VET FEE-HELP Financial Viability Requirements

Financial Viability Instructions

for

APPROVED VET PROVIDERS

1 January 2012

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For a definition of terms used throughout this document which are marked with an asterisk (*) refer to 'Terminology used in these instructions' at Appendix 1

1. Purpose of these instructions

1.1. The Minister must be satisfied that approved *VET providers remain financially viable as specified under clause 14 of Schedule 1A to the *Higher Education Support Act* (HESA).

1.2. These Financial Viability Instructions (FVI) are for the use of approved VET providers when they are preparing their annual audited financial statements in order to meet the requirements set out under clause 15 of Schedule 1A to HESA. (If you are an applicant wishing to be approved as a VET provider, you should refer to the publication: *Financial Viability Instructions for Applicants.)*

1.3. These FVI inform VET providers of the documentation requirements and the manner in which financial viability is monitored.

1.4. As well as the approved VET provider, these FVI are intended for use by:

- the accountant of a VET provider who *prepares* the financial statements and
- the independent *qualified auditor who *audits* the VET provider's financial statements.

2. Legal 'form' of financial information

2.1. These FVI replace the former *Financial Viability Instructions for Approved VET Providers*, which were revoked on 31 December 2011.

2.2. These FVI specify the 'form' for financial statements approved by the Minister, for the purposes of sub-clause 15(1) of Schedule 1A to HESA.

3. VET FEE-HELP background

3.1. The Australian Government provides eligible students seeking to participate in vocational education and training (VET) courses at the diploma or above levels access to income contingent loans (known as *VET FEE-HELP assistance) in accordance with the requirements set out in Schedule 1A to HESA.

3.2. These loans are offered under the VET FEE-HELP assistance scheme administered by the Australian Government Department of Industry, Innovation, Science, Research and Tertiary Education (the department) to assist eligible students to meet the cost of *tuition fees levied by *registered training organisations (RTOs) eg. TAFEs and VET private providers.

4. Financial information requirements

4.1. Approved VET providers must be financially viable and likely to remain so.

4.2. Approved VET providers must provide financial information, on an annual basis, for the department to be able to assess financial viability. These statements are required to be submitted to the department within six months of the end of the annual reporting period (sub-clause 15(2)(c) of Schedule 1A to HESA).

4.3. A VET provider must inform the Minister of any event that may significantly affect the provider’s capacity to continue to meet the VET quality and accountability requirements, including the financial viability requirements (clause 25 of Schedule 1A to HESA).

A private VET provider

4.4. An approved VET provider that is not a *government body will need to submit financial information which must include, but is not limited to:

(a) audited financial statements for the most recent completed *annual financial reporting period audited by an independent qualified auditor and prepared in accordance with ‘Financial statement requirements for approved VET providers’ at Appendix 2

- If a VET provider is required to provide half yearly or quarterly management reports, these reports are to be attested to by a Director that they present a true and fair view of the financial position of the VET provider and do not need to be audited

(b) a completed current version of the *VET FEE-HELP Financial Ratio Analysis Workbook* (the current version is available from the VET FEE-HELP website). This must include data for the most recent four annual financial reporting periods

(c) a completed *General Information and Legal Status* form accompanied by a signed statutory declaration (the forms are available on the VET FEE-HELP website)

(d) written confirmation that all undertakings, made by the VET provider continue to be met (including those made in a deed of undertaking). In cases where any of these undertakings have not been met, an explanation is required including any risk mitigation strategies the VET provider has in place to address any shortcomings

(e) a declaration by the accountant or auditor that the VET provider has, as at the date of the declaration, complied with all statutory obligations relating to the lodgement and payment of:

- Company tax
- Goods and services tax
- Income tax for employees
- Payroll tax
- Withholding tax
- Superannuation Guarantee for employees.

