



Education: 2017–18 results of financial audits

Report 19: 2018–19



:

16 May 2019

The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Speaker

Report to parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Education: 2017–18 results of financial audits (Report 19: 2018–19).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Brendan Worrall".

Brendan Worrall
Auditor-General

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Report on a page



Results of our audits

We found that the financial statements of all entities in the education sector are reliable and comply with the appropriate laws and standards.

The entities prepared their financial statements in a timely manner. However, several of them made unnecessary changes to their draft financial statements, which increased the cost of preparation and the risk of error. Each entity should assess their processes for preparing financial statements to identify ways they can improve.



New accounting standards

Three new accounting standards relating to revenue and leases took effect on 1 January 2019. Universities have assessed that they will need to adjust their financial statements next year as a result. The timing of revenue included in their profit and loss statements will change, and their assets and liabilities for leased assets will increase.



Internal controls

We found there was an increased risk of fraud in two universities. In one instance, changes to the bank account information of suppliers (of services and products) had not been checked effectively, and in two instances, security over payment files was inadequate. Management has now acted to put appropriate controls in place.

Internal control environments across the remaining entities were generally effective, so that we were able to rely on the internal control systems used to produce financial statements.

Through our audits of internal controls, we identified individual matters that require action from management. Most of these related to deficient information technology processes and system-related controls. Education entities have increased their efforts to resolve internal control matters identified in prior years, with most matters now actioned and resolved.



Financial results of education entities

All entities in the sector are financially sustainable (which means their revenue covers their operational expenses, they have enough future revenue to manage debt and assets are being replaced at an appropriate rate). But this year, the growth in revenue was not as large as the growth in expenses—mainly due to reduced funding to universities. Universities are diversifying their revenue sources with increases in international student revenue. TAFE Queensland's financial performance is at risk because of declining student numbers in a competitive market.

The financial position of entities remains steady from last year. To ensure ongoing sustainability, entities should continue to focus on ensuring that future capital programs (for purchasing and replacing assets) meet emerging service delivery needs.



Actions for entities

From our sector analysis we identified the following action points for each entity to consider.



Improve financial statements

- Assess financial statement preparation processes to identify ways to continue to improve the timeliness and quality of draft financial statements.
- When considering making changes that are not material, assess if the benefit to the users of financial statements outweighs the cost of making the change.
- Finish assessing the impact of the new accounting standards that took effect from 1 January 2019. During implementation, automate revenue assessment processes to improve the efficiency of management reporting.



Decrease risk of fraud and error

- Verify bank account changes for suppliers and employees through sources independent of the change request.
- Secure systems and information to prevent unauthorised access that could result in fraud or error. Security measures could include encryption of information, restricted user access, regular monitoring by management, and appropriate segregation of duties.
- Ensure audit committees monitor the implementation of proposed corrective action on internal control deficiencies and verify that management is meeting the agreed milestone dates for all reported issues.



Improve asset management planning

- Prepare asset management plans that:
 - assess current performance
 - identify future performance requirements
 - quantify whole-of-life costs
 - consider funding options
 - include performance measures and targets.
- Prepare multi-year maintenance plans that consider current condition and deferred maintenance, with a focus on planned maintenance.

Entities in this sector

This report summarises our financial audit results for education sector entities at their respective balance dates. For the Department of Education, the Department of Employment, Small Business and Training, TAFE Queensland, and some statutory bodies this was 30 June 2018, while for universities, grammar schools, and some other statutory bodies it was 31 December 2018. We provide 35 audit opinions in this sector. The analysis in this report focuses on the 18 entities highlighted in green below, representing 99.5 per cent of revenue within the education sector.

Minister for Education and Minister for Industrial Relations
Minister for Employment and Small Business and Minister for Training and Skills Development

Responsible for the overall direction and provision of educational services across the state

Departments

Department of Education

Takes responsibility for the overall education system and provides statewide public schooling.

Department of Employment, Small Business and Training

Supports small businesses in starting, growing, and employing; and provides individuals with training and employment opportunities.

Universities

Provide tertiary education including undergraduate and postgraduate studies, both on campus and through distance education.

University of Queensland

Queensland University of Technology

Griffith University

University of Southern Queensland

James Cook University

Central Queensland University

University of the Sunshine Coast

Grammar schools

Provide schooling, mostly from years seven to twelve, but some start at Prep.

Brisbane Grammar School

Brisbane Girls Grammar School

Ipswich Grammar School

Ipswich Girls' Grammar School

Rockhampton Grammar School

Rockhampton Girls Grammar School

Townsville Grammar School

Toowoomba Grammar School

Other statutory bodies and controlled entities

Provide specific and specialised education services.

TAFE Queensland

Queensland Curriculum and Assessment Authority

Queensland College of Teachers

Non-State Schools Accreditation Board

Source: Queensland Audit Office.



Summary

Results of our audits

In the education sector, we issued unmodified opinions for all 35 reporting entities (refer Appendix C) by their statutory deadlines. The results in their financial statements can be relied upon.

Education entities have implemented financial reporting practices that ensure they produce their financial statements in a timely manner.

However, the quality of draft financial statements decreased this year, with 12 entities making adjustments to their draft financial statements.

The University of the Sunshine Coast made a material adjustment to correctly measure an investment under a new accounting standard. (A misstatement should be adjusted when it is material—that is, when it has the potential to influence the decisions made by users of the financial statements.)

The other 11 entities who made changes to their draft financial statements did not need to do so. When entities make unnecessary changes, they increase the risk of error and the cost of financial statement preparation.

We express an **unmodified opinion** when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.

Implementation of three new accounting standards

Three new accounting standards took effect from 1 January 2019: AASB15 *Revenue from Contracts with Customers*; AASB1058 *Income of Not-for-Profit Entities*; and AASB16 *Leases*.

Universities have taken appropriate action to understand the new accounting requirements and analyse their transactions and balances to determine the changes required. These standards will not change total revenue and expenses over the life of a contract but will affect the timing for when revenue and expenses are included in financial statements. When first applying the standards, the universities will record one-off adjustments that will initially reduce the sector's financial position and financial performance.

The two departments and grammar schools have assessed that the new standards will not have a material impact on them, while TAFE Queensland had not finalised its assessment at 30 June 2018.

Internal controls

We assessed that the entities' internal controls (the systems and processes used by management to ensure the reliability of financial information) were generally effective, and we relied on them for our audits.

This year, we identified three significant deficiencies (high-risk matters) in control activities—two at Griffith University and one at the University of Southern Queensland.

At both universities, electronic funds transfer (EFT) files were not appropriately secured. Multiple internal users had access to the secure drive where payment files were stored for short periods before being transferred to the bank for payment. As a result, the risk of fraud and error in relation to EFT payments was increased.



Griffith University also did not adhere to procedures for independently verifying requests to change existing supplier bank account details, resulting in a small fraudulent payment during the year. Across the sector, we have seen an increase in external attempts to divert employee and supplier payments to non-legitimate bank accounts.

Both universities have taken action to strengthen internal controls in these areas. We undertook additional audit work to provide us with reasonable assurance that no fraudulent transactions had taken place that would result in material misstatement.

We identified a number of control deficiencies (lower-risk matters) across the sector. These mainly related to system controls such as inappropriate user access, including to employee and supplier records; insufficient monitoring of user access; and insufficient segregation of duties (to provide checks and balances).

This year, there was an increased effort in the education sector to resolve deficiencies from prior years, with 99 per cent of deficiencies raised in prior years now addressed.

Financial results of education entities

Collectively, the financial performance of education entities has declined since last year. The combined operating surplus for the sector this year was \$258.7 million, representing a decrease of \$62.5 million (19.5 per cent) from the previous year. Any increase in revenue has been offset by an increase in expenses. The departments were the exception to this, with their financial performance increasing by \$29 million. This was largely due to increased revenue from user charges and fees, while expenses were contained within the approved budget. The most significant expense for each entity continues to be employee expenses.

The financial position across the education sector continues to be positive, totalling \$30.9 billion at the respective balance dates of each education entity—an increase of 4.5 per cent from the previous year. The increase is attributed to an upward movement in property, plant, and equipment values, and investments in financial assets across education entities. It was offset by an increase in borrowings of \$83 million for asset purchases.

Sustainability of education entities

All education entities are financially sustainable (which means their revenue covers their operational expenses, they have enough future revenue to manage debt, and assets are being replaced at an appropriate rate). However, the sector continues to face challenges, including changes to Australian Government grants and flow-on consequences from the introduction of a Prep year in 2007.

For universities, these changes have seen Australian Government grants capped for 2018 and 2019, and an expected reduction in domestic student revenue of \$239 million between 2020 to 2023, due to the smaller number of students graduating high school in 2019. Universities are developing strategies to manage the reduced revenue from these sources, including increasing the revenue from international students. But the concentration of students from a limited number of countries increases the risks associated with overseas competition, foreign exchange rates, and global politics. Universities are working to minimise these risks by expanding their markets.



The financial performance of TAFE Queensland is declining as a result of decreasing student numbers and revenue, without an equivalent reduction in expenses. Vocational education and training (VET) is delivered in partnership between governments and the private sector. TAFE Queensland operates in a contestable market, and there is pressure on its market share, with 69 per cent of enrolled students in courses currently delivered by private providers. TAFE Queensland requires ongoing support from the Queensland Government to remain financially sustainable.

Planning future capital requirements to meet changing service delivery needs

Education entities have significant portfolios of assets that they use to deliver their teaching and research activities. They must plan for the renewal of assets that are no longer suited to modern learning styles and maintain their existing assets at an appropriate standard.

We found that most education entities had asset management plans that addressed the growth and renewal of their portfolios. However, we identified two entities whose plans were incomplete or non-existent.

Most education entities are replacing their existing assets at a rate consistent with the depreciation of these assets. There has been an increase in capital programs across the sector, with the acquisition of campuses and the construction of buildings. For the Department of Education, this has included the construction of new schools, acquisition of land for new schools, and refurbishment of existing schools.

This year, in *Follow-up of maintenance of public schools* (Report 16: 2018–19), we found that the Department of Education has fully implemented four of the recommendations in *Maintenance of public schools* (Report 11: 2014–15), with one recommendation partially implemented.

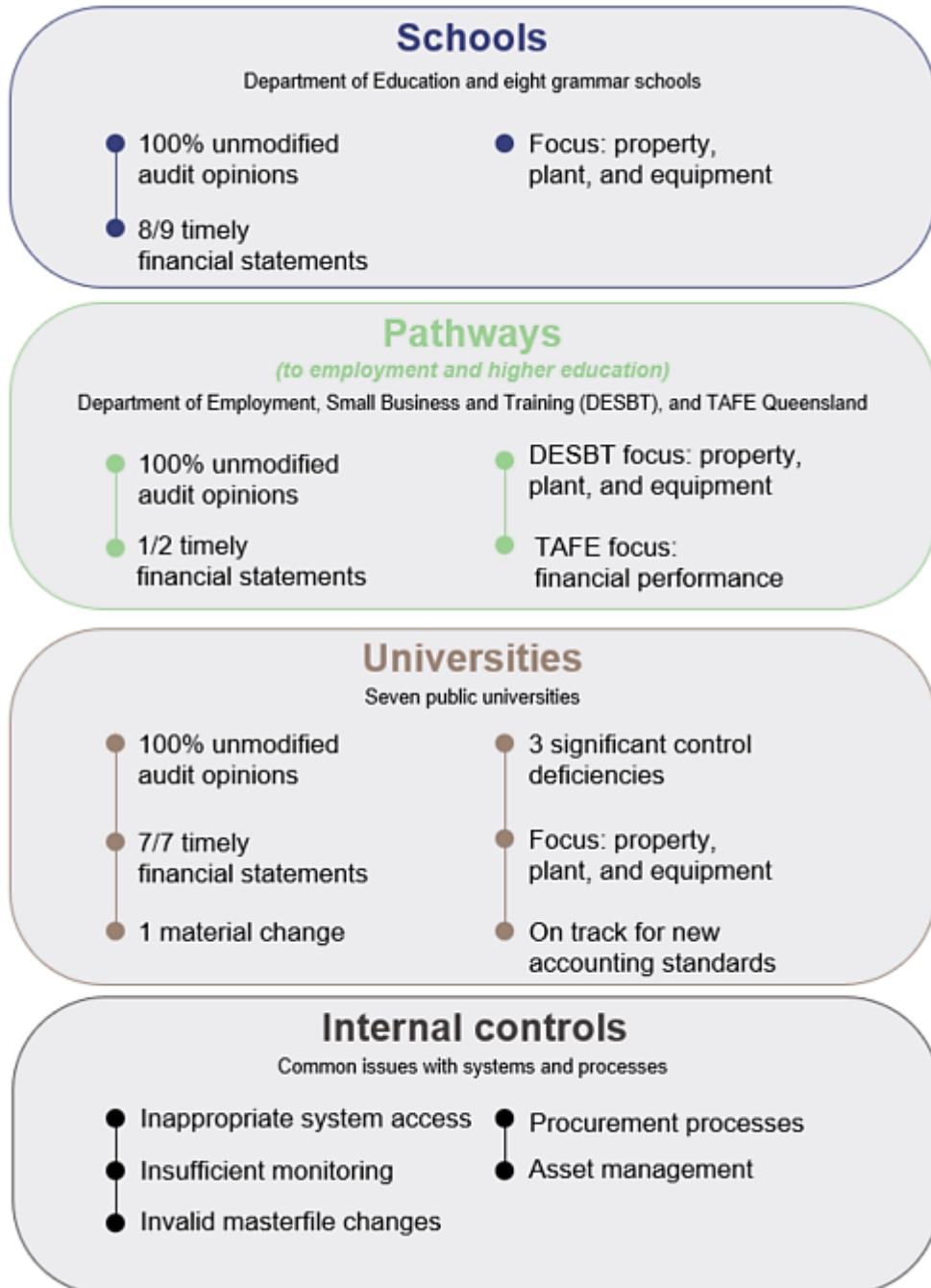
In the coming years, the department's maintenance budget will need to focus on preventative maintenance to avoid an increase in the backlog of school maintenance tasks.

