



Technical and Further Education Institutes: Results of the 2013 Audits

Tabled 6 August 2014

Background

Twenty-seven entities comprising:

- fourteen Technical and Further Education Institutes (TAFE)
- thirteen controlled entities.
- Reports previously included universities.
- *Universities: Results of the 2013 Audits* was tabled on 28 May 2014.



Tertiary Education and Other Entities:
Results of the 2012 Audits

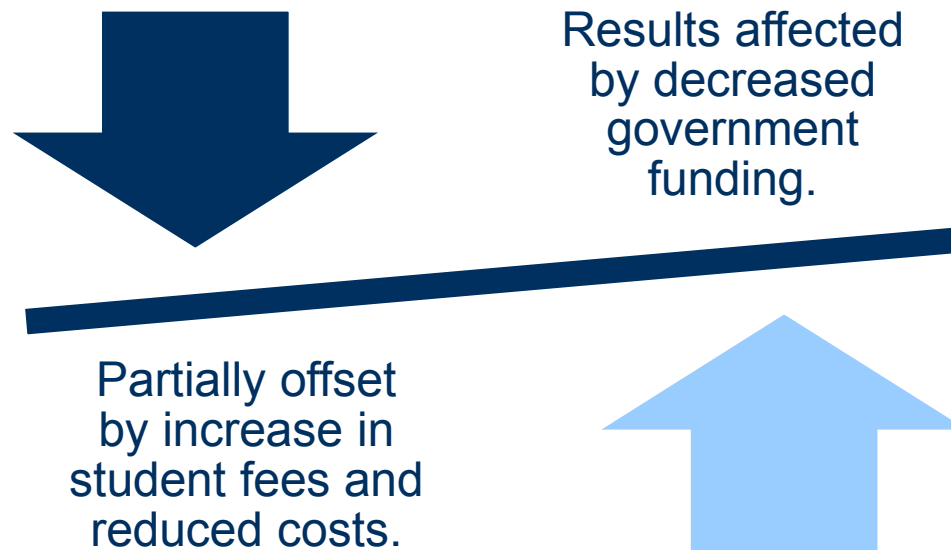


Universities:
Results of the 2013 Audits

Overall conclusion

TAFE sector produced a net deficit of \$16.2 million.

- \$74.8 million decrease on the 2012 surplus.



Financial reporting

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7–11

- Twenty-seven received clear audit opinions.
- Emphasis of matter paragraph included in financial report of Northern Melbourne Institute of TAFE (NMIT)—uncertainty of continuing as a going concern.



NMIT Preston quadrangle by Tirin aka Takver—www.takver.com—own work. Licensed under Creative Commons Attribution-Share Alike 3.0 via Wikimedia Commons —http://commons.wikimedia.org/wiki/File:NMIT_Preston_quadrangle.jpg#mediaviewer/File:NMIT_Preston_quadrangle.jpg

A background image showing a person's hands writing in a notebook with a pen. The image is slightly blurred and has a soft, warm light effect. In the top left corner, there is a small orange speech bubble icon.

Quality of financial reporting

- Quality of some elements of reporting deteriorated in 2013.
- Opportunities for improvement reported over a number of years—some TAFEs have not acted on recommendations.
- In future we will name entities that do not take appropriate steps to improve.

Performance Reporting

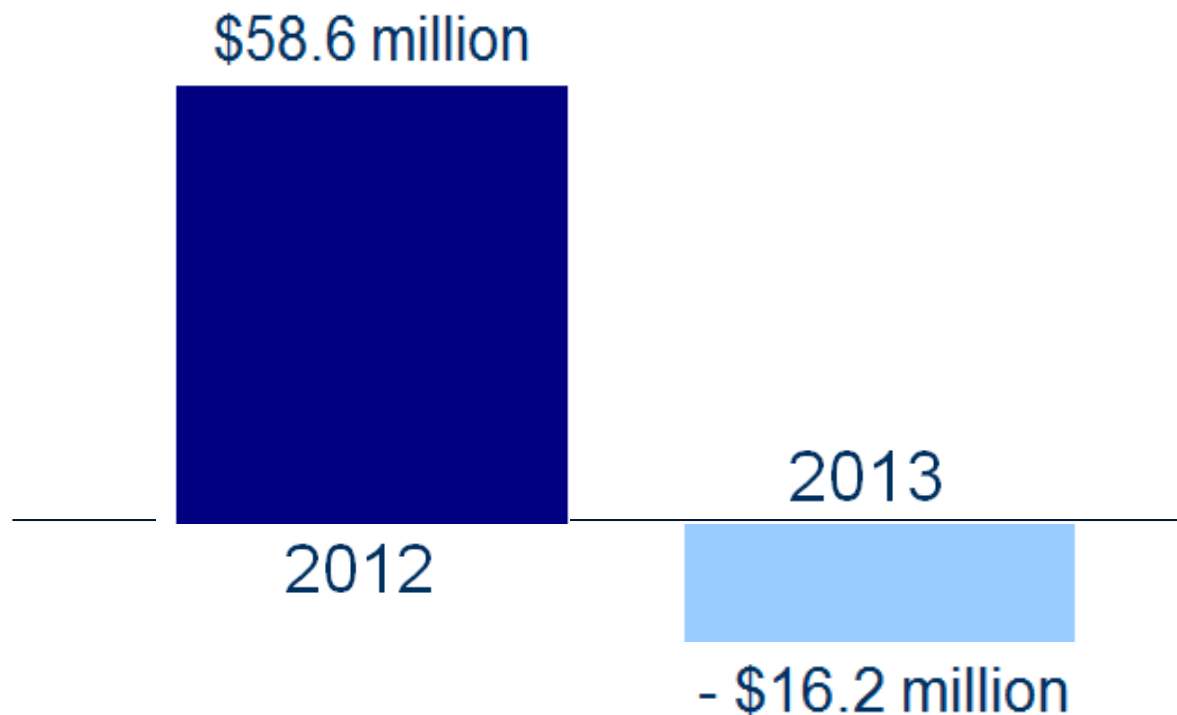
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- Comparative performance reporting across the TAFE sector remains poor.
- No framework mandating relevant and appropriate performance indicators.
- No guidance for suitable targets and for analysing performance.
- Difficult for users and community to monitor performance of TAFEs under the new contestable environment.
- From 2014 TAFEs are to implement a strategic planning framework, requiring them to set key performance indicators.

