

VAGO

Victorian Auditor-General's Office



Results of 2023 Audits: Technical and Further Education Institutes

July 2024

Independent assurance report to Parliament
2024–25:1

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of the Parliament of Victoria

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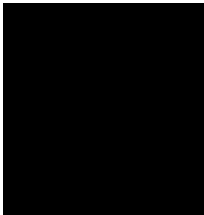
The Hon Shaun Leane MLC
President
Legislative Council
Parliament House
Melbourne

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 2023 Audits: Technical and Further Education Institutes*.

Yours faithfully



Andrew Greaves
Auditor-General
31 July 2024

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.

Contents

1. Audit outcomes	1
Financial reports and performance statements are reliable	1
TAFEs met their reporting timeframes with good-quality reports in 2023	2
2. Financial analysis	3
Financial performance improved due to once-off capital funding	3
Revenue increased because of more government funding and higher course enrolments	6
Nearly two-thirds of the sector's expenses relate to employee costs that continued to increase	8
The sector's balance sheet remained strong due to its significant land and building assets and low debt levels	10
TAFEs required letters of support to prepare financial reports on a going-concern basis	11
Budgeting challenges and variances in KPIs	12
Recommendation	13
3. Internal controls	14
TAFEs need to focus on IT controls and keep improving them	14
IT controls are still the sector's key weakness	15
Recommendation	17
Appendices	18

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

Victorian TAFE sector

There are 12 TAFEs and 9 controlled entities in the Victorian TAFE sector.

We audit the TAFEs' financial reports and performance statements. They each prepared a financial report and performance statement for 2023.

We also audit the financial reports of the 9 entities controlled by the TAFEs.

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

Controlled entity

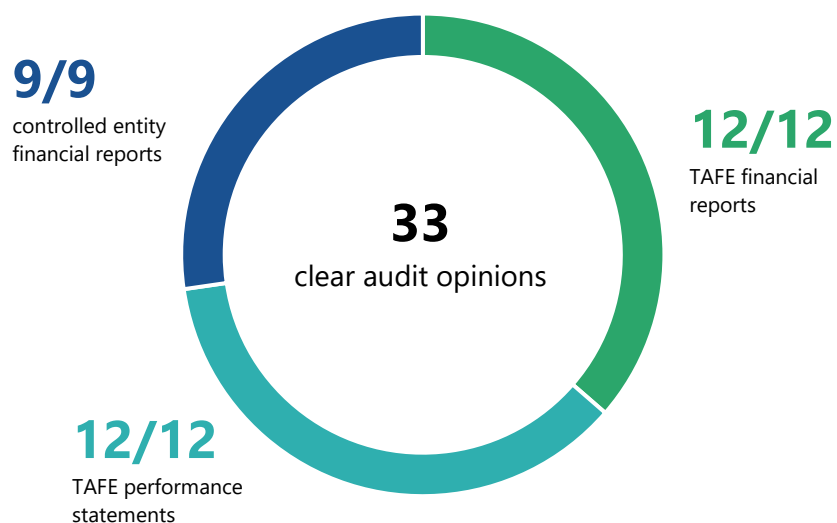
A controlled entity is an entity that another party has the power to govern and make financial and operating decisions about.

We did not need to modify any of our audit opinions

Figure 1 shows we provided clear audit opinions on:

- the 12 TAFEs' financial reports and performance statements
- the 9 controlled entities' financial reports.

Figure 1: Audit opinions issued for 2023



Source: VAGO.

Clear audit 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 good-quality reports in 2023

Financial reports were timely 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 TAFEs provided us with their 2023 draft financial reports within the 8-week deadline, similar to 2022.

The quality of financial reports submitted for audit continued to improve

The nature, number and size of errors in financial reports submitted for auditing are measures of their quality and the effectiveness of the entity's 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 the correction.

We did not find any material errors in the TAFEs' financial reports, the same as last year. We found:

- 3 immaterial financial errors, compared with 5 in 2022
- 5 immaterial classification and disclosure differences, compared with 7 in 2022.

Material

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

Performance statements continue to be high quality

Each year, TAFEs are required under a ministerial instruction to report against 4 mandatory key performance indicators (KPI) in their performance reports:

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

They must establish targets, report on actual results for each KPI and disclose the prior year's results. Descriptions of the 4 KPIs and the formulas used to calculate them are provided in Appendix H.

We did not find any material errors in the TAFEs' performance statements and issued clear audit opinions for all 12 TAFEs, which is a good outcome. This is consistent with the previous year.

We analyse the information presented in these performance statements in Section 2.

2.

Financial analysis

The sector's reported net surplus was underpinned by capital grants received to fund campus redevelopment. Without these grants, the sector would have had a net deficit from their operations, which has been a consistent trend for the last 5 years.

Although course enrolments have improved compared to 2022, TAFEs have yet to recover to pre-COVID-19 levels. Fee-for-service revenue increased for most TAFEs compared to 2022, outpacing contestable government funding.

Expenses continued to rise. Most of the sector's spending was for staff costs, with this expenditure increasing by more than 10 per cent for 4 TAFEs.

Employment costs as a proportion of training revenue continued to be greater, with 9 TAFEs not receiving enough revenue from training services and programs to cover their direct employment costs in 2023.

The financial outcomes of 4 loss-making TAFEs worsened this year, with 2 TAFEs requiring letters of support from the government to confirm their ongoing financial viability in the short term.

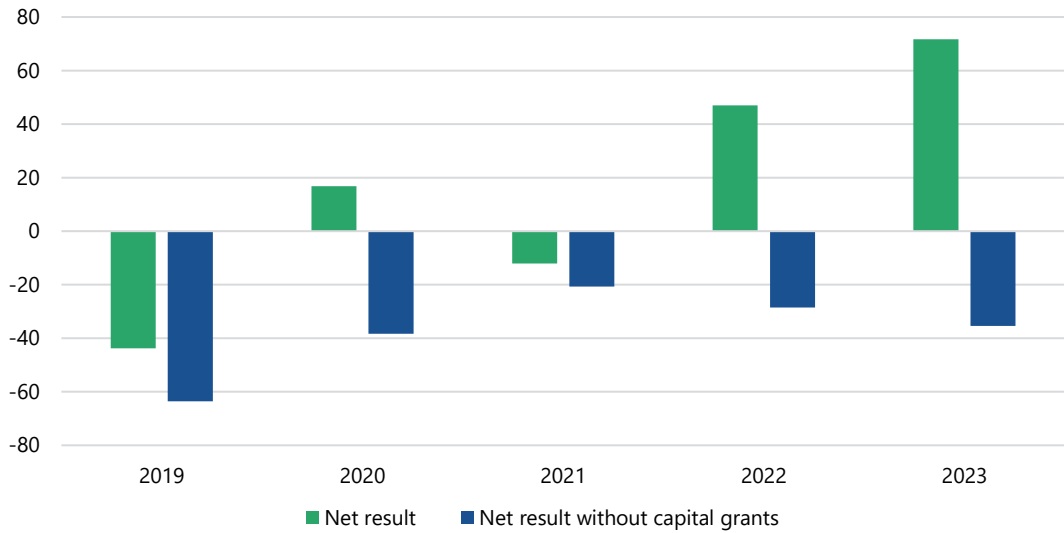
KPI targets remained largely unmet for all TAFEs, with a noticeable disconnect between estimated and actual figures.

Financial performance improved due to once-off capital funding

The sector's net result For 2023, the sector reported a net surplus of \$72 million. This is a \$25 million increase from the net surplus of \$47 million reported in 2022.

Capital grants from the government of \$107 million contributed to the 2023 result (\$76 million in 2022). These grants are 'once-off' and not available for TAFEs' day-to-day operations. Without these capital grants, the net result for the sector would have been a \$35 million deficit. This is a consistent trend for the last 5 years, as Figure 2 shows.

