

Results of 2022 Audits: Technical and Further Education Institutes

June 2023

Independent assurance report to Parliament
2022–23: 25

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ISBN 978-1-921060-62-5

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Independent assurance report to Parliament

Published by order, or under the authority,
of the Parliament of Victoria

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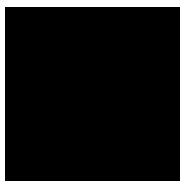
The Hon Shaun Leane MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Maree Edwards MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of the *Audit Act 1994*, I transmit my report *Results of 2022 Audits: Technical and Further Education Institutes*.

Yours faithfully



Andrew Greaves
Auditor-General
30 June 2023

The Victorian Auditor-General's Office (VAGO) acknowledges the Traditional Custodians of the lands and waters throughout Victoria. We pay our respects to Aboriginal and Torres Strait Islander communities, their continuing culture, and to Elders past and present.

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1. Audit outcomes

We provided clear audit opinions on financial reports and performance statements across the Technical and Further Education (TAFE) sector. Parliament and the community can confidently use these reports.

Financial reports and performance statements are reliable

The TAFE sector There are 12 TAFEs and 14 controlled entities in the Victorian TAFE sector.

We audit their financial reports and performance statements. They all prepared a financial report and performance statement for 2022.

See Appendix B for more information about the sector, including its annual reporting requirements.

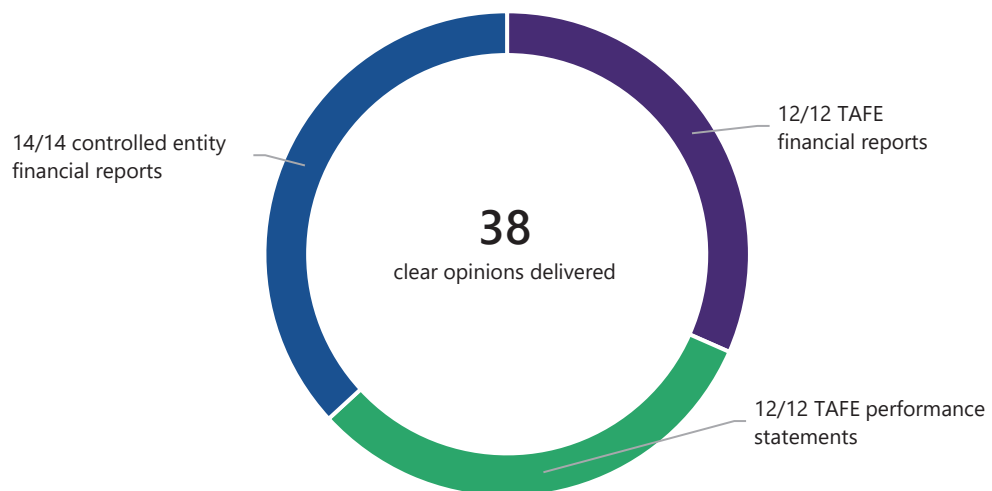
Controlled entity

A controlled entity is an entity that another party has the power to govern and make financial and operating decisions about.

Number of clear audit opinions As Figure 1 shows, we provided clear audit opinions on:

- all 12 TAFEs' financial reports and performance statements
- all 14 controlled entities' financial reports.

Figure 1: Clear audit opinions issued for 2022



Source: VAGO.

Clear opinion

A 'clear' or 'unmodified' audit opinion means we have reviewed an entity's financial report and believe it is reliable and complies with relevant reporting requirements.

TAFEs met their reporting timeframes with better quality reports in 2022

Timeliness of financial reports Under the *Financial Management Act 1994*, TAFEs have 8 weeks from the end of their financial year, or 'balance date', to give us their draft financial report to audit.

All 12 TAFEs gave us their 2022 draft financial reports within the 8-week deadline, similar to 2021.

Errors in financial reports The nature, number and size of errors in financial reports submitted for auditing are measures of their quality, and the effectiveness of their systems and processes used to compile them. During an audit we sometimes find an item that an entity has not prepared in line with relevant reporting requirements.

We classify these errors as either material or immaterial.

If an error is ...	Then ...
material	the entity needs to correct it before we can issue a clear audit opinion.
immaterial	we recommend the entity corrects it, but we can still issue a clear audit opinion without it being corrected.

This year we did not find any material errors in TAFEs' financial reports. We only found:

- 5 immaterial financial errors, compared to 7 in 2021
- 7 immaterial classification and disclosure differences, compared to 20 in 2021.

This shows that the sector improved the quality of its financial reports in 2022.

Material

We consider an error material if it could influence a user's decision or understanding about an entity's financial report.

Errors in performance statements

We did not find any material errors in the TAFEs' performance statements.

This shows that their performance reporting is mature.

Going concern Financial reports are prepared on a going-concern basis. This assumes that an entity is able to continue operating unless its management intends to either liquidate the entity, cease operating, or has no realistic alternative but to do so.

Due to financial pressures, 4 TAFEs faced uncertainty about their ability to continue as a going concern in 2022.

To mitigate the risk of these TAFEs being unable to pay their debts when they fall due, the Department of Jobs, Skills, Industry and Regions issued letters of comfort to them. Letters of comfort are an undertaking that the department will provide adequate cashflow to those TAFEs, should the need arise, until April 2024. This enabled the following TAFEs to prepare their financial reports on a going-concern basis:

- Gordon Institute of TAFE
- TAFE Gippsland
- Goulburn Ovens Institute of TAFE
- Melbourne Polytechnic (conditional based on asset sales).

We did not modify our audit opinion for these TAFEs because of the financial support provided by the department.

2.

Financial analysis

The sector’s financial performance improved in 2022 because of financial support received from government to TAFEs. This support helped pay employee costs and maintain assets. Four TAFEs also had loans forgiven by the Victorian Government. Financial performance would have declined without this financial assistance.

Overall, student enrolments for government-funded places declined. While half of the sector were able to increase their fee-for-service student revenue in 2022, these increases were mostly with metropolitan TAFEs, and were \$16 million less in total than the decline in revenues from funded places.

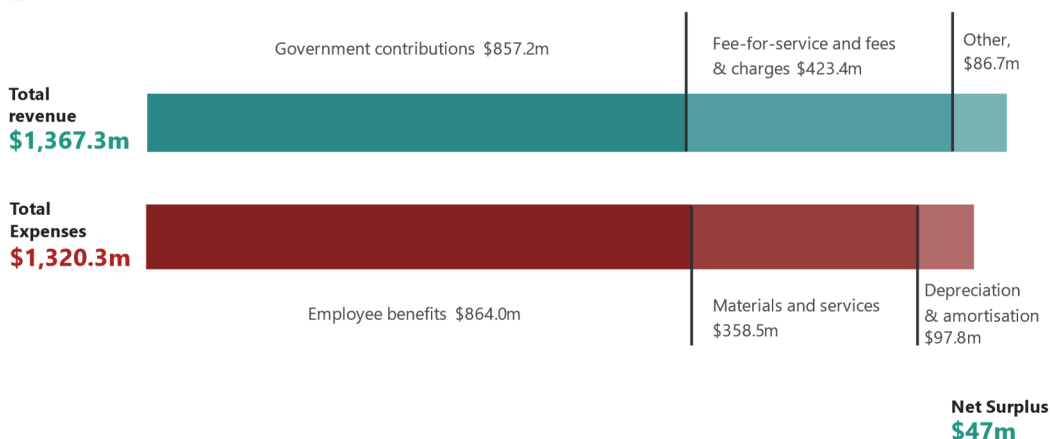
Onsite operations and teaching returned post pandemic, driving expenditure up. The rising cost of materials and services and declining enrolments mean that TAFEs will need to maintain a strong focus on sound budget and financial management to actively manage their costs.

The sector’s overall net result improved from 2021

Financial performance snapshot

As Figure 2 shows, TAFEs had a combined net surplus of \$47 million in 2022.

