

Technical and Further Education Institutes: 2014 Audit Snapshot

Tabled 28 May 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector. The Auditor-General conducts financial audits and performance audits, and reports on the results of these audits to Parliament.

On 28 May 2015, the Auditor-General tabled his financial audit report *Technical and Further Education Institutes: 2014 Audit Snapshot*.

Overview

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- Twelve technical and further education (TAFE) institutes with the amalgamation of:
 - Advance TAFE and Central Gippsland TAFE to create Federation Training
 - Bendigo TAFE and Kangan TAFE to create Bendigo-Kangan TAFE.
- Ten of the 12 audit opinions issued to TAFEs.
 - Federation Training has not completed their financial report. They are still addressing a number of financial reporting issues.
 - Wodonga TAFE's audit opinion was withdrawn as a material misstatement has been identified and is currently being investigated.

As at the preparation of this report, we have issued audit opinions on 10 of the 12 technical and further education institutes (or TAFEs).

Federation Training has not yet completed their financial report. They are still addressing a number of financial reporting issues.

Wodonga TAFE received an audit opinion. However, that has been withdrawn as a material misstatement has been identified in the financial statements. This is currently being investigated.

Overview – *continued*

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- Discusses issues arising from the 2014 financial audits of the 12 TAFEs and 16 controlled entities.
- Key findings:
 - The TAFE sector is in decline with increased financial sustainability risks.
 - Significant write down of the new Student Management System (SMS) has contributed to the sector's ongoing deficits.
 - The TAFE sector needs to improve risk management practices and performance reporting.
- Bigger steps are needed by TAFEs and the Department of Education & Training (the department) to turn around the financial decline.

The key findings of this report are:

- Two successive years of combined deficits have been reported for the sector, following changes to the government funding arrangements that became effective on 1 January 2013.
- The 2014 deficit included write downs by TAFEs of the new Student Management System (or SMS).
- Our review of the performance reporting and risk management frameworks of TAFEs indicate improvements can be made to current practices.

Focus of this audit

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Key areas examined

- Financial outcomes and financial sustainability risk analysis
- Performance reporting
- Risk management frameworks

Audit scope

- Twelve TAFEs in Victoria, and the 16 entities they control
- Results of the 2014 financial audits

Observations that arose out of our financial audit work, including financial outcomes and financial sustainability risks, are included in this report.

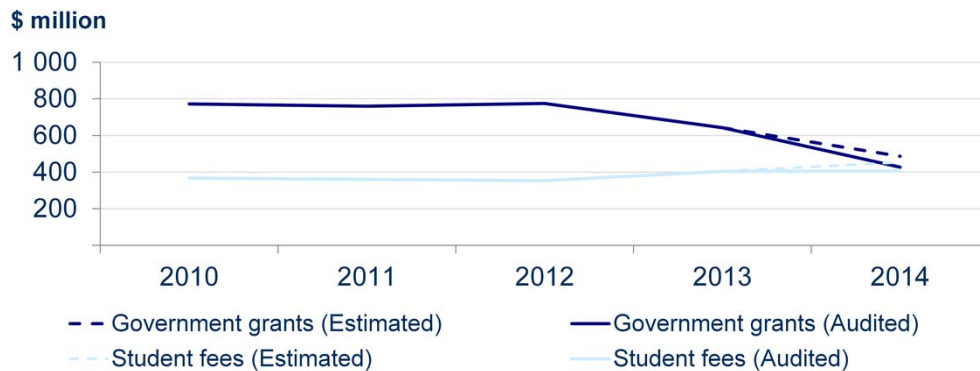
We continue to comment on the performance reporting of the sector and this years focus is on the risk management in place at TAFEs.

Funding model and other changes

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- From 1 January 2013, significant changes to the TAFE state funding model implemented.
- Funding set on a per hour per course basis, and varies greatly.
- Student numbers have also fallen during this period.



This graph displays that TAFEs have experienced a reduction in government grants since 2012 as a result of funding changes—as shown by the dark blue lines—with grants making up 64 per cent of TAFE revenue in 2012, but 48 per cent in 2014.

