evidence to support compliance with the VTG contract increases the risk of a funding recall from DET.

In 2018, DET recalled \$0.8 million from William Angliss Institute of TAFE due to non-compliance with the VTG contract for the 2016 financial year. The management of William Angliss Institute of TAFE is currently undertaking a business improvement project focused on addressing these compliance issues.

Medium-rated issues

Five of the 12 medium-rated control activity issues identified at four TAFEs related to control activities over IT systems. This makes up 42 per cent of total findings (it was 18 per cent in 2017). The issues can be summarised as:

- inadequate governance over the IT control environment, including a lack of formally established IT strategies and directions
- ineffective control activities to manage user accounts and the appropriateness of their levels of access
- implementing password controls that were not in line with good practice recommendations
- untested business continuity and disaster recovery plans over important business processes and systems.

Since all TAFEs are reliant on IT systems for some or all of their financial reporting, it is important to design and implement IT general controls that ensure accurate processing and availability of information, and to safeguard the integrity of systems and information from unauthorised access or changes.

We also identified several control breakdowns in expenditure that increase the risk of error or fraud, including:

- inadequate master-file review
- purchases being made without purchase orders having been completed and reviewed.

All TAFEs affected by these issues have committed to working towards rectifying them during 2019.

Status of internal control matters raised in prior-year audits

Internal control issues raised in our prior-year management letters are monitored to ensure that they are resolved in a timely manner. Where issues remain outstanding, we factor this awareness into our risk assessments for the current year's audit.

At the start of the 2018 financial year, there were 24 unresolved high and medium-rated audit issues from prior years. During 2018, the sector resolved 75 per cent of these, including the five high-risk rated issues outlined in our 2017 report, *Results of 2017 Audits: Technical and Further Education Institutes*, as shown in Figure 2D.

Figure 2D

Status of prior-period internal control issues as at May 2019 by risk rating

Issue status	Risk rating		
	High	Medium	Total
Resolved	5	13	18
Unresolved	–	6	6
Total	5	19	24

Note: Issues rated as low risk are excluded from this analysis.

Source: VAGO.

The total number of unresolved issues is low. Three TAFEs were responsible for the six unresolved medium-rated issues—Melbourne Polytechnic, Gordon Institute of TAFE and Sunraysia Institute of TAFE. These TAFEs need to respond to the issues reported in our management letters promptly in order to strengthen the effectiveness of their internal control environment and financial reporting.

3

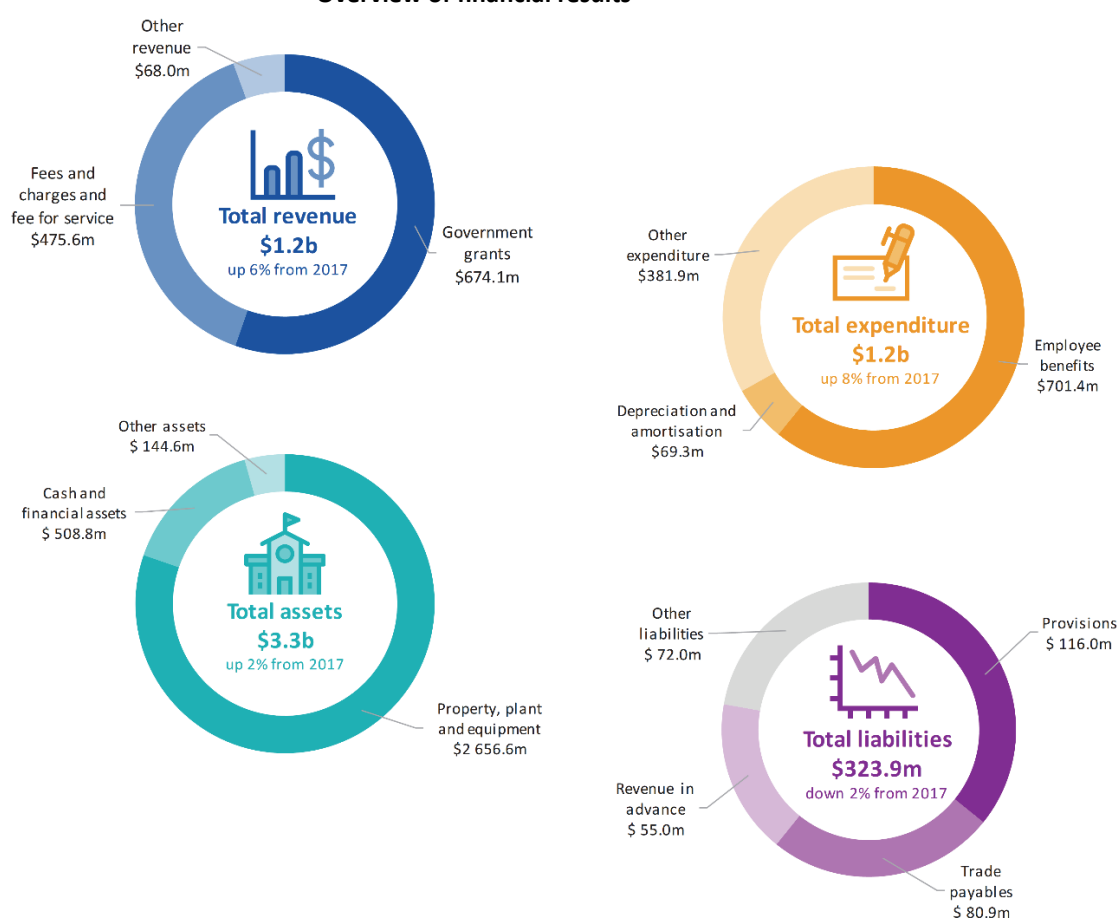
Financial sustainability

To be sustainable, TAFEs need to efficiently manage their resources to respond to future changes and foreseeable risks without compromising the quality of services, and avoid large fluctuations in expenditures and fees.

3.1 Conclusion

We have assessed that the sector is financially sustainable in the short term. Figure 3A shows the overview of financial results.

Figure 3A
Overview of financial results



Source: VAGO.

3.2 Financial results

In 2018, the sector generated a net surplus of \$67.7 million for the year. This is \$9.8 million less than last year, which was a \$77.5 million surplus.