Figure 2: TAFEs' net result for 2022



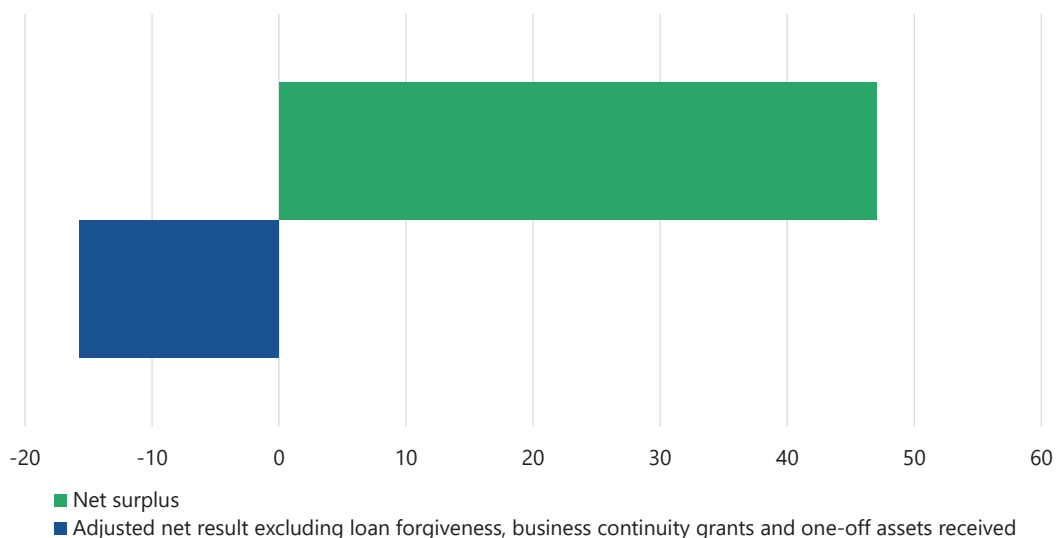
Source: VAGO.

The 2022 result is a \$59.1 million turnaround from their net deficit of \$12.1 million in 2021. However, most of this increase is attributable to once-off financial assistance from the Victorian Government in the form of loan forgiveness (\$31.6 million), business continuity grants (\$12.4 million) and once-off assets received by one TAFE (\$18.8 million).

In 2022 the sector reported ...	Which is a	From ...
\$1,367.3m in revenue and income	an 8.7% increase	\$1,258.2m in 2021.
\$1,320.3m in expenses	a 3.9% increase	\$1,270.3m in 2021.

Four TAFEs incurred a net deficit in 2022 – Box Hill Institute, Goulburn Ovens Institute of TAFE, William Angliss Institute and Bendigo Kangan Institute. If the once-off financial assistance was not provided by the government, four more TAFEs would have reported a net deficit in 2022, and the overall net result for the sector would have been a net deficit of \$15.7 million, as shown in Figure 3.

Figure 3: TAFEs' net surplus and adjusted net result for 2022 (\$ million)



Source: VAGO.

TAFEs got more government funding in 2022

Revenue sources In 2022 TAFEs got most of their revenue from:

- government contributions, including operating grants
- fee-for-service courses.

But the government gave TAFEs fewer capital grants and subsidies.

TAFEs got ...	Which is a ...	Because ...
\$857.2m from government contributions <ul style="list-style-type: none"> • capital and operating grants • contestable funding 	\$48.1m, or 5.9%, increase from \$809.1m in 2021	they received once-off business continuity grants amounting to \$12.4 million in 2022, along with additional funding for new student learning, wellbeing and support initiatives, marginally offset by reduction in capital grants.
\$423.4m from fee-for-service revenue	\$21.4m, or 5.3%, increase from \$402.0m in 2021	more courses were delivered during 2022.
\$86.7m from other revenue sources	\$39.6m, or 84.1%, increase from \$47.1m in 2021.	4 TAFEs received one-off loan forgiveness deeds from the Victorian Department of Education (totalling \$31.6 million).

Government grants

TAFEs get funding from the Victorian Government each year, both to support the delivery of tertiary education services, and also to fund large capital projects. How much they receive varies each year depending on the training market demand, government initiatives and capital projects.

In 2022 the Victorian Government gave TAFEs \$386.6 million in operating grants. This is a \$112.3 million increase from the \$274.3 million TAFEs received in 2021.

The government gave TAFEs more operating grants in 2022 to:

- help pay for increased staff salaries and running costs due to the return of onsite operations and teaching
- maintain their existing assets
- introduce new student learning, wellbeing and support initiatives.

These grants led to the sector reporting a surplus for 2022. TAFEs may not receive these grants in future years.

The government also gave TAFEs \$75.5 million in capital grants, a \$26.9 million decrease from \$102.4 million in 2021. This was because many TAFEs finished their existing building projects during 2021.

Business continuity grants

The Victorian Government started giving TAFEs business continuity grants in 2020 to help them keep running during the COVID-19 pandemic.

Contestable funding

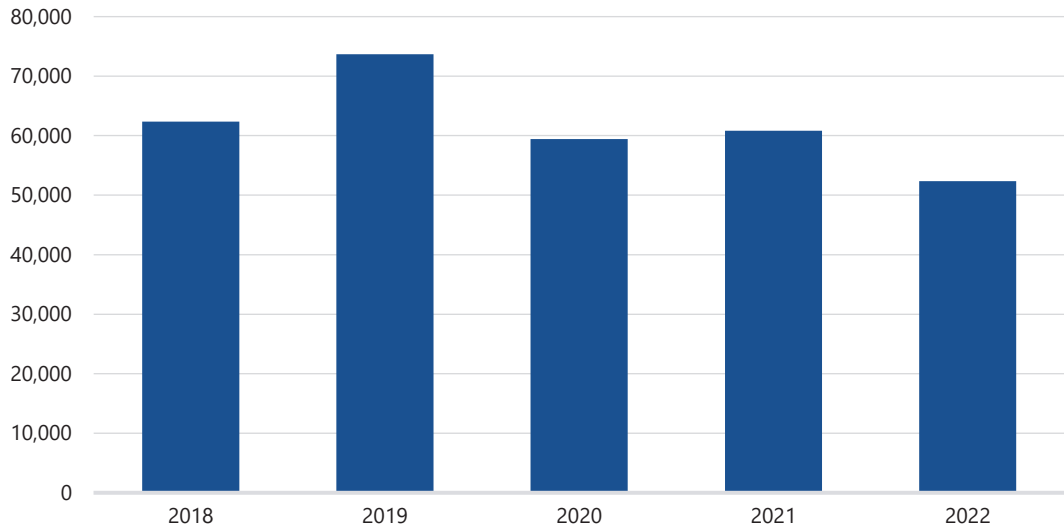
TAFEs received \$395.0 million in government subsidies, or 'contestable funding' in 2022. This is a \$37.4 million decrease from \$432.4 in 2021. This was because fewer students commenced government-funded courses in 2022. The decline was consistent across the sector.

As Figure 4 shows, the number of students who started a government-funded TAFE course increased significantly in 2019 because the Free TAFE program was introduced.

Student enrolments then rapidly declined in 2020 and remained low in 2021, due to the restrictions placed on in-person teaching at TAFEs' by the government, when the COVID-19 pandemic occurred.

In 2022, enrolments dropped further – according to data that is tracked by the Victorian Department of Education, the number of early school leavers from year 9 to 12 increased in 2022. Of these early leavers, most moved into employment. This could indicate that the strong labour market and favourable employment conditions may have contributed to the drop in student enrolments into TAFE in 2022. Students have likely shown a preference for moving straight from school into employment, rather than undertaking further study at TAFE.

Figure 4: Government-funded commencements for the years ended 31 December 2018 to 2022



Source: VAGO.

Contestable funding

The Victorian Government gives TAFEs contestable funding for domestic students who are studying courses eligible for a government grant.