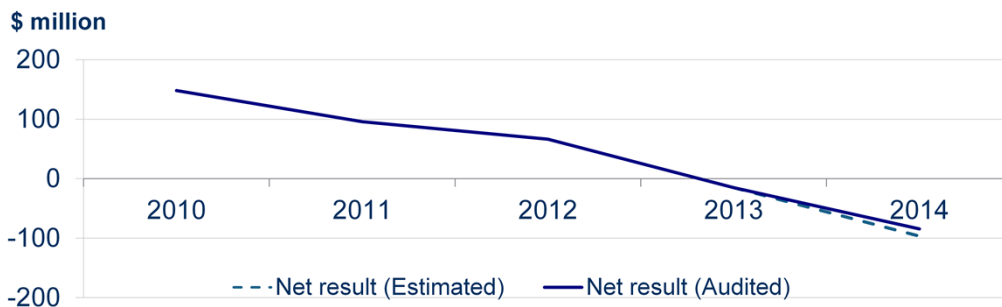
To counteract this, TAFEs have increased their student fees—but the financial impact of this has been constricted by falling student numbers

Financial outcomes 2014

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- Sector generated a \$84.3 million deficit for 31 December 2014 (2013: \$15.1 million deficit).
 - Federation Training excluded—did not meet statutory reporting deadlines.
 - Wodonga TAFE excluded.
- Continued deficit for sector since funding model changes became effective.



For the financial year ending 31 December 2014, the 10 TAFEs in this report generated a combined net deficit of \$84.3 million. This is the second year the sector has had a deficit following the funding changes.

The graph in this slide shows the decline in 2013 and 2014 being the two full financial years since funding changes were introduced.

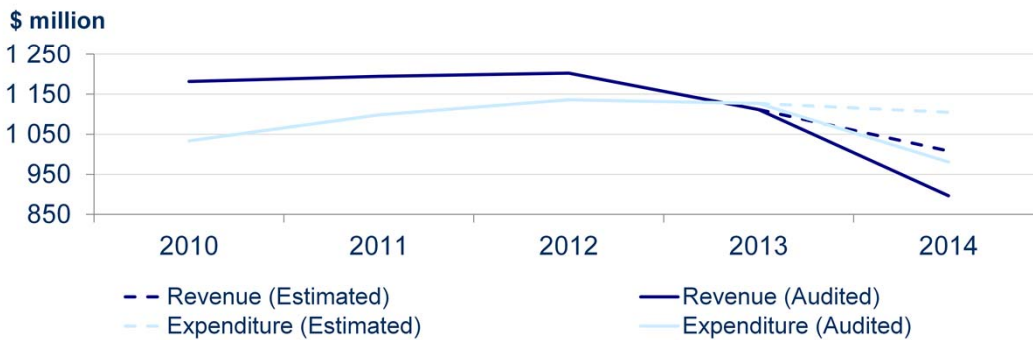
This decline indicates that most TAFEs have been unable to effectively adapt to the changing funding environment.

Financial outcomes 2014 – *continued*

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- Between 31 December 2012 and 2014:
 - Sector revenue has decreased by 25.5%
 - Sector expenditure has decreased by 13.6%.



The TAFE sector finances are in decline.

The deficit has been driven by revenue decreasing faster than expenditure, as shown in this graph.

Revenue has decreased by 25.5 per cent since the funding changes were introduced—to \$896.4 million.

Expenditure has decreased by 13.6 per cent in the same period—to \$980.7 million.

While the decrease in revenue is driving the net deficit, redundancies and the write down of the new SMS increased the size of the deficit.

Student Management System

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- The Department of Education and Early Childhood Development (DEECD) built the SMS to improve administration and monitoring of enrolled students.
- Transferred to nine TAFEs—31 Dec 2013.
- SMS now valued at 32% of original capitalised cost after one year of use.

	(\$ million)
Total amount capitalised as cost of the system	94.9
Impairment by former DEECD at 31 December 2012	-21.1
Write offs and impairments by the TAFE sector at 31 December 2014	-43.2
Total carrying value at 31 December 2014	30.6

- Questionable if value for money has been achieved by the SMS.

The SMS was developed by the former Department of Education and Early Childhood Development (or DEECD) to improve the administration and monitoring of enrolled students across the TAFE sector.

DEECD spent \$94.9 million building the SMS. The new system's value was reduced by \$21.1 million by DEECD at 31 December 2012 following an impairment review.

At 31 December 2013, the completed SMS was transferred to the nine participating TAFEs.

Two of these TAFEs have been the subject of amalgamations where the system will no longer be required. As a result, the value of the asset was written off.

The other TAFEs have assessed the system at 31 December 2014, and further impaired its value. The total write offs and write downs made in 2014 was \$43.2 million collectively.

Therefore, after one year of use, the SMS is now worth only 32 per cent of its original capitalised cost, or the money spent to build it.