The department has set a target for schools to use 50 per cent of their maintenance funding on planned maintenance. To achieve this, we recommended that the department support schools in developing three-year maintenance plans for all school buildings with replacement values of greater than \$100 000.



1. Results of our audits

This chapter delivers the audit opinion results and evaluates the timeliness and quality of financial reporting of education sector entities. It also provides conclusions on our areas of audit focus—the fair value of assets, implementation of new accounting standards, and strength of internal controls.



Source: Queensland Audit Office.



Conclusion

We issued unmodified audit opinions for the financial statements of each entity. This means we consider the financial statements were prepared in accordance with the relevant legislative requirements and standards. It also means readers can rely on the results in the financial statements. All audits were completed within the legislative timeframe.

Education entities can still mature their year end close processes. While they have made improvements in the timeliness of draft financial statements, the quality of the statements has declined.

Most education entities have taken appropriate action to understand the requirements of the new accounting standards and analyse their impact in order to determine the required changes to their financial statements. Some entities need to finish their assessment to meet the requirements of the new accounting standards, which took effect on 1 January 2019.

Education entities have generally effective internal control systems in place to ensure reliable financial reporting. They have made considerable effort to take corrective action on the issues we reported.

We identified three significant control deficiencies at two universities related to access to electronic funds transfer (EFT) files and validation of changes to vendor bank account details. All have since been resolved by management.

Audit opinion results

We issued unmodified opinions to 35 education entities, including the controlled entities (which are controlled or owned by one or more of the education entities), within their legislative deadlines. Appendix C provides detail on the audit opinions we issued for education entities in 2018.

We included an emphasis of matter in our audit reports on nine entities to highlight that only certain accounting standards were used in the preparation of their reports, and that their reports were not intended for other users. (An emphasis of matter highlights areas we believe users need to be aware of but does not modify the audit opinion.)

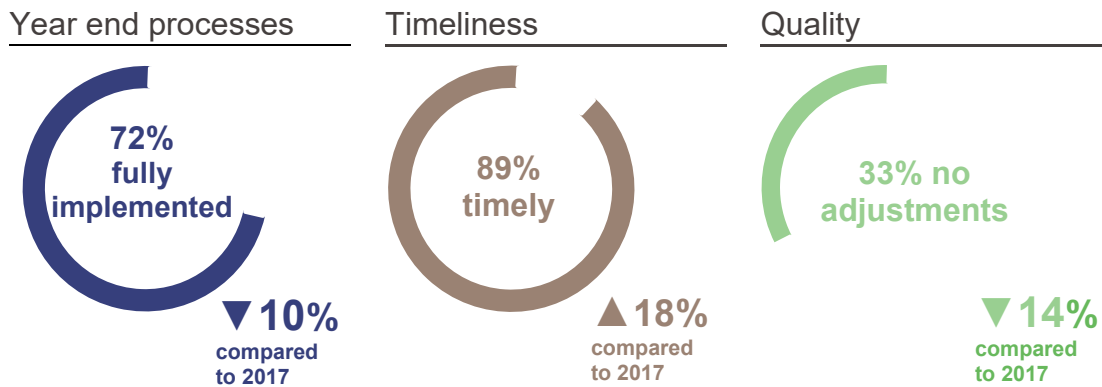
Effectiveness of financial statement preparation

Education entities implemented year end processes that resulted in the timely delivery of draft financial statements. However, the quality of draft financial statements reduced this year.

Our assessment criteria for year end processes, timeliness, and quality are outlined in Appendix D. Figure 1A shows the summary of our assessment of education entities' financial statement preparation processes.



Figure 1A
Effectiveness of financial statement preparation processes



Source: Queensland Audit Office.

There is still room for education sector entities to improve their financial statement preparation processes. They should also assess the impact of each proposed adjustment to the financial statements. The quality of their draft financial statements will improve as a result.

Of the 18 education entities that are responsible for 99.5 per cent of the revenue in the education sector, only six produced draft financial statements that were not adjusted prior to the final financial statements. One material adjustment of \$5.9 million was required by the University of the Sunshine Coast to correctly measure its investment in a company on implementation of AASB 9 *Financial Instruments*.

Eleven entities made immaterial adjustments to draft financial statements, largely related to asset valuations and recording of expenses. Immaterial adjustments don't affect a user's understanding of the financial statements. However, making the changes may increase the risk of preparation errors and the cost of financial statement preparation.

Action for education entities

Assess financial statement preparation processes to identify ways to continue to improve the timeliness and quality of draft financial statements.

When considering making changes that are not material, assess if the benefit to the users of financial statements outweighs the cost of making the changes.

Areas of audit focus

We focus on areas with a higher risk of fraud or error in the financial statements. Risk increases when there is a higher degree of complexity or subjectivity (room for individual interpretation) or there are significant changes or developments. In the education sector, the higher-risk areas we focus on are valuation of assets and implementation of new accounting standards.



Measuring the value of assets

Education entities recognised a valuation increase of \$876 000 in 2018 (\$1.3 million in 2017).

Property, plant, and equipment was valued at \$28.8 billion this year (\$27.8 billion last year).

Education entities must ensure that asset values as reported in their financial statements are reflective of their fair value. They measure the fair value of their assets in two ways—market value or current replacement cost.

Land, buildings, infrastructure assets, heritage and cultural assets, leased assets, and library and art collections are recorded at fair value, whereas plant and equipment and leasehold improvements are reported at cost.

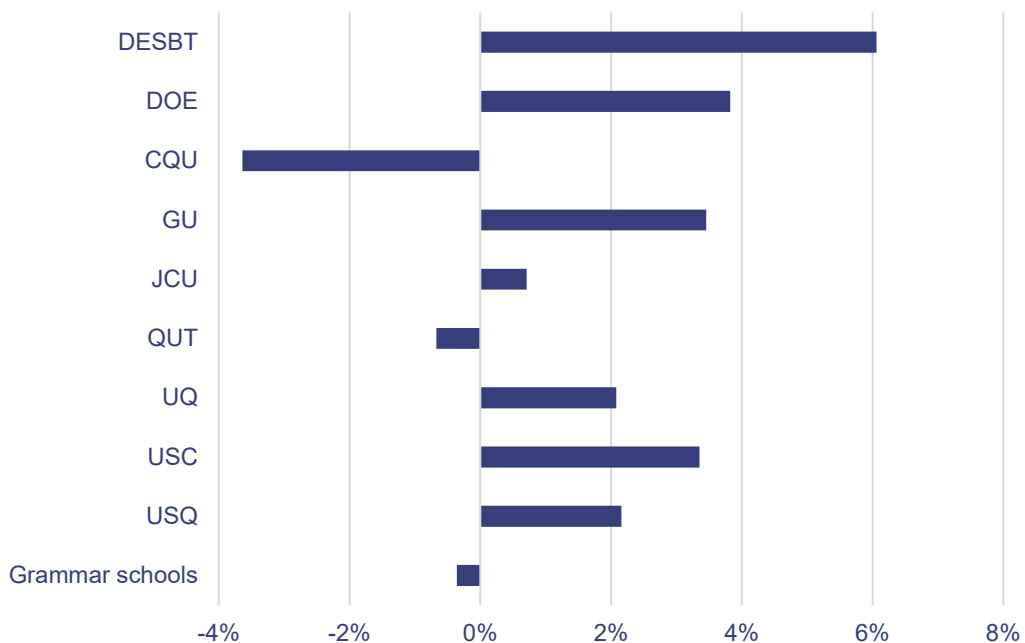
When education entities report their assets at fair value, they revisit the amounts recorded each year to ensure they continue to be accurately reported.

Figure 1B shows the percentage change in the value of property, plant, and equipment for each education entity.

The *market value approach* measures fair value based on how much a buyer would be willing to pay for the asset after considering any restrictions imposed through government regulations. This approach is used by entities for valuing land and non-specialised buildings such as residential properties.

Current replacement cost is used when there is no active market for buying and selling assets, such as for specialised buildings for universities and schools.

Figure 1B
PPE revaluation movement by education entity 2018
(revaluation increment/(decrement))%



Note: Department of Employment, Small Business and Training (DESBT); Department of Education (DoE); Central Queensland University (CQU); Griffith University (GU); James Cook University (JCU); Queensland University of Technology (QUT); University of Queensland (UQ); University of the Sunshine Coast (USC); University of Southern Queensland (USQ).

For the government departments, the movements shown are for 2017–18. For the universities and grammar schools, they are for the 2018 calendar year.

Source: Queensland Audit Office.



Central Queensland University's property, plant, and equipment balance reduced by \$19.4 million in 2018, primarily due to a downward movement in the valuation of its land and buildings. The net value of buildings decreased by \$16.9 million because the university reduced the expected time that long-life building components would be used before being replaced. This resulted in an increase in accumulated depreciation to reflect the allocation of cost over the new life of the asset. The value of land decreased by \$5.4 million as a result of decreasing market values in the Central Queensland region.

The Department of Education's property, plant and equipment reduced by \$616 million mainly due to two offsetting factors. The department transferred \$1.4 billion of training assets to the Department of Employment, Small Business and Training under machinery of government changes. The remaining assets increased in value due to new assets being purchased or built, increases in building material costs and an increase in the market value of land.

For the Department of Employment, Small Business and Training, there was an upward valuation movement of \$85.2 million. The way the assets were expected to be used has changed this year and the value has increased to reflect this.

We concluded that readers can rely on the value of the property, plant and equipment reported by each entity in their financial statements.

In doing so, we assessed the:

- adequacy of management's annual review of the valuation process
- appropriateness of the valuation methodology applied
- competence, capability, and objectivity of experts used
- assumptions made in the valuation process (including comparable properties used, the discount applied to reflect legal restrictions on how the assets are used, and movements in unit costs used to calculate replacement cost)
- reasonableness of useful lives (the number of years the entity expects to use assets), including management's annual assessment and consistency with condition assessments and asset management plans.

Timing of revenue recognition

Since 1 January 2019, the revenue and income of education entities have been affected by the new Australian accounting standards AASB15 *Revenue from Contracts with Customers* and AASB1058 *Income of Not-for-Profit Entities*.

Overall, education entities have taken appropriate action to understand the new accounting requirements and analyse their revenue sources to determine the required changes.

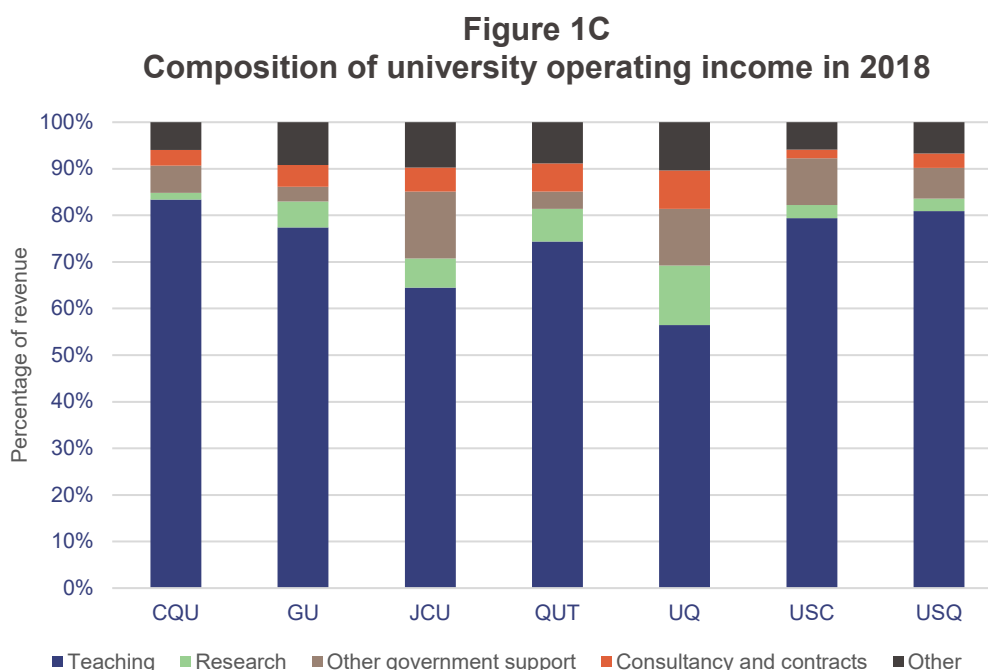
These standards are more complex than the previous equivalent standards. Their primary impact is to change the timing of recognition of revenue to when services are delivered. Certain complex criteria must be met to allow revenue to be deferred, and entities must review all of their revenue contracts and arrangements to determine if the requirements have been met. We recommended to education entities that they automate this process to improve the efficiency of management reporting.

The two departments and grammar schools have assessed that the new standards will not materially change the timing of revenue recognition for them. TAFE Queensland had not finalised its assessment at 30 June 2018.

Universities have estimated an increase of \$494 million to unearned revenue (a liability representing revenue received in advance of its recognition date) on transition to the new standards (29.3 per cent of total liabilities and 8.7 per cent of 2018 total revenue). This means that they can now defer the recognition of \$494 million of revenue to future periods. This will more closely align with the expenses associated with service delivery.



Figure 1C shows revenue and income across Queensland universities by source.



Source: Queensland Audit Office.

The new standards will primarily affect how universities recognise revenue from research grants, consultancies and contracts, and student fees for teaching periods that go past year end. The most significant impact will be realised by the University of Queensland, due to its higher revenue from research, consultancy and contract activity.

Action for education entities

Entities should finish assessing the impact of the new accounting standards that took effect from 1 January 2019. During implementation, they should automate revenue assessment processes to improve the efficiency of management reporting.

Increases in assets and liabilities from application of the new lease accounting standard

Education entities have taken appropriate action to identify their leases, including identifying components of contracts not related to the leasing of the asset, lease terms, and rates; calculating the impact of transition; and procuring systems to account for leases.

As of 1 January 2019, leases are to be recognised on balance sheet as right-of-use assets and lease liabilities, as the distinction between operating and finance leases was removed on implementation of AASB16 *Leases*.

