

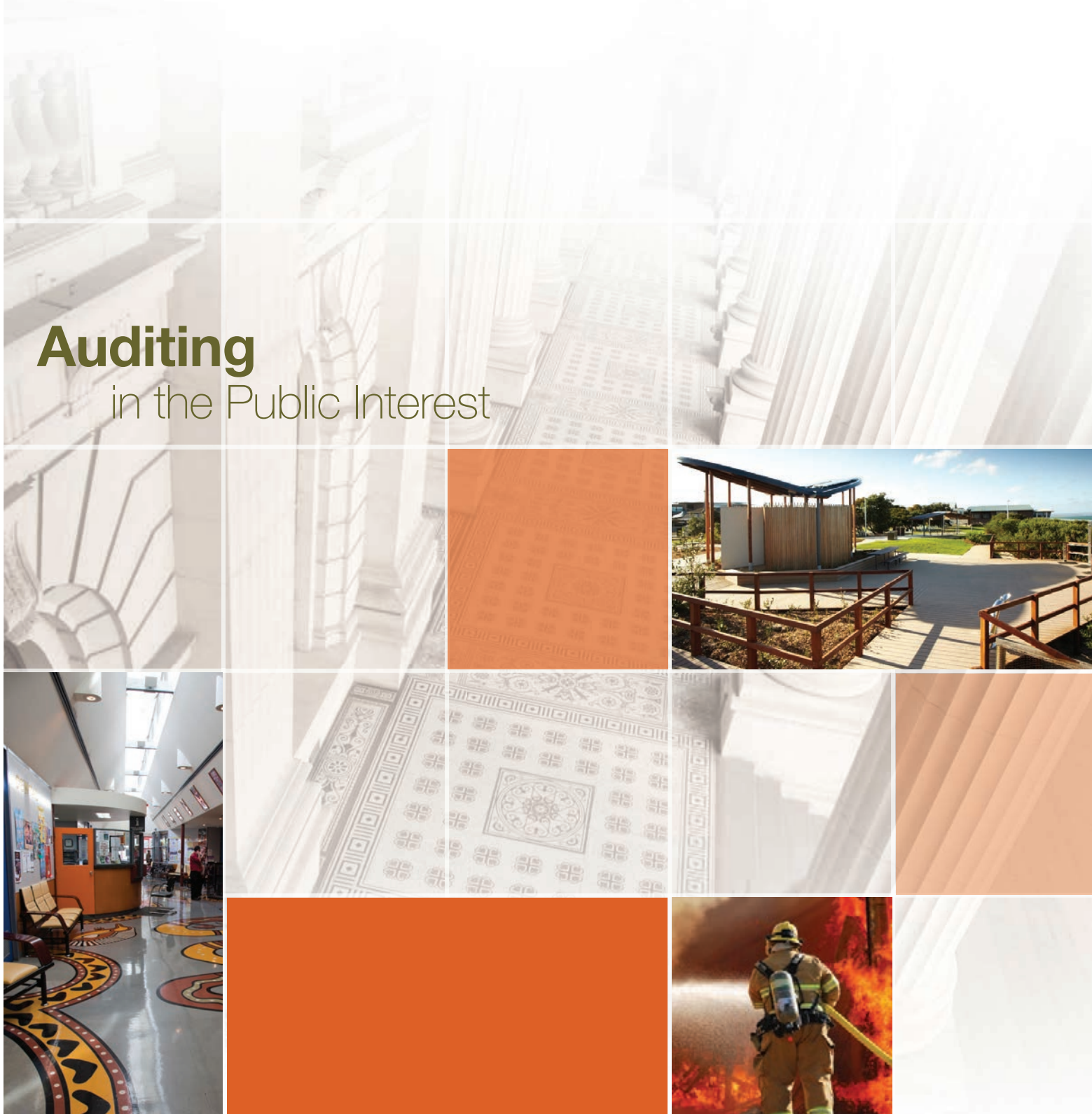


Victorian Auditor-General's Office

Annual Report

2013–14

Auditing in the Public Interest



VAGO

Victorian Auditor-General's Office
Auditing in the Public Interest

Auditing in the Public Interest

Our vision

To be a catalyst for continuous improvement in the accountability and performance of the public sector.

Our purpose

Providing assurance to Parliament.

Our objectives

In fulfilment of our purpose, VAGO's objectives, outlined in our *Strategic Plan 2010–11 to 2014–15* are to:

- be authoritative and relevant
- be highly regarded by Parliament
- foster productive relationships with audit clients
- foster a stimulating working environment
- leverage our systems and processes to improve organisational performance.

Our values

- Integrity
- Personal accountability
- Teamwork
- Learning
- Outcome focused.



The President
Legislative Council
Parliament House
Melbourne Vic 3002

The Speaker
Legislative Assembly
Parliament House
Melbourne Vic 3002

Dear Presiding Officers

I am pleased to transmit, in accordance with section 7B of the *Audit Act 1994*, my annual report of the Victorian Auditor-General's Office for the year ended 30 June 2014 for presentation to Parliament.

John Doyle
Auditor-General

16 October 2014

Accountable officer's declaration

In accordance with *Financial Management Act 1994*, I am pleased to present the Report of Operations for the Victorian Auditor-General's Office for the year ended 30 June 2014.

John Doyle
Auditor-General

Melbourne

6 October 2014

Pursuant to section 20(3) of the *Audit Act 1994*, unless otherwise indicated, any persons named in this report are not the subject of adverse comment or opinion.

The front cover images represent some of this years' report topics:
Top: *Asset Management and Maintenance by Councils*, photograph of Victory Park, Chelsea courtesy of City of Kingston.
Bottom left: *Accessibility of Mainstream Services for Aboriginal Victorians*, photograph of Victorian Aboriginal Health Service (Fitzroy) by Tobias Titz. Thanks to the organisations for making their premises or events available for the photographs.
Bottom right: *Managing Emergency Services Volunteers*, photograph courtesy of TFoxFoto/shutterstock.com.

Highlights



We met all of our performance measures, producing **37 reports** and **554 audit opinions**

(page 21)

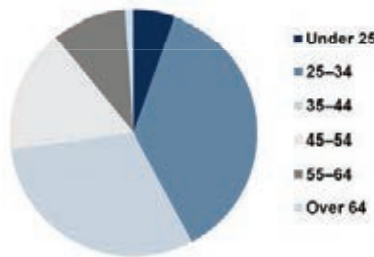
We **invested** in staff **training and development**, averaging **8.9 days** per FTE

(page 64)

We introduced **online presentations** of report findings which proved very popular with **4 431 views**

(page 18)

Our age profile



We received an **overall positive result** from the triennial performance audit of the office

(page 41)

88 per cent of our staff have at least a **bachelor degree** and **4 per cent** hold a **PhD**

(page 64)

We delivered **100 per cent of audit opinions** on agencies' financial statements **on time**

(page 35)

'Let me quote from the VAGO report ... it says'

Gaming Machine Entitlements
Hansard, 26 June 2014
the Hon. Edward O'Donohue

Our expanded **stakeholder engagement** program strengthened our impact

(page 19)



We introduced a **new governance committee** structure to strengthen the quality of our work

(page 47)

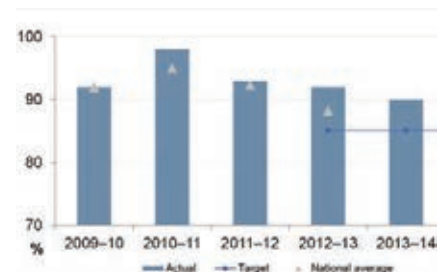
Our financial report received a **clear audit opinion**

(page 78)

Our survey of **Members of Parliament** demonstrates the **value** attributed to the **research and reports** we produce

(page 12)

MPs satisfaction exceeded targets



About us

Our history

The Office of the Auditor-General was established in July 1851 and, to this day, continues to play a key role in providing Parliament and the Victorian community with assurance on the financial integrity and performance of the state.

Over this time, the Auditor-General's approach to providing this assurance has evolved, most notably with the adoption of risk-based financial auditing and the development of performance auditing, which evaluates the efficiency, economy and effectiveness of public sector performance.

In 2000, legislative changes relating to the appointment, independence and tenure of the Auditor-General were enshrined in the state's *Constitution Act 1975*.

Principal legislation

The *Constitution Act 1975*, Part V, Division 3 governs the appointment and independence of the Auditor-General.

The *Audit Act 1994* defines the powers and responsibilities of the Auditor-General and VAGO.

Audit responsibilities

The Auditor-General is responsible for:

- auditing the annual financial report of the state
- reviewing the estimated financial statements within the State Budget Papers
- auditing the financial statements and non-financial performance statements of public sector organisations

- undertaking performance audits focusing on the economic, efficient and effective use of public resources to achieve public program objectives
- reporting the results of audits to Parliament.

The *Audit Act 1994* gives the Auditor-General extensive access and reporting powers to enable fulfilment of this mandate.

The Auditor-General's audit responsibilities cover around 550 agencies including government departments, public bodies, educational institutions, public hospitals and local government authorities.

The agencies we audit:

- earn approximately \$71.1 billion in revenue
- hold assets of over \$193.7 billion
- employ more than 260 000 people.

Accountability

Balancing these extensive powers is a suite of accountability measures. Most notably, VAGO must consult with the Public Accounts and Estimates Committee on our annual work program—the annual plan—and our performance audit specifications. We are also subject to regular financial and performance audits.

Our resources

- We had 185 in-house staff at 30 June 2014 (179 at 30 June 2013).
- We engaged 36 audit service providers (36 during 2012–13).
- We received \$38.9 million in funding from Parliament (\$38.5 million in 2012–13).

[Figure 1] Financial summary 2013–14 and 2012–13

Financial summary	2013–14 (\$'000)	2012–13 (\$'000)	Change (per cent)	
Operating revenue	38 954	38 654	0.8	▲
Operating expenses	38 994	37 197	4.8	▲
Total assets	16 291	15 448	5.5	▲
Total liabilities	8 217	7 333	12.1	▲
Surplus/(deficit)	(40)	1 457	102.8	▼
Net equity	8 074	8 115	0.5	▼

As outlined in our *Strategic Plan 2010–11 to 2014–15*, and in 2013–14 Budget Paper No.3 *Service Delivery*, our objectives and indicators—together with the progress on those indicators, are outlined in Figure 2. Further detail on the activities undertaken in the year can be found through the link to the page reference:

[Figure 2] Objectives, indicators and progress

Objectives	Indicators	Progress	Met	Page ref
Provide assurance to Parliament about the accountability and performance of the Victorian public sector through the provision of audits	<ul style="list-style-type: none"> The number of reports and audit opinions issued 	<ul style="list-style-type: none"> All targets met for the quantity of audits in 2013–14 We issued 37 audit reports, 554 financial audit opinions and 114 opinions on performance statements 	☺	21
Be authoritative and relevant and be highly regarded by Parliament	<ul style="list-style-type: none"> Better targeting topics 	<ul style="list-style-type: none"> Annual Plan process was reconsidered, detailed focus on the next two years 	☺	38–39
	<ul style="list-style-type: none"> Directing audit effort to areas of public value 	<ul style="list-style-type: none"> All respondents to our Parliamentary survey agreed that our reports and services provide valuable information on the public sector 		12
	<ul style="list-style-type: none"> Promoting broader access to reports 	<ul style="list-style-type: none"> Presentations on reports are now available online 		18
	<ul style="list-style-type: none"> Smoothing the flow of reports 	<ul style="list-style-type: none"> Timeliness target met 		21
Leverage our systems and processes to improve organisational performance	<ul style="list-style-type: none"> Better engaging Parliamentary committees and individual Parliamentarians 			
	<ul style="list-style-type: none"> Aligning systems and processes 	<ul style="list-style-type: none"> Our Annual Plan process better aligns our financial and performance audits 	☺	38–39
	<ul style="list-style-type: none"> Investing in capability for long-term sustainability 	<ul style="list-style-type: none"> Support of Tuvalu audit office, fundraising efforts of social club, diversity of volunteering 		58 68
Foster a stimulating working environment	<ul style="list-style-type: none"> Being a responsible corporate citizen 	<ul style="list-style-type: none"> Careers@VAGO pathway introduced as well as strategic recruitment 	☺	65
	<ul style="list-style-type: none"> Conducting rigorous performance planning and management 	<ul style="list-style-type: none"> Activities undertaken this year include free flu jab, ergonomic assessment of work stations, increased activities of social club 		66
Foster productive relationships with audit clients	<ul style="list-style-type: none"> Supporting a safe and healthy workplace 			
	<ul style="list-style-type: none"> Appropriately informing audit clients about audit plans, processes and activities 	<ul style="list-style-type: none"> Result of client satisfaction survey – informed and professional 	☺	42–43
Recruit and retain staff with specialised audit and investigative skills in the Victorian Auditor-General's Office to meet the increasing complexity of audit effort within a competitive recruitment market	<ul style="list-style-type: none"> Fostering professional relationships 	<ul style="list-style-type: none"> We have continued to work with other integrity bodies, and the Australasian Council of Auditors-General 		44
	<ul style="list-style-type: none"> Staff attrition, sick leave and training 	<ul style="list-style-type: none"> Increased emphasis on recruiting the right people and ensuring there are appropriate career pathways in place 	☺	63
		<ul style="list-style-type: none"> Average 8.9 days of training per staff member 		64
		<ul style="list-style-type: none"> 88 per cent of staff with a qualification at bachelor level or higher 		64

Structure of this report

This report provides a summary of our performance in 2013–14 in fulfilling our purpose to provide assurance to Parliament. It also provides information as obligated by legislated reporting requirements.

5

Auditor-General's review

Our Auditor-General, John Doyle, provides an overview of key strategic challenges for the office in 2013–14, and looks at the year ahead.

7

Deputy Auditor-General's review

Our Deputy Auditor-General and Chief Executive Officer, Peter Frost, provides a review of our operational performance in 2013–14.

9

Our impact

We look at the value of our work to Parliament, public sector agencies and the public.

21

Our core business

We review our performance in producing reports and advice for Parliament, and audit opinions on public sector entities' financial and non-financial performance statements.

37

Our quality

We report on the quality control policies and procedures we have in place and look at our continuous improvement activities.

45

Our organisation

We look at our governance arrangements in relation to executive management, risk and audit, legislation and policy, environmental management and contribution to capacity building.

59

Our people

We discuss our people, including workforce capacity and employment and conduct.

69

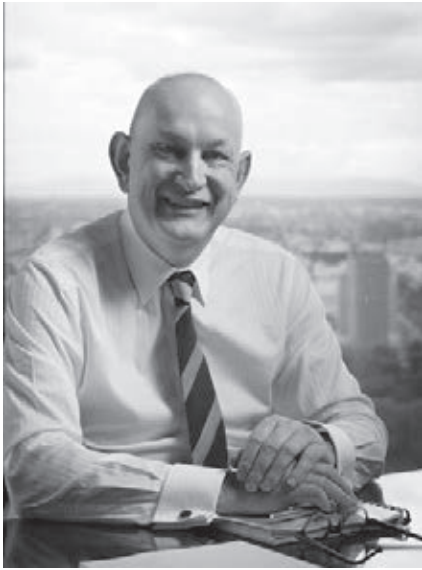
Our financial management

We look at the management of our budget, financial performance, financial position and our audited financial statements.

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Appendices

Auditor-General's review



The Auditor-General, John Doyle

This report marks my first 12 months as Auditor-General of Victoria, and I would like to thank the Victorian community for the warm welcome I've received, from Ministers to audit committees to local government finance professionals.

I have also enjoyed a wonderful welcome from the staff at my office. VAGO is made up of engaged, dedicated people who work to make a difference in the public sector. For the second consecutive year we have exceeded our performance measures.

I would like to express my thanks to the Public Accounts and Estimates Committee (PAEC) through which I am accountable to Parliament, and its Chair, David Morris MP, for their positive and professional engagement over the year. I believe we have worked effectively together, the communication between our offices has improved and I was gratified by the results of the triennial review of our office—discussed on pages 41–42.

Twelve months in, I am already well progressed in determining what I want to achieve during my term, changes are taking shape and we have begun to develop our next strategic plan. Internally, we will be engaging with our own staff to help inform this.

Externally, I began building an Independent Advisory Group of representatives from the public, private and community sectors. It, too, will provide input into the strategic plan.

Increasing the impact of audit

In 2013–14, the State of Victoria invested \$39 million in this office. From this investment, a key output was 37 reports, tabled in Parliament. These reports are a source of evidence-based, authoritative and often technical advice to agencies. For many years now, the office has reported on the impact of our work in the annual report, and examples from this year are on pages 12 to 14.

For the first time my *Annual Plan 2014–15*, tabled in June 2014, includes our work to increase the impact of our audits. This includes a new follow-up program which we began developing and implementing in 2013–14, to increase the accountability of agencies in addressing audit recommendations.

With over 550 agencies subject to my mandate, not all will receive specific recommendations. All agencies however, will find recommendations or better practice to help them improve their performance, and they should review all of our reports.

We call this the 'ripple effect', and the annual plan outlines the work we are doing to better disseminate our audit findings beyond their immediate audience.

To encourage this, I have increased my engagement with chairs of audit committees—discussed on page 19—which I will continue to expand in 2014–15. Audit committees are a vital governance mechanism to a well-operating organisation and should be monitoring the work of my office, regardless of the focus of individual reports. I have seen some very encouraging signs that audit committees are engaging strongly with my recommendations. In particular, monitoring recommendations that have been made directly to them will be vital when I begin following up on past recommendations in 2014–15.

Out of date mandate

Twelve more months have passed and yet the *Audit Act 1994* remains unchanged. This is despite a Parliamentary inquiry recommending changes over four years ago, and continuing advocacy by VAGO

for over five years. Key changes advocated by VAGO should be made.

The world has changed, with governments now using contracts and partnerships to deliver many services funded by taxpayers' money. And yet, this money and the services it funds remain off radar, simply because Victoria's audit legislation has not been updated. This means Victorian citizens are prevented from knowing how well their money is being spent.

There have been many examples where I have not been able to scope an audit as I would have wished because of these limitations. There are currently 21 public private partnership projects operating or being built in Victoria and a further four are under procurement. Yet I remain dependent on largely deficient contractual arrangements to be able to audit these and other outsourced services.

To be clear, I do not want to become the routine financial auditor of every company that does business with government, and in no cases where Auditors-General have received these powers in Australia has this occurred. I do want to be able to view information and review performance related to publicly-funded services.

On top of this, the Victorian integrity system, which was bedded down in 2013–14, has made many aspects of our audit mandate more complex and difficult to work with. The *Audit Act 1994* is a patchwork piece of legislation in an environment where government is seeking a cohesive system. As it stands, however, we are extremely limited in our ability to share information with other key bodies, and at the same time, we have new, onerous responsibilities that add questionable value and impede our effectiveness.

A full rewrite of the Act is absolutely necessary to make the most of the role of the Auditor-General. I am seeking commitment from both the government and the opposition that this will be a priority of the 58th Parliament.

Importance of audit

The position of Auditor-General is not necessarily a well-known one. But when you stop to think about it, this relatively small office of 185 people is a vital

component of Victoria's Parliamentary system. Without this independent office we would have to rely on trust. Of course, it is not really possible to imagine the system without an auditor, which is why the position of Auditor-General is as old as the colony of Victoria itself.

The Auditor-General makes a significant, if not always high profile, contribution to the public sector. In 2014 my predecessor Des Pearson was appointed an Officer of the Order of Australia for distinguished service to public sector governance in the areas of public accountability and management, and to the development of innovative financial sustainability measures. I congratulate Mr Pearson for the honour he has brought to this office.


As Mr Pearson's recognition demonstrates, the role of Auditor-General is crucial. I want more people to know about it, which is why in my first year I have been very much focused on external engagement. I have met leaders across Victoria and made numerous presentations at events and conferences.

I have also decided to include my comments at the start of every audit report, and introduce media releases and web presentations.

An outward focus for the future

Key to this outward focus is the need for me to be accessible, and I invite your input whether you are a member of the public or a Member of Parliament. 2014–15 is a very important year, with an election in November and a new Parliament to be convened. At VAGO, it is going to be a period of bedding down some of the changes already introduced, and commencing other key activities already identified.

Your input will be critical to this. I am eager to hear your perspectives, concerns and ideas. I will be undertaking more external engagement to support this, and ultimately I hope this will be reflected in my audit work plans going forward.



John Doyle
Auditor-General

16 October 2014

Deputy Auditor-General's review



The Deputy Auditor-General, Peter Frost

The year began with us welcoming a new Auditor-General. It is always exciting to have new leadership, as it brings with it ideas and develops a new vision and approach to our work. Our 26th Auditor-General has not disappointed us, with his exciting plans for most areas of the office.

A new governance structure

We have already started implementing many of the Auditor-General's plans.

A major activity this year was reforming our decision-making processes, resulting in a new governance structure. We established three new internal committees to review, scrutinise and enhance the quality and rigour of our work.

Our Performance Audit Challenge Committee was established in December 2013 to monitor the progress of the performance audit program. This new process provides a testing ground for audit conclusions and recommendations, and requires committee members from across the office to satisfy themselves as to the quality, accuracy, logic and rigour of an audit before recommending it to progress to the next stage.

A Financial Audit Committee is in earlier stages of implementation. An Operations Committee focuses on internal finance, people and IT decision-making in the office. The committees are working well to increase the rigour around all our work, and are discussed further on pages 40–41 and 47.

New priorities and leadership

Reflecting the priorities of the Auditor-General, two areas of the office have received increased attention this year.

The first is audits of information systems. Information systems and associated activities such as procurement and management are an aspect of public sector activity that repeatedly receives critical reports from this and other offices. It is also an area that the Auditor-General has seen facing problems in his previous audit roles in other jurisdictions.

Accordingly, we established a new Information Systems Audit group to focus on this important area of public sector performance and to provide support to our Performance and Financial Audit groups.

In addition to performance audits of information systems, this team will produce for the first time an *Information and Communication Technology Controls: Results of the 2013–14 audits* report, coming from our financial audits, and a digital dashboard on the status of major ICT projects and initiatives across the Victorian public sector. To lead the office's focus on these critical areas we welcomed Karen Phillips as Assistant Auditor-General, Information Systems Audit in April.

Another key priority has been to enhance our reputation for quality audits that are rigorous and well supported. To that end, we have created a new Standards and Quality team to focus on continuous improvement activities and quality across all aspects of the office. This business unit is led by a new Assistant Auditor-General, Matthew Zappulla who also joined us in April this year.

New auditing plans for the future

VAGO's Annual Plan which we have tabled is an important part of our legislated accountability to Parliament which considers the Auditor-General's work program. It is also a key communication document—outlining our goals, activities and work program to the community.

This year's plan—tabled in June 2014—now reflects the Auditor-General's priorities, in terms of content, detail and time horizons, and the office is already

implementing them. Changes to the *Annual Plan 2014–15*, are discussed on pages 38 and 39.

This year's plan contains a new type of audit for the office which we will conduct each year—a follow up audit of all performance audit recommendations made over a year.

The first such audit, which we have already commenced, will examine recommendations from 2012–13. Shortly we will seek agency updates on actions in response to the recommendations. We will then publish a report on these responses so that Parliament and the community will see how well agencies have responded to our recommendations. Our goal is faster, more effective action and outcomes.

Supporting this, since September 2013, we have requested that agencies provide specific responses to our audit recommendations and their action plans. This will enhance agencies' accountability to Parliament and the public and get better value from our audits and their recommendations.

A high performing and professional organisation

In 2013–14, there have been several other changes to our work, from online presentations for each audit report, to Auditor-General's comments at the start of every report, to more external engagement.

During this period of significant change, the office continued to perform highly, meeting or exceeding all our performance measures outlined in the Budget Papers. We delivered 37 reports and 554 financial audit opinions, responded to 124 inquiries and increased our commitment to training and development.

It was also a period of intense external scrutiny. Just like Victorian public sector agencies, we are subject to performance audits—in our case, every three years. The audit was conducted from July to October 2013 and the report tabled in November. We received a very positive result and are well progressed in implementing the recommendations. Combined with our excellent performance, this was a great 'report card' for the office.

This reflects the hard work of VAGO staff. As the Auditor-General recognised in last year's review, VAGO's staff are highly qualified and the organisation has a strong commitment to ongoing training and development.

This year, we introduced a new career pathways program to continue to invest in staff, ensure they are better placed to undertake higher-level roles, and support succession planning. We also improved our recruitment process, to help bring on the right people at the right time. We will be accepting expressions of interest throughout the year from potential employees via our website. We are hoping this will help us attract a range of different types of people, with whom we will have a lifelong connection, both while they're working with us and as they take other opportunities.

The year ahead

This is only the start of the story for Mr Doyle's term. Looking ahead, in 2014–15, our new executive team will drive the implementation of our new structure, further review our Financial Audit and Performance Audit activities and continue to build on our strong professional work culture.

We will also be recruiting another new leader for the organisation as we farewell Ellen Holland, Assistant Auditor-General, Financial Audit. Ellen commenced working for VAGO as a cadet auditor in Financial Audit in 1979, spending more than 10 years in the group. She then spent 17 years in Performance Audit where she delivered a number of our most memorable audits and, for three years, the Annual Plan, before undertaking the role of Assistant Auditor-General, Financial Audit in 2011. We will miss her commitment, experience and corporate knowledge.



Peter Frost
Deputy Auditor-General

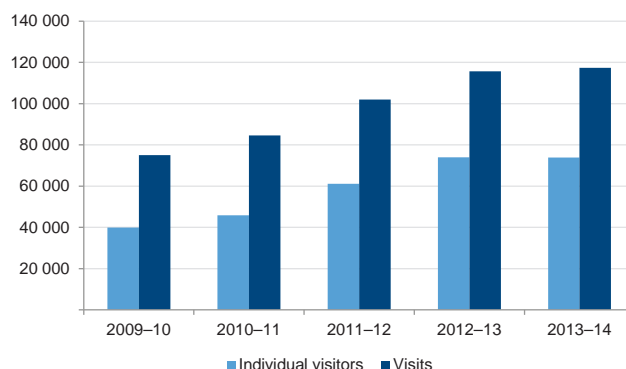
16 October 2014

Our impact

At a glance

Our findings and recommendations **inform** how Victorian public sector agencies **manage** and **deliver** government programs and services

Website visits have risen over the past five years



OUR IMPACT	HIGHLIGHTS	PERFORMANCE
Impact on Parliament	<ul style="list-style-type: none"> 25 per cent increase in mentions of audit findings when Members of Parliament debate second readings of legislation 100 per cent of responding Parliamentarians valued information VAGO provided through its audit activities 265 references by Parliamentarians to our audit reports in Hansard 	<p>☺</p> <p>☺</p> <p>☺</p>
Value to agencies	<ul style="list-style-type: none"> no performance audit recommendations from 2013-14 were rejected by the relevant agency agencies have started preparing action plans to respond to recommendations 	<p>☺</p> <p>☺</p>
Public debate	<ul style="list-style-type: none"> 672 items in print, broadcast or online media that mentioned the Auditor-General or VAGO 117 324 visits by 73 855 unique visitors to the VAGO website visitors are spending 25 per cent longer on our website 	<p>☺</p> <p>☺</p> <p>☺</p>
Increasing impact	<ul style="list-style-type: none"> 26 Parliamentarians attended one or more briefing sessions online presentations introduced for every audit report increasing accessibility to our findings 	<p>☺</p> <p>☺</p>

Introduction

Our audits provide valuable reflections, findings and recommendations on how to improve accountability and performance in the public sector. They can be a catalyst for change and an impetus for decision-makers.

Therefore, we reflect on the contribution of our activities to continuous improvement across the public sector. We use a range of measures to assess this impact.

We look at the value of our audits to Parliament by examining the extent to which our audit reports are drawn on to support Parliament's decision-making and debate, which can consequently change how the public sector operates.

Public sector agencies are the subjects of our audits and respond directly to them. We look at the extent to which they are making changes to their

practices based on our findings and recommendations.

As our reports are publicly available, they can influence public debate, which in turn can influence Parliament and agencies. As such, we look for evidence of audits being used by the general public, community groups and the media.

We undertake a range of activities to increase the impact of our audits. Many of these activities are conducted at the request of agencies, as they seek to utilise the knowledge and continuous improvement advice available through our reports.

This chapter looks at our:

- impact on Parliament
- value to agencies
- impact on public debate and the community
- activities to increase the impact of our audits.

Impact on Parliament

A key measure of the impact of our work is Parliamentarians' use of our audit reports.

To assess the extent to which Parliamentarians use our reports, we look at how they use them in Parliamentary debates and to support their inquiries, and seek their feedback on our performance through surveys.

Parliamentary debate

Parliamentarians continue to use our reports. Over the past few years we have identified references to our reports in Parliamentary debates.

Hansard transcripts show that references to our audit reports in Parliamentary debate fell by 19 per cent in 2013–14 to 265 (327 in 2012–13). This is, however, consistent with the level of reference in 2011–12 when there were 262 mentions of our reports in Parliamentary debate.

Parliamentarians used our reports to support their discussion of:

- new legislation
- Parliamentary inquiries
- questions without notice
- petitions and concerns from their electorates.

'I put on record today my thanks to the Auditor-General and his teams for this report. It will be of great value to the government and health services'

Occupational Health and Safety Risk in Public Hospitals, November 2013 – Hon David Davis, MLC, Liberal Party, Minister for Health and Minister for Ageing, Hansard 28 November 2013.

Despite the drop in overall reference there was a 25 per cent increase in references to our audit reports during second reading debates of legislation, this demonstrates an increased awareness of our reports and greater likelihood that audit recommendations are being considered when legislation is being drafted.

The report referenced most frequently was *Developing Transport Infrastructure and Services for Population Growth Areas* (August 2013), with around 10 per cent of mentions. Most of the speeches referencing this report were in relation to findings about the failure to deliver the transport infrastructure and services needed, the neglect of outer suburbs and the importance of having an integrated transport network.

The *Allocation of Electronic Gaming Machine Entitlements* report (June 2011) has continued to gain traction with 21 mentions in 2013–14, almost 8 per cent (7 per cent in 2012–13) despite the report being released in June 2011.

'I am always interested to read reports of the Victorian Auditor-General's Office (VAGO) because they give a true and clear picture of the efficiencies or otherwise of government agencies.'

*Nazih Elasmr, MLC, Australian Labor Party, Hansard
11 December 2013*

When Parliament uses our audits to support the passage of new legislation, this delivers some of our most significant impact. Examples of bills debated in 2013–14 where a VAGO report was referenced include:

- Major Transport Projects Facilitation Amendment (East West Link and Other Projects) Bill 2013
- Children, Youth and Families Amendment (Security Measures) Bill 2013
- Gambling and Liquor Legislation Amendment (Modernisation) Bill 2014
- Energy Legislation Amendment (Customer Metering Protections and Other Matters) Bill 2014
- Sustainable Forests (Timber) and Wildlife Amendment Bill 2014.

Parliamentary inquiries

Our audit reports are used to inform and support the activities of Parliamentary Committees. These activities are important within the accountability framework as they are often a means by which agencies are called to account for actions in response to our reports.

In 2013–14, the number of Committee reports drawing on VAGO audit reports reduced from nine to seven. Reference to our reports still reflects the efforts VAGO has made to engage with these Committees.

The following Committee inquiry reports referred to VAGO reports:

- Economic Development and Infrastructure Committee's report on its *Inquiry into Local Economic Development Initiatives in Victoria*
- Road Safety Committee's report on its *Inquiry into Serious Injury*
- Economy and Infrastructure Legislation Committee's report on its *Inquiry into the impact of the carbon tax on health services*
- PAEC's report on its *Inquiry into the Financial and Performance Outcomes 2012–13*
- Family and Community Development Committee's report on its *Inquiry into the Handling of Child Abuse by Religious and other Non-Government Organisations*
- PAEC's report on its *Inquiry into the 2013–14 Budget Estimates (Part Two)*
- PAEC's report on its *Inquiry into the 2014–15 Budget Estimates*.



Auditor-General and Deputy Auditor-General attend Parliament to deliver a report briefing.

Feedback from Parliamentarians

We request feedback from Parliamentarians annually through a confidential survey, which collects information about their engagement with VAGO's reports and services.

This year's results are encouraging, however, the response rate was very low in comparison to previous years and outcomes need to be assessed with caution.

While there was a slight drop in the respondents that were satisfied or very satisfied overall with our reports and services (90 per cent in 2013–14 compared with 92 per cent in 2012–13) they all agreed that the reports and services provided valuable information on the public sector.

Results show Parliamentarians accessed reports more in 2013–14 compared with 2012–13. Over 60 per cent of respondents reported referring to a performance audit report often or very often (50 per cent in 2012–13), and just over a quarter reported referring to a financial audit report often or very often, which is consistent with the prior year. Of those who referred to a financial audit report 79 per cent said the report helped them to monitor the accountability and performance of the sector.

There was a decrease in the number of respondents who had dealings with VAGO over the year, with a drop from 54 to 40 per cent. This is consistent with 2011–12 result (37 per cent).

For more information on our surveys of Parliamentarians, see pages 28 and 43.

Value to agencies

As agencies are the subjects of our reports and recommendations, we look for evidence of their improved practices in response to them. We also look to see the commitment agencies have made to implement the recommendations, through their responses to reports and their feedback on how valuable the audit was.

We often see changes to agencies' practices in response to our reports. In some cases, reports contribute to significant reviews of an agency or business activity. Other reports contribute to internal changes to improve processes and controls. Recent audits have contributed to some significant changes, as discussed in Figures 3 and 4.

[Figure 3] Audits contributing to substantial changes or reviews by agencies

Case studies

Access to services for migrants, refugees and asylum seekers (May 2014)

In December 2013, during the audit, the Department of Premier and Cabinet commissioned a review of how effectively Victoria's current multiculturalism framework was operating, with a specific focus on the impact of the 2011 governance arrangements on the Victorian Multicultural Commission and Office of Multicultural Affairs and Citizenship (OMAC). Decisions arising from the review were delayed until after the audit report. While the audit was in progress OMAC began meeting with departments to discuss the development of their cultural diversity plans and implementation of the whole-of-government multicultural policy.