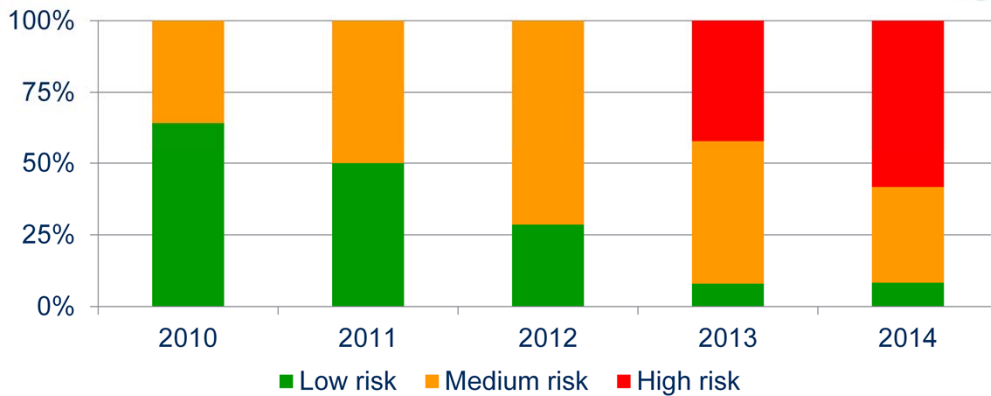
This indicates that the state may not have received value for money from the \$94.9 million expended on the SMS.

Financial sustainability

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- TAFE sector is facing increasing financial sustainability risks.



- Melbourne Polytechnic and Sunraysia TAFEs reported uncertainties around their going concern status at 31 December 2014.

TAFEs need to generate enough revenue from operations to meet their financial obligations, and to fund asset replacement and asset acquisitions.

As shown in the graph, the risk faced by the sector has increased since the funding changes were implemented in 2013.

The sector faces both short- and long-term risks with nine of the 10 completed TAFEs recording a negative underlying result at 31 December 2014. This indicates that not enough revenue is being generated to pay the total operating costs. This is off-set against a positive for the sector, which is that most TAFEs had a good liquidity ratio.

Two TAFEs—Sunraysia Institute and Melbourne Polytechnic—disclosed that there was a material uncertainty around the going concern assumption when preparing their 2014 financial reports. Both TAFEs have produced future cash flow forecasts that show additional financial support may be required, and this has been provided for both entities by the Department of Education and Training (or the department).

Risk management

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- Risk management policies in place.
 - Most cover better practice elements.
- Financial sustainability and other operational risks are not well articulated in TAFE risk registers.
- Bendigo-Kangan and Goulburn Ovens TAFEs did not have functioning risk registers in place at the time of our audit.
 - Attestations relating to the risk framework in place at those TAFEs do not draw attention to this deficiency.

We observed that frameworks to support risk management are in place at TAFEs, and in a majority of cases, their policies and procedures incorporated better practice.

Given the financial challenges of the sector, we noted that risks regarding financial sustainability could be better articulated and mitigated through the register. This may assist TAFEs in the current operating environment.

Two TAFEs did not have a functioning risk register in place during the 2014 financial year—Goulburn Ovens TAFE and Bendigo Kangan TAFE.

In line with the Standing Directions of the Minister for Finance (4.5.5), both TAFEs have made an attestation in their 2014 annual report that they comply with Australian and New Zealand risk management standards. However, neither TAFE have detailed in their attestation how they monitor risks in the absence of a functioning register.

Recommendations

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	Accept
1. TAFEs address issues raised in audit management letters on a timely basis so that any weaknesses in their control environment are rectified promptly.	✓
2. TAFE audit committees implement appropriate monitoring mechanisms to ensure audit findings are resolved by management.	✓
3. TAFEs link key performance indicators to all strategic objectives to ensure there are performance measures and outcomes for all strategic activities.	✓
4. TAFEs improve the variance explanations on performance statements to provide a better understanding of the reasons why performance targets have not been achieved.	✓

The report makes seven recommendations that have been accepted.

We have not raised any recommendations in relation to financial outcomes as we acknowledge there is a current review being undertaken of TAFE sector funding by the government.

Recommendations

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	Accept
5. TAFEs include details of how the actual results for their key performance indicators have been calculated to provide a better understanding of performance for the user of the performance statement.	✓
6. As a matter of priority, Bendigo-Kangan and Goulburn Ovens TAFEs develop a risk register and apply it as part of a comprehensive risk management framework.	✓
7. TAFEs review, update, monitor and seek to mitigate all risks that might impact their financial and operational sustainability.	✓

The Auditor General will monitor the implementation of these recommendations and conduct follow-up work at a later date.

Key messages

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The TAFE sector finances are in decline.

More needs to be done by TAFEs and the department to turn this around.

Risk management could be better used by TAFEs to support governance and respond to the changes and challenges in the current financial environment.

Overall, the financial position of the TAFE sector is in decline. The sector has short- and long-term financial sustainability risks that need to be addressed by both TAFE boards and the department.

Contact details

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For further information on this presentation please contact:

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