(f) a copy of the Certificate of Public Practice or Public Practice Certificate held by the person who conducted the audit of the financial statements

(g) the qualified auditor’s independence declaration (as required under Section 307C of the *Corporations Act 2001*)

(h) a business plan for the next three years, consistent with the applicant's financial reporting period, including but not limited to:

- history and profile of the organisation
- analysis of possible risks that may affect financial viability and related risk mitigation strategies
- detailed historical and projected student enrolments including:
  - projected vs actual student enrolments for the current and most recently completed financial reporting year
  - explanation of variances of 10 per cent or more between projected and actual student enrolments
  - projected enrolments for the next three years
  - explanation of underlying assumptions and details of determining factors affecting projected enrolments
- where international students comprise more than 50 per cent of its student population:
  - a country by country breakdown of current student numbers and the proportion of students enrolled in broad subject categories such as business, hospitality, finance etc
  - projections for international student numbers broken down by country and broad subject categories
- detailed budget forecasts including:
  - projected vs actual income and expenses for the current and most recently completed financial reporting year
  - projected income and expenses for the next three years, consistent with the provider's financial reporting period. The information should allow the department to fully understand all underlying assumptions and determining factors affecting all future revenue and expense estimates

(i) where the VET provider has entered into any payment plan(s) in relation to any of the statutory obligations referred to in clause 4.4(e), details of the payment plan(s) must be provided to the department

(j) where the VET provider has equity of less than $200,000, they are required to demonstrate they have risk mitigation strategies in place (see Part 6). Such strategies might include, but are not limited to:

- a capital injection to reach the equity threshold of $200,000; or
- the provision of a deed of guarantee for an amount which represents the difference between the VET provider's equity level and the $200,000 threshold (subject to evidence the guarantor has sufficient resources to cover the guarantee, refer to clause 4.4(n))

(k) where the independent qualified auditor has communicated to the VET provider either orally or in writing about significant matters, details of the communication must be provided to the department. These matters include, but are not limited to:

- matters that give rise to significant risk
- concerns the financial information audited could be materially mis-stated
- circumstances that cause the auditor significant difficulty in applying necessary audit procedures
- findings that could result in a modification to the auditor's report.

The VET provider will be required to address the matters raised and indicate how they impact on the ongoing financial viability of the business

(l) VET providers that have a deed of guarantee (and/or deed of cross guarantee) in place should submit a copy to the department (if not already provided)

(m) any *supplementary information (including risk mitigation strategies where necessary) that is relevant or that may assist the department to assess the ongoing financial viability of the VET provider

(n) where the VET provider has provided supplementary information in the form of a deed of guarantee, evidence the guarantor has sufficient resources to cover the guarantee must be provided. The evidence must include, but is not limited to:

- for guarantees provided by companies – most recent annual financial statements. In addition, if the statements are more than six months old, interim management reports including Standard Balance Sheet and Detailed Profit and Loss statement attested to by a Director of the guarantor company that they present a true and fair view of the guarantor's financial position

- for guarantees provided by individuals – Statement of Assets & Liabilities attested to by an Accountant that it presents a true and fair view of the guarantor's financial position.

A VET provider that is a government body

4.5. An approved VET provider that is a government body will need to submit financial information which must include, but is not limited to:

(a) audited financial statements for the most recent completed annual financial reporting period prepared in accordance with 'Financial statement requirements for approved VET providers' at Appendix 2

(b) a completed current *VET FEE-HELP Financial Ratio Analysis Workbook* (the current workbook is available from the VET FEE-HELP website). This must include data for the most recent four annual financial reporting periods

(c) a completed *General Information and Legal Status* form accompanied by a signed statutory declaration (the forms are available on the VET FEE-HELP website)

Other relevant information

4.6. Information about the financial position of the VET provider, including information concerning its current and future financial viability is treated as 'Commercial-In-Confidence'.

4.7. The VET provider is deemed to have submitted the financial viability information only when all of the documentation listed is complete and correct and presented in the *electronic formats specified, from time to time, in the FVI.