Residential Care Services for Children (March 2014)

During the audit, the *Out-of-home care: a five year plan* was developed, with the minister releasing the Plan and additional funding, the day before the audit report was tabled. The Department of Human Services used its participation in the audit process to help it identify the key issues in the sector that needed to be included in the Plan. Funding was directly committed to audit findings relating to additional therapeutic residential care places and monies for community service organisations training and development.

WoVG Information Security Management Framework (November 2013)

In responding to the findings of the report, the Secretary of the Department of State Development and Business and Innovation commented that *'arising from the findings of this audit the Department has initiated the development of a Victorian Government Cyber Security Strategy...The strategy will draw on the findings and recommendations of the WoVG Information Security Management Frameworks Performance Audit as a primary source.'* An internationally respected authority on cybercrime has been appointed to work with the government to develop the strategy which is expected to be completed in 2014. It is anticipated that this will help address cyber security issues now and into the future across Victoria.

[Figure 4] Audits stimulating changes to processes and controls in agencies

Case studies

Apprenticeship and Traineeship Completion (March 2014)

Following the review of completion rates for both apprenticeships and traineeships \$2.3million has been allocated to the development of a new database system to replace the Direct Entry Level Training Administration (DELTA) database, which has been dysfunctional for many years. This is the register of apprentices and trainees and is a legal requirement.

Local Government: Results of the 2012–13 Audits (December 2013)

Local Government Victoria (LGV) has acted on our recommendations regarding performance reporting in the local government sector, made in both this report and a recent performance audit report. LGV is working on a project to reform the Local Government Performance Reporting Framework and provide a set of performance indicators for the sector. In addition, a guide to support the sector to achieve better practice performance reporting has been prepared.

Racing Industry: Grants Management (November 2013)

Following VAGO's report on the management of grants in the racing industry, Greyhound Racing Victoria has implemented a number of policy, operational and procedural changes to manage construction projects to ensure ongoing compliance with legislative requirements. In particular work is in progress to ensure its project documentation and records management processes are fully compliant with the *Public Records Act 1973*.

Clinical ICT Systems in the Victorian Public Sector (October 2013)

Following VAGO's audit, and in anticipation of the release of the report, the Chief Executive Officer of an agency reported they had implemented workflows to mitigate potential risks associated with the issues identified by the audit. They also engaged an external consultant, with relevant expertise, to assess the appropriateness of those workflows.

Managing Telecommunications Usage and Expenditure (September 2013)

The audit found that the Department of Justice does not adequately enforce compliance with its reimbursement policy or monitor whether costs for declared personal usage on mobile services are fully reimbursed. The department acknowledged that improvements need to be made and are enhancing procedures accordingly.

Throughout each of our audits, we brief the audited agencies progressively on emerging findings. This year we committed to even earlier discussion on the recommendations arising from audits. It is important that agencies provide Parliament and the public with a sense of the action being taken by agencies as a result of our audits. In 2013–14, we started asking agencies for action plans setting out how they will respond to the recommendations and the likely timing. This led to an increase in the number of action plans agencies put in place before reports were tabled, enabling, in some instances, the plans to be acknowledged and published within the report rather than just in the agency's response.

Notably, during the *Oversight and Accountability of Committees of Management* (February 2014) audit the Department of Environment and Primary Industries commenced implementing all of the actions it committed to during the course of the audit. This was outlined in the Audit summary, affording prominence to the actions of the department. This is a practice that we hope will continue and demonstrates that early engagement affords greater impact of the audit.

Other examples of changes being made by agencies during an audit are as follows:

- During the audit *Occupational Health and Safety Risk in Public Hospitals* (November 2013), WorkSafe developed a new framework for approaching its discretionary activities aimed at reducing OHS risk following the early identification of a fundamental flaw in its past approach. This change will be rolled out across all industries, not just public hospitals.
- During the audit *WoVG Information Security Management Framework* (November 2013), a number of serious breaches were identified. These were raised directly with the agencies involved, as they were identified, and many of the agencies immediately initiated actions to address the issue due to their sensitive and serious nature. It was then possible to include a summary of the number of issues found, along with the number of actions completed within the body of the report.

- During the audit *Using ICT to Improve Traffic Management* (June 2014), noting the emerging finding that it had not strategically planned its use of intelligent transport systems, VicRoads expedited its development of a *Road Use Strategy*.

We have also observed changes made by agencies that were not subject to the audit. This is particularly encouraging as it shows the broad relevance of our reports and makes the most of our audits—this is what we term the ‘ripple effect’. An example of this is an agency that advised us it had self-assessed its own asset maintenance program against the recommendations made in our report on *Asset Management and Maintenance by Councils* (February 2014) despite not being a direct subject of the audit.

Agency implementation of recommendations

For our more recent reports, it is less likely that agencies will have had the time to implement responses to our recommendations. We therefore look to see whether agencies have committed to implementing our recommendations.

There are two ways we look at the level of support for our recommendations. The Department of Treasury and Finance tables a report on the *Government Response to the Auditor-General’s Reports*. This report looks at the previous financial year’s audits, counting the number of responses to recommendations—one recommendation may have several responses from different agencies.

The most recent report included responses to reports tabled in 2012–13. Of the 308 responses to recommendations, 99 per cent were in support or being reviewed by the relevant agency. This is an increase on an already high acceptance rate reported in 2012–13 of 90 per cent, and indicates our recommendations are accepted by agencies.

In addition, we do an internal count of the number of supported recommendations in performance audit reports for the most recent financial year, based on agencies’ formal submissions to our reports.

This is limited in that agencies sometimes do not clearly state their response.

Across our performance audit reports in 2013–14, VAGO made 251 recommendations based on our findings. Our internal assessment estimates that none of these were rejected. The new follow up process will identify how the recommendations and action plans are progressing.

Extracts from agency submissions to reports provide examples of the usefulness of recommendations and the commitment of agencies to implement the changes.

Extracts from responses to VAGO reports

Shared Services in Local Government (May 2014)

‘I congratulate you on the breadth of engagement with all council Mayors and Chief Executive Officers as the results provided valuable context to the report and will assist us in the planning of future reform agendas. The report accurately reflects not only the diversity of implemented programs, but also the complexities inherent to the implementation of shared services agreements.’

Response provided by the Secretary, Department of Transport, Planning and Local Infrastructure.

Implementation of the Strengthening Community Organisations Action Plan (October 2013)

‘I am pleased that the report has highlighted the good progress made by the Office for the Community Sector (OCS) in implementing the action plan...Implementation of the recommendations in the performance audit report will enhance the ability of OCS to play a key role in the reform process being undertaken across the department.’

Response provided by the Secretary, Department of Human Services.

Operating Water Infrastructure Using Public Private Partnerships (August 2013)

‘The Department of Environment and Primary Industries (DEPI) believes that the findings and the recommendations of the audit provide a valuable opportunity to improve contract management and board oversight (particularly in relation to Public Private Partnerships) within all Victorian water corporations.’

Response provided by the Secretary, Department of Environment and Primary Industries.

We are keen to further increase the value of the work of the office and to extend the difference we make across the Victorian public sector. A new follow-up process is being introduced for 2014–15 where we will be actively reporting on agency implementation of recommendations from audits undertaken in 2012–13. Information on this new process can be found in Volume four of the *Annual Plan 2014–15*.

We will also be hoping to see an increase in the ‘ripple effect’ whereby agencies that are not subject to an audit are able to use the recommendations from our reports to enhance their own practices. This should further promote continuous improvement and strengthen the accountability and performance of the public sector.

Value of audits to audited agencies

Another way of gauging agency commitment to implementing our recommendations is whether audited agencies said they found the audit valuable.

For every performance audit, we seek this information through a post-audit survey. These surveys give us information on the extent to which the audited agency agreed that the:

- audit offered value to the agency through its assurance on the performance and accountability of the audited activity
- findings and/or recommendations of the audit have the potential to improve the financial management of the agency or to improve the administration of the audited activity.

For performance audits tabled in 2013–14 the indexed ratings for audit value survey questions dropped slightly from 70 to 69 compared to the previous year. Allowing for the fact that agencies can be resistant to audits, we consider this a good result.

For financial audits tabled in 2013–14 the indexed rating for audit value survey questions has risen since 2011–12 from 74 to 76—we did not survey financial audit clients in 2012–13.

We also seek comments from agencies in these surveys. Extracts shown here are not attributed to preserve anonymity—see page 43 for further discussion on our survey program.

Extracts from post-audit surveys of agencies

‘We were satisfied with the audit process and in particular the opportunity to engage in discussions around the desired outcomes rather than a purely compliance focus.’

‘I welcome VAGO audits and look at them as a process of continuous improvement.’

‘Overall a sound process and report. The staff and management we dealt with were at all times highly professional, open and responsive.’

Impact on public debate

Public debate often draws on our audits. This debate can create greater transparency around some key accountability and performance issues raised by our audit program, and encourage the government to act on critical findings.

The extent to which the public responds to and uses our reports is, therefore, another important factor when gauging the impact of our work.

We measure our impact on public debate through media coverage and website activity.

Media coverage

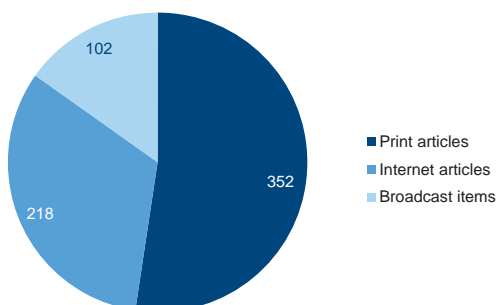
While we do not set out to gain media attention, our reports can ignite debate on issues of public interest in the media.

To some extent, the degree of media attention reflects whether an issue is topical. Also, media coverage tends to focus on exceptions and rarely canvasses positive findings.

Nonetheless, when considered within a suite of measures, the degree of media interest does provide some insight into the level of public interest for VAGO reports.

Media attention can also be a positive reflection on the relevance of our topic selection. Through our independent role to review and assess the operations and activities of the Victorian public sector, VAGO can be viewed by the media as a trusted source for reference.

[Figure 5] Number and types of media mentions



Our reports regularly feature in national, state, regional and local media. In 2013–14, there were 672 items in print, broadcast or online media that mentioned the Auditor-General or VAGO. Of these, 352 were print articles, 102 items were broadcast on local radio or television stations and 218 articles were published on websites.

Most coverage was in relation to our audit reports, with 394 items. Several reports generated intense media interest and coverage. The reports receiving the most coverage were:

- *Developing Transport Infrastructure and Services for Population Growth Areas* (August 2013)
- *Managing Emergency Services Volunteers* (February 2014)
- *Residential Care Services for Children* (March 2014)
- *Access to Education for Rural Students* (April 2014).

It has been interesting to note the significant increase in internet-based articles since 2012–13, reflecting the increased use of the internet by media outlets to distribute news to their readers. There was a 50.3 per cent increase from 145 articles in 2012–13 to 218 in 2013–14.

To deepen our analysis, we also commissioned a review of our media coverage by Cubit Research, who noted that media coverage relating to VAGO was most prominent immediately following the release of audit reports and that VAGO reports are used as independent reinforcement for key issues of interested groups. These can be community groups, politicians and the media itself.

Our older reports continued to receive media attention, accounting for 143 mentions. As in previous years, there was interest in the *State Investment in Major Events* performance audit (June 2007).

The oldest report mentioned was from 1999 and other reports that generated media coverage included:

- *Allocation of Electronic Gaming Machine Entitlements* (June 2011)
- *Prison Capacity Planning* (November 2012)
- *Consumer Protection* (April 2013).

There were also 135 mentions of the Auditor-General and VAGO relating to matters other than audit reports. This represents an increase of almost 17 per cent from the prior year and included focus on:

- The Opposition running a media campaign that the East West Link should be audited
- Proposed amendments to the *Audit Act 1994* by the Auditor-General to enable activities by third party providers funded by government to be subject to sufficient scrutiny
- Concerns the Auditor-General has with the changed system of integrity in Victoria

- Reference to the Auditor-General's position as an independent officer of the Parliament, in the context of the proposed Parliamentary Budget Officer.

Website activity

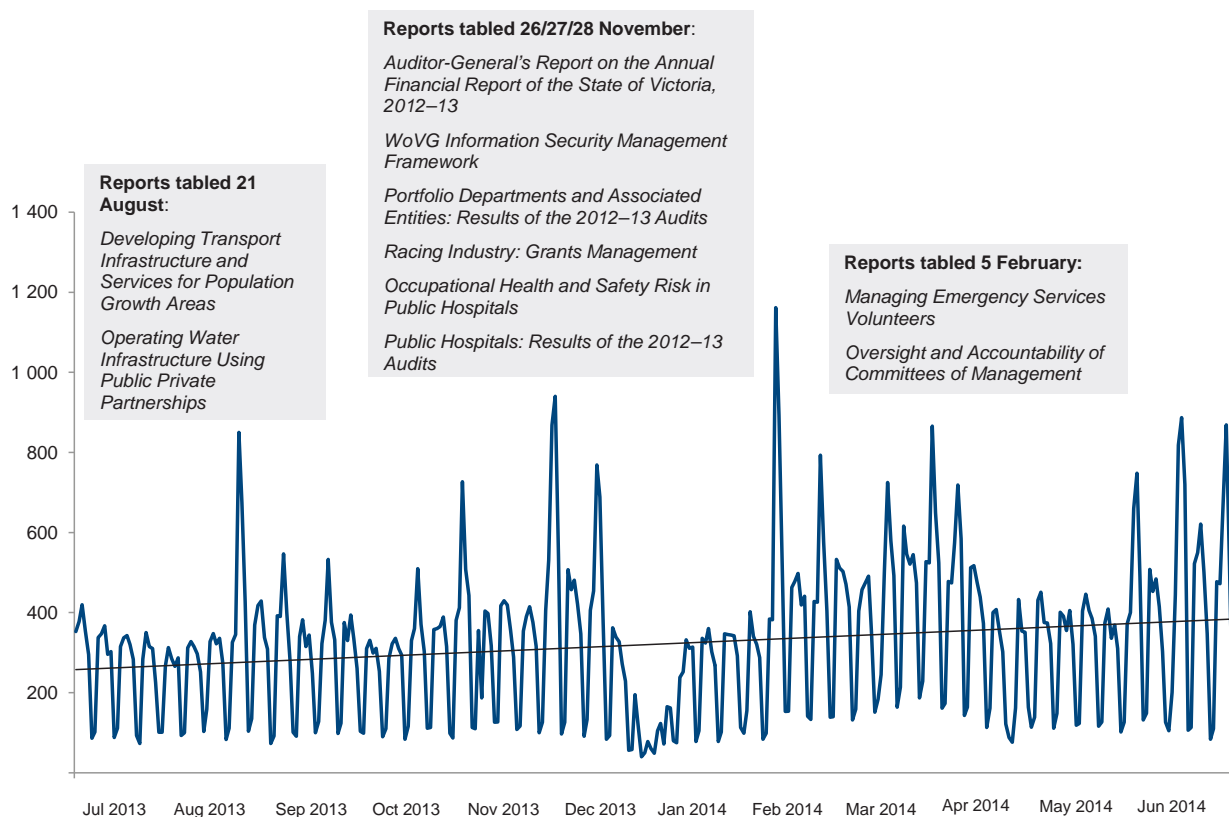
All VAGO reports are published on our website. VAGO's reports are being accessed more often, by more people.

In 2013–14, there were around 117 000 visits by 73 855 visitors to the VAGO website, which is a slight increase on the previous year. Around 60 per cent of these were new visitors.

Further we also identified that visitors this year are staying on average 25 per cent longer on our website than in 2012–13.

Figure 6 shows the website visits in 2013–14. The peaks coincide with report tabling days.

[Figure 6] Website visits 2013–14



Increasing the impact of our audits

We conduct a range of activities to increase the impact of our audits, and therefore, the value and usefulness of them and the likelihood our recommendations will be implemented. We look for opportunities to share lessons and the knowledge we have gained from our audits with government, peak bodies, individual agencies and the general public.

This year's activities included:

- Parliamentary briefings and engagement presentations and addresses
- departmental audit committee chairs' meetings
- regional engagement
- performance audit contacts' events
- Parliament House Open Day
- improving accessibility and communication of reports.

Parliamentary briefings and engagement

We continued our briefings and engagement activities with Parliamentarians and provided assistance in identifying relevant audit findings.

Across 2013–14, VAGO provided 31 briefings to ministers or their officers. This is a decrease in uptake on last year's result when 37 briefings were delivered to ministers or their officers. It is, however, consistent with the previous high of 31 in 2010–11.

We also conduct briefing sessions in Parliament House whenever we table an audit report, detailing key findings. These sessions are open to all Parliamentarians. In 2013–14, we increased the number of briefing sessions to 20 (up from 17 in 2012–13).

The number of Parliamentarians attending these sessions in 2013–14 was consistent with 2012–13 with 26 coming to one or more sessions. Other measures of Parliamentary engagement discussed earlier clearly indicate that our reports are receiving increased attention and use by Parliamentarians.

Average attendance at these briefings reduced to around six per session (nine in 2012–13) perhaps reflecting the lead up to the 2014 election. VAGO continues to investigate new ways of communicating audit findings to Parliamentarians.

In 2013–14 we introduced audio presentations on our website in relation to each of our tabled reports; this enables Parliamentarians to access this information in their own time. These follow the same presentation that was provided in the Parliament briefing session and enables further access to audit findings as they are also accessible to the general public.



Steven Vlahos, Performance Audit Sector Director, presenting report findings at a Parliament briefing session

Between 1 July 2013 and 3 February 2014, there were 1 614 views of the online presentations and 5 054 minutes watched.

In the period 4 February 2014 to 30 June 2014 there were 2 817 views and 11 697 minutes watched (approximately double the amounts from the previous period). This demonstrates that the online presentations are increasingly being accessed and have proved a valuable tool in presenting the findings from our reports.

Presentations and addresses

Throughout 2013–14, the Auditor-General and senior VAGO staff presented at a range of events about our audits and activities, as well as broader issues such as accountability, governance and performance management. A major goal of this engagement is to make our audit findings and

recommendations directly accessible to interested professionals who are able to use our report findings to drive further change. We presented at conferences, educational courses, and to professional and industry groups.

As well as the following regular presentations, see Appendix 2 for a full list of presentations made by senior staff in 2013–14.

Departmental audit committee chairs' meetings

Twice a year, VAGO and the Department of Treasury and Finance co-host meetings with chairs of departmental audit committees. We use these meetings to share information, raise awareness of significant issues arising from audits, drive action on our audit recommendations and improve the efficiency and effectiveness of our operational relationships.

Regional engagement

To enhance relationships with audited entities, the Auditor-General regularly visits regional areas. In 2013–14, the Auditor-General visited Bendigo, holding a forum for our audit clients from the local government, water, health services and education sectors.

These visits are an opportunity to promote the findings from our recent reports, connect with agencies that were not subject to the audit and highlight the recommendations they may take up and encourage the ripple effect. Again this year attendance was strong.

In addition, we piloted a forum, in partnership with Local Government Victoria, for local government audit committee chairs. This forum aimed to give local government audit committee chairs an opportunity to hear about specific findings in their sector and to discuss issues directly with the Auditor-General.

The pilot forum was well received and the concept will be rolled out in other locations across Victoria in the coming year to assist the sector in addressing its reporting, governance and compliance issues.

Performance Audit contacts' events

This year VAGO held two events in October 2013 and March 2014 that brought together audit contacts within departments to discuss the efficient and effective running of a performance audit, and to hear about VAGO activities of interest.

The October event focused on the key elements of an effective auditor/client relationship and how that contributes to an efficient and effective performance audit and provided information about VAGO's powers and mandate.

The March event focused on our Annual Plan process, the new follow-up process and better practice engagement. It also provided an opportunity for consultation on revisions to the Performance Audit Practice Statement, which sets out our performance audit methodology.

These events will be a regular feature of VAGO's ongoing audit client engagement in future.

VAGO's future stakeholder engagement plans

This year we have invested in specialist expertise to support and build on our existing stakeholder engagement activities, and to broaden the suite of opportunities we provide our audit clients, and the Victorian public, to participate in and learn from our audits.

We will be building on the expanded stakeholder contribution to our Annual Plan, inviting stakeholders from all walks of life to help inform us of the issues that matter.

We will seek to present our audit reports at a wide variety of events to increase the awareness of our findings and help translate them for use beyond sector boundaries.

VAGO welcomes opportunities to talk about our role and the results of our audits, and hear from all Victorians about how they would like to contribute to our work.

Parliament House Open Day

Parliament House Open Day is an annual event for the public, which was held on 23 March 2014. We have been involved every year since 2011 to engage with the public, communicate about VAGO and promote awareness of our reports. It has also been a useful way to build relationships with stakeholders at Parliament.

Around 4 000 people came to Parliament to explore the building and grounds. Many asked questions about VAGO and its activities of our five volunteers staffing the stand.



Kitty Gordon attends our stand at the Parliament House Open Day

Improving accessibility and communication of reports

In 2013–14 to increase the accessibility of our reports for Parliamentarians, agencies and the community we introduced short online recorded presentations, which outline the key findings, conclusions and recommendations for each report.

Media releases are now issued to accompany every audit report, outlining the key findings, a link to the audit report and contact details to seek further information if desired.

In 2014–15, we will continue to enhance the online presentations that accompany every report, following their success this year. We will also be reviewing the content on our website, particularly the homepage to ensure that it is easy for people to access the findings from our reports and identify those that will be reporting soon.

There are plans in place to consider our use of social media as another way of engaging with the community. We will also be increasing the number of presentations relating to the findings of our reports so that the key messages are distilled more broadly.

Our core business

At a glance

We met all of our performance targets in relation to our outputs.



Performance Audit Sector Directors, Kristopher Waring, Dallas Mischkulnig, Chris Sheard, Andrew Evans, Ray Winn, Michele Lonsdale and Steven Vlahos

OUR IMPACT	HIGHLIGHTS	PERFORMANCE
Quantity	<ul style="list-style-type: none"> 29 performance audit reports, five reports on the results of financial audits, one Annual Financial Report of the State of Victoria, one annual plan and one annual report 	☺
	<ul style="list-style-type: none"> 554 opinions on financial statements 	☺
	<ul style="list-style-type: none"> 114 opinions on non-financial performance statements 	☺
Quality	<ul style="list-style-type: none"> 90 per cent of Parliamentarians who responded to our survey were satisfied with our reports and services 	☺
	<ul style="list-style-type: none"> externally assessed performance audit reports all scored highly 	☺
Timeliness	<ul style="list-style-type: none"> average response time of inquiries was 15 calendar days 	☺
	<ul style="list-style-type: none"> 95 per cent of audit reports were tabled on time 	☺
	<ul style="list-style-type: none"> 100 per cent of audit opinions were issued on time 	☺
Cost	<ul style="list-style-type: none"> costs of performance audit reports ranged from \$290 000 to \$575 000 (with an average of \$402 724 per report) 	☺
	<ul style="list-style-type: none"> costs of financial audit opinions ranged from \$1 200 to \$518 965 (with an average cost of \$42 238 per opinion) 	☺

Introduction

The Victorian Government's reporting framework requires departments and agencies to report against outputs, and resourcing is allocated based on these outputs.

The outputs we are funded to provide reflect the two elements of assurance we provide to Parliament:

- **Output group 1**—Parliamentary reports and services
- **Output group 2**—Audit reports on financial statements.

Against each of these outputs, we have measures and targets for quantity, quality, timeliness and cost. This chapter discusses our performance against these measures.

Parliamentary reports and services

Output group 1 relates to our Parliamentary reports and services.

We table reports in Parliament on the results of our financial and performance audits. We also provide a range of other services to Parliament using our skills and experience, to encourage improvement in the management of public resources. These

services, along with our reports, help foster better accountability and performance, and promote better practice resource management in the public sector.

Figure 7 outlines our performance against our measures for Parliamentary reports and services and the following section discusses this performance in more detail.

[Figure 7] Performance against output group 1 targets

Performance measures	Unit of measure	Target 2014–15	Actual 2013–14	Target 2013–14	Actual 2012–13
Quantity					
Auditor-General's reports	(number)	36	37	36	37
Quality					
Average score of audit reports by external/peer assessors	(per cent)	80	84	80	84
Overall level of external satisfaction with audit reports and services—Parliamentarians	(per cent)	85	90	85	92
Timeliness					
Inquiries from Members of Parliament and the public responded to within 28 days	(per cent)	95	98	95	99
Reports completed on time	(per cent)	90	95	90	97
Cost					
Total output cost	(\$ million)	15.7	15.1	15.3	14.5

Quantity

In relation to reporting to Parliament, each year we produce:

- performance audit reports
- reports on the results of financial audits
- a report on our examination of the state's annual financial report
- an annual plan
- an annual report.

As shown in Figure 8, this year we met our quantity targets for reports. These results are discussed in more detail below.

The reports we tabled in Parliament during 2013–14 are listed in Figure 9. Consistent with the approach used in our *Annual Plan 2013–14*, our audit reports are presented against each of the government's five goals for a stronger, fairer and safer Victoria.

[Figure 8] Performance for each category against 2013–14 targets

Product type	Target 2014–15	Actual 2013–14	Target 2013–14
Performance audit reports	28	29	28
Reports on results of financial audits	5	5	5
Report on the <i>Annual Financial Report of the State of Victoria</i>	1	1	1
Annual plan	1	1	1
Annual report	1	1	1
Total	36	37	36



Our new Information and Systems Audit team: Carlos Morin, Tonderai Nduru, Adam Muller, Sarah Chua, Ian Yaw, Karen Phillips, Annie Skelton, Shazz Alagaratnam, Rue Maharaj and Elsie Alcordo. Not pictured: Paul O'Connor and Kate Day.

[Figure 9] Reports tabled in Parliament during 2013–14

A growing economy

Apprenticeship and Traineeship Completion
Asset Management and Maintenance by Councils
Developing Transport Infrastructure and Services for Population Growth Areas
Tourism Strategies

Services that work

Access to Education for Rural Students
Accessibility of Mainstream Services for Aboriginal Victorians
Clinical ICT Systems in the Victorian Public Health Sector
Occupational Health and Safety Risk in Public Hospitals
Oversight and Accountability of Committees of Management
Prevention and Management of Drug Use in Prisons
Prisoner Transportation
Residential Care Services for Children
Shared Services in Local Government

Strong families and vibrant communities

Access to Services for Migrants, Refugees and Asylum Seekers
Implementation of the Strengthening Community Organisations Action Plan
Managing Emergency Services Volunteers
Recreational Maritime Safety

Secure water and a healthy environment

Managing Victoria's Native Forest Timber Resources
Operating Water Infrastructure Using Public Private Partnerships

Government you can trust

Administration and Effectiveness of the Environmental Contribution Levy
Asset Confiscation Scheme
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13
Impact of increased Scrutiny of High Value High Risk Projects
Implementation of the Government Risk Management Framework
Local Government: Results of the 2012–13 Audits
Managing Consultants and Contractors
Managing Telecommunications Usage and Expenditure
Performance Reporting Systems in Education
Portfolio Departments and Associated Entities: Results of the 2012–13 Audits
Public Hospitals: Results of the 2012–13 Audits
Racing Industry: Grants Management
Universities: Results of the 2013 Audits
Using ICT to Improve Traffic Management
Water Entities: Results of the 2012–13 Audits
WoVG Information Security Management Framework

Performance audit reports

A performance audit examines a program or area of government to determine whether the agency or program is achieving its objectives economically, efficiently, effectively and in compliance with relevant legislation.

This year we produced 29 performance audit reports across a wide range of topics that matter to Victorians (target 28).

Acquittal against our annual plan

The *Annual Plan 2013–14* committed tabling 28 performance audits, but listed a possible 29 topic areas, to enable us to change our work program.

We tabled 27 of the 28 performance audits planned for 2013–14.

The audit topic listed in the *Annual Plan 2013–14* that was not tabled was *Regulation of public sector insurance schemes*. This was discontinued after the initial planning phase as results at that stage found few areas where the audit would add value.

Last year's annual report advised that the *CenITex* audit would be carried forward to 2013–14 to enable management to respond to a number of reviews that had been conducted. During the year we decided to allow the planned transition of CenITex to outsourced third party providers to occur prior to undertaking an audit of its operations. We will revisit this audit topic as part of future audit planning.

Two additional audit topics identified

In order to ensure that audit effort was directed at topical areas, new audits were identified that were not listed in the *Annual Plan 2013–14*:

- *Using ICT to Improve Traffic Management*—this audit complements other recent audits that have looked at traffic congestion and our audit *Coordinating Public Transport* which will be published in 2014–15.

- *Impact of Increased Scrutiny of High Value High Risk Projects*—this audit follows the 2012–13 audit on the gateway process and is likely to be an area of ongoing focus in our 2014–15 and 2015–16 audit programs given the government's significant investment program.

Reports on results of financial audits

Our financial audit reports inform Parliament about the results of our audits of financial and non financial performance statements including matters of significance identified during the audits.

This year, we tabled five sector-based reports on financial audits, as initially planned. This is consistent with previous years.

We tabled five sector-based reports on the results of financial audits

The reports cover the following sectors:

- local government
- portfolio departments and associated entities
- public hospitals
- universities
- water entities.

Each report discusses:

- financial results
- financial sustainability of entities
- the quality of agency reporting
- an assessment of the adequacy of internal controls in relation to the focus areas identified for the particular report.

Each report includes focus areas that look at activities in more detail, providing a high-level review of the sector's performance.

In previous years we produced a combined report on the results of the tertiary education sector, however, in 2013–14 we decided to separate these into two separate reports. One report focuses on the universities sector and the other on technical and further education (TAFE) institutions. This was as a result of TAFEs and universities operating in increasingly disparate environments and being subject to different pressures on their operations. By reporting separately, the reader will be provided with greater clarity on the performance of each sector. The TAFE report on the results of the 2013 audits will table in 2014–15.

Report on the Annual Financial Report of the State of Victoria

The Auditor-General is required to audit the financial report of the state and make a report to Parliament.

VAGO uses the report to discuss significant projects and developments. This includes projects where Parliament or the public would have a reasonable expectation of timely, independent disclosure of the related financial implications, and that are not otherwise required to be reported.

The *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13*, was tabled on 26 November 2013.

Annual plan

The *Audit Act 1994* requires the Auditor-General to develop an annual plan that sets out the work program for the year and present it to Parliament.

Our *Annual Plan 2014–15* was tabled on 26 June 2014 and provides detail on our work plan for the next two years. This exceeds the legislative requirement for a one-year plan.

In developing our annual plan, we consult PAEC, as well as departments—including their audit committees—stakeholders such as peak bodies, industry bodies and subject-matter experts. Pages 38–39 discuss details of our planning approach.

Annual report

The annual report is another of our outputs. We tabled our *Annual Report 2012–13* on 4 September 2013.

Quality

To report externally on the quality of our audit reports, we use two measures:

- independent assessments of report quality
- feedback from Parliamentarians.

In 2013–14, we met our targets for quality of our reports and services. This is discussed below.

Independent assessments of report quality

The Australasian Council of Auditors-General (ACAG) has a panel of three independent assessors to conduct the review of audit report quality across participating jurisdictions. The current assessors are:

- an ex-Parliamentarian and ex-Chair of a Public Accounts Committee
- a journalist

- a member of the Board of the Australasian Reporting Awards, retired from a senior public service position.

The independent assessors read the audit report and view the online presentation. They provide an indication of the quality of our communication of audit findings.

The reports are assessed against criteria that have been agreed across the Australasian audit offices that participate. In 2013–14 the criteria for assessing reports were revised and used for the assessments this year. The criteria assessing audit scope and audit methodology were removed on the basis that assessors are not being asked to evaluate these features.

Questions relating to quantification of benefits and resource implications were also removed on the basis that most offices do not generally include this in reports. As a result of these changes, a detailed comparison with previous years' results is not shown.

Performance audit reports

In 2013–14, the following eight reports were assessed:

- *Developing Transport Infrastructure and Services for Population Growth Areas*
- *Infection Prevention and Control in Public Hospitals*
- *Managing Victoria's Native Forest Timber Resources*
- *Public Asset Valuation*
- *Racing Industry: Grants Management*
- *Shared Services in Local Government*
- *The State of Victoria's Children: Performance Reporting*
- *WoVG Information Security Management Framework*.

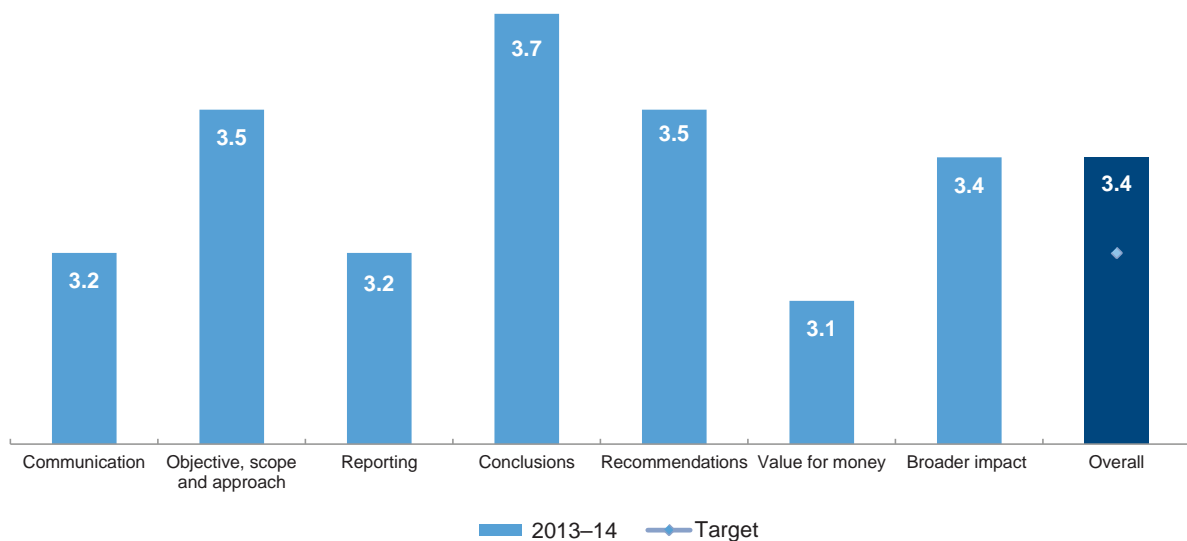
In 2013–14 we met our target for external assessments, with an average overall score of 3.4 out of 4. This is then converted into a percentage giving 84 per cent against a target of 80. This remains consistent with 2012–13, despite the change in criteria.