Of the 12 TAFEs, 11 generated a net surplus in 2018, compared to 12 in 2017. Goulburn Ovens Institute of TAFE recorded a small deficit this year (\$173 000), due to a drop in student enrolments and fee-for-service revenue.

Sector revenue increased by \$73.1 million (6 per cent) for 2018 to \$1 218 million; however, sector expenditure increased by \$85.8 million (8 per cent) to \$1 153 million.

The increase in expenditure was mainly due to a \$47.5 million (7 per cent) increase in employee benefits expenses. More staff are being employed across the sector to meet higher service demand in relation to fee-for-service revenue, and there was a new teaching Enterprise Bargaining Agreement (EBA) and general EBA pay increases.

The 12 TAFEs received \$340.7 million in contestable funding in 2018, \$18.9 million less than in 2017, because of lower student contact hours and lower enrolments compared to the prior year.

We noted the state government's announcement in May 2018 that it would introduce a number of 'Free TAFE' courses, commencing from 1 January 2019. The decline in enrolments across 2018 can partly be attributed to the impending commencement of Free TAFE. This decline in contestable funding was offset by increases in operating funding provided by DET to the sector and increases in fee-for-service generated revenue.

Fee-for-service revenue generated by TAFEs increased by \$55.1 million (18 per cent) during 2018. The sector continues to increase its fee-for-service revenue from several streams, including government, international onshore and offshore sources. Fee-for-service revenue has steadily increased between 2014 and 2018, and surpassed contestable funding in 2018 for the first time. TAFEs have been diversifying their revenue streams and relying less on state government funding. This may help TAFEs mitigate funding risks that might occur from changes in funding models or declining government subsidised student enrolments.

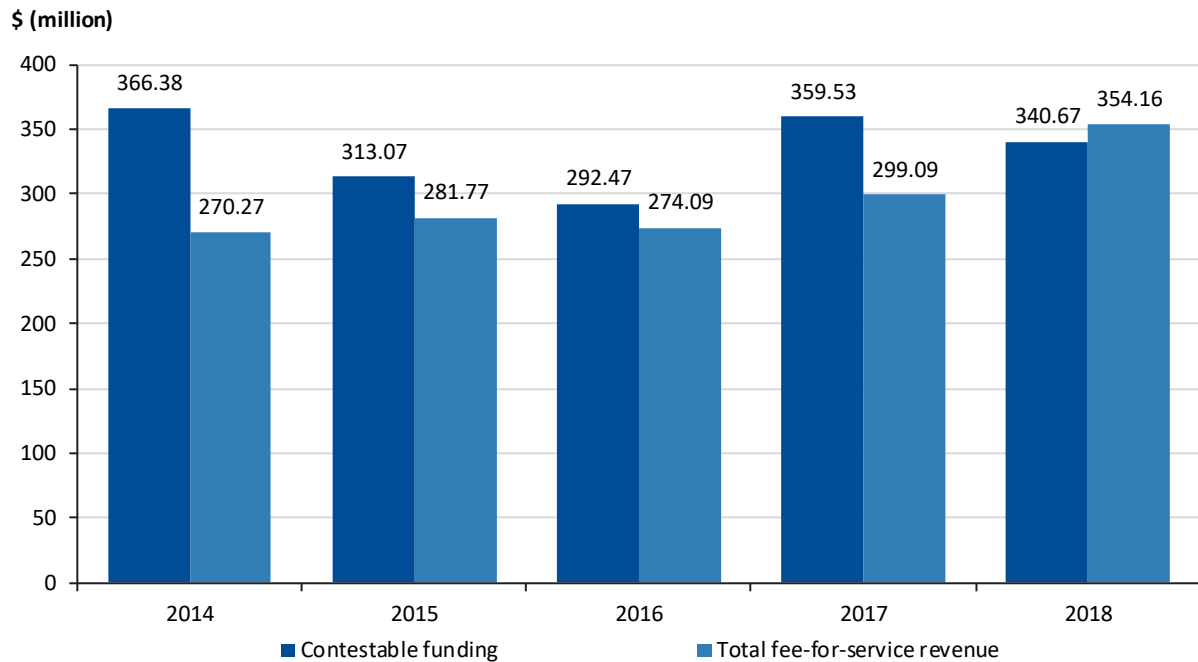
Figure 3B shows the trend in contestable funding against fee-for-service revenues over the past five years.

The 2018 Victorian State Budget included \$172 million for **Free TAFE**, an initiative to subsidise the costs of 50 TAFE courses and pre-apprenticeships in areas deemed high priorities for future growth.

Under the **Free TAFE** initiative, the government will pay course tuition costs.

Figure 3B

Contestable funding and fee-for-service revenue for the years ended 31 December 2014–18



Source: VAGO.

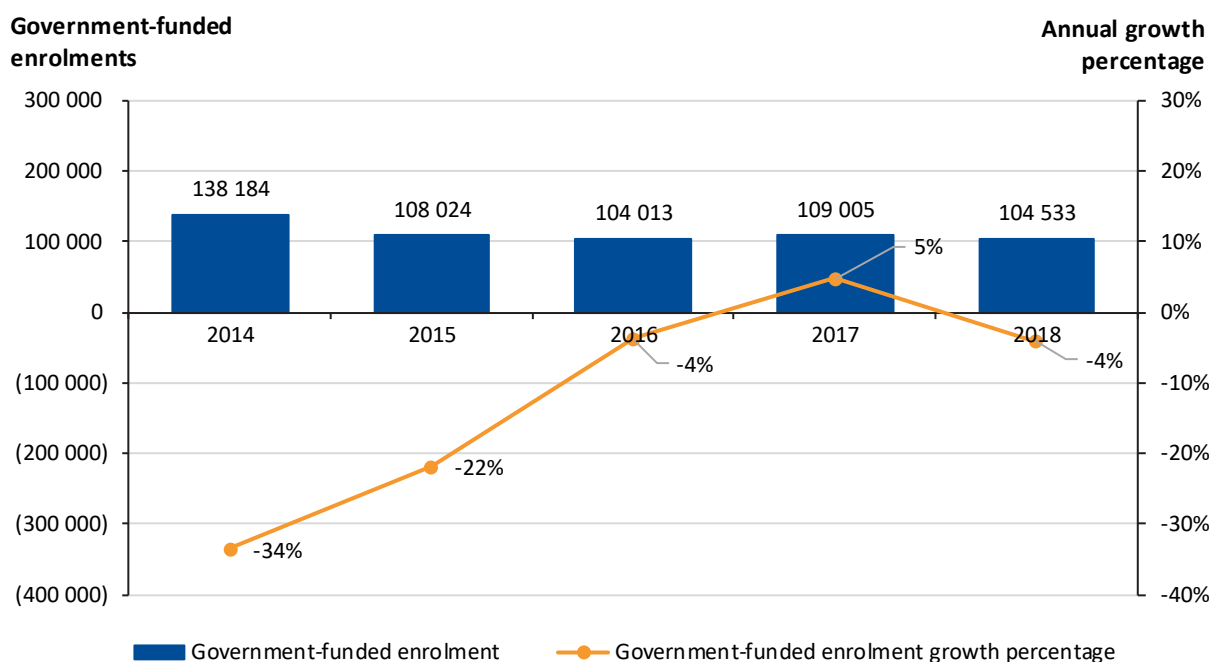
Fee-for-service government revenue showed the largest improvement, increasing by \$33.4 million, or 38 per cent, between 2017 and 2018. This was achieved through:

- a greater number of government agencies upskilling their staff
- large government training contracts entered into in 2018.

3.3 Student enrolments

Figure 3C shows the trend in total government-funded enrolments across the 12 TAFEs over the past five years.

Figure 3C
Total government-funded enrolments and annual growth rates across the 12 TAFEs for years ended 31 December 2014–18



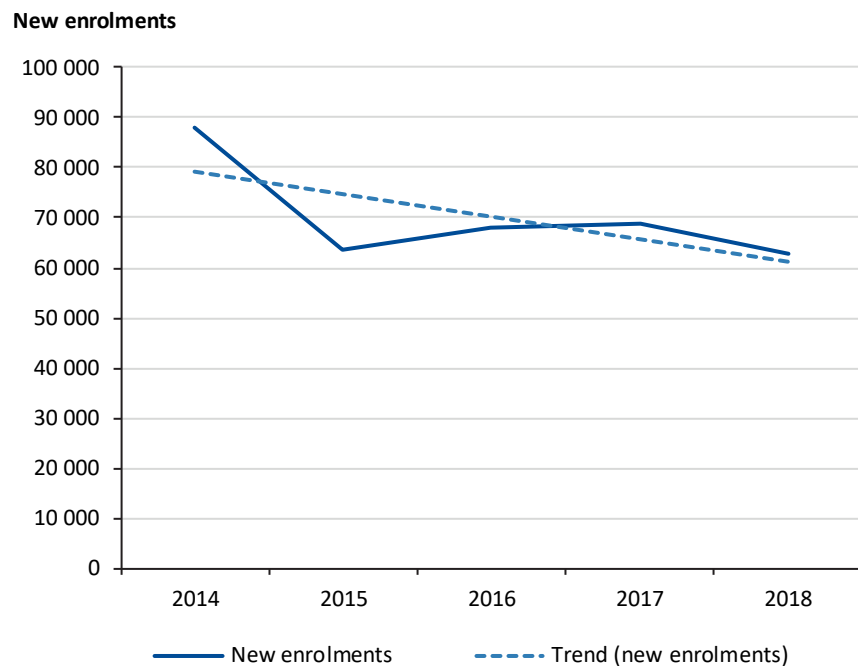
Source: VAGO.

New enrolments

Figure 3D shows the trend in new government-funded enrolments for the TAFE sector over the past five years.

Figure 3D

New government-funded enrolments across the 12 TAFEs for the years ended 31 December 2014–18



Source: VAGO.

From 2014 to 2015, new government-funded enrolments declined significantly as TAFEs competed for students against private training providers. In 2016 and 2017, new enrolments increased marginally; however, they declined again in 2018. Preliminary information collected by TAFEs indicates that the decline in enrolments may be partly due to students deferring enrolment in order to access the Free TAFE initiative, which commenced in 2019.

The downward trend in new enrolments results in less contestable funding for the sector. If this trend continues over the long term, TAFEs will face increased sustainability risks unless they can increase other revenue streams. However, it is forecasted that the commencement of Free TAFE will have a positive impact on commencements.

Sustainability

To be sustainable, TAFEs need to efficiently manage their resources to respond to future changes and foreseeable risks. TAFEs should achieve this without compromising the quality of their services and avoid large fluctuations in expenditures and fees.

The short-term health of the TAFE sector can be judged by evaluating its:

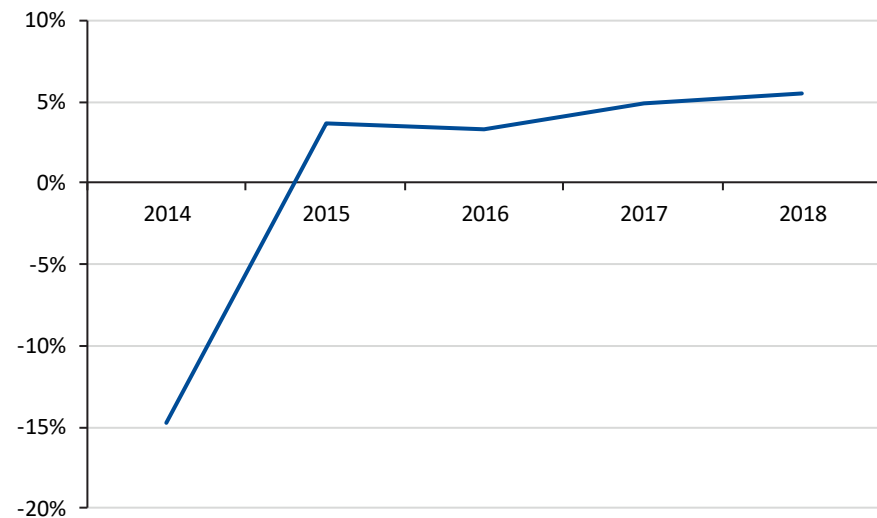
- annual financial results
- financial position at the end of the year
- patterns and trends in financial results over time.

We have assessed the sector's financial sustainability against two key indicators over the past five financial years:

- **Net result ratio**—a positive net result ratio indicates a surplus. The larger the surplus, the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term.
- **Liquidity ratio**—a ratio of one or more means there are more cash and liquid assets than short-term liabilities.

