



Victorian Auditor-General's Office

The background of the cover features a stylized, orange line-art illustration of classical architecture. It includes several tall, fluted columns supporting a series of arches. On the left side, there are decorative elements resembling lanterns or light fixtures. The entire illustration is composed of thin orange lines on a white background.

Results of 2019 Audits: Technical and Further Education Institutes

June 2020



Victorian Auditor-General's Office

Results of 2019 Audits: Technical and Further Education Institutes

Independent assurance report to Parliament

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The Victorian Auditor-General's Office acknowledges Australian Aboriginal peoples as the traditional custodians of the land throughout Victoria. We pay our respect to all Aboriginal communities, their continuing culture and to Elders past, present and emerging.

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Victorian Auditor-General's Office

The Hon Nazih Elasmr 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 the *Audit Act 1994*, I transmit my report *Results of 2019 Audits: Technical and Further Education Institutes*.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Andrew Greaves', is written over a faint, larger blue ink signature that is partially obscured.

Andrew Greaves
Auditor-General

30 June 2020

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Acronyms

DET	Department of Education and Training
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

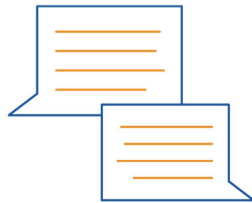
Abbreviations

Free TAFE	Free TAFE for Priority Courses
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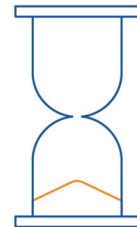
At a glance

26 Unqualified opinions

All 12 TAFEs and their 14 controlled entities presented their financial reports fairly



7 TAFEs finalised their financial reports after the statutory deadline due to the impact of COVID-19 (refer to page 15)



31 errors were identified across the sector

Of these, 22 were disclosure errors, which indicates that the sector should improve quality procedures over its draft accounts

48

new high and medium-rated internal control issues



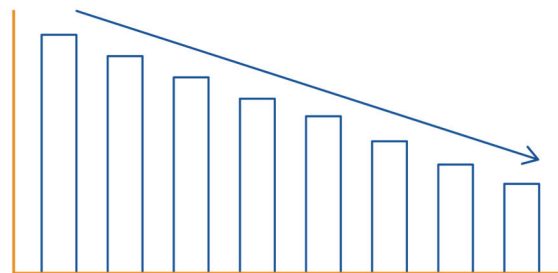
Management are actively addressing their control deficiencies

83%

prior year issues were resolved

164% decrease in the sector's net result, due to decreased revenue (partially due to capital grant funding changes) and increased expenditure

However, the sector remains sustainable due to a strong balance sheet and continued diversification of revenue



1

Audit context

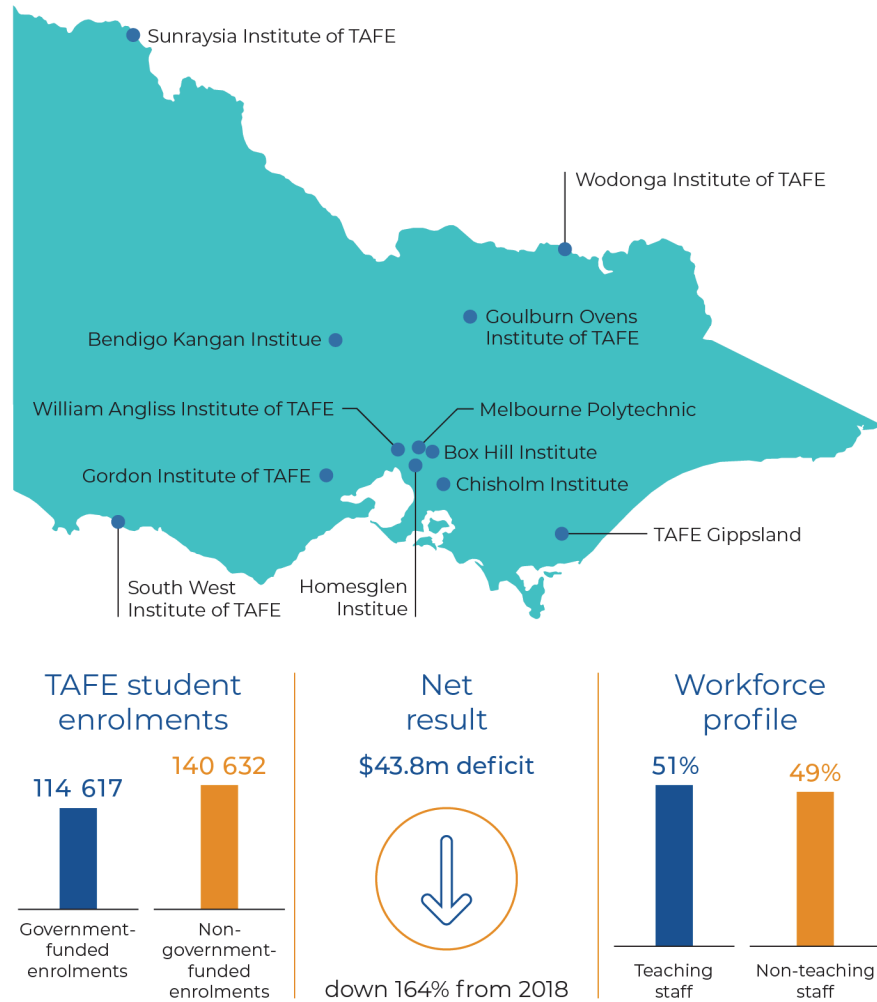
The technical and further education (TAFE) sector delivers vocational education and training (VET) to equip students with practical and educational skills for a variety of careers, and provides pathways to university courses.

Twelve TAFE institutes and their 14 controlled entities make up the TAFE sector in Victoria.

In Victoria, private registered training organisations (RTO) also provide VET courses to students. Private 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



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 stream for TAFEs is from delivering training courses. In 2019, the TAFE sector earned \$1 139.5 million in training revenue and government contributions to support course delivery (\$1 149.7 million in 2018). The sector generates added ancillary revenue from the sale of goods, interest and other income—these streams totalled \$66.7 million in 2019 (\$63.3 million in 2018).

Student revenue

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

Government-subsidised students are domestic students studying courses that are eligible for a government grant (also known as contestable funding).

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 14 controlled entities for the year ended 31 December 2019. 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 2019 financial year. Summarises the internal control issues observed during our audits.
3 Financial sustainability	Provides insight into the TAFE sector's financial sustainability risks, and the efficiency and effectiveness of their operations.

Source: VAGO.

Appendix B lists the 12 TAFEs and their 14 controlled entities included in this report, and details the financial audit opinions issued for the year ended 31 December 2019.

We carried out the financial audits of these entities under section 10 of the *Audit Act 1994* and in accordance with Australian Auditing Standards. Each entity pays the cost of its audit.

The cost of preparing this report was \$165 000 which is funded by Parliament.

1.4 Recommendation

We recommend that all technical and further education institutes:

1. review and update their risk registers and their business continuity plans to incorporate learnings from the COVID-19 pandemic.

1.5 Submissions and comments

We have consulted with DET and the 12 TAFE entities and considered their views when reaching our conclusions. As required by the *Audit Act 1994*, we gave them a draft copy of this report and asked for their submissions or comments. We also provided a copy of the report to the Department of Treasury and Finance for information.

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.

2

Results of audits

In this Part of the report, we summarise the results of our financial and performance report audits and observations for the TAFE sector for the year ended 31 December 2019.

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.

For the year ended 31 December 2019, we issued clear audit opinions for all 12 TAFEs and their 14 controlled entities.

While we made no modifications to our audit opinions, we included an emphasis of matter paragraph in our auditor's reports for seven TAFEs and two controlled entities, being:

- Bendigo Kangan Institute
- Box Hill Institute
- Gordon Institute of TAFE
- Goulburn Ovens Institute of TAFE
- Holmesglen Institute
- South West Institute of TAFE
- Sunraysia Institute of TAFE
- TAFE Kids Inc (subsidiary of Sunraysia Institute of TAFE)
- William Angliss Pte Ltd (subsidiary of William Angliss Institute of TAFE)

An **emphasis of matter** paragraph included in the auditor's report refers to a matter appropriately presented or disclosed in the financial report that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial report.

The emphasis of matter paragraph draws the reader's attention to the disclosures made in notes in the financial report regarding the effects of the COVID-19 pandemic—a material subsequent event.