Detailed results for performance audit reports assessed in 2013–14 are shown in Figure 10.

'The report is an excellent example of the effectiveness of comprehensive auditing and provides a template of how to bring about improvements and efficiencies within government bodies.'

Quote from an assessor on Infection Prevention and Control in Public Hospitals

[Figure 10] Average scores (1–4) for performance audit reports against ACAG criteria



(Score range: Low=1 and High=4)

Feedback from Parliamentarians

For several years now, VAGO has requested feedback from Parliamentarians through an annual survey. This is an important part of our efforts to improve our performance and services and is collected by an accredited research company, to better assure the validity of the results.

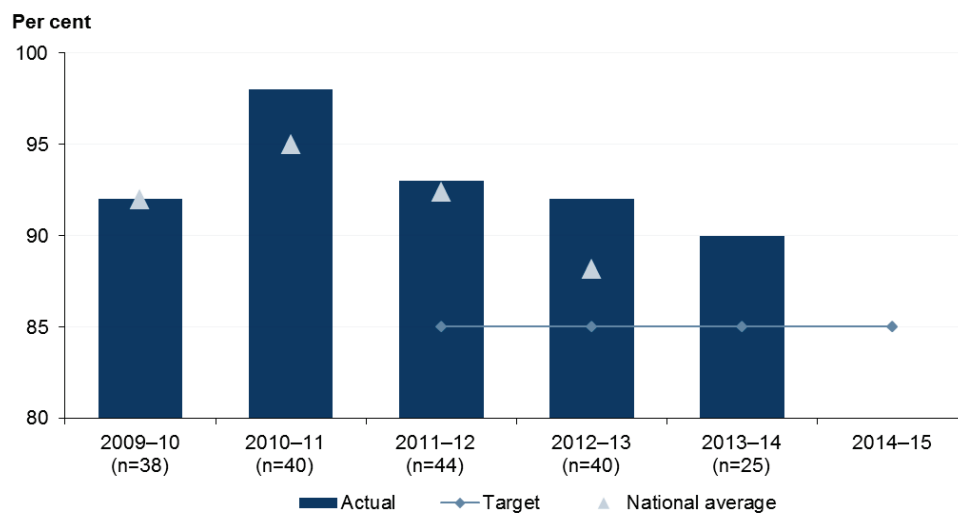
In 2013–14, 90 per cent of Parliamentarians who responded indicated they were satisfied or very satisfied overall with our reports and services, as shown in Figure 11. This exceeds our target of 85 per cent and is consistent with last year’s result (92 per cent). As in previous years and other jurisdictions, the survey response rate was low. Twenty-five Parliamentarians responded—down from last year (40 respondents). This represents 19 per cent of all Parliamentarians and results must be interpreted with caution.

See pages 12 and 42 for further discussion of feedback from Parliamentarians.

Key messages from Parliamentarian feedback

- 100 per cent of Parliamentarians who had dealings with the Auditor-General or his office rated the responsiveness as good or very good.
- 100 per cent of Parliamentarians who responded agreed that the Auditor-General’s reports and services provide valuable information on public sector performance.
- 100 per cent of respondents had referred to VAGO’s performance audit reports and financial audit reports to some extent during the year.
- 96 per cent agreed that reports communicate issues clearly.
- 83 per cent agreed that the Auditor-General’s reports and services help improve public sector administration.
- There was strong agreement that reports clearly identified the significant issues and their implications—79 per cent agreement for financial audit reports, and 95 per cent agreement for performance audit reports.

[Figure 11] Parliamentarians’ satisfaction levels with the Auditor-General’s reports and services



n = number of responses.

Target introduced for 2011–12

Timeliness

To measure the timeliness of our reports and services, we report two measures:

- reports completed on time
- timeliness of responses to inquiries.

In 2013–14, we met our targets for timeliness of our reports and services.

Reports completed on time

Each report is managed as a project with internal time lines used to set the Parliamentary tabling program. We aim to table 90 per cent of our reports within one month of the planned tabling date.

We met our target for timeliness of reports, with 35 reports (95 per cent) tabled within one month of the planned tabling date (target 90 per cent)

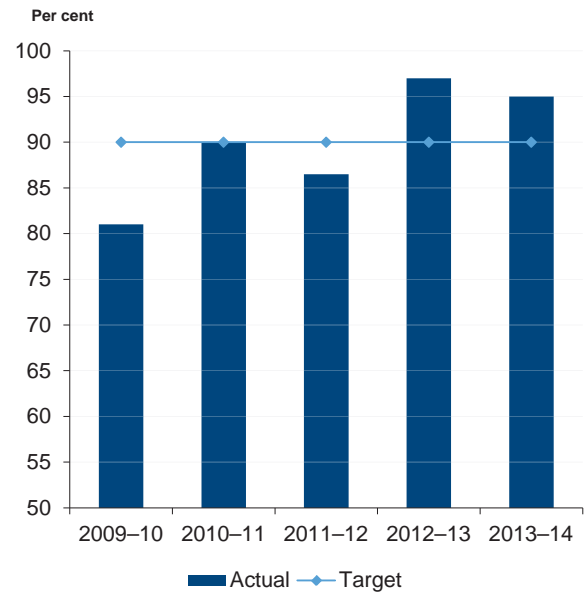
Although this year’s performance has decreased since 2012–13 (97 per cent) this is in part due to refocus of our audit attention during the year on higher value topics. As discussed on page 25 we replaced two audits from our initial work program, which resulted in a shorter time frame for the new audits.

The reports that were late are as follows:

- *Asset Management and Maintenance by Councils*, this was delayed due to internal resourcing difficulties.
- *Impact of Increased Scrutiny of High Value High Risk Projects*. This was a new audit that replaced Regulation of public sector insurance schemes. Its late commencement meant that we could not table the report according to the original audit’s schedule and led to a shorter time frame for the complex replacement audit.

We also delayed the tabling of one audit in the year, *WoVG Information Security Framework* as a number of serious breaches were identified during the audit, which were immediately reported to agencies. It was considered that communication and rectification of the issues were more important than meeting our initial tabling date. The report still tabled in 2013–14.

[Figure 12] Timeliness of report tabling



Timeliness of responses to inquiries

Parliamentarians and members of the public contact us about issues that concern them. In many cases, these inquiries seek to trigger or contribute to audit activity under VAGO’s mandate.

Inquiries can help refine the focus of our audits and are taken into consideration when developing our annual plan. The timeliness of our response to unsolicited inquiries measures our responsiveness in one of our most significant direct interactions with Parliamentarians and the general public.

In 2013–14 we responded to 98 per cent of inquiries within 28 days (target 95 per cent). This is slightly down on last year’s result (99 per cent), however, our average response time remained consistent between years at 15 calendar days.

The level of inquiry correspondence in 2013–14 increased by 16 per cent from the previous year. We received 124 letters, emails, online enquiries or phone calls:

- 10 from Parliamentarians
- 60 from the general public
- 14 from community groups
- 11 from business
- four from unions
- two from government agencies
- two from local councils
- two from the Victorian Ombudsman
- 19 anonymous.

In a year where there were few common themes to the inquiry correspondence, the continuing stream of complaints from the general public and community groups regarding private residential building industry matters stood out as the key issue of concern. This correspondence, which originally started during our 2011 performance audit, *Compliance with Building Permits*, is being used to inform the planning for our new performance audit, *Victoria's Consumer Protection Framework for Building Construction*.

Cost

VAGO was allocated \$15.4 million to deliver Output group 1—Parliamentary reports and services in 2013–14.

The cost of delivering our Parliamentary reports and services in 2013–14 was slightly below target at \$15.1 million.

This underspend was largely due to lower expenditure on external learning and development activities as we increased internal training delivered to our performance audit staff.

The cost of our performance audits ranged from \$290 000 to \$575 000 in 2013–14. The average cost was \$402 724, which is higher than last year's average (\$367 862), but still remains below our internal benchmark target (\$415 000).

The cost of our financial audit reports ranged from \$135 000 to \$225 000. The average cost per financial audit report decreased slightly from \$195 000 in 2012–13 to \$185 417.

Audit reports on financial statements

VAGO's output group 2 relates to our audit opinions on financial statements. In addition to opinions, we also issue interim and final management letters to advise agencies of issues raised in our audits.

Figure 13 outlines our performance against our measures for our audit opinions and the following section discusses this performance in more detail.

[Figure 13] Performance against output group 2 targets

Performance measures	Unit of measure	Target 2014–15	Actual 2013–14	Target 2013–14	Actual 2012–13
Quantity					
Audit opinions issued on the financial statements of agencies	(number)	559	554	559	550
<i>The lower than target result reflects a change in the number of entities subject to audit in 2013–14. The number of audit opinions issued varies each year due to changes in the number of public sector entities and their associated entities. There were 553 entities subject to audit, or review in the case of the Estimated Financial Statements, in 2013–14. One entity ceased trading in the year and subsequently had two audit opinions issued in the year.</i>					
Audit opinions issued on non-financial performance indicators	(number)	115	114	115	115
<i>Following reporting to the Public Accounts and Estimates Committee and the Department of Treasury and Finance, VAGO was advised that one entity ceased trading and therefore did not prepare a performance statement for 2013–14.</i>					
Quality					
External/peer reviews finding no material departures from professional and regulatory standards	(per cent)	100	100	100	100
Timeliness					
Audit opinions issued within statutory deadlines	(per cent)	98	100	98	100
Management letters issued to agencies within established time frames	(per cent)	90	93	90	92
Cost					
Total output cost	(\$ million)	24.0	23.8	23.4	22.7
<i>The higher 2013–14 target, when compared to the 2013–14 target published in the 2013–14 Budget, corrects an understatement of the 2013–14 output cost compared to the departmental financial statements.</i>					

Quantity

VAGO is mandated to provide financial audit opinions on the financial statements of public sector entities. In 2013–14, while our target for number of opinions issued as reported in the Budget Papers was 559, following the publication of the Budget Papers, this number was revised down as entities ceased to operate. As such, in 2013–14 VAGO was required to audit 553 entities. Figure 14 shows the type and number of entities audited.

[Figure 14] Entities the Auditor-General audits

Type of entity	2013–14
Parliament	1
Company, trust or joint venture	168
Department	13
Independent Budget Sector Agency	12
Municipal council	79
Other public bodies	101
Parliamentary body	1
Public cemetery	6
Public hospitals or ambulance	89
Regional library corporation	11
Regional waste management group	12
Superannuation fund	2
University or other educational	31
Waste management groups	1
Water authority	26
Total	553

The financial audit outputs we produce each year are:

- an audit opinion on the annual financial report of the State of Victoria
- a review report on the estimated financial statements of the state
- audit opinions on the financial statements of entities
- audit opinions on entities' non-financial performance statements (where required).

We also certify warrants for expenditure of public funds when we are satisfied that the funds are legally available, and perform acquittals of grants to the Commonwealth and Victorian governments. These are not included in our output targets.

This year we met our quantity targets for audit opinions. These results are discussed in more detail on the following pages.

Audit opinion on the annual financial report of the State of Victoria

The state's accountability framework requires the government to prepare and present consolidated whole of government financial statements to Parliament annually. The statements consolidate all the public sector entities the government controls. It excludes universities and local government entities as they are not controlled by the state.

On 27 September 2013, the Auditor-General provided a clear audit opinion on the state's annual financial report for 2013–14.

The Department of Treasury and Finance tabled the state's annual financial report, with VAGO's opinion, in Parliament on 29 October 2013.

Review of the estimated financial statements of the State of Victoria

The estimated financial statements (EFS) are another aspect of state-level finances that the Auditor-General examines.

Under the *Audit Act 1994*, the Auditor-General is required to report to Parliament on whether the:

- EFS have been prepared on a basis consistent with the accounting policies on which they are stated to be prepared
- EFS are consistent with the target established for the key financial measures
- EFS have been properly prepared on the basis that the assumptions stated and the methodologies used to determine those assumptions are reasonable.

On 2 May 2014 the Auditor-General's review report on the EFS for the Budget year-ending 30 June 2015 and the following three years was completed.

The Budget Papers, presented to Parliament on 6 May 2014, included the Auditor-General's independent review report.

Audit opinions issued on entities' financial statements

VAGO is required to provide an audit opinion on the financial statements of a wide range of public sector entities. Independent audit opinions add credibility to financial statements by providing reasonable assurance that they are not materially misstated and are presented fairly in accordance with the relevant financial reporting framework.

We issued 554 audit opinions on entities' financial statements

During 2013–14, VAGO issued 554 opinions on entities' financial statements, (four more than in 2012–13). This included the audit opinion on the annual financial report of the state, and the review report on the EFS. The lower than target number of opinions reflects a change in the number of entities subject to audit (target 559). Our financial audits are conducted either by in-house staff or by external firms engaged by VAGO, also known as audit service providers (ASP). A list of ASPs used for 2013–14 is included on page 75. All audits conducted externally are subject to quality assurance, further information on this is included on page 34.

An 'unqualified' audit opinion means that the financial statements are not materially misstated and present fairly the transactions and balances in accordance with the relevant legislative reporting framework. A 'qualified' audit opinion is issued when this is not the case.

The audit opinions on the financial statements of four entities (three in 2012–13), which represent less than 1 per cent of all audited entities, were qualified in 2013–14 because:

- the accounting treatment of non-reciprocal grants was not in accordance with Australian Accounting Standards (three entities)
- there was inherent risk associated with complete recording of cash collected through donations (one entity).

Audit opinions issued on entities' non-financial performance statements

As well as preparing financial statements some entities are required to prepare non-financial performance statements that must also be audited.

These statements report against the performance measures and targets identified in:

- an agency's budget for the local government sector, or
- Ministerial Directions for the water and tertiary education sectors.

VAGO issues an opinion on whether a non-financial performance statement is presented fairly.

We issued 114 audit opinions on entities' non-financial performance statements

In 2013–14, we issued 114 audit opinions on non-financial performance statements. This is one less than the target as the Driver Education Centre of Australia ceased trading on 31 December 2013 and as a result did not need to produce a performance statement.

The opinions comprised:

- 79 on council statements
- 16 on regional and rural water authority statements
- 14 on technical and further education institutes
- four on dual sector universities
- one on a training entity.

One entity received a qualified audit opinion on its performance statements in 2013–14 as some of the key performance indicators and targets were not included in its budget, as required for reporting (none in 2012–13).

The Auditor-General has the power under the *Audit Act 1994* to form an opinion on whether the performance statements are relevant and appropriate. This power has not been exercised in any of the local government, water or education sectors where performance statements are prepared given consistent concerns over their quality.

These concerns have been raised and reported to Parliament across our suite of reports on the results of audit over the past two to three years. From the 2014–15 reporting cycle, it is our intention to commence issuing opinions on relevance and appropriateness of performance statements in the local government, water and education sectors.

Quality

Our performance measure for the quality of our audit reports on financial statements is the proportion of external/peer reviews of our audits finding no material departures from professional and regulatory standards.

In 2013–14, external reviews were conducted on 10 financial statement audits as part of the triennial PAEC performance audit of the office. Further information on this performance audit can be found on pages 41–42 and in Appendix 3.

The reviews found no instances of material noncompliance and provided some useful areas of improvement for the office.

100 per cent of our financial statement audits reviewed complied with relevant professional standards

This meets our target (100 per cent) and is consistent with our result for 2012–13 (100 per cent).

Timeliness

There are two timeliness measures for our financial audits:

- audit opinions issued within statutory deadlines
- management letters issued to agencies within established time frames.

In 2013–14, we met our targets for our timeliness measures.

Audit opinions issued within statutory deadlines

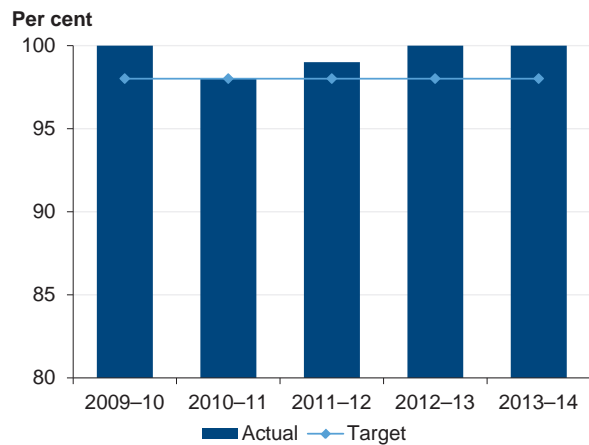
Departments and other public sector entities are required to submit their annual financial statements to the Auditor-General within eight weeks of the financial year end. According to section 9(2) of the *Audit Act 1994*, the Auditor-General must then express an opinion on the financial statements within four weeks of receipt of the statements for audit.

We issued 100 per cent of our audit opinions within the statutory deadlines.

We issued 100 per cent of audit opinions within the statutory deadlines

As shown in Figure 15, this is consistent with last year's result (100 per cent) and exceeds our target (98 per cent). It continues our trend of high performance against this target.

[Figure 15] Audit opinions issued within the statutory deadline



Management letters issued to agencies within established time frames

VAGO communicates significant issues identified from financial audits in management letters during and at the completion of an audit.

In 2013–14, we issued 93 per cent of final management letters within our established time frames. This is an improvement on last year's result (92 per cent), and well above target (90 per cent).

Cost

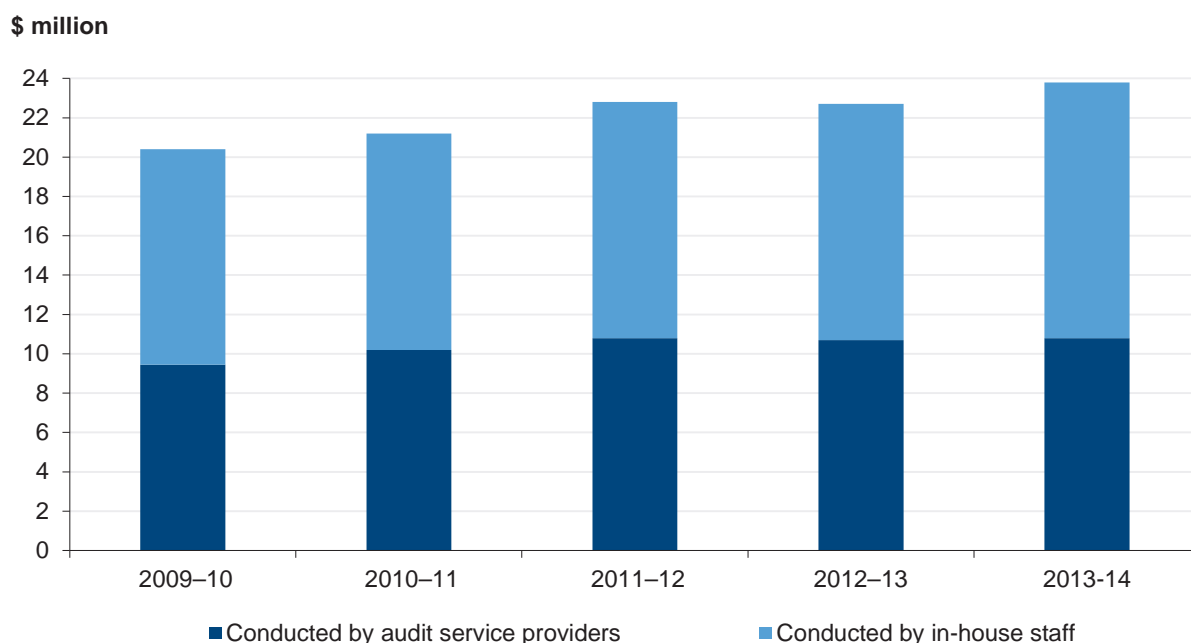
VAGO was allocated \$23.6 million to deliver Output group 2—Audit reports on financial statements.

The cost of producing our audit reports on financial statements was \$23.8 million. This is slightly above target (\$23.4 million) and increased from \$22.7 million last year due to an increase in the number of audit reports on performance statements, higher employee entitlements and increased recruitment in this area.

The cost of individual financial audits in 2013–14 ranged from \$1 200 to \$518 965, with an average cost of \$42 238 (\$41 168 in 2012–13).

The increase in the average cost of financial audits since 2012–13 is in line with CPI.

[Figure 16] Cost of audit opinions on financial statements—showing cost of ASP and in-house audits



[Figure 17] Trends in average cost of audit opinions

	Unit of measure	Target 2014–15	Actual 2013–14	Actual 2012–13	Actual 2011–12	Actual 2010–11	Actual 2009–10
Financial statement audit opinions	(number)	559	554	550	563	551	557
Cost	(\$ million)	24.0	23.8	22.7	22.8	21.2	20.4
Average cost per audit opinion ^(a)	(\$'000)	43	42	41	40	39	37

(a) The average cost calculation does not separate the cost of non-financial audit opinions, where relevant.

Our quality

At a glance

We have a range of **quality** and **assurance systems in place** over our audits and business operations **to ensure we deliver to a high standard** and **better meet the needs** of Parliament and audited agencies



Our Standards and Quality team: Paul Martin, Yvonne Paice, Matthew Zappulla, Julia Kilkenny and Stefan Kitanowski. Not pictured: Jane Watson, Michelle Kaye.

OUR IMPACT	HIGHLIGHTS	PERFORMANCE
Quality framework	<ul style="list-style-type: none"> revised our annual planning process to reflect new priorities established by the Auditor-General 	😊
	<ul style="list-style-type: none"> result of triennial performance audit—overall very positive 	😊
	<ul style="list-style-type: none"> strong results from external peer reviews of the conduct of our audits against standards 	😊
Additional continuous improvement activities	<ul style="list-style-type: none"> continued to work with other integrity bodies in Victoria 	😊
	<ul style="list-style-type: none"> continued to engage and share information with the Australasian Council of Auditors-General 	😊

Introduction

Appropriate quality control policies and procedures are critical to fulfilling our purpose to provide assurance to Parliament. The *Audit Act 1994* requires a summary of these policies and procedures in this report.

VAGO has a range of quality systems in place over our audits and our business operations. These systems and the associated activities help us to

continually raise our standards, and better meet the needs of Parliament and audited agencies. VAGO also conducts other continuous improvement activities to improve the quality and effectiveness of our operations.

This chapter discusses our quality controls and assurance activities, and our continuous improvement activities.

Quality framework

VAGO measures and monitors the quality of our audits and operations through our Quality framework. The framework brings together the quality systems and processes in place at VAGO. A key component of the framework is an internal assessment of the maturity of these systems and processes against the Australasian Council of Auditors-General's (ACAG) Governance and Audit framework. ACAG's framework covers the requirements of professional standard APES 320 *Quality Control for Firms* and Auditing Standard ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Assurance Engagements*.

Recent reviews of VAGO's compliance with the ACAG framework, including that performed by PricewaterhouseCoopers (PwC) as part of the PAEC triennial performance audit of the office, have demonstrated that VAGO has adequate systems of quality control and meets or exceeds legal and legislative requirements and professional standards applicable to public sector audit offices.

We also have a Continuous Improvement Register to monitor progress on agreed actions that come out of review activities such as internal audit reviews, post audit quality reviews, audited agency and Parliamentarian survey results, audit debriefs and external reviews.

Quality controls built into our audit processes include our:

- framework for selecting areas of audit focus
- standards-based audit methodologies.

Quality assurance activities conducted over our audits include:

- Parliamentary accountability measures
- reviews of audit processes
- ACAG assessments of audit report quality
- surveys of key stakeholders
- audit debrief process
- a challenge committee for all parliamentary reports which provides a testing ground for audits at key milestones
- benchmarking.

This section discusses these controls and activities.

Framework for selecting areas of audit focus

The quality of VAGO's reports and advice begins with the choice of the right area of audit focus. We adopt a rigorous approach to annual planning. We:

- collect input through environmental scanning, extensive stakeholder consultation, correspondence from the community, and previous findings from audits
- develop a draft list of two years of audit topics/areas of focus
- consult on the proposed audit topics/areas of focus with agencies and PAEC
- publish the annual plan.

In 2013–14 we reconsidered our approach in order to reflect the Auditor-General's priorities in terms of a focus on information systems audits, quality and increased external engagement and to respond to recommendations from the PAEC triennial performance audit. See pages 41–42 for more information on this independent audit carried out in 2013–14.

Increased transparency around audit topics was central to the changes introduced for the *Annual Plan 2014–15*. This year detail has been provided on the audits for two years, rather than one as in prior years. It is hoped that this will enable audited agencies to better prepare for audits.

The plan contains a single view of our planned program, showing the connections between the financial and performance audit elements. It reflects a more integrated approach across VAGO this year, with teams working closely to determine the most appropriate audit approach to address a given risk.

The plan has been brought in from four years to two, in line with recent recommendations made to VAGO. This will provide greater flexibility to ensure the right audits are conducted at the right time.

It provides more information about our significant deliverables including financial audits and opinions, corporate publications, and education activities.

We also disclosed the results of the extensive stakeholder consultation conducted in developing the plan, so that readers can see the key issues driving our program.

Selection of performance audit topics

With around 28 performance audits conducted each year, VAGO seeks to maximise the impact of our performance audit program.

To do this, when shortlisting potential performance audit topics, we assess the risk and materiality of the public sector activity that an audit would examine. Risks include the threat to the achievement of government objectives, and materiality includes the economic, social and environmental significance of an activity.

Some programs do not rank highly against this framework, but they may provide services that are highly topical and visible. Accordingly our performance audit topic selection process considers these programs for audit attention.

See Volume three of the *Annual Plan 2014–15* for more discussion of VAGO's performance audit areas of focus.

Selection of financial audit areas of focus

Each year, our financial auditors review key internal controls over financial systems of each government entity to assess the risk of material misstatements in the financial report. In addition, they test aspects of controls or activities in detail, to draw out and report on systemic or sector-specific issues.

These 'areas of focus' are selected based on our experience of whether issues of governance, probity, fraud, financial prudence and noncompliance are likely. The selected areas of financial audit focus are identified in VAGO's annual plan and are aligned with the following components of the financial report:

- comprehensive operating statement
- balance sheet
- explanatory note disclosures.

For each sector, two to three areas of focus are examined each year.

See Volume two of the *Annual Plan 2014–15* for more discussion of VAGO's financial audit areas of focus.

Standards-based audit methodology

Under the *Audit Act 1994*, we must comply with the standards issued by the Australian Auditing and Assurance Standards Board. These cover aspects of an audit including planning, communication, conduct, evidence, quality assurance and reporting.

We comply with all Australian auditing and assurance standards and have developed our audit methodologies based on these standards.

The *Audit Act 1994* also enables the Auditor-General to apply additional auditing standards for the conduct of audits. An additional auditing standard was applied in 2013–14, *Additional Auditing Standard 2006:02*.

Additional Auditing Standard 2006:02

This standard requires that, where auditing and assurance standards issued by CPA Australia and the Institute of Chartered Accountants in Australia have not yet been revised and reissued by the Auditing and Assurance Standards Board (AUASB), they are to be applied where they are not inconsistent with the AUASB's standards.

In 2013–14, this included the following standard issued by the Australian Accounting Research Foundation, on behalf of CPA Australia and the Institute of Chartered Accountants in Australia:

- AUS 810 *Special Purpose Reports on the Effectiveness of Control Procedures*.

Key quality controls incorporated into our audit methodologies include:

- Review of the audit program, working papers and key deliverables by the audit engagement leader or team leader, who must confirm that the audit meets professional standards.
- Assigning an engagement quality control reviewer—a senior officer not involved in the audit conduct—to review and confirm the quality of the audit and the significant judgements made by the audit team. This applies to all high-risk and material entity financial audits and all performance audits.

In addition, VAGO's Technical Issues Committee provides advice on proposed modified audit opinions.

Financial audit methodology

VAGO's financial audit approach enables us to form an audit opinion on agencies' financial statements and non-financial performance statements.

Our financial audit methodology is integrated into our electronic audit toolset, IPSAM, which was developed under a joint arrangement with the Queensland Audit Office and is in use in four other Australian jurisdictions.

Performance audit methodology

VAGO's performance audits are conducted using AmP, which was developed in-house and is our performance audit methodology and electronic database. AmP is used to document work and evidence, and assist in managing and reviewing the audit project.

AmP contains policies, guidance and standard procedures which must be followed when carrying out a performance audit.

Review of our performance audit methodology

In 2014, VAGO's internal auditors examined our performance audit methodology.

This review found that overall the methodology was satisfactory and only raised minor recommendations relating to process matters.

Methodology for reviewing the estimated financial statements

VAGO's review of the state's estimated financial statements is performed applying the principles in ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* and ASAE 3450 *Assurance Engagements involving Corporate Fundraising and/or Prospective Financial Information*.

Technical Issues Committee

The Technical Issues Committee provides advice and recommendations to the Auditor-General on proposed modifications to financial audit opinions, the appropriate policy or guidance that VAGO should adopt in relation to significant financial reporting and auditing issues, and issues affecting the legislative mandate of the office.

The committee comprises the Assistant Auditor-General, Financial Audit, relevant technical specialists from the Standards and Quality business unit, and at least two Financial Audit Directors.

After considering the advice of the committee, the Auditor-General establishes VAGO's position on the matters under consideration.

The terms of reference and composition of the Technical Issues Committee are currently being revised by the Standards and Quality team to highlight ways that matters brought to the committee can be resolved in a more timely and consistent manner.

Challenge committees

In December 2013 the Performance Audit Challenge Committee was established. This committee provides a forum for performance audit teams to demonstrate at key points that an audit is of a sufficiently high standard to progress to the next phase, or for documentation to be issued to agencies as part of the engagement process. The committee also considers audit debrief reports. The work of the committee has identified opportunities for improvements to internal processes and common themes across current audits.

The Financial Audit Committee was established in April 2014. A subgroup of this committee considers financial Parliamentary reports at key points in their cycle to satisfy themselves of the quality, accuracy, logic and rigour. The committee then determines if the approach/report is of a sufficiently high standard to progress to the next phase, or for documentation to be issued.

Parliamentary accountability measures

The *Constitution Act 1975* states that the Auditor-General has complete discretion in his or her activities and is not subject to direction from anyone.

Balancing these profound protections of independence is a suite of accountability requirements. Under the *Audit Act 1994*, we must consult PAEC when developing our annual plan and on the specification for each performance audit. This reflects that VAGO undertakes its work on behalf of Parliament.

VAGO is also subject to both financial statement and performance audits, conducted on behalf of Parliament. Our financial statements are audited annually, and every three years we are subject to a performance audit. The performance audit examines and reports on both the audit and operational aspects of VAGO.

The most recent triennial PAEC performance audit of VAGO was undertaken by PwC and commenced in July 2013. The report *Performance Audit of Victorian Auditor-General and Victorian Auditor-General's Office* was tabled on 27 November 2013. The audit report was very positive. It found that the Auditor-General and VAGO are in all material respects operating economically, efficiently and effectively and achieving our objectives under the *Audit Act 1994*.

The report contained eight strategic and 31 operational recommendations to further enhance the office's operations. We agreed to implement all of the recommendations. Our response to each recommendation is included in the final report. See Appendix 3 for more information on the results of the audit and our progress against the recommendations to date.

Reviews of audit processes

To seek assurance that our audits meet the profession's and VAGO's quality standards, we undertake 'cold' reviews of a selection of completed financial and performance audits, including audits conducted by our contracted financial audit service providers (ASP).

In 2013–14 the 'cold' reviews were done as part of the triennial performance audit. Ten financial audit and eight performance audits were reviewed.

The reviews were targeted, focusing on compliance with significant aspects of the Australian auditing and assurance standards. Although the targeted reviews did not include the examination of all work papers, the procedures performed were designed to identify instances of material noncompliance with Australian auditing and assurance standards.

Financial audits

The overall result from our cold reviews of financial audits is our performance measure of quality for Output group 2—Audit reports on financial statements.

In their report PwC noted:

- high levels of sector knowledge of the engagement leaders
- a culture of consultation and collaboration
- the depth of review by the engagement quality control reviewer.

In addition to the normal cold review process, in 2013–14 VAGO undertook a review of the existing ASP quality regime and performed cold reviews of a selection of their files.

It is intended that the results of these cold reviews will form the basis of a regular risk-based cold review program. ASP audit files were of a generally acceptable standard, however, varying practices were identified between audit firms. A number of areas for improvement were identified and communicated to ASPs.

Performance audits

In 2013–14, eight performance audits were reviewed by PwC. All audits were found to have complied with the performance assurance standards, however, a number of administrative areas of improvement were identified, which related mainly to internal documentation.

The results of the reviews were shared with performance audit staff. Actions to address the minor issues raised included reinforcing existing requirements with staff and updating performance audit training material.

ACAG assessments of audit report quality

Since 2004, a selection of VAGO's audit reports has been reviewed by independent external reviewers. The reviewers assess the quality of the report and whether it is clear and understandable to readers.

The results of the assessments are captured in the continuous improvement register and fed back in to our audit processes.

The results are also used as a performance measure of quality for Output group 1—Parliamentary reports and services. The assessment process and results for 2013–14 are discussed further on pages 26–27.