The timing of the recognition of expenses has changed, as entities will now start accounting for depreciation (the allocation of an asset’s value as an expense over the life of the asset) on right-of-use assets and charging interest on the remaining balance of the lease liability. Combined, these expenses will be higher at the start of the lease period and reduce as entities repay the lease liability.

Right-of-use asset: An asset that the lessee has the right to use for the life of the lease.

Lease liability: The obligation to make payments for the right-of-use asset, reduced over time as payments are made and interest is charged.



Queensland Government departments obtain access to office accommodation through the Department of Housing and Public Works, which has the right to relocate entities at any time (where there is a whole-of-government benefit). As a result, Queensland Treasury has assessed that these arrangements do not meet the definition of a lease under the standard. Therefore, they will be recorded as expenses as incurred.

In 2018, the seven universities collectively reported that they expect to recognise right-of-use assets of \$590 million and lease liabilities of \$472 million. Central Queensland University represents a large portion of this, expecting to recognise \$280 million in right-of-use assets and \$276 million in lease liabilities. This is due to the university's strategy of leasing rather than purchasing its campuses outside Central Queensland. It expects this to result in a \$9.5 million increase in expenses in 2019 as a result of the new accounting standards.

Internal controls

We assess whether the systems and processes (internal controls) used by entities to prepare financial statements are reliable. We report any deficiencies in the design or operation of those internal controls to management for their action. The deficiencies are rated as either significant deficiencies (those of higher risk that require immediate action by management) or deficiencies (those of lower risk that can be corrected over time).

A *deficiency* arises when internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.

We increase the rating from a deficiency to a *significant deficiency* when:

- we consider immediate remedial action is required
- there is a risk to reputation
- the non-compliance with policies and applicable laws and regulations is significant
- there is potential to cause financial loss, including fraud
- management has not taken appropriate, timely action to resolve the deficiency.

Overall, to the extent that we tested them, we found that the internal controls education entities have in place (to ensure reliable financial reporting) are generally effective but require some improvement. We did not identify any systemic issues that would indicate the systems of internal control could not be relied upon.

We identified three significant control deficiencies at two universities related to access to electronic funds transfer (EFT) files and validation of changes to vendor bank account details. We undertook additional audit work to provide us with reasonable assurance that no fraudulent transactions had occurred that would result in material misstatement. (A material misstatement has the potential to influence the decisions made by users of the financial statements.)

All have since been resolved by management.

Entities rely heavily on their information technology systems and controls, and weaknesses in these systems increase the risk of undetected fraud or error. The issues we identified within these types of controls are consistent with those we have raised in prior years and remain the most significant area for improvement across the sector.



Identified internal control matters

In 2018, we identified a total of three significant deficiencies and 49 deficiencies across the education sector.

Figure 1D shows the control deficiencies (categorised by Committee of the Sponsoring Organizations of the Treadway Commission (COSO) component) we reported to management in 2018.

Figure 1D
Summary of internal control deficiencies for the education sector

				
Control environment <i>Structures, policies, attitudes, and values that influence daily operations</i>	Risk assessment <i>Processes for identifying, assessing, and managing risk</i>	Control activities <i>Implementation of policies and procedures to prevent or detect errors and safeguard assets</i>	Information and communication <i>Systems to capture and communicate information to achieve reliable financial reporting</i>	Monitoring activities <i>Oversight of internal controls for existence and effectiveness</i>
Three deficiencies identified	No deficiencies identified	Three significant deficiencies and 42 deficiencies identified	Four deficiencies identified	No deficiencies identified

Source: Queensland Audit Office adapted from Committee of the Sponsoring Organizations of the Treadway Commission (COSO) internal controls framework.

Security of electronic funds transfer (EFT) files

This year, we identified two significant deficiencies and one deficiency relating to the security of EFT payment files. The two significant deficiencies were at Griffith University and the University of Southern Queensland.

We found EFT payment files were not appropriately secured. Multiple internal users had access to the secure drive where EFT payment files were stored for short periods before being transferred to the bank for payment.

This increased the risk of bank account details being accessed inappropriately and unauthorised changes being made.

The management of each university has put appropriate controls in place around the payment file upload process.

Better practice controls that entities can use to mitigate these risks include:

- encrypting the file to ensure it cannot be edited once generated
- increasing the frequency of transferring the EFT payment files to financial institutions
- reducing the number of users with access to the files to ensure security is maintained.

Changes to vendor masterfiles

At Griffith University, we identified one significant deficiency where the process for independently verifying changes to the vendor masterfile (the collection of all records relating to vendors) was not complied with, resulting in a small fraudulent payment. A fraudulent request was made by an external source to change an existing supplier's bank account details and divert payments to a non-legitimate bank account. Management has now resolved this issue and provided additional training for staff.

We identified a further two deficiencies relating to the vendor and payroll masterfile change processes across the universities. These related to inappropriate users being provided with access to update the vendor or payroll masterfile data, and the review of changes not being sufficiently recorded. This increased the risk of unauthorised and fraudulent vendor or payroll masterfile changes going undetected.

Deficiencies in control activities

The majority of deficiencies identified in the sector relate to control activities (the implementation of policies and procedures to prevent or detect errors and safeguard assets). In addition to the security of EFT payment files and changes to vendor masterfiles, 38 deficiencies were identified in this area. The majority relate to:

- inappropriate user access granted to maintain student fees and systems, and insufficient monitoring of privileged users' access (privileged users have access to critical systems)
- information system controls—insufficient segregation of duties within systems (which are needed for checks and balances)
- procurement—users not adhering to the entities' procurement policies and procedures, untimely acquittal of expenses, and limited controls in place over contract management.

Action for
education entities

With continuous fraudulent attempts across the sector, entities must ensure they have effective processes to verify bank account changes for suppliers and employees through sources independent of the change request.

They also need to ensure systems are appropriately secured to prevent unauthorised access (to systems or information) that may result in fraud or error. Security measures could include encryption of information, restricted user access, regular monitoring by management, and appropriate segregation of duties.

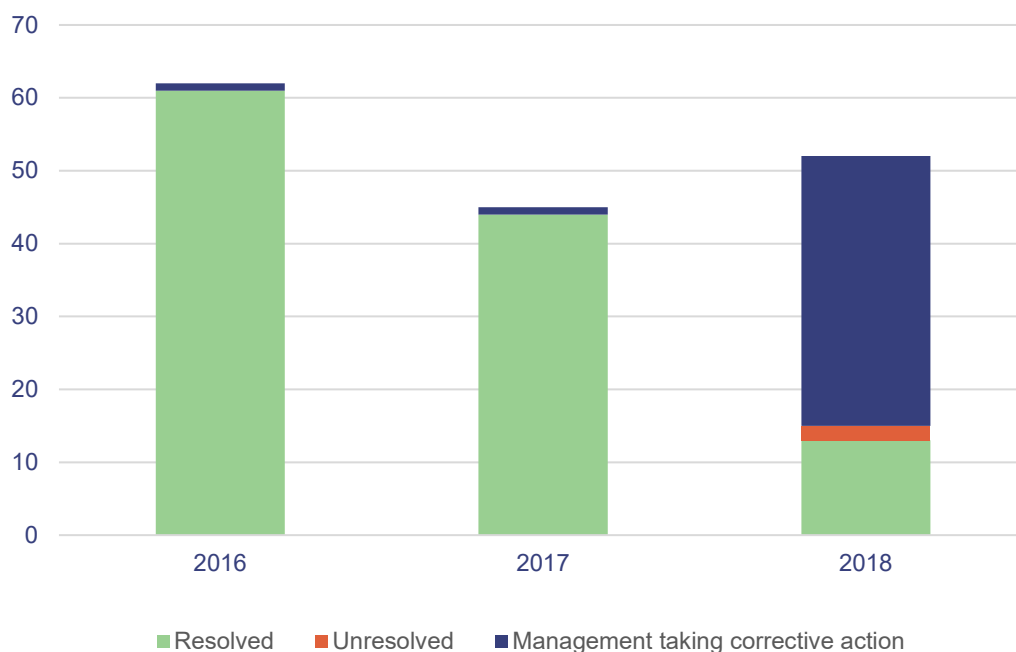
Action taken to address identified internal control deficiencies

The proactive and timely resolution of control deficiencies indicates a strong control environment. All education entities either addressed their identified control deficiencies or are on track to do so by the agreed dates.

Figure 1E outlines the status, as at 31 December 2018, of internal control deficiencies reported over the last three years.



Figure 1E
Status of deficiencies reported to management over the last three years



Source: Queensland Audit Office.

Action for education entities

Ensure audit committees monitor the implementation of proposed corrective action on control deficiencies and verify that management is meeting the agreed milestone dates for all reported issues.

Major certifications

Some education entities are required to acquit grant funding they receive from third parties, including the Australian and Queensland governments. They do this by providing a detailed breakdown of revenue and expenses and (in some cases) information on assets and liabilities to these third parties. We certify that this information is accurate and complete.

In the current year, we issued unmodified opinions for the Australian Government research income returns for 2017 for all seven universities. We have certified they were prepared in accordance with the 2018 Higher Education Research Data Collection (HERDC) specifications for the collection of the 2017 data.

Entities not preparing financial statements

Not all Queensland public education sector entities produce financial statements. The full list of entities not preparing financial statements and the reasons are detailed in Appendix E.

2. Financial results of education entities

This chapter analyses the financial performance, position, and sustainability of the 18 education entities that account for 99.5 per cent of education sector revenue.

Conclusion

All education entities are financially sustainable (which means their revenue covers their operational expenses, they have enough future revenue to manage debt and assets are being replaced at an appropriate rate). However, the sector continues to face challenges. For example, Australian Government grants have changed, and the introduction of the Prep year in 2007 has had the flow-on effect of reducing the number of students graduating from Grade 12 in 2019.

Universities are developing strategies to manage the reduced revenue sources, including increasing international student revenue. The concentration of students from a limited number of countries increases the risks in terms of overseas competition, foreign exchange rates, and global politics. Universities are working to minimise these risks by expanding their markets.

The financial performance of TAFE Queensland is declining as a result of decreasing student numbers and revenue, without an equivalent reduction in expenses. It operates in a contestable market, and there is pressure on its market share. It requires ongoing support from the Queensland Government to remain financially sustainable.

Education entities must plan for the renewal of assets that are no longer suited to modern learning styles and maintain their existing assets to an appropriate standard. We made recommendations to a number of education entities to develop integrated asset management and maintenance plans.

Understanding financial performance

We measure the financial performance of Queensland education entities by their operating result—the difference between total revenue and total expenses. Figure 2A shows the financial performance of each of the entities over the past three years.



Figure 2A
Education sector operating results

	<u>2018</u>	<u>2017</u>	<u>2016</u>	
Departments	\$57.8 mil.	\$28.8 mil.	\$36.5 mil.	▲ Higher student numbers drove increases in revenue, partially offset by higher employee expenses and supplies and services.
Universities	\$185.0 mil.	\$252.6 mil.	\$166.3 mil.	▼ Increases in international student revenue were offset by increases in employee expenses and a downward movement in investment values.
TAFE Queensland	\$1.4 mil.	\$20 mil.	\$12 mil.	▼ Decreased due to reduced revenue from student fees and government-subsidised training.
Grammar schools	\$14.5 mil.	\$19.8 mil.	\$10.8 mil.	▼ Decreased due to increases in employee and contractor expenses.

For the departments and TAFE Queensland, the years are financial years. For the universities and grammar schools, they are calendar years.

Source: Queensland Audit Office.

Both the Department of Education and the Department of Employment, Small Business and Training are financially sustainable as they receive funding from Queensland Treasury on an annual basis to meet their service delivery needs.

Financial sustainability of TAFE Queensland

TAFE Queensland is a public vocational education and training (VET) provider operating in a fully contestable market. In recent years, as a result of increasing competition, TAFE Queensland has experienced declining student numbers and revenue. Expenses have not reduced at the same rate, and there are risks to its sustainability.

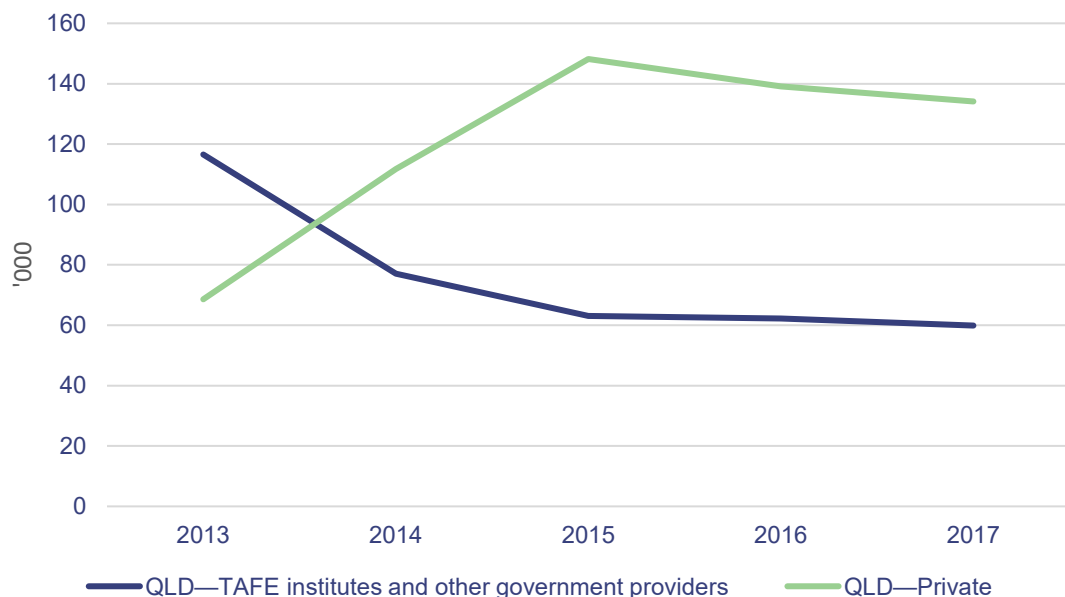
The VET sector across Australia is delivered in partnership between governments and the private sector, with 69 per cent of training in Queensland currently delivered by private providers. While TAFE Queensland continues to be the state's largest public VET provider, the increase of private providers in the Queensland market puts its market share at risk.