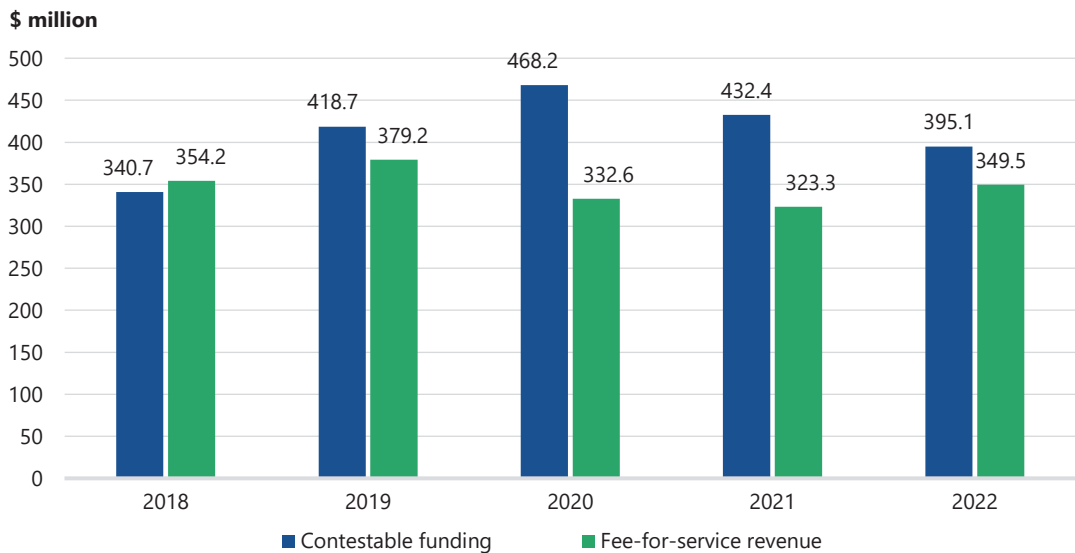
Free TAFE

Under the Free TAFE program, the government covers the cost of priority courses for eligible students.

Fee-for-service revenue

As Figure 5 shows, while TAFEs' contestable funding continued to go down in 2022, their fee-for-service revenue started to increase.

Figure 5: TAFEs' contestable funding and fee-for-service revenue from 2018 to 2022



Source: VAGO.

TAFEs started running more fee-for-service courses when COVID-19 lockdowns ended.

The sector received \$349.5 million from fee-for-service courses in 2022. This is a \$26.2 million increase from \$323.3 million received in 2021. However, most of this increase was driven by

4 TAFEs – Box Hill Institute, Chisholm Institute, Bendigo Kangan Institute of TAFE and Melbourne Polytechnic – with the remaining TAFEs unable to grow in this type of revenue.

Other fee-for-service revenue In 2022 TAFEs increased their fee-for-service revenue from other sources by \$9.3 million from \$71.7 million in 2021 to \$81.0 million.

But \$7.3 million, or 78.5 per cent, of this increase was at 2 TAFEs: Bendigo Kangan Institute and Melbourne Polytechnic. Most of this increase is once-off and unlikely to occur in future years.

Other revenue In 2022, revenue from other sources increased by \$39.6 million. This was largely due to loans forgiven by the Victorian Government. These loans were provided to four TAFEs – Box Hill Institute, TAFE Gippsland, Melbourne Polytechnic and Sunraysia Institute of TAFE – in prior periods.

The government determined it did not require these loans to be repaid. When loan forgiveness occurs, the amount is recognised in the financial report as other revenue.

TAFEs spent more in 2022 because they ran more in-person courses

Changes in expenses TAFEs spent \$1,320.3 million in 2022. This is a \$50 million increase from \$1,270.3 million in 2021.

The sector's expenses have gone up each year since 2018, except for 2020. In 2020 TAFEs reduced their spending due to the COVID-19 pandemic.

In 2022 the sector spent the most on employee expenses. But these costs only increased by 1.3 per cent from \$853.0 million in 2021 to \$864.0 million. This is because TAFEs focussed on keeping these costs down.

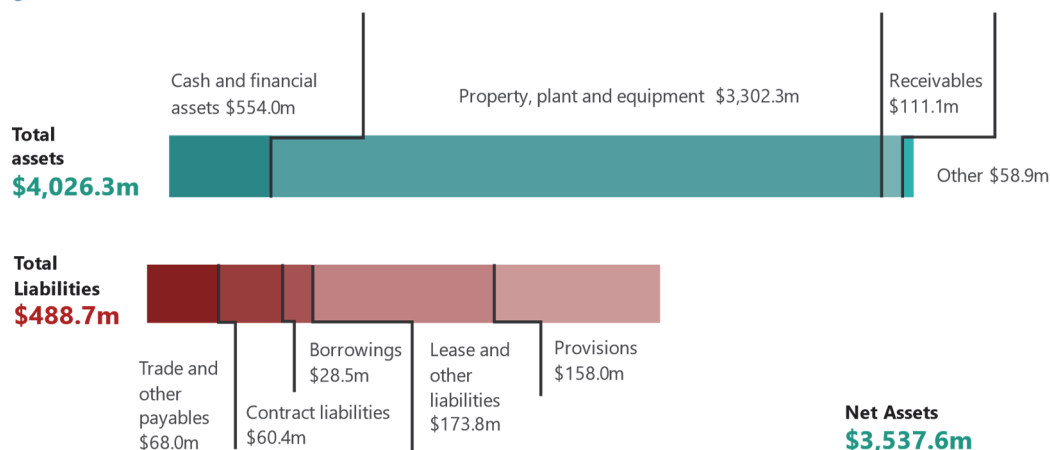
In 2022 the sector spent ...	Which is ...	Because ...
\$863.9m on employee expenses	an increase of \$10.9m or 1.3% from \$853.0m in 2021	staff salaries went up under teaching enterprise bargaining agreements.
\$358.5m on materials and services	an increase of \$39.8m or 12.5% from \$318.7m in 2021	TAFEs ran more in-person courses, which they largely stopped doing during the pandemic, and higher costs due to inflationary impacts.
\$97.8m on depreciation and amortisation	consistent with what it spent in 2021.	

The sector's net asset position has improved

Financial position snapshot

As Figure 6 shows, the sector had \$4,026.3 million in assets and \$488.7 million in liabilities in 2022, equating to net assets of \$3,537.6 million.

Figure 6: TAFEs' total assets and liabilities in 2022



Source: VAGO.

In 2022 the sector reported ...	Which is a ...	From ...
\$4,026.3m in assets	a 11.1% increase	\$3,623.1m in 2021.
\$488.7m in liabilities	a 0.6% decrease	\$491.7m in 2021.

Total assets

TAFEs' assets went up in value by \$403.1 million from \$3,623.1 million in 2021 to \$4,026.3 million in 2022.

This is because:

- TAFEs revalued their land and buildings, which increased their value by \$348.5 million
- TAFEs finished capital projects, which led to them reporting \$105.7 million of new assets.

The valuation increases of land and buildings were mainly in the outer metropolitan regions. The escalating costs of construction and current market conditions were factors contributing to the increases.

Cash balances and liquidity

TAFEs' cash balances have declined from \$447.0 million in 2019 to \$370.4 million in 2022. This is because student numbers have not returned to pre-pandemic levels requiring TAFEs to access cash reserves to fund their day-to-day operations and capital asset acquisitions.

TAFEs spent less at the height of the COVID-19 pandemic in 2020. But they started spending more in 2022 to:

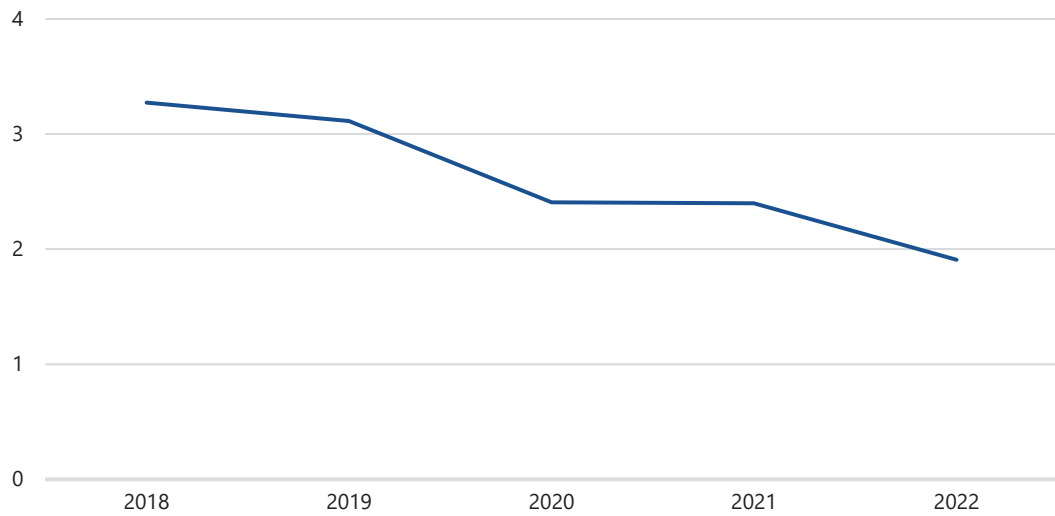
- run courses in-person again
- buy new land and buildings.