Surveys of key stakeholders

VAGO surveys a range of key stakeholders to collect feedback on our audits. The results of these surveys are used to identify new improvement initiatives and monitor progress on existing initiatives. The surveys are run by an independent survey company to better assure the validity of the results, and high-level results are published on VAGO's website.

In 2013–14, we surveyed:

- Parliamentarians
- audited agencies—in relation to both performance and financial audits.

Surveys of Parliamentarians

VAGO surveys Parliamentarians and results are used as a performance measure of quality for Output group 1—Parliamentary reports and services.

The overall results were positive, however, the response rate was very low and the outcomes need to be assessed with caution, as discussed on page 28.

Surveys of audited agencies

Surveys of audited agencies were previously output quality measures. To provide the data for these measures, VAGO carried out a:

- biennial survey of chief financial officers on the financial audit experience
- survey of contacts nominated by the audited agency on every performance audit.

An overall index is generated based on average ratings across all three areas—audit process, audit reporting, and value of the audit to the agency—expressed as a score out of 100.

In 2013–14, the results from the survey of chief financial officers on their financial audit experience identified an overall score from agencies of 76.8. This is 1.5 per cent lower than in 2011–12. The audit value score of 76.3 was 3.7 per cent higher than 2011–12. The audit process and reporting scores were slightly lower than previous years, being 77.3 and 76.7 respectively. This marks a 4.2 per cent decrease in the process score and 3.5 per cent drop on the reporting score in comparison with the previous result.

For each of our performance audits, VAGO surveyed agencies on their perceptions of the audit process, reporting and value. The performance audit results for 2013–14 continue the steady improvement over recent years and in 2014 the overall result was the highest achieved to date.

Over recent years, survey results have been monitored to assess the impact of activities which aimed to increase the clarity of audit reports, better understand the audited agency's environment, and improve communication with audited agencies—including earlier notification of significant issues identified during an audit.

While results this year for effective communication showed an increase, results for the organisation being promptly informed of significant issues, and for understanding of the agency's environment dropped.

Debrief process

At the end of every performance audit we internally conduct an audit debrief to reflect on and identify positives and areas for improvement on future audits. Quantitative and qualitative information is collected about each report, and areas for improvement identified are considered in future activities. Each debrief is now considered by the Performance Audit Challenge Committee.

The lessons and outcomes from audits are shared with staff and used to inform staff training materials.

Benchmarking our activities

VAGO cooperates with audit offices across Australia in measuring quantitative and qualitative benchmarks of the operations of audit offices and specific characteristics of each jurisdiction. We use the results of this benchmarking to identify priority areas for improvement.

Two of the measures compare audit office costs as a proportion of total state assets and transactions. In 2013–14, VAGO's audit cost as a proportion of:

- public sector transactions was 0.30, compared to the state/territory average of 0.37
- public sector assets was 0.12, compared to the state/territory average of 0.16.

These results compared with other offices as expected because, while Victoria performed better than the national average, this should be interpreted with caution given the differences between jurisdictions and audit offices.

When allowing for the fact that overall we produce a higher proportion of performance audits, we feel we are performing well on these measures.

Additional continuous improvement activities

VAGO also conducts other activities to improve the quality and effectiveness of our office.

Working with other integrity bodies

Increasingly, there are occasions when VAGO sees merit in working with other integrity bodies on projects. We are largely prevented by the *Audit Act 1994* from sharing information collected during the course of an audit. We work within these limitations.

Recent changes to our legislation, as part of the reform of Victoria's integrity system, have necessitated interactions between Victorian integrity bodies, including mandatory notification of some matters and the capacity to receive referrals and share information with other integrity bodies.

While to date there has been no sharing of confidential audit information, there is the potential for coordinated investigations, and VAGO has commenced its mandatory reporting process.

VAGO provided support during the establishment phase of Victoria's Independent Broad-based Anti-corruption Commission (IBAC). We also have a representative on IBAC's ongoing Prevention and Education Advisory Group.

Engaging with the Australasian Council of Auditors-General

In 2013–14 VAGO continued to be actively involved in the national and international development of public sector audit, through our participation in ACAG.

Involvement in ACAG brings significant benefits to the quality of our work, allowing VAGO to:

- learn from good practice and innovations in other public sector audit offices

- contribute to the development of national and international regulatory and professional standards frameworks that govern our audit practice
- receive independent and expert external assessments of our work.

Highlights of our 2013–14 ACAG activity included:

- sharing good practice through three meetings of ACAG and eight meetings of ACAG specialist sub-groups in financial reporting and auditing, performance audit, practice management and quality assurance
- participating in ACAG's quality assurance programs of peer review and external assessment of reports to Parliament, including revision of the assessment criteria
- reviewing and improving the national ACAG Quality Framework, which provides a detailed quality assurance framework for all aspects of public sector audit office operations and ensures compliance with relevant international quality standards
- engaging on a nationally coordinated approach to audits of key programs governed by intergovernmental agreements
- participating in shared performance audit training
- comparing organisational activity and performance data via the ACAG Macro-Benchmarking Survey
- beginning research into potential shared performance indicators for audit quality
- completing a comparative analysis of Australian public sector audit legislation and identifying opportunities for Victoria to update the *Audit Act 1994* by drawing on good practice in other jurisdictions.

Our organisation

At a glance

Good governance is critical to our performance



Governance, Legal and Strategy team members in discussion

OUR IMPACT	HIGHLIGHTS	PERFORMANCE
Executive management	<ul style="list-style-type: none"> appointed two new Assistant Auditors-General enhanced our governance committees' structure 	<p>😊</p> <p>😊</p>
Risk and audit	<ul style="list-style-type: none"> internal audits undertaken of VAGO's Management Analysis and Reporting System (MARS), budget management, workforce planning, performance reporting, ICT general controls and Performance Audit planning, policy and methodology 	<p>😊</p>
Legislation and policy	<ul style="list-style-type: none"> no complaints received about us under either of our complaints policies complied with all legislation and policy requirements 	<p>😊</p> <p>😊</p>
Environmental management	<ul style="list-style-type: none"> purchased 50 per cent green power and reduced energy use recycled 76.2 per cent of total waste 	<p>😊</p> <p>😊</p>
Contribution to capacity building	<ul style="list-style-type: none"> assisted Tuvalu's participation in a cooperative performance audit of climate change and disaster risk and recovery across the Pacific region 	<p>😊</p>

Introduction

VAGO's governance arrangements are critical to our organisational performance. We also contribute to building the capacity of international peers in our region, sharing systems, practices and insights.

This chapter discusses our executive management structure, risk and audit, legislation and policy and contribution to capacity building.

Executive management

Our executive provides advice and counsel to the Auditor-General to assist with the delivery of his statutory objectives as described in the *Audit Act 1994*. With the arrival of the 26th Auditor-General a number of changes have been made in this area.

New executive structure

During 2013 the executive structure was changed to reflect the priorities of the new Auditor-General.

The previous position of Chief Operating Officer was reclassified as the position took on increased responsibility, including assuming the full responsibilities of the Sworn Acting Auditor-General in the absence of the Auditor-General. The Chief Executive Officer position was established, and it was agreed that the position as Deputy Auditor-General should also be reflected in the title.

Two new Assistant Auditor-General positions were created:

- the Assistant Auditor-General, Information Systems Audit who leads a team responsible for reviewing information systems and controls as part of financial audits and providing specialist capabilities to support audit work, providing expertise in data mining and analysis, and developing new modes of delivering audits
- the Assistant Auditor-General, Standards and Quality who leads a team responsible for our whole-of-organisation approach to quality and professional standards, ensuring that the same clear core principles underlie our quality framework across the board.

The previous position of Director, Policy and Coordination Directorate was reclassified as the business unit took on additional responsibilities during 2013–14. These include strategy, media and planning activities. The business unit was renamed Governance, Legal and Strategy and the Executive Director, Governance, Legal and Strategy was established.

With the changes in the structure, and the new additions to our senior management, the executive has worked hard towards strengthening our innovative and positive work culture.

Executive members are the:

- Auditor-General
- Deputy Auditor-General / Chief Executive Officer
- Assistant Auditor-General, Financial Audit
- Assistant Auditor-General, Performance Audit
- Assistant Auditor-General, Information Systems Audit
- Assistant Auditor-General, Standards and Quality
- Executive Director, Audit Support Group
- Executive Director, Governance, Legal and Strategy.

Remuneration of executives is discussed on pages 54 and 118.

The executive manages the day-to-day operations of the office via weekly meetings, regular planning days and committees.

Governance committee structure changes

The committee structure was also changed to reflect the Auditor-General's priorities.

The Operations Committee was established in March 2014, with a specific focus on sustaining the capability and performance of VAGO's workforce, and guiding information security, technology communications and management advancements. In addition, its responsibilities include monitoring office performance against the strategic and business plans, reviewing external feedback and monitoring compliance.

The Performance Audit Challenge Committee oversees the progress of performance audits against milestones as well as providing a testing ground for audit conclusions and recommendations and was established in December 2013.

The Financial Audit Committee monitors progress of the financial audit program, the development of the financial Parliamentary reports and the performance of audit service providers and was established in April 2014.

The Independent Advisory Group is the last one to be established and this will occur in the latter half of 2014. Members will be external to the office and will have a range of expertise and experience. Their views on areas to be audited, how the audit office can improve the impact of audits as well as their understanding of the office's role will be explored.

The following committees have been retained:

- Remuneration Committee (see page 54)
- Technical Issues Committee (see pages 40–41)
- Audit Committee (see page 51)
- Accredited Purchasing Unit (APU).

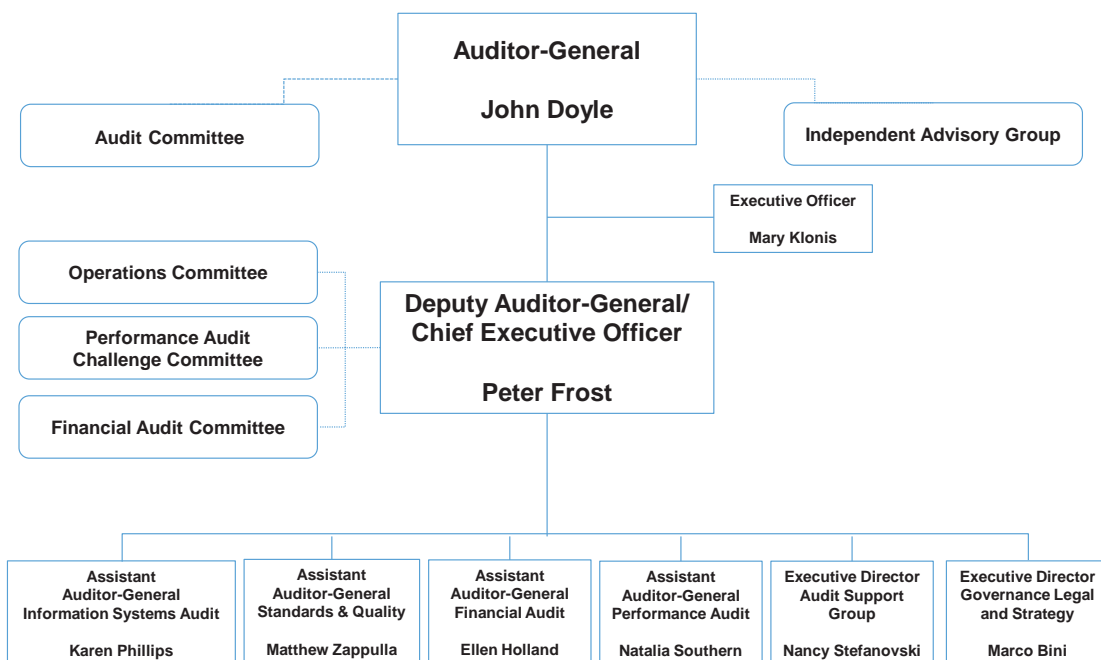
All the above committees report directly to the Auditor-General.

The subcommittees listed below report to the Operations Committee:

- Occupational Health and Safety (see page 66)
- Recognition Review
- Staff Consultation and Development Group (see page 65).

Our organisational structure is illustrated in Figure 18.

[Figure 18] Executive management organisational chart (as at 30 June 2014)



Auditor-General of Victoria

John Doyle, MBA, MAcc, FCPA, FCA, CIA, PFIIA, FCCA (United Kingdom), CPA, FCA (Canada)



John Doyle commenced as Auditor-General of Victoria in July 2013. John was previously Auditor General of British Columbia (2007–13) and Deputy Auditor General of Western Australia. John was an Associate Professor and Head of the School of Accounting and Finance at

the University of Notre Dame in Western Australia, and has also held the position of Chief Financial Officer in a number of organisations in Western Australia.

John exercises his audit powers and functions under the *Constitution Act 1975* and the *Audit Act 1994* and reports to the Parliament of Victoria.

Assistant Auditor-General, Financial Audit

Ellen Holland, BBus (Acc), FCPA, MIPAA



Ellen was appointed Assistant Auditor-General, Financial Audit in March 2011 after 17 years in the Performance Audit Group, including three years as Senior Director. Before moving to Performance Audit, Ellen held various positions in the Financial Audit Group.

As Assistant Auditor-General Financial Audit, Ellen managed the Financial Audit Group and contributed to the office's strategic and business unit planning.

Ellen retired from VAGO on 30 June 2014.

Deputy Auditor-General / Chief Executive Officer

Peter Frost, BA, BLitt, MPhil, MEd, PhD



Peter was appointed VAGO's Chief Operating Officer in January 2007. Peter has extensive senior public sector management experience, gained primarily in the Victorian public sector, higher education and international development with the Commonwealth

Secretariat, World Bank and Asian Development Bank.

Peter provides strategic leadership and performance auditing policy direction to achieve the effective discharge of the mission and outcomes sought by the Auditor-General. He also provides leadership to all of the business units within VAGO.

Assistant Auditor-General, Performance Audit

Natalia Southern, BBus (Hons), MPubPol



Natalia joined the Auditor-General's Office in May 2012. Natalia is an economist with experience in a range of Commonwealth and state policy and regulatory bodies. Prior to joining VAGO, Natalia was a senior consultant at ACIL Tasman where she

advised government and private sector clients on energy, water and transport sector issues.

Natalia manages the Performance Audit Group and contributes to the office's strategic and business unit planning.

Assistant Auditor-General, Standards and Quality

Matthew Zappulla, BCom, FCA



Matthew joined the Auditor-General's Office in April 2014. Prior to joining VAGO, Matthew was a director at PwC responsible for overseeing the implementation of assurance methodologies and technologies, including

addressing the impact of changes to guidance and standards, designing and delivering technical and professional training and overseeing inspection and review activities.

Matthew manages the new Standards and Quality team which is responsible for maintaining professional standards and implementing and monitoring our quality frameworks and systems.

Executive Director, Audit Support Group

Nancy Stefanovski, BSc (Hons), Grad Dip Ed



Nancy was appointed Executive Director, Audit Support Group in September 2012 after five years in the Performance Audit Group as a Senior Audit Manager and Business Manager. Nancy's previous experience in the public sector includes contract management, reporting and evaluation.

Nancy provides strategic advice on business solutions and is responsible for the Finance, Reports and Communications, Information Technology and Services, and People and Culture Units.

Assistant Auditor-General, Information Systems Audit

Karen Phillips, BBus (Acc), BComp, MIMS



Karen joined the Auditor-General's Office in April 2014. Prior to joining VAGO, Karen was a director at PwC specialising in systems assurance, internal controls, internal audit and business continuity management.

Karen manages the Information Systems Audit Group and contributes to the office's strategic and business unit planning.

Executive Director, Governance, Legal and Strategy

Marco Bini, BCom, LLB, MCom, LLM, MPubPol



Marco joined the office in September 2007 and was appointed Director of the Policy and Coordination Directorate (PCD) in January 2009. Marco has significant public sector experience including with the Department of Premier and Cabinet, WorkCover, and the State Revenue Office. In 2014 the

functions of PCD were expanded and the business unit was renamed Governance, Legal and Strategy (GLS). Marco provides a range of legal, policy and administrative advice to the office and manages the GLS team which provides a range of internal policy, governance and strategy services.

Risk and audit

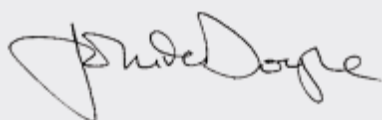
Risk management

VAGO's office-level risk management is conducted and monitored through our risk register, which is reviewed annually as part of VAGO's business planning processes. The register is updated and reported on monthly to the Operations Committee and quarterly to VAGO's Audit Committee—discussed on page 51.

The following is an attestation on VAGO's compliance with the Australian/New Zealand Risk Management Standard:

I, John Doyle, certify that the Victorian Auditor-General's Office (VAGO) has risk management processes in place consistent with AS/NZS ISO 31000:2009 (or an equivalent designated standard) and an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures.

The Audit Committee verifies this assurance and that the risk profile of VAGO has been critically reviewed within the last 12 months.



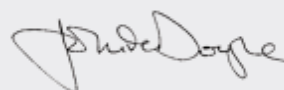
John Doyle
Auditor-General
6 August 2014

Insurance

Current Victorian policy requires public sector agencies to assess their risk exposure and manage that risk appropriately. These requirements are in place to ensure that insurance decisions are embedded in a broader risk management framework, and that departments and agencies bear the ultimate accountability for protecting the resources they manage on behalf of the state.

The following is an attestation that VAGO is insured appropriately, having regard to relevant government guidelines and the Standing Directions of the Minister for Finance.

I, John Doyle, certify that the Victorian Auditor-General's Office has complied with Ministerial Direction 4.5.5.1—Insurance.



John Doyle
Auditor-General
6 August 2014

Internal audit

Moore Stephens, Accountants and Advisers, are appointed as VAGO's Internal Auditor for the period August 2010 to June 2015. The Internal Auditor reports to VAGO's Audit Committee. A three-year internal audit program has been approved by the Audit Committee and the following reviews were carried out in 2013–14:

- Budget Management
- VAGO's Management Analysis and Reporting System (MARS)
- Workforce Planning
- Performance Reporting
- ICT General Controls
- Performance Audit Planning, Policy and Methodology.

Audit Committee Chair's report (year ended 30 June 2014)



Sara Watts, Audit Committee Chair

All committee members are independent, non-executive members who are appointed by the Auditor-General for a term of three years and are eligible for reappointment subject to a formal review of the member's performance by the Auditor-General. The Audit Committee has appropriate financial and industry expertise. All members are financially literate and have an appropriate understanding of the operation of the office.

Sara Watts was appointed Chair from 1 January 2014. Prior to 1 January, Joanna Perry was Chair of the Audit Committee. The members of the Audit Committee for the year ended 30 June 2014, their qualifications and attendance at meetings, are set out below.

Committee member	Meetings attended	Meetings held
Sara Watts (Chair from 1 January 2014) BSc, MBA, GAICD, FCPA Chief Financial Officer, IBM Australia and New Zealand	4	4
Joanna Perry (Chair until 31 December 2013 when term ended) MNZM, FCA MA New Zealand professional non-executive director	2	2
Kerry Jacobs BComm, MCom(Hons), PhD, FCPA, FCA Professor of Accounting, UNSW at ADFA, Canberra	4	4
Lyn Baker BA, MBA, GAICD Non-executive director and consultant	4	4
Derek Parkin (appointed 1 January 2014) BComm, CTA, FCA, CPA, FAICD Non-executive director Professor of Accounting, University of Notre Dame Australia, Fremantle	2	2

The responsibilities of the Audit Committee are defined in its charter which is approved by the Auditor-General.

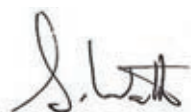
The responsibilities of the committee include:

- to review the external auditors' proposed approach and review, assess and recommend to the Auditor-General the adoption of the annual financial report
- to determine the scope of the internal audit function and review its effectiveness
- to oversee the effectiveness of the risk management plan
- to monitor compliance with relevant legislation, regulations and guidelines.

In fulfilling its responsibilities at each meeting the Audit Committee has considered a monthly management report, a risk register report and received briefings from the Auditor-General on his activities and issues affecting the office. During the course of the year the Audit Committee has considered:

- policies and procedures in place for the development of VAGO's annual plan, quality assurance processes, and the development of budget estimates
- systems of control for conflicts of interest and the monitoring of those systems
- the annual financial report for the year ended 30 June 2013 and recommended its adoption by the Auditor-General, at the time of signing the Audit Committee has also reviewed the annual financial report for the year ended 30 June 2014 and recommended its adoption by the Auditor-General
- the closing report from the external financial auditor for the year ended 30 June 2013, which identified no significant issues, at the time of signing the Audit Committee has also reviewed the closing report for the year ended 30 June 2014, which again identified no significant issues
- status and review reports from the internal auditor, which include management's response to matters raised by internal audit. The internal auditor advised that there were no significant weaknesses in any of the areas of work undertaken during the year which were Business Continuity Plan and Disaster Recovery Plan, Information Management Framework, Budget Management and a Business System (MARS) review. The Audit Committee also reviewed the Internal Audit Charter and the Strategic Internal Audit Plan for 2014–15
- the office's risk management policies and procedures and reports and noted that risks were being appropriately identified, monitored and addressed by the office
- whether the office has appropriate policies and practices in place to review and implement, where appropriate, recommendations from external reviews, including parliamentary committee inquiries.

The Audit Committee has met in camera with the external financial auditors, the Auditor-General and the internal auditor, provided an annual report to the Auditor-General and undertaken a self-assessment.



Sara Watts (Chair)

6 October 2014



Our Audit Committee in session

Legislation and policy

There is a range of state and federal legislation and policy which VAGO must comply with, and report on in this report.

In addition, VAGO has a range of policies in place to direct staff activities in relation to finance, people and culture, information systems and technology, and governance.

Audit opinion delegations

The Auditor-General can delegate the authority to sign audit opinions under section 9 of the *Audit Act 1994*. Under the Act, VAGO must report the names of persons to whom the Auditor-General delegated the power to sign financial audit opinions.

There were two delegation policies in place during 2013–14, as the policy under the former Auditor-General was effective until its replacement on 1 August 2013.

Under the previous policy the Auditor-General signed audit opinions for certain material and high-risk entities, including the opinion on the Annual Financial Report of the State of Victoria and delegated the authority to sign audit opinions for other agencies to Sector Directors, Financial Audit.

With the arrival of the new Auditor-General the Audit Opinion Delegations policy was revised. This now states that the Auditor-General signs the audit opinions on the financial reports of:

- Parliament, and the associated superannuation fund
- key government accountability documents—i.e. Annual Financial Report and Estimated Financial Statements
- central agencies and other departments with a primary policy development role or underpinning law and order.

The Auditor-General also signs the audit opinions for other agencies as determined from time to time whose financial operations are significant in economic and infrastructure terms in the whole-of-government context.

Under a formal instrument, the Auditor-General delegated the authority to sign other audit opinions under section 9.

The delegation attributes were further revised and in order to be eligible to receive a delegated power to sign audit opinions an officer within VAGO must have all of the following:

- an appropriate tertiary qualification in accounting or similar discipline
- ongoing full membership of CPA Australia or the Institute of Chartered Accountants in Australia or their international equivalents, including compliance with the continuing professional development requirements of the professional body
- a substantive or acting VPS classification of EO3 or above.

In 2013–14, this delegation applied to 10 individuals.

Audit opinion delegations

In 2013–14, the following individuals had this delegation:

Peter Frost
Ellen Holland
Simone Bohan
Craig Burke
Travis Derricott
Charlotte Jeffries
Tim Loughnan
Ron Mak
Joanne Marsh
Anna Higgs.

Building Act

VAGO does not own or control any government buildings and, therefore, has no responsibilities under the *Building Act 1993*.

DataVic Access Policy

In August 2012, the Victorian Government endorsed the DataVic Access Policy for implementation throughout the Victorian public service, with a view to full implementation of the policy by September 2013.

The purpose of the DataVic Access Policy is:

- to enable public access to government data to support research and education, promote innovation, support improvements in productivity and stimulate growth in the Victorian economy
- to enhance sharing of, and access to, information-rich resources to support evidence based decision-making in the public sector.

VAGO did not upload any datasets during 2013–14, and will consider the information that may be uploaded in the future.

Executive remuneration

VAGO's remuneration policy supports our strategic goals and business objectives, and is consistent with our human resources management strategies and policies.

The Remuneration Committee is responsible for this policy, and monitoring the executive officer annual performance appraisal process and salary review. This committee comprises the Auditor-General, the Manager, People and Culture, and an independent member—in 2013–14, this was Ms Liz Roadley.

See page 118 for further discussion of executive remuneration.

Freedom of information

The *Freedom of Information Act 1982* provides the community the right to access, as far as possible, information held by the Victorian Government.

Section 20A of the *Audit Act 1994* broadly precludes us from disclosing information we gather during an audit to a third party, other than reporting to Parliament. Section 20B of the *Audit Act 1994* also precludes third parties from accessing any audit-related information and documents we hold.

Our administrative processes, however, come under the state's freedom of information legislation. There were no applications received by VAGO under this legislation in 2013–14.

Information on what VAGO does in relation to the *Freedom of Information Act 1982*, how we act, what information we hold and how to access the information is available in our Part II Information Statement, published on the VAGO website: www.audit.vic.gov.au. See also Appendix 6.

Freedom of information requests

Requests for access to non-audit-related information and documents we hold can be made to the Executive Director, Audit Support Group:

Via email:

nancy.stefanovski@audit.vic.gov.au

In writing:

**Freedom of Information
Victorian Auditor-General's Office
Level 24, 35 Collins St
Melbourne 3000**

Managing and responding to complaints

VAGO has two complaints policies—*Managing complaints about the conduct of audits* and *Managing complaints about matters other than audits*. These policies require us to make publicly available an annual summary of complaints received and any trends arising.

In 2013–14, there were no complaints made under either policy, therefore no trend analysis is possible.

National Competition Policy

The Victorian Government is part of the inter-governmental Competition Principles Agreement. The principle of this policy is to not restrict competition. VAGO is compliant with the National Competition Policy, including compliance with requirements of the Department of Treasury and Finance's Competitive Neutrality Policy.

Overseas travel

All overseas travel by VAGO staff must be approved by the Auditor-General. In 2013–14, VAGO sent the following staff overseas:

- A manager, Performance Audit departed 30 March 2014 to Cardiff for the beginning of a study tour which includes Belfast, Dublin, London and Edinburgh. She is due to return to Melbourne in September 2014.
- The Auditor-General travelled to Canada in April 2014 to attend the ACAG / CCOLA forum in Toronto.
- A senior manager, Governance Legal and Strategy also travelled to Canada in April 2014 to attend the ACAG / CCOLA forum in Toronto.

Oversight by the Victorian Inspectorate

The Victorian Inspectorate was established in 2012 as part of the reform of Victoria's integrity systems. The Inspectorate has monitoring and oversight functions in respect of certain integrity bodies including VAGO.

The Inspectorate's role is to review and assess the use of coercive powers by these bodies, to ensure that those powers are exercised appropriately, proportionately and in accordance with the law. The Inspectorate also has power to receive and investigate complaints about the Auditor-General and VAGO officers.

In 2013–14, VAGO did not formally exercise its coercive powers. Therefore, VAGO had nothing to report to the Inspectorate and the Inspectorate did not review any of VAGO's activities.

Protected disclosures

To enable and encourage people to make disclosures about improper conduct within the public sector, Victorian legislation protects the confidentiality and welfare of these individuals and sets up a system to investigate disclosed matters.

In February 2013, the *Whistleblowers Protection Act 2001* was replaced by the *Protected Disclosure Act 2012*. This substantially altered VAGO's responsibilities and VAGO can no longer receive protected disclosures of any kind—previously VAGO could receive disclosures about VAGO officers—and therefore no longer has a Protected Disclosure Coordinator.

Disclosure about VAGO officers may now be made to the Independent Broad-based Anti-corruption Commission or the Victorian Inspectorate. Other public officers or bodies that can receive protected disclosures are listed on VAGO's website.

VAGO has new responsibilities to establish procedures for the protection of persons making, or involved with, investigations of protected disclosures. These were established by 10 August 2013 as required. These procedures can be accessed by VAGO staff through our central repository of internal policies and guidelines.

External guidance on VAGO's changed responsibilities was also developed in this time frame, and is available at http://www.audit.vic.gov.au/about_us/corporate_information/whistleblowers.aspx.

Victorian Industry Participation Policy

In October 2003 the Victorian Parliament passed the *Victorian Industry Participation Policy Act 2003* that requires public bodies and departments to report on the application of the Victorian Industry Participation Policy (VIPPP). This is intended to promote employment and business growth by expanding opportunities for local industry.

Departments and public bodies are required to apply VIPPP in all procurement activity of more than \$3 million in metropolitan Melbourne and \$1 million in regional Victoria. VAGO did not commence or complete any procurement activity that was subject to VIPPP during 2013–14.

Environmental management

Environmental management has been a focus at VAGO for a number of years, as we recognise the role we play in making Victoria more sustainable for future generations. We aim to minimise our:

- consumption of energy, water, paper and other materials
- waste generation
- environmental impact from travel and other business activities.

In 2013–14 we maintained and implemented initiatives identified in our *ResourceSmart* strategy, which aimed at helping us make the environment central to our planning, operations and policy decisions.

Governance

The Environmental Management Committee provides advice and recommendations to the Operations Committee and our Leadership Group on improving VAGO's environmental management. The committee's responsibilities include:

- developing VAGO's environmental management strategy and monitoring progress
- conducting education and awareness activities about sustainability, and encouraging VAGO staff to make environmentally sustainable and cost effective choices
- championing sustainability initiatives across the office.

In 2014–15, the committee will continue to assist with delivery of the environmental management strategy as well as developing new environment initiatives targeting further possible areas for improvement and striving for better practice.

Environmental performance

VAGO monitors its environmental performance against seven focus areas. We collect data on each of these areas to help us understand our environmental impact, identify areas for improvement and to allow us to benchmark our performance against other jurisdictions.

Comprehensive reporting is available on our website, and is audited by NetBalance.

We are also rated by the National Australian Built Environment Rating System (NABERS), which is a performance-based rating system that rates a building on the basis of its historical measured operational impacts on the environment.

Our overall NABERS rating in 2013–14 was 3.5 stars. This is below the general aspirational government target of 4.5 stars. It is, however, similar to other equivalent offices and is largely due to our building fit-out.

The following section summarises our performance against focus areas in 2013–14.

Energy use

VAGO's energy use is mostly attributable to our lighting, computer servers and ventilation. We purchased 50 per cent green power in 2013–14, a reduction from 100 per cent in 2012–13 due to a change in the government contract to a new electricity supplier.

This year, we reduced our energy use per FTE by 0.9 per cent, although our total energy usage increased compared with 2012–13.

Our energy use for 2013–14 was 4 804MJ/FTE, which is substantially below the government average of around 7 000MJ/FTE. Given VAGO is an office-based organisation, this is an appropriate energy usage level.

Waste production

In 2013–14, we recycled 76.2 per cent of our total waste. This result is below our goal of 80 per cent, however, compares well to other equivalent offices where the average is around 50 per cent.

We compared well to other similar government agencies, producing 63.4kg/FTE of waste. This is below our strategy target of 71kg/FTE and the average for equivalent offices of around 100kg/FTE. This strong performance is largely due to our behaviours in relation to recycling.

Our volume of landfill waste increased from 10.1 to 15.1kg/FTE (50 per cent) which puts us above similar offices (around 10kg/FTE/year). In 2014–15 we will focus on both increasing the recycling rate and minimising overall waste production.

Paper use

Our paper use increased in 2013–14 from 17.8 to 18.7 reams/FTE (5.1 per cent), this includes 5.2 reams/FTE used to print publications. The copy paper usage of 13.5 reams/FTE is still high compared with the average for equivalent offices of around 12 reams/FTE.

VAGO is investigating further options for reducing the number of reports we print, and internally we are seeking to become a 'paperless' office, to improve our environmental performance, reduce costs associated with printing, and improve our efficiency. Technology solutions are being trialled to deliver against these goals.

Water consumption

VAGO's water consumption rose in 2013–14 to 6.8kL/FTE from 4.4kL/FTE. This is still in line with good practice.

Transportation

VAGO's main transportation usage is through travelling to agencies as part of our audit conduct. Staff also travel to participate in conferences, audit and accountability industry meetings, and to peer offices for secondments and other learning opportunities. Figure 19 shows the impact of vehicle use and flights taken by VAGO staff.

[Figure 19] Vehicle use and flights taken by VAGO staff

	2013–14	2012–13
Vehicles (fleet vehicles and hire vehicles)		
kilometres travelled	215 855	217 338
tonnes CO ₂ -e	46.2	43
Flights (short/medium/long haul)		
kilometres travelled	264 890	211 524
tonnes CO ₂ -e	69.3	50.9

The kilometres travelled by our total vehicle use decreased but our CO₂ emissions increased 7.4 per cent to 46.2 tonnes. This was a result of less fuel efficient vehicles in 2013–14.

Taxi trips by staff increased from 532 to 793, resulting in an increase in CO₂ emissions of 1.8 tonnes to 4.7 tonnes.

The number of kilometres travelled on flights increased substantially in 2013–14. This is substantially a result of increased trips within Australia, mainly to liaise with other audit offices and to present at or attend conferences.

Greenhouse gas emissions

Greenhouse gas emissions provide an overall combined measure of the impact of the above measures—energy use, waste production, paper use, water consumption and transportation—as well as the greenhouse gas emissions from our office refrigerators.

VAGO's greenhouse gas emissions for 2013–14 were 1.8 tonnes/FTE. This is an increase from 2012–13 (0.9 tonnes/FTE), largely due to the inability to purchase green electricity in the period from July to December 2013 as a result of government contract arrangements. It is, nonetheless, still below the average consumption by equivalent offices of 2.0 tonnes/FTE.

Procurement

VAGO's *Procurement and Purchasing Policy* commits us to sustainable purchasing planning and practices to reduce environmental impacts and to support suppliers that demonstrate a commitment to environmental initiatives and performance.

In relation to office supplies, purchasing considers the environment as well as other aspects such as price and availability.