The Queensland Government provided grants and subsidies of \$762.1 million to public and private providers in 2018, of which \$336.7 million was received by TAFE Queensland.

Figure 2B shows movements in student enrolments for public and private providers in response to Australian Government policy reforms, including:

- the National Partnership Agreement on Skills Reform, signed in April 2012, which encouraged a more open and competitive training market. It resulted in significant growth in Queensland private providers, with their enrolments increasing by 116 per cent between 2013 and 2015. Public provider enrolments declined by 46 per cent over the same period. The agreement was due to expire on 30 June 2017 or on completion of the projects funded under the agreement. As at the date of this report, no new agreement between the Australian and Queensland governments has been signed
- the introduction of the VET Student Loans program in 1 January 2017, which restricted the courses eligible for student loans and set caps for student loans. Enrolments at Queensland public and private providers both declined by four per cent in 2017.

Figure 2B
Public and private VET students in Queensland (QLD) 2013–2017



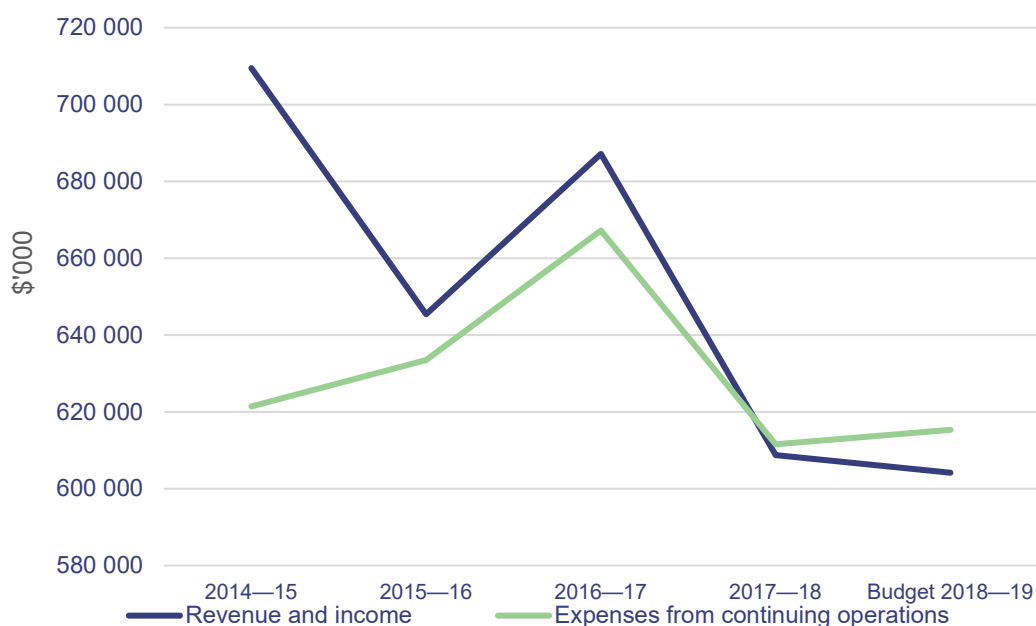
Source: Queensland Audit Office compiled using data obtained from the National Centre for Vocational Education Research – Government-funded students and courses

Total student enrolments have remained steady over the nine months to 30 September 2018, when compared with the previous year. However, there has been a further two per cent movement of students from public to private providers.

More students are electing to study with private providers, as they have a lower cost base resulting in reduced fees. This indicates that grant funding does not reflect the staffing and operating expenses of government providers, which are higher than those of private providers.

As income streams have been decreasing for TAFE Queensland, there has been increasing pressure to minimise expenses. Despite implementing cost reduction strategies, TAFE Queensland has been unsuccessful in reducing expenses in line with decreasing revenues, largely due to employee cost challenges and system implementation issues. As shown in Figure 2C, the budget for the 2019 year indicates this trend is to continue, with a budgeted \$11 million loss.

Figure 2C
TAFE Queensland revenue and expenses 2014–2019



Source: Queensland Audit Office.

The Queensland Audit Office's strategic audit plan for 2018–21 includes a performance audit on investing in vocational education and training. It will assess whether the Department of Employment, Small Business and Training is achieving successful learning and employment outcomes through its public and private VET providers.

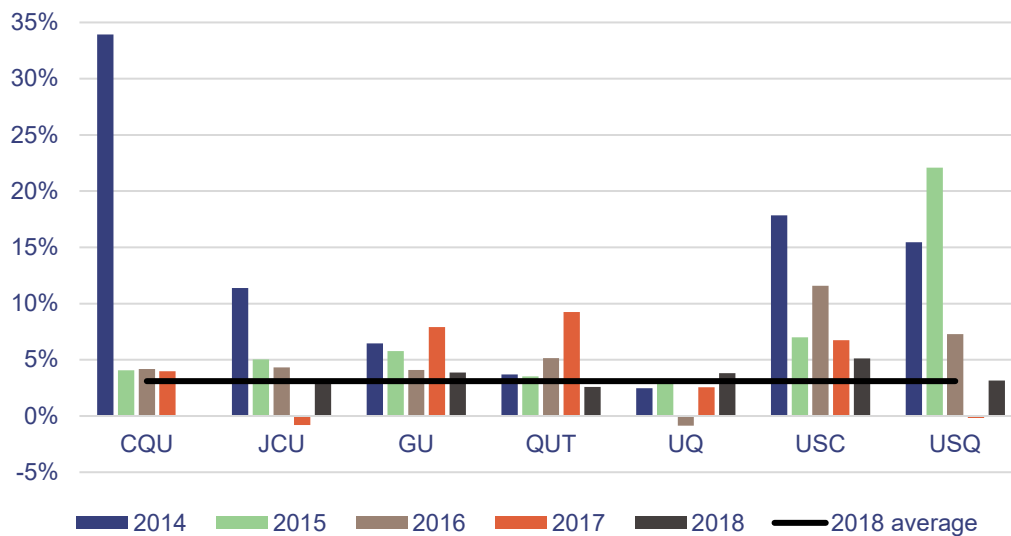
Financial sustainability of universities

To assess the long-term financial sustainability of Queensland education entities, we calculate their operating ratio as an average over time. The *operating ratio* is the operating result before tax (revenue less expenses). It is expressed as a percentage of total revenue and measures the extent to which revenue covers operational expenses.

It should be positive over the medium- to long-term if an entity is to remain financially sustainable. A negative or low ratio indicates that the entity needs to ensure sufficient revenue is generated to fund future operating and capital commitments.

Figure 2D shows the operating ratio of each university for the past five years.

Figure 2D
Operating ratios for universities for 2014–2018



Note: University of Queensland (UQ), Queensland University of Technology (QUT), Griffith University (GU), University of Southern Queensland (USQ), James Cook University (JCU), Central Queensland University (CQU), University of the Sunshine Coast (USC). This includes controlled entities (whose finances and operations are controlled by one of the education entities).

Source: Queensland Audit Office.

These ratios indicate the sector is generally in a sound position. However, James Cook University and Central Queensland University have a higher reliance on grant funding.

James Cook University received capital grants of \$55.7 million in 2015 and 2016 for a science teaching and research facility within its Townsville campus (The Science Place), and \$20 million in 2018 for a science precinct within its Cairns campus (the Cairns Innovation Centre). Without these capital grants, the university would have made a loss each year.

Central Queensland University's operating ratio has also fluctuated significantly in the last five years, achieving a near nil result in 2018. Its results have been influenced by the university's exposure to the vocational education and training (VET) sector, as the Central Queensland Institute of TAFE merged with the university in 2014.

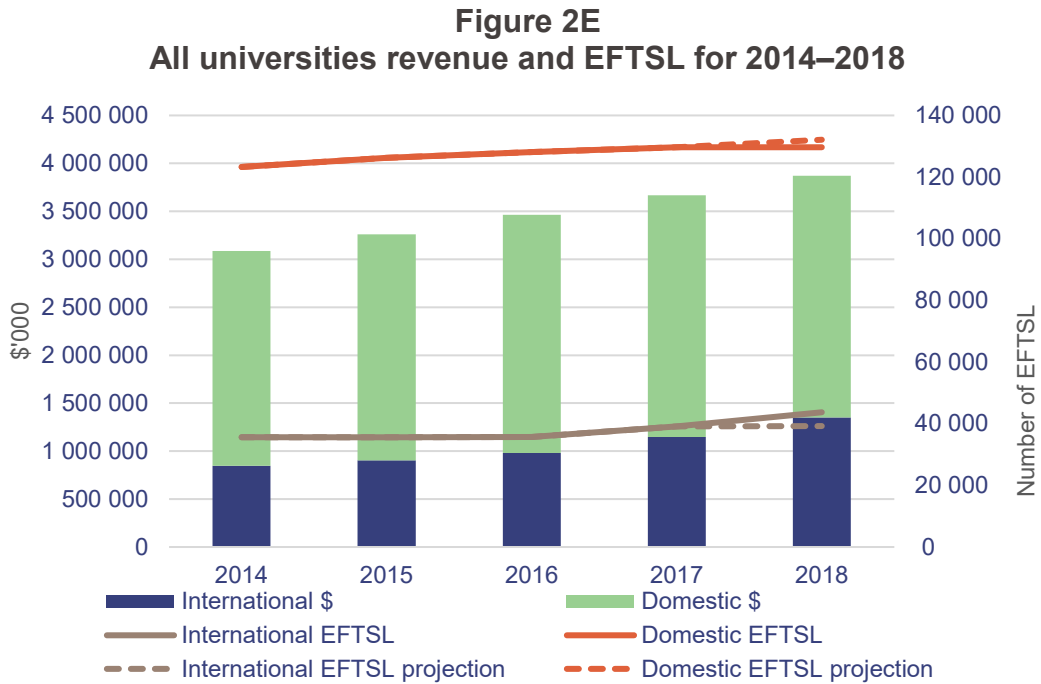
Since then, in accordance with the Merger and Transfer Agreement, the university was eligible for a one-off grant to subsidise VET cash losses up to 30 June 2017, with \$18.5 million received in 2017. This is reflected in the university's 2018 performance—a \$16.4 million decrease in operating surplus, with a \$14.5 million loss recognised by VET operations. The VET sector of Central Queensland University experiences the same market pressures as TAFE Queensland.

Increased dependency on international student revenue

Queensland universities are becoming increasingly dependent on revenue from international students. While the primary source of revenue is still funding related to domestic students, a competitive domestic market and the Australian Government funding freeze have led to universities seeking to increase their revenue from international students.

The growth in international student revenue continues to be greater than the growth in domestic student revenue. Since 2014, revenue from international students has increased 59.8 per cent to \$1.4 billion, with 18 per cent growth in 2018 alone. By comparison, domestic student revenue remained steady in 2018 at \$2.5 billion, with 12.5 per cent growth since 2014.

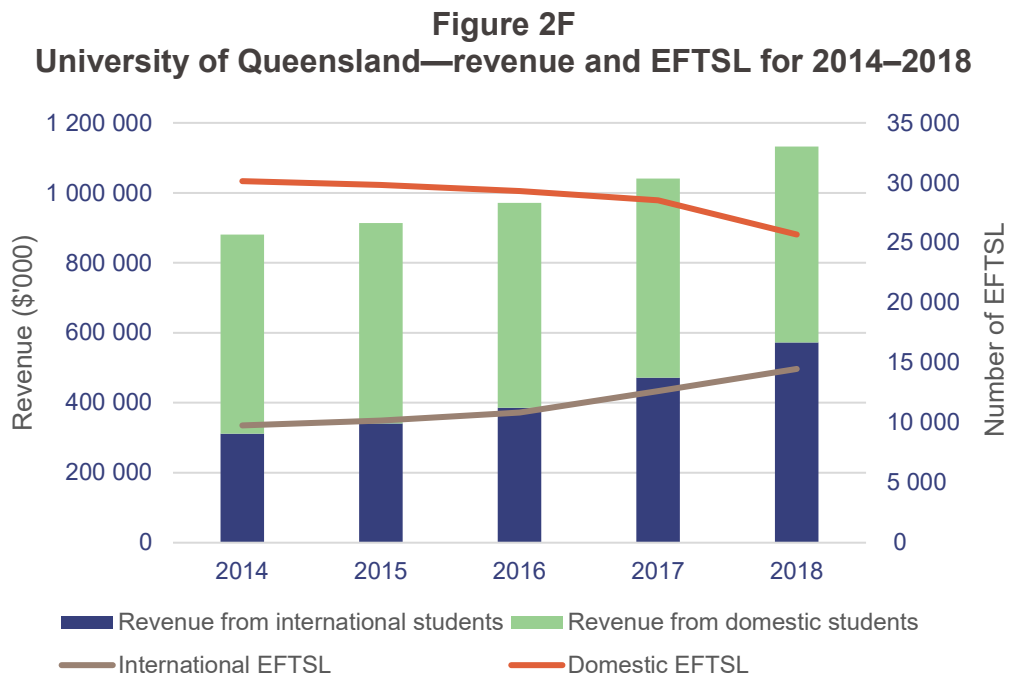
All universities have increased the proportion of student revenue derived from international students since 2014. Figure 2E shows the breakdown between domestic and international revenue and the equivalent full-time student load (EFTSL) over the last five years.



Note: Equivalent full-time student load (EFTSL) is a representation of the amount of the study load a student would have if studying full-time for one year.

Source: Queensland Audit Office.

For the first time, a university has received more revenue from international students than from domestic students. The University of Queensland has increased its revenue from international students by \$261 million (83.6 per cent) since 2014, with 50.6 per cent of student revenue now derived from international students as shown in Figure 2F.



Source: Queensland Audit Office.