Figure 2: TAFE sector's net result as reported and excluding capital grants (\$ million)



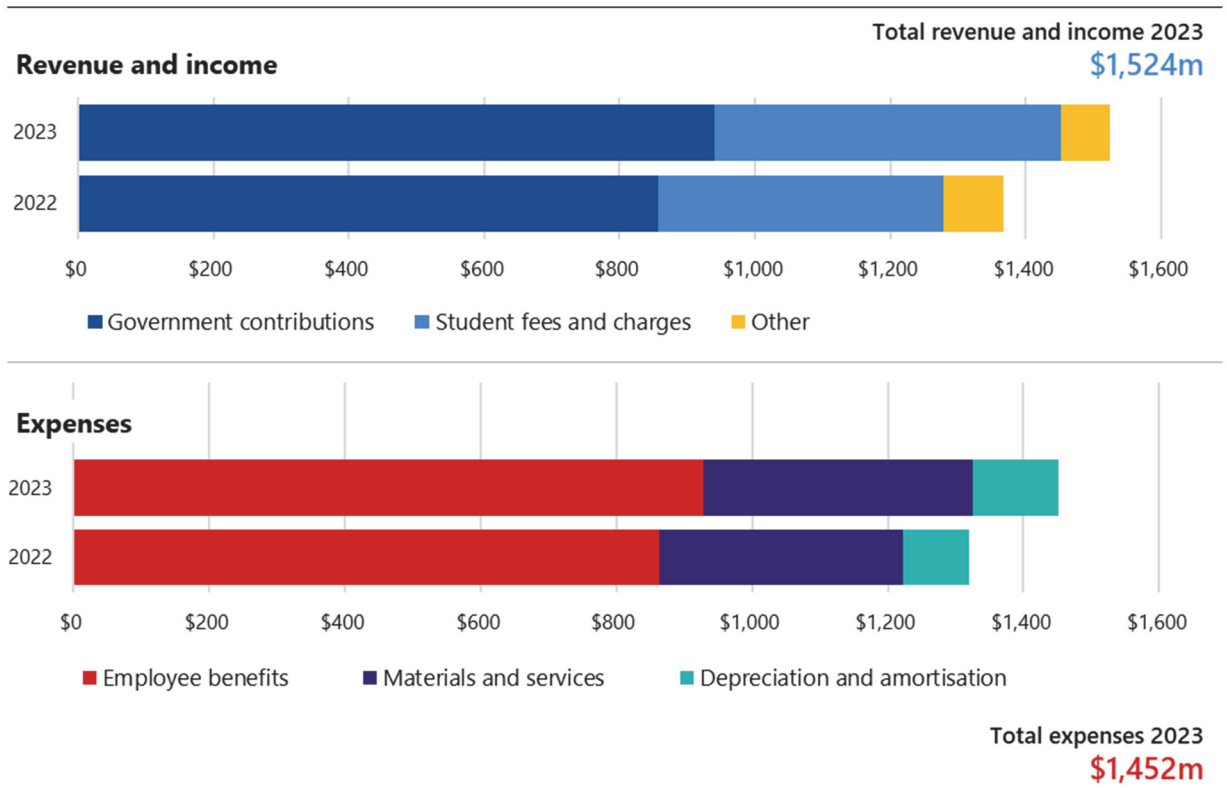
Source: VAGO.

Financial performance snapshot

TAFEs earn most of their revenue from government contributions and student fees and charges. They spend most of their funds on staff costs and materials and services.

Figure 3: Total TAFE sector revenue and expenses in 2022 and 2023 (\$ million)

Net surplus for 2023 \$72m



Note: Totals may not add due to rounding.
Source: VAGO.

Individual TAFEs' net results

Nine of the 12 TAFEs reported net surpluses in 2023. However, once the impact of capital grants is removed, only 5 TAFEs had underlying surpluses.

Figure 4 shows that for 2022 and 2023, excluding once-off types of revenue – capital grants across both years (\$76 million in 2022 and \$107 million in 2023) and loans forgiven in 2022 of \$32 million – the net underlying result of 7 TAFEs improved, and 5 TAFEs continued to decline.

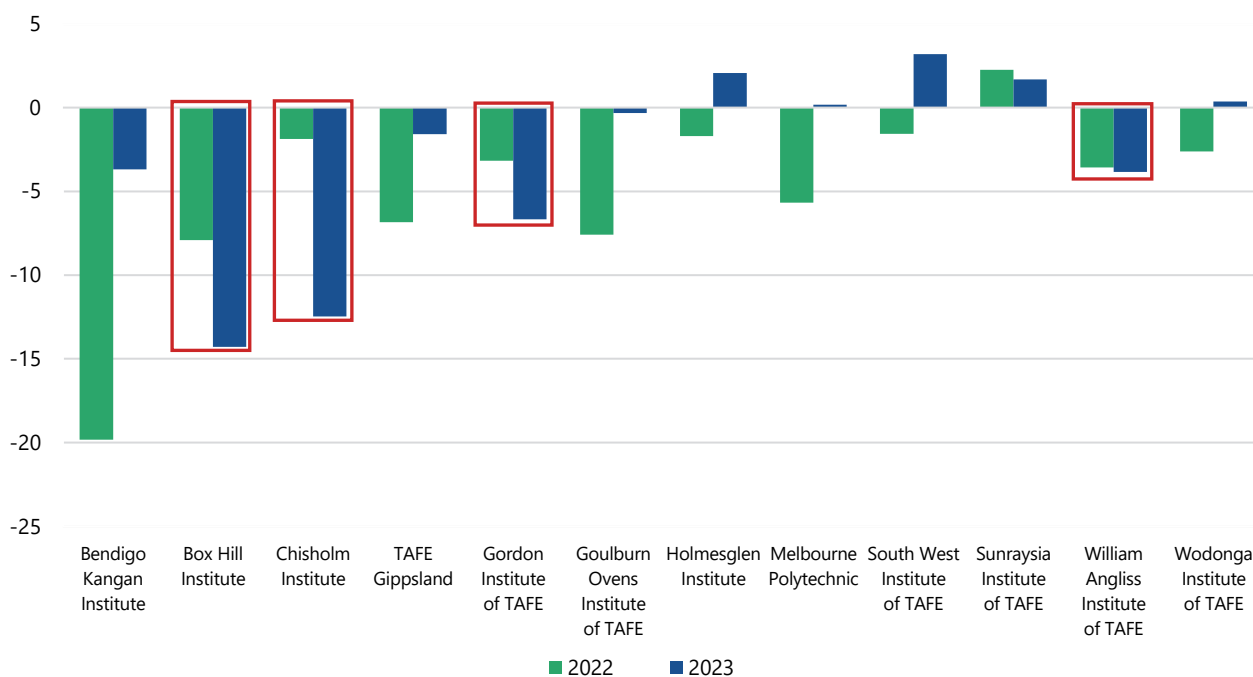
There were 4 TAFEs that experienced worsening deficits. These were:

- Box Hill Institute
- Chisholm Institute
- Gordon Institute of TAFE
- William Angliss Institute of TAFE.

While these TAFEs have shown variability in their contestable funding, operating grants and fee-for-service revenue, their spending markedly increased at a rate faster than their revenue growth, causing the net underlying result to decline.

The profitability of a TAFE indicates its ability to generate revenue and manage expenses to achieve a net surplus. While TAFEs are not designed to make large profits, generating a small surplus is important to ensure they have sufficient funds for future operations. Ideally, these surpluses can be reinvested to maintain and improve the quality of education and services offered by the TAFEs.

Figure 4: TAFEs' net results excluding capital grants and loans forgiven for 2022 and 2023 (\$ million)



Note: The TAFEs with worsening deficits are outlined with red boxes.
Source: VAGO.

If the declining net deficit trend continues for these TAFEs, without effective management of expenditure or own-source revenue growth, their long-term financial sustainability is at risk.

To remain financially sustainable, a TAFE must meet current and future expenditure requirements from revenue earned, absorb foreseeable changes and materialising risks and manage the impact from these factors to changing revenue and expenditure requirements.

Revenue increased because of more government funding and higher course enrolments

Revenue sources

In 2023, TAFEs got ...	Which is a ...	From ...	Because ...
\$940 million from government contributions, made up of: <ul style="list-style-type: none"> \$415 million from operating grants \$107 million from once-off capital grants \$418 million from contestable funding 	\$82 million, or 9.6 per cent, increase	\$858 million in 2022	TAFEs received more funding for various initiatives to attract and retain students as part of the TAFE services fund and increased capital funding for campus redevelopments.
\$512 million from student fees and charges, made up of: <ul style="list-style-type: none"> \$431 million from fee-for-service revenue \$81 million from fees and charges revenue 	\$91 million, or 21.6 per cent, increase	\$421 million in 2022	more students enrolled in fee-for-service TAFE courses.
\$72 million from other revenue sources	\$16 million, or 18.2 per cent, decrease	\$88 million in 2022	in 2022 other revenue included \$32 million in a once-off loan forgiveness for some TAFEs.