4.8. Approved VET providers that do not submit the required documentation listed by the required reporting dates, will be in breach of clause 15 of Schedule 1A to HESA.

5. Supplementary information

5.1. When making an assessment of ongoing financial viability the department considers the risk that a VET provider presents. The department may consider such matters as:

- failure to meet one or more of the financial ratios in the workbook
- any changes to organisational structure (related entities / acquisitions / mergers)
- any changes to student body profile (domestic / international)

5.2. When a VET provider is considered to present a level of risk greater than low to negligible, they are required to provide supplementary information (including risk mitigation strategies) as set out below.

Related entities

5.3. VET providers that have organisational ties with other entities are required to provide information about these relationships.

5.4. Where an approved VET provider is or becomes a wholly owned subsidiary of another organisation, it is a requirement that **audited** financial statements **of the VET provider** are provided on an annual basis to the department. The department also requires the audited financial statements of the parent body to be submitted.

Financial ratio thresholds

5.5. In cases where some or all of the financial ratio thresholds are not met (see 'Financial ratios calculated by the VET FEE-HELP Financial Ratio Analysis Workbook' at Appendix 4), a VET provider is required to provide supplementary information in the form of risk mitigation strategies (see Part 6 for examples of such strategies).

Student body profile

5.6. VET providers that have a narrow range of courses, rely heavily on the recruitment of international students or the recruitment of international students from a limited number of overseas markets may be considered to present a greater risk in terms of their ongoing financial viability. These VET providers will be required to provide risk mitigation strategies to address this increased level of risk.

6. Risk mitigation strategies

6.1. Evidence of effective risk mitigation strategies is often a very important part of the financial information provided VET providers.

6.2. When considering whether a VET provider, which appears to present a level of risk greater than low to negligible, meets the financial viability requirements under clause 14 of Schedule 1A to HESA, the Minister will take into account any risk mitigation strategies that the VET provider has in place to mitigate against this greater level of risk. Risk mitigation strategies may include, but are not limited to:

- the establishment of a deed of guarantee from an independent and un-related entity (i.e. a bank) or person (i.e. an investor) whose financial viability represents a low or negligible level of risk (subject to evidence the guarantor has sufficient resources to cover the guarantee, refer to clause 4.4(n))
- the establishment of a deed of guarantee from a related entity (e.g. other companies in the applicant's or VET provider's corporate group) or person (e.g. an existing shareholder or director) whose financial viability represents a low or negligible risk (subject to evidence the guarantor has sufficient resources to cover the guarantee, refer to clause 4.4(n))
- debt for equity swaps where a director's or other party's loan(s) to the applicant or VET provider are converted into equity
- a deed of guarantee that loans to the VET provider will not be recalled if such recall threatens the financial viability of the VET provider
- a cash injection from a third party to improve the current ratio
- lines of credit from banking institutions
- closer monitoring of financial performance against projections by submitting quarterly or six monthly financial statements.

6.3. Where a VET provider does not provide evidence of risk mitigation strategies as part of its annual submission, and on assessment, the department considers them necessary for the financial viability requirements to be met, the department will request such further information.

7. What does an approved VET provider have to do?

7.1. The first step in the process is for the VET provider to assemble the relevant financial information as specified in Part 4.

7.2. The second step is to determine whether the ratio thresholds (see 'Financial ratios calculated by the VET FEE-HELP Financial Ratio Analysis Workbook' at Appendix 4) have been met.

7.3. If there are circumstances that increase the level of financial risk (ie failure to meet the financial ratios), the VET provider will be required to provide supplementary information including risk mitigation strategies (see Part 5 and Part 6 for examples and further information).

7.4. A VET provider must submit its financial statements in accordance with sub-clause 15(1) of Schedule 1A to HESA, within six months after the end of its annual financial reporting period.