As at the time their financial reports were signed, each of the above TAFEs disclosed:

- that local and international students were impacted by the public health measures associated with COVID-19
- that they introduced measures to assist affected students as the situation evolved and that they would continue to monitor the non-financial and financial impacts of COVID-19
- that given the significant amount of uncertainty associated with COVID-19, they were not able to quantify the full economic impact at present. However, to mitigate this risk, DET had provided assurances that financial assistance will be made available to enable them to continue as a going concern for the next 12 months.

We did not include an emphasis of matter paragraph in the audit opinions for the other five TAFEs, because they had finalised their financial reports before COVID-19 was declared an emergency. These five TAFEs are:

- Chisholm Institute
- Melbourne Polytechnic
- TAFE Gippsland
- William Angliss Institute of TAFE
- Wodonga Institute TAFE

We discuss the impact of COVID-19 on the preparation of the financial report further in Section 2.4 of this report.

Performance reports

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

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

They must establish targets and report on the actual results for each KPI, and also disclose the prior year's results.

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 express an opinion on the relevance or adequacy of the performance 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, TAFEs took longer to certify their financial reports than the prior year.

In 2019, TAFEs took a median of 14.2 weeks to finalise their financial reports, compared to 8.7 weeks in 2018.

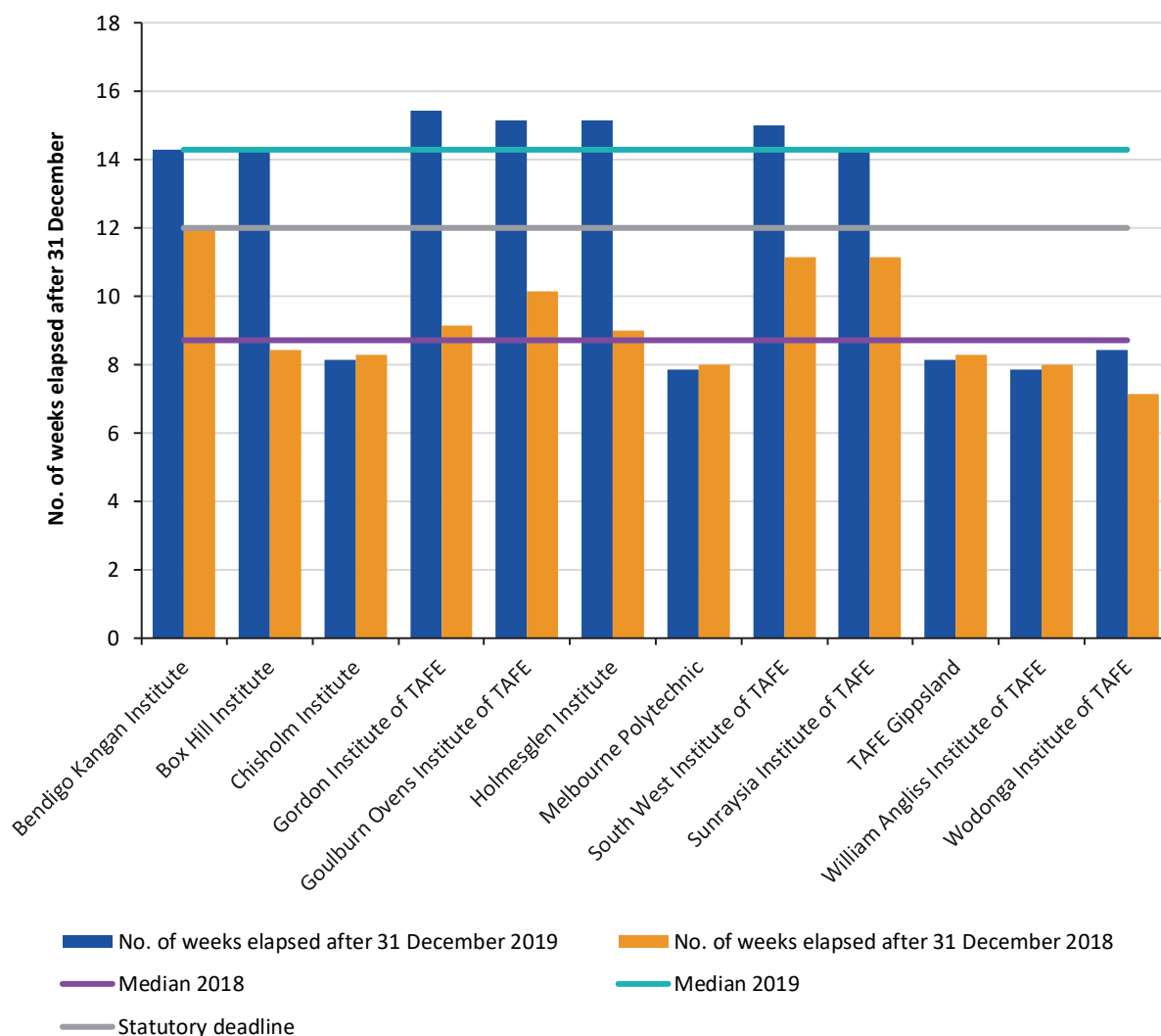
Seven TAFEs—Bendigo Kangan Institute, Box Hill Institute, Gordon Institute of TAFE, Goulburn Ovens Institute of TAFE, Holmesglen Institute, South West Institute of TAFE and Sunraysia Institute of TAFE—certified their financial reports after the 12-week FMA deadline. This was due to the evolving COVID-19 pandemic, which resulted in a number of government restrictions being announced throughout March 2020.

This fluid situation meant that these entities were required to review and assess the impact of the pandemic as a material subsequent event and to revise the level of disclosure in their draft financial reports. We then needed more time to review and assess these disclosures prior to providing our clearance for signing.

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

Figure 2A

Weeks taken after balance date (31 December) for TAFEs to certify their financial reports



Note: Federation Training changed its name to TAFE Gippsland during the year.



Source: VAGO.

Quality of financial reporting

During our 2019 audits, we identified 31 material errors in draft financial reports across the sector that required correction before we could issue a clear opinion. This is more than prior years. Of the 31 material adjustments, 22 related to how an item was classified or disclosed, which did not affect the entities' net results. The remaining nine adjustments corrected financial errors totalling \$2.4 million.

Figure 2B summarises the common audit adjustments made as a result of our audit work across the 2019 reporting period.

Figure 2B
Common adjustments identified across the 2019 reporting period

 <p>Dollar adjustments</p>	<p>We identified nine financial adjustments across the 12 TAFEs, totalling \$2.4 million. Common financial adjustments related to:</p> <ul style="list-style-type: none"> • errors in long service leave calculations • errors in capitalisation and revaluations of non-current physical assets • errors in lease calculations arising from first time implementation of <i>AASB16 Leases</i>.
 <p>Classification and disclosure adjustments</p>	<p>Common classification and disclosure adjustments related to:</p> <ul style="list-style-type: none"> • incomplete disclosures as required by Australian Accounting Standards • disclosure errors and additional disclosures required due to the adoption of <i>AASB15 Revenue from Contracts with Customers</i>, <i>AASB1058 Income of Not-For-Profit Entities</i> and <i>AASB16 Leases</i>. Errors are more likely to occur upon first-time implementation of the standards.

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 audits, we consider the internal controls relevant to financial reporting and assess whether TAFEs have relevant internal controls to manage the risks of material errors.

Overall, TAFEs' internal controls remain adequate for reliable financial reporting. However, we found instances where important control activities could be improved. This year we identified six high and 42 medium-rated control issues, compared to one high and 12 medium-rated issues identified in the prior year. The number of findings has increased from the prior year with more IT system control weaknesses being identified, commensurate with our increased audit focus in this area.

Figure 2C provides a breakdown of 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 2019 audits

Area of issue	Risk rating		Total
	High	Medium	
IT controls	5	24	29
Revenue/receivables	–	2	2
Expenditures/payables	–	2	2
Financial reporting	–	2	2
Governance	1	2	3
Payroll	–	8	8
Property, plant and equipment	–	1	1
Risk management	–	1	1
Total	6	42	48

Note: We reported 29 low-rated internal control issues in 2019. 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 issues

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

We identified six high-rated issues – three at Sunraysia Institute of TAFE, one at Goulburn Ovens Institute of TAFE, one at Melbourne Polytechnic, and one at South West Institute of TAFE.

These issues are summarised below:

- Logical Security—Access Management. Deficiencies were noted in managing user access to systems.
- Weaknesses in Change Management Process. Although there was a change management policy and procedures document in place, the change management process was either implemented part-way through the year with weaknesses noted, or not enforced—which resulted in inconsistencies in change management.
- Managing critical incidents. Policy and procedures for managing critical incidents, prioritising service problems, and standard handling of service problems were formally documented. However, the documented requirements and procedures were not adhered to.