Note: Totals may not add due to rounding.

Government contributions

The Victorian Government funds TAFEs to deliver tertiary education services to students and to deliver capital projects to build and maintain the facilities needed to deliver these services.

The funding varies each year depending on demand in the training market, government initiatives and capital projects the government agrees to.

In 2023, the government gave TAFEs \$415 million in operating grants. This is a \$26 million increase from the \$389 million paid in 2022. These operating grants were provided to:

- meet additional workforce needs
- maintain existing assets
- deliver student learning, wellbeing and specific support initiatives.

The government also gave TAFEs \$107 million in once-off capital grants – \$31 million more than 2022. In 2023, over 85 per cent of these capital grants went to 3 TAFEs for their campus redevelopment projects:

- Chisholm Institute
- Melbourne Polytechnic
- Bendigo Kangan Institute.

Capital grants

Capital grants are funds provided to TAFEs to acquire, build, renovate or improve fixed assets, such as buildings, infrastructure, equipment and facilities. These funds are recorded as income over the life of the asset construction to match the cost incurred.

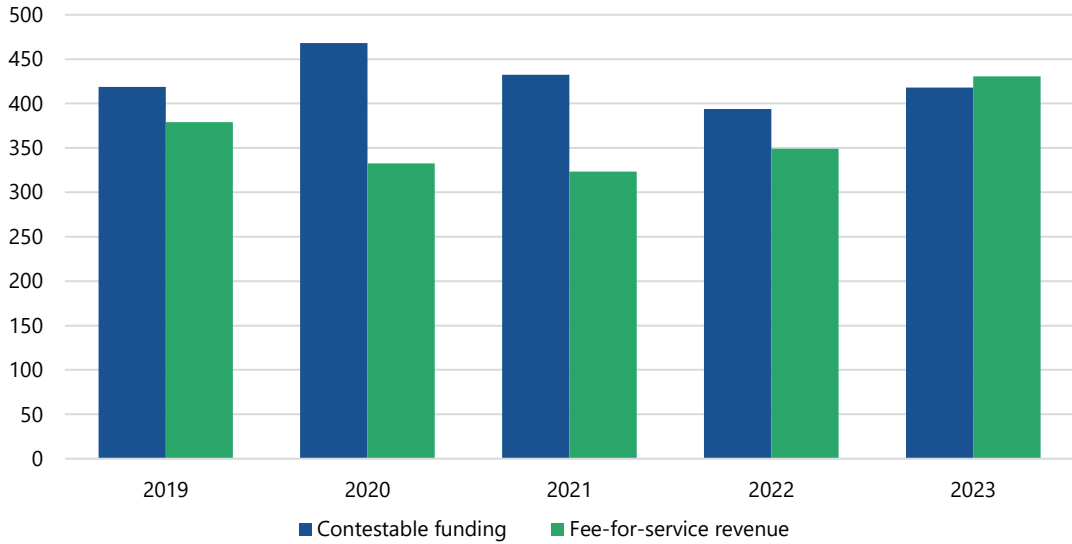
Revenue from fee-for-service courses outpaced revenue from contestable placements

In 2023 the sector earned \$431 million from fee-for-service courses. This is an \$82 million increase from the \$349 million it earned in 2022.

As shown in Figure 5, revenue earned from fee-for-service courses in 2023 surpassed the overall revenue earned from contestable funding, a shift in what was experienced since 2019.

Fee-for-service revenue increased because citizenship and visa applications were normalised post-COVID-19, which increased demand for the skills assessments and migrant English programs these TAFEs run.

Figure 5: TAFEs' total contestable funding and fee-for-service revenue from 2019 to 2023 (\$ million)

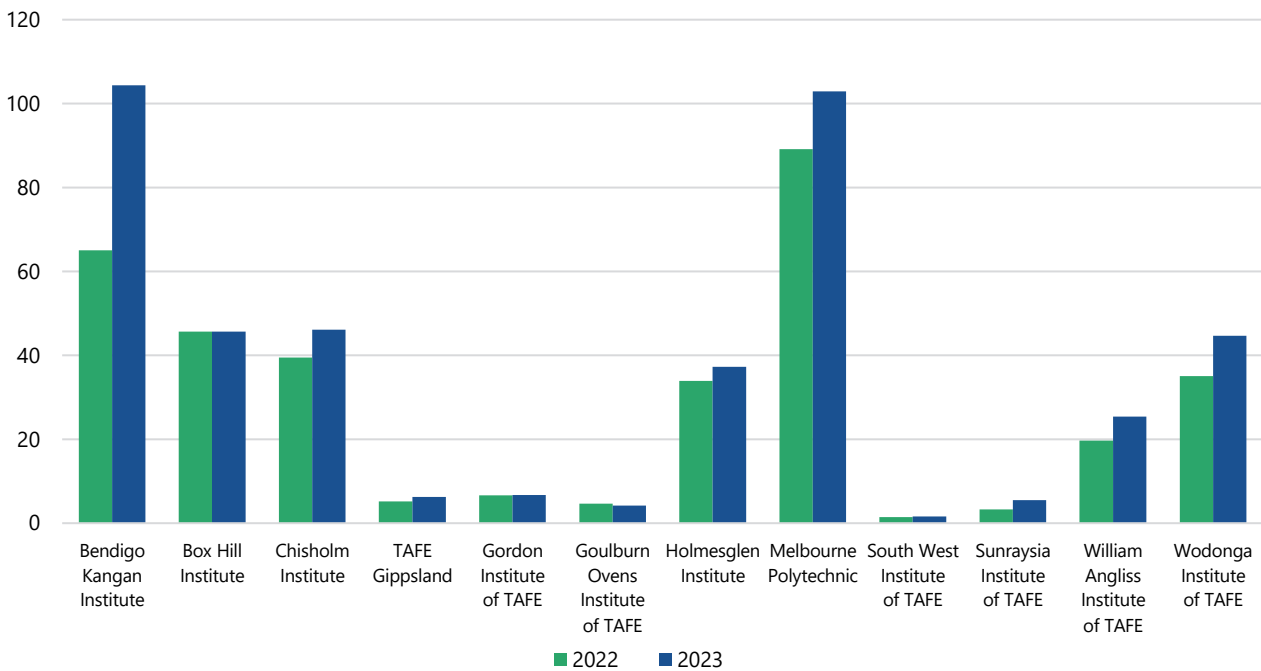


Source: VAGO.

Most of the increase in fee-for-service revenue was experienced by 3 TAFEs, as Figure 6 shows:

- Bendigo Kangan Institute
- Melbourne Polytechnic
- Wodonga Institute of TAFE.

Figure 6: TAFEs' fee-for-service revenue for 2023 compared with 2022 (\$ million)



Source: VAGO.

Fee-for-service revenue

Fee-for-service revenue is income TAFEs generate from providing educational and training services that students, employers or other clients pay for directly, rather than through government subsidies.