7.5. Complete the financial viability assessment check list for VET providers form located at 'Financial viability assessment check list for VET providers' at Appendix 3 to confirm all of the information required by the FVI has been assembled.

7.6. The final step after assembling all the financial information required by the FVI is to submit it by uploading it to the department's *VET FEE-HELP Information Technology System (VITS). An email confirming financial information has been uploaded into VITS is to be sent to TSEnquiries@deewr.gov.au, marked to the attention of the Financial Viability Team.

8. Assessing financial viability

8.1. The financial viability requirements set out in clause 14 of Schedule 1A to HESA must continue to be met by each approved VET provider.

8.2. If the Minister is satisfied that an approved VET provider presents no more than a low risk in terms of their financial viability, this will usually be considered sufficient for meeting the requirements under clause 14 of Schedule 1A to HESA.

8.3. In determining the level of risk, the department analyses the financial statements, the financial ratios in the workbook and any supplementary information including risk mitigation strategies (see Part 5 and Part 6) provided by the VET provider.

8.4. Where the risk is initially assessed by the department as being greater than low, the VET provider may be contacted and offered the opportunity to demonstrate how it will mitigate financial risk:

- for example, a VET provider may undertake to reduce financial exposure to certain events, reduce certain costs or obtain bank and/or third party guarantees.

9. Useful documents and links

Email/phone enquiries

9.1. Enquiries on VET FEE-HELP – TSEnquiries@deewr.gov.au

VET Provider enquiry line (including enquiries on VET provider IT application system): **13 3873**

Internet: www.deewr.gov.au/vetfeehelp

Useful links

9.2. **Legislation**

Higher Education Support Act 2003
http://www.comlaw.gov.au/Series/C2004A01234

Corporations Act 2001
http://www.comlaw.gov.au/Series/C2004A00818

9.3. ***Guidelines for VET FEE-HELP financial viability assessment***

VET FEE-HELP Financial Viability Instructions and VET FEE-HELP Financial Ratio Analysis Workbook

http://www.deewr.gov.au/Skills/Programs/Support/VetFeeHelp/RTOsandHEPs/Pages/RTOsandHEPs.aspx - Useful Publications page

9.4. ***VET FEE-HELP IT System (VITS)***

https://extranet.deewr.gov.au/VetFeeHelp/App/default.aspx

Appendix 1 - Terminology used in these instructions

'***Annual financial reporting period***' has the meaning given by subclause 15(3) of Schedule 1A of HESA.

'***Electronic Formats***' means the following approved file types – DOC, DOCX, XLSX or PDF smaller than 15MB.

'***General Purpose Financial Statements***' has the same meaning as in the *Glossary of Defined Terms* of the Australian Accounting Standards Board (AASB) and AASB 101.7 i.e. "*Financial statements that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs*".

'**Government body**' means, for the purposes of the VET FEE-HELP scheme, that the applicant or VET provider is an RTO which has been established as a statutory authority under State, Territory or Commonwealth law (eg. a TAFE) and/or is a wholly owned government business enterprise.

A '***qualified auditor***' includes:

the Auditor General of a State, of the Australian Capital Territory or of the Northern Territory or

- a person registered as a company auditor or a *public accountant under a law in force in a State, the Australian Capital Territory or the Northern Territory
- a member of the Institute of Chartered Accountants in Australia, or of the Australian Society of Certified Practising Accountants <u>or</u>
- a person approved by the Minister in writing as a qualified auditor for the purposes of the *Higher Education Support Act 2003* (HESA).