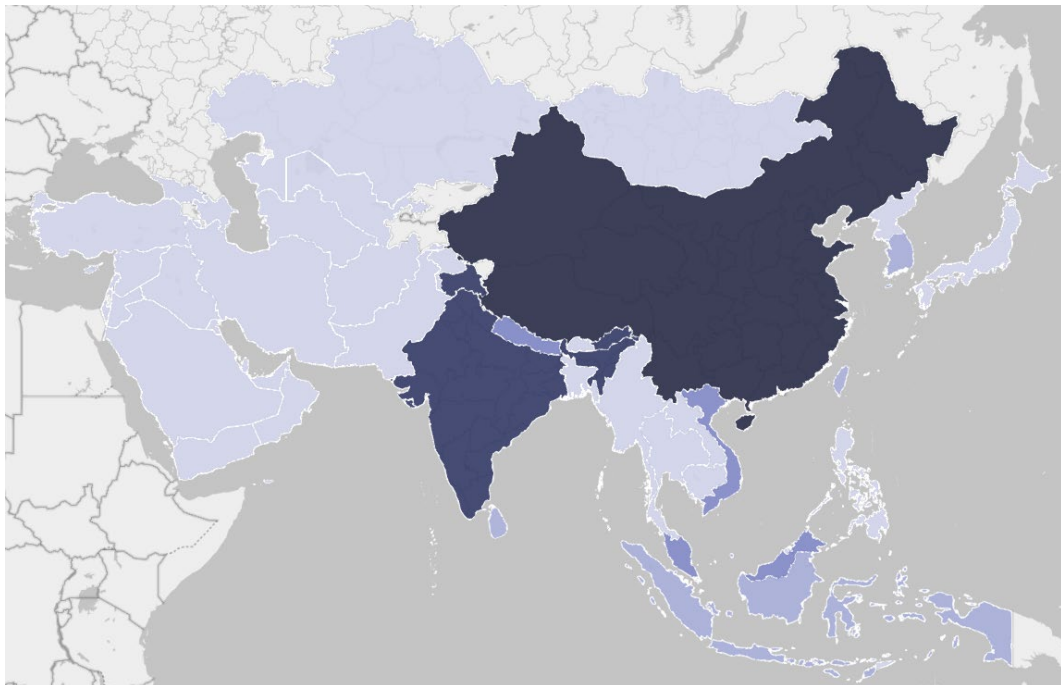


The University of Queensland has historically had higher revenue from research, consultancy and contracts than other universities. While this is still the case in 2018, the revenue from these sources is marginally less than it was in 2014. As a result, the university's reliance on international student revenue to maintain service delivery has increased.

As the universities continue to diversify revenue sources and increase the proportion of revenue from international students, their exposure to the impacts of foreign exchange rates, international competition, and global politics increases.

In 2018, the international students enrolled at Australian universities came from 180 countries. Australia currently ranks as the third largest destination for international students. International student growth in Australia is stronger than in both the United States of America and the United Kingdom, and they are currently the top two countries for international enrolments.

Figure 2G
International students from Asia to Queensland universities
by country of origin in 2018



Note: Darker blue = more students; lighter blue = less students.

Source: Queensland Audit Office.

This year, over 85 per cent of international students were from Asia, with China and India contributing over 50 per cent of students.

Two universities rely on one country to provide more than 50 per cent of their international students. The remaining five universities are reliant on three countries to provide 50 per cent of their international students. Queensland universities are working to minimise these risks by expanding their markets.

Across the seven public universities, James Cook University has the lowest concentration of international students from any single country, including the students from its Singapore campus. James Cook University is the only public university with an offshore Singapore campus established in 2003.



Changes to Australian Government financial assistance

The Australian Government is reforming the higher education system to ensure future funding arrangements remain sustainable. In December 2017, it revised its proposed changes to the higher education funding model. The changes included:

- providing no increases in grants scheme funding for the next two years
- making students repay their loans in a timelier manner
- capping the funding for student places available in future.

The Australian Department of Education and Training estimated the impact on the seven Queensland public universities would be a reduction of \$33 million in potential funding in 2018 and \$76 million in 2019. Its estimate was based on the student loads reported to it in April 2017 and the universities' forecasted student loads through to 2020.

Earlier in this chapter, Figure 2E showed the breakdown between domestic and international revenue and student numbers over the last five years. University domestic student numbers increased (by 5.2 per cent) from 2014 to 2017 but were flat in 2018.

If the trend from prior years had continued, it would have equated to additional revenue from domestic students of \$47.8 million.

From 2020 onwards, the Australian Government is proposing to increase funding to universities if they meet specific performance measures. The increase in funding will be limited to the national growth in the 18–64-year-old population. In December 2018, an expert panel was assigned to lead consultation within the university sector on the implementation of these reforms.

To ensure there is no decline in the services they deliver, universities are working to increase their other revenue sources by attracting full-fee-paying students and diversifying their income streams.

Consequences of introducing the preparatory year in 2007

The introduction of the preparatory year (Prep) in 2007 saw a change to the cut-off date for children starting school. Children who were due to go into Year One attended Prep instead. This reduced the cohort due to graduate in 2019, which will reduce the number of university-eligible students in 2020.

Universities are preparing for a resultant reduction in revenue. They have undertaken detailed analysis to accurately forecast the expected impacts and to develop strategies and cost-saving initiatives to counteract this.

The universities have estimated the impact of the reduced cohort to be \$239 million in reduced revenue between 2020 and 2023.

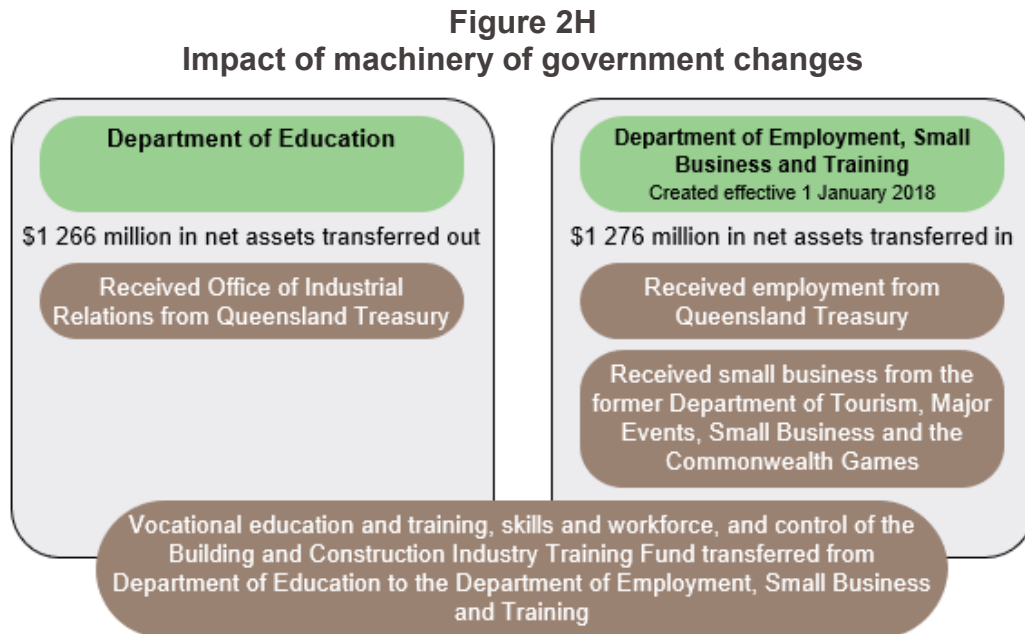
The Department of Education saw an increase of 5.2 per cent in state school student numbers in 2007, with an average annual increase of 1.3 per cent to 2018. The percentage growth in teachers has exceeded that of students over this time.

The department has implemented strategies to address the increase in student numbers in 2020, with a full cohort of students in all thirteen grades for the first time. One of the strategies is a '2020 Ready' infrastructure program, which will deliver additional classrooms for 60 state high schools.



Machinery of government changes

On 12 December 2017, the Queensland Government announced several changes to the functions administered by existing departments. Both departments in the education sector were affected. Figure 2H shows the impact of the changes.



Source: Queensland Audit Office.

Employees, assets and liabilities, information technology (IT) systems and applications, and controlled entities (which are owned or controlled by another entity) were transferred between these departments.

Machinery of government changes are generally effective from the date of the administrative arrangement orders, as made by the Governor in Council. However, it can take many months (and sometimes years) for the receiving department to fully integrate new functions into its operations through the updating of policies, procedures, and processes, and the alignment of IT systems.

Understanding financial position

We measure the financial position of Queensland education entities by their net assets—the difference between total assets and total liabilities. Figure 2I shows the financial position of each of the entities over the past three years.



Figure 2I
Education sector financial position (net assets)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	
Departments	\$20 062 mil.	\$19 132 mil.	\$16 769 mil.	▲ Increased due to upwards movements in property, plant, and equipment balances.
Universities	\$9 890 mil.	\$9 504 mil.	\$8 845 mil.	▲ Increased due to upwards movements in investment funds and property, plant, and equipment balances.
TAFE Queensland	\$303 mil.	\$290 mil.	\$269 mil.	▲ Increased due to the consolidation of Aviation Australia.
Grammar schools	\$612 mil.	\$599 mil.	\$577 mil.	▲ Increased due to upwards movements in property, plant, and equipment and decreasing borrowings.

Note: Aviation Australia is a registered training organisation that supports the development and growth of the aviation and aerospace industries. The assets, liabilities, revenue, and expenses of Aviation Australia were consolidated into the financial statements of TAFE Queensland from 1 October 2017.

For the departments and TAFE Queensland, the years are financial years. For the universities and grammar schools, they are calendar years.

Source: Queensland Audit Office.

Over time, the financial position can indicate whether an entity's financial health is improving or deteriorating. A growing net asset position indicates that an entity has greater capacity to meet an increase in future service demands.

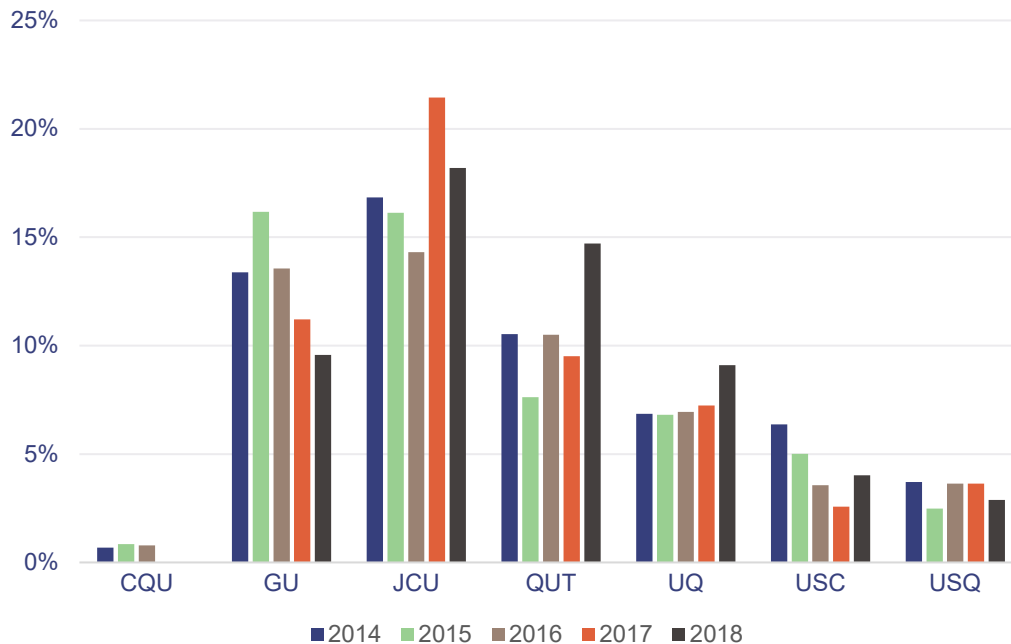
The net assets of all education entities increased except for those of the Department of Education, whose net asset position decreased due to machinery of government changes.

Universities are capable of managing current debt

The *debt to revenue ratio* assesses an entity's ability to pay the principal and interest on borrowings, as and when they fall due, from the funds the entity generates. It provides an indicator of the affordability and sustainability of debt levels. A lower percentage indicates an entity has a greater ability to repay debt.

Figure 2J shows the debt to revenue ratio for each of the universities over the past five years.

Figure 2J
Debt to revenue ratio for 2014–2018



Source: Queensland Audit Office.

At 31 December 2018, the universities held \$554.4 million (2017: \$472.4 million) in debt, with 96 per cent attributed to four universities (the University of Queensland, James Cook University, Griffith University, and the Queensland University of Technology).

Borrowings across the seven universities increased by \$82 million (17 per cent) in 2018, largely due to:

- the University of Queensland entering into a new borrowing arrangement valued at \$87.1 million for investment in a solar farm in Warwick. The estimated total cost of the construction is \$128.9 million
- Queensland University of Technology entering into a new borrowing arrangement for \$58.8 million to fund the purchase of a property in Kelvin Grove.

While the level of debt has increased over the past five years, six of the seven universities continue to have a low debt to revenue ratio, which indicates they are able to fund future debt obligations and remain financially sustainable.

James Cook University has a higher ratio than all other universities which reflects strategies to improve student amenity on its Cairns and Townsville campuses, with the most recent borrowing activity attributed to a new loan of \$40 million in 2017 to construct its Cairns student accommodation project. Central Queensland University has a lower ratio due to its strategy to lease rather than purchase assets.

Planning future capital requirements to meet changing service delivery needs

Increasingly, learning spaces need to be flexible and incorporate technology to serve multiple learning contexts (from large class groups to small clusters, to those who study via online platforms, or a combination of all), providing better opportunities for collaboration and personalised learning.

Education entities must undertake regular renewal and maintenance activities to ensure existing assets continue to be fit for purpose and that changing learning styles are addressed. They need to do this before existing teaching spaces become underused or redundant.

In recent years, a number of education entities have updated their asset management plans to address future learning styles. For example, some schools have found that renewing (reconfiguring or rebuilding) a manual arts building may be more efficient than continuing to maintain it, if it is no longer suited to deliver a modern curriculum such as robotics.