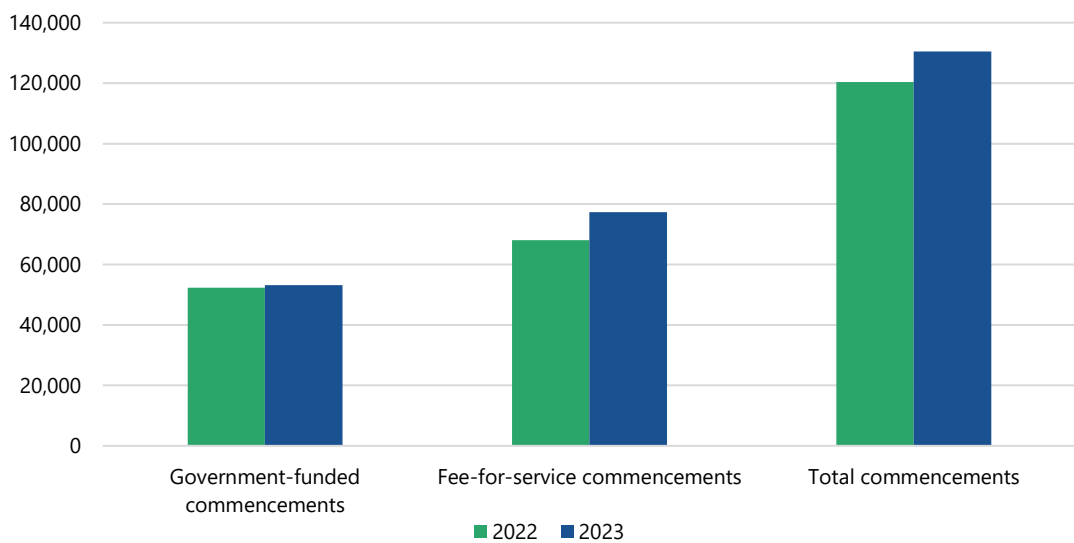
Contestable funding

Contestable funding is financial support from the Victorian Government that TAFEs must compete for, allowing both public and private training providers to apply for the same pool of funding based on criteria, such as quality and efficiency.

Total enrolments

Course enrolments are the number of students who begin their courses or programs within a given period. Figure 7 shows the total number of course enrolments for 2022 and 2023.

Figure 7: Total number of course enrolments for 2022 and 2023



Source: VAGO.

Most of the course enrolment increase is from fee-for-service courses, which have shown a 14 per cent increase in 2023. Government-funded commencements have stayed flat from 2022 to 2023 due to high competition from private training providers.

Nearly two-thirds of the sector's expenses relate to employee costs that continued to increase

Changes in the sector's expenses

In 2023 TAFEs spent \$1,452 million, a \$132 million increase from the \$1,320 million spent in 2022.

Expenses increased for all TAFEs because of:

- enterprise bargaining agreement pay increases and an overall increase in staff numbers (in line with increased service delivery)
- general increases in utility and supply costs due to persistent inflationary increases.

In 2023, the sector spent ...	Which is a ...	From ...	Because of ...
\$929 million on employee expenses	\$65 million, or 7.5 per cent, increase	\$864 million in 2022	an overall increase of 4 per cent as a result of conditions in the sector's enterprise bargaining agreements, together with some increases in the number of teaching staff employed across all TAFEs to assist with greater service delivery.
\$397 million on materials and services	\$38 million, or 10.6 per cent, increase	\$359 million in 2022	general increases in the market price for supplies and general utilities.
\$126 million on depreciation and amortisation	\$28 million, or 28.6 per cent, increase	\$98 million in 2022	<ul style="list-style-type: none"> new buildings added in 2022 that started being depreciated in 2023 increases in the overall value of buildings due to revaluations in 2022, causing the value of depreciation in 2023 to increase. Box Hill Institute and Chisholm Institute experienced increases in depreciation of \$13 million as a result of revaluations in 2022.

Note: Totals may not add due to rounding.

Changes in TAFEs' expenses

Spending for 7 TAFEs increased by more than 10 per cent in 2023. These TAFEs were:

- Box Hill Institute
- Chisholm Institute
- Melbourne Polytechnic
- South West Institute of TAFE
- Sunraysia Institute of TAFE
- Goulburn Ovens Institute of TAFE
- Wodonga Institute of TAFE.

For 4 of these TAFEs (Box Hill Institute, Chisholm Institute, Melbourne Polytechnic and Sunraysia Institute of TAFE), their overall expenditure increased at a faster rate than their revenue before capital contributions.

The largest expense for the sector was for employee costs. Four TAFEs (Bendigo Kangan Institute, Goulburn Ovens Institute of TAFE, South West Institute of TAFE and William Angliss Institute of TAFE) had this expense grow by more than 10 per cent in 2023.

Employment costs as a proportion of training revenue

One of the mandatory KPIs TAFEs report on in their performance statement is 'employment costs as a proportion of training revenue'.

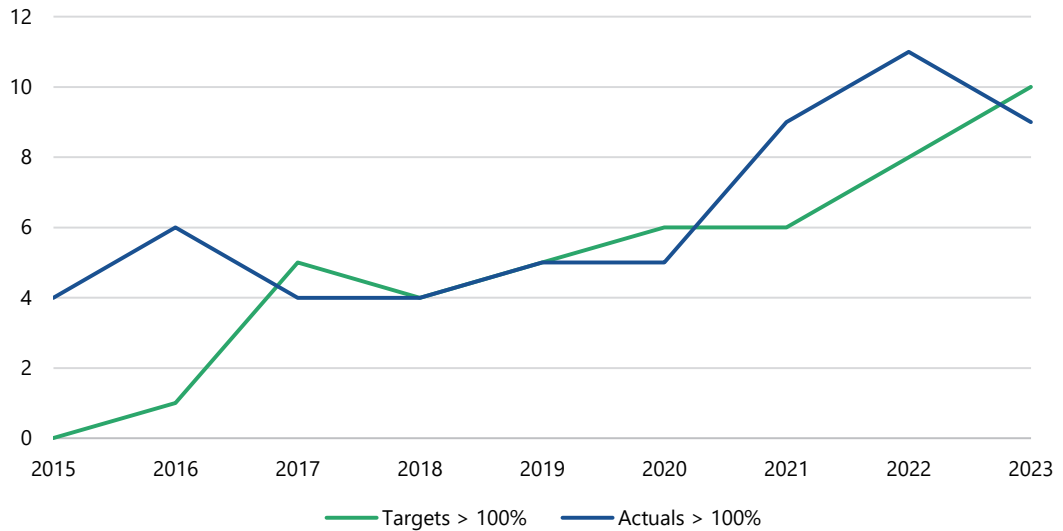
This indicator shows the total staffing costs for each TAFE divided by the total revenue earned from providing training services and programs. TAFEs set their targets for this indicator at the beginning of each year based on their budget forecast data.

Employee costs are often more than the training revenue earned. Figure 8 illustrates that over the last 8 years, a growing number of TAFEs have been setting annual targets for this KPI, assuming that training revenue alone cannot fully cover employment costs.

Specifically, in 2015 all TAFEs set the target with the assumption they would recover employment costs fully with training revenue earned.

However, by 2023, this assumption deteriorated significantly, with 10 out of the 12 TAFEs assuming they would not recover employment costs with revenue earned from training students. When assessing the trend against the actual result, we found that, similarly, the number of TAFEs not breaking even on their employment costs has risen over the last 8 years.

Figure 8: Number of TAFEs that have targets and actuals for employment costs as a percentage of training revenue above 100 per cent from 2015 to 2023



Source: VAGO.

Possible factors impacting this trend are:

- growing employee expenses under enterprise bargaining agreements
- provision of training services and programs in regional campuses where demand is low, resulting in a high average cost per student
- ongoing low unemployment levels, impacting enrolment demand.

This trend requires further exploration by TAFEs and the Department of Jobs, Skills, Industry and Regions (DJSIR), to effectively manage the sector's financial sustainability into the long term. We also intend to explore this area further in the future.