<u>Notes:</u> *For the purpose of HESA and these Financial Viability Instructions, a qualified auditor will be considered to be independent from the entity it is auditing if the qualified auditor meets the independence requirements specified in Part 2M.4, Division 3, of the Corporations Act 2001 and is independent of the entity which prepared the financial statements of the VET provider. The accountant who prepared the financial statements and the independent qualified auditor should normally not belong to the same firm or be related in any way. There may be some instances where larger accounting and audit practices can demonstrate separation and independence of the preparation of and the auditing of financial statements.*

'***Public accountant***' means the holder of a practising certificate recognised under Regulation 2M.4.01A to the *Corporations Law 2003* (Cwth) which states that "for paragraph 324BE(1)(b) of the Act, the following kinds of practising certificates are specified:

(a) the Certificate of Public Practice issued by The Institute of Chartered Accountants in Australia

(b) the Public Practice Certificate issued by CPA Australia Ltd or the National Institute of Accountants".

A '***Registered Training Organisation***' (RTO) is an organisation registered by the Australian Skills Quality Authority (ASQA) or the relevant state or territory government authorities to deliver vocational education and training (VET) qualifications.

A '***Reporting Entity***' is an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial report for information that will be useful to them for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

'***Supplementary Information***' means any documentation pertaining to the financial viability of an applicant, or of its guarantor(s) if any, that is submitted to the Department by an applicant or a VET provider beyond the financial information referred to in Parts 5 and 6 of these Financial Viability Instructions.

'Tuition Fees' means the fee an approved VET provider charges students for each unit of study. VET FEE-HELP can only be used to pay for tuition fees.

'***VET FEE-HELP***' is an income contingent loan scheme for the VET sector that is part of the Higher Education Loan Program (HELP). It assists eligible full fee-paying and subsidised students who are enrolled in certain VET courses of study with a VET provider to pay for all or part of their tuition fees. VET FEE-HELP is administered by the Department under HESA.

'***VET provider***' refers to an RTO that is a body corporate that is approved by the Minister under Schedule 1A of HESA to offer VET FEE-HELP assistance to eligible students.

'***VITS***' means the VET FEE-HELP Information Technology System of the department, which is used by applicants, VET providers and the department to send and receive necessary information in secure electronic form.

Appendix 2 - Financial statement requirements for approved VET providers

A VET provider is to provide audited financial statements for the most recent completed annual financial reporting period in the relevant form prescribed below:

- *general purpose financial statements prepared in accordance with all the current standards set by the Australian Accounting Standards Board must be provided by a VET provider which:
    - is a *reporting entity; or
    - a large proprietary company, if two of the following apply:
        - the consolidated revenue for the financial year of the company and the entities it controls (if any) is $25 million or more
        - the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is $12.5 million or more
        - the company and the entities it controls (if any) have 50 or more employees at the end of the financial year; or
    - has financial statements that are, or held out to be, general purpose financial statements
- special purpose financial statements prepared in accordance with the following current standards set by the Australian Accounting Standards Board must, at a minimum, be provided by small proprietary companies who are not reporting entities:
    - AASB 101
    - AASB 107
    - AASB 108
    - AASB 1031
    - AASB 1048
    - AASB 1053

Mandatory disclosures

Where an entity needs to prepare consolidated financial statements it must include separate statements for the VET provider. This requirement is necessitated by the HESA financial viability requirements that explicitly apply to the VET provider and not the consolidated entity.

It is mandatory for all VET providers to provide a 'Cashflow reconciliation' and 'Acquittal of Australian Government financial assistance' in the notes to the financial statements. VET providers adopting the Reduced Disclosure Requirements of AASB 1053 must elect (under AASB 101.Aus1.8 as amended on adoption of AASB 1053) to comply with AASB 107 Aus 20.1 and Aus20.2 (ie present a cashflow reconciliation).