Case study 1 demonstrates how the Queensland University of Technology's asset management plan addresses challenges associated with ageing campuses and changing learning styles.

Case study 1

Queensland University of Technology's assessment of future needs and asset planning

Currently, the Queensland University of Technology delivers courses that blend online, on campus, and student-controlled learning using a range of technology platforms. From 2019, the university will gradually introduce a portfolio of online courses, starting with postgraduate courses. In developing its asset management plan, the university has assessed the impact of a move to online course delivery on existing campuses.

The university's asset management plan 2019–2023 outlines physical and virtual infrastructure priorities for the next five years, including financial forecasts. In addition to major projects, the plan also provides for refurbishment and technology projects and the ongoing maintenance of physical and virtual infrastructure. The plan is based on assessments of:

- the current performance of physical assets—including condition, functionality, and sustainability
- the current performance of virtual assets—including information and communication technology platforms required to deliver the virtual learning and teaching experience
- the future performance required to achieve the university's strategic direction—including predicting teaching and research spaces and teaching and research technology platforms and integrations; identifying trends and areas where efficiency can be improved; and enhancing flexibility and collaboration
- the cost of and funding options for maintenance and renewal works.

One of the major projects identified in the plan is the new Education Precinct, which opened in January 2019. The precinct's facilities were designed to reflect the university's commitment to applying technology and immersive digital environments in teaching, research, and engagement.

Teaching spaces within the precinct have been configured for collaborative face-to-face learning, and to connect students studying online to learning activities on campus. They include customised spaces with audio-visual equipment and other technologies to encourage creative and collaborative learning. These developments will aid the university in its transformation of learning both on campus and online.

An effective management plan means the university can deliver a balanced program of physical and virtual development, capital renewal, and maintenance activities. In turn, this should deliver targeted, future-focused development and effective use of existing space.

Source: Queensland Audit Office.

This year, we recommended one grammar school document their asset management plan.

The Department of Employment, Small Business and Training is preparing its first strategic asset management plan, following the machinery of government change, for assets used by TAFE Queensland for service delivery.



Action for education entities All education entities need to prepare asset management plans that:

- assess the current performance of their physical and technology assets
- identify the future performance required from assets, given changes in learning styles, with options on how to achieve this level of performance
- quantify the life cycle costs of existing and proposed assets, available funding options, and any budget shortfall
- outline the performance measures and targets for monitoring by management.

The asset management plan should be integrated with other strategic and operational plans and risk management practices.

Asset renewal activities

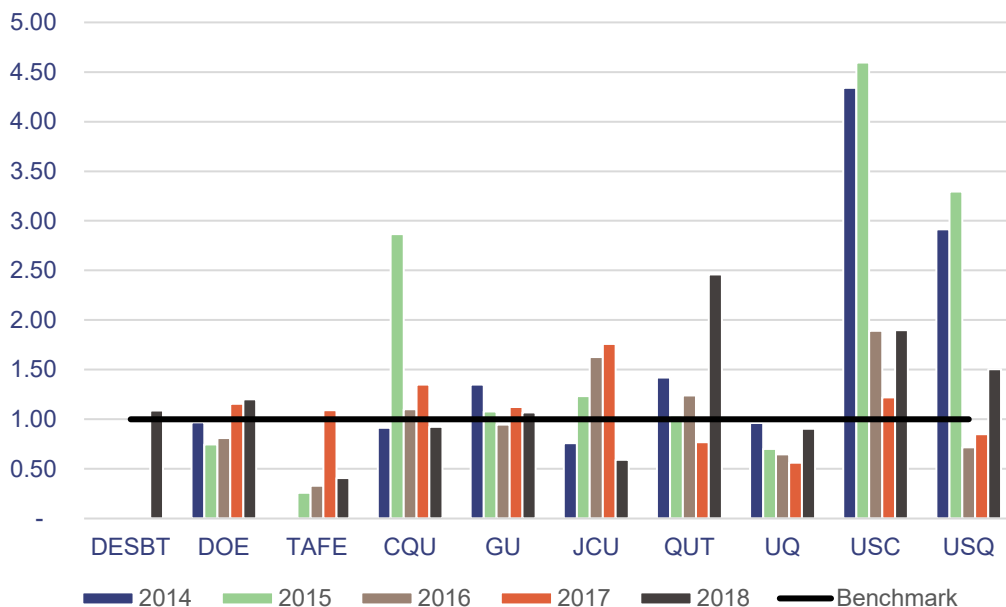
The *capital replenishment ratio* estimates the extent to which an entity is replacing its assets as they reach the end of their useful lives. The ratio compares the annual net expenses on property, plant, and equipment to annual depreciation (the allocation of an asset’s value as an expense over the life of the asset).

An average ratio below one, over time, indicates that assets are not being built or replaced at least at the same rate as existing assets are being depreciated. As a result, an entity may have reduced ability to deliver services in future.

The ratio is affected by the timing of each entity’s building program. Asset acquisitions initially increase payments for property, plant, and equipment, and in future years, increase depreciation expense.

Figure 2K shows the capital replenishment ratio for the departments, TAFE Queensland and universities over the past five years.

Figure 2K
Capital replenishment ratio for 2014–2018



Note: DoE—Department of Education; DESBT—Department of Employment, Small Business and Training. For the departments, the years are financial years. For the universities, they are calendar years.

Source: Queensland Audit Office.



We found that most entities have an average ratio in line with the benchmark of one, indicating they are replacing existing assets at a rate consistent with the depreciation of existing assets.

Over time, we expect the move to a more flexible and technology-based course delivery model will decrease teaching space within buildings, with a subsequent reduction or reallocation of capital expenditure towards technology assets.

The three entities who had a ratio inconsistent with the average were:

- University of Queensland, whose average ratio of 0.8 was due to a conservative approach taken to capital expenditure in preparation for government reforms. An increase in its capital program was approved and commenced in 2018 to align with its strategic initiatives and plans
- University of Southern Queensland, whose average ratio of 1.9 was largely due to the acquisition of the Ipswich campus in 2015, and construction of the Agricultural Science and Engineering Precinct for research, which opened in February 2019
- University of the Sunshine Coast, whose average ratio of 2.8 was due to the commissioning of new buildings in 2015 and has again increased due to the construction of its new Moreton Bay campus.

On average, the grammar schools have a capital replenishment ratio of one. This varies across schools due to the heritage nature of some buildings.

During 2018, the Department of Education's capital expenditure of \$610.7 million included the construction of four new state primary schools, refurbishment of existing schools, and land acquisition for new schools through the Building Future Schools Fund.

The budgeted capital program includes:

- new funding for the Renewing Our Schools program (\$235 million to upgrade 17 schools that are over 30 years old)
- the 2020 Ready infrastructure program (\$250 million for additional classrooms at over 60 high schools)
- the Building Future Schools Fund (\$808 million for the delivery of inner-city schools and new schools in high growth areas)
- solar and energy efficiency measures in state schools.

These investments are intended to improve the quality of facilities and environmental sustainability at schools.

Maintenance of assets

This year, in *Follow-up of maintenance of public schools* (Report 16: 2018–19), we found that the Department of Education has fully implemented four of the recommendations in *Maintenance of public schools* (Report 11: 2014–15), with one recommendation partially implemented.

Since our first report, the department has performed asset life cycle and condition assessments for each school, providing information on the condition of buildings and structures, when to maintain them, and how much it will cost. [At the time of the assessment, most school facilities \(98.25 per cent\) were at or above the expected standard.](#)

Based on the current assessments, the total expenditure required for planned maintenance over the next five years is estimated to be at least \$700 million. This exceeds the department's budget for planned maintenance by at least \$154 million. In addition, as at 30 June 2018, the department's estimated maintenance backlog was \$146 million.



In the coming years, the department's maintenance budget will need to focus on preventative maintenance, to avoid an increase in the backlog of school maintenance tasks. The department has set a target for schools to use 50 per cent of their maintenance funding on planned maintenance.

To achieve this, we recommended that the department support schools in developing three-year maintenance plans for all school buildings with replacement values of greater than \$100 000.

The Department of Employment, Small Business and Training has a plan to revitalise the state's training portfolio, including redeveloping and refurbishing TAFE facilities as part of the Advancing Our Training Infrastructure initiative.

Action for
education entities

Entities should have multi-year maintenance plans that consider the current condition of assets and extent of deferred maintenance, with a continuing focus on planned maintenance.



Appendices

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A. Full responses from agencies

As mandated in Section 64 of the *Auditor-General Act 2009*, the Queensland Audit Office gave a copy of this report with a request for comments to the Director-General, Department of Education and the Director-General, Department of Employment, Small Business and Training. We also provided a copy of the report to the following entities and gave them the option of providing a response:

- TAFE Queensland
- Central Queensland University
- Griffith University
- James Cook University
- Queensland University of Technology
- University of Queensland
- University of Southern Queensland
- University of the Sunshine Coast
- Board of Trustees of the Brisbane Girls Grammar School
- Board of Trustees of the Brisbane Grammar School
- Board of Trustees of the Ipswich Girls' Grammar School
- Board of Trustees of the Ipswich Grammar School
- Board of Trustees of the Rockhampton Girls Grammar School
- Board of Trustees of the Rockhampton Grammar School
- Board of Trustees of the Toowoomba Grammar School
- Board of Trustees of the Townsville Grammar School.

We provided a copy of this report to the Premier; the Minister for Education; and the Director-General, Department of the Premier and Cabinet for their information.

We have considered all views provided to us in reaching our conclusions, and these are represented to the extent relevant and warranted in preparing this report.

The heads of these agencies are responsible for the accuracy, fairness, and balance of their comments.

This appendix contains their responses.



Comments received from Director-General, Department of Education



Office of the
Director-General
Department of
Education

8 MAY 2019

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
Email: gao@gao.qld.gov.au

Dear Mr Worrall *Brendan*

Thank you for the opportunity to review and comment on the *Education: 2017–18 results of financial audits report*.

I acknowledge the report's conclusions that the Department of Education is financially sustainable with effective internal controls and that all elements of the 2017–18 financial statement preparation received a green traffic light rating. I further acknowledge the statement regarding challenges that the sector faces with respect to Australian Government grants.

Following a review of the report, I accept its findings and recommendations.

If you require further information or assistance, please contact Mr Duncan Anson, Assistant Director-General and Chief Finance Officer, on _____ or by email at _____

Yours sincerely

A handwritten signature in black ink that reads "Tony Cook".

TONY COOK
Director-General

Ref: 19/220900

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Comments received from Director-General, Department of Employment, Small Business and Training



Department of
Employment,
Small Business
and Training

Our Ref: 19/241236

13 May 2019

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
Email: QAO.Mail@gao.qld.gov.au


Dear Mr Worrall

I refer to an email dated 16 April 2019 from Ms Daniele Bird, Acting Auditor-General regarding the Queensland Audit Office (QAO) report to parliament — *Education: 2017–18 results of financial audits* (the Report).

In relation to the Department of Employment, Small Business and Training (DESBT) financial results, DESBT acknowledges the content of the Report and has no further comments.

I note your concerns regarding TAFE Queensland's financial sustainability and the need for ongoing support from the Queensland Government. I note that TAFE Queensland has indicated that changes to the Australian Government's VET FEE-HELP arrangements at the beginning of 2017 resulted in a significant reduction in student demand for places which in turn has impacted negatively on its revenue.

The Queensland Government recognises the important role played by public providers, including TAFE Queensland, in meeting the skills needs of industry and the employment aspirations of Queenslanders.

Within a contestable training market, the Queensland Government looks to the public providers to operate in inefficient parts of the system including in rural and remote areas, to provide the first response to emerging priorities, and to smoothly transition students displaced by the unexpected closure of training providers.

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The responsiveness of public providers to these requirements is fundamental to the operation of a strong, efficient and sustainable vocational education and training (VET) sector. As well as being concerned with the efficiency of the training market, the Queensland Government also strives to improve the quality of training provision and to ensure equitable access for those who might otherwise be denied the opportunity to improve their economic circumstances through skills development.

The higher costs of delivery by public providers raised in the report is acknowledged and is driven by factors such as those mentioned above. TAFE Queensland (as well as the other public providers) has received a form of base grant (currently the State Contribution Grant) since the introduction of contestability to mitigate these costs and enable it to participate in the training market and in the manner determined by government.

Funding strategies that recognise the value of maintaining a strong public provider model are essential in managing an effective and efficient training market that is able to optimise the economic and social benefits to Queensland from investment in training and skills development.

TAFE Queensland continues to play an important function in the Queensland training system, particularly in technical and trades training. TAFE Queensland is expected to set a high-quality standard for training delivery and to serve communities across Queensland, which is a significant challenge in such a highly dispersed state. TAFE Queensland also supports the delivery of Queensland Government priorities, such as the Regional Skills Adjustment Strategy.

The Queensland Government is committed to a sustainable public provider model, including TAFE Queensland as the largest training provider. DESBT will continue to work closely with TAFE Queensland to ensure the organisation's long-term sustainability.

We appreciate the opportunity to provide comment on the report. Should you require any further information, please contact Mr Brad Lang, Head of Corporate, Corporate Services, Department of Employment, Small Business and Training by email at brad.lang@desbt.qld.gov.au or on telephone

Yours sincerely



Mary-Anne Curtis
Director-General



Comments received from Chief Executive Officer, TAFE Queensland



9 May 2019

Mr Brendan Worrall
Auditor-General
Queensland Audit Office
Email: QAO.Mail@gao.qld.gov.au

Dear Mr Worrall

I refer to the email dated 16 April 2019 from Ms Danielle Bird, Acting Auditor-General regarding the Queensland Audit Office (QAO) report to parliament - *Education: 2017–18 results of financial audits* (the Report).

TAFE Queensland acknowledges the content of the Report and in particular the comments made on TAFE Queensland's financial results. TAFE Queensland is the State's largest public provider and will continue to focus on its strategic objectives ensuring that it delivers high quality VET training with strong student outcomes that support industry and employer skill needs and the prosperity of Queensland communities.