Contributing to capacity building

International engagement

VAGO shares insights, systems and practices with international stakeholders to help them grow capacity and knowledge. We also participate in secondment and internship programs with government organisations and universities from around the world.

Over the past few years, VAGO has focused our engagement with international stakeholders to target those with information needs relevant to VAGO's work. Implementation of our International Engagement Policy, better coordination with ACAG and improved external communication has assisted international visitors in determining whether a visit to VAGO is right for them. As a result, there have been fewer delegations received this year, however, the quality of the experience for our international visitors has improved, with more engaged and relevant discussions and exchanges.

Appendix 2 lists the international delegations, placements and secondments for 2013–14.

Pacific Association of Supreme Audit Institutions (PASAI)

PASAI is the official association of supreme audit institutions in the Pacific region and is our regional chapter of the International Organisation of Supreme Audit Institutions (INTOSAI). PASAI is funded through AusAid to provide capacity building programs to public sector audit offices in the Pacific region.

The Australian National Audit Office (ANAO) and Auditor-General of New Zealand are members of PASAI. PASAI also encourages the public sector audit offices of Australian States and Territories to engage with PASAI programs and members, to add further support to that offered by the ANAO and Auditor-General of New Zealand.

VAGO's support for PASAI members is targeted through a 'twinning' framework agreed between ACAG and PASAI, based on the framework in place between Australian and Pacific Parliaments. Under this framework, Australian public sector audit offices are 'twinned' with Pacific offices, to focus our assistance and support. VAGO was allocated Nauru and Tuvalu, reflecting the allocation of countries to the Parliament of Victoria. To date, VAGO's assistance has been focused on Tuvalu, which has a more mature audit function.

In 2013–14, our key support for Tuvalu has been to support their involvement in a flagship PASAI program, a cooperative performance audit of climate change and disaster risk and recovery across the Pacific region. Senior VAGO staff attended PASAI workshops and worked closely with Tuvalu staff as they planned their audit. Following the workshops, VAGO audit teams provided ongoing 'help desk' assistance via email, offering advice on audit materials, methodology and evidence.

VAGO's contributions to this PASAI capacity building program were recognised at a meeting in May 2014 of the INTOSAI regional Working Group for Environmental Auditing, where VAGO's 'help desk' approach was acknowledged as a good practice example of the kind of support Australian public sector audit offices could provide Pacific colleagues. Our hands on involvement in PASAI audit workshops was also commended.

Our people

At a glance

Our people are key to our **success** and so we seek to provide rigorous **performance** planning, **challenging work**, flexibility and a **collaborative culture**



Financial Audit Sector Directors: Travis Derricott, Roberta Skliros, Tim Loughnan, Anna Higgs, Craig Burke. Not pictured: Charlotte Jeffries, Ron Mak, Simone Bohan

OUR IMPACT	HIGHLIGHTS	PERFORMANCE
Workforce capacity	• 185 staff in total, with 168 ongoing and 17 fixed-term or casual	😊
	• eighty-eight per cent of staff hold a bachelor degree or higher	😊
	• staff spent 8.9 days on average in training	😊
	• study assistance was provided to 33 members of staff	😊
Employment and conduct	• all occupational health and safety measures met	😊
	• six injuries were reported under our occupational health and safety policy, and there were no critical incidents	😊

Introduction

Our people are key to the success of our organisation. We value them and seek to provide rigorous performance planning and management, challenging work, flexible work arrangements and a

close-knit, collaborative culture. We also make sure we have a safe and healthy workplace.

This chapter discusses our workforce, employment and conduct, and the workplace.

Workforce capacity

VAGO staff numbers are reported in accordance with the financial reporting direction FRD 29, and employees have been correctly classified in workforce data collections.

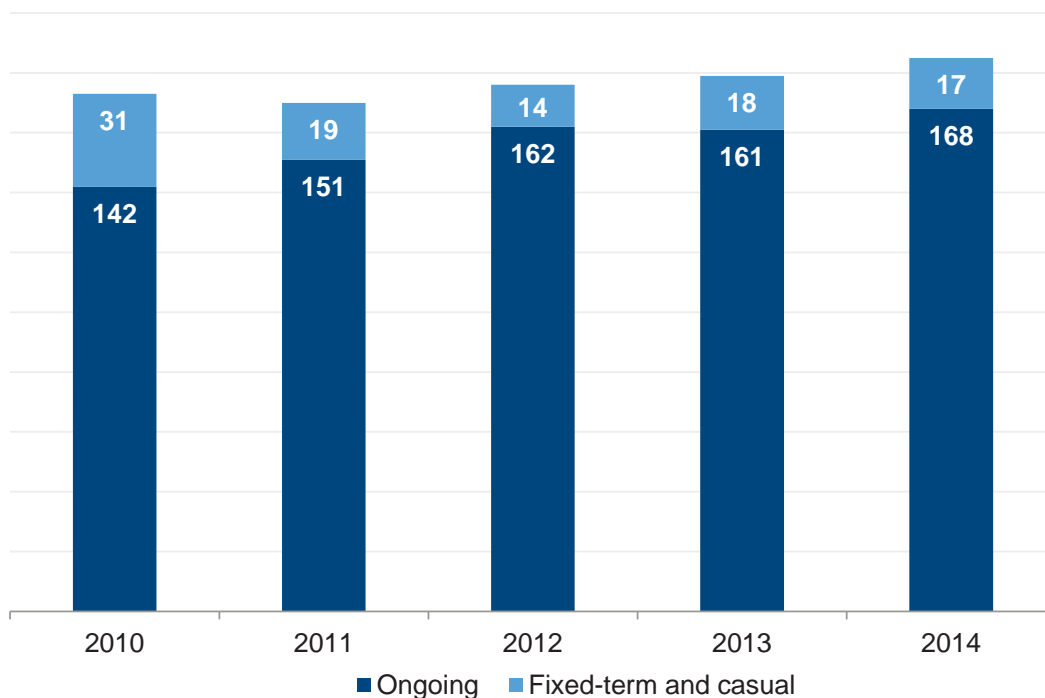
At 30 June 2014 we had 185 staff—168 ongoing staff and 17 fixed-term or casual staff.

Our staff profile

Of our 168 ongoing staff, 144 work full-time and 24 work part-time. All of our 17 fixed-term and casual staff work full-time.

Figure 20 shows our trend in employee numbers over the past five years, and Figure 21 shows our workforce by gender, age and classification.

[Figure 20] Trend in employee numbers from 2010 to 2014 (headcount)



[Figure 21] Employee profile by gender, age and classification ^{(a) (b)}

	2013–14						2012–13					
	Headcount			FTE			Headcount			FTE		
	O ^(c)	F/C ^(d)	Total	O ^(c)	F/C ^(d)	Total	O ^(c)	F/C ^(d)	Total	O ^(c)	F/C ^(d)	Total
Overall	168	17	185	160.4	17.0	177.4	161	18	179	153.9	17.2	171.1
Gender												
Male	74	6	80	72.8	6.0	78.8	70	8	78	69.0	7.7	76.7
Female	94	11	105	87.6	11.0	98.6	91	10	101	84.9	9.5	94.4
Age												
Under 25	9	1	10	9.0	1.0	10.0	11	1	12	11.0	1.0	12.0
25–34	60	8	68	58.2	8.0	66.2	69	7	76	67.0	6.5	73.5
35–44	52	5	57	47.9	5.0	52.9	40	5	45	36.5	5.0	41.5
45–54	28	2	30	26.9	2.0	28.9	23	3	26	21.8	2.8	24.6
55–64	18	0	18	17.4	0.0	17.4	17	1	18	16.6	1.0	17.6
Over 64	1	1	2	1.0	1.0	2.0	1	1	2	1.0	0.9	1.9
Classification												
VPSG2	7	1	8	7.0	1.0	8.0	6	0	6	6.0	0.0	6.0
VPSG3	34	5	39	33.2	5.0	38.2	38	3	41	37.0	3.0	40.0
VPSG4	32	2	34	31.0	2.0	33.0	30	4	34	29.4	3.5	32.9
VPSG5	29	5	34	26.8	5.0	31.8	29	4	33	26.5	4.0	30.5
VPSG6	35	3	38	32.2	3.0	35.2	33	4	37	30.5	3.8	34.3
VPSG7 ^(e)	5	1	6	4.6	1.0	5.6	6	2	8	5.5	1.9	7.4
Executive	25	0	25	24.6	0.0	24.6	19	1	20	19.0	1.0	20.0
Auditor-General	1	0	1	1.0	0.0	1.0	0	0	0	0.0	0.0	0.0

(a) All figures reflect active employees during the last full pay period in June each year.

(b) Excluded are those on leave without pay or absent on secondment, external contractors/consultants, and temporary staff employed by employment agencies.

(c) 'O' refers to *ongoing employees* and includes people engaged on an open-ended contract of employment and executives engaged on a standard executive contract who were active in the last full pay period of June 2014.

(d) 'F/C' refers to fixed-term or casual employees.

(e) The VPSG7 (also known as Senior Technical Specialist) roles at VAGO comprise four specialist senior auditing roles, one senior accounting role and one senior standards and quality role.

Executive information

VAGO reports separately on executive officers, as required by FRD 15B. This information is also available to Members of Parliament and the public on request.

Figure 22 shows the breakdown of executive officers by classification, gender and variance.

All VAGO's executive officers are responsible for ongoing functions or outputs and none are conducting special projects. Figure 23 shows our executive remuneration and vacancies, and reconciles with our financial report.

[Figure 22] Number of executive officers by classification

Classification	Total (ongoing) ^(a)		Vacancies No.	Male		Female	
	No.	Var. ^(b)		No.	Var.	No.	Var.
EO1	1	1	0	1	1	0	0
EO2	5	2	0 ^(c)	2	1	3	1
EO3	19	0	0	12	0	7	0
Total	25	3^(d)	0	15	2	10	1

(a) All VAGO's executive officers are responsible for ongoing functions or outputs and none are conducting special projects.

(b) Var. refers to variance to figures reported for June 2013.

(c) The Assistant Auditor-General Financial Audit position is not included as a vacancy as Ellen Holland retired on 30 June 2014 and is therefore included for reporting purposes.

(d) The variance in executive employment between June 2013 and June 2014 is as a result of three new executive positions at EO2 level (Assistant Auditor-General, Information Systems Audit, Assistant Auditor-General, Standards and Quality, and the reclassification of Director, Policy and Coordination Directorate, formerly a VPSG7 to Executive Director, Governance, Legal and Strategy), and the reclassification of the Chief Operating Officer from EO2 to EO1 level (now the Deputy Auditor-General/Chief Executive Officer).

[Figure 23] Reconciliation with executive numbers

	2014	2013
Executives employed with total remuneration over \$100 000	20	19
Vacancies	0	3
Executives employed with total remuneration below \$100 000	6	2
Accountable officer ^(a)	1	0
Secondment ^(b)	-1	0
Separations	0	-1
Total executive numbers at 30 June	26	23

(a) The Auditor-General is VAGO's Accountable Officer.

(b) One executive officer was seconded to the Department of Education and Early Childhood Development in April 2014 and was not an active employee at VAGO during the last full pay period in June 2014.

Recruitment and retention

The office has committed to the rollout of a strategic recruitment model to support attraction and retention strategies. The aim of the model is to attract potential candidates for difficult to fill roles, particularly within Performance Audit at the manager level, and more broadly across Financial Audit, Performance Audit, Information Systems Audit and Standards and Quality business units.

Voluntary turnover is considered to be resignation from an ongoing position or a request to terminate a fixed-term contract early.

In 2013–14, the overall voluntary turnover was 12.4 per cent, compared with 5.6 per cent in 2012–13, reflecting the increase in opportunities in the external labour market.

VAGO made one exemption from notification of vacancy for ongoing positions in 2013–14.

This was a Senior Technical Specialist 7.1 role. The role had been filled on a fixed-term contract which had been extended over a period from 29 March 2010 to October 2013. In October the Chief Executive Officer/Deputy Auditor-General approved the appointment of the incumbent on the basis that they had been in the role for over three and a half years, had acquired considerable organisational knowledge and had demonstrated the competencies required to perform the role effectively.

The incumbent had also met their performance targets, had niche skills relating to public sector management, and due to their skills, knowledge and experience would likely have been the preferred candidate were the position advertised.

[Figure 24] Departures from VAGO

Year	Employees (Headcount)		Full Time Equivalent (FTE)		Voluntary turnover rate (per cent)
	Ongoing	Fixed-term and casuals	Ongoing	Fixed-term and casuals	
2009–10	14	16	14.0	16.0	17.3
2010–11	27	19	26.4	18.8	19.7
2011–12	21	12	19.7	11.8	11.9
2012–13	7	3	6.3	2.7	5.6
2013–14	17	6	16.9	6.0	12.4

Employee qualifications, development and training

The work of an audit office requires people that are highly qualified. VAGO's staff are professionally qualified and accredited in a broad range of disciplines. Many of our staff are qualified in the accounting field, and we also have economists, forensic accountants and staff with other qualifications, such as IT, policy, business and public sector administration.

Eighty-eight per cent of all VAGO employees have a qualification at bachelor level or higher, in comparison to the 60 per cent for public sector employees reported in the 2013 Victorian *People Matter Survey*. Twenty-three of our staff hold two or more bachelor degrees, and six have a PhD. A breakdown of qualifications by staff type is shown in Figure 25.

In addition, our financial auditors are required to undertake professional accounting accreditation from CPA Australia or the Institute of Chartered Accountants in Australia (CA). All financial audit staff have to be accredited by these organisations or a similar overseas organisation. In 2013–14, 33 VAGO employees had CPA accreditation (including six CPA Fellows), 28 had CA accreditation (including two CA Fellows). Five staff members had accreditation from similar overseas organisations (including the Association of Chartered Certified Accountants and the Chartered Institute of Public Finance and Accountancy).

We also invest in learning and development for our staff. In 2013–14, VAGO staff spent on average 8.9 days in training, which represents a slight increase on the 8.5 days in 2012–13.

This includes hours spent in training provided by VAGO and was delivered at a total cost of \$430 323. Learning and development expenditure includes expenditure on training providers, study assistance, external course and seminar attendance, coaching, and professional memberships. The overall cost does not include the salary cost for staff hours spent receiving or delivering training.

Study assistance

VAGO continues to support lifelong learning and development through our Study Assistance Program. Employees are able to apply for assistance in the form of reimbursement of study fees, study/examination leave, or both.

In 2013–14, 33 employees were approved to access study assistance. The majority of these employees were supported to continue their CPA or CA (70 per cent). Other qualifications that were undertaken by VAGO employees with our support included a Bachelor of Law, Masters of Science (Applied Statistics), Masters of Business, Masters of International Relations and Masters of Social Policy.

[Figure 25] Qualifications of VAGO staff by business unit

	Total staff with a tertiary qualification (per cent)	Bachelor degree held (per cent)	Postgraduate degree held (per cent)
All VAGO staff	88	88	36
Performance Audit staff	100	98	61 ^(a)
Financial Audit staff	97	97	24
Other staff	69	69	28

(a) One employee holds a postgraduate degree without holding a bachelor degree.

Employment and conduct

Careers@VAGO Pathways Framework

Our strategic recruitment model has been underpinned by the development and implementation of the new Careers@VAGO pathways framework, which offers VAGO staff an articulated career and professional pathways. Managers and staff identify specific training activities and competency requirements for each VPS level/role in the organisation. This process is completed as part of the overall performance development review process.

Staff cultural alignment survey

VAGO's main source of information about the quality of our management of people, culture and performance is our biennial staff cultural alignment survey. Our most recent survey was conducted in 2012–13, the results of which were included in last year's report, however, we have continued to implement measures that should help strengthen our culture, including the new strategic recruitment model and the Careers@VAGO Pathways Framework.

The next planned survey will occur in 2014–15.

As part of our triennial performance audit, PwC identified that there has been a significant improvement in the staff morale across VAGO and that the organisation has been increasingly active in addressing previously identified staff issues. As part of the audit a number of focus group sessions were held and the report also highlighted that the feedback from staff surveys and focus groups clearly indicates that VAGO is a preferred employer.

PwC also explored the topic of cohesion and collaboration during focus groups and noted that there is separation of business units, however, this was seen to be intentional and effective. They also identified that cross-team collaboration had improved significantly.

Further work will be carried out in these areas over the next year as we seek to strengthen our collaborative culture.

Staff Consultation and Development Group

This group provides a channel of communication between staff and management on matters directly affecting the culture and business of the office, contributes to the implementation of the strategic direction and values of VAGO, and promotes relevant, useful professional development of staff at VAGO.

The group comprises representatives at various levels across the organisation.

Meetings are also attended by the Executive Director, Audit Support Group, as a representative of VAGO's executive, and a representative from the People and Culture team. The Auditor-General and the Deputy Auditor-General attend at least one meeting a year.

In 2013–14, the group continued its program of guest lectures for staff, contributed to organisational projects, including in relation to staff mental health and intranet redevelopment, provided a forum for discussion of change management, and sought to convert existing sources of information into accessible staff resources.

Towards the end of 2013–14, the group sought to increase its role and impact in contributing to organisational operations and culture. This was reflected in revised terms of reference. Looking forward, the group intends to conduct a project to examine organisational culture in 2014–15.

Merit and equity

VAGO is obliged to comply with a range of federal and state legislation in relation to merit and equity, as well as the relevant Victorian Public Sector Standards and Guidelines.

VAGO has a range of policies and procedures in place to support the organisational commitment to making our workplace free from discrimination, harassment and bullying, including:

- an Ethical Behaviour policy to promote and support the VAGO values
- Code of Conduct for Victorian Public Sector employees of special bodies
- Victorian Charter of Human Rights
- Bullying and Diversity policy which seeks to prevent staff from engaging in bullying, unlawful discrimination, vilification, harassment or victimisation of employees or others.

In support of these policies, a number of mandatory training sessions are required to be undertaken by staff including:

- training in merit-based recruitment practices for all staff participating in recruitment panels
- a code of conduct to help staff understand the behavioural standards they must meet as officers of the public service.

Occupational health and safety

VAGO is an office-based work environment, with staff making off-site visits. The *Occupational Health and Safety Act 2004* sets out the key principles, duties and rights in relation to occupational health and safety (OH&S) in Victoria.



*OH&S Committee members: Natalia Southern, Linda Pemberton, Fei Wang, Richard Foale and Kitty Gordon.
Not pictured: Jan Carrigg.*

VAGO's OH&S management emphasises individual health, and includes a strategy to identify and manage hazards associated with psychological health. VAGO has an OH&S policy and a range of other policies in relation to the working environment such as a WorkCover policy.

In 2013–14, there were six injuries reported under our OH&S policy, and no critical incidents. There were no new workers' compensation claims over the reporting period. Over the year:

- OH&S workplace inspections of all areas of the workplace were conducted in addition to off-site agency workplaces as necessary, to identify hazards and agree on solutions to remove or minimise them
- staff members were required to complete an annual e-learning module on OH&S to reinforce the safe working message
- free flu vaccinations were once again offered to staff in April 2014
- we initiated a trial of lighter lap-top computers, specifically for our audit staff in the field, which we aim to roll out further in 2014–15 when the final results of testing have been analysed.

Our performance indicators for OH&S are reported in Figure 26.

[Figure 26] Performance against OH&S performance indicators

Performance indicator	Met?	Performance
All new and existing staff are offered ergonomic assessments and required products are sourced and purchased	✓	All staff have been offered an ergonomic assessment within two weeks of commencement
All claims received are lodged with WorkCover within five working days	N/A	No new claims received in 2013–14
All reported incidents and accidents are followed up within 24 hours and closed as soon as practicable	✓	100 per cent
Return to work plans are in place, as soon as practicable and regularly monitored until complete	N/A	No new return to work plans in 2013–14
Report on the number of claims and costs is provided to the Leadership Group as required	✓	Reported as required
Coordinate and chair the OH&S committee and schedule quarterly meetings	✓	Four meetings held in 2013–14, meeting the requirements of the <i>Occupational Health and Safety Act 2004</i>

Work arrangements

We have continued to offer flexible work arrangements for staff, following the review in 2012–13 in response to increasing requests for flexible working arrangements and new legislative obligations for employers to provide flexible working conditions. We encourage our staff to take advantage of the arrangements available to them.

Declaration of interests

All executive officers and business unit managers have completed statements declaring whether their interests, shares in, and other benefits from business enterprises could give rise to a conflict of interest, and there were no such conflicts.

Contributing to our organisation and the wider community

Our staff engage in a range of activities that contribute both to our own vibrant organisation and more broadly in the wider community as we seek to be good corporate citizens.

The Social Club offers fun and active ways for staff to get connected with their colleagues. We also offer special leave entitlements for some of the volunteer work undertaken across the office.

Social Club

The Social Club at VAGO arranges many events throughout the year to promote teamwork and maintain a high level of staff morale. In 2013–14 VAGO staff participated in numerous events including the Corporate Games, the Cancer Council's Biggest Morning Tea, futsal competitions, social trivia nights, social movie nights and other social functions. The Social Club's Christmas and End of Financial Year functions are always a highlight and enjoyed by the whole office.

The Social Club also conducts numerous fundraising activities for various charities including Aloha Australia, Sane, Good Friday Appeal, Cancer Council, Movember, National Breast Cancer Foundation, and Bush Heritage Australia.

In 2013–14 the Social Club raised over \$3 000 which was distributed to these charities.



One of our 2014 Futsal teams

Volunteering

In 2013–14, a diverse range of volunteering activities was undertaken by our staff, ranging from being involved in community radio and sporting groups to providing community legal advice and donating to blood banks.

The Auditor-General took on responsibility as a volunteer Puppy Educator for Assistance Dogs Australia, a national charity that trains Labradors and Golden Retrievers to perform everyday tasks for people with disabilities.

Rufus, the Victorian Auditor-General's puppy, is now seen on a regular basis within the office and accompanies the Auditor-General as he performs his daily tasks.



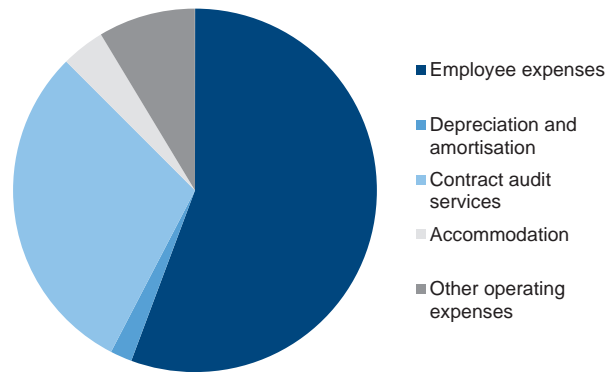
Rufus and Auditor-General, John Doyle

Our financial management

At a glance

We received a **clear audit opinion** from our auditor—
 ‘...the financial report presents fairly, in all material aspects, the financial position of the Victorian Auditor-General’s Office... and of its financial performance’

Our expenditure in 2013–14



OUR IMPACT	HIGHLIGHTS	PERFORMANCE
Financial performance	<ul style="list-style-type: none"> small deficit of \$0.04 million revenue increased 0.8 per cent expenditure increased 5 per cent 	😊 😊 😊
Consultancies and contractors	<ul style="list-style-type: none"> we engaged three consultants with total fees over \$10 000 and six consultants with total fees less than \$10 000 we engaged 29 contractors for performance audit services and 23 audit firms (36 partners) for financial statement audit services 	😊 😊

Financial performance

Our net financial result for the year was a deficit of \$0.04 million (compared with a surplus of \$1.5 million in 2012–13). The movement in terms of both revenue and expenses is discussed below.

Figure 27 shows the movement in both actual revenues and expenses.

[Figure 27] Revenues and expenses, 2013–14 and previous four years

	2013–14 (\$'000)	2012–13 (\$'000)	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)
Revenue					
General appropriation	15 179	14 661	13 959	13 612	13 433
Special appropriation	495	362	456	447	445
Section 29	23 191	23 136	22 547	21 899	20 829
Section 32 carry-over	–	344	–	200	360
Other	89	151	158	332	643
Total revenue	38 954	38 654	37 120	36 490	35 710
Total expenses	38 994	37 197	36 542	35 974	34 928
Surplus/(deficit)	(40)	1 457	578	516	782

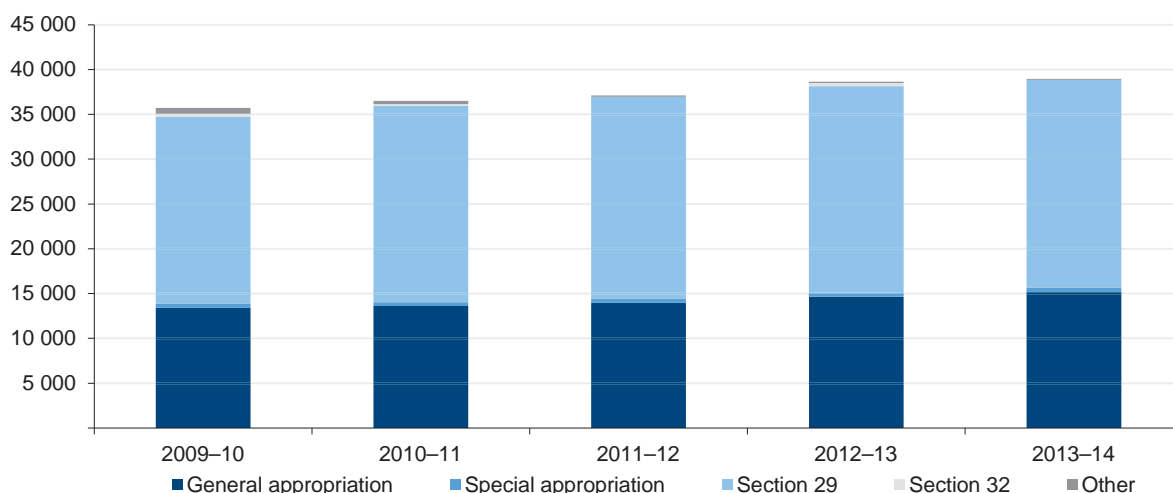
Revenue

VAGO is funded through Parliamentary appropriations and *Financial Management Act 1994* section 29 revenue.

Revenue increased only marginally in 2013–14 mainly due to the absence of carry-over

appropriation from 2012–13. There were also lower additional/unscheduled ASP fees and decreased cost recovery from staff secondments. Our special appropriation increased in light of the appointment of a new Auditor-General. The previous Auditor-General left part way through 2012–13.

[Figure 28] Source of VAGO funding over the past five years



Expenses

VAGO spends most of its budget on employees, contract audit services and a number of miscellaneous expenses within the 'other expenses' category, such as accommodation and supplies and services.

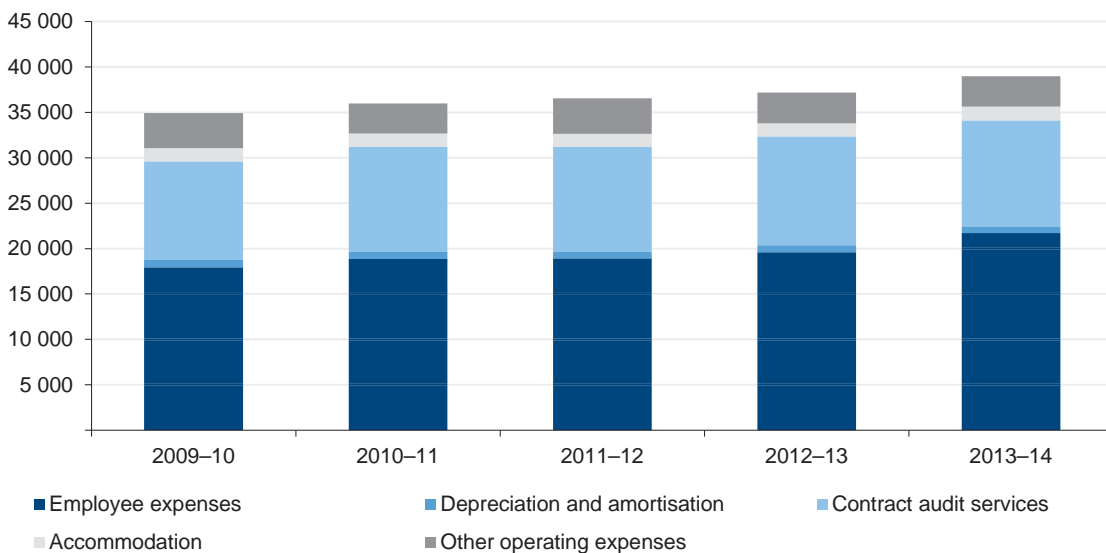
Expenditure in 2013–14 increased mainly as a result of termination benefits, general price increases and the appointment of a significant number of senior members of staff.

There were also losses from an upward revaluation of long service leave provisions—following a decrease in the discount rate. This is offset by the lower use of contractors for performance audits, lower consultancy costs following preparation for the triennial external review in 2012–13, lower special reports printing costs, a lower capital asset charge, and lower costs associated with fewer external training activities.

[Figure 29] Expenses from ordinary activities for 2013–14 and previous four years

Item	2013–14 (\$'000)	2012–13 (\$'000)	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)
Expenses					
Depreciation and amortisation	753	802	732	764	801
Employee expenses	21 714	19 587	18 917	18 862	17 946
Contract audit services	11 652	11 956	11 531	11 558	10 859
Rental expenses – accommodation	1 509	1 462	1 477	1 475	1 454
Other expenses	3 366	3 390	3 885	3 315	3 868
Total expenses	38 994	37 197	36 542	35 974	34 928

[Figure 30] Expenses, 2013–14 and four previous years



Output results

The financial results for our two output groups were:

- Output group 1—Parliamentary reports and services**—Output costs are higher by \$0.7 million due to higher employee costs, higher recruitment costs, and losses from an upward revaluation of long service leave provisions. This is offset by lower contract costs, lower consultancy fees as a result of finalising preparation for the external triennial review, lower special reports printing costs and lower expenditure on external training.
- Output group 2—audit reports on financial statements**—Output costs were higher by \$1.1 million due to higher employee entitlements, higher recruitment spend, and losses from an upward revaluation of long service leave provisions—offset by lower external training expenditure.

[Figure 31] Total revenues and expenses attributed to outputs for 2013–14 and 2012–13

Output group	2013–14			2012–13		
	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)
1. Parliamentary reports and services	15 398	15 155	243	15 255	14 472	783
2. Audit reports on financial statements	23 556	23 839	(283)	23 399	22 725	674
Total	38 954	38 994	(40)	38 654	37 197	1 457

Financial position

Our financial position at 30 June 2014 remained strong, with total assets of \$16.3 million, total liabilities of \$8.2 million and net assets of \$8.1 million.

[Figure 32] Asset and liability movement over five years

Item	2013–14 (\$'000)	2012–13 (\$'000)	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)
Financial assets	13 965	12 930	10 755	9 734	8 361
Non-financial assets	2 326	2 518	2 690	2 978	2 991
Total assets	16 291	15 448	13 445	12 712	11 352
Total liabilities	8 217	7 333	6 787	6 631	5 787
Net assets	8 074	8 115	6 658	6 081	5 565

Other financial matters

Financial report

Pursuant to Standing Direction 4.2 of the *Financial Management Act 1994*, the financial statements of government departments must be presented fairly and in accordance with the requirements in the model financial report. The annual report of the Victorian Auditor-General's Office complies with this requirement.

Consultancies

In 2013–14, we engaged three consultancies where the total fees payable to the consultants were greater than \$10 000. Details of these consultancies are outlined in Figure 33. We also engaged six consultancies where the total fees payable to the consultants were less than \$10 000, with a total expenditure of \$19 510 (excluding GST).

[Figure 33] Details of individual consultancies – payments in excess of \$10 000 in 2013–14

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (excluding GST)	Expenditure 2013–14 (excluding GST)	Future expenditure (excluding GST)
Birch Consulting Group	Provision of a Learning and Development Framework	5 Dec 2013	30 Dec 2013	\$31 500	\$31 500	–
Cube Management Solutions	People and Culture process review	20 Jan 2014	9 May 2014	\$19 950	\$19 950	–
Dimension Data Australia P/L	Remote access infrastructure consulting	2 Sept 2013	15 Oct 2013	\$18 577	\$18 577	–

Performance audit contractors

In 2013–14, we paid \$0.8 million (\$1.2 million in 2012–13) to 29 contractors for services related to our performance audits. The decrease in use of performance audit contractors is largely due to increased reliance on internal staff contribution to audits.

[Figure 34] Payments to performance audit contractors, 2013–14

Performance audit contractor	2013–14 (\$'000)	2012–13 (\$'000)
Aperium Pty Ltd	0	36
Australian Survey Research Group Pty Ltd	47	41
Certitude Pty Ltd	10	46
Clear Horizon Consulting Pty Ltd	23	0
Deloitte Touche Tohmatsu	21	0
E W Russell & Associates Pty Ltd	8	93
HLB Mann Judd (Vic) Pty Ltd	0	101
J H Resources Pty Ltd	94	145
Monash University	28	0
Ovum Pty Ltd	4	33
P S Consulting	69	56
Paul Edney	13	16
P G Rorke	155	143
Pivotal Point Consulting Services	0	83
Pitt Group	196	0
Replete Group	0	46
Synergistiq Pty Ltd	28	0
The Allen Consulting Group	23	26
Trusted Impact	22	201
Victoria University	18	0
Wallis	20	0
Other – 10 service providers (18 in 2012–13)	54	175
Total	833	1 241

Financial audit service providers

In 2013–14, we paid \$10.8 million (\$10.7 million in 2012–13) to 23 audit firms (36 partners) that provided services related to our financial statement audits.