Medium-rated issues

Twenty four of the 42 medium-rated control issues we identified at six TAFEs also related to control over IT systems. This makes up 57 per cent of total medium-rated findings (42 per cent in 2018).

The issues can be summarised as:

- inadequate governance over the IT control environment, including a lack of formally established IT strategies and directions
- inadequate 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.

We also identified several control breakdowns in payroll and expenditure that increase the risk of error, fraud, and the risk of erroneous transactions being recorded including:

- expenditure delegation limits in systems not aligned to the approved Financial Delegations Policy
- instances where supporting contracts and agreements were missing for contract staff and employees.

All TAFEs with these issues have committed to rectifying them during 2020.

Status of internal control matters raised in prior-year audits

We monitor internal control issues we raised in prior-year management letters to see if they are resolved. Where issues remain outstanding, we factor this into our risk assessments for the current year's audit.

During 2019 the sector resolved 15 (83 per cent) of the 18 high and medium-rated audit issues from prior years. Figure 2D shows the status of prior period internal control issues as at May 2020 by risk rating.

Figure 2D

Status of prior periods internal control issues as at May 2020, by risk rating

Issue status	Risk rating		Total
	High	Medium	
Resolved	1	14	15
Unresolved	–	3	3
Total	1	17	18

Note: Five of the 18 issues were identified in 2017 and 2016.

Source: VAGO.

Two TAFEs were responsible for the three unresolved medium-rated issues—Goulburn Ovens Institute of TAFE and Gordon Institute of TAFE. These TAFEs need to respond to the issues reported in our management letters more promptly to strengthen the effectiveness of their internal control environment and financial reporting.

2.3 New accounting standards

For the 2019 reporting period, three new accounting standards issued by the Australian Accounting Standards Board applied to the TAFE sector for the first time:

- AASB 15 *Revenue from Contracts with Customers*
- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 16 *Leases*.

These new standards had the potential to change how and when entities account for student fee and related grant revenues and any leased assets. They required changes to underlying systems, processes and business practices to enable entities to capture the necessary information and documentation for appropriate accounting and disclosure.

Revenue-related standards

AASB 15 establishes a five-step model for an entity to account for revenue from a contract that contains a performance obligation to transfer goods or services:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

A **modified retrospective approach** includes a few practical expedients that make adoption easier. Under this approach, an entity applies the accounting standard from the beginning of the current accounting period.

All TAFEs adopted a modified retrospective approach, as recommended by the Department of Treasury and Finance, with no changes in comparative information. Overall, there was no significant impact for the sector as to how they accounted for their revenue or income under the new standards, except for accounting for capital grants.

Under the previous standards, TAFEs would record all capital grants as income upon receipt, as the TAFE was not giving equal value back to the grantor. TAFEs now recognise this income progressively (that is, as the asset is constructed).

As at 31 December 2019, TAFEs had a liability of \$32.9 million representing cash received but for which the assets have not been fully constructed. Under the previous accounting standards, this would have been recorded as 2019 income.

AASB 16 Leases

A **right-of-use asset** is an asset that the lessee has the right to use for the term of the lease.

This standard fundamentally changes lease accounting for lessees—with the distinction between finance and operating leases removed.

Lessees now recognise all their leases on the balance sheet as 'right-of-use' assets with an associated lease liability. They now depreciate these right-of-use assets and record an interest expense for the balance of the lease liability. These expenses will be higher at the start of the lease period and reduce as entities repay the lease liability.

At 1 January 2019, TAFEs recognised right-of-use assets and a corresponding lease liability of \$97.1 million. All TAFEs adopted a modified retrospective approach, with no changes in comparative information. Figure 2E shows the breakdown of this recognition by asset category.

Figure 2E
Recognition of right-of-use asset and liability by category

Category	Total (\$m)
Property	91.4
Plant and equipment	3.5
Motor vehicles	1.3
Other	0.9
Total	97.1

Source: VAGO.

All TAFEs elected not to recognise right-of-use assets and lease liabilities for short-term leases, which have a lease term of 12 months or less, or for low-value leases where the asset valuation is less than \$10 000.

The impact of adopting AASB 16 increased depreciation and amortisation expense in the sector to \$92.6 million, compared to \$69.3 million in 2018. At 31 December 2019, TAFEs held right-of-use assets of \$91.2 million with a corresponding lease liability of \$91.0 million.

2.4 COVID-19

The outbreak of novel coronavirus (COVID-19) was declared as a global pandemic on 11 March 2020—as such it is clearly an ‘after balance date’ event. This led to the Australian and state governments placing restrictions on domestic and international travel, closing non-essential services and enacting social distancing in an effort to contain the virus. The pandemic also resulted in volatility in economic markets.

Figure 2F shows the timeline of the COVID-19 outbreak.

Financial reporting impact—non-adjusting subsequent event

While COVID-19 was detected overseas in December 2019, it did not impact Australia until 2020. For financial reporting purposes, TAFEs were required to continually review and assess the impact of the pandemic as a material but non-adjusting subsequent event. This meant that the nature and future impacts of the COVID-19 pandemic was disclosed in the notes to their financial reports. As a non-adjusting subsequent event, the amounts reported as at December 2019 in their financial reports did not need to change.

Due to the evolving nature of the pandemic, TAFEs continually revised and often increased the level of disclosure in their financial reports, up to the date they signed their financial statements.

Figure 2F
Timeline of COVID-19 and impact on TAFEs



Source: VAGO.

Going concern

Financial reports are prepared on a going concern basis. To ensure this remained appropriate, TAFEs prepared financial forecasts using a number of various scenarios given the level of uncertainty in the current climate.

In anticipation of the likely financial impacts that will continue to confront TAFEs, and as result of the ongoing uncertainty due to the pandemic, DET issued letters of financial support to all 12 TAFEs. Letters of financial support are an undertaking that DET will provide adequate cashflow to TAFEs, should the need arise, until April 2021. These letters have enabled TAFE financial statements to be prepared on a going concern basis. This then enabled us to conclude that the going concern basis of preparation was appropriate.

Additional government funding

Uncertainty surrounding future government restrictions to mass gatherings is likely to adversely impact TAFEs, with decreases in training revenue expected. Decreasing training revenue has the potential to impact the sustainability of TAFEs. In response to this, on 17 April 2020, the Victorian Government announced \$260.8 million in funding to support TAFEs (and other training organisations) to ensure business continuity until 30 June 2020. The funding will assist in meeting employee costs, enhancing online training capacity and maintaining the safety of face-to-face training where this needs to occur.

Future financial reporting considerations

Developments throughout 2020 will continue to impact the preparation of future financial reports. All TAFEs will need to monitor, assess and regularly update how they have been affected by COVID-19 and the impact on their financial position and the reporting thereon.

Items that may be affected in the future include:

- timing of revenue recognition as it is driven by delivery of performance obligations
- items which are subject to assumptions, significant estimation uncertainty and sensitivity analysis, such as the recoverability of accounts receivable, leases and provisions
- going concern assessments.

Factors that are likely to impact the above items include:

- economic and industry factors
- financial impacts on students and suppliers
- duration of containment measures
- ongoing government initiatives, assistance and support
- modifications to lease contracts
- management plans and responses.

The consequences of COVID-19 may mean that historical information is no longer relevant or reliable as a basis for determining items that are subject to estimation in the future.

Operational impact

Delivery of services

While education has continued to be deemed an essential service, and as such the operation of TAFEs has continued, from March to May 2020 many TAFEs suspended face-to-face learning and transitioned many courses online. While many courses have transitioned, some apprentice and trade courses are still conducted using face-to-face learning.

Internal controls and risk assessment

The pandemic also has the potential to impact the control environment of TAFEs. Any change in working arrangements may result in an increased risk of internal controls failing, especially in an environment where manual controls have operated with a high level of management oversight within an office environment. There is also an increased risk of fraud in that the opportunities to circumvent existing controls may be greater. As employees access systems in different ways, delegations may change to cover absent staff and workload changes may be experienced.

A business continuity plan sets out arrangements for managing disruptions. It helps anticipate, prevent or prepare for disruptions such as fire, flood, storms and illness, and to respond and recover from them.

The pandemic has also changed risk assessments, business continuity plans and crisis management plans. While such plans are usually developed to respond to a one-off or short-term event, this may be inadequate in an event such as COVID-19, which has played out over many months.