TAFE Queensland's highly dispersed training footprint includes servicing rural and remote areas of the state, thin training markets, ensuring equitable access to all students and providing support and pastoral care to displaced students transitioning from private training provider closures. The responsiveness and high quality of TAFE Queensland's education and training provision is fundamental to the successful operation of vocational education and training (VET) sector in Queensland, however it must be acknowledged this comes at a cost.

TAFE Queensland continues to work collaboratively with the Department of Employment, Small Business and Training (DESBT) on its ongoing and future support to ensure TAFE Queensland remains an integral part of a successful and stable vocational and educational training market that is aligned to the Queensland Government's priorities.

We appreciate the opportunity to provide comment on the report. Should you require any further information, please do not hesitate to contact Ms Sue Davis, Chief Financial and Operations Officer by email at sue.davis@tafeqld.edu.au or on telephone 07 3207 1111.

Yours sincerely

A handwritten signature in black ink that reads "Mary Campbell".

Mary Campbell
Chief Executive Officer
TAFE Queensland

Ref: TQ19/19497

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ABN 72 898 805 093

B. Legislative context

Frameworks

Education entities prepare their financial statements in accordance with the following legislative frameworks and reporting deadlines.

Figure B1
Legislative frameworks for the education sector

Entity type	Entity	Legislative framework	Legislated deadline
Departments	Department of Education Department of Employment, Small Business and Training	<ul style="list-style-type: none"> • <i>Financial Accountability Act 2009</i> • Financial and Performance Management Standard 2009 	31 August 2018
Statutory bodies	Seven universities Eight grammar schools Queensland College of Teachers	<ul style="list-style-type: none"> • <i>Financial Accountability Act 2009</i> • Financial and Performance Management Standard 2009 • <i>Statutory Bodies Financial Arrangements Act 1982</i> • <i>Australian Charities and Not-for-profits Commission Act 2012</i> • Australian Charities and Not-for-profits Commission Regulation 2013 • <i>Higher Education Support Act 2003</i> 	28 February 2019
Statutory bodies— other	TAFE Queensland Queensland Curriculum and Assessment Authority Non-State Schools Accreditation Board	<ul style="list-style-type: none"> • <i>Financial Accountability Act 2009</i> • Financial and Performance Management Standard 2009 • <i>Statutory Bodies Financial Arrangements Act 1982</i> 	31 August 2018
Controlled and jointly-controlled entities	11 entities controlled by universities Two jointly-controlled entities	<ul style="list-style-type: none"> • <i>Corporations Act 2001</i> • Corporations Regulation 2001 	30 April 2019
Trust	Translational Research Institute Trust	<ul style="list-style-type: none"> • Trust deed 	31 March 2019

Source: Queensland Audit Office.



Accountability requirements

The *Financial Accountability Act 2009* applicable to the education sector entities requires these entities to:

- achieve reasonable value for money by ensuring the operations of the statutory body are carried out efficiently, effectively, and economically
- establish and maintain appropriate systems of internal control and risk management
- establish and keep funds and accounts that comply with the relevant legislation, including Australian accounting standards.

Queensland state government financial statements

Each year, Queensland state public sector entities must table their audited financial statements in parliament.

These financial statements are used by a broad range of parties including parliamentarians, taxpayers, employees, and users of government services. For these statements to be useful, the information reported must be relevant and accurate.

The Auditor-General's audit opinion on these entities' financial statements assures users that the statements are accurate and in accordance with relevant legislative requirements.

We express an *unmodified opinion* when the financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards. We *modify* our audit opinion when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and are not accurate and reliable.

Sometimes we include an *emphasis of matter* in our audit reports to highlight an issue that will help users better understand the financial statements. It does not change the audit opinion.

University and grammar school entities

In Queensland, universities provide tertiary education, including undergraduate and postgraduate studies. Universities and their subsidiaries carry out research and other activities in line with university objectives.

Most grammar schools provide schooling from years seven to twelve, but some start at Prep.

University funding and regulation

Universities obtain funding mainly through government grants and student fees. Grants are based on student enrolments and the amount of research undertaken at each university. In Queensland, 86.1 per cent (2017: 85.8 per cent) of university funding comes from federal and state government grants and student fees and charges. Federal funding is mainly recurrent, with state government grants generally non-recurrent in nature.

The federal budget details how much funding is provided to universities for each field of education.



Grammar school funding and regulation

Grammar schools obtain funding through Australian and Queensland government grants and tuition and boarding fees. In Queensland, 89.6 per cent (2017: 90.3 per cent) of grammar school funding comes from these sources.

The grammar schools are statutory bodies formed under the *Grammar Schools' Act 1975*. They operate as independent schools in Queensland.

Departments

Department of Education

The Department of Education is a Queensland Government department established under the Public Service Act 2008. It provides direction and oversight to the education sector in Queensland and delivers services for early childhood and education.

Until recently, the department also delivered training services; however, following machinery of government changes in December 2017, the responsibility for this portfolio was transferred to the newly established Department of Employment, Small Business and Training.

Department of Employment, Small Business and Training

The Department of Employment, Small Business and Training is a Queensland Government department, established on 1 January 2018 following machinery of government changes in December 2017, with the following incoming functions:

Function	Former department
Employment policies and programs	Queensland Treasury
Small business	Department of Tourism, Major Events, Small Business and the Commonwealth Games
Vocational Education and Training; Skills and Workforce	Department of Education and Training

The department's objective is to increase economic participation by providing trusted advice and support that enables sustainable small business opportunities and a skilled workforce now and into the future.

Department funding and regulation

The departments receive appropriation revenue that includes funding from both the Australian and Queensland governments. The departments share this funding across their respective service areas of early childhood education and care and school education (Department of Education), and training and skills (Department of Employment, Small Business and Training).

In Queensland, 93.4 per cent (2016–17: 93.8 per cent) of Department of Education funding, and 97.3 per cent of Department of Employment, Small Business and Training funding came from appropriation revenue.

Other education entities

TAFE Queensland

TAFE Queensland is the state's largest provider of practical, industry-relevant training. It was established as a statutory body under the *TAFE Queensland Act 2013* on 1 July 2013. It is a not-for-profit entity governed by an independent board.

Its income is largely attributable to grants and contributions. In recognition of TAFE Queensland's cost disadvantage in the market, the Queensland Government provides a state contribution grant, which funds part of the difference in costs between public and private training providers.

Queensland Curriculum and Assessment Authority

The Queensland Curriculum and Assessment Authority is a statutory body that was established on 1 July 2014, replacing the Queensland Studies Authority. It provides the syllabuses for all schooling from kindergarten to Year 12. It also provides guidelines, assessment, reporting, testing, and certification services for Queensland schools. It revises syllabuses and guidelines and offers services and resources to help teachers implement them.

Most of its income relates to administered grant funding from the Queensland Government.

Queensland College of Teachers

The Queensland College of Teachers is responsible for registering teachers for Queensland schools, and for providing accreditation for preservice teacher education programs. It is a statutory body that ensures teachers meet Australian education standards and act ethically.

The biggest contributors to the college's income are its teacher registration and application fees.

Non-State Schools Accreditation Board

The Non-State Schools Accreditation Board works with non-state school governing bodies in the areas of accreditation and funding eligibility. The board is a statutory body established under the *Education (Accreditation of Non-State Schools) Act 2001*.

While the board receives grant funding, most of its income is from contributed services. These are corporate services that the Department of Education provides, which it recognises at fair value.



C. Entities preparing financial reports

The following table details the types of audit opinions issued in accordance with Australian auditing standards for the 2018 year.

Entity type	Entity	Date audit opinion issued	Type of audit opinion issued
Departments	Department of Education*	27.08.2018	Unmodified
	Department of Employment, Small Business and Training*	31.08.2018	Unmodified
Universities and their controlled entities (whose finances and operations are controlled by one of the education entities)	Central Queensland University	21.02.2019	Unmodified
	• C Management Services Pty Ltd	19.02.2019	Unmodified
	• CQU Travel Centre Pty Ltd	19.02.2019	Unmodified
	Griffith University	28.02.2019	Unmodified
	• International WaterCentre Pty Ltd	15.04.2019	Unmodified—EOM
	James Cook University	28.02.2019	Unmodified
	Queensland University of Technology	26.02.2019	Unmodified
	• Creative Industries Precinct Pty Ltd	19.02.2019	Unmodified—EOM
	• QUT Enterprise Holdings Trust	19.02.2019	Unmodified—EOM
	• qutbluebox Pty Ltd	14.02.2019	Unmodified—EOM
	• qutbluebox Trust	14.02.2019	Unmodified—EOM
	The University of Queensland	28.02.2019	Unmodified
	• University of Queensland Foundation Trust	26.02.2019	Unmodified—EOM
	• UQ Holdings Pty Ltd	26.02.2019	Unmodified
	• UQ Investment Trust	26.02.2019	Unmodified—EOM
	• UQH Finance Pty Ltd	26.02.2019	Unmodified—EOM
University of Southern Queensland	27.02.2019	Unmodified	
University of the Sunshine Coast	22.02.2019	Unmodified	
Grammar schools	Board of Trustees of the Brisbane Girls Grammar School	25.02.2019	Unmodified



Entity type	Entity	Date audit opinion issued	Type of audit opinion issued
	Board of Trustees of the Brisbane Grammar School	22.02.2019	Unmodified
	Board of Trustees of the Ipswich Girls' Grammar School	28.02.2019	Unmodified
	Board of Trustees of the Ipswich Grammar School	28.02.2019	Unmodified
	Board of Trustees of the Rockhampton Girls Grammar School	26.02.2019	Unmodified
	Board of Trustees of the Rockhampton Grammar School	28.02.2019	Unmodified
	Board of Trustees of the Toowoomba Grammar School	28.02.2019	Unmodified
	Board of Trustees of the Townsville Grammar School	21.02.2019	Unmodified
Statutory bodies	TAFE Queensland*	30.08.2018	Unmodified
	Queensland College of Teachers	20.02.2019	Unmodified
	Queensland Curriculum and Assessment Authority*	29.08.2018	Unmodified
	Non-State Schools Accreditation Board*	07.08.2018	Unmodified
Jointly-controlled entities	Queensland College of Wine Tourism	17.04.2019	Unmodified—EOM
	Queensland Cyber Infrastructure Foundation Ltd	29.03.2019	Unmodified
Audited by arrangement	Translational Research Institute Trust	15.03.2019	Unmodified—EOM

Note: * Opinion also included in the *Queensland state government: 2017–18 results of financial audits* (Report 14: 2018–19).

EOM—emphasis of matter

Source: *Queensland Audit Office*.

The Auditor-General approved exemptions from audit for the following entities (under s. 30A *Auditor-General Act 2009*—small in size and low in risk).

Entity	Audit firm	Date audit opinion issued	Type of audit opinion issued
Controlled entities of James Cook University			
James Cook University Pte Ltd	Baker Tilly TFW LLP	18.02.2019	Unmodified
James Cook Holdings Pte Ltd	Baker Tilly TFW LLP	18.02.2019	Unmodified

Source: *Queensland Audit Office*.

D. Our assessment of financial statement preparation

In assessing the effectiveness of financial statement preparation processes we consider three components—the year end close process, the timeliness of financial statements, and the quality of financial statements.

We assess financial statement preparation processes under the following criteria.

Year end close process

State public sector entities should have a robust year end close process to enhance the quality and timeliness of their financial reporting processes. This year, we assessed processes for year end financial statement preparation against the following target dates.

Process	Target date (entities with 30 June 2018 balance date)	Target date (entities with 31 December 2018 balance date)
Completing non-current asset valuations	30.04.2018	30.11.2018
Preparing complete pro forma financial statements	30.04.2018	30.11.2018
Resolving known accounting issues	30.04.2018	31.10.2018
Completing early close processes and agreed procedures	As agreed	As agreed
Concluding all asset stocktakes	30.06.2018	31.12.2018

Note: non-current assets are long-term investments whose full value will not be realised within a year.

These targets were developed based on advice previously issued by the Queensland Under Treasurer in 2014 (re-confirmed in 2018) and on better practice identified in other jurisdictions.

Rating scale	Assessment criteria—year end close process
● Fully implemented	All key processes completed by the target date
● Partially implemented	Three key process completed within two weeks of the target date
● Not implemented	Less than two key processes completed within two weeks of the target date



Timeliness of draft financial statements

We assessed the timeliness of draft financial statements by considering whether entities prepared the statements according to the timetables set by management—including providing auditors with the first complete draft of the financial statements by the agreed date. A complete draft is one that management is ready to sign and where no material errors or adjustments are expected. (An error is material if it has the potential to influence the decisions made by users of the financial statements.)

Rating scale	Assessment criteria—timeliness of draft financial statements
● Timely	Acceptable draft financial statements received on or prior to the planned date
● Generally timely	Acceptable draft financial statements received within two days after the planned date
● Not timely	Acceptable draft financial statements received greater than two days after the planned date

Quality of draft financial statements

We assess the quality of financial statements in terms of adjustments made between the first draft of the financial statements and the final version we receive—including adjustments to current year, prior year, and other disclosures. It indicates how effective each entity’s review of the financial statements is at identifying and correcting errors.

Rating scale	Assessment criteria—quality of draft financial statements
● No adjustments	No adjustments were required
● No significant adjustments	Immaterial adjustments to financial statements
● Significant adjustments	Material adjustments to financial statement components



Results summary

The table summarises our assessment of the financial statement preparation processes for the two departments, TAFE Queensland and seven universities.

Entity	Financial statement preparation		
	Year end close process	Timeliness of draft financial statements	Quality of draft financial statements
Department of Education	●	●	●
Department of Employment, Small Business and Training	●	●	●
TAFE Queensland	●	●	●
Central Queensland University	●	●	●
Griffith University	●	●	●
James Cook University	●	●	●
Queensland University of Technology	●	●	●
University of Queensland	●	●	●
University of Southern Queensland	●	●	●
University of the Sunshine Coast	●	●	●

Note: The assessment of the timeliness and quality of draft financial statements for the Department of Education's and the Department of Employment, Small Business and Training's ratings are also reported in *Queensland state government: 2017–18 results of financial audits* (Report 14: 2018–19).