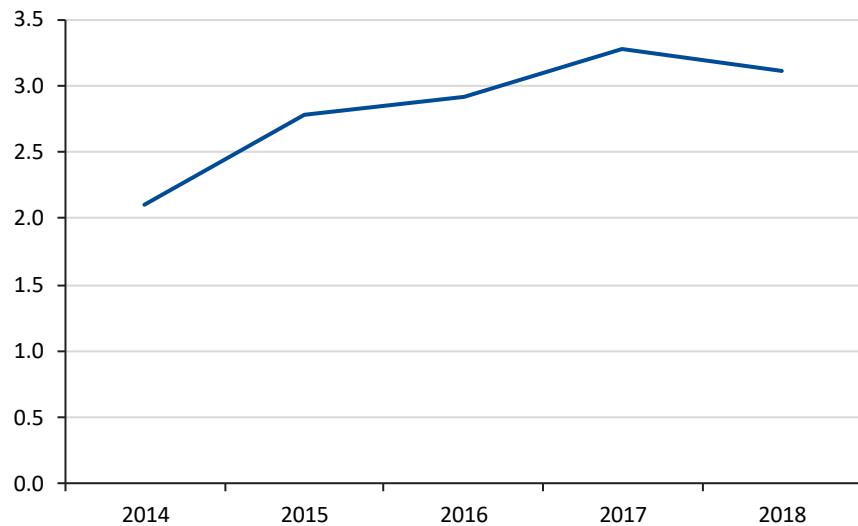
Figure 3E shows the combined sector average net result ratio over the past five years. Figure 3F shows the combined sector liquidity ratio over the past five years.

Figure 3E
Combined TAFE sector average net result ratio for the years ended 31 December 2014–18



Source: VAGO.

Figure 3F
Combined sector average liquidity ratio for the years ended
31 December 2014–18



Source: VAGO.

The improvement in the average net result and liquidity ratio of the sector over the last five years has been achieved through:

- increased funding provided to the sector over 2014–18
- TAFEs continuing to increase fee-for-service revenue.

The liquidity ratio of the sector continues to remain well above 1.0, which means that there are no immediate concerns about the sector meeting its short-term financial obligations as they become due.

Appendix E details our financial sustainability risk indicators for each TAFE.

Efficiency and effectiveness of operations

TAFEs measure and report on their efficiency and effectiveness through two KPIs included in their audited performance report:

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

Each TAFE board sets its own targets for these measures before the start of the financial year.

Most TAFEs did not achieve their set targets for these two measures in 2018, so were not operating as efficiently or effectively as originally planned. This was partly caused by the new teaching EBA and more staff being employed across the sector.

Figure 3G provides a summary of results of these two measures against the targets for each TAFE.

Figure 3G

Target and actual 2018 efficiency and effectiveness indicator results by TAFE

	Employment costs as a proportion of training revenue		Training revenue per teaching FTE	
	Target	Actual	Target	Actual
Bendigo Kangan Institute	72.7%	84.1%	\$277 108	\$244 153
Box Hill Institute	89.0%	85.5%	\$200 000	\$198 100
Chisholm Institute	73.0%	72.1%	\$206 000	\$226 639
Federation Training	94.0%	100.0%	\$203 000	\$179 628
Gordon Institute of TAFE	107.0%	107.1%	\$141 963	\$140 177
Goulburn Ovens Institute of TAFE	117.4%	134.6%	\$136 475	\$103 394
Holmesglen Institute	80.0%	81.0%	>\$203,000	\$194 824
Melbourne Polytechnic	95.0%	97.5%	\$200 000	\$199 000
South West Institute of TAFE	117.0%	130.5%	\$135 000	\$133 492
Sunraysia Institute of TAFE	125.0%	144.1%	\$121 518	\$116 126
William Angliss Institute of TAFE	<79%	81.5%	\$231 500	\$206 858
Wodonga Institute of TAFE	95.0%	85.2%	\$141 855	\$156 597

Note: Green actual results mean the target was achieved. Red actual results mean the target was not achieved.

Note: FTE = full-time equivalent.

Source: VAGO.

Appendix A

Audit Act 1994 section 16— submissions and comments

We have consulted with DET and the 12 TAFE entities 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, or relevant extracts, to those agencies and asked for their submissions and comments. We also provided a copy of the report to the Department of Premier and Cabinet.

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

Responses were received as follows:

DET	28
Goulburn Ovens Institute of TAFE	29

RESPONSE provided by the Secretary, DET



**Department of
Education and Training**

Office of the Secretary

2 Treasury Place
East Melbourne Victoria 3002
Telephone: 03 9637 2000
DX210083

BRI1925838

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

TAFESnapshot19@audit.vic.gov.au

Dear Auditor-General

Thank you for your letter of 29 April 2019 inviting the Department of Education and Training (the Department) to provide submissions or comments on the proposed audit report *Result of 2018 Audits: Technical & Further Education Institutes* (the Report).

The Department welcomes the Report – it is positive for the sector and the Victorian Government which has invested significantly into the sector. I note your key finding that the sector remains sustainable due to a strong balance sheet and continued diversification of revenue. I also note that the financial and performance reports of the TAFE sector are reliable and Parliament and the community can use them with confidence.

If you would like to discuss this issue further, you may contact Phil D'Adamo, Executive Director, TAFE and Tertiary Institutions Division, Higher Education and Skills Group, Department of Education and Training, on (03) 7022 2077 or by email: dadamo.phil.r@edumail.vic.gov.au.

Yours sincerely

Jenny Atta
Secretary

10/5/2019

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address



RESPONSE provided by the CEO, Goulburn Ovens Institute of TAFE



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Shepparton VIC 3630
1300 GOTAFE (468 233)
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Auditor General Andrew Greaves
Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne VIC 3000

7 May 2019

Dear Mr. Greaves

Re: GOTAFE – Results of 2018 Audits

GOTAFE would like to thank you for the opportunity to respond to the results of the 2018 Audits: Technical & Further Education Institutes.

Although 2018 was a transformational year for GOTAFE with new CEO and new executives we were drastically able to improve on prior years' time to prepare the 2018 financial reports.