The pandemic has affected organisations in the following ways:

- changes to operating models
- IT security and cybersecurity considerations
- personnel health and safety
- flexible working arrangements
- funding mix and revenue diversity, including ongoing continuity of revenue streams in the future
- evaluation of short and long-term liquidity.

Risk registers and business continuity plans should be reviewed and updated to reflect learnings from the COVID-19 pandemic, and they should be updated and tested on a regular basis.

3

Financial sustainability

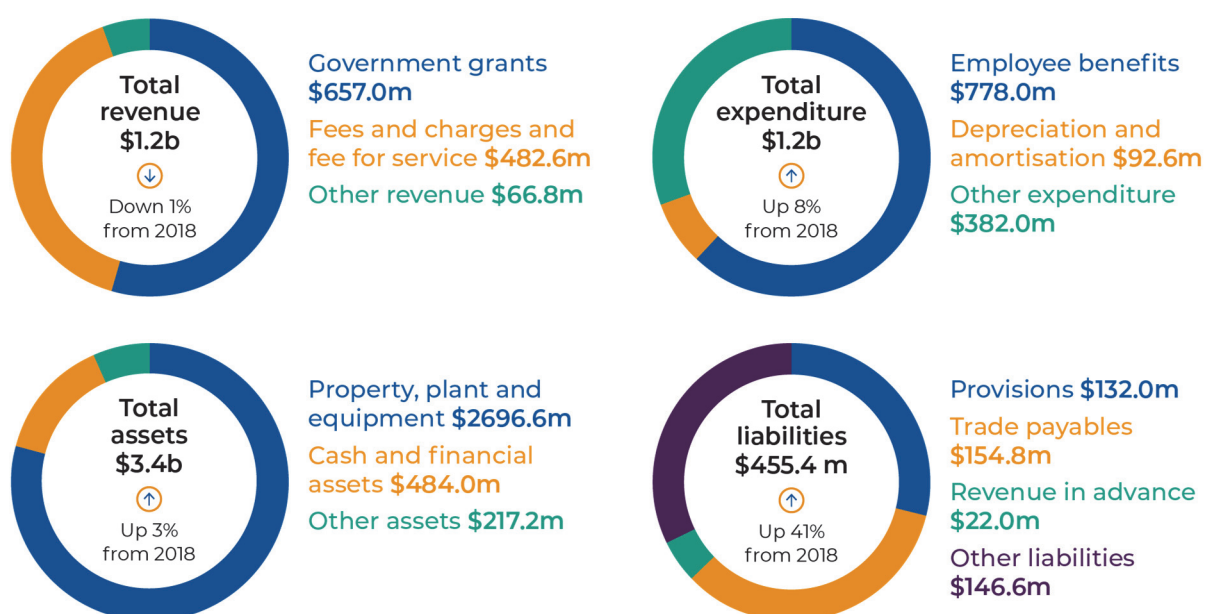
To be sustainable, TAFEs need to efficiently manage their resources to respond to future changes and foreseeable risks without compromising the quality of services, and avoid large fluctuations in expenditure.

3.1 Conclusion

We assessed that at 31 December 2019 the sector was financially sustainable in the short term, based on its historic performance and reserves.

However, there were signs this year that revenue and expenditure policies require review and possible reconsideration. The subsequent COVID-19 emergency has only sharpened the need for this. Figure 3A gives an overview of the 2019 financial results.

Figure 3A
Overview of financial results



Source: VAGO from TAFE financial reports.

3.2 Financial results

In 2019, the sector generated a net deficit of \$43.8 million. This is a significant decline from the prior year, when a surplus of \$67.7 million was generated.

Of the 12 TAFEs, only four generated a net surplus in 2019 compared to 11 in 2018.

Sector revenue decreased by \$11.3 million to \$1 206 million (less than 1 per cent); however, sector expenditure increased by \$100.4 million (8 per cent) to \$1 253 million.

The 12 TAFEs received \$418.6 million in contestable funding in 2019, \$78.0 million more than in 2018 due to higher student contact hours and higher enrolments than last year, predominantly due to the introduction of Free TAFE for Priority Courses (Free TAFE).

The increase in contestable funding has been partially offset by a reduction in operating grants provided to the sector. Operating grants in 2019 of \$191.3 million compare to \$276.4 million in 2018—a 31 per cent decrease.

Fee-for-service revenue increased by \$25.0 million (7 per cent) during 2019. The sector continues to increase its fee-for-service revenue from several streams, including government, and international onshore and offshore sources.

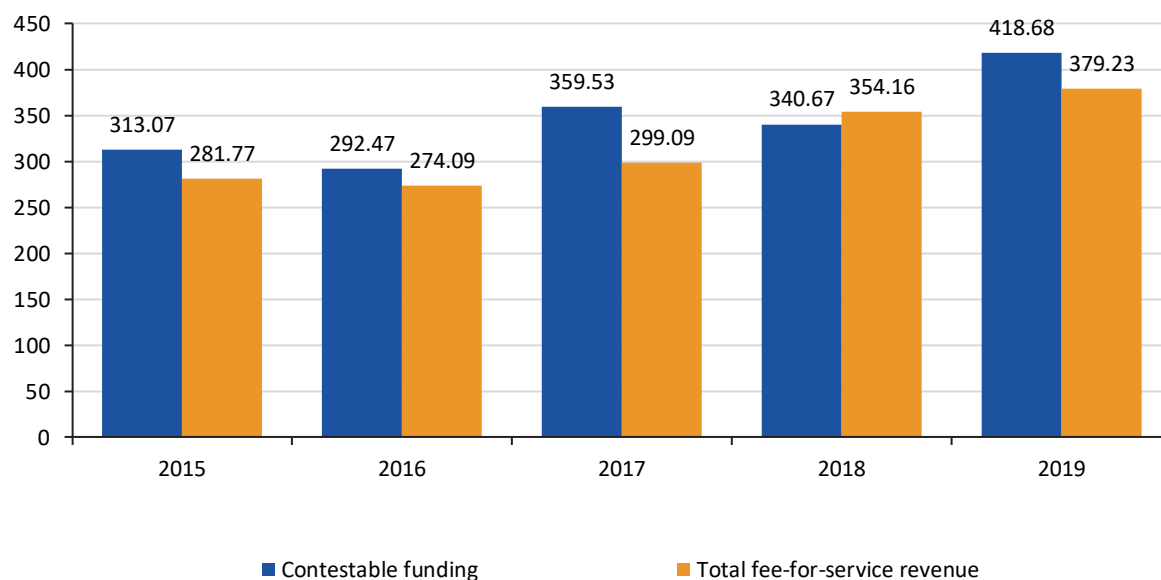
Fee-for-service revenue has increased steadily between 2015 and 2019. TAFEs have been diversifying their revenue streams and relying less on state government funding. This may help TAFEs mitigate funding risks that might occur from changes in funding models or declining government subsidised enrolments.

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

Figure 3B

Contestable funding and fee-for-service revenue for the years ended 31 December 2015–19

\$ million



Source: VAGO.

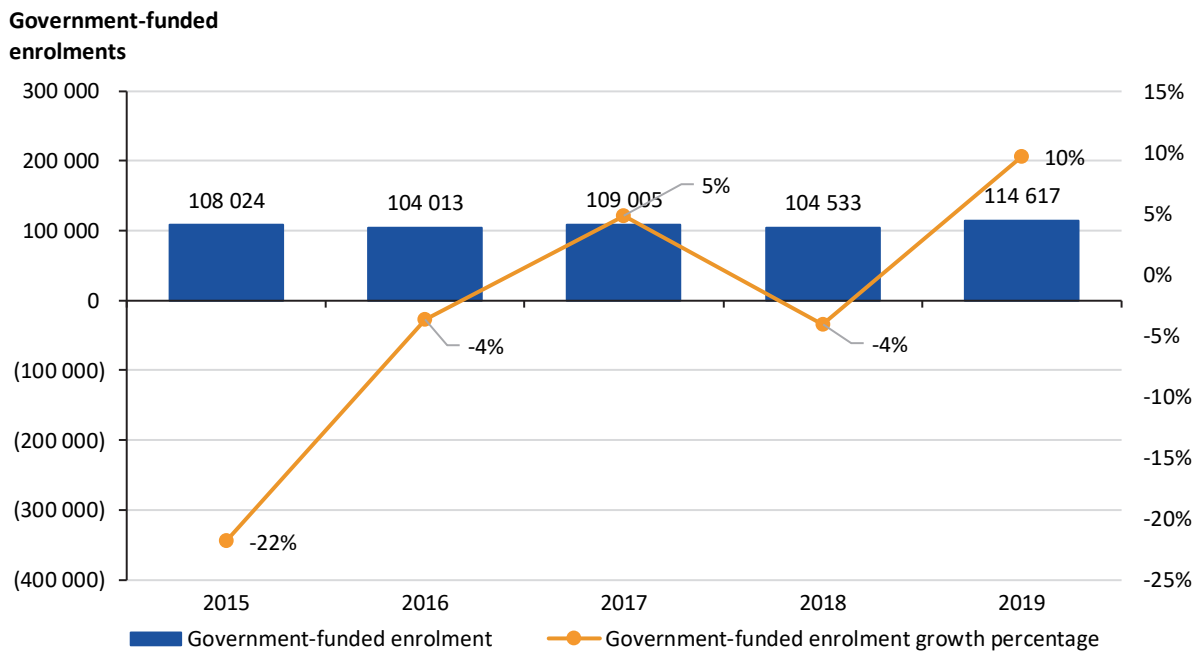
The increase in expenditure was mainly from a \$76.9 million (11 per cent) increase in employee benefits. More staff were employed across the sector to meet the higher service demand in relation to Free TAFE and fee-for-service revenue, combined with applicable award increases. We discuss Free TAFE in more detail in Section 3.4.