An acquittal of Australian government VET FEE-HELP financial assistance must be provided in the notes to the financial statements irrespective of whether any amounts disclosed are immaterial or not. All VET FEE-HELP related items (revenue, cash flow, receivable, payable) must also be disclosed individually in either the relevant note or on the face of the relevant statement. Any adjustments made need to be accompanied by a detailed explanation of the adjustment. The items to be included in the acquittal are:

A	(Receivable) / payable carried forward
B	Adjustments
C = A + B	(Receivable) / payable at beginning of year
D	Financial assistance received in CASH
E	Revenue recognised
F = C + D – E	(Receivable) / payable at end of year

Appendix 3 - Annual financial information checklist for approved VET providers

Have you uploaded the following documents onto VITS?	**Tick**

Both private and government body VET providers required to complete points 1-4

1.	Audited financial statements in the relevant form prescribed in 'Appendix 2 – Financial statement requirements for approved VET providers' and in accordance with *Australian Accounting Standards Board: Standard 101* **:**	
	Statement of Comprehensive Income for the period (income statement or profit and loss) statement)	
	Statement of Financial Position as at the end of the period (balance sheet)	
	Statement of Cash Flows for the period	
	Statement of Changes in Equity for the period	
	Explanatory Notes, including a summary of significant accounting policies	
	Signed and dated declaration by the Director(s)	
	Signed and dated Auditor's report	
	Auditor's independence declaration	
2.	Current *VET FEE-HELP Financial Ratio Analysis Workbook – 1 January 2012*	
3.	Signed General Information and Legal Status Form	
4.	Signed and dated Statutory Declaration	

Private VET providers only required to complete points 5-12

5.	Written confirmation that all undertakings made in the *Deed of Undertaking* at the time of approval continue to be met	
6.	An explanation including evidence of risk mitigation strategies where an entity fails to meet any undertaking (if not applicable please enter N/A)	
7.	A declaration by the accountant or auditor that the VET provider has complied with all statutory obligations	
8.	A copy of the Certificate of Public Practice or Public Practice Certificate held by the person who conducted the audit of the financial statements	
9.	A business plan for the next three years	
10.	Evidence of risk mitigation strategy where an entity has equity of less than $200,000 (if not applicable please enter N/A)	
11.	Details of any communication between the VET provider and its independent qualified auditor about significant matters (if not applicable please enter N/A)	
12.	A copy of any Deed of Guarantee (and/or Deed of Cross Guarantee) in place (if not applicable please enter N/A)	

I confirm all documentation listed above has been submitted:

Name:		**Date:**	
Position:		**Phone:**	

Appendix 4 - Financial Ratios Calculated by the *VET FEE-HELP Financial Ratio Analysis Workbook*		**Threshold**
Current Ratio	Current Assets / Current Liabilities	>1
Net Tangible Assets Ratio	Tangible Assets / Total Liabilities	>1
Debt to Equity Ratio	Total Liabilities / Total Equity	0><1
Net Profit Ratio	Operating Profit after Tax / Total Revenue	>0
Return on Assets	Operating Profit after Tax/ Total Assets (where total assets equals the average of the opening and closing total asset levels in a financial year)	>0

Calculation of the above ratios and comparison with relevant thresholds is to be carried out using the *VET FEE-HELP Financial Ratio Analysis Workbook,* available on the VET FEE-HELP website

Appendix 5 - Indicators of Risk

Item No.	Assessment Item	Considerations
1	Organisation history	*Life and stability of RTO* An RTO that has been operating for more than two years could be considered a lower risk. An RTO that has had a recent change to core business lines may represent increased risk. An RTO that has had high turnover of Directors and/or senior management could be considered a higher risk. *Past success of RTO* An RTO that has successfully delivered other government funded programs could be considered a lower risk. *Industry experience of RTO* An RTO that is new to the industry could be considered a higher risk. An RTO that is considered to be a market leader and with a strong reputation could be a lower risk.
2	Organisation legal and capital structure	*Ownership and control of RTO* In assessing risk, the appropriateness of the corporate structure to the nature of the business should be considered. An RTO with a simple corporate structure could be considered a lower risk. An RTO that does not have clear ownership could be considered a higher risk. *Loans to RTO* An RTO that has a low level of borrowings could be considered a lower risk. An RTO that has a high level of loan repayments could be considered a higher risk. *Legal agreements with RTO* An RTO which has agreements that may constrain its operations could be considered a higher risk.
3	Organisation financial and other commitments	*Financing commitments* An RTO that has a low level of capital commitments could be considered a lower risk. An RTO that already has significant non-cancellable commitments could be considered a higher risk. *Insurance cover* An RTO that has adequate insurance to cover professional indemnity, public liability etc could be considered a lower risk. An RTO that does not have insurance to cover the value of the anticipated level of VET FEE-HELP payments, as a minimum, could be considered a higher risk. *Contingent liabilities* An RTO that is currently involved in significant litigation could be considered a higher risk.