The sector's balance sheet remained strong due to its significant land and building assets and low debt levels

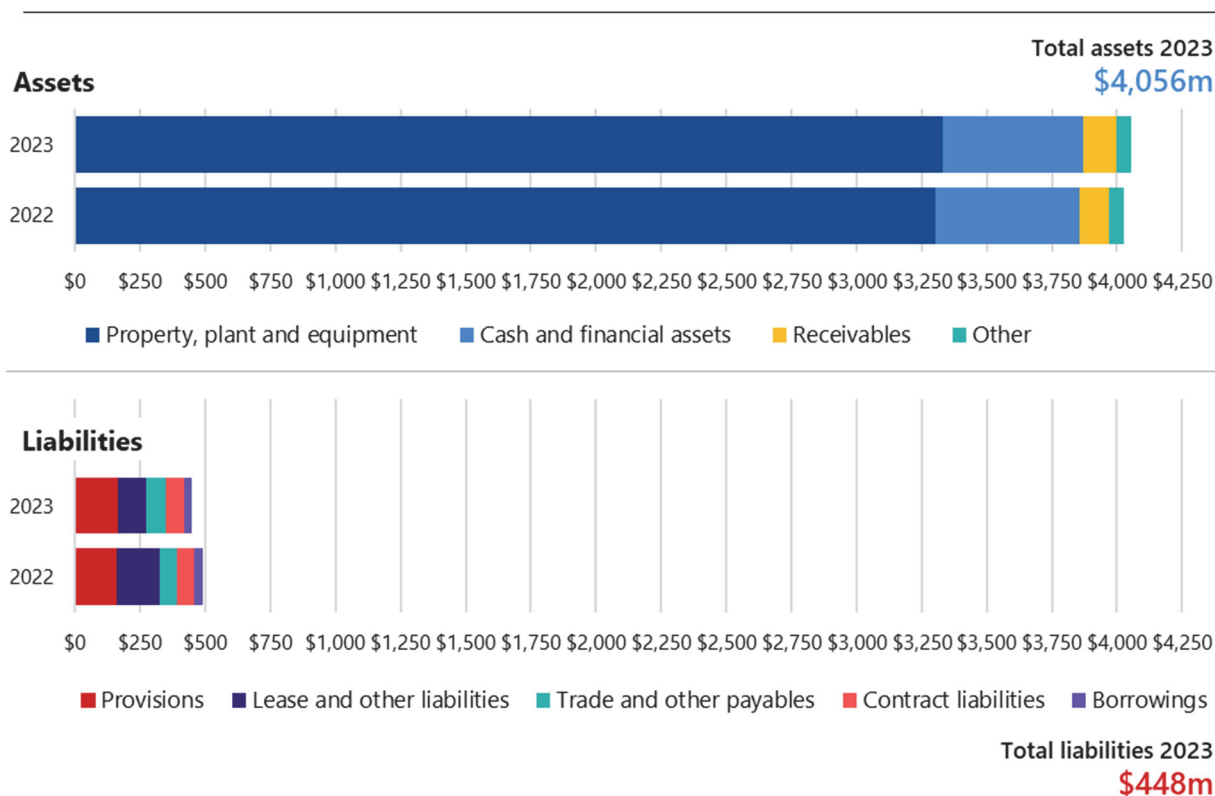
Financial position snapshot

As Figure 9 shows, the sector had \$4,056 million in assets and \$448 million in liabilities in 2023. Most of the sector's assets are land and buildings.

The sector's largest liabilities are employee benefit provisions and leased buildings.

Figure 9: TAFEs' total assets and liabilities in 2022 and 2023 (\$ million)

Net assets for 2023 \$3,608m



Note: Totals may not add due to rounding.

Source: VAGO.

In 2023 the sector reported ...	Which is a ...	From	Because ...
\$4,056 million in assets	\$30 million, or 0.7 per cent, increase	\$4,026 million in 2022	of increased capital works at 3 TAFEs. Depreciation on existing buildings partially offset this.
\$448 million in liabilities	\$41 million, or 8.4 per cent, decrease	\$489 million in 2022	revenue received in advance in previous years was recognised as income in 2023 because different stages of the capital works were completed.

Note: Totals may not add due to rounding.

TAFEs required letters of support to prepare financial reports on a going-concern basis

Going-concern assumption is at risk without government support

Financial reports are prepared on a going-concern basis. This assumes that an entity is able to continue operating for at least the next 12 months unless its management either intends or has no realistic alternative but to liquidate the entity or stop operating.

In order for us to be able to assess a TAFE's going-concern assumption, we consider various indicators, such as its financial results, key financial indicators (for example, liquidity ratio), operating cashflows, budget forecasts, and trends in revenue and expenditure over the last few years compared to budget projections.

Our analysis of these indicators across the sector showed that both Goulburn Ovens Institute of TAFE and Melbourne Polytechnic had a number of negative indicators, including a liquidity ratio of

less than one (indicating that these TAFEs had fewer short-term assets than the balance of their short-term liabilities), consistent negative trends when comparing budget to actual results over the last 3 years, and budget forecasts that show significant cash deficits for each year out to 2027.

These negative trends and outlook meant that both TAFEs had to request the Minister for Skills and TAFE provide them with a letter of financial support to enable them to confirm a going-concern assumption for 2023 on which the financial report was then prepared under.

We did not modify our audit opinion for these TAFEs because of the letters of support provided to meet their financial obligations.

DJSIR has placed a representative to sit on these 2 TAFE boards to give them greater oversight into the TAFEs' operational and financial management.

Letter of support

A letter of support is an undertaking by the Minister for Skills and TAFE, through DJSIR, to provide adequate cashflow to TAFEs to meet their financial obligations should the need arise.

Budgeting challenges and variances in KPIs

Budgeting process and the statements of priorities

The budgeting process is a fundamental aspect of financial management within any organisation, encompassing the systematic planning and allocation of financial resources to achieve strategic objectives.

Each TAFE agrees on its budget figures with the Minister for Skills and TAFE at the start of each year when they develop its statement of priorities. This statement is a document that outlines the key priorities a TAFE has agreed to work on for the year and outlines key financial and performance measures that a TAFE will achieve in the following year.

The financial measures form the basis of the KPI targets that each TAFE reports individually as part of its performance statement, which help to demonstrate whether a TAFE has met its overall aim of delivering quality training services within agreed financial budgets. At the end of the relevant financial year, TAFEs publish their actual KPI results against their targets in their performance statements.

Analysis of the trends in budget forecasts

Our analysis of the trends in budget forecasts compared with actual TAFE results over the previous 5 years revealed that most TAFEs had significant variances in actual revenue and operating expenditure when compared with original budget targets.

In particular, there was a general tendency to over-budget expenditure and under-budget course enrolment figures and related revenue. While TAFEs were successful in managing their expenditure month to month (and were able to accurately re-estimate revenue and expenditure targets closer to the end of the year), initial budgets set at the start of the year tended to be significantly different when compared to actuals over the last 5 years.

A number of TAFEs also had to make multiple revisions to their budget forecasts in the last 2 years before being able to finalise their budget figures and obtain approval from the Minister for Skills and TAFE for their performance statement targets.

Analysis of current budget forecasts from 2024 to 2027 shows that there are at least 8 TAFEs that are forecasting they will run into cash deficits over the next 3 to 4 years. However, given the significant variances found in their budget to actual figures over the last 5 years, it is uncertain as to whether the assumptions underpinning the current budget forecasts are reliable.

Combined with the trend of the majority of TAFEs not meeting their targets for at least 2 of their KPI metrics outlined in their performance statements in 2023, and targets being set for their KPIs with assumptions that they will not break even on their operations over the last 5 years, we

recommend that TAFEs need to focus on analysing the reasons why these significant variances exist within their budgets.

Why accurate budgeting is important

TAFE budget forecasts and targets are crucial for a number of reasons. Firstly, TAFE boards rely on accurate data to make informed decisions about operational and financial matters. They must also ensure accurate reporting to the Minister for Skills and TAFE on their TAFE's sustainability. DJSIR needs this information to inform funding requirements and policy decisions and make recommendations to the minister accordingly.

If financial forecasts and course enrolment expectations are not reasonably accurate, financial management of individual TAFEs and the sector as a whole is impeded.

We have been advised by DJSIR that:

- board-endorsed draft budgets for 2025 are to be submitted to DJSIR for review by October 2024
- DJSIR will then work with each TAFE to finalise budgets for the minister's approval by the end of 2024.

Our analysis of previous years' budgets shows that this timing has generally not been met over the last few years.

Recommendation

All TAFEs

We recommend that:

- all TAFEs review and critically analyse their current budgeting processes to determine why there have been such significant variances in budgets when compared with actual results, and determine whether the approach to developing these assumptions requires enhancement
 - as TAFEs continue to work with the Department of Jobs, Skills, Industry and Regions to achieve balanced budgets into the future, the budgeting process commences earlier to ensure budgets are in place before the year they are to apply.
-

3.

Internal controls

TAFEs' internal controls are adequate for them to prepare reliable financial reports and performance statements. The overall internal control environment at TAFEs is improving, but they need to resolve their information technology (IT) issues found in past years. These issues, if not resolved, 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 that are relevant for financial reporting. When developing our audit procedures, we assess the design and implementation of these internal controls to determine whether they allow TAFEs to prepare reliable financial reports and performance statements.