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 2015–19



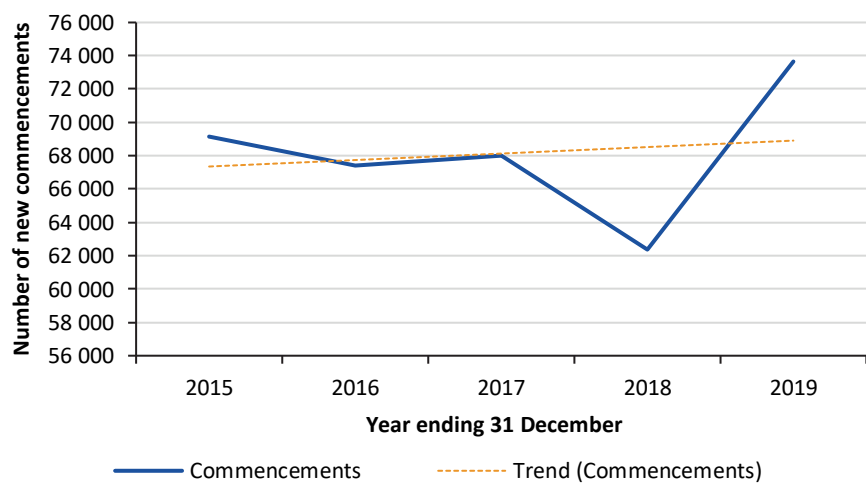
Source: VAGO.

Commencements

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

Figure 3D

Government-funded commencements across the 12 TAFEs for the years ended 31 December 2015–2019



Source: VAGO, based on data supplied by DET.

From 2015 to 2017, government-funded commencements remained steady, with a marginal decrease over the period. In 2018, commencements declined significantly, largely because students deferred enrolment so they could access the incoming Free TAFE initiative.

The introduction of Free TAFE has reversed the downward trend in commencements and has resulted in more contestable funding for the sector. This will help alleviate long-term sustainability risks for TAFEs. However, the sector must continue to increase other revenue streams.

3.4 TAFE funding

Funded courses

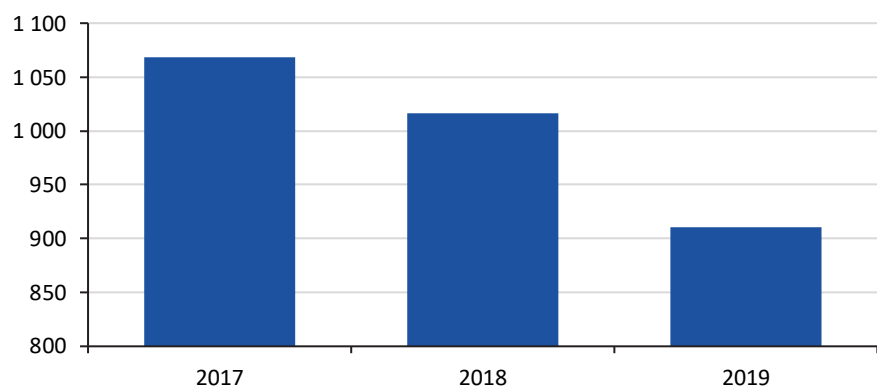
Annually, DET issues a funded course list. This represents the courses for which eligible students are able to access government-subsidised training.

The funded course list only includes courses that:

- align with industry needs and workforce demands
- represent government priorities, including rolling out the National Disability Insurance Scheme, responding to family violence, and completing Victoria's infrastructure projects
- have strong job outcomes, such as apprenticeships
- meet other social needs, such as foundation skill courses.

Figure 3E shows the number of funded courses over the past three years.

Figure 3E
Number of funded courses 2017–19



Source: VAGO, based on data supplied by DET.

The decline in the number of funded courses over the period is attributed to the introduction of the Skills First model, which prioritises funding for courses that align with industry needs and workforce demands and linked government priorities. We note that there is a further decline in the number of courses for the 2020 year. In 2020, 819 courses will be funded. While the number of funded courses has reduced, the amount of contestable funding provided to the sector has increased due to increases in student numbers.

Free TAFE for priority courses

The 2018 Victorian State Budget included \$172 million for Free TAFE, an initiative to subsidise the costs of 40 existing non-apprenticeship courses and 20 existing pre-apprenticeships in areas deemed high priorities for future growth. Under the Free TAFE initiative, the government will pay course tuition costs for eligible students. However, individual TAFEs may charge students for other fees, such as student amenities or materials. Free TAFE commenced on 1 January 2019.

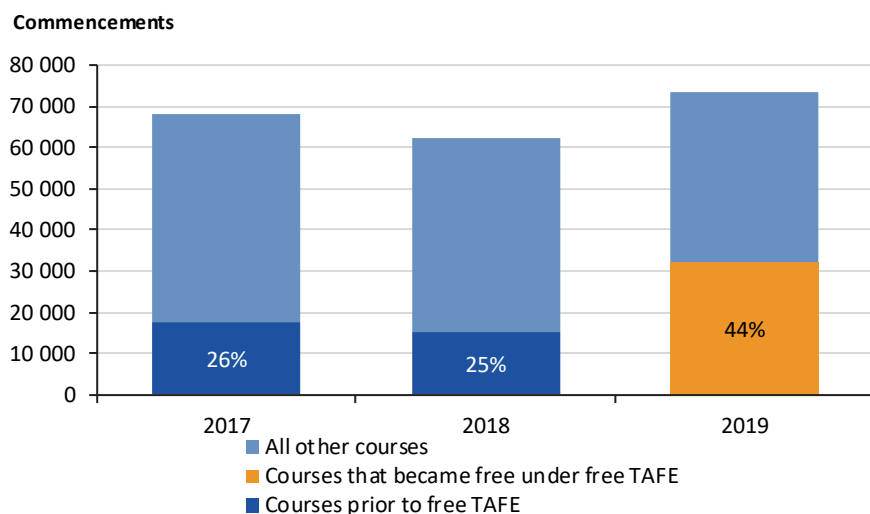
Any Australian citizen, permanent resident or a New Zealand citizen is eligible to undertake Free TAFE for priority courses in Victoria, if they meet one of the following criteria:

- under 20 or upskilling—
 - applicants who are aged under 20 (regardless of any other qualifications they might hold)
 - applicants who are aged 20 or older and enrolling in a course that is a higher qualification than any they have previously attained.
- Victorians who need additional support—
 - unemployed and clients of the Jobs Victoria Employment Network
 - retrenched workers
 - automotive supply-chain workers.

A student may only enrol in one subsidised Free TAFE course.

Figure 3F shows the comparison of Free TAFE course commencements versus all other course commencements over the past three years.

Figure 3F
Free TAFE course commencements as a percentage of government funded commencements (2017–19) with the introduction of Free TAFE in 2019



Source: VAGO.

From 2017 to 2018, enrolments in courses earmarked to be included in the Free TAFE program decreased. The introduction of Free TAFE in 2019 resulted in a significant increase in commencements in these courses. However, it was countered to a degree by a reduction of commencements in all other courses.

The overall increase in commencements due to Free TAFE has resulted in more students starting further studies and has encouraged a transition to courses designated as high priority for future growth, with Free TAFE courses making up 44% of commencements in 2019.

3.5 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 expenditure fluctuations.