Three TAFEs hold nearly 60 per cent of the sector's cash balance – these being Chisholm Institute, Holmesglen Institute and Bendigo Kangan Institute.

While the sector's overall balance sheet remains strong, this is because TAFEs hold significant land and building portfolios. But these are not liquid assets nor are they held as investments, meaning that TAFEs cannot rely on them to generate their own revenues or to pay down their short-term debts where funds are needed quickly. As Figure 7 shows, the sector's average liquidity ratio has been declining since 2018. But it was still positive in 2022 at 1.84.

If the sector's liquidity ratio keeps going down, TAFEs may be in a position where they do not have enough cash to meet their immediate liabilities.

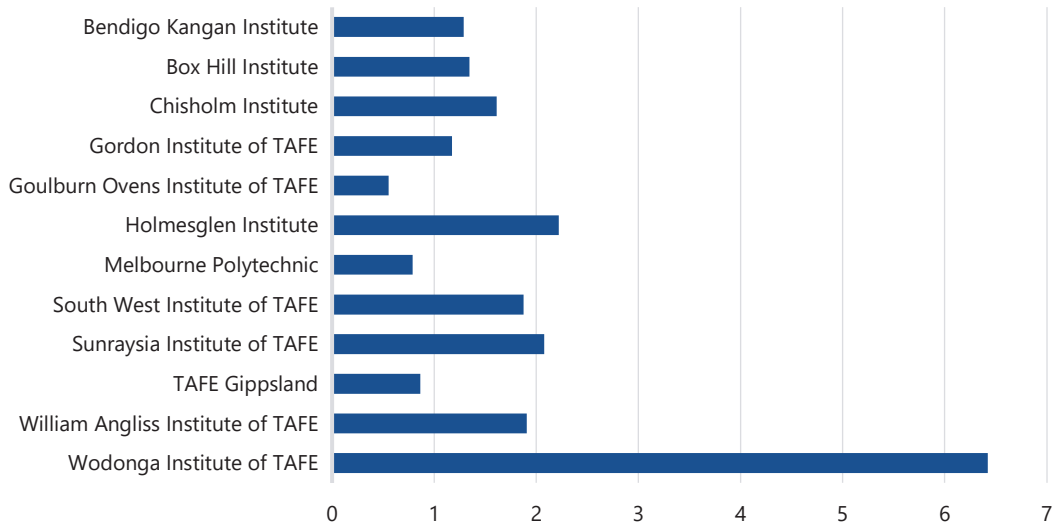
Figure 7: The sector's liquidity ratio from 2018 to 2022



Source: VAGO.

As can be seen in Figure 8, there are 3 TAFEs that have a liquidity ratio below one – these being Goulburn Ovens Institute of TAFE, Melbourne Polytechnic and TAFE Gippsland. These TAFEs received letters of comfort from the Victorian Government to meet their short-term liabilities where required, as explained in Section 1.

Figure 8: TAFEs liquidity ratio 2022



Source: VAGO.

Liquid assets

A liquid asset is an asset that an entity can easily convert into cash.

Liquidity ratio

A liquidity ratio measures if an entity can likely pay its debts in the immediate future using cash and liquid assets. To calculate a TAFE's liquidity ratio we divide its current assets by its current liabilities.

Financial sustainability challenges persist for the sector

Challenges

TAFEs' revenue from student fees and charges still has not returned to pre-pandemic levels. This is because fewer students overall enrolled in 2022.

Given the strong labour market being seen in 2023 and cost of living pressures, the decline in student enrolments could continue for the next few years.

TAFEs and the Victorian Government may need to consider revisiting their course structures and the types of courses being offered through the Free TAFE program in an effort to attract higher enrolments.

Further, from the continued financial assistance received by the sector and the rising cost of materials and services across Australia, it is clear TAFEs need to actively manage their spending. Sound financial management and budgeting practices are critical to effective and realistic cost management and should be a core focus for TAFEs in managing these financial pressures.

3.

Internal controls

TAFEs' internal controls are adequate for them to prepare reliable financial reports and performance statements. But they need to improve their information technology (IT) controls. These issues could prevent TAFEs from preparing reliable financial reports or protecting their sensitive data.

TAFEs need to focus on IT controls and keep improving them

Internal control snapshot TAFEs must have effective internal controls to keep proper accounts and records. These controls should cover people, systems and processes.

We assess if TAFEs' internal controls allow them to prepare reliable financial reports and performance statements.

Overall, TAFEs' internal controls are adequate. But TAFE boards need to improve their IT controls to address the:

- new issues we found in 2022
- unresolved issues we found in previous years.

Raising internal control issues We raise internal control and financial reporting issues to a TAFE's board and audit committee. This includes:

- reporting new issues
- giving updates on unresolved issues we raised in previous years.

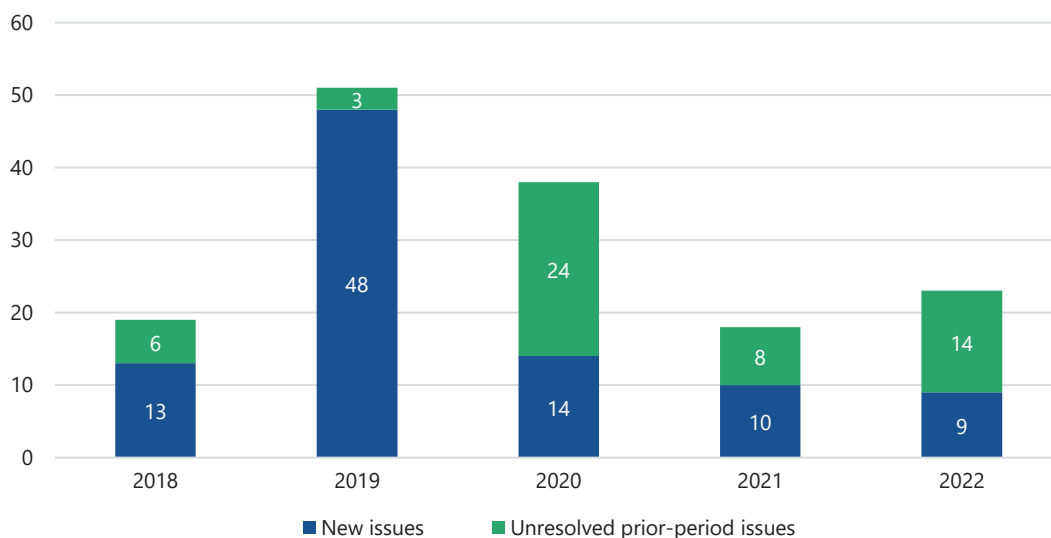
Issues we found in 2022 In 2022, there were 5 common IT issues across a number of TAFEs, as well as 4 financial reporting issues across the sector, including these high and moderate-rated issues:

We found ...	Which we rated as...	And recommended management act to ...
One new financial reporting issue	high risk	resolve within one month.
5 new IT issues related to managing user access and IT policies and procedures	moderate risk	resolve within 3 to 6 months.
3 new financial reporting issues related to fixed assets		
14 unresolved issues from previous years, including 11 that related to IT controls	<ul style="list-style-type: none"> • high risk (3 issues) • moderate risk (11 issues) 	resolve the: <ul style="list-style-type: none"> • high-risk issues within one month • moderate-risk issues within 3 to 6 months.