TAFEs had fewer unresolved new control issues in 2023 compared to 2022, suggesting that the internal control environment at TAFEs is improving. But TAFEs still need to make further improvements to their IT controls to address the unresolved IT issues we found in previous years. We note that all TAFEs have migrated to a common general ledger system, TechnologyOne, which seems to have benefited in reducing the outstanding IT issues.

Raising internal control issues We report on internal control and financial reporting issues to each TAFE's board and audit committee every year. This includes:

- reporting on new issues identified in the current year
- giving updates on issues we raised in previous years that remain unresolved in the current year.

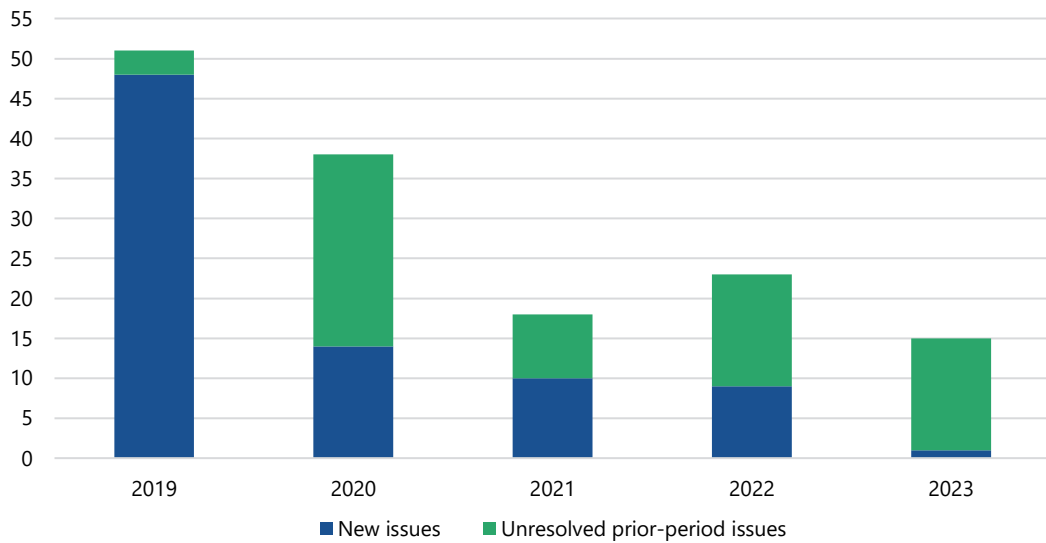
Issues observed in 2023 In 2023, we have observed the following high and moderate-rated issues:

We found ...	Which we rated as ...	And recommended management acts to ...
one new internal control issue	moderate risk	resolve within 3 to 6 months.
14 unresolved issues from previous years, including 9 that related to IT controls	<ul style="list-style-type: none"> • high risk (one issue) • moderate risk (13 issues) 	resolve the: <ul style="list-style-type: none"> • high-risk issue 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 10 shows, the number of new issues has gone down since 2019. But the number of unresolved issues from previous years has fluctuated since 2019.

Figure 10: New and unresolved issues from 2019 to 2023



Note: We excluded low-risk issues because we consider these to be minor opportunities for improvement.
Source: VAGO.

Unresolved internal control issues from prior years

During 2023, we observed 14 unresolved prior-period issues, 9 of which relate to IT controls. The remaining 5 issues relate to other financial processing controls.

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
- cyber attacks.

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

IT control issues we found in 2023

In 2023, we did not note any new common IT issues across the sector compared with 5 issues in the previous year. This is a significant improvement from last year.

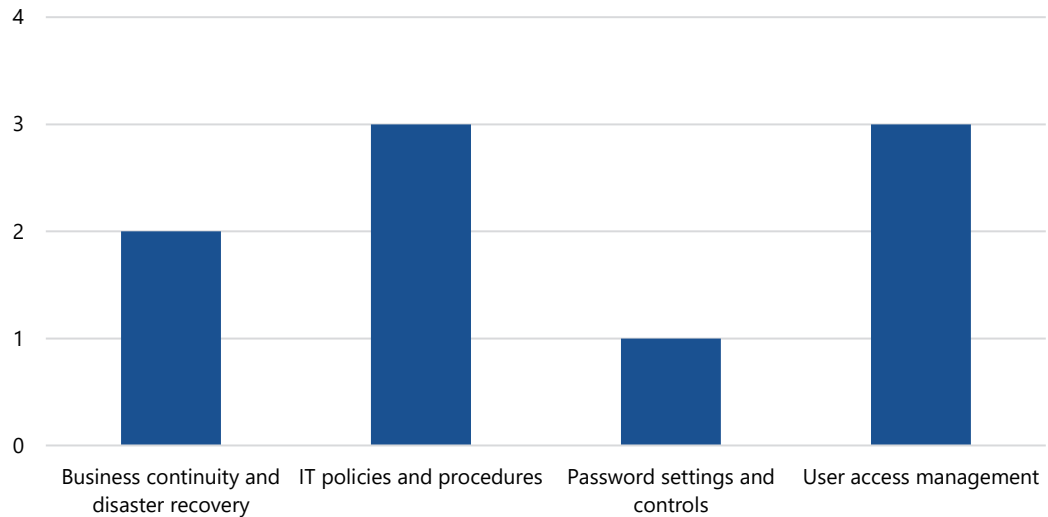
Prior-year unresolved IT issues

In 2023, the unresolved prior-year IT control issues mostly related to:

- business continuity and disaster recovery
- IT policies and procedures
- password settings and controls
- user access management.

Figure 11 shows the number of unresolved prior-year IT control issues. Out of the 9 issues relating to IT controls, 8 issues only related to 2 TAFEs.

Figure 11: Unresolved IT issues from previous years



Source: VAGO.

Business continuity and disaster recovery

Business continuity and disaster recovery focuses on continuing operations and restoring data access and IT infrastructure during and after a disaster.

We found 2 TAFEs had not tested their business continuity and disaster recovery plan.

Failure to test and review the effectiveness of these plans may result in an inability to smoothly restore business operations and data in the event of a disaster or data disruption.

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
- job monitoring
- information security
- change management.

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.

Password settings and controls

A strong password combined with multifactor authentication reduces the risk of cybersecurity threats and confidential information being compromised.

We found one TAFE whose current password policy does not meet the requirements of the Australian Government's *Information Security Manual*. This could increase the risk of cybersecurity threats and unauthorised access to confidential information.

User access management

We observed one TAFE that lacked:

- periodic reviews of user access rights
- timely cessation of terminated users
- a user matrix that defined roles.

These 3 issues increase the risk of an unauthorised user:

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

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
 - review the actions and timelines established to resolve internal control weaknesses, with a focus on older and higher-risk issues.
-

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 H: Mandatory performance indicators](#)

Appendix A:

Submissions and comments

We have consulted with the Department of Jobs, Skills, Industry and Regions, the Department of Treasury and Finance along with all 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 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
Gordon Institute of TAFE	A-4



Department of Jobs, Skills, Industry and Regions

GPO Box 4509
Melbourne, Victoria 3001 Australia
Telephone: +61 3 9651 9999

Ref: BSEC-2-24-38378

Mr Andrew Greaves
Auditor General
Office of the Auditor General

Email: [REDACTED]

Dear Mr Greaves

VAGO 2023 TAFE SECTOR FINANCIAL AUDIT PROPOSED REPORT

Thank you for your correspondence of 11 July 2024 inviting the Department of Jobs, Skills, Industry and Regions (the department) to provide submissions or comments on the proposed report *Results of 2023 Audits: Technical and Further Education Institutes (TAFE)* (the report).

The department has reviewed the report and accepts all recommendations made.

In relation to the report's recommendations regarding TAFE budgeting, I can advise that since the establishment of the Office for TAFE Coordination and Delivery (OTCD) as the TAFE network manager in November 2021 there has been an increased focus from the department in supporting TAFEs in the budget setting process.