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

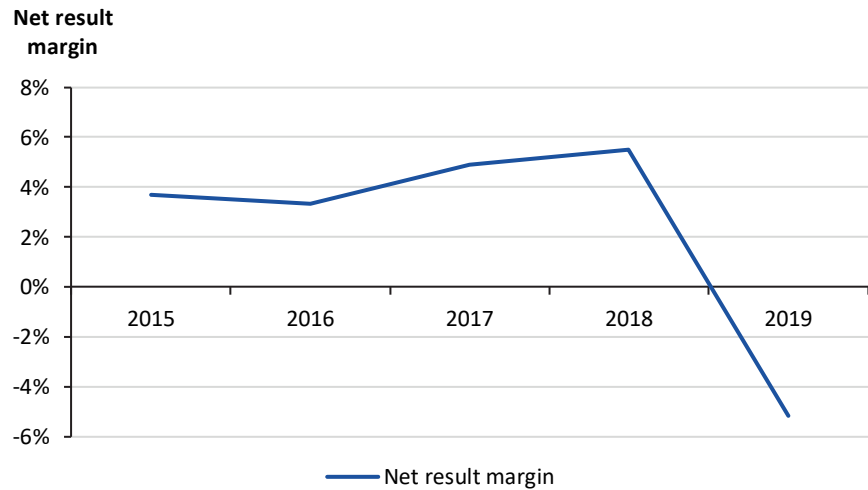
- annual financial results
- financial position at the end of the year
- patterns and trends in financial results over time.

We have assessed the sector's short-term 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 longer term.
- Liquidity ratio—a ratio of one or more means there are more cash and liquid assets than short-term liabilities.

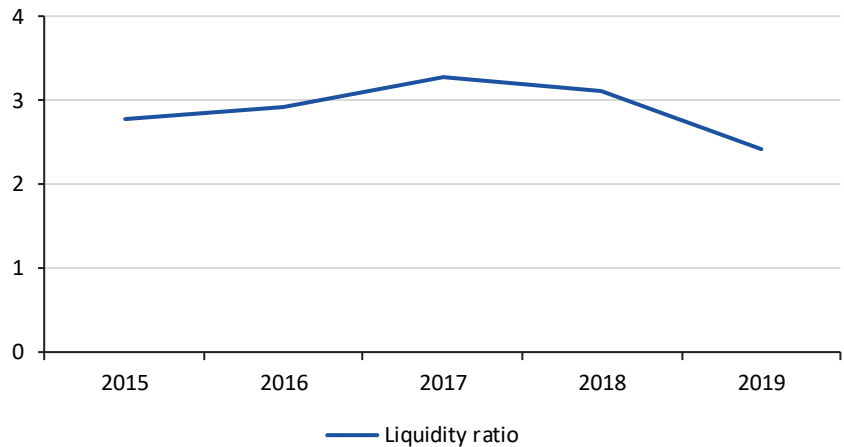
Figure 3G shows the combined sector average net result ratio over the past five years. Figure 3H shows the combined sector liquidity ratio over the past five years. Both have started to trend down.

Figure 3G
Combined TAFE sector average net result ratio for the years ended
31 December 2015–19



Source: VAGO.

Figure 3H
Combined sector average liquidity ratio for the years ended
31 December 2015–19



Source: VAGO.

Despite the net result of the sector this year, its liquidity ratio remains well above 1, which means there were no immediate concerns at balance date about the sector meeting its short-term financial obligations as they become due. The ongoing COVID-19 pandemic may change this position.

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 training 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 2019, so were not operating as efficiently or effectively as planned. This was partly caused by increased employee expenditure for the sector.

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

Figure 3I
Target and actual 2019 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	87.2%	79.8%	\$ 268 986	\$ 285 595
Box Hill Institute	87.0%	86.6%	\$ 205 000	\$ 217 400
Chisholm Institute	72.0%	73.5%	\$ 208 000	\$ 225 391
Gordon Institute of TAFE	105.4%	106.8%	\$ 151 930	\$ 152 117
Goulburn Ovens Institute of TAFE	117.0%	125.1%	\$ 140 394	\$ 139 893
Holmesglen Institute of TAFE	<80%	87.4%	>\$195 000	\$ 194 507
Melbourne Polytechnic	94.0%	91.5%	\$ 205 000	\$ 250 000
South West Institute of TAFE	119.7%	126.0%	\$ 140 920	\$ 150 018
Sunraysia Institute of TAFE	123.0%	131.7%	\$ 127 593	\$ 134 706
TAFE Gippsland	104.0%	106.0%	\$ 192 168	\$ 189 315
William Angliss Institute of TAFE	<78%	76.8%	\$ 234 700	\$ 226 179
Wodonga Institute of TAFE	96.0%	98.5%	\$ 175 372	\$ 173 089

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

Source: VAGO.

Appendix A

Submissions and comments

We have consulted with all audited entities and we considered their views when reaching our audit conclusions. As required by 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.

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

Responses were received as follows:

DET	36
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RESPONSE provided by the Associate Secretary, DET



**Department of
Education and Training**

Office of the Secretary

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

BRI2050968

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

TAFESnapshot20@audit.vic.gov.au

Dear Auditor-General

Thank you for your letter of 5 June 2020 inviting the Department of Education and Training (the Department) to provide submissions or comments on the proposed audit report *Results of 2019 Audits: Technical & Further Education Institutes* (the Report).

The Department welcomes the Report – it recognises the significant investment in the sector by the Victorian Government and I note in particular your key finding that the sector remains sustainable due to a strong balance sheet and continued diversification of revenue. I also note the comments that the financial and performance reports of the TAFE sector are reliable, and that Parliament and the community can use them with confidence.

I wish to acknowledge the work of the TAFE institutes and your Office that has produced clear audit opinions for all TAFE institutes this year whilst recognising the need to monitor the impacts of the evolving COVID-19 pandemic.

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

Your sincerely

Tony Bates
Associate Secretary
22 / 06 / 2020

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



Appendix B

Audit opinions

Figure B1 lists the entities included in this report, the nature of the opinion and when the audit opinion was issued for each entity for their 2019 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	✓ ^(a)	17 Apr 2020
Box Hill Institute	✓ ^(a)	16 Apr 2020
Box Hill Enterprises Limited	✓	14 Apr 2020
Chisholm Institute	✓	1 Mar 2020
Caroline Chisholm Education Foundation	✓	1 Mar 2020
TAFE Online Pty Ltd	✓	1 Mar 2020
Gordon Institute of TAFE	✓ ^(a)	20 Apr 2020
GoTec Limited	✓	22 Apr 2020
Goulburn Ovens Institute of TAFE	✓ ^(a)	16 Apr 2020
Holmesglen Institute	✓ ^(a)	21 Apr 2020
Glenuc Pty Ltd	✓	11 Mar 2020
Holmesglen Foundation	✓	11 Mar 2020
Holmesglen International Training Services Pty Ltd	✓	11 Mar 2020
Melbourne Polytechnic	✓	28 Feb 2020
South West Institute of TAFE	✓ ^(a)	15 Apr 2020
Sunraysia Institute of TAFE	✓ ^(a)	14 Apr 2020
TAFE Kids Inc.	✓ ^(a)	23 Apr 2020
TAFE Gippsland	✓	13 Mar 2020
William Angliss Institute of TAFE	✓	5 Mar 2020
Angliss Consulting Pty Ltd	✓	5 Mar 2020
Angliss Multimedia Pty Ltd	✓	5 Mar 2020
Angliss (Shanghai) Education Technology Co Ltd	✓	5 Mar 2020

Entity	Clear audit opinion issued	Auditor-General's report signed date
Angliss Solutions Pty Ltd	✓	5 Mar 2020
William Angliss Institute Foundation Ltd	✓	5 Mar 2020
William Angliss Institute Pt Ltd	✓ ^(a)	23 Apr 2020
Wodonga Institute of TAFE	✓	10 Mar 2020

(a) Clear audit opinion issued with an emphasis of matter paragraph included.

Note: Federation Training changed its name to TAFE Gippsland during the year.

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 ratings 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 <p>a material misstatement in the financial report that is likely to occur.</p>	<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 <p>a misstatement in the financial report that is not material and has occurred.</p>	<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

Figure D1 shows the performance statement indicators, description and methodology, while Figures D2 to D13 show each TAFE institute's reported performance against the four indicators for 2017 to 2019.

Figure D1
Performance report indicators, description and methodology

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	<i>(Employment costs minus Workforce reduction expenses plus third-party training delivery costs)/Training revenue</i>
Training revenue per teaching FTE	Training revenue (excluding revenue delivered by third parties) per Teaching FTE
Operating margin percentage	EBIT (excluding capital contributions)/Total revenue (excluding capital contributions)

Source: VAGO.