TAFEs can strengthen their internal controls and financial reporting processes by promptly resolving these issues.

As Figure 9 shows, the number of new issues has gone down since 2019. But the number of unresolved issues from previous years has fluctuated since 2018.

Figure 9: New and unresolved issues from 2018 to 2022



Note: We excluded low-risk issues because we consider them as minor or opportunities for improvement.
Source: VAGO.

Financial reporting issues

TAFEs manage over \$3 billion worth of fixed assets, including land, buildings and equipment. TAFEs must appropriately account for these assets in their financial reports.

In 2022 we found 3 TAFEs had the following financial reporting issues:

- no evidence to support how they determined the transfer of capital works to fixed-asset registers
- did not undertake impairment assessments, where required
- did not include a significant number of nil written-down value assets in their asset registers
- did not recognise all their material assets.

These issues increase the risk of TAFEs materially misstating their financial reports.

IT controls are still the sector's key weakness

Why IT controls are important

Effective IT controls are important because they reduce the risk of:

- unauthorised users accessing and changing a system
- cyberattacks.

TAFEs need these controls to protect their data and prepare reliable financial reports.

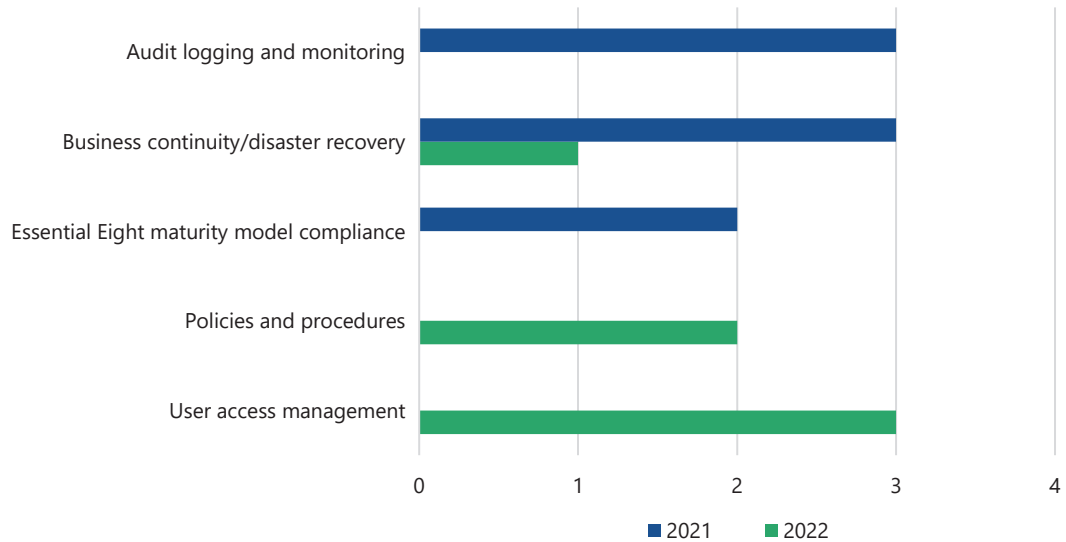
IT control issues we found in 2022

In 2022 the IT control issues we found mostly related to:

- managing user access
- IT policies and procedures.

Figure 10 shows the number of IT control issues we found by type in 2021 and 2022.

Figure 10: Medium and high-risk IT control issues by type in 2021 and 2022



Source: VAGO.

User access controls

User access controls manage who has access to a system or network.

We found that 2 TAFES do not regularly review which users have access to their IT applications. This led to one terminated user still having access. TAFEs need strong controls for users with privileged access because they can often make significant changes to a system or database.

We also found that one TAFE had not set up multi-factor authentication for all users. Multi-factor authentication is a security control that requires a user to verify their identity before they can log into a system.

These issues increase the risk of an unauthorised user:

- accessing a TAFE's system
- changing or stealing its data.

IT policies and procedures

Effective IT policies and procedures tell staff how they should set up, maintain and use an IT system. This helps an entity protect its data.

We found that 2 TAFEs need to update their policies and procedures to tell staff how to manage:

- user access
- logs
- patches
- data and data breaches
- IT assets.

We found that these TAFEs also need to regularly review their IT policies and procedures.

If a TAFE does not regularly review its policies and procedures there is a greater risk that staff will not:

- understand their duties
- follow appropriate control procedures
- have formalised guidance to follow if they run into any problems.

Essential Eight security framework

No IT security strategies are guaranteed to protect against all cyber threats. But the Australian Cyber Security Centre recommends organisations implement 8 essential mitigation strategies as a baseline.

This baseline, which is known as the Essential Eight, makes it much harder for people to compromise systems.

Complying with the Essential Eight security framework would help councils protect customer and sensitive data better.

The mitigation strategies that make up the Essential Eight are:

- application control
 - patch applications
 - configure Microsoft Office macro settings
 - user application hardening
 - restrict administrative privileges
 - patch operating systems
 - multi-factor authentication
 - regular backups.
-

Recommendation

All TAFEs

We recommend that all TAFEs:

- prioritise and promptly address the internal control and financial reporting issues we raise with them and that their audit committees monitor this
 - continue to assess against the Essential Eight Maturity Model for their key finance and other information technology systems.
-

Appendices

[Appendix A: Submissions and comments](#)

[Appendix B: Sector context](#)

[Appendix C: Our audit approach](#)

[Appendix D: Acronyms and glossary](#)

[Appendix E: Audit opinions](#)

[Appendix F: Control issue risk ratings](#)

[Appendix G: Financial sustainability indicators](#)

Appendix A: Submissions and comments

We have consulted with the Department of Jobs, Skills, Industry and Regions, the Department of Treasury and Finance and the 12 TAFEs in Victoria, 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 received

Agency	Page
Department of Jobs, Skills, Industry and Regions	A-2

OFFICIAL



Department of Jobs, Skills, Industry and Regions

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Ref: CSEC-2-23-20103

Mr Andrew Greaves
Auditor General
Office of the Auditor General

Dear Mr Greaves

PROPOSED REPORT ON THE RESULTS OF 2022 AUDITS: TECHNICAL & FURTHER EDUCATION INSTITUTES

Thank you for your correspondence of 15 June 2023 inviting the Department of Jobs, Skills, Industry and Regions (the department) to provide submissions or comments on the proposed report *Results of 2022 Audits: Technical & Further Education Institutes (TAFE)*.

The department welcomes the Results of 2022 Audits: TAFE (the report) and its findings. I note your conclusion that the financial and performance reports of the TAFE sector and their controlled entities are reliable, and that Parliament and the community can use them with confidence.

The department has reviewed the report, accepts all recommendations made, and notes the following:

- In response to recommendation 1, the department will work with TAFEs to strengthen internal controls and financial reporting.
- In response to recommendation 2, the department will work with TAFEs to ensure that they continue to assess against the Essential Eight Maturity Model for their key finance and other IT systems.

The report indicates that four TAFEs (The Gordon, TAFE Gippsland, GOTAFE and Melbourne Polytechnic) received letters of support from the department, undertaking that it will provide adequate cashflow to those TAFEs, should the need arise, until April 2024. I would like to provide some further information in relation to this point.

The Gordon, TAFE Gippsland and GOTAFE each disclosed in their annual reports that they were provided with a formal letter of support from the department to support the finalisation of their financial statements. These institutes were all significantly impacted by the COVID-19 pandemic, and the department is continuing to work closely with them to support their long-term financial sustainability so that they can achieve their financial sustainability objectives into the future. The letters of support reflect the department's ongoing commitment to a strong regional TAFE presence.