The OTCD continues to work with TAFE institutes to ensure that all TAFE institute budgets are informed by robust evidenced based assumptions, which are applied consistently across the sector. Consistent with VAGO's recommendations, the OTCD has commenced the budget planning process for 2025 and has steps in place to ensure that budgets are agreed prior to the commencement of 2025.

More broadly, the OTCD continues to work with TAFE institutes to improve the underlying financial performance of the TAFE network. Since the establishment of the OTCD, there has been a progressive reduction in the number of TAFEs requiring Letters of Support to satisfy the going concern requirement, with only two TAFEs requiring a Letter of Support in 2024. This is a reduction from the four TAFEs which required letters of support in the previous two years, and the eight in 2021 – indicating an improvement in the underlying financial position of the TAFE network across this period.

Into the future, the establishment of the TAFE Services Fund in 2022 – and its continuation through the 2024/25 Budget – will support TAFE financial standing by providing TAFEs with explicit funding for the additional costs they incur by virtue of their role as public providers (e.g. the provision of additional student support services).

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 Dr Xavier Csar, Chief Executive Officer, Office of the TAFE Coordination and Delivery of the Department of Jobs, Skills, Industry and Regions on [REDACTED].

Yours sincerely

[REDACTED]

Heather Ridley
Acting Secretary

Date: 18/07/2024

Cc: [REDACTED]

OFFICIAL: Sensitive



18 July 2024

Charlotte Jeffries
Sector Director – Education, Financial Audit
Victorian Auditor-General's Office
Level 31, 35 Collins Street, Melbourne VIC 3000
e: [REDACTED]

**Invitation to comment: Proposed Report - Results of 2023 Audits:
Technical & Further Education Institutes - Gordon Institute**

Dear Ms Jeffries,

In response to the Proposed Report - "Results of 2023 Audits: Technical & Further Education Institutes - Gordon Institute", I would like to comment on the commentary on page 5, "Individual TAFE's net results", specifically would like to respond to "There were 4 TAFEs that experienced worsening deficits;" of which The Gordon has been identified as one.

At the end of 2022, The Gordon completed its mandatory 5-year revaluation of Land & Buildings using the Valuer Generals office. As a result, Land & Buildings balance sheet values increased from \$150.4m to \$196.4m. This included a \$33.9M increment in the revaluation of land and buildings combined with movements in the net value of assets held, which saw an overall increase of \$46.0m in total assets on 1/01/2023. As a result, the overall Institute depreciation expense increased from \$6.4m in 2022 to \$11m for the full year 2023, a \$4.6m impact directly to the bottom line.

The government funds capital separately from operating funds, focusing on earnings before interest, depreciation, and amortization (EBITDA) as the performance measure. On this basis, The Gordon has seen a marked improvement in EBITDA from a deficit in 2021 to a \$2.4m surplus in 2022 to a \$6.7m surplus in 2023.

This significant increase in depreciation is the primary factor contributing to the apparent worsening deficit.

I am happy to discuss this as required.

Yours sincerely,

[REDACTED]

Joe Ormeno
Chief Executive Officer

e: [REDACTED]
m: [REDACTED]

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Appendix B: Sector context

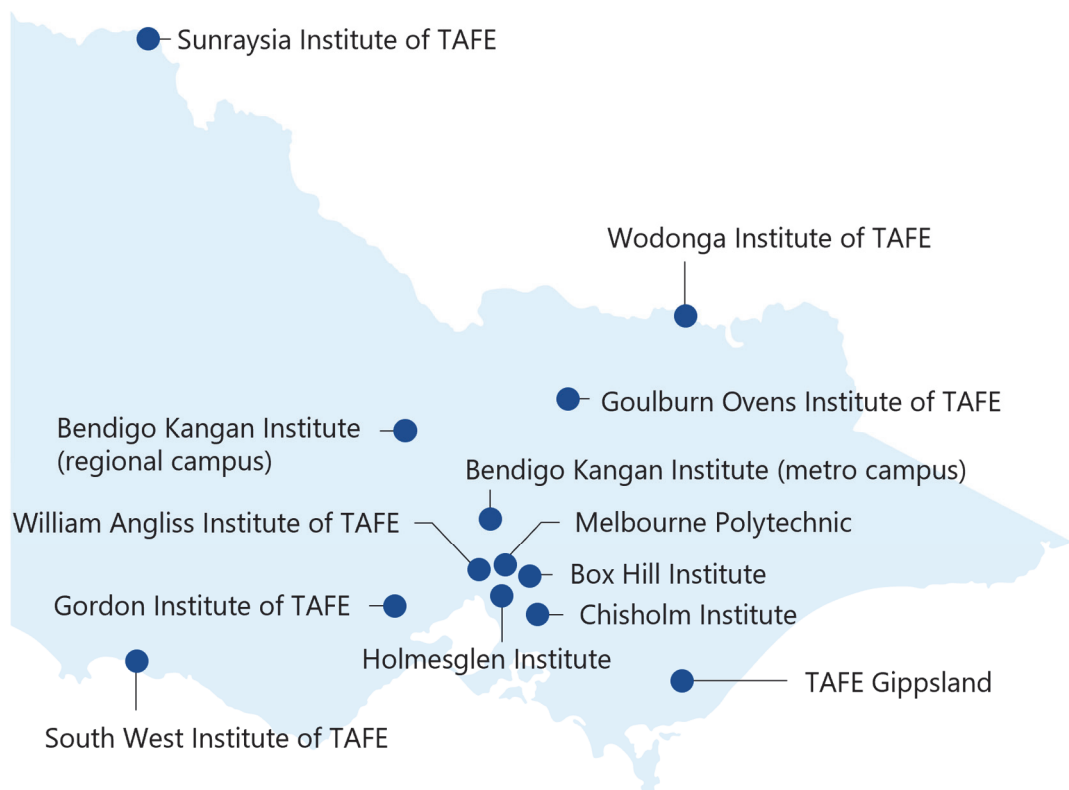
Victoria's TAFE sector at a glance

About the sector Victoria's TAFE sector is made up of 12 TAFEs and the 9 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.

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

Figure B1: Where Victoria's TAFE institutes are located

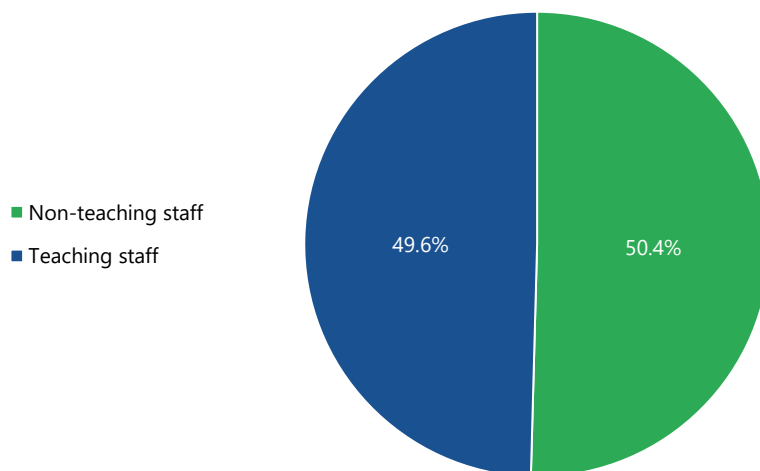


Source: VAGO.