Source: Queensland Audit Office.



E. Entities not preparing financial reports

For each state public sector company, other than government owned corporations, the board of directors considers the requirements of the *Corporations Act 2001* to determine whether financial statements need to be prepared. The board must revisit the assessment every three years or whenever a significant change occurs.

When entities are part of a larger group and are secured by a guarantee with other entities in that group (that they will cover their debts), Australian Securities and Investments Commission Class Order 98/1418 allows them to not prepare a financial report. In addition, dormant or small companies that meet specific criteria under the *Corporations Act 2001* are not required to prepare financial statements.

Accordingly, the Auditor-General will not issue audit opinions for the following controlled public sector entities for 2018, as they were not required to produce financial statements.

Public sector entity	Reason for not preparing financial statements
University	
Controlled entities of the University of Queensland	
Cyclagen Pty Ltd (de-registered 6 June 2018)	Non-reporting
Dendright Pty Ltd	Non-reporting
Global Change Institute Pty Ltd	Dormant
IMBcom Asset Management Company Pty Ltd	Non-reporting
IMBcom Asset Trust	Non-reporting
IMBcom Pty Ltd	Non-reporting
JK Africa Mining Solutions Pty Ltd (de-registered 27 November 2018)	Non-reporting
JKTech Pty Ltd	Non-reporting
Kalthera Pty Ltd (de-registered 6 June 2018)	Non-reporting
Leximancer Pty Ltd	Non-reporting
Neo-Rehab Pty Ltd	Non-reporting
SMI-ICE-Chile SpA (formerly JKTech South America Spa)	Non-reporting
Symbiosis Group Pty Ltd	Non-reporting



Public sector entity	Reason for not preparing financial statements
UniQuest Pty Limited	Non-reporting
UQ College Limited	Non-reporting
UQ Health Care Limited	Non-reporting
UQ Jakarta Office Pty Ltd	Non-reporting
UQ Sport Ltd	Non-reporting
UWAT Pty Ltd	Dormant
Warwick Operations Co Pty Ltd	Non-reporting
Controlled entities of James Cook University	
Discover Sport Limited	Dormant
JCU CPB Pty Ltd	Dormant
JCU Early Learnings Centres Pty Ltd	Non-reporting
JCU Enterprises Pty Ltd	Non-reporting
JCU Health Pty Ltd	Non-reporting
JCU Univet Pty Ltd	Non-reporting
JCU College Pty Ltd	Non-reporting
North Queensland Commercialisation Company Pty Ltd	Dormant
Tropical Queensland Centre for Oral Health Pty Ltd	Non-reporting
The JCU Asset Trust	Non-reporting
The CPB Trust	Non-reporting
Controlled entities of the Queensland University of Technology	
Brisbane Business School Pty Ltd	Dormant
QUT Enterprise Holdings Pty Ltd	Non-reporting
Controlled entities of the University of Southern Queensland	
University of Southern QLD (South Africa) (Pty) Ltd	Dormant
Controlled entities of the Central Queensland University	
Australian International Campuses Pty Ltd	Non-reporting



Public sector entity	Reason for not preparing financial statements
Australian International Campuses Trust	Non-reporting
Data Muster Pty Ltd	Non-reporting
Health Train Education Services Pty Ltd (de-registered 2 May 2018)	Non-reporting
Mask-Ed International Pty Ltd	Dormant
Controlled entities of Griffith University	
Griffith Innovation Centre Limited (formerly Gold Coast Innovation Centre Limited)	Dormant
Controlled entities of the University of the Sunshine Coast	
USC Capital and Commercial Pty Ltd	Non-reporting
Innovation Centre Sunshine Coast Pty Ltd	Non-reporting
Thompson Institute Pty Ltd	Non-reporting

Source: Queensland Audit Office.



F. Financial results

Universities—for the year ending 31 December 2018								
Amounts in \$'000								
University	Total assets	Total liabilities	Total income	Total expenses (excl tax)	Operating result before tax	Borrowings		
						Finance costs	New borrowings	Repayment of borrowings
CQU	784 924	132 470	438 595	438 331	275	62	-	-
GU	2 409 887	267 955	971 140	933 484	37 656	3 526	-	14 348
JCU	1 363 829	223 592	557 756	540 302	17 454	4 650	630	9 183
QUT	1 997 555	334 142	1 059 606	1 032 321	27 285	5 749	58 800	4 765
UQ	3 864 148	593 387	2 011 467	1 934 955	76 472	12 000	45 684	9 761
USQ	688 472	77 506	328 505	318 157	10 348	499	-	2 149
USC	540 137	67 205	303 200	287 718	15 482	423	7 000	1 900
Total	11 648 952	1 696 257	5 670 269	5 485 268	184 972	26 909	112 114	42 106

Universities—for the year ending 31 December 2017								
Amounts in \$'000								
University	Total assets	Total liabilities	Total income	Total expenses (excl tax)	Operating result before tax	Borrowings		
						Finance costs	New borrowings	Repayment of borrowings
CQU	786 965	126 711	421 326	404 544	16 776	90	-	3 000
GU	2 316 714	274 342	957 259	881 602	75 657	4 353	-	17 056
JCU	1 337 375	230 452	513 285	517 414	-4 129	3 829	40 000	7 236
QUT	1 922 997	284 680	1 069 222	970 423	98 799	4 291	-	3 179
UQ	3 627 908	498 682	1 864 893	1 817 237	47 656	11 763	8 835	9 248
USQ	657 881	80 566	320 551	321 145	-594	811	1 835	1 878
USC	483 341	51 279	274 279	255 807	18 472	483	-	1 835
Total	11 133 181	1 546 712	5 420 815	5 168 172	252 637	25 620	50 670	43 432

Note: Central Queensland University (CQU), Griffith University (GU), James Cook University (JCU), Queensland University of Technology (QUT), University of Queensland (UQ), University of Southern Queensland (USQ), University of the Sunshine Coast (USC).

Source: Queensland Audit Office.

Grammar schools—for the year ending 31 December 2018								
Amounts in \$'000								
Grammar school	Total assets	Total liabilities	Total income	Total expenses (excl tax)	Operating result before tax	Borrowings		
						Finance costs	New borrowings	Repayment of borrowings
BGGS	126 552	25 471	45 494	43 049	2 445	1 047	-	2 827
BGS	167 953	14 682	60 898	54 724	6 174	83	-	1 744
IGGS	67 531	20 961	24 616	23 862	754	1 172	-	1 327
IGS	62 531	3 626	25 758	25 562	196	13	-	190
RGGS	31 411	3 858	8 340	8 359	-18	179	-	306
RGS	85 108	19 783	39 887	37 918	1 969	903	-	1 094
TWGS	120 557	17 840	36 244	34 253	1 990	700	-	1 088
TVGS	75 683	19 068	29 577	28 619	958	963	-	1 473
Total	737 326	125 289	270 814	256 346	14 468	5 060	-	10 049

Grammar schools—for the year ending 31 December 2017								
Amounts in \$'000								
Grammar school	Total assets	Total liabilities	Total income	Total expenses (excl tax)	Operating result before tax	Borrowings		
						Finance costs	New borrowings	Repayment of borrowings
BGGS	125 204	27 122	43 618	41 469	2 148	1 209	-	2 661
BGS	161 153	14 573	58 069	50 192	7 877	265	-	3 144
IGGS	68 062	22 247	24 324	23 305	1 019	1 220	-	-
IGS	63 957	3 477	23 933	23 854	79	31	-	310
RGGS	31 587	4 258	8 633	8 602	31	193	-	290
RGS	84 178	20 822	38 781	37 207	1 574	978	-	1 085
TWGS	121 128	18 894	36 836	32 282	4 554	702	4 000	945
TVGS	75 892	20 298	29 950	28 722	1 228	1 058	-	1 384
Total	731 161	131 691	264 144	245 633	18 510	5 656	4 000	9 819

Note: Brisbane Girls Grammar School (BGGS), Brisbane Grammar School (BGS), Ipswich Girls' Grammar School (IGGS), Ipswich Grammar School (IGS), Rockhampton Girls Grammar School (RGGS), Rockhampton Grammar School (RGS), Toowoomba Grammar School (TWGS), Townsville Grammar School (TVGS).

Source: Queensland Audit Office

Departments and TAFE Queensland—for the year ending 30 June 2018								
Amounts in \$'000								
Entity	Total assets	Total liabilities	Total income	Total expenses (excl tax)	Operating result before tax	Borrowings		
						Finance costs	New borrowings	Repayment of borrowings
DoE	19 600 361	901 837	9 412 074	9 355 315	56 759	42 137	20 976	10 641
DESBT	1 736 987	373 577	578 533	577 500	1 033	11 522	-	1 120
TAFE	400 330	97 301	627 613	626 195	1 418	69	-	287
Total	21 737 678	1 372 715	10 618 220	10 559 010	59 210	53 728	20 976	12 048

Departments and TAFE Queensland—for the year ending 30 June 2017								
Amounts in \$'000								
Entity	Total assets	Total liabilities	Total income	Total expenses (excl tax)	Operating result before tax	Borrowings		
						Finance costs	New borrowings	Repayment of borrowings
DoE	20 338 601	1 206 409	9 355 537	9 326 720	28 817	51 127	41 060	10 851
TAFE	396 003	105 796	687 161	667 201	19 960	-	-	-
Total	20 734 604	1 312 205	10 042 698	9 993 921	48 777	51 127	41 060	10 851

Note: Department of Education (DoE), Department of Employment, Small Business and Training (DESBT), TAFE Queensland (TAFE).

Source: Queensland Audit Office.



G. Glossary

Term	Definition
Accountability	The responsibility of public sector entities to achieve their objectives of delivering reliable financial reporting, effective and efficient operations, compliance with applicable laws, and reports to interested parties.
Accrual basis of accounting	The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
<i>Auditor-General Act 2009</i>	An act of the State of Queensland that establishes the responsibilities of the Auditor-General, the operation of the Queensland Audit Office, the nature and scope of audits to be conducted, and the relationship of the Auditor-General with parliament.
Australian accounting standards	The rules by which financial statements are prepared in Australia. These standards ensure consistency in measuring and reporting on similar transactions.
Australian Accounting Standards Board (AASB)	An Australian Government agency that develops and maintains accounting standards applicable to entities in the private and public sectors of the Australian economy.
Capital expenditure	Expenditure to acquire assets or improve the service potential of existing assets that are capitalised to the balance sheet (which means that the cost of the assets can be allocated over the years for which the asset will be in use).
Controlled entities	The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.
Deficiency	When internal controls are ineffective or missing, and are unable to prevent, or detect and correct, misstatements in the financial statements. A deficiency may also result in non-compliance with policies and applicable laws and regulations and/or inappropriate use of public resources.
Depreciation	The systematic allocation of a fixed asset's value as an expense over its expected useful life, to take account of normal usage, obsolescence, or the passage of time.
Emphasis of matter	A paragraph included with an audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.



Term	Definition
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction.
Going concern	An entity that is a going concern is expected to be able to pay its debts as and when they fall due, and to continue to operate without any intention or necessity to liquidate or wind up its operations.
Impairment	When an asset's carrying amount exceeds the amount that can be recovered through use or sale of the asset.
Misstatement	A difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
Modified audit opinion	A modified opinion is expressed when financial statements do not comply with the relevant legislative requirements and Australian accounting standards and, as a result, are not accurate and reliable.
Net assets	Total assets less total liabilities.
Net debt	Total borrowings less cash.
Non-current asset	Non-current assets are an entity's long-term investments, where the full value will not be realised within the year. These assets are capitalised rather than expensed, meaning that the cost of the asset can be allocated over the number of years for which the asset will be in use, instead of allocating the entire cost to the year in which the asset was purchased.
Public-private partnership	Cooperative agreements generally entered into with private sector entities for the delivery of government services.
Qualified audit opinion	An opinion issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion. These exceptions could be the effect of a disagreement with those charged with governance, a conflict between applicable financial reporting frameworks, or a limitation on scope that is considered material to an element of the financial report.
Significant deficiency	A deficiency, or combination of deficiencies, in an internal control, that requires immediate remedial action.
Unmodified audit opinion	An unmodified opinion is expressed when financial statements are prepared in accordance with the relevant legislative requirements and Australian accounting standards.
Useful life	The number of years an entity expects to use an asset (not the maximum period possible for the asset to exist).



Auditor-General reports to parliament

Reports tabled in 2018–19

1. **Monitoring and managing ICT projects**
Tabled July 2018
2. **Access to the National Disability Insurance Scheme for people with impaired decision-making capacity**
Tabled September 2018
3. **Delivering shared corporate services in Queensland**
Tabled September 2018
4. **Managing transfers in pharmacy ownership**
Tabled September 2018
5. **Follow-up of Bushfire prevention and preparedness**
Tabled October 2018
6. **Delivering coronial services**
Tabled October 2018
7. **Conserving threatened species**
Tabled November 2018
8. **Water: 2017–18 results of financial audits**
Tabled November 2018
9. **Energy: 2017–18 results of financial audits**
Tabled November 2018
10. **Digitising public hospitals**
Tabled December 2018
11. **Transport: 2017–18 results of financial audits**
Tabled December 2018
12. **Market-led proposals**
Tabled December 2018
13. **Health: 2017–18 results of financial audits**
Tabled February 2019
14. **Queensland state government: 2017–18 results of financial audits**
Tabled February 2019
15. **Follow-up of Oversight of recurrent grants to non-state schools**
Tabled March 2019
16. **Follow-up of Maintenance of public schools**
Tabled April 2019
17. **Managing consumer food safety in Queensland**
Tabled May 2019
18. **Local government: 2017–18 results of financial audits**
Tabled May 2019
19. **Education: 2017–18 results of financial audits**
Tabled May 2019



Report cost

This report cost \$112 000 to produce.

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ISSN 1834-1128.



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