Figure D2
Bendigo Kangan Institute

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	45.9%	46.7%	44.9%	44.3%	50.3%	47.8%
Fee for service	45.2%	44.1%	41.7%	46.4%	31.3%	39.7%
Student fees and charges	8.9%	9.2%	13.4%	9.3%	18.4%	12.6%
Employment costs as a proportion of training revenue	87.2%	79.8%	72.7%	84.1%	71.9%	75.4%
Training revenue per teaching FTE	\$268 986	\$285 595	\$277 108	\$244 153	\$265 808	\$278 015
Operating margins percentage	-11.4%	-6.4%	8.2%	-3.4%	-19.8%	0.8%

Source: VAGO.

Figure D3
Box Hill Institute

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	35.0%	37.0%	35.0%	34.0%	35.0%	35.0%
Fee for service	40.0%	47.0%	44.0%	44.0%	65.0%	65.0%
Student fees and charges	25.0%	17.0%	21.0%	23.0%	-	-
Employment costs as a proportion of training revenue	87.0%	86.6%	89.0%	85.5%	83.0%	89.9%
Training revenue per teaching FTE	\$205 000	\$217 400	\$200 000	\$198 100	\$217 000	\$199 000
Operating margins percentage	>0%	-3.8%	>0%	1.1%	1.0%	0.7%

Note: - = target not published by TAFE.

Source: VAGO.

Figure D4
Chisholm Institute

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	53.2%	59.0%	56.0%	51.6%	54.0%	59.1%
Fee for service	28.0%	27.5%	25.3%	30.0%	27.0%	22.1%
Student fees and charges	18.8%	13.5%	18.7%	18.4%	19.0%	18.7%
Employment costs as a proportion of training revenue	72.0%	73.5%	73.0%	72.1%	70.0%	65.6%
Training revenue per teaching FTE	\$208 000	\$225 391	\$206 000	\$226 639	\$200 000	\$213 150
Operating margins percentage	-1.3%	-0.9%	-1.7%	-1.8%	>0%	7.9%

Source: VAGO.

Figure D5
Gordon Institute of TAFE

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	75.2%	75.3%	73.7%	74.1%	71.8%	75.9%
Fee for service	13.7%	13.1%	11.9%	12.1%	11.9%	10.9%
Student fees and charges	11.1%	11.7%	14.4%	13.8%	16.2%	13.2%
Employment costs as a proportion of training revenue	105.4%	106.8%	107.0%	107.1%	101.9%	104.6%
Training revenue per teaching FTE	\$151 930	\$152 117	\$141 963	\$140 177	\$145 820	\$141 714
Operating margins percentage	-22.6%	-15.7%	-20.2%	-5.0%	-4.4%	-4.5%

Source: VAGO.

Figure D6
Goulburn Ovens Institute of TAFE

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	61.7%	70.4%	62.4%	58.9%	56.7%	57.3%
Fee for service	13.6%	16.1%	21.7%	20.9%	43.3%	42.7%
Student fees and charges	24.7%	13.5%	15.9%	20.2%	-	-
Employment costs as a proportion of training revenue	117.0%	125.1%	117.4%	134.6%	106.4%	110.5%
Training revenue per teaching FTE	\$140 394	\$139 893	\$136 475	\$103 394	\$140 416	\$111 196
Operating margins percentage	-20.0%	-20.7%	-21.0%	0.2%	-22.5%	3.2%

Note: - = target not published by TAFE.

Source: VAGO.

Figure D7
Holmesglen Institute

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	43.1%	45.3%	41.2%	38.4%	40.0%	40.2%
Fee for service	40.8%	42.9%	42.6%	46.3%	60.0%	59.8%
Student fees and charges	16.1%	11.8%	16.2%	15.3%	-	-
Employment costs as a proportion of training revenue	<80%	87.4%	80.0%	81.0%	<80%	76.7%
Training revenue per teaching FTE	>\$195 000	\$194 507	>\$203 000	\$194 824	>\$190 000	\$ 198 385
Operating margins percentage	>0%	0.1%	>0%	3.5%	>2%	5.5%

Note: - = target not published by TAFE.

Source: VAGO.

Figure D8
Melbourne Polytechnic

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	30.0%	32.0%	30.0%	30.5%	31.0%	35.7%
Fee for service	57.0%	59.0%	56.0%	58.8%	69.0%	64.3%
Student fees and charges	13.0%	9.0%	14.0%	10.7%	-	-
Employment costs as a proportion of training revenue	94.0%	91.5%	95.0%	97.5%	95.8%	98.3%
Training revenue per teaching FTE	\$205 000	\$250 000	\$200 000	\$199 000	\$212 533	\$189 027
Operating margins percentage	-6.7%	-5.9%	-13.9%	1.5%	-9.0%	-7.5%

Note: - = target not published by TAFE.

Source: VAGO.

Figure D9
South West Institute of TAFE

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	67.0%	81.5%	71.0%	75.0%	68.2%	67.4%
Fee for service	11.0%	7.3%	7.0%	8.1%	31.8%	32.6%
Student fees and charges	22.0%	11.2%	22.0%	16.9%	-	-
Employment costs as a proportion of training revenue	119.7%	126.0%	117.0%	130.5%	110.4%	120.5%
Training revenue per teaching FTE	\$140 920	\$150 018	\$135 000	\$133 492	\$145 547	\$145 865
Operating margins percentage	-69.4%	-15.2%	0.0%	11.0%	-10.7%	0.2%

Note: - = target not published by TAFE.

Source: VAGO.

Figure D10
Sunraysia Institute of TAFE

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	51.7%	62.3%	51.8%	56.7%	74.0%	71.0%
Fee for service	21.5%	18.3%	21.4%	18.7%	26.0%	29.0%
Student fees and charges	26.8%	19.4%	26.8%	24.6%	-	-
Employment costs as a proportion of training revenue	123.0%	131.7%	125.0%	144.1%	135.0%	133.0%
Training revenue per teaching FTE	\$127 593	\$134 706	\$121 518	\$116 126	\$121 492	\$114 101
Operating margins percentage	1.6%	7.7%	1.5%	15.0%	-84.0%	1.4%

Note: - = target not published by TAFE.

Source: VAGO.

Figure D11
TAFE Gippsland

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	75.0%	71.0%	58.0%	59.0%	53.0%	60.0%
Fee for service	15.0%	19.0%	22.0%	23.0%	29.0%	23.0%
Student fees and charges	10.0%	10.0%	20.0%	23.0%	18.0%	17.0%
Employment costs as a proportion of training revenue	104.0%	106.0%	94.0%	100.0%	108.0%	86.6%
Training revenue per teaching FTE	\$192 168	\$189 315	\$203 000	\$218 770	\$154 688	\$238 602
Operating margins percentage	-25.0%	-18.0%	-40.0%	2.0%	-55.6%	6.0%

Note: Federation Training changed its name to TAFE Gippsland during the year.

Source: VAGO.

Figure D12**William Angliss Institute of TAFE**

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	22.0%	24.9%	21.5%	21.9%	39.0%	22.3%
Fee for service	61.0%	62.7%	61.2%	61.6%	61.0%	77.7%
Student fees and charges	17.0%	12.4%	17.3%	16.5%	-	-
Employment costs as a proportion of training revenue	<78%	76.8%	<79%	81.5%	<74%	77.6%
Training revenue per teaching FTE	\$234 700	\$226 179	\$231 500	\$206 858	\$244 000	\$217 000
Operating margins percentage	-4.5%	-6.1%	-5.1%	0.9%	n/a	1.5%

Note: - = target not published by TAFE.

Source: VAGO.