The Melbourne Polytechnic annual report disclosed that the institute achieved its financial sustainability objectives for 2022 as part of a broader three-year financial sustainability plan, but that the institute has a substantial economic dependency on government operating and capital contributions. To support the finalisation of Melbourne Polytechnic's annual report, the



Response provided by the Secretary, Department of Jobs, Skills, Industry and Regions – continued

department provided the institute with formal confirmation of funding to be provided across 2023 consistent with the previously agreed sustainability plan so that the institute can continue to achieve their financial sustainability objectives into the future.

I would like to take this opportunity to recognise the work of VAGO and the Victorian TAFE sector that has led to the clear audit opinions for all Victorian TAFEs this year.

If your team would like to discuss this further, please contact David Miller, Acting Chief Executive Officer, Office of TAFE Coordination and Delivery of the Department of Jobs, Skills, Industry and Regions on [REDACTED] or email: [REDACTED]

Yours sincerely



Tim Ada
Secretary

Date: 22/06/2023

Appendix B: Sector context

The sector at a glance

Victoria's TAFE sector

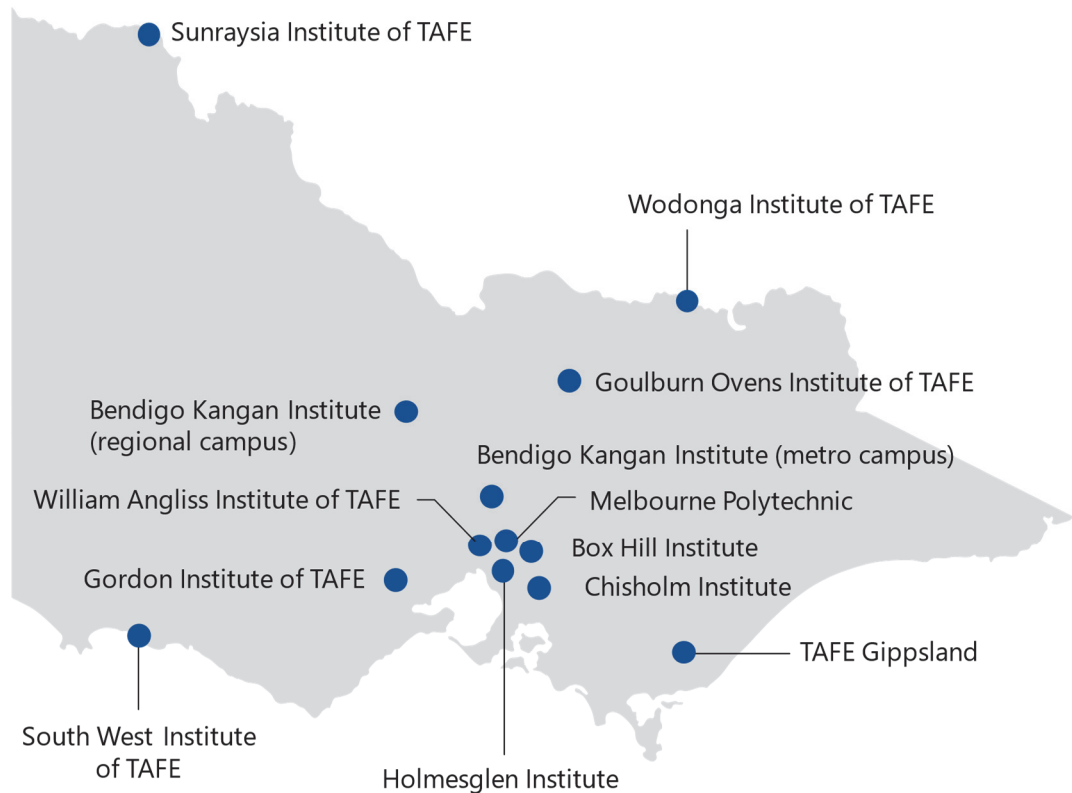
Victoria's TAFE sector is made up of 12 TAFEs and the 14 entities they control. They have 69 campuses across Victoria.

TAFEs run vocational education and training (VET) courses to give students practical skills for a variety of careers. They also provide pathways to university courses.

Location of TAFEs

Figure B1 shows where Victoria's 12 TAFE institutes are located.

Figure B1: Where Victoria's TAFE institutes are

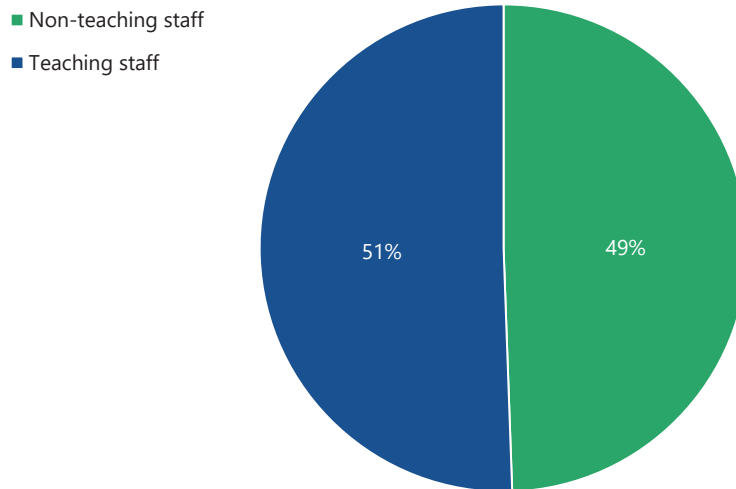


Source: VAGO.

The sector's workforce and enrolments

Figure B2 shows the proportion of teaching and non-teaching staff in the sector.

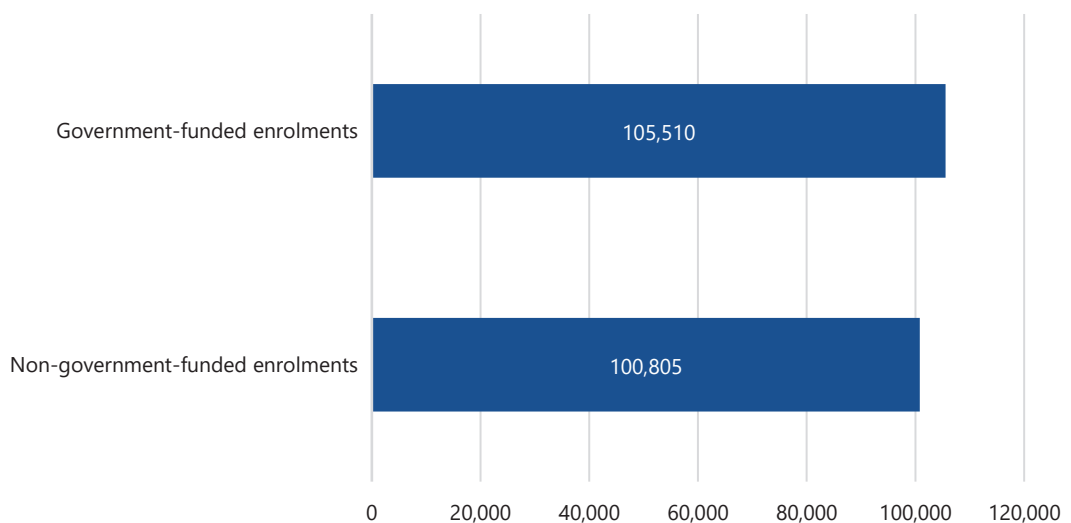
Figure B2: Teaching and non-teaching staff in the sector in 2022



Source: VAGO.

Figure B3 shows the number of government-funded and non-government funded enrolments at TAFEs in 2022.

Figure B3: Enrolment numbers by type in 2022



Source: VAGO.

Private sector VET

In Victoria private registered training organisations also run VET courses.

We have not included them in this report because the *Education and Training Reform Act 2006* and the *Audit Act 1994* do not require us to audit them.

The sector's financial model

Revenue and expense streams

The TAFE sector gets most of its revenue from running courses.

This revenue comes from both government-funded students and full fee-paying students.

Government funding

The Victorian Government funds TAFEs in 3 ways:

- government subsidies (or 'contestable funding') for domestic students who study eligible courses
- operating grants to help TAFEs pay for day-to-day costs or other specific needs
- capital grants for constructing new buildings and maintaining existing infrastructure.