The sector's workforce and enrolments

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

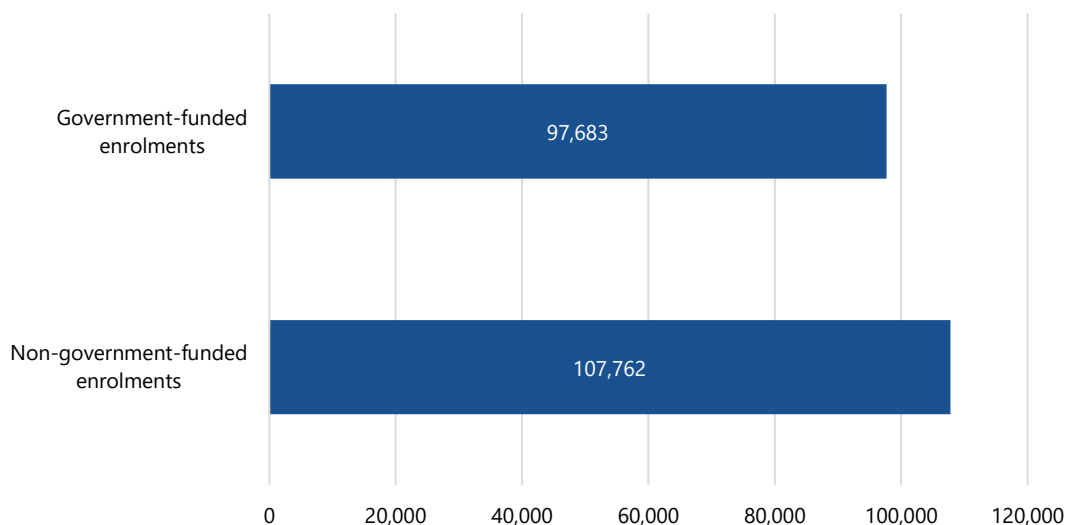
Figure B2: Proportion of teaching and non-teaching staff in the sector in 2023



Source: VAGO.

Figure B3 shows the number of government funded and non-government-funded enrolments at TAFEs in 2023.

Figure B3: Enrolment numbers by type in 2023



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

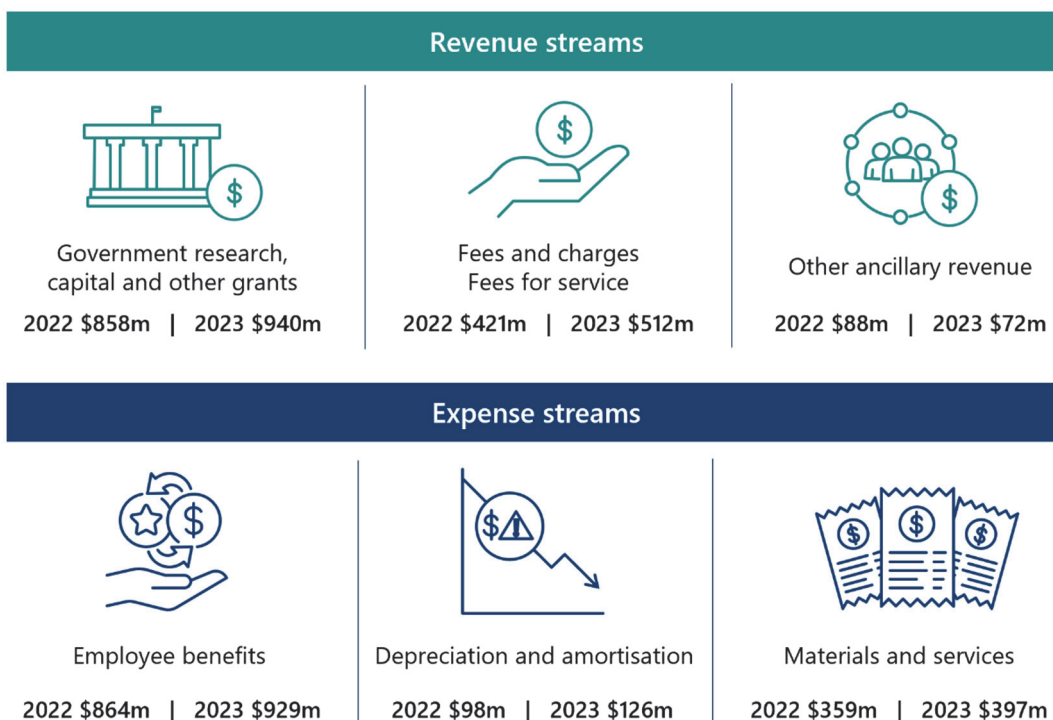
Revenue and expense streams The TAFE sector gets most of its revenue from running courses. This revenue comes from both government-funded students and full-fee-paying students.

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 2022 and 2023 Figure B4 shows the sector's key revenue and expense streams in 2023 compared with 2022. Figure B4: The sector's key revenue and expense streams in 2022 and 2023



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 Skills and TAFE.

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

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

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.

Cost

This report and its supporting dashboard cost \$190,000 and were funded by parliamentary appropriation.

Appendix D: Acronyms and glossary

Acronyms We use the following acronyms in this report:

Acronyms

DJSIR	Department of Jobs, Skills, Industry and Regions
FTE	full-time equivalent
IT	information technology
KPI	key performance indicator
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 and other terms used in the report:

Term

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.
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.
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.
Liquidity ratio	A financial metric used to measure the ability of an entity to pay off its short-term liabilities with its short-term assets. A higher liquidity ratio indicates a stronger liquidity position.

Term

Material	We consider an error material if misstating it or not including it could influence a user's decision or understanding.
Operating grants	An operating grant is funding that an entity is given to put towards its running costs, such as staff salaries and utilities.
Patches	Patches are changes to a piece of software (including operating systems) or IT equipment to remedy security vulnerabilities, improve usability or improve performance.
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.
Revenue and income	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. 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.

Appendix E: Audit opinions

Figure E1 lists the entities we included in this report. It details the type of audit opinions for their 2023 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 2023

Entity	Financial report		Performance statement	
	Clear audit opinion issued	Audit opinion signed date	Clear audit opinion issued	Audit opinion signed date
Bendigo Kangan Institute	✓	7 March 2024	✓	7 March 2024
Box Hill Institute	✓	12 March 2024	✓	12 March 2024
Chisholm Institute	✓	19 March 2024	✓	19 March 2024
Caroline Chisholm Education Foundation	✓	2 April 2024	N/A	N/A
TAFE Online Pty Ltd	✓	2 April 2024	N/A	N/A
Gordon Institute of TAFE	✓	10 April 2024	✓	10 April 2024
Gotec Limited	✓	5 April 2024	N/A	N/A
Goulburn Ovens Institute of TAFE	✓	28 March 2024	✓	28 March 2024
Holmesglen Institute	✓	19 April 2024	✓	19 April 2024
Glenuc Pty Ltd	✓	26 April 2024	N/A	N/A
Holmesglen Foundation	✓	1 May 2024	N/A	N/A
Holmesglen International Training Services Pty Ltd	✓	24 April 2024	N/A	N/A
Melbourne Polytechnic	✓	28 March 2024	✓	28 March 2024
South West Institute of TAFE	✓	8 March 2024	✓	8 March 2024
Sunraysia Institute of TAFE	✓	30 March 2024	✓	30 March 2024
TAFE Kids Inc.	✓	4 April 2024	N/A	N/A
TAFE Gippsland	✓	25 March 2024	✓	25 March 2024
William Angliss Institute of TAFE	✓	7 March 2024	✓	7 March 2024
Angliss Consulting Pty Ltd	✓	7 March 2024	N/A	N/A
William Angliss Institute Foundation	✓	7 March 2024	N/A	N/A
Wodonga Institute of TAFE	✓	29 March 2024	✓	29 March 2024

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. Figure F1 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 that 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 1 month.</p>
Moderate	<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 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 a 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 risks in this report reflects the position of each TAFE institute.

Refer to the data dashboard on our website (www.audit.vic.gov.au/report/results-2023-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>

Source: VAGO.

Appendix H: Mandatory performance indicators

TAFEs are required to report mandatory performance indicators in line with the reporting requirements outlined by the Minister for Skills and TAFE in their statements of priorities. These statements outline KPIs that each TAFE will achieve in the following year. These KPIs are derived from the budgeted figures approved by the Minister for Skills and TAFE. At the end of the financial year, TAFEs publish their actual KPIs against their target KPIs in the performance statements.

Figure H1 shows the KPIs and their descriptions and methodology.

Figure H1: KPIs and their descriptions and methodology

Indicator	Description and methodology
Training revenue diversity	Breakdown of training revenue by: <ul style="list-style-type: none">• government-funded revenue• fee-for-service revenue• 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	Earnings before interest and taxes (excluding capital contributions)/total revenue (excluding capital contributions)

Source: VAGO.

Auditor-General's reports tabled during 2024–25

Report title	Tabled
<i>Results of 2023 Audits: Technical and Further Education Institutes (2024–25: 1)</i>	July 2024

All reports are available for download in PDF and HTML format on our website at 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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