[Figure 35] Payments to financial audit service providers, 2013–14

Financial audit service provider	2013–14 (\$'000)	2012–13 (\$'000)
Accounting and Auditing Solutions	56	45
BDO East Coast Partnership (previously Pannell Kerr Forster)	21	29
Coffey Hunt & Co	546	462
Crowe Horwath Albury (previously WHK Audit & Risk Assessment)	184	107
Crowe Horwath Melbourne (previously WHK Horwath)	1 122	959
Crowe Horwath Vic (previously WHK Audit (Vic))	591	582
Davidsons	39	34
Deloitte Touche Tohmatsu	529	678
DFK Collins	154	109
Ernst & Young	912	1 366
Grant Thornton Audit Pty Ltd	96	78
HLB Mann Judd (Vic) Pty Ltd	2 229	2 062
Johnsons MME	355	322
KPMG	12	141
LD Assurance	177	154
McLean Delmo Bentleys (previously McLean Delmo Hall Chadwick)	263	279
MGR Accountants Pty Ltd (previously Mulqueen Griffin Rogers P/L)	99	97
Richmond Sinnott & Delahunty	916	875
RSM Bird Cameron	1 660	1 266
UHY Haines Norton (Vic) Pty Ltd	764	930
University of Melbourne ^(a)	63	52
Other—two service providers (three in 2012–13)	31	88
Total	10 819	10 715

(a) The University of Melbourne was engaged to assist in the review of the estimated financial statements. While the University of Melbourne is also one of the entities the Auditor-General is required to audit, it has not been engaged by VAGO directly or indirectly to audit its own financial statements.

Financial report

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Declaration

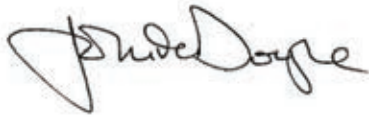
Accountable officer's and chief financial officer's declaration

The attached financial statements for the Victorian Auditor-General's Office (VAGO) have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2014 and financial position of VAGO at 30 June 2014.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 6 October 2014.



John Doyle
Auditor-General
Victorian Auditor-General's Office

Melbourne
6 October 2014



Chiang Yip
Chief Financial Officer
Victorian Auditor-General's Office

Melbourne
6 October 2014

Independent auditor's report



Independent Auditor's Report to the Auditor-General

Report on the Financial Report

We have audited the accompanying financial report of the Victorian Auditor-General's Office, which comprises the balance sheet as at 30 June 2014, the comprehensive operating statement, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Accountable Officer's and Chief Financial Officer's declaration.

Auditor-General's Responsibility for the Financial Report

The Auditor-General is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Auditor-General determines is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In accordance with the requirements of the *Audit Act 1994*, our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Auditor-General, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional ethical pronouncements.

Opinion

In our opinion the financial report presents fairly, in all material respects, the financial position of the Victorian Auditor-General's Office as at 30 June 2014 and of its financial performance for the year then ended in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*.

PKF Lawler Melbourne

Steven Bradby

Partner

Melbourne, 6 October 2014

PKF Lawler Melbourne
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Comprehensive operating statement for the financial year ended 30 June 2014

	Note	2013–14 \$	2012–13 \$
Income from transactions			
Output appropriations	4(a)	38,369,624	38,141,139
Special appropriations	4(b)	495,388	362,343
Sale of goods and services	4(c)	53,986	116,987
Fair value of services received free of charge or for nominal consideration	4(d)	35,000	34,000
Total income from transactions		38,953,998	38,654,469
Expenses from transactions			
Employee expenses	5(a)	21,714,491	19,587,267
Depreciation and amortisation	5(b)	752,978	801,614
Interest expense	5(c)	27,538	25,775
Capital asset charge		110,000	207,354
Fair value of services provided free of charge or for nominal consideration		120,651	79,220
Contract audit services		11,651,529	11,955,533
Rental expenses – accommodation		1,509,112	1,461,675
Recruitment and training		643,912	648,770
Other operating expenses	5(d)	2,458,908	2,758,955
Total expenses from transactions		38,989,119	37,526,163
Net result from transactions (net operating balance)		(35,121)	1,128,306
Other economic flows included in net result			
Net gain / (loss) on non-financial assets (i)	6(a)	8,945	(7,075)
Other gains / (losses) from other economic flows	6(b)	(14,212)	336,029
Total other economic flows included in net result		(5,267)	328,954
Net result		(40,388)	1,457,260
Comprehensive result		(40,388)	1,457,260

(i) 'Net gain / (loss) on non-financial assets' includes realised gains / (losses) from disposals of all physical assets.

The comprehensive operating statement should be read in conjunction with the accompanying notes 1 to 25.

Balance sheet

as at 30 June 2014

	Note	2013–14 \$	2012–13 \$
Assets			
Financial assets			
Cash	18(a)	900	900
Receivables	7	13,964,445	12,929,382
Total financial assets		13,965,345	12,930,282
Non-financial assets			
Property, plant and equipment	8	1,784,780	1,813,339
Intangible assets	9	98,347	189,405
Prepayments	10	443,319	515,126
Total non-financial assets		2,326,446	2,517,870
Total assets		16,291,791	15,448,152
Liabilities			
Payables	11	2,190,542	1,456,642
Borrowings	12	242,662	240,354
Provisions	13	5,784,164	5,636,345
Total liabilities		8,217,368	7,333,341
Net assets		8,074,423	8,114,811
Equity			
Accumulated surplus		7,778,944	7,819,332
Contributed capital		295,479	295,479
Net worth		8,074,423	8,114,811
Commitments for expenditure	16		
Contingent assets and contingent liabilities	17		

The balance sheet should be read in conjunction with the accompanying notes 1 to 25.

Statement of changes in equity

for the financial year ended 30 June 2014

	Accumulated surplus \$	Contributed capital \$	TOTAL \$
Balance at 1 July 2012	6,362,072	296,295	6,658,367
Net result for the year	1,457,260	-	1,457,260
Withdrawal of equity (i)	-	(816)	(816)
Balance at 30 June 2013	7,819,332	295,479	8,114,811
Net result for the year	(40,388)	-	(40,388)
Withdrawal of equity (i)	-	-	-
Balance at 30 June 2014	7,778,944	295,479	8,074,423

(i) The withdrawal of equity relates to the net book value of non-financial assets disposed of during the financial year, other than motor vehicles.

The statement of changes in equity should be read in conjunction with the accompanying notes 1 to 25.

Cash flow statement

for the financial year ended 30 June 2014

	Note	2013–14 \$	2012–13 \$
Cash flows from operating activities			
<i>Receipts</i>			
Receipts from government		40,203,894	38,595,041
Receipts from other entities		53,986	116,987
Total receipts		40,257,880	38,712,028
<i>Payments</i>			
Payments to suppliers and employees		(38,950,519)	(37,481,246)
Goods and Services Tax paid to the ATO (i)		(566,898)	(610,307)
Capital asset charge payments		(110,000)	(207,354)
Interest paid		(8,355)	(16,500)
Total payments		(39,635,772)	(38,315,407)
Net cash flows from / (used in) operating activities	19(b)	622,108	396,621
Cash flows from investing activities			
Purchases of non-financial assets		(750,173)	(423,717)
Sales of non-financial assets		125,757	23,637
Net cash flows from / (used in) investing activities		(624,416)	(400,080)
Cash flows from financing activities			
Proceeds from finance leases		186,029	98,946
Repayment of finance leases		(183,721)	(95,487)
Net cash flows from / (used in) financing activities		2,308	3,459
Net increase / (decrease) in cash held		-	-
Cash at the beginning of the financial year		900	900
Cash at the end of the financial year	19(a)	900	900

(i) Goods and Services Tax paid to the ATO is presented on a net basis.

The above cash flow statement should be read in conjunction with the accompanying notes 1 to 25.

Notes to the financial statements

for the financial year ended 30 June 2014

Note 1. Summary of significant accounting policies

These annual financial statements represent the audited general purpose financial statements for the Victorian Auditor-General's Office (VAGO) for the year ending 30 June 2014. The purpose of the report is to provide users with information about VAGO's stewardship of resources entrusted to it.

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* (FMA) and applicable Australian Accounting Standards (AAS) which include Interpretations, issued by the Australian Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of the AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Where appropriate, those AASs paragraphs applicable to not-for-profit entities have been applied.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

To gain a better understanding of the terminology used in this report, a glossary of terms and style conventions can be found in Note 25.

These annual financial statements were authorised for issue by John Doyle (Auditor-General) and Chiang Yip (Chief Financial Officer) on 6 October 2014.

(b) Basis of accounting preparation and measurement

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Those judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial report are included in the following notes:

- Notes 8 and 9 - estimated useful life of major classes of property, plant and equipment, and intangible assets; and
- Note 13 - wage inflation and discount rate used in the measurement of employee entitlements.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AASs that have significant effects on the financial statements and estimates, with a risk of material adjustments in the next year, are disclosed throughout the notes to the financial statements.

These financial statements are presented in Australian dollars, the functional and presentation currency of VAGO.

This report has been prepared in accordance with the historical cost convention. Historical cost is based on the fair values of the consideration given in exchange for assets.

Consistent with AASB 13 Fair Value Measurement, VAGO determines the policies and procedures for recurring fair value measurements such as property, plant and equipment, and financial instruments, in accordance with the requirements of AASB 13 and the relevant Financial Reporting Directions.

Note 1. Summary of significant accounting policies (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, VAGO has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, VAGO determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(c) Reporting entity

The financial statements cover VAGO as an individual reporting entity. Its address is:

Level 24, 35 Collins Street, Melbourne VIC 3000

VAGO is an administrative agency acting on behalf of the Crown.

The financial statements include all the controlled activities of VAGO.

A description of the nature of VAGO's operations and its principal activities is included in the report of operations, which does not form part of these financial statements.

Objectives and funding

The main purpose of VAGO is to provide assurance to Parliament on the accountability and performance of the Victorian public sector

VAGO is predominantly funded by accrual-based Parliamentary appropriations for the provision of pre-agreed outputs. Its financial audit function is provided on a fee-for-service basis and the revenue generated is treated as administered revenue.

VAGO's outputs

VAGO has 2 outputs:

- Parliamentary reports and services
- Audit reports on financial statements.

Information about VAGO's outputs is set out in Note 2.

(d) Administered items

VAGO administers but does not control certain resources of the state. It is accountable for the transactions involving those administered resources, but does not have the discretion to deploy the resources for achievement of VAGO's objectives. For these resources, VAGO acts only as an agent of the Victorian Government. Administered resources are accounted for using the accrual basis of accounting.

The administered resources of VAGO are primarily audit fees raised from performing attest audits and relate to the activities of the output 'Audit reports on financial statements'. (also refer Note 2).

Transactions and balances relating to these administered resources are not recognised as VAGO's income, expenses, assets or liabilities within the body of the financial statements, but are disclosed in Note 3. Except as otherwise disclosed, administered items are accounted for on the same basis and using the same accounting policies as for departmental items. Both controlled and administered items of VAGO are consolidated into the financial statements of the state.

Note 1. Summary of significant accounting policies (continued)

(e) Scope and presentation of financial statements

Comprehensive operating statement

The comprehensive operating statement comprises two components, being 'net result from transactions' (or termed as 'net operating balance') and 'other economic flows included in net result'. The sum of these two represents the net result.

The net result is equivalent to profit or loss derived in accordance with AASs.

This classification is consistent with the whole of government reporting format and is allowed under AASB 101 *Presentation of Financial Statements*.

Balance sheet

Assets and liabilities are presented in liquidity order with assets aggregated into financial assets and non-financial assets.

Current and non-current assets and liabilities (non-current being those assets or liabilities expected to be recovered or settled more than 12 months after the end of the reporting period) are disclosed in the notes, where relevant.

Statement of changes in equity

The statement of changes in equity presents reconciliations of non-owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balances at the end of the reporting period. It also shows separately changes due to amounts recognised in the 'Comprehensive result' and amounts related to 'Transactions with owner in its capacity as owner'.

Cash flow statement

Cash flows are classified according to whether or not they arise from operating, investing or financing activities. This classification is consistent with requirements under AASB 107 *Statement of Cash Flows*.

Rounding

Amounts in the financial statements have been rounded to the nearest dollar, unless otherwise stated. Figures in the financial statements may not equate due to rounding. Please refer to the end of Note 25 for a style convention for explanations of minor discrepancies resulting from rounding.

(f) Changes in accounting policies

Subsequent to the 2012–13 reporting period, the following new and revised Standards have been adopted in the current period with their financial impact detailed as below.

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance for all fair value measurements. AASB 13 does not change when VAGO is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards when fair value is required or permitted. VAGO has considered the specific requirements relating to highest and best use, valuation premise, and principal (or most advantageous) market. The methods, assumptions, processes and procedures for determining fair value were revisited and adjusted where applicable. In light of AASB 13, VAGO has reviewed the fair value principles as well as its current valuation methodologies in assessing the fair value, and the assessment has not materially changed the fair values recognised.

However, AASB 13 has predominantly impacted the disclosures of VAGO. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards, including AASB 7 *Financial Instruments: Disclosures*.

The disclosure requirements of AASB 13 apply prospectively and need not be applied in comparative information before first application. Consequently, the 2012–13 comparatives of these disclosures have not been provided.

Note 1. Summary of significant accounting policies (continued)

AASB 119 Employee benefits

In 2013–14, VAGO has applied AASB 119 *Employee benefits* (September 2011, as amended) and the related consequential amendments for the first time.

The revised AASB 119 changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligation and plan assets. As the current accounting policy is for the Department of Treasury and Finance to recognise and disclose the state's defined benefit liabilities in its financial statements, changes in defined benefit obligations and plan assets will have limited impact on VAGO.

The revised standard also changes the definition of short term employee benefits. These were previously benefits that were expected to be settled within twelve months after the end of the reporting period in which the employees render the related service, however, short term employee benefits are now defined as benefits expected to be settled wholly within twelve months after the end of the reporting period in which the employees render the related service. As a result, accrued annual leave balances which were previously classified by VAGO as short term employee benefits no longer meet this definition and are now classified as long term employee benefits. This has resulted in a change of measurement for the annual leave provision from an undiscounted to discounted basis.

VAGO considers that the change in classification has not materially altered its measurement of the annual leave provision. Accordingly, no adjustments have been made to the comparative year 2012–13.

(g) Income from transactions

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured.

Appropriation income

Appropriated income becomes controlled and is recognised by VAGO when it is appropriated from the Consolidated Fund by the Victorian Parliament and applied to the purposes defined under the relevant appropriations act. Additionally, VAGO is permitted under section 29 of the FMA to have certain income annotated to the annual appropriation. The income which forms part of a section 29 agreement is recognised by VAGO and the receipts paid into the Consolidated Fund as an administered item. At the point of income recognition, section 29 provides for an equivalent amount to be added to the annual appropriation, which is then available for application.

Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes. All amounts of income over which VAGO does not have control are disclosed as administered income in the schedule of administered income and expenses (see Note 3). Income is recognised for each of VAGO's major activities as follows:

Output appropriations

Income from the outputs VAGO provides to Parliament is recognised when those outputs have been delivered and the Minister for Finance and the Treasurer have certified delivery of those outputs in accordance with specified performance criteria.

Special appropriations

Under section 94A(6) of the *Constitution Act 1975*, revenue related to costs associated with the Auditor-General is recognised when the amount appropriated for that purpose is due and payable by VAGO.

Sale of goods and services

Income from the supply of services

Income from the supply of services is recognised by reference to the stage of completion of the services being performed. The income is recognised when:

- the amount of the income, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to VAGO.

Under the stage of completion method, income is recognised by reference to labour hours supplied.

Note 1. Summary of significant accounting policies (continued)

Income from sale of goods

Income from the sale of goods is recognised when:

- VAGO no longer has any of the significant risks and rewards of ownership of the goods transferred to the buyer;
- VAGO no longer has continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of income, and the costs incurred or to be incurred in respect of the transactions, can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to VAGO.

Sale of goods and services includes regulatory fees which are recognised at the time the regulatory fee is billed.

Fair value of services received free of charge or for nominal consideration

Contributions of services received free of charge or for nominal consideration are recognised at fair value when control is obtained over them, irrespective of whether these contributions are subject to restrictions or conditions over their use. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not received as a donation.

(h) Expenses from transactions

Expenses from transactions are recognised as they are incurred and reported in the financial year to which they relate.

Employee expenses

Refer to the section in Note 1(m) regarding employee benefits.

These expenses include all costs related to employment including wages and salaries, superannuation, fringe benefits tax, leave entitlements, redundancy payments and WorkCover premiums.

Superannuation

The amount recognised in the comprehensive operating statement is the employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period.

The Department of Treasury and Finance (DTF) in their annual financial statements, disclose on behalf of the state as the sponsoring employer, the net defined benefit cost related to the members of these plans as an administered liability. Refer to DTF's annual financial statements for more detailed disclosures in relation to these plans.

Depreciation and amortisation

All plant and equipment and other non-financial physical assets (excluding items under operating leases and assets held for sale) that have finite useful lives are depreciated. Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. Refer to Note 1(l) for the depreciation policy for leasehold improvements.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate.

Intangible produced assets with finite useful lives are amortised as an expense from transactions on a straight-line basis over the asset's useful life.

Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Note 8 provides details on the estimated useful lives that are used in the calculation of depreciation and amortisation on property, plant and equipment. Note 9 provides details on the estimated useful lives that are used in the calculation of amortisation on intangible assets.

Interest expense

Interest expense is recognised in the period in which it is incurred. Refer to Note 25 for an explanation of interest expense items.

Note 1. Summary of significant accounting policies (continued)

Capital asset charge

The capital asset charge is calculated on the budgeted carrying amount of applicable non-financial physical assets.

Other operating expenses

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and include:

Contract audit services, rental expenses - accommodation, recruitment and training and other operating expenses

Contract audit services, rental expenses - accommodation, recruitment and training and other operating expenses are recognised as an expense in the reporting period in which they are incurred.

Fair value of services provided free of charge or for nominal consideration

Contributions of resources provided free of charge or for nominal consideration are recognised at their fair value when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions.

Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated.

(i) Other economic flows included in net result

Other economic flows measure the change in volume or value of assets or liabilities that do not result from transactions.

Net gain / (loss) on non-financial assets

Net gain / (loss) on non-financial assets and liabilities includes realised and unrealised gains and losses as follows:

Net gain/(loss) on disposal of non-financial assets

Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal and is the difference between the proceeds and the carrying value of the asset at that time.

Net profits or losses on disposal of motor vehicles held under finance leases are treated as a controlled item, and disclosed in the comprehensive operating statement.

When any other type of plant and equipment is disposed of, the disposal proceeds are treated as an administered item, being remitted to the Consolidated Fund according to the provisions of the FMA. The written down value of such disposals is treated as a controlled item, being debited to contributed capital, according to the provisions of Financial Reporting Direction 119 *Contributions by Owners*.

Impairment of non-financial assets

Assets are assessed annually for indications of impairment, except for non-financial physical assets held for sale.

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an other economic flow.

It is deemed that, in the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

Refer to Note 1(l) in relation to the recognition and measurement of non-financial assets.

Net gain / (loss) on financial instruments

Net gain / (loss) on financial instruments includes:

- impairment and reversal of impairment for financial instruments at amortised cost; and
- disposals of financial assets.

Note 1. Summary of significant accounting policies (continued)

Other gains / (losses) from other economic flows

Other gains / (losses) from other economic flows include the gains or losses from:

- transfer of amounts from accumulated surplus to net result due to disposal or derecognition or reclassification; and
- the revaluation of the present value of the long service leave liability due to changes in the bond interest rates.

(j) Administered income

VAGO does not gain control over assets arising from audit fees, consequently no income is recognised in VAGO's financial statements.

VAGO collects these amounts on behalf of the Victorian Government. Accordingly, the amounts are disclosed as income in the schedule of Administered Items (see Note 3).

(k) Financial assets

Cash

Cash comprises cash on hand.

Receivables

Receivables mainly represent amounts owing from the Victorian Government. Receivables and work-in-progress related to audit fees raised are reported as administered items in Note 3.

Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less an allowance for impairment.

A provision for doubtful receivables is recognised when there is objective evidence that the debts may not be collected, and bad debts are written off when identified.

Impairment of financial assets

At the end of each reporting period, VAGO assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes financial difficulties of the debtor, default payments, debts which are more than 60 days overdue, and changes in debtor credit ratings. All financial assets are subject to annual review for impairment.

Bad and doubtful debts for financial assets are assessed on a regular basis. Those bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts not written off by mutual consent and the allowance for doubtful receivables are classified as 'other economic flows' in the net result.

(l) Non-financial assets

Property, plant and equipment

All non-current physical assets are initially measured at cost, and subsequently measured at fair value less accumulated depreciation and impairment.

Leasehold improvements

The cost of leasehold improvements is capitalised as an asset and depreciated over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

Non-current physical assets arising from finance leases

Refer to Note 1(n) Leases.

Intangible assets

Purchased intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to VAGO.

When the recognition criteria in AASB 138 *Intangible Assets* are met, internally generated intangible assets are recognised and measured at cost less accumulated amortisation and impairment.

Note 1. Summary of significant accounting policies (continued)

Prepayments

Prepayments represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

(m) Liabilities

Payables

Payables consist of:

- contractual payables, such as accounts payable. Accounts payable represent liabilities for goods and services provided to VAGO prior to the end of the financial year that are unpaid, and arise when VAGO becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, such as goods and services tax and fringe benefits tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost (refer to Note 18). Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

Borrowings

Borrowings are initially measured at fair value, being the cost of the borrowings, net of transaction costs (refer to Note 1(n) Leases).

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in net result over the period of the borrowing using the effective interest rate method.

Provisions

Provisions are recognised when VAGO has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

(i) Wages and salaries, and annual leave

Liabilities for wages and salaries and annual leave are recognised in the provision for employee benefits as 'current liabilities', because VAGO does not have an unconditional right to defer settlements of these liabilities.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries, and annual leave, are measured at:

- undiscounted value if VAGO expects to wholly settle within 12 months; or
- present value if VAGO does not expect to wholly settle within 12 months.

(ii) Long service leave

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

Unconditional LSL is disclosed in the notes to the financial statements as a current liability, even where VAGO does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement.

Note 1. Summary of significant accounting policies (continued)

The components of this current LSL liability are measured at:

- undiscounted value – component that VAGO expects to wholly settle within 12 months; and
- present value – component that VAGO does not expect to wholly settle within 12 months.

Conditional LSL representing less than seven years of continuous service is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service.

This non-current LSL liability is measured at present value.

Consideration is given to expected future wage and salary levels, experience of employee, departures and periods of service. Expected future payments are discounted using a single weighted average discount rate based on market yields of national government bonds in Australia that reflects the estimated timing and amount of benefit payments.

Any gain or loss following revaluation of the present value of the non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an other economic flow (refer to Note 1(i)).

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee decides to accept an offer of benefits in exchange for the termination of employment. VAGO recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Performance incentive entitlements

The Executive Officers' performance incentive entitlements for the performance review period to 30 June 2014 payable within the next financial year, are classified as a current liability in the balance sheet.

On-costs

Provisions for on-costs such as payroll tax, workers compensation and superannuation are recognised separately from the provision for employee benefits.

Operating lease contracts

Provision is made for rentals due under operating lease contracts, where the amortised cost of the whole-of-life lease rentals exceeds the rentals due at the end of the reporting period.

(n) Leases

A lease is a right to use an asset for an agreed period of time in exchange for payment.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

Finance leases

VAGO as lessee

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The lease asset is accounted for as a non-financial physical asset. If there is certainty that VAGO will obtain the ownership of the lease asset by the end of the lease term, the asset shall be depreciated over the useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Note 1. Summary of significant accounting policies (continued)

Minimum finance lease payments are apportioned between reduction of the outstanding lease liability, and periodic finance expense which is calculated using the interest rate implicit in the lease and charged directly to the comprehensive operating statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

Operating leases

VAGO as lessee

Operating lease payments, including any contingent rentals, are recognised as an expense in the comprehensive operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

(o) Equity

Contributions by owners

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners have also been designated as contributions by owners.

(p) Commitments

Commitments for future expenditure include operating and capital commitments arising from contracts. These are disclosed by way of a note (refer to Note 16 *Commitments for expenditure*) at their nominal value and inclusive of the Goods and Services Tax (GST) payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

(q) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note (refer to Note 17 *Contingent assets and contingent liabilities*) and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

(r) Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, the GST payable is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

Commitments and contingent assets and liabilities are also stated inclusive of GST (refer to Note 1(p) and Note 1(q)).

(s) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction.

Note 1. Summary of significant accounting policies (continued)

(t) Events after the reporting period

Assets, liabilities, income or expenses arise from past transactions or other past events. Where the transactions result from an agreement between VAGO and other parties, the transactions are only recognised when the agreement is irrevocable at or before the end of the reporting period. Adjustments are made to amounts recognised in the financial statements for events which occur between the end of the reporting period and the date when the financial statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. Note disclosure is made about events between the end of the reporting period and the date the financial statements are authorised for issue where the events relate to conditions which arose after the end of the reporting period that are considered to be of material interest.

(u) Australian Accounting Standards issued that are not yet effective

Certain new AASs have been published that are not mandatory for the 30 June 2014 reporting period. VAGO has assessed their applicability and potential for early adoption.

As at 30 June 2014, all new accounting standards and interpretations that had been issued but which were not applicable for the financial year ended 30 June 2014 had been considered, and whilst the impact of some standards was still to be assessed, the likely impact is not considered to be significant.

Note 2. Departmental (controlled) outputs

Output groups – VAGO has 2 output groups:

(1) Parliamentary reports and services

VAGO informs Parliament, its primary client, of the results of its work through its reports.

The reports provide Parliament with independent assurance on the adequacy of accountability and resource management practices in the public sector and include:

- performance audits, that focus on the effectiveness, efficiency and economy of publicly funded activities, or probity and compliance;
- an annual assessment of the state's finances;
- reports of results from the June and December financial statement audits conducted during the year;
- management letters to audited agencies conveying matters for improvement identified during audits.

VAGO also tables the Auditor-General's Annual Plan and the VAGO Annual Report to inform Parliament of its planned activity and actual performance respectively.

(2) Audit reports on financial statements

A core statutory responsibility of the Auditor-General is to undertake an annual examination of the financial statements, and in some areas performance statements, of departments and public bodies, including municipal councils, and to issue an audit opinion on whether the financial statements fairly present the financial position of the audited entities.

The main products from the exercise of this mandatory responsibility are the:

- short-form report on the review of the Government's Estimated Financial Statements for inclusion in its annual budget papers presented to Parliament;
- audit reports on the financial statements of public sector agencies and on the State's Annual Financial Report;
- audit reports on non-financial performance indicators prepared by local government, certain water bodies, and technical and further education institutes;
- management letters to audited agencies conveying matters for improvement identified during audits.

Other products include the examination and certification by the Auditor-General of warrants authorising the expenditure of public funds by government. The preparation of warrants in Victoria is required under the provisions of the *Constitution Act 1975* and the *Financial Management Act 1994*. Warrants provide the constitutional authority for the Treasurer to spend the funding allocated in the annual budget and must be signed by the Auditor-General and approved by the Governor.

The major function of VAGO is to provide the organisational framework and resources to enable the Auditor-General to carry out an external audit of public sector agencies on behalf of Parliament.

All resources controlled by VAGO in order to carry out its functions have been included in the financial report.

External contractors are appointed by the Auditor-General, following a process of contestability, to assist in the conduct of performance and attest audits. The costs of such are expensed as a controlled item. Audit fee income arising from attest audits, whether undertaken directly or contracted out, is required under the FMA to be paid into the Consolidated Fund and is treated as an administered item.

Note 2. Departmental (controlled) outputs (continued)

Controlled income and expenses for the year ended 30 June 2014

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
	\$	\$	\$	\$	\$	\$
Income from transactions						
Output appropriations	15,179,000	15,005,000	23,190,624	23,136,139	38,369,624	38,141,139
Special appropriations	179,885	199,089	315,503	163,254	495,388	362,343
Sale of goods and services	21,125	33,530	32,861	83,457	53,986	116,987
Fair value of services received free of charge or for nominal consideration	17,500	17,753	17,500	16,247	35,000	34,000
Total income from transactions	15,397,510	15,255,372	23,556,488	23,399,097	38,953,998	38,654,469
Expenses from transactions						
Employee expenses	11,417,974	10,181,754	10,296,517	9,405,513	21,714,491	19,587,267
Depreciation and amortisation	376,489	418,561	376,489	383,053	752,978	801,614
Interest expense	16,833	14,402	10,705	11,373	27,538	25,775
Capital asset charge	55,000	108,269	55,000	99,085	110,000	207,354
Fair value of services provided free of charge or for nominal consideration	84,124	48,272	36,527	30,948	120,651	79,220
Contract audit services	832,818	1,240,661	10,818,711	10,714,872	11,651,529	11,955,533
Rental expenses – accommodation	754,556	763,210	754,556	698,465	1,509,112	1,461,675
Recruitment and training	282,355	291,568	361,557	357,202	643,912	648,770
Other operating expenses	1,331,753	1,604,531	1,127,155	1,154,424	2,458,908	2,758,955
Total expenses from transactions	15,151,902	14,671,228	23,837,217	22,854,935	38,989,119	37,526,163
Net result from transactions (net operating balance)	245,608	584,144	(280,729)	544,162	(35,121)	1,128,306
Other economic flows included in net result						
Net gain / (loss) on non-financial assets	4,473	(3,694)	4,472	(3,381)	8,945	(7,075)
Other gains / (losses) from other economic flows	(7,627)	202,789	(6,585)	133,240	(14,212)	336,029
Total other economic flows included in net result	(3,154)	199,095	(2,113)	129,859	(5,267)	328,954
Net result	242,454	783,239	(282,842)	674,021	(40,388)	1,457,260
Comprehensive result	242,454	783,239	(282,842)	674,021	(40,388)	1,457,260

Controlled assets and liabilities as at 30 June 2014

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
	\$	\$	\$	\$	\$	\$
Assets						
Financial assets	5,427,591	5,030,720	8,537,754	7,899,562	13,965,345	12,930,282
Non-financial assets	904,167	979,615	1,422,279	1,538,255	2,326,446	2,517,870
Total assets	6,331,758	6,010,335	9,960,033	9,437,817	16,291,791	15,448,152
Liabilities						
Total liabilities	3,193,656	2,853,146	5,023,712	4,480,195	8,217,368	7,333,341
Net assets	3,138,102	3,157,189	4,936,321	4,957,622	8,074,423	8,114,811

Note 3. Administered (non-controlled) items

In addition to the specific operations of VAGO which are included in the financial statements (comprehensive operating statement, balance sheet, statement of changes in equity and cash flow statement), VAGO administers or manages other activities and resources on behalf of the state such as income from audit fees raised from performing attest audits. The transactions relating to these activities are reported as administered items (refer to Note 1 (d) and (j)) in this note.

	2013–14	2012–13
	\$	\$
Administered income from transactions		
Sales of services	23,190,624	23,136,139
Miscellaneous income	2,256	228,954
Total administered income from transactions	<u>23,192,880</u>	<u>23,365,093</u>
Administered expenses from transactions		
Payments into the Consolidated Fund	23,192,880	23,365,330
Total administered expenses from transactions	<u>23,192,880</u>	<u>23,365,330</u>
Total administered net result from transactions (net operating balance)	<u>-</u>	<u>(237)</u>
Administered other economic flows included in administered net result		
Net gain / (loss) on non-financial assets	-	237
Total administered other economic flows	<u>-</u>	<u>237</u>
Administered net result	<u>-</u>	<u>-</u>
Total administered comprehensive result	<u>-</u>	<u>-</u>
	2013–14	2012–13
	\$	\$
Administered financial assets		
Receivables (i)	2,917,406	1,557,738
Total administered financial assets	<u>2,917,406</u>	<u>1,557,738</u>
Administered non-financial assets		
Work in progress	3,081,739	3,392,418
Total administered non-financial assets	<u>3,081,739</u>	<u>3,392,418</u>
Total administered assets	<u>5,999,145</u>	<u>4,950,156</u>
Administered liabilities		
Amounts owing to the state	5,999,145	4,950,156
Total administered liabilities	<u>5,999,145</u>	<u>4,950,156</u>
Total administered net assets	<u>-</u>	<u>-</u>
(i) Receivables comprise debtors falling due as follows:		
Current	2,902,006	1,550,698
Overdue between 30 to 60 days	-	7,040
Overdue beyond 60 days	15,400	-
	<u>2,917,406</u>	<u>1,557,738</u>

Note 4. Income from transactions

	2013–14 \$	2012–13 \$
(a) Output appropriations (i)		
Annual appropriation for the provision of outputs	15,179,000	15,005,000
Appropriation under s29 <i>FMA</i> 1994	23,190,624	23,136,139
Total output appropriations	38,369,624	38,141,139
(b) Special appropriations (i)		
Appropriation under s94A(6) of the <i>Constitution Act</i> 1975	495,388	362,343
Total special appropriations	495,388	362,343
(c) Sale of goods and services		
Sales of goods (ii)	39,356	47,195
Rendering of services (iii)	14,630	69,792
Total sale of goods and services	53,986	116,987
(d) Fair value of services received free of charge or for nominal consideration		
Services (iv)	35,000	34,000
Total fair value of services received free of charge or for nominal consideration	35,000	34,000

(i) Refer to Note 20 for further details of appropriations.

(ii) This revenue stream arises principally from the sale of reports.

(iii) From time to time, staff are seconded to other Victorian government departments and agencies and other State Government Auditor-General's Offices on the basis of full cost recovery.

(iv) This represents the cost of the external audit of VAGO. Refer to Note 23.