Financial results

- TAFEs collectively produced a deficit of \$16.2 million.





Financial results – *continued*

Results included:

- Seven TAFEs reported a deficit in 2013 (four in 2012).
- Results impacted by decrease of \$116.3 million (15 per cent) in government grants.
- Increase in student fees and reduced costs not sufficient to offset reduced government funding.
- Against trend, four TAFEs had profits and improved results—Chisholm, Goulburn Ovens, Kangan and Sunraysia.
- Most TAFEs yet to adapt effectively to funding model changes.

Northern Melbourne Institute of TAFE

- NMIT reported operating deficit of \$31.7 million and cash outflows of \$23 million.
- Cash-flow deficits projected for next two years.



Northern Melbourne Institute of TAFE – *continued*

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- Department of Education and Early Childhood Development (DEECD) agreed to support NMIT in obtaining a \$16 million loan for restructuring arrangements.
- NMIT now implementing restructuring initiatives and changes to campus operations.
- NMIT flagged as high financial sustainability risk and requires close monitoring.



Financial sustainability

Five TAFEs assessed as high risk in 2013.

Two-year financial sustainability risk assessment

Entity	2013	2012
Advance	High	Medium
Bendigo	Medium	Medium
Box Hill	Medium	Medium
Central Gippsland	High	Low
Chisholm	Low	Medium
Gordon	Medium	Low
Goulburn Ovens	Medium	Medium
Holmesglen	Medium	Low
Kangan	Medium	Medium
Northern Melbourne	High	Medium
South West	High	Medium
Sunraysia	Medium	Medium
William Angliss	High	Medium
Wodonga	Medium	Low
Total	14	14

Financial sustainability – *continued*

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TAFE sector's financial sustainability deteriorated in 2013.

- Ten TAFEs recorded poorer results in 2013.
- Seven had deficits and poor **underlying result** indicators.
- All TAFEs had low **liquidity** risk.
- TAFEs with high **self-financing** risk went from five to 11—difficult to fund asset replacement from operating cash.

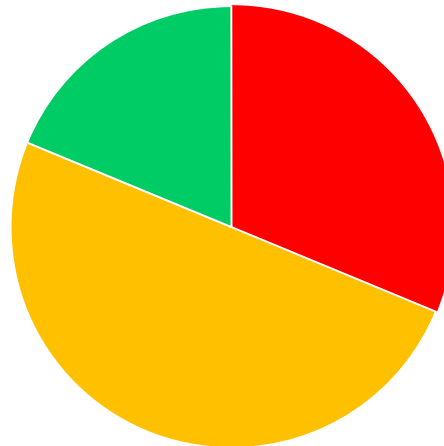
Financial sustainability – *continued*

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- Very low debt levels so **debt-to-equity** ratio is low risk.
- **Capital replacement ratio** has deteriorated over past three years.

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11 (out of 14) TAFEs have
medium or high risk



Internal controls

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Focus areas in 2013:

1. Procurement

- TAFEs had comprehensive procurement policies that comply with government requirements.

Potential for improvement

- Defining high-risk and complex procurement and to set requirements for probity plans.
- Post-tender evaluations not completed—opportunity to identify improvements is missed.

Internal controls – *continued*

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2. Financial policies and delegations

- Financial delegation policies existed and operated effectively.
- Key financial activities were guided by documented policies and procedures.
- Established policies could benefit from a review against the better practice framework presented in this report.

Recommendations

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		Accept
1.	<p>That, in line with better practice report preparation, and in order to improve the quality of reporting, technical and further education institutes:</p> <ul style="list-style-type: none">• prepare shell financial statements• improve financial compliance reviews, analytical reviews, materiality assessments and quality assurance practices• address the competency of staff involved.	✓
2.	<p>That DEECD work with TAFEs to develop a robust framework that specifies reporting requirements, mandates a core suite of relevant and appropriate key performance indicators, and guides entities in establishing suitable targets and effectively analysing performance.</p>	✓

Recommendations – *continued*

	Accept
3. That TAFEs improve the quality of performance statements by including comparative information and explanations of significant variances observed.	✓
4. That DEECD acts to mitigate the risk of misstatement of performance by technical and further education institutes by ensuring adequate scrutiny of information reported.	✓
5. That TAFE institutes document and define high value, high risk and complex procurement in the context of their business so that there is clarity on when and where probity should be applied.	✓
6. That TAFE institutes adopt a schedule for periodic review of all key financial policies to ensure they remain current.	✓

Related audits

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- *Universities: Results of the 2013 Audits*, tabled in May 2014.
- *Tertiary Education and Other Entities: Results of the 2012 Audits*, tabled in May 2013.

Contact details

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