GOTAFE recorded a small deficit of \$173,000 in 2018 with a net result margin of -0.31% compared to a net result margin of 4.17% in 2017. This decline from 2017 can be attributed to low student numbers due to students with holding enrolment until 2019 to take benefit of Free TAFE. Operating margin was also impacted by a \$2.2million repayment for over claiming delivery from 2012 to 2017.

Our capital replacement result in 2018 was at a high risk ratio of 0.36 and this can be. GOTAFE has not invested in capital for a number of years and this can also be attributed to our very healthy liquidity ratio of 3.31.

Please feel free to call and discuss further if needed.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Travis Heeney', written over a light blue horizontal line.

Travis Heeney
Chief Executive Officer

GOTAFE is the trading name of Goulburn Ovens Institute of TAFE (RTO 3094) ABN 33 549 081 413

Appendix B

Audit opinions

Figure B1 lists the entities included in this report, the nature of the opinion and the date the audit opinion was issued to each entity for their 2018 financial reports.

Figure B1
Audit opinions issued for TAFEs and their controlled entities

Entity	Clear audit opinion issued	Auditor-General's report signed date
Bendigo Kangan Institute	✓	25 Mar 2019
Box Hill Institute	✓	20 Mar 2019
Box Hill Enterprises Limited	✓	20 Mar 2019
Centre for Adult Education	✓	20 Mar 2019
Chisholm Institute	✓	7 Mar 2019
Caroline Chisholm Education Foundation	✓	7 Mar 2019
TAFE Online Pty Ltd	✓	7 Mar 2019
Federation Training	✓	1 Mar 2019
Gordon Institute of TAFE	✓	19 Mar 2019
GoTec Limited	✓	15 Mar 2019
Goulburn Ovens Institute of TAFE	✓	15 Mar 2019
Holmesglen Institute	✓	12 Mar 2019
Glenuc Pty Ltd	✓	12 Mar 2019
Holmesglen Foundation	✓	12 Mar 2019
Holmesglen International Training Services Pty Ltd	✓	12 Mar 2019
Melbourne Polytechnic	✓	1 Mar 2019
South West Institute of TAFE	✓	22 Mar 2019
Sunraysia Institute of TAFE	✓	22 Mar 2019
TAFE Kids Inc	✓	22 Mar 2019
William Angliss Institute of TAFE	✓	14 Mar 2019
Angliss Consulting Pty Ltd	✓	14 Mar 2019
Angliss Multimedia Pty Ltd	✓	14 Mar 2019

Figure B1

Audit opinions issued for TAFEs and their controlled entities—*continued*

Entity	Clear audit opinion issued	Auditor-General's report signed date
Angliss (Shanghai) Education Technology Co Ltd	✓	17 Apr 2019
Angliss Solutions Pty Ltd	✓	14 Mar 2019
William Angliss Institute Foundation Ltd	✓	14 Mar 2019
William Angliss Institute Pte Ltd	✓	22 Mar 2019
Wodonga Institute of TAFE	✓	21 Feb 2019

Note: TAFE institutes are in bold font.

Source: VAGO.

Appendix C

Control issues risk ratings

Figure C1 shows the risk ratings we apply to issues we raise, the management action required, and the expected timeline for the issue to be resolved.

Figure C1

Risk definitions applied to issues reported in audit management letters

Rating	Definition	Management action required
High	<p>The issue represents:</p> <ul style="list-style-type: none"> a control weakness that could have or is having a major adverse effect on the ability to achieve process objectives and comply with relevant legislation, or a material misstatement in the financial report that is likely to occur. 	<p>Requires prompt management intervention 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 modified audit opinion.</p>
Medium	<p>The issue represents:</p> <ul style="list-style-type: none"> a control weakness that could have or is having a moderate adverse effect on the ability to achieve process objectives and comply with relevant legislation, or a misstatement in the financial report that is not material and has occurred. 	<p>Requires management intervention with a detailed action plan implemented within three to six months.</p>
Low	<p>The issue represents:</p> <ul style="list-style-type: none"> a minor control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation, or a misstatement in the financial report that is likely to occur but is not expected to be material, or an opportunity to improve an existing process or internal control. 	<p>Requires management intervention with a detailed action plan implemented within six to 12 months.</p>

Source: VAGO.

Appendix D

Mandatory performance indicators

Figures D1 shows the performance statement indicators, description and methodology, while Figures D2–D13 show each TAFE institute's reported performance against the four indicators for 2016 to 2018.

Figure D1
Performance statement indicators and formula

Indicator	Description and methodology
Training revenue diversity	Breakdown of training revenue by: <ul style="list-style-type: none"> government-funded fee-for-service student fees and charges
Employment costs as a proportion of training revenue	(Employment costs – Workforce reduction expenses + third party training delivery costs)/Training revenue
Training revenue per teaching full-time equivalent	Training revenue (excluding revenue delivered by third parties) per teaching full-time equivalent
Operating margin percentage	Earnings before interest and taxes (excluding capital contributions)/Total revenue (excluding capital contributions)

Source: VAGO.

Figure D2
Bendigo Kangan Institute

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	44.9%	44.3%	50.3%	47.7%	49.9%	50.3%
Fee for service	41.7%	46.4%	31.3%	39.7%	34.8%	41.0%
Student fees and charges	13.4%	9.3%	18.4%	12.6%	15.4%	8.7%
Employment costs as a proportion of training revenue	72.7%	84.1%	71.9%	75.4%	83.1%	81.2%
Training revenue per teaching full-time equivalent	\$277 108	\$244 153	\$265 808	\$278 015	\$242 826	\$238 521
Operating margins percentage	8.2%	-3.4%	-19.8%	0.8%	0.3%	-17.6%

Source: VAGO.

Figure D3
Box Hill Institute

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	35.0%	33.5%	35.0%	35.0%	37.0%	32.5%
Fee for service	44.0%	44.0%	65.0%	65.0%	63.0%	67.5%
Student fees and charges	21.0%	22.5%	—	—	—	—
Employment costs as a proportion of training revenue	89.0%	85.5%	83.0%	89.9%	82.0%	107.0%
Training revenue per teaching full-time equivalent	\$200 000	\$198 100	\$217 000	\$199 000	\$156 500	\$156 300
Operating margins percentage	>0%	1.1%	1.0%	0.7%	-8.2%	-8.8%

Note: — = target not published by TAFE.

Source: VAGO.