Note 5. Expenses from transactions

	2013–14	2012–13
	\$	\$
(a) Employee expenses		
Post employment benefits:		
Defined contribution superannuation expense	1,411,170	1,238,544
Defined benefit superannuation expense	177,718	186,536
	<u>1,588,888</u>	<u>1,425,080</u>
Termination benefits	542,690	25,280
Salaries, wages and long service leave	19,582,913	18,136,907
Total employee expenses	<u>21,714,491</u>	<u>19,587,267</u>
(b) Depreciation and amortisation		
Depreciation of non-current assets:		
Furniture and fittings	1,661	1,973
Computer software	68,951	31,464
Computer hardware	195,924	206,641
Office equipment	9,816	5,725
Total depreciation of non-current assets	<u>276,352</u>	<u>245,803</u>
Amortisation of non-current assets:		
Leasehold improvements	287,283	240,163
Intangible produced assets	124,192	244,227
Motor vehicles – leased	65,151	71,421
Total amortisation of non-current assets	<u>476,626</u>	<u>555,811</u>
Total depreciation and amortisation	<u>752,978</u>	<u>801,614</u>
(c) Interest expense		
Interest on finance leases	8,355	16,500
Interest on make-good provision	19,183	9,275
Total interest expense	<u>27,538</u>	<u>25,775</u>
(d) Other operating expenses		
Information technology	616,885	530,432
Information management	354,675	464,599
Consultants	89,537	274,092
Legal expenses	42,011	69,251
Auditors' remuneration	35,000	34,000
Other office expenses	1,320,800	1,386,581
Total other operating expenses	<u>2,458,908</u>	<u>2,758,955</u>

Note 6. Other economic flows included in net result

	2013–14 \$	2012–13 \$
(a) Net gain / (loss) on non-financial assets		
Net gain / (loss) on disposal of property, plant and equipment	8,945	(7,075)
Total net gain / (loss) on non-financial assets	8,945	(7,075)
(b) Other gains / (losses) from other economic flows		
Net gain / (loss) arising from revaluation of long service liability (i)	(14,212)	336,029
Total other gains / (losses) from other economic flows	(14,212)	336,029

(i) Revaluation gain / (loss) due to changes in bond rates.

Note 7. Receivables

	2013–14 \$	2012–13 \$
Current receivables		
Contractual		
Other receivables (i)	45,397	1,313
	45,397	1,313
Statutory		
Amounts due from Victorian Government (ii) (iii)	6,736,051	5,686,553
GST input tax credit recoverable	-	27,850
Total current receivables	6,781,448	5,715,716
Non-current receivables		
Statutory		
Amounts due from Victorian Government (ii) (iii)	7,182,997	7,213,666
Total non-current receivables	7,182,997	7,213,666
Total receivables	13,964,445	12,929,382

(i) Other receivables comprises recoup of expenses of production of reports, together with a receivable due from VicFleet Trust.

(ii) The total amount recognised as being due from the Victorian Government was \$13,919,048 (2012–13: \$12,900,219) of which \$6,736,051 (2012–13: \$5,686,553) is likely to be drawn down in the next financial year and is reported accordingly as a current receivable.

(iii) The amount recognised as being due from the Victorian Government comprises previously applied Parliamentary appropriations not yet drawn down. The balance is represented by accumulated surpluses, payables, movements in provisions and accumulated depreciation and amortisation net of asset acquisition. The amounts represent funding for all commitments incurred through the appropriations and are drawn from the Consolidated Fund as the commitments fall due.

(a) Ageing analysis of contractual receivables

Please refer to Table 18.3 in Note 18 for the ageing analysis of contractual receivables.

(b) Nature and extent of risk arising from contractual receivables

Please refer to Note 18 for the nature and extent of risks arising from contractual receivables.

(c) Provision for doubtful contractual receivables

No provision for doubtful contractual receivables has been made, as VAGO considers that there is no objective evidence of impairment of those receivables, either in the current year 2013–14 or the previous year 2012–13

Note 8. Property, plant and equipment

(a) Carrying amounts (i)

	2013–14	2012–13
	\$	\$
Class of asset (ii)		
Leasehold improvements at fair value	974,297	1,023,596
Furniture and fittings at fair value	6,579	7,195
Computer software at fair value	120,322	173,045
Computer hardware at fair value	390,137	365,588
Office equipment at fair value	52,995	7,531
Motor vehicles – leased, at fair value	240,450	236,384
Net carrying amount of property, plant and equipment	1,784,780	1,813,339

- (i) *FRD103E requires that property, plant and equipment be classified primarily by the 'purpose' for which the assets are used. These purpose groups are based on government purpose classifications, and comprise: public administration, education, community housing, health, welfare and community, transportation and communications, and public safety and environment. All of VAGO's property, plant and equipment is classified as the purpose group 'public administration'.*
- (ii) *Fair value assessments have been performed for all classes of assets in this purpose group. Fair value has been determined using the assets' depreciated replacement cost. The assessment has determined that movements from the carrying amount were insignificant, not necessitating a full revaluation.*

Note 8. Property, plant and equipment (continued)

(b) Gross carrying amount and accumulated amortisation and depreciation

	2013–14	2012–13
	\$	\$
Leasehold improvements at fair value		
Gross carrying amount	2,390,458	2,152,474
Less: Accumulated amortisation	<u>(1,416,161)</u>	<u>(1,128,878)</u>
Net carrying amount	<u>974,297</u>	<u>1,023,596</u>
Furniture and fittings at fair value		
Gross carrying amount	107,008	105,963
Less: Accumulated depreciation	<u>(100,429)</u>	<u>(98,768)</u>
Net carrying amount	<u>6,579</u>	<u>7,195</u>
Computer software at fair value		
Gross carrying amount	266,721	250,493
Less: Accumulated depreciation	<u>(146,399)</u>	<u>(77,448)</u>
Net carrying amount	<u>120,322</u>	<u>173,045</u>
Computer hardware at fair value		
Gross carrying amount	1,508,839	1,288,366
Less: Accumulated depreciation	<u>(1,118,702)</u>	<u>(922,778)</u>
Net carrying amount	<u>390,137</u>	<u>365,588</u>
Office equipment at fair value		
Gross carrying amount	159,406	104,625
Less: Accumulated depreciation	<u>(106,411)</u>	<u>(97,094)</u>
Net carrying amount	<u>52,995</u>	<u>7,531</u>
Motor vehicles – leased, at fair value		
Gross carrying amount	316,623	346,437
Less: Accumulated amortisation	<u>(76,173)</u>	<u>(110,053)</u>
Net carrying amount	<u>240,450</u>	<u>236,384</u>
Total net carrying amount	<u><u>1,784,780</u></u>	<u><u>1,813,339</u></u>

Note 8. Property, plant and equipment (continued)

(c) Movements in carrying amounts

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Motor vehicles – leased	TOTAL
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2012	1,061,449	11,005	34,051	491,389	14,251	233,852	1,845,997
Additions	202,310	-	170,458	81,893	2,650	98,946	556,257
Disposals	-	(1,837)	-	(1,053)	(3,645)	(24,993)	(31,528)
Depreciation / amortisation expense	(240,163)	(1,973)	(31,464)	(206,641)	(5,725)	(71,421)	(557,387)
Balance at 30 June 2013	1,023,596	7,195	173,045	365,588	7,531	236,384	1,813,339
Additions	237,984	1,045	16,228	220,473	55,280	186,029	717,039
Disposals	-	-	-	-	-	(116,812)	(116,812)
Depreciation / amortisation expense	(287,283)	(1,661)	(68,951)	(195,924)	(9,816)	(65,151)	(628,786)
Balance at 30 June 2014	974,297	6,579	120,322	390,137	52,995	240,450	1,784,780

The following useful lives of assets are used in the calculation of depreciation and amortisation for current and prior years:

Leasehold improvements	2–10 years
Furniture and fittings	10 years
Computer software	3 years
Computer hardware	4 years
Office equipment	5 years
Motor vehicles – leased	3 year lease term

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 5 to the financial statements.

(d) Fair value measurement hierarchy for assets as at 30 June 2014

As noted in Note 8(a)(ii), fair value assessments have been performed for all classes of assets, on the basis of their depreciated replacement cost.

All property, plant and equipment is classified as Level 3 in the fair value hierarchy. See Note 1(b) for a description of the fair value hierarchy. There have been no transfers between levels during the period.

For all assets measured at fair value, the current use is considered the highest and best use.

Note 8. Property, plant and equipment (continued)

(e) Reconciliation of Level 3 fair value

	Property, plant and equipment \$
Balance at 1 July 2013	1,813,339
Purchases	717,039
Sales	(116,812)
Gains or losses recognised in net result	-
Depreciations and amortisations	(628,786)
Balance at 30 June 2014	<u>1,784,780</u>

Review of
our year

Our impact

Our core
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Our quality

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management

Appendices

Note 8. Property, plant and equipment (continued)

Note 8. Property, plant and equipment (continued)

(f) Description of significant unobservable inputs to Level 3 valuations

Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Leasehold improvements	Depreciated replacement cost per unit	\$1 000–\$452 000 per unit (\$97 400)	A significant increase or decrease in depreciated replacement cost per unit would result in a significantly higher or lower fair value
	Useful life of leasehold improvements	3–10 years (7 years)	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation.
Other property, plant and equipment	Depreciated replacement cost per unit	\$0–\$90 000 per unit (\$900)	A significant increase or decrease in depreciated replacement cost per unit would result in a significantly higher or lower fair value
	Useful life of other property, plant and equipment	2–10 years (4 years)	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation.

Note 9. Intangible assets

(a) Cost and accumulated amortisation

	2013–14 \$	2012–13 \$
Intangible assets		
At cost	1,629,796	1,596,661
Less: Accumulated amortisation	(1,531,449)	(1,407,256)
Total intangible assets	98,347	189,405

(b) Movements in intangible assets

	Computer software \$	Total \$
Carrying amount		
Balance at 1 July 2012	372,602	372,602
Additions	61,030	61,030
Disposals	(1,570,966)	(1,570,966)
Disposals – Accumulated amortisation	1,570,966	1,570,966
Amortisation expense (i)	(244,227)	(244,227)
Balance at 30 June 2013	189,405	189,405
Additions	33,134	33,134
Amortisation expense (i)	(124,192)	(124,192)
Balance at 30 June 2014	98,347	98,347

(i) The consumption of intangible produced assets is included in the 'Depreciation and amortisation' line item in the comprehensive operating statement.

The following useful lives of assets are used in the calculation of amortisation for current and prior years:

Intangible assets – Computer software 3 years

Aggregate amortisation allocated during the year is recognised as an expense and disclosed in Note 5.

Note 10. Prepayments

	2013–14 \$	2012–13 \$
Current prepayments		
Information management	23,065	21,283
Software and hardware maintenance contracts	159,180	171,931
Rental expense – accommodation	134,078	170,017
Recruitment and training	40,079	92,206
Insurance	25,896	26,343
Other	56,322	26,140
Total current prepayments	438,620	507,920
Non-current prepayments		
Software and hardware maintenance contracts	4,699	7,206
Total non-current prepayments	4,699	7,206
Total prepayments	443,319	515,126

Note 11. Payables

	2013–14	2012–13
	\$	\$
Current payables		
Contractual		
Supplies and services (i)	1,628,291	1,110,802
Amounts payable to government and agencies (ii)	34,179	24,806
Other payables	188,606	58,962
	<u>1,851,076</u>	<u>1,194,570</u>
Statutory		
PAYG payable	184,634	164,109
FBT payable	7,882	30,873
GST payable	19,950	-
Payroll tax payable	127,000	67,090
Total current payables	<u>2,190,542</u>	<u>1,456,642</u>
Total payables	<u>2,190,542</u>	<u>1,456,642</u>

(i) The average credit period is 30 days.

(ii) Terms and conditions of amounts payable to other government agencies vary according to a particular agreement with that agency.

(a) Maturity analysis of contractual payables

Please refer to Table 18.4 in Note 18 for the maturity analysis of contractual payables.

(b) Nature and extent of risk arising from contractual payables

Please refer to Note 18 for the nature and extent of risks arising from contractual payables.

Note 12. Borrowings

	2013–14	2012–13
	\$	\$
Current borrowings		
Finance lease liabilities (i) (Note 15(a))	91,057	85,454
Total current borrowings	<u>91,057</u>	<u>85,454</u>
Non-current borrowings		
Finance lease liabilities (i) (Note 15(a))	151,605	154,900
Total non-current borrowings	<u>151,605</u>	<u>154,900</u>
Total borrowings	<u>242,662</u>	<u>240,354</u>

(i) Secured by the assets leased. Finance leases are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(a) Maturity analysis of borrowings

Please refer to Table 18.4 in Note 18 for the maturity analysis of borrowings.

(b) Nature and extent of risk arising from borrowings

Please refer to Note 18 for the nature and extent of risks arising from borrowings.

(c) Defaults and breaches

During the current and prior year, there were no defaults and breaches of any of the loans.

Note 13. Provisions

	2013–14	2012–13
	\$	\$
Current provisions		
Employee benefits (i) (Note 13(a))		
Annual leave (Note 13(a)):		
– Unconditional and expected to settle within 12 months (ii)	1,051,272	971,816
– Unconditional and expected to settle after 12 months (iii)	325,951	283,260
Long service leave (Note 13(a)):		
– Unconditional and expected to settle within 12 months (ii)	320,780	293,606
– Unconditional and expected to settle after 12 months (iii)	1,950,495	1,874,460
Performance incentive entitlements (Note 13(a)):		
– Unconditional and expected to settle within 12 months (ii)	145,242	129,312
	3,793,740	3,552,454
Provisions for on-costs (Note 13(a) and Note 13(b)):		
– Unconditional and expected to settle within 12 months (ii)	199,954	191,660
– Unconditional and expected to settle after 12 months (iii)	350,128	333,492
	550,082	525,152
Lease contracts (iv) (Note 16)	110,630	66,851
Total current provisions	4,454,452	4,144,457
Non-current provisions		
Employee benefits: (i) (Note 13(a)) – long service leave	433,869	498,399
On-costs (Note 13(a) and Note 13(b)):	67,536	77,350
Lease contracts (iv) (Note 13(b) and Note 16)	302,964	409,979
Make-good provision (v) (Note 13(b))	525,343	506,160
Total non-current provisions	1,329,712	1,491,888
Total provisions	5,784,164	5,636,345
(a) Employee benefits and on-costs (i)		
	2013–14	2012–13
	\$	\$
Current employee benefits		
Annual leave entitlements	1,377,223	1,255,076
Long service leave entitlements	2,271,275	2,168,066
Performance incentive entitlements	145,242	129,312
	3,793,740	3,552,454
Non-current employee benefits		
Long service leave entitlements	433,869	498,399
Total employee benefits	4,227,609	4,050,853
On-costs		
Current on-costs	550,082	525,152
Non-current on-costs	67,536	77,350
Total on-costs	617,618	602,502
Total employee benefits and on-costs	4,845,227	4,653,355

(i) Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, and assuming wage inflation of 4.44% per annum (2012–13: 4.50%) and discount rate of 3.69% (2012–13: 3.79%), each as advised by the Department of Treasury and Finance. On-costs such as payroll tax and workers' compensation insurance are not employee benefits and are recognised as a separate provision.

(ii) The amounts disclosed are nominal amounts.

(iii) The amounts disclosed are discounted to present values.

(iv) The provision for lease contracts reflects a requirement to provide for known future increases in operating lease rentals for the lease of VAGO's premises.

(v) The make-good provision reflects a requirement in the terms of the lease of VAGO's premises to restore the property at the end of the lease term.

Note 13. Provisions (continued)

(b) Movement in provisions

	On-costs	Lease contracts	Make-good	Total
	2013–14	2013–14	2013–14	2013–14
	\$	\$	\$	\$
Opening balance	602,502	476,830	506,160	1,585,492
Additional provisions recognised	15,116	-	19,183	34,299
Provisions released	-	(63,236)	-	(63,236)
Closing balance	617,618	413,594	525,343	1,556,555
Current	550,082	110,630	-	660,712
Non-current	67,536	302,964	525,343	895,843
	617,618	413,594	525,343	1,556,555

Note 14. Superannuation

Employees of VAGO are entitled to receive superannuation benefits and VAGO contributes to both defined benefit and defined contribution plans. The defined benefit plan provides benefits based on years of service and final average salary.

VAGO does not recognise any defined benefit liability in respect of the plan because the entity has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance recognises and discloses the state's defined benefit liabilities in its disclosure for administered items.

However, superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of VAGO.

The name, details and amounts expensed in relation to the major employee superannuation funds and contributions made by VAGO are as follows:

Fund	Paid contribution for the year		Contribution outstanding at year end	
	2013–14	2012–13	2013–14	2012–13
	\$	\$	\$	\$
Defined benefit plans (i):				
State Superannuation Fund – revised and new	177,316	186,202	1,892	1,490
Defined contribution plans:				
VicSuper	1,007,397	940,976	5,561	2,668
Other	441,579	329,541	2,615	960
Total	1,626,292	1,456,719	10,068	5,118

- (i) The bases for determining the level of contributions are determined by the various actuaries of the defined benefit superannuation plans.

Note 15. Leases

(a) Finance leases

Leasing arrangements

Finance leases relate to motor vehicles with lease terms of up to 3 years.

	Minimum future lease payments (i)		Present value of minimum future lease payments	
	2013–14	2012–13	2013–14	2012–13
	\$	\$	\$	\$
Finance lease liabilities payable				
Not longer than one year	101,485	98,125	98,654	95,730
Longer than one year and not longer than five years	156,637	161,983	143,980	145,014
Longer than five years	-	-	-	-
Minimum future lease payments	258,122	260,108	242,634	240,744
Less future finance charges	(15,460)	(19,754)	-	-
Present value of minimum lease payments	242,662	240,354	242,634	240,744
Included in the financial statements as:				
Current borrowings lease liabilities (Note 12)	91,057	85,454		
Non-current borrowings lease liabilities (Note 12)	151,605	154,900		
Total interest-bearing liabilities	242,662	240,354		

(i) Minimum future lease payments include the aggregate of all base payments and any guaranteed residual.

(b) Operating leases

Refer to Note 16.

Maturity analysis of finance lease liabilities and the nature and extent of risk arising from finance lease liabilities are disclosed in Note 18.

Note 16. Commitments for expenditure

The following commitments have not been recognised as liabilities in the financial statements:

	2013–14	2012–13
	\$	\$
Commitments payable (i)		
Non-cancellable operating lease payables (ii)		
Not longer than one year	1,784,257	1,725,568
Longer than one year and not longer than five years	3,265,762	5,056,686
Longer than five years	-	-
Total	5,050,019	6,782,254
Contract audit commitments		
Not longer than one year	3,809,150	8,490,881
Longer than one year and not longer than five years	2,821,253	1,000,030
Longer than five years	-	-
Total contract audit commitments	6,630,403	9,490,911
Novated lease commitments		
Not longer than one year	52,695	39,755
Longer than one year and not longer than five years	77,922	105,928
Longer than five years	-	-
Total novated lease commitments	130,617	145,683
Total commitments for expenditure (inclusive of GST)	11,811,039	16,418,848
Less GST recoverable from the Australian Taxation Office	(1,670,080)	(1,486,068)
Total commitments for expenditure (exclusive of GST)	10,140,959	14,932,780

(i) All amounts shown in the commitments note are nominal amounts inclusive of GST.

(ii) Operating leases relate to VAGO's office accommodation with a lease term of 10 years, with an option to extend for a further 5 years. The operating lease contract contains a market review clause in the event that VAGO exercises its option to renew. VAGO does not have an option to purchase the leased asset at the expiry of the lease period.

Note 17. Contingent assets and contingent liabilities

At the reporting date, VAGO was not aware of any contingent assets or contingent liabilities.

Note 18. Financial instruments

(a) Financial risk management objectives and policies

VAGO's principal financial instruments comprise:

- cash assets;
- receivables (excluding statutory receivables);
- payables (excluding statutory payables); and
- finance lease payables.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset and financial liability above are disclosed in Note 1 to the financial statements.

The main purpose in holding financial instruments is to prudently manage VAGO's business.

The carrying amounts of VAGO's contractual financial assets and financial liabilities by category are disclosed in Table 18.1 below.

Table 18.1 Categorisation of financial instruments

	2013–14	2012–13
	\$	\$
Contractual financial assets		
Cash	900	900
Receivables: (i)		
Other receivables	45,397	1,313
Total contractual financial assets	46,297	2,213
Contractual financial liabilities		
Payables: (i)		
Supplies and services	1,628,291	1,110,802
Amounts payable to government and agencies	34,179	24,806
Other payables	188,606	58,962
Borrowings:		
Finance lease liabilities	242,662	240,354
Total contractual financial liabilities	2,093,738	1,434,924

(i) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government (2013–14: \$13,919,048, 2012–13: \$12,900,219), GST input tax recoverable (2013–14: \$Nil, 2012–13: \$27,850), and taxes payable (2013–14: \$339,466, 2012–13: \$262,072)). Statutory financial assets will be used to cover payment of contractual financial liabilities.

Note 18. Financial instruments (continued)

Table 18.2 Net holding gain/(loss) on financial instruments by category

	2013–14	2012–13
	\$	\$
Contractual financial liabilities		
Financial liabilities at amortised cost:		
Interest on finance leases	(8,355)	(16,500)
Total contractual financial liabilities	(8,355)	(16,500)

The net holding gains or losses disclosed above are determined as follows:

- For financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost.

There have been no net holding gains or losses in respect of contractual financial assets.

(b) Credit risk

Whilst it is recognised that the Victorian Government is VAGO's largest debtor, VAGO's exposure to credit risk is limited due to legislative provisions provided under the *Audit Act 1994* which requires an audited entity to pay to the Consolidated Fund an amount to be determined by the Auditor-General to defray the reasonable costs and expenses of a financial audit undertaken by VAGO.

Contractual financial assets that are either past due or impaired

Currently VAGO does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

As at the reporting date, there is no event to indicate that any of the financial assets were impaired.

There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated. The following table discloses the ageing only of contractual financial assets that are past due but not impaired:

Table 18.3 Ageing analysis of contractual financial assets

	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1–3 months	3 months –1 year	1–5 years
	\$	\$	\$	\$	\$	\$
2013–14						
Receivables (i):						
Other receivables	45,397	45,397	-	-	-	-
Total	45,397	45,397	-	-	-	-
2012–13						
Receivables (i):						
Other receivables	1,313	1,313	-	-	-	-
Total	1,313	1,313	-	-	-	-

(i) The carrying amounts disclosed here exclude statutory amounts (e.g. Amounts owing from Victorian Government and GST input tax credit recoverable).

Note 18. Financial instruments (continued)

(c) Liquidity risk

Liquidity risk is the risk that VAGO would be unable to meet its financial obligations as and when they fall due. VAGO operates under the Government fair payments policy of settling financial obligations within 30 days and in the event of a dispute, making payment within 30 days from the date of resolution.

VAGO's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Cash for unexpected events is generally sourced from the SAU balances held with Victorian Government.

Maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed on the face of the balance sheet.

The following table discloses the contractual maturity analysis for VAGO's contractual financial liabilities:

Table 18.4 Maturity analysis of contractual financial liabilities (i)

	Carrying amount	Nominal amount	Maturity dates			
			Less than 1 month	1–3 months	3 months – 1 year	1–5 years
2013–14						
	\$	\$	\$	\$	\$	\$
Payables (ii):						
Supplies and services	1,628,291	1,628,291	1,628,291	-	-	-
Amounts payable to government and agencies	34,179	34,179	34,179	-	-	-
Other payables	188,606	188,606	188,606	-	-	-
Borrowings:						
Finance lease liabilities	242,662	258,122	6,921	25,766	68,798	156,637
	2,093,738	2,109,198	1,857,997	25,766	68,798	156,637
2012–13						
Payables (ii):						
Supplies and services	1,110,802	1,110,802	1,062,790	48,012	-	-
Amounts payable to government and agencies	24,806	24,806	24,806	-	-	-
Other payables	58,962	58,962	58,962	-	-	-
Borrowings:						
Finance lease liabilities	240,354	260,108	7,439	27,562	63,124	161,983
	1,434,924	1,454,678	1,153,997	75,574	63,124	161,983

(i) Maturity analysis is presented using the contractual undiscounted cash flows.

(ii) The carrying amounts disclosed exclude statutory amounts (e.g. GST payables).

(d) Market risk

VAGO has no sensitivity to interest rate risk, as all its finance lease liabilities are fixed rate.

Note 18. Financial instruments (continued)

Table 18.5 Interest rate exposure of financial instruments

	Weighted average interest rate	Carrying amount	Interest rate exposure		
			Fixed interest rate	Variable interest rate	Non-interest bearing
2013–14					
		\$	\$	\$	\$
Financial assets					
Cash	-	900	-	-	900
Receivables (i):					
Other receivables	-	45,397	-	-	45,397
Total financial assets		46,297	-	-	46,297
Financial liabilities					
Payables (i):					
Supplies and services	-	1,628,291	-	-	1,628,291
Amounts payable to government and agencies	-	34,179	-	-	34,179
Other payables	-	188,606	-	-	188,606
Borrowings:					
Finance lease liabilities	5.40%	242,662	242,662	-	-
Total financial liabilities		2,093,738	242,662	-	1,851,076
2012–13					
Financial assets					
Cash	-	900	-	-	900
Receivables (i):					
Other receivables	-	1,313	-	-	1,313
Total financial assets		2,213	-	-	2,213
Financial liabilities					
Payables (i):					
Supplies and services	-	1,110,802	-	-	1,110,802
Amounts payable to government and agencies	-	24,806	-	-	24,806
Other payables	-	58,962	-	-	58,962
Borrowings:					
Finance lease liabilities	6.60%	240,354	240,354	-	-
Total financial liabilities		1,434,924	240,354	-	1,194,570

(i) The carrying amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government, GST input tax credit recoverable, and GST payables).

(e) Fair value

The carrying amounts of financial assets and financial liabilities recognised at the balance date, consisting of cash, receivables, payables and borrowings, represent fair value.

Note 19. Cash flow information

(a) Reconciliation of cash and cash equivalents

	2013–14	2012–13
	\$	\$
Total cash and cash equivalents disclosed in the balance sheet (i)	<u>900</u>	900
Balance as per cash flow statement	<u><u>900</u></u>	<u>900</u>

(i) Due to the State of Victoria's investment policy and government funding arrangements, VAGO does not hold a large cash reserve in its bank accounts. Cash received by VAGO from the generation of income is generally paid into the State's bank account, known as the Public Account. Similarly, any VAGO expenditures, including those in the form of cheques drawn by VAGO for the payment of goods and services to its suppliers and creditors are made via the Public Account. The process is such that, the Public Account would remit to VAGO the cash required for the amount drawn on the cheques. This remittance by the Public Account occurs upon the presentation of the cheques by VAGO's suppliers or creditors. The balance of the Public Account is represented by amounts receivable from Victorian Government.

The above funding arrangements often result in VAGO having a notional shortfall in the cash at bank required for payment of unrepresented cheques at the end of the reporting period.

At 30 June 2014, cash at bank included the amount of a notional shortfall for the payment of unrepresented cheques of \$4,462 (30 June 2013: \$9,576).

(b) Reconciliation of net result for the period

	2013–14	2012–13
	\$	\$
Net result for the period	(40,388)	1,457,260
Non-cash movements:		
(Gain) / loss on disposal of non-current assets	(8,945)	7,075
Depreciation and amortisation of non-current assets	752,978	801,614
Items classified as financing and investing activities:		
Additions to non-current assets accounted for via an increase in make-good provision	-	(193,570)
Movements in assets and liabilities:		
(Increase) / decrease in receivables	(1,035,063)	(2,175,321)
(Increase) / decrease in prepayments	71,807	(43,147)
Increase / (decrease) in payables	733,900	126,639
Increase / (decrease) in provisions	147,819	416,071
Net cash flows from / (used in) operating activities	<u><u>622,108</u></u>	<u>396,621</u>

Note 20. Summary of compliance with annual Parliamentary and special appropriations

(a) Summary of compliance with annual Parliamentary appropriations

The following table discloses the details of the various annual Parliamentary appropriations received by VAGO for the year. In accordance with accrual output-based management procedures, 'Provision for outputs' and 'Additions to net assets' are disclosed as 'controlled' activities of VAGO. Administered transactions are those that are undertaken on behalf of the state over which VAGO has no control or discretion.

	Appropriation Act		Financial Management Act 1994				Total Parliamentary authority		Appropriations applied		Variance	
	Advance from Treasurer		Section 3(2)		Section 29		Section 32		2013-14		2012-13	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Controlled												
Provision for outputs (i)	15,179,000	14,661,000	-	-	23,136,139	-	344,000	-	38,369,624	38,141,139	-	-
Additions to net assets	-	-	-	-	-	-	-	-	-	-	-	-
Total	15,179,000	14,661,000	-	-	23,136,139	-	344,000	-	38,369,624	38,141,139	38,369,624	38,141,139

See Note 2 for the break-up of annual appropriation by output group.

Parliamentary appropriations

	2013-14	2012-13
Appropriation Act		
Annual appropriation (i)	15,179,000	14,661,000
Less: Carried forward to 2014-15	-	-
	<u>15,179,000</u>	<u>14,661,000</u>

Financial Management Act 1994

Section 29 – estimate	23,400,000	22,433,000
Plus: variance from estimate	(209,376)	703,139
	<u>23,190,624</u>	<u>23,136,139</u>

Section 32

Brought forward	-	344,000
	<u>-</u>	<u>344,000</u>

Total Parliamentary Authority
Appropriations applied
Variance

	<u>38,369,624</u>	<u>38,141,139</u>
	<u>38,369,624</u>	<u>38,141,139</u>
	<u>-</u>	<u>-</u>

(i) \$151,000 of the Annual Appropriation drawn down in 2013-14 was applied against the costs associated with the Auditor-General (please refer to Note 20(b)).

Note 20. Summary of compliance with annual Parliamentary and special appropriations (continued)

(b) Summary of compliance with special appropriations

Authority	Purpose	Appropriations applied	
		2013–14	2012–13
		\$	\$
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with the Auditor-General (i)	<u>495,388</u>	<u>362,343</u>

(i) While the total costs associated with the Auditor-General were \$646 388, VAGO has applied \$151 000 of the costs against its unapplied general appropriation for the provision of outputs. This was due to an administrative error in the warrant authorising the application of the Special Appropriation.

Note 21. Responsible persons

Given the independent relationship of the Auditor-General with the Parliament, no Government Minister has any direct responsibility for the operations of VAGO. The following disclosures are made relating to the Accountable Officer in accordance with the Directions of the Minister for Finance under the *Financial Management Act 1994*:

(a) Names

Persons who held the Accountable Officer position in relation to VAGO at any time during the reporting period are:

- J Doyle, Auditor-General (1 July 2013 to 30 June 2014)
- P Frost (Acting, for 37 days during the period 1 July 2013 to 30 June 2014)

(b) Remuneration

Remuneration received or receivable by the substantive Accountable Officer in connection with the responsibilities of the position during the reporting period was in the range:

\$500,000 – \$509,999 (2012–13 \$250,000 – \$259,999 reflects approximately 6 months' service from 1 July to 14 December 2012)

The amounts relating to the acting Accountable Officer are included in Note 22 *Remuneration of executives*.

(c) Related party transactions

Related party transactions requiring disclosure under the Directions of the Minister for Finance have been considered and there are no matters to report.

Note 22. Remuneration of executives

The numbers of executive officers, other than the Accountable Officer, whose total remuneration exceeded \$100,000 during the reporting period are shown in the first two columns in the table below in their relevant income bands. The base remuneration of executive officers receiving more than \$100,000 in total remuneration is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long-service leave payments, termination payments and retirement benefits. The total annualised employee equivalent provides a measure of full time equivalent executive officers over the reporting period.

Income band	Total remuneration		Base remuneration	
	2013–14 No.	2012–13 No.	2013–14 No.	2012–13 No.
\$100,000 to \$109,999	-	-	2	1
\$110,000 to \$119,999	2	1	-	-
\$120,000 to \$129,999	-	-	-	1
\$140,000 to \$149,999	-	2	1	4
\$150,000 to \$159,999	3	2	3	2
\$160,000 to \$169,999	2	6	5	7
\$170,000 to \$179,999	6	5	6	1
\$180,000 to \$189,999	4	-	-	-
\$210,000 to \$219,999	-	-	-	1
\$220,000 to \$229,999	-	1	1	1
\$230,000 to \$239,999	1	-	-	-
\$240,000 to \$249,999	-	1	-	-
\$250,000 to \$259,999	-	-	1	-
\$370,000 to \$379,999	-	1	1	1
\$380,000 to \$389,999	1	-	-	-
\$630,000 to \$639,999 (i)	1	-	-	-
Total numbers	20	19	20	19
Total annualised employee equivalents (ii)	19.4	18.4	19.4	18.4
Total amount	\$ 4,080,744	\$ 3,405,510	\$ 3,550,281	\$ 3,248,028

Remuneration of executive officers whose total remuneration was less than \$100,000 during the reporting period:

Other than those executive officers whose remuneration is disclosed in the table above, there were 6 executive officers for whom remuneration disclosure is required whose remuneration was less than the reportable threshold of \$100,000 because they held office for only part of the year (1 maternity leave, 4 appointments part way through the year, 1 on secondment) (2012–13: 1 maternity leave, 1 appointment part way through the year). The total remuneration of these executive officers was \$295,998 (2012–13, \$150,649).

(i) One executive officer retired and the total remuneration paid to this officer included bonus payment, long service leave payment, termination payment and retirement benefits in addition to the base remuneration.

(ii) Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.

Note 23. Remuneration of auditors

PKF Lawler

	2013–14 \$	2012–13 \$
Audit of the financial statements of VAGO	35,000	34,000

The auditor of VAGO is appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the *Audit Act 1994*. Mr Steven Bradby from PKF Lawler (formerly known as Lawler Draper Dillon) was appointed to this position in 2012.

PKF Lawler has advised that it and its related practices were not at any time during the year directly or indirectly involved in any other audit or non-audit services provided to VAGO, including attest audits as a financial audit service provider.

As the remuneration of the auditor is paid by the Public Accounts and Estimates Committee, the amount disclosed above is included in "fair value of services received free of charge or for nominal consideration" in the comprehensive operating statement (see Note 4(d)).

Note 24. Subsequent events

VAGO has no subsequent events to report.