Full-fee-paying students

Both private domestic students and international students pay full fees.

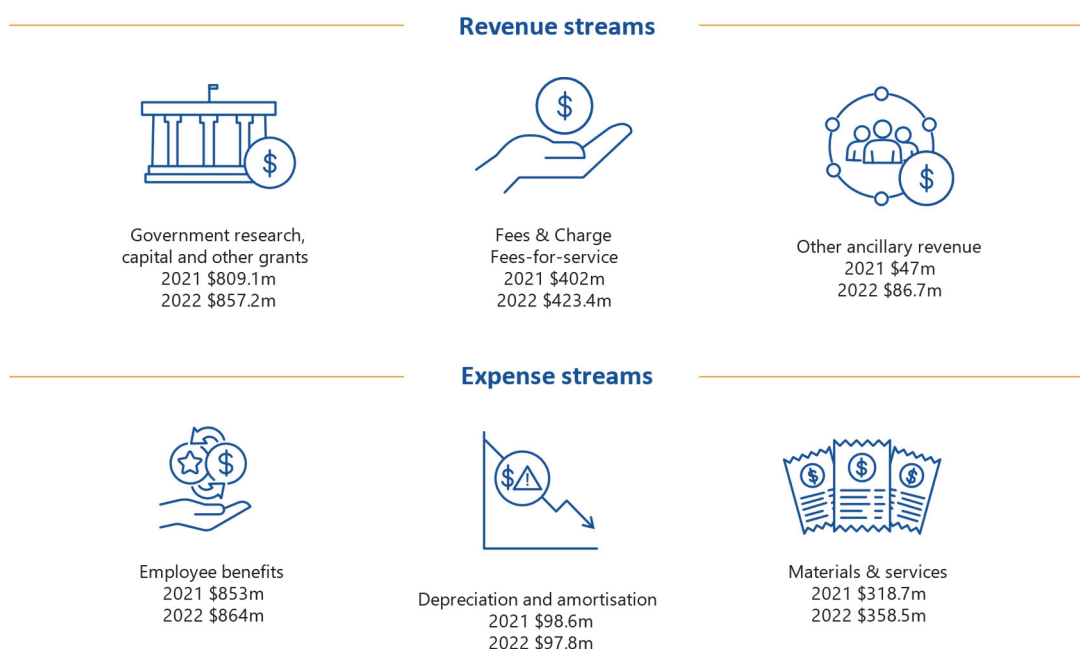
Private domestic students are students who are not eligible for government subsidies. They pay for their courses themselves or with an Australian Government VET student loan.

With a VET student loan, the Australian Government pays the course fees to the TAFE. The student repays the government through the tax system when they earn above a minimum income threshold.

Revenue and expense streams in 2021 and 2022

Figure B4 shows the sector's key revenue and expense streams in 2022 compared to 2021.

Figure B4: The sector's key revenue and expense streams in 2021 and 2022



Source: VAGO.

Legislative and financial reporting framework

Applicable Acts The *Education and Training Reform Act 2006* governs TAFEs. The Act outlines:

- TAFEs' functions and powers.
- the requirements for setting up a TAFE board
- TAFE boards' governance responsibilities.

The Act also requires each TAFE to prepare an 'annual statement of corporate intent'. It says that this statement must include the KPIs in the TAFE's performance statement.

As public bodies, TAFEs must follow the *Financial Management Act 1994*. This includes complying with the Assistant Treasurer's directions for preparing financial reports.

TAFEs must also follow the *Public Administration Act 2004*, which outlines the public sector's governance framework.

Managing and overseeing TAFEs

Each TAFE has a board. The board is accountable to the Minister for Training and Skills and the Minister for Higher Education.

The Department of Jobs, Skills, Industry and Regions manages the TAFE sector on behalf of these ministers. This includes:

- overseeing the sector and individual TAFE's governance
 - overseeing the breadth, depth and appropriateness of TAFEs' courses
 - funding the courses that TAFEs run through a subsidy for each hour of training.
-

Performance reporting framework

Applicable regulations

TAFEs are required to report mandatory performance indicators in line with the reporting requirements outlined by the Minister for Training and Skills in the statement of priorities.

Figure B5 shows the performance report indicators, description and methodology.

Figure B5: 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	Employment costs plus third-party training delivery costs as a proportion of training revenue
Teaching 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.

Note: *EBIT = earnings before interest and taxes.

Appendix C:

Our audit approach

Our method

We conduct our financial audits of the TAFE sector in accordance with the *Audit Act 1994* and the Australian Auditing Standards. As part of an audit, we:

- identify and assess risks of material misstatement (whether due to error or fraud) in financial reports and performance statements
- design and perform audit procedures to respond to those risks
- obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

We also:

- investigate internal controls relevant to the audit so we can design appropriate audit procedures for the circumstances
 - evaluate whether the entity's accounting policies are appropriate
 - evaluate whether the accounting estimates and related disclosures included in the financial report are reasonable
 - decide if it is appropriate to use the going-concern basis of accounting
 - evaluate the overall presentation, structure and content of the financial report and performance statement, including its disclosures
 - assess whether the financial report and performance statement represents the underlying transactions and events in a way that achieves fair presentation.
-

Our independence

The Auditor-General is:

- an independent officer of the Parliament of Victoria
 - appointed under legislation to examine, on behalf of Parliament and taxpayers, how the public sector manages resources
 - not subject to control or direction of either Parliament or the government.
-

Our ethical obligations

The Auditor-General and staff of VAGO must meet the ethical requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*
- *Code of Conduct for Victorian Public Sector Employees of Special Bodies*
- *Public Administration Act 2004*.

We also provided a copy of the report to the Department of Premier and Cabinet.

Our costs

This report and its supporting dashboard cost \$130,000 and were funded by parliamentary appropriation.

Appendix D: Acronyms and glossary

Acronyms We use the following acronyms in this report:

Acronym

EBIT	earnings before interest and taxes
IT	information technology
TAFE	Technical and Further Education
VAGO	Victorian Auditor-General's Office
VET	vocational education and training

Glossary This glossary includes an explanation of the types of engagements we perform:

Term

Reasonable assurance	We achieve reasonable assurance by obtaining and verifying direct evidence from a variety of internal and external sources about an agency's performance. This enables us to express an opinion or draw a conclusion against an audit objective with a high level of assurance. We call these audit engagements. See our assurance services fact sheet for more information.
Limited assurance	We obtain less assurance when we rely primarily on an agency's representations and other evidence generated by that agency. However, we aim to have enough confidence in our conclusion for it to be meaningful. We call these types of engagements assurance reviews and typically express our opinions in negative terms. For example, that nothing has come to our attention to indicate there is a problem. See our assurance services fact sheet for more information.
Capital grants	A capital grant is funding that an entity is given to increase its assets. TAFEs often spend this money on building new infrastructure and buying new equipment.
Clear opinion	A 'clear' or 'unmodified' audit opinion means we have reviewed an entity's financial report and believe it is reliable and complies with relevant reporting requirements.
Controlled entity	A controlled entity is an entity that another party has the power to govern and make financial and operating decisions about.
Depreciation and amortisation	Depreciation and amortisation are when an entity spreads the cost of a long-term asset (either tangible or intangible) over the period of time that it plans to use it.
Fixed assets	Fixed assets are long-term assets that an entity cannot quickly change to cash.
Going concern	Going concern means that an entity is expected to be able to pay its debts when they fall due and continue to operate without any intention or need to liquidate or otherwise wind-up its operations.
Liquid assets	A liquid asset is an asset that an entity can easily change to cash. It includes cash equivalents such as term deposits, current assets, and non-current investments such as listed shares and managed funds redeemable at call.
Material	We consider an error material if misstating it or not including it could influence a user's decision or understanding.

Term

Operating grants	An operating grant is funding that an entity is given to put towards its running costs, such as staff salaries and utilities.
Revenue and income	<p>Revenue is money or a benefit that an entity gets through a contract with another party. The entity records revenue when it fulfils its commitments in the contract. For example, when a TAFE has delivered tuition to a student.</p> <p>Income is money or a benefit that an entity gets from any other source. In most cases, the entity records income immediately when it receives it. For example, when a TAFE gets a cash donation or when one of its investments goes up in value.</p>
Patches	Patches are changes to a piece of software (including operating systems) or ICT equipment to remedy security vulnerabilities, improve usability, or improve performance.