Figure D4
Chisholm Institute

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	56.0%	51.6%	54.0%	59.1%	50.1%	54.7%
Fee for service	25.3%	30.0%	27.0%	22.1%	32.1%	25.7%
Student fees and charges	18.7%	18.4%	19.0%	18.7%	17.8%	19.6%
Employment costs as a proportion of training revenue	73.0%	72.1%	70.0%	65.6%	65.0%	69.8%
Training revenue per teaching full-time equivalent	\$206 000	\$226 639	\$200 000	\$213 150	\$200 000	\$192 752
Operating margins percentage	-1.7%	-1.8%	>0%	7.9%	0.0%	1.0%

Source: VAGO.

Figure D5
Federation Training

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	58.0%	59.0%	53.0%	60.0%	56.0%	54.0%
Fee for service	22.0%	23.0%	29.0%	23.0%	15.0%	28.0%
Student fees and charges	20.0%	18.0%	18.0%	17.0%	—	—
Employment costs as a proportion of training revenue	94.0%	100.0%	108.0%	86.6%	77.3%	107.9%
Training revenue per teaching full-time equivalent	\$203 000	\$179 628	\$154 688	\$238 602	\$240 139	\$188 567
Operating margins percentage	-40.0%	2.0%	-55.6%	6.0%	0.6%	1.7%

Note: — = target not published by TAFE.

Source: VAGO.

Figure D6
Gordon Institute of TAFE

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	73.7%	74.1%	71.8%	75.9%	69.1%	69.2%
Fee for service	11.9%	12.1%	11.9%	10.9%	15.4%	13.6%
Student fees and charges	14.4%	13.8%	16.2%	13.2%	15.4%	17.2%
Employment costs as a proportion of training revenue	107.0%	107.1%	101.9%	104.6%	97.0%	125.0%
Training revenue per teaching full-time equivalent	\$141 963	\$140 177	\$145 820	\$141 714	\$147 905	\$123 009
Operating margins percentage	-20.2%	-5.0%	-4.4%	-4.5%	-31.8%	-4.9%

Source: VAGO.

Figure D7
Goulburn Ovens Institute of TAFE

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	62.4%	58.9%	56.7%	57.3%	70.6%	58.1%
Fee for service	21.7%	20.9%	43.3%	42.7%	29.4%	41.9%
Student fees and charges	15.9%	20.2%	—	—	—	—
Employment costs as a proportion of training revenue	117.4%	134.6%	106.4%	110.5%	108.7%	109.8%
Training revenue per teaching full-time equivalent	\$136 475	\$103 394	\$140 416	\$111 196	\$151 568	\$127 815
Operating margins percentage	-21.0%	0.2%	-22.5%	3.2%	-39.8%	3.6%

Note: — = target not published by TAFE.

Source: VAGO.

Figure D8
Holmesglen Institute

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	41.2%	38.4%	40.0%	40.2%	32.0%	36.6%
Fee for service	42.6%	46.3%	60.0%	59.8%	68.0%	63.4%
Student fees and charges	16.2%	15.3%	—	—	—	—
Employment costs as a proportion of training revenue	80.0%	81.0%	<80%	76.7%	74.0%	76.4%
Training revenue per teaching full-time equivalent	>\$203,000	\$194 824	>\$190,000	\$198 385	\$213 034	\$195 111
Operating margins percentage	>0%	3.5%	>2%	5.5%	0.3%	3.6%

Note: — = target not published by TAFE.

Source: VAGO.

Figure D9
Melbourne Polytechnic

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	30.0%	30.5%	31.0%	35.7%	40.2%	34.4%
Fee for service	56.0%	58.8%	69.0%	64.3%	59.8%	65.6%
Student fees and charges	14.0%	10.7%	—	—	—	—
Employment costs as a proportion of training revenue	95.0%	97.5%	95.8%	98.3%	88.4%	97.4%
Training revenue per teaching full-time equivalent	\$200 000	\$199 000	\$212 533	\$189 027	\$153 492	\$198 008
Operating margins percentage	-13.9%	1.5%	-9.0%	-7.5%	0.0%	-6.2%

Note: — = target not published by TAFE.

Source: VAGO.

Figure D10
South West Institute of TAFE

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	71.0%	75.0%	68.2%	67.4%	65.3%	64.0%
Fee for service	7.0%	8.1%	31.8%	32.6%	34.7%	36.0%
Student fees and charges	22.0%	16.9%	—	—	—	—
Employment costs as a proportion of training revenue	117.0%	130.5%	110.4%	120.5%	96.4%	133.0%
Training revenue per teaching full-time equivalent	\$135 000	\$133 492	\$145 547	\$145 865	\$164 003	\$120 002
Operating margins percentage	0.0%	11.0%	-10.7%	0.2%	-25.4%	-1.1%

Note: — = target not published by TAFE.

Source: VAGO.

Figure D11
Sunraysia Institute of TAFE

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	51.8%	56.7%	74.0%	71.0%	71.0%	74.0%
Fee for service	21.4%	18.7%	26.0%	29.0%	29.0%	26.0%
Student fees and charges	26.8%	24.6%	—	—	—	—
Employment costs as a proportion of training revenue	125.0%	144.1%	135.0%	133.0%	85.0%	138.0%
Training revenue per teaching full-time equivalent	\$121 518	\$116 126	\$121 492	\$114 101	\$200 000	\$117 517
Operating margins percentage	1.5%	15.0%	-84.0%	1.4%	0.0%	-51.0%

Note: — = target not published by TAFE.

Source: VAGO.

Figure D12
William Angliss Institute of TAFE

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	21.5%	21.9%	39.0%	22.0%	22.0%	20.0%
Fee for service	61.2%	61.6%	61.0%	78.0%	78.0%	80.0%
Student fees and charges	17.3%	16.5%	–	–	–	–
Employment costs as a proportion of training revenue	<79%	81.5%	<74%	77.6%	65.0%	73.1%
Training revenue per teaching full-time equivalent	\$231 500	\$206 858	\$244 000	\$217 000	\$220 000	\$223 740
Operating margins percentage	-5.1%	0.9%	n/a	1.5%	n/a	9.3%

Note: – = target not published by TAFE.

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

Source: VAGO.