Figure D13**Wodonga Institute of TAFE**

	2019		2018		2017	
	Target	Actual	Target	Actual	Target	Actual
Training revenue diversity:						
Victorian Training Guarantee	36.6%	37.5%	51.8%	37.4%	49.2%	52.9%
Fee for service	55.4%	58.4%	37.5%	56.2%	50.8%	47.1%
Student fees and charges	8.0%	4.1%	10.7%	6.4%	-	-
Employment costs as a proportion of training revenue	96.0%	98.5%	95.0%	85.2%	86.3%	91.0%
Training revenue per teaching FTE	\$175 372	\$173 089	\$141 855	\$156 597	\$197 483	\$159 538
Operating margins percentage	-8.4%	0.5%	-9.0%	8.1%	1.8%	1.4%

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	Less than 0.75	Less than 1.0	Less than 10%
	Insufficient revenue is being generated to fund operations and asset renewal.	Immediate sustainability issues with insufficient current assets to cover liabilities.	Spending on capital works has not kept pace with consumption of assets.	Limited cash generated from operations to fund new assets and asset renewal.
Medium	Negative 10%–0%	0.75–1.0	1.0–1.5	10–35%
	A risk of long-term run down to cash reserves and inability to fund asset renewals.	Need for caution with cashflow, as issues could arise with meeting obligations as they fall due.	May indicate spending on asset renewal is insufficient.	May not be generating sufficient cash from operations to fund new assets.
Low	More than 0%	More than 1.0	More than 1.5	More than 35%
	Generating surpluses consistently.	No immediate issues with repaying short-term liabilities as they fall due.	Low risk of insufficient spending on asset renewal.	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 consolidated TAFE from 2015 to 2019, the annual sector average, and the five-year average for each TAFE.

Figure E3

Net result margin percentage

	Net result margin					Average
	2015	2016	2017	2018	2019	
Bendigo Kangan Institute	2.17%	2.71%	4.87%	1.35%	-5.22%	1.18%
Box Hill Institute	7.15%	2.11%	1.37%	7.71%	-5.26%	2.62%
Chisholm Institute	4.84%	9.53%	20.05%	14.51%	0.52%	9.89%
Gordon Institute of TAFE	-1.64%	1.61%	4.28%	1.51%	-10.70%	-0.99%
Goulburn Ovens Institute of TAFE	-2.97%	2.05%	4.17%	-0.31%	-19.64%	-3.34%

Figure E3
Net result margin percentage—continued

	Net result margin					Average
	2015	2016	2017	2018	2019	
Holmesglen Institute	9.88%	10.39%	15.25%	1.51%	6.17%	8.64%
Melbourne Polytechnic	-2.50%	-1.84%	0.09%	5.33%	-5.89%	-0.96%
South West Institute of TAFE	3.36%	0.38%	1.61%	10.92%	-14.77%	0.30%
Sunraysia Institute of TAFE	16.92%	1.15%	2.59%	12.74%	5.89%	7.86%
TAFE Gippsland	0.28%	2.56%	0.64%	1.60%	-5.28%	-0.04%
William Angliss Institute of TAFE	5.09%	9.09%	1.59%	0.60%	-7.86%	1.70%
Wodonga Institute of TAFE	1.60%	0.25%	2.09%	8.44%	0.08%	2.49%
						Average
Sector average	3.68%	3.33%	4.88%	5.49%	-5.16%	2.45%

Source: VAGO.

Figure E4
Liquidity ratio

	Liquidity ratio					Average
	2015	2016	2017	2018	2019	
Bendigo Kangan Institute	2.37	3.03	2.48	2.58	1.63	2.42
Box Hill Institute	2.83	1.50	1.40	1.93	1.50	1.83
Chisholm Institute	4.10	4.55	5.60	2.76	1.89	3.78
Gordon Institute of TAFE	6.28	5.77	4.98	4.07	2.83	4.79
Goulburn Ovens Institute of TAFE	3.55	3.90	3.33	3.31	2.34	3.29
Holmesglen Institute	2.16	2.54	2.79	2.28	2.12	2.38
Melbourne Polytechnic	1.09	1.19	1.13	1.08	0.80	1.06
South West Institute of TAFE	2.75	2.21	2.48	2.79	1.93	2.43
Sunraysia Institute of TAFE	1.53	1.86	2.22	3.09	2.88	2.31
TAFE Gippsland	2.00	2.53	6.38	7.19	3.95	4.41
William Angliss Institute of TAFE	1.49	1.89	1.92	1.70	1.74	1.75

Figure E4
Liquidity ratio—continued

	Liquidity ratio					Average
	2015	2016	2017	2018	2019	
Wodonga Institute of TAFE	3.13	4.06	4.57	4.55	5.55	4.37
Average						
Sector average	2.77	2.92	3.27	3.11	2.43	2.90

Source: VAGO.

Figure E5
Capital replacement ratio

	Capital replacement ratio					Average
	2015	2016	2017	2018	2019	
Bendigo Kangan Institute	0.23	0.53	1.76	1.26	1.00	0.96
Box Hill Institute	1.18	5.10	2.30	2.11	0.39	2.21
Chisholm Institute	0.58	0.98	2.06	9.06	2.45	3.02
Gordon Institute of TAFE	0.37	0.96	1.82	3.69	1.43	1.65
Goulburn Ovens Institute of TAFE	0.34	0.33	1.22	0.36	1.40	0.73
Holmesglen Institute	0.68	0.79	1.21	3.26	0.72	1.33
Melbourne Polytechnic	0.04	1.12	1.43	2.38	0.54	1.10
South West Institute of TAFE	0.25	1.76	0.48	0.47	1.08	0.81
Sunraysia Institute of TAFE	1.81	2.50	0.52	0.59	1.41	1.37
TAFE Gippsland	0.12	0.28	0.71	1.27	2.23	0.92
William Angliss Institute of TAFE	0.25	2.06	0.78	1.59	0.17	0.97
Wodonga Institute of TAFE	0.31	0.34	0.29	0.50	1.00	0.44
Average						
Sector average	0.51	1.40	1.21	2.21	1.15	1.29

Source: VAGO.

Figure E6
Internal financing (percentage)

	2015	2016	Internal facing		2019	Average
			2017	2018		
Bendigo Kangan Institute	751%	166%	89%	105%	251%	272%
Box Hill Institute	194%	25%	61%	325%	105%	142%
Chisholm Institute	391%	362%	216%	53%	80%	221%
Gordon Institute of TAFE	869%	238%	123%	40%	9%	256%
Goulburn Ovens Institute of TAFE	87%	444%	152%	694%	0%	275%
Holmesglen Institute	138%	404%	129%	49%	183%	181%
Melbourne Polytechnic	29 783%	64%	123%	110%	0%	6 016%
South West Institute of TAFE	23%	80%	614%	542%	0%	252%
Sunraysia Institute of TAFE	188%	60%	347%	626%	201%	284%
TAFE Gippsland	533%	783%	351%	141%	90%	380%
William Angliss Institute of TAFE	1 666%	142%	237%	14%	696%	551%
Wodonga Institute of TAFE	754%	1 471%	165%	548%	87%	605%
Average						
Sector average	2948%	353%	217%	271%	142%	786%

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.

Asset valuation

The fair value of a non-current asset on a specified date

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 1 January and ending with 31 December.

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.

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 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.

Control environment

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

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 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, such as increases to a provision.

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 Assistant Treasurer, 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 cashflow statement, a comprehensive statement of equity and notes.

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 the 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 (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, that 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.

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.

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.

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 an entity.

Auditor-General's reports tabled during 2019–20

Report title	Date tabled
Managing Registered Sex Offenders (2019–20:1)	August 2019
Enrolment Processes at Technical and Further Education Institutes (2019–20:2)	September 2019
Cenitex: Meeting Customer Needs for ICT Shared Services (2019–20:3)	October 2019
Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2018–19 (2019–20:4)	November 2019
Council Libraries (2019–20:5)	November 2019
Market-led Proposals (2019–20:6)	November 2019
Results of 2018–19 Audits: Local Government (2019–20:7)	November 2019
Sexual Harassment in the Victorian Public Service (2019–20:8)	November 2019
Follow up of Access to Public Dental Services in Victoria (2019–20:9)	November 2019
Follow up of Regulating Gambling and Liquor (2019–20:10)	November 2019
Managing Development Contributions (2019–20:11)	March 2020
Freight Outcomes from Regional Rail Upgrades (2019–20:12)	March 2020
Ravenhall Prison: Rehabilitating and Reintegrating Prisoners (2019–20:13)	March 2020
Personnel Security: Due Diligence over Public Sector Employees (2019–20:14)	May 2020
Managing Support and Safety Hubs (2019–20:15)	May 2020
Protecting Critically Endangered Grasslands (2019–20:16)	June 2020
Responses to Performance Audit Recommendations 2015–16 to 2017–18 (2019–20:17)	June 2020
Safety on Victoria's Roads—Regional Road Barriers (2019–20:18)	June 2020
Results of 2019 Audits: Technical and Further Education Institutes (2019–20:19)	June 2020
Results of 2019 Audits: Universities (2019–20:20)	June 2020

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www.audit.vic.gov.au

Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne Vic 3000
AUSTRALIA

Phone +61 3 8601 7000
Email enquiries@audit.vic.gov.au