Appendix E:

Audit opinions

Figure E1 lists the entities we included in this report. It details the type of audit opinions for their 2022 financial reports and performance statements and the date we issued them.

Figure E1: Audit opinions issued for the TAFE sector for the year ended 31 December 2022

Entity	Financial report		Performance statement	
	Clear audit opinion issued	Audit opinion signed date	Clear audit opinion issued	Audit opinion signed date
Bendigo Kangan Institute	✓	27 March 2023	✓	27 March 2023
Box Hill Institute	✓	27 March 2023	✓	27 March 2023
Box Hill Enterprises Ltd	✓	7 March 2023	N/A	N/A
Chisholm Institute	✓	22 March 2023	✓	22 March 2023
Caroline Chisholm Education Foundation	✓	22 March 2023	N/A	N/A
TAFE Online Pty Ltd	✓	22 March 2023	N/A	N/A
Gordon Institute of TAFE	✓	31 March 2023	✓	31 March 2023
Gotec Limited	✓	31 March 2023	N/A	N/A
Goulburn Ovens Institute of TAFE	✓	2 April 2023	✓	2 April 2023
Holmesglen Institute	✓	29 March 2023	✓	29 March 2023
Glenuc Pty Ltd	✓	17 March 2023	N/A	N/A
Holmesglen Foundation	✓	17 March 2023	N/A	N/A
Holmesglen International Training Services Pty Ltd	✓	17 March 2023	N/A	N/A
Melbourne Polytechnic	✓	2 April 2023	✓	2 April 2023
South West Institute of TAFE	✓	20 March 2023	✓	20 March 2023
Sunraysia Institute of TAFE	✓	30 March 2023	✓	30 March 2023
TAFE Kids Inc.	✓	31 March 2023	N/A	N/A
TAFE Gippsland	✓	29 March 2023	✓	29 March 2023
William Angliss Institute of TAFE	✓	29 March 2023	✓	29 March 2023
Angliss Consulting Pty Ltd	✓	13 April 2023	N/A	N/A
Angliss Multimedia Pty Ltd	✓	13 April 2023	N/A	N/A
Angliss (Shanghai) Education Technology Co Ltd	✓	29 March 2023	N/A	N/A
Angliss Solutions Pty Ltd	✓	13 April 2023	N/A	N/A
William Angliss Institute Foundation	✓	24 March 2023	N/A	N/A

Entity	Financial report		Performance statement	
	Clear audit opinion issued	Audit opinion signed date	Clear audit opinion issued	Audit opinion signed date
William Angliss Institute Pte Ltd	✓	27 March 2023	N/A	N/A
Wodonga Institute of TAFE	✓	27 March 2023	✓	27 March 2023

Note: N/A = not applicable.
Source: VAGO.

Appendix F: Control issue risk ratings

Figure F1 shows the risk ratings we apply to issues. We raise these issues with entities in audit management letters. The figure also explains what these ratings represent and the timeframe we expect entities to resolve issues within.

Figure F1: Risk definitions we apply to issues we raise in audit management letters

Rating	Definition	Required action
High	<p>The issue represents:</p> <ul style="list-style-type: none"> A material misstatement in the financial report that has occurred, or an issue that could potentially result in a modified audit opinion if not addressed as a matter of urgency by the entity, or a control weakness which could cause or is causing a major disruption of the process or the entity's ability to achieve process objectives in relation to financial reporting and comply with relevant legislation. 	<p>Requires executive management to correct the misstatement in the financial report, or address the issue, as a matter of urgency to avoid a modified audit opinion.</p> <p>Requires immediate management intervention with a detailed action plan to be implemented within one month.</p>
Medium	<p>The issue represents:</p> <ul style="list-style-type: none"> a misstatement in the financial report that is not material and has occurred, or that may occur, the impact of which has the possibility to be material, or 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. 	<p>Requires management intervention with a detailed action plan implemented within 3 to 6 months.</p>
Low	<p>The issue represents:</p> <ul style="list-style-type: none"> a misstatement in the financial report that is likely to occur but is not expected to be material, or a minor control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation, or an opportunity to improve an existing process or internal control. 	<p>Requires management intervention with a detailed action plan implemented within 6 to 12 months.</p>

Source: VAGO.

Appendix G:

Financial sustainability indicators

Figure G1 shows the financial indicators used to assess 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.

Our analysis of financial sustainability risk in this report reflects on the position of each TAFE institute.

Refer to the data dashboard on our website (www.audit.vic.gov.au/report/results-2022-audits-technical-and-further-education-institutes) for our individual TAFE financial sustainability data and analysis.

Figure G1: Financial sustainability 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.</p> <p>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 1 or more means that there are more cash and liquid assets than short-term liabilities.</p>
Capital replacement (ratio)	Cash outflows for property, plant and equipment/depreciation	<p>This compares the rate of spending on property, plant and equipment 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 because 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 its 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 produced a negative result, this has been rounded up to zero per cent.</p>

Source: VAGO.

Auditor-General's reports tabled during 2022–23

Report title	Tabled
<i>Results of 2021 Audits: Technical and Further Education Institutes (2022–23: 1)</i>	July 2022
<i>Results of 2021 Audits: Universities (2022–23: 2)</i>	July 2022
<i>Follow-up of Protecting Victoria's Coastal Assets (2022–23: 3)</i>	August 2022
<i>The Effectiveness of Victoria Police's Staff Allocation (2022–23: 4)</i>	September 2022
<i>Quality of Major Transport Infrastructure Project Business Cases (2022–23: 5)</i>	September 2022
<i>Major Projects Performance Reporting 2022 (2022–23: 6)</i>	September 2022
<i>Quality of Child Protection Data (2022–23: 7)</i>	September 2022
<i>Follow-up of Maintaining the Mental Health of Child Protection Practitioners (2022–23: 8)</i>	September 2022
<i>Regulating Victoria's Native Forests (2022–23: 9)</i>	October 2022
<i>Victoria's Alcohol and Other Drug Treatment Data (2022–23: 10)</i>	October 2022
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2021–22 (2022–23: 11)</i>	October 2022
<i>Regulating Private Pool and Spa Safety (2022–23: 12)</i>	February 2023
<i>Results of 2021–22 Audits: Local Government (2022–23: 13)</i>	February 2023
<i>Maintaining Railway Assets Across Metropolitan Melbourne (2022–23: 14)</i>	March 2023
<i>Fair Presentation of Service Delivery Performance 2022 (2022–23: 15)</i>	March 2023
<i>Understanding Victoria's Contaminated Land (2022–23: 16)</i>	March 2023
<i>Supporting Sexual and Reproductive Health (2022–23: 17)</i>	May 2023
<i>Regulating Food Safety (2022–23: 18)</i>	June 2023
<i>Collecting State-based Tax Revenue (2022–23: 19)</i>	June 2023
<i>Supporting Students with Disability (2022–23: 20)</i>	June 2023
<i>Principal Health and Wellbeing (2022–23: 21)</i>	June 2023
<i>Correctional Services for People with Intellectual Disability or an Acquired Brain Injury (2022–23: 22)</i>	June 2023
<i>Effectiveness of Rail Freight Support Programs (2022–23: 23)</i>	June 2023
<i>Results of 2022 Audits: Universities (2022–23: 24)</i>	June 2023
<i>Results of 2022 Audits: Technical and Further Education Institutes (2022–23: 25)</i>	June 2023

All reports are available for download in PDF and HTML format on our website at <https://www.audit.vic.gov.au>

Our role and contact details

The Auditor-General's role

For information about the Auditor-General's role and VAGO's work, please see our online fact sheet [About VAGO](#).

Our assurance services

Our online fact sheet [Our assurance services](#) details the nature and levels of assurance that we provide to Parliament and public sector agencies through our work program.

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