Figure D13
Wodonga Institute of TAFE

Performance indicator	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	51.8%	37.4%	49.2%	52.9%	52.0%	50.0%
Fee for service	37.5%	56.2%	50.8%	47.1%	48.0%	50.0%
Student fees and charges	10.7%	6.4%	–	–	–	–
Employment costs as a proportion of training revenue	95.0%	85.2%	86.3%	91.0%	86.9%	97.7%
Training revenue per teaching full-time equivalent	\$141 855	\$156 597	\$197 483	\$159 538	\$165 178	\$171 123
Operating margins percentage	-9.0%	8.1%	1.8%	1.4%	-11.8%	-0.1%

Note: – = target not published by TAFE.

Source: VAGO.

Appendix E

Financial sustainability risk indicators

Figure E1 shows indicators used in assessing the financial sustainability risks of TAFE institutes. These indicators should be considered collectively and are more useful when assessed over time as part of a trend analysis.

Figure E1
Financial sustainability risk indicators, formulas and descriptions

Indicator	Formula	Description
Net result margin (%)	Net result/Total Revenue	<p>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.</p> <p>The net result and total revenue are obtained from the comprehensive operating statement.</p>
Liquidity (ratio)	Current assets/Current liabilities	<p>This measures the ability to pay existing liabilities in the next 12 months.</p> <p>A ratio of one or more means there are more cash and liquid assets than short-term liabilities.</p>
Capital replacement (ratio)	Cash outflows for property, plant and equipment/Depreciation	<p>Comparison of the rate of spending on infrastructure with its depreciation. Ratios higher than 1:1 indicate that spending is faster than the depreciating rate.</p> <p>This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for infrastructure are taken from the cashflow statement. Depreciation is taken from the comprehensive operating statement.</p>
Internal financing (%)	Net operating cashflow/Net capital expenditure	<p>This measures the ability of an entity to finance capital works from generated cashflow.</p> <p>The higher the percentage, the greater the ability for the entity to finance capital works from their own funds.</p> <p>Net operating cashflows and net capital expenditure are obtained from the cashflow statement.</p> <p>Note: The internal financing ratio cannot be less than zero. Where a calculation has provided a negative result, this has been rounded up to 0%.</p>

Source: VAGO.

Financial sustainability risk-assessment criteria

We assessed the financial sustainability risk of each TAFE using the criteria outlined in Figure E2.

Figure E2
Financial sustainability risk indicators—risk-assessment criteria

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

Source: VAGO.

Financial sustainability risk analysis results

Figures E3 to E6 show the financial sustainability risk indicators for each TAFE from 2014 to 2018, the annual sector average, and the five-year average for each TAFE.

Figure E3
Net result margin as a percentage

	Net result margin					
	2014	2015	2016	2017	2018	Average
Bendigo Kangan Institute	-13.42%	2.17%	2.71%	4.87%	1.35%	-0.46%
Box Hill Institute	-7.15%	7.15%	2.11%	1.37%	7.71%	2.24%
Chisholm Institute	20.67%	4.84%	9.53%	20.05%	14.51%	13.92%
Federation Training	-26.76%	0.28%	2.56%	0.64%	1.60%	-4.33%
Gordon Institute of TAFE	-18.48%	-1.64%	1.61%	4.28%	1.51%	-2.54%
Goulburn Ovens Institute of TAFE	-31.21%	-2.97%	2.05%	4.17%	-0.31%	-5.65%
Holmesglen Institute	-7.90%	9.88%	10.39%	15.25%	1.51%	5.83%
Melbourne Polytechnic	-16.90%	-2.50%	-1.84%	0.09%	5.33%	-3.16%
South West Institute of TAFE	-31.46%	3.36%	0.38%	1.61%	10.92%	-3.04%
Sunraysia Institute of TAFE	-44.32%	16.92%	1.15%	2.59%	12.74%	-2.18%
William Angliss Institute of TAFE	-1.65%	5.09%	9.09%	1.59%	0.60%	2.94%
Wodonga Institute of TAFE	2.44%	1.60%	0.25%	2.09%	8.44%	2.96%
						Average
Sector average	-14.68%	3.68%	3.33%	4.88%	5.49%	0.54%

Source: VAGO.

Figure E4
Liquidity ratio

	Liquidity ratio					
	2014	2015	2016	2017	2018	Average
Bendigo Kangan Institute	2.35	2.37	3.03	2.48	2.58	2.56
Box Hill Institute	2.19	2.83	1.50	1.40	1.93	1.97
Chisholm Institute	3.02	4.10	4.55	5.60	2.76	4.01
Federation Training	0.90	2.00	2.53	6.38	7.19	3.80
Gordon Institute of TAFE	5.30	6.28	5.77	4.98	4.07	5.28
Goulburn Ovens Institute of TAFE	3.60	3.55	3.90	3.33	3.31	3.54
Holmesglen Institute	1.80	2.16	2.54	2.79	2.28	2.31
Melbourne Polytechnic	0.62	1.08	1.19	1.13	1.08	1.02
South West Institute of TAFE	0.86	2.75	2.21	2.48	2.79	2.22
Sunraysia Institute of TAFE	0.72	1.53	1.86	2.22	3.09	1.88
William Angliss Institute of TAFE	1.37	1.49	1.89	1.92	1.70	1.67
Wodonga Institute of TAFE	2.56	3.13	4.06	4.57	4.55	3.77
						Average
Sector average	2.11	2.77	2.92	3.27	3.11	2.84

Source: VAGO.

Figure E5
Capital replacement ratio

	Capital replacement ratio					Average
	2014	2015	2016	2017	2018	
Bendigo Kangan Institute	0.11	0.23	0.53	1.76	1.26	0.78
Box Hill Institute	0.66	1.18	5.10	2.30	2.11	2.27
Chisholm Institute	3.83	0.58	0.98	2.06	9.06	3.30
Federation Training	0.66	0.12	0.28	0.71	1.27	0.61
Gordon Institute of TAFE	0.33	0.37	0.96	1.82	3.69	1.43
Goulburn Ovens Institute of TAFE	0.27	0.34	0.33	1.22	0.36	0.50
Holmesglen Institute	0.73	0.68	0.79	1.21	3.26	1.33
Melbourne Polytechnic	0.23	0.04	1.12	1.43	2.38	1.04
South West Institute of TAFE	0.22	0.25	1.76	0.48	0.47	0.63
Sunraysia Institute of TAFE	0.98	1.81	2.50	0.52	0.59	1.28
William Angliss Institute of TAFE	0.17	0.25	2.06	0.78	1.59	0.97
Wodonga Institute of TAFE	0.75	0.31	0.34	0.29	0.50	0.44
						Average
Sector Average	0.75	0.51	1.40	1.21	2.21	1.22

Source: VAGO.