4	Organisation financial viability (Financial Ratio Analysis)	Comparing the financial performance indicators of an RTO with those of another can provide significant insight into an RTO's performance. In addition, financial period to period comparisons between the financial performance indicators of an RTO can indicate fluctuations in performance. It is important to exercise care in the interpretation of performance indicators as fluctuations could arise from variations in the underlying assumptions or changes in the environment that an RTO operates within. Financial ratio analysis using the *VET FEE-HELP Financial Ratio Analysis Workbook* *<u>Net Equity</u>* An RTO that has high levels of net equity, working capital, reserves and revenue could be considered a lower risk. An RTO that does not provide independently audited financial statements could be considered a higher risk. An RTO that cannot provide financial statements for the previous four years could be considered a higher risk. An RTO that has received audit qualifications in the past, depending on the nature of the qualifications, could be considered a higher risk. *<u>Debt levels</u>* An RTO that has low debt levels could be considered a lower risk. An RTO that has a poor credit rating could be considered a higher risk. An RTO that has high debt levels could be considered a higher risk. *<u>Operation levels</u>* In considering the level of risk, *revenue streams* should be considered in conjunction with the nature of the business and its history and structure. An organisation that has multiple sources of revenue could be considered a lower risk. RTOs that rely on one project, customer or operation (*eg. the VET FEE-HELP scheme*) could be considered a higher risk. *<u>Profit levels</u>* In considering the level of risk, consideration should be given to the relationship between sales volume and margin to ensure sound business planning is evident. An RTO that has a high profit to net sales could be considered a lower risk. An RTO that has high operating expenses to sales could be considered a higher risk. *<u>Return on Assets (RoA)</u>* In considering the level of risk, consideration should be given to the relationship between the ability of the company to generate profit from its assets. This indicator demonstrates how efficient management of the RTO is at using its assets to generate earnings. This indicator may not be relevant for a company that is established as a not-for-profit. An RTO that has a high RoA (i.e. higher than .1) could be considered a lower risk. An RTO that has a low RoA (i.e. closer to 0) could be considered a higher risk.

5	Financial Benchmarking	*Internal* An RTO that has negative trends when comparing current financial information with prior periods may indicate a higher risk. *External* An RTO that has positive comparisons of financial information with other like RTOs may indicate a lower risk.
6	Organisation other assessment	*Other Financial Considerations* An RTO that has several years of independently audited financial statements that are unqualified could be considered a lower risk. An RTO that has a history of unaudited or non lodgement of financial statements could be considered a higher risk. *Necessary infrastructure* An RTO that has the necessary technology, equipment and materials to deliver the proposed courses could be considered a lower risk. An RTO that relies on another party for the availability of infrastructure could be considered a higher risk. *Industry experience* An RTO that has management with relevant qualifications and/or experience could be considered a lower risk. An RTO that has high levels of director and management turnover could be considered a higher risk. *Size and scope* An RTO with a sufficient stable equity base and varied scope could be considered a lower risk. An RTO with limited equity base and scope could be considered a higher risk.
7	Organisation student body profile	*Course Structure* An RTO that has a narrow range of courses could be considered a higher risk. *Student Body* An RTO that relies heavily on the recruitment of international students could be considered a higher risk. An RTO that relies heavily on the recruitment of international students from a limited number of overseas markets could be considered a higher risk.