Figure E6
Internal financing as a percentage

	Internal financing					Average
	2014	2015	2016	2017	2018	
Bendigo Kangan Institute	488%	751%	166%	89%	105%	320%
Box Hill Institute	0%	194%	25%	61%	325%	121%
Chisholm Institute	116%	391%	362%	216%	53%	228%
Federation Training	0%	533%	783%	351%	141%	362%
Gordon Institute of TAFE	0%	869%	238%	123%	40%	254%
Goulburn Ovens Institute of TAFE	0%	87%	444%	152%	694%	275%
Holmesglen Institute	0%	138%	404%	129%	49%	144%
Melbourne Polytechnic	0%	29 783%	64%	123%	110%	6 016%
South West Institute of TAFE	0%	23%	80%	614%	542%	252%
Sunraysia Institute of TAFE	30%	188%	60%	347%	626%	250%
William Angliss Institute of TAFE	0%	1 666%	142%	237%	14%	412%
Wodonga Institute of TAFE	200%	754%	1 471%	165%	548%	628%
						Average
Sector average	69%	2948%	353%	217%	271%	772%

Source: VAGO.

Appendix F

Glossary

Accountability

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

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its expected useful life.

Asset

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

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.

Capital expenditure

Money an entity spends on:

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

Capital-grant/capital-purpose income

Government funding for an agency to acquire or build capital assets such as buildings, land or equipment.

Clear audit opinion

A positive written expression provided when the financial report has been prepared, which fairly presents 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.

Contestable funding

Government-subsidised funding awarded to an entity based on the course that a student is completing. The amount an entity receives is linked directly to student enrolment.

Control environment

Processes within an entity's governance and management structure that provide reasonable assurance about the achievement of an entity's objectives in the reliability of its financial reporting, the effectiveness and efficiency of its operations, and compliance with applicable laws and regulations.

Controlled entities

Entities that TAFEs receive benefits from. TAFEs can influence the extent of those benefits through any rights they have to direct the activities of those entities.

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.

Debt

Money owed by one party to another party.

Deficit

When total expenditure is more than total revenue.

Depreciation

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

Entity

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

Equity or net assets

Residual interest in the assets of an entity after deducting 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.

Fee-for-service revenue

Represents revenue generated from international students, short courses and contract training delivered by TAFEs. This can also include training provided to government agencies and staff.

Financial Management Act 1994

Victorian legislation governing public sector entities, as determined by Assistant Treasurer, including their financial reporting framework.

Financial report

A document reporting the financial outcome and position of an entity for a financial year. It contains financial statements, including a comprehensive income statement, a balance sheet, a cashflow statement, a comprehensive statement of equity, and notes.

Financial Reporting Directions

Issued by the Assistant Treasurer 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.

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 manage and monitor an entity's activities to achieve its strategic and operational goals.

Impairment (loss)

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

Income

The inflow of assets or decrease of liabilities during the financial year, including receipt of cash and the reduction of a provision.

Intangible asset

An identifiable non-financial asset, controlled by an entity, which cannot be physically seen, such as software licences or a patent.

Internal control

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

Investment

The expenditure of funds intended to result in medium to long-term service and/or financial benefits arising from the development and/or use of infrastructure assets by either the public or private sectors.

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

Management letter

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

Material error or adjustment

An error that may result in the omission or misstatement of information, which could influence the economic decision of users taken on the basis of the financial statements.

Materiality

Information is material if its omission, misstatement or non-disclosure has the potential to affect the economic decisions of users of the financial report, or the discharge of accountability by management or those charged with governance. The size, value and nature of the information and the circumstances of its omission or misstatement help in deciding how material it is.

Modified opinion

The auditor's expressed qualified opinion, adverse opinion or disclaimer of opinion.

Net result

The value that an entity has earned or lost over the stated period—usually a financial 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.

Other comprehensive income

Revenues, expenses, gains and losses under Australian Accounting Standards that are excluded from net income on the income statement and are instead listed after net income.

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 actual result and the target.

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.

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 an entity.

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.

Victorian Training Guarantee

A contract between DET and training providers, including TAFE institutes, for the delivery of government-subsidised training.

Auditor-General's reports tabled during 2018–19

Report title	Date tabled
Local Government Insurance Risks (2018–19:1)	July 2018
Managing the Municipal and Industrial Landfill Levy (2018–19:2)	July 2018
School Councils in Government Schools (2018–19:3)	July 2018
Managing Rehabilitation Services in Youth Detention (2018–19:4)	August 2018
Police Management of Property and Exhibits (2018–19:5)	September 2018
Crime Data (2018–19:6)	September 2018
Follow up of Oversight and Accountability of Committees of Management (2018–19:7)	September 2018
Delivering Local Government Services (2018–19:8)	September 2018
Security and Privacy of Surveillance Technologies in Public Places (2018–19:9)	September 2018
Managing the Environmental Impacts of Domestic Wastewater (2018–19:10)	September 2018
Contract Management Capability in DHHS: Service Agreements (2018–19:11)	September 2018
State Purchase Contracts (2018–19:12)	September 2018
Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18 (2018–19:13)	October 2018
Results of 2017–18 Audits: Local Government (2018–19:14)	December 2018
Professional Learning for School Teachers (2018–19:15)	February 2019
Access to Mental Health Services (2018–19:16)	March 2019
Outcomes of Investing in Regional Victoria (2018–19:17)	May 2019
Reporting on Local Government Performance (2018–19:18)	May 2019
Local Government Assets: Asset Management and Compliance (2018–19:19)	May 2019
Compliance with the Asset Management Accountability Framework (2018–19:20)	May 2019
Security of Government Buildings (2018–19:21)	May 2019
Security of Water Infrastructure Control Systems (2018–19:22)	May 2019

Security of Patients' Hospital Data (2018–19:23)	May 2019
Results of 2018 Audits: Universities (2018–19:24)	May 2019



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