Note 25. Glossary of terms and style conventions

Glossary

Actuarial gains or losses on superannuation defined benefit plans

Actuarial gains or losses are changes in the present value of the superannuation defined benefit liability resulting from:

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

Borrowings

Borrowings refers to interest-bearing liabilities raised from finance leases.

Comprehensive result

The net result of all items of income and expenditure recognised for the period. It is the aggregate of operating result and other comprehensive income.

Capital asset charge

The capital asset charge represents the opportunity cost of capital invested in the non-financial physical assets used in the provision of outputs.

Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Depreciation

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a 'transaction' and so reduces the 'net result from transactions'.

Employee benefits expenses

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

Financial asset

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual or statutory right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Note 25. Glossary of terms and style conventions (continued)

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets or liabilities that are not contractual (such as statutory receivables or payables that arise as a result of statutory requirements imposed by governments) are not financial instruments.

Financial liability

A financial liability is any liability that is:

- (a) A contractual obligation:
 - (i) To deliver cash or another financial asset to another entity; or
 - (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (b) A contract that will or may be settled in the entity's own equity instruments and is:
 - (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial statements

A complete set of financial statements comprises:

- (a) a statement of financial position as at the end of the period;
- (b) a statement of profit or loss and other comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information;
- (f) comparative information in respect of the preceding period as specified in paragraphs 38 of AASB 101 *Presentation of Financial Statements*; and
- (g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

General government sector

The general government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non-market in nature, those which are largely for collective consumption by the community and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, or other compulsory levies and user charges.

Intangible produced assets

Refer to produced assets in this glossary.

Interest expense

Costs incurred in connection with the borrowing of funds includes interest on short-term and long-term borrowings, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

Note 25. Glossary of terms and style conventions (continued)

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other economic flows - other comprehensive income'.

Net result from transactions/net operating balance

Net result from transactions or net operating balance is a key fiscal aggregate and is income from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net worth

Assets less liabilities, which is an economic measure of wealth.

Non-financial assets

Non-financial assets are all assets that are not 'financial assets'. It includes plant and equipment, intangible assets and prepayments.

Other economic flows included in net result

Other economic flows included in net result are changes in the volume or value of an asset or liability that do not result from transactions. It includes:

- gains and losses from disposals and impairments of non-financial physical and intangible assets; and
- gains and losses arising from the revaluation of the long service leave liability.

Payables

Includes short and long term trade debt and accounts payable, grants and interest payable.

Produced assets

Produced assets include plant and equipment and certain intangible assets. Intangible produced assets include computer software.

Receivables

Includes amounts owing from government through appropriation receivable, short and long term trade credit and accounts receivable, grants, taxes and interest receivable.

Sales of goods and services

Refers to income from the direct provision of goods and services and includes fees and charges for services rendered and sales of goods and services.

Supplies and services

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operations of VAGO.

Note 25. Glossary of terms and style conventions (continued)

Transactions

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows in an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.

Style conventions

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

-	zero, or rounded to zero
(xxx.x)	negative numbers
200x	year period
200x-0x	year period

The financial statements and notes are presented based on the illustration for a government department in the 2013–14 *Model Report for Victorian Government Departments*. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of VAGO's annual reports.

Appendix one:

Audit reports to Parliament in 2013–14

Date report was tabled	VAGO report number	Report title
21 August 2013	2013–14:1	<i>Operating Water Infrastructure Using Public Private Partnerships</i>
21 August 2013	2013–14:2	<i>Developing Transport Infrastructure and Services for Population Growth Areas</i>
4 September 2013	2013–14:3	<i>Asset Confiscation Scheme</i>
18 September 2013	2013–14:4	<i>Managing Telecommunications Usage and Expenditure</i>
18 September 2013	2013–14:5	<i>Performance Reporting Systems in Education</i>
16 October 2013	2013–14:6	<i>Prevention and Management of Drug Use in Prisons</i>
16 October 2013	2013–14:7	<i>Implementation of the Strengthening Community Organisations Action Plan</i>
30 October 2013	2013–14:8	<i>Clinical ICT Systems in the Victorian Public Health Sector</i>
30 October 2013	2013–14:9	<i>Implementation of the Government Risk Management Framework</i>
26 November 2013	2013–14:10	<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2012–13</i>
27 November 2013	2013–14:11	<i>Portfolio Departments and Associated Entities: Results of the 2012–13 Audits</i>
27 November 2013	2013–14:12	<i>WoVG Information Security Management Framework</i>
28 November 2013	2013–14:13	<i>Public Hospitals: Results of the 2012–13 Audits</i>
28 November 2013	2013–14:14	<i>Occupational Health and Safety Risk in Public Hospitals</i>
28 November 2013	2013–14:15	<i>Racing Industry: Grants Management</i>
11 December 2013	2013–14:16	<i>Local Government: Results of the 2012–13 Audits</i>
11 December 2013	2013–14:17	<i>Managing Victoria's Native Forest Timber Resources</i>
12 December 2013	2013–14:18	<i>Water Entities: Results of the 2012–13 Audits</i>
12 December 2013	2013–14:19	<i>Tourism Strategies</i>
5 February 2014	2013–14:20	<i>Oversight and Accountability of Committees of Management</i>
5 February 2014	2013–14:21	<i>Managing Emergency Services Volunteers</i>
19 February 2014	2013–14:22	<i>Asset Management and Maintenance by Councils</i>
12 March 2014	2013–14:23	<i>Apprenticeship and Traineeship Completion</i>
26 March 2014	2013–14:24	<i>Residential Care Services for Children</i>
3 April 2014	2013–14:25	<i>Access to Education for Rural Students</i>
28 May 2014	2013–14:26	<i>Shared Services in Local Government</i>
28 May 2014	2013–14:27	<i>Universities: Results of the 2013 Audits</i>
29 May 2014	2013–14:28	<i>Accessibility of Mainstream Services for Aboriginal Victorians</i>
29 May 2014	2013–14:29	<i>Access to Services for Migrants, Refugees and Asylum Seekers</i>
11 June 2014	2013–14:30	<i>Prisoner Transportation</i>
11 June 2014	2013–14:31	<i>Using ICT to Improve Traffic Management</i>
12 June 2014	2013–14:32	<i>Managing Consultants and Contractors</i>
25 June 2014	2013–14:33	<i>Recreational Maritime Safety</i>
25 June 2014	2013–14:34	<i>Administration and Effectiveness of the Environmental Contribution Levy</i>
26 June 2014	2013–14:35	<i>Impact of Increased Scrutiny of High Value High Risk Projects</i>

Review of
our year

Our impact

Our core business

Our quality

Our
organisation

Our people

Our financial
management

Appendices

Appendix two:

External engagements in 2013–14

Presentations by the Auditor-General and senior staff in 2013–14

Date	Presentation to	Topic
9 August	Institute of Chartered Accountants	Legislative audit
13 August	IBAC all staff briefing	Introduction to the Victorian Auditor-General's Office
12 September	Chartered Secretaries Australia	Persistent challenges in public sector governance: Lessons from legislative audits
16 September	Monash University	Legislative Audit
19 September	Accounting Professional & Ethical Standards Board	Accountability and trust in government: is the auditor part of the solution
3 October	ASPG Conference 2013	Watching our watchdogs: Current models for accountability and independence
7 October	Swinburne University of Technology	Guest lecture: Professional issues in IT
8 October	Victorian Managed Insurance Authority – Risk Conference	A less risky future; Lessons from audits
11 October	Performance Audit Contacts Forum	Effective and Efficient Performance Audits
14 October	CPA Australia Conference	Performance audits in the Victorian public sector: What have we learnt? How can we make a difference?
15 October	Neil Walker Memorial Lecture	The role of the legislative auditor
24 October	Parks Victoria	Risk Management Workshop
8 November	Department of Treasury and Finance PPP contract manager's forum	Contract management issues for PPPs
12 November	Australian and New Zealand School of Government	Legislative audit
12 November	Department of Environment and Primary Industries	Department of Environment and Primary Industries Risk and Audit Committee meeting
14 November	Regulators Community of Practice lunch	Improving regulatory performance – an audit perspective
18 November	Metropolitan Transport Forum	Overview of key transport challenges and related audits
9 December	Department of Environment and Primary Industries' and VicWater's Water Board Director Training Program	Challenges for the water industry – an audit perspective
30 January	Sustainability Victoria	Public sector risks in the environment sector – an audit perspective
6 February	Department of Premier and Cabinet	Understanding the role of the Auditor-General
7 February	Department of Justice	Department of Justice Audit and Risk Management Committee
19 February	Victoria Police Command Forum	Role of VAGO and performance audits
24 February	Australia-Canada Infrastructure Symposium	Public private partnerships – applying perspectives from British Columbia, Canada to Victoria, Australia
24 February	Water Corporation Audit and Risk Committee Chairs Discussion	Challenges for the water industry – an audit perspective
25 February	IBAC Fraud forum	Preventing and responding to fraud in the public sector – an audit perspective
28 February	Local Government Finance Professional Conference	Current audit issues in the local government sector
5 March	Performance Audit Contacts Forum	Effective and Efficient Performance Audits

Presentations by the Auditor-General and senior staff in 2013–14—*continued*

Date	Presentation to	Topic
17 March	Melbourne School of Government, University of Melbourne	Monitoring and Evaluation: Performance Audit Perspective
25 March	Institution of Chartered Accountants Australia Audit Conference 2014	Critical issues in public sector auditing – Timely completion, complex balances and quality assurance
26 March	Institute of Internal Auditors' South Pacific Asian Conference 2014	Public sector internal audit – an external audit perspective
28 March	Local Government Professionals CEO Forum	How is Local Government performing?
29 April	ERM for Government 2014 – moving beyond compliance	Providing assurance on public sector performance in Victoria
29 April	Victorian Public Service Commission governance workshop for ICT projects	ICT business cases: An auditor's perspective on recent challenges and behaviours in the public sector
1 May	Australian Fraud Summit 2014 (Sydney)	Keynote address: Breaking down the Victorian Whole-of-Government Information Security Management Framework
5 May	Cyber Security @CeBIT (Sydney)	Implications from the Whole-of-Victorian Government Information Security Management audit
12 May	KPMG Public Sector Audit Committee Series Luncheon	Making a difference to public sector performance and accountability
29 May	VicWater Finance Conference 2014	The water industry – an audit perspective
30 May	VicWater Finance Conference 2014	Leading into year end
3 June	Victorian Public Sector Continuous Improvement Network	Risk and Resilience – what you need to know about protecting information at home and work
17 June	Public Sector Young Leaders Conference 2014	Managing up
17 June	Department of Justice Contract Managers' Forum	Managing consultants and contractors performance audit
19 June	Current Legal Issues for Government Lawyers	Outcomes of regulatory systems
27 June	Grampians Regional Management Forum	Shared services in local government performance audit

International delegations to VAGO in 2013–14

Date	Organisation	Purpose, interest or theme of visit
9 September	Vietnam Ministry of Finance	Auditing in the Public Interest

International secondments in 2013–14

Dates	Organisation	Purpose, interest or theme of visit
30 March – September 2014	Study tour to United Kingdom and Republic of Ireland Audit Offices	VAGO Performance Audit Manager—knowledge transfer and professional development

Appendix three:

Status of findings from the independent performance audit

The *Audit Act 1994* requires the triennial performance audit of the Victorian Auditor-General's Office to determine whether the Auditor-General is achieving his objectives effectively and doing so economically and efficiently and in compliance with the *Audit Act 1994*.

On Wednesday 26 June 2013 PAEC announced that Andrew Nicolaou, Lead Partner - Victorian Government, PricewaterhouseCoopers (PwC) had been appointed to conduct the 2013 performance audit of VAGO.

On Wednesday 27 November 2013 PwC tabled their report on the Performance Audit of Victorian Auditor-General and Victorian Auditor-General's Office.

Overall the report was positive in tone and reflected a number of actions either already under way with the recommendation to continue current practice or an issue that had been identified by VAGO.

The report had eight strategic recommendations and 31 operational recommendations. VAGO provided a response to each recommendation which were then included in the final report.

All recommendations were accepted by VAGO – although in some instances it was noted that further investigation is required to determine exactly how the recommendation can be implemented. A number of the recommendations either reflect the current practice of the office or work that VAGO has already identified and is working on. Some recommendations such as taking more financial audits in house will require further investigation to determine the optimal balance and this was indicated in our response to those recommendations. There are also recommendations which we have accepted but their full implementation will require amendments to the *Audit Act 1994*—these recommendations relate to broadening the work of the office and some of the recommendations on improving the efficiency of the audit process. Notwithstanding that, the report and its recommendations have been used in planning and review processes and to inform further possible changes to the *Audit Act 1994*.

The table below summarises the recommendations, provides the VAGO response to the recommendation and the current status of the implementation, as at 30 June 2014.

Recommendation	VAGO response – all recommendations accepted	Current status
Strategic recommendations		
Model for delivery of Financial Audits VAGO to review their current model for financial audit delivery and consider whether it may be appropriate to complete a larger proportion of these audits internally.	The balance of audits delivered internally versus those delivered by contractors will be considered as part of an overall review of VAGO's funding model and proposed changes in the types of outputs VAGO produces.	In progress due September 2014
VAGO Internal resourcing model Due to the cyclical nature of the financial audits there is an opportunity to more effectively leverage staff across the two audit groups and potential other staff within VAGO and better utilise staff for both audit disciplines	VAGO will consider the advantages and disadvantages of the integrated staffing model recommended and how it can be built into planning without compromising the efficiency and quality of audits.	Completed
Funding Implications VAGO should undertake a comprehensive review of the current funding model to consider most appropriate funding model required for the implementation of all or components of the recommendations in Issues 2.1 and 2.2	VAGO will review funding models including consideration of a fully appropriated model.	In progress due August 2014

Recommendation	VAGO response – all recommendations accepted	Current status
<p>Performance audit methodology</p> <p>Enhancement to detailed scoping and planning activities.</p> <p>Planning meetings to involve the most senior VAGO staff, with senior auditees.</p> <p>Written issues to be supported by fuller evidence prior to discussion of drafts with senior auditees, including appropriate quality review and internal challenge of the issues by senior VAGO team members.</p> <p>Greater level of contact with senior auditees on emerging issues during the execution phase through engagement discussions between senior VAGO staff and senior auditee staff.</p> <p>Streamline the performance audit milestones to more appropriately reflect what actually happens and reduce the excessive focus on “complying” with rigid deadlines where more complete evidence could be utilised given more time.</p> <p>Involvement of senior performance audit executives (Sector Directors and Assistant Auditor-General) more consistently over the course of the audit.</p> <p>Greater flexibility in the performance audit processes mandate could encourage more timely completion of audits and provide the opportunity for VAGO to react quickly to issues when identified and undertake audits or investigations to respond to public and government concerns.</p>	<p>Many of the suggestions in the recommendation reflect current practice; the Assistant Auditor-General, Performance Audit is involved in key audit meetings where sensitive issues arise that may require escalation or more senior involvement.</p> <p>Increased onsite presence of sector directors during the conduct phase of audit will be considered.</p> <p>The time taken to complete audits is in part determined by requirements in the <i>Audit Act 1994</i> such as consultation on specifications. Greater flexibility in the performance audit mandate to streamline these processes would be welcomed by VAGO.</p>	Completed
<p>Performance Audit reporting</p> <p>Each recommendation to have a specific management response and when required, an appropriate formal action plan for actioning the recommendation, including timelines for implementation and the relevant responsible officers.</p> <p>As a minimum a summary of the recommendations and management actions should be included in the front of the report (e.g. table format).</p>	<p>VAGO has no power to mandate the content of agency responses. Agencies are encouraged in their responses to audits to advise VAGO of acceptance of recommendations, actions to be taken, and timing for those actions. Amending the legislation to enable the Auditor-General to request formal responses from the department or agency which include their proposed actions is supported.</p>	Completed
<p>Follow up reviews</p> <p>VAGO to consider the development of a formal follow up program</p>	<p>VAGO is currently in the process of designing a comprehensive follow up program and is in consultation with PAEC on the process. The follow up program will leverage off agency responses to audit recommendations and to be fully effective is contingent on amendments to the Act identified in recommendation 2.5.</p>	Completed

Recommendation	VAGO response – all recommendations accepted	Current status
<p>Stakeholder engagement Consider further strategies and initiatives to improve stakeholder engagement and minimise the perception of adversarial interactions.</p>	VAGO is currently assessing a range of stakeholder engagement initiatives including greater liaison and communication with Departments and sectors. Initiatives to date include increased audit committee attendance, and the Performance Audit agency forum for key departmental audit contacts. A stakeholder engagement framework is being developed for the local government sector which will provide a framework for other sector engagement strategies to be developed.	In progress due July 2014
<p>Technology capability VAGO should invest further in the utilisation of technology across all audit activities. In the first instance this can be more effectively developed for the financial audits and then consideration of their value to the performance audit activities. VAGO should consider the need for stronger capability and resources in this area</p>	VAGO agrees that further investment in technology capability is required and a distinct role for an Assistant Auditor-General, Information System Audit has been created and recently advertised. There are budget implications to such investments that must be considered and could limit the ability of VAGO to address this recommendation expeditiously.	Completed
Operational recommendations		
VAGO Governance and Planning		
Develop VAGO's role as leader in public sector reform through publication of better practice guides or equivalent for both financial management, reporting and performance audit themes.	VAGO is considering better practice guides in the future and is actively considering increasing outputs to promote good public sector management practices; this would be assisted by appropriate amendments to the <i>Audit Act 1994</i> .	Completed
VAGO to consider a detailed review and analysis of corporate services costs, including more detailed benchmarking of their resources and costs against other jurisdiction audit offices to identify and pursue potential efficiencies.	VAGO is currently reviewing is whole of office operations including non-audit functions. A detailed cost analysis will be undertaken once the operational groups have been established and a full funding model review completed.	Completed
Streamline the Annual Plan from 4 year to 12–24 month outlook.	The Annual Plan approach is being reviewed with a focus on allowing VAGO to have more flexibility to respond to emerging issues.	Completed
Ensure that the cost allocation model for VAGO's overhead costs is adequately documented.	VAGO will continue to monitor the controls in place to ensure both accurate time recording and budget reporting. In addition, the full funding review will consider mitigating strategies for minimising cross subsidisation risk.	Completed
Accepted recommendations from 2010 Performance Audit		
Continue to monitor and report any gaps between the actual and published costs of performance audits and ensure that there is appropriate explanation for any significant variance. (Recommendation 11)	VAGO will continue to monitor audit costs with a view to continuing to decrease the percentage of audits that exceed their budgeted costs.	Completed
Develop technology capabilities of VAGO for utilisation on audit programs to drive more efficient and effective audits. (Recommendation 17)	VAGO accepts this recommendation. Refer to response provided for Recommendation 2.8 above.	Completed

Recommendation	VAGO response – all recommendations accepted	Current status
Ensure timely implementation of proposed business improvement project for monitoring ASP performance. (Recommendation 18)	The business improvement project to monitor ASP performance is under way.	Completed
Performance Audit to develop a formal process for monitoring of contractor performance to assess both effective and economic value to the audit.	A process for formally assessing contractor performance is being developed. Work will be done on making the assessments available for use in overall contract assessment.	In progress due September 2014
Not accepted recommendation from 2010 Performance Audit		
VAGO to review Recommendation 6 of the Performance Audit 2010 in regard to reporting the impact of performance audits on government activities. Such reporting could provide additional insights to the effectiveness of performance audits and set expectations for improvements in the public sector.	The basis for assessing the impact of performance audits would be assisted by more comprehensive responses by agencies to audit recommendations as noted in Strategic Recommendation 5. This would be facilitated by amendments to the <i>Audit Act 1994</i> . VAGO will initiate a discussion with other Australian audit offices on reporting the impact of performance audits on government activities.	In progress due August 2014
Human resources management		
Development of succession plans for senior leadership roles and leadership with critical skills/experience to ensure effective management of audits and development of staff and minimise staff disruption when senior staff leave the organisation.	A new succession/career pathway model is being developed which will include transitional training programs at key points along the career paths for all staff at VAGO.	Completed
Assess root cause of low scores on organisational cohesion to ensure that any interventions developed to address the issue are practical and will drive improvements in the ways of working.	A range of initiatives are underway to improve organisation cohesion including changing the overall structure of the office and management committee structures.	Completed
Incorporate strategic workforce forecasting into annual planning process with a 12 monthly review cycle and 6 monthly validation to enable more efficient management of VAGO's budget requirements.	The annual workforce profile and associated reporting will be revised to better equip VAGO resources planning.	Completed
Consolidate learning and development capability with People and Culture team to ensure greater oversight of the various programs and drive efficiencies through one point of administration.	People and Culture will continue to provide the logistical and administrative support for the specific technical training delivered in the business groups.	Completed
Establish processes to measure the benefit delivered from professional development activities. This serves to optimise return on investment in training and balance costs to align with agreed benefits.	VAGO will investigate monitoring and evaluation systems that can be used to measure returns on professional development investment.	In progress due August 2014

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Recommendation	VAGO response – all recommendations accepted	Current status
Monitoring and measuring performance effectiveness		
Management should provide greater clarity and definition around the traffic light system used in Monthly Management Reports to enable more effective discussion around results and any variances.	The Monthly Management Report underwent significant review and a new format was introduced in September 2013.	Completed
Provide greater clarity and information around the performance measures across the Annual Plan and the Business Plan and alignment between the two Plans.	The next Strategic Plan will be developed in 2014 and there will be changes to the business plan and its measures.	In progress due December 2014
VAGO to develop a formal follow up program for Performance Audits including prioritisation criteria, initial scopes etc.	VAGO is currently developing a structured follow up program to provide maximum value to the public sector which will feed into any further assessment of indicators of audit impact. See also Strategic Recommendation 2.6.	Completed
Conduct and management of Financial Audits		
Enhance documentation of overall approach and judgments made – ‘Telling the story of the audit’ to ensure all the audit outcomes are fully supported by documented evidence.	The recommendation/s are consistent with VAGO methodology, and Financial Audit (FA) is developing a case study training intensive for all financial audit staff. This training builds on opportunities for improved practice identified by FA management and EQCRs during the recent year end cycle. It will provide the opportunity to strengthen knowledge and skills in the areas mentioned in this recommendation, and reiterate the requirements for compliance with established methodology. In particular, we will include sessions on documentation, audit evidence, analytical review and fraud.	Completed
The robustness of substantive analytical review requires strengthening to ensure adequate explanations included on the audit file.		Completed
Completeness and consistency of documentation regarding audit procedures designed to address the risk of fraud to be improved for consistency across files and in compliance with IPSAM.		Completed
File maintenance and documentation of audit evidence could be improved so that the audit evidence can stand alone as the repository for all audit evidence.	The training will supplement the group’s established technical training program.	Completed
Consider documentation around rationale for no further audit procedures on untested balances and where there are variations from use of the sample testing guidance.	Methodology and Standards are revising the policies and tools that guide VAGO on sampling. The revised policy and associated tools will be addressed in the case study intensive.	Completed
Ensure that prior to year end there are clear guidelines issued to both VAGO auditors/ASPs and auditees on financial statement materiality thresholds on an agency by agency basis and requirements/protocols for late audit adjustments. This will avoid unnecessary rework, and demands on audit and management time during critical phases.	Comment on, and clarity of, VAGO’s expectations regarding adjustment of misstatements within financial statements identified during audits, will be made in upcoming reports to Parliament on the results of the 2012–13 financial audits.	Completed

Recommendation	VAGO response – all recommendations accepted	Current status
<p>The use of a template or practice aid during the gathering of evidence would prompt teams to more fully comply with the required elements of documentation and consider the selection technique and size prescribed within IPSAM.</p>	<p>Refer to responses above regarding sampling policy and tools (IPSAM).</p>	Completed
<p>Efficiency opportunities (not clear if recommendations or not)</p> <p>The work of internal auditors to be used more effectively to optimise VAGO resource use where appropriate.</p> <p>Identify audit risks and responses more clearly to ensure audit resources are optimised.</p> <p>Greater use of templates to guide audit teams in documenting audit work more efficiently.</p>	<p>VAGO assesses the work of internal auditors in all financial audits and where that work adequately addresses audit risks, is sound, and its use is cost effective, relies upon that work in order to optimise use of VAGO resources.</p> <p>VAGO is finalising a new version of IPSAM (version 4) that will better link risks and audit program responses to enhance the quality of planning by teams, and will address the findings underpinning this recommendation. The new version of IPSAM will be piloted on 2013–14 financial audits.</p>	Completed
Conduct and management of Performance Audits		
<p>Clearer identification of risk, materiality and complexity within AmP of each Performance Audit.</p>	<p>Risk and materiality are related to the annual planning process which decides whether an audit should be listed on the work program. The complexity rating is assigned through the business planning process. Further work will be done to identify criteria that will inform the assignment of complexity rating for audits.</p>	<p>In progress</p> <p>due March 2014</p>
<p>Ensure supporting documentation for monitoring of budget captured on the AmP file to enable review of budget outcomes.</p>	<p>VAGO will continue to monitor how managers are reporting program against budget in milestone briefs.</p>	Completed
<p>Provide guidance on documentation to be included in the issues paper section, to enable linkage of the final report to the issues paper section.</p>	<p>VAGO will consider how better linkages between issues papers and the final report can be achieved.</p>	Completed
<p>Streamline the number of key milestones in the AmP file to more accurately reflect the key dates to be completed and reduce focus of the audit on achieving milestones and greater focus on delivering quality report to stakeholders.</p>	<p>The ability to streamline the number of milestones requires changes to the performance audit mandate to allow more flexibility as noted in Strategic Recommendation 2.4.</p>	<p>In progress</p> <p>due December 2014</p>
<p>Audit working papers to clearly document the rationale and approval for audit scope changes such as reduction in sample sizes or amendments to location or agencies included in the audit.</p>	<p>Audit briefing papers contain this information and there has been increased emphasis on documenting sampling decisions.</p>	Completed
<p>Significant delays in the delivery of an audit should be formally communicated to relevant external stakeholder as soon as practicable.</p>	<p>VAGO has focused over the last five years on resourcing audits appropriately to deliver audits on time. In 2012–13 97 per cent of reports to Parliament were completed on time. Should any significant delay occur there would be formal communication to external stakeholders.</p>	Completed

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Appendix four:

Disclosure index

VAGO's annual report is prepared in accordance with all relevant Victorian legislation and pronouncements.

This index has been prepared to facilitate identification of VAGO's compliance with statutory disclosure requirements.

Legislation	Requirement	Page reference
Ministerial directions		
Report of operations—FRD guidance		
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FRD 22E	Nature and range of services provided	3
Management and structure		
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FRD 22E	Employment and conduct principles	65–67
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FRD 22E	Subsequent events	118
FRD 22E	Application and operation of <i>Freedom of Information Act 1982</i>	54
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FRD 22E	Statement on National Competition Policy	54
FRD 22E	Application and operation of the <i>Protected Disclosure Act 2012</i>	55
FRD 22E	Details of consultancies over \$10 000	73
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SD4.2(c)	Compliance with Ministerial Directions	77
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SD4.2(d)	Rounding of amounts	85
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SD4.2(f)	Compliance with Model Financial Report	73
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FRD 9A	Disclosure of administered assets and liabilities	96
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FRD 21B	Disclosures of responsible persons, executive officers and other personnel (contractors with significant management responsibilities) in the financial report	117–118
FRD 26A	Accounting for VicFleet Motor Vehicle Lease Arrangements	100–102, 109
FRD 103E	Non-current physical assets	100
FRD104	Foreign Currency	92
FRD 106	Impairment of assets	88–89
FRD 109	Intangible assets	89, 105
FRD 110	Cash flow statements	82, 115
FRD 112D	Defined benefit superannuation obligations	87, 108
FRD 114A	Financial Instruments – General Government Entities and Public Non-Financial Corporations	111–114
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FRD 11	Disclosure of ex-gratia payments	
FRD 12A	Disclosure of major contracts	
FRD 22E	Application and operation of the <i>Carers Recognition Act 2012</i>	
FRD 22E	Disclosure of government advertising expenditure	
FRD 102	Inventories	
Legislation		
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Appendix five:

Extract of whole-of-government financial statements—non-audited

The following table provides a comparison between the actual financial statements of VAGO and the forecast financial information published in the *Budget Paper No. 5 Statement of Finances 2013–14* (BP5), for the portfolio of Parliament. The table comprises the comprehensive operating statement. The table has been prepared on a consolidated basis and includes all general government sector entities within the portfolio. Financial transactions and balances are classified into either controlled or administered categories as agreed with the Treasurer in the context of the published statements in BP5. The following statements are not subject to audit and are not prepared on the same basis as VAGO's financial statements as they include the consolidated financial information of the Parliament entity.

	2013–14				
	Budget			Actual VAGO	Variance (ii) VAGO
	Parliament	VAGO	Controlled Parliament (i)		
\$'000	\$'000	\$'000	\$'000	\$'000	
Income from transactions					
Output appropriations	100,687.9	38,139.0	138,826.9	38,369.6	230.6
Special appropriations	33,869.0	499.0	34,368.0	495.4	(3.6)
Sale of goods and services	0.0	0.0	0.0	54.0	54.0
Grants	0.0	0.0	0.0	0.0	0.0
Fair value of services received free of charge	276.0	34.0	310.0	35.0	1.0
Total income from transactions	134,832.9	38,672.0	173,504.9	38,954.0	282.0
Expenses from transactions					
Employee benefits	76,101.5	20,770.0	96,871.5	21,714.5	(944.5)
Depreciation and amortisation	14,169.0	684.0	14,853.0	753.0	(69.0)
Interest expense	200.0	27.0	227.0	27.5	(0.5)
Capital asset charge	2,321.1	110.0	2,431.1	110.0	0.0
Other operating expenses	41,476.5	17,081.0	58,557.5	16,384.1	696.9
Total expenses from transactions	134,268.1	38,672.0	172,940.1	38,989.1	(317.1)
Net result from transactions (net operating balance)	564.8	0.0	564.8	(35.1)	(35.1)

(i) Budget figures are as published in 2013–14 Statement of Finances: Budget Paper No. 5, page 163 (shown in \$millions).

(ii) For income items, the variance is positive if actual exceeds budget. For expense items, the variance is positive if budget exceeds actual.

Appendix six:

Additional information available on request

This report and the VAGO website publish all information required by the Directions of the Minister for Finance. Further details in respect of the information items below have been retained by VAGO and are available if requested—subject to the Freedom of Information requirements, if applicable:

- a statement that declarations of pecuniary interests have been duly completed by all relevant staff of the office (see also page 67)
- details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary
- details of changes in prices, fees, charges, rates and levies charged by the entity
- audit fees, which are revised annually (see also page 36)
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit (see also page 55)
- details of assessments and measures undertaken to improve the occupational health and safety of employees (see also pages 66–67)
- a general statement on industrial relations within the office and details of time lost through industrial accidents and disputes
- a list of major committees sponsored by VAGO, the purposes of each and the extent to which the purposes have been achieved (see also page 47)
- further information on VAGO's environmental performance (see also page 56–57)

- details of all consultancies and contractors (see also pages 73–74) including:
 - consultants/contractors engaged
 - services provided
 - expenditure committed to for each engagement.

This information can be requested from VAGO's Freedom of Information officer:

- Via email to:
nancy.stefanovski@audit.vic.gov.au
- In writing to: Freedom of Information, Victorian Auditor-General's Office, Level 24, 35 Collins St, Melbourne 3000.

In respect of the following areas there were no relevant activities undertaken by VAGO:

- details of any major external reviews carried out on the entity
- details of any other research and development activities undertaken by the office
- details of major promotional, public relations and marketing activities undertaken by the office to develop community awareness of the services provided.

The following information is available from VAGO's website:

- details of publications produced by VAGO about its activities
- copies of all VAGO reports since 1956
- a list of all entities currently audited by VAGO.

www.audit.vic.gov.au

Five year statistics

		2013–14	2012–13	2011–12	2010–11	2009–10
Reports tabled in Parliament						
Auditor-General's report on the finances of the state	(number)	1	1	1	1	1
Sector-based reports on results of financial audits	(number)	5	5	5	6	5
Performance audit reports	(number)	29	29	29	30	26
Non-audit reports (annual report and annual plan)	(number)	2	2	2	2	2
External assessment of Parliamentary reports	(per cent)	84	84	83	–	–
Parliamentarian satisfaction with reports and services	(per cent)	90	92	93	98	92
Audit reports on financial statements						
Audit responsibilities (entities at 30 June 2014)	(number)	553	550	561	551	557
Unqualified opinions issued during reporting year	(number)	550	547	545	547	553
Disclaimed opinions issued during reporting year	(number)	–	–	14	–	–
Qualified opinions issued during reporting year	(number)	4	3	4	5	4
Total opinions issued during reporting year	(number)	554	550	563	551	557
Audit opinions issued within time frame	(per cent)	100	100	99	99	100
Audits externally reviewed meet standards	(per cent)	100	100	100	–	–
Audit reports on performance statements						
Total opinions on performance statements	(number)	114	115	115	113	113
<i>Audit reports on local government performance statements</i>						
Unqualified opinions issued during reporting year	(number)	78	79	77	77	77
Qualified opinions issued during reporting year	(number)	1	–	2	1	1
Total opinions issued during reporting year	(number)	79	79	79	78	78
<i>Audit reports on regional water authority performance statements</i>						
Unqualified opinions issued during reporting year	(number)	16	16	16	15	15
Qualified opinions issued during reporting year	(number)	–	–	–	–	–
Total opinions issued during reporting year	(number)	16	16	16	15	15
<i>Audit reports on technical and further education institute performance statements</i>						
Unqualified opinions issued during reporting year	(number)	19	20	20	20	20
Qualified opinions issued during reporting year	(number)	–	–	–	–	–
Total opinions issued during reporting year	(number)	19	20	20	20	20
Resources						
In-house staff	(number)	185	179	176	170	173
Financial audit service providers (partners)	(number)	24	36	41	40	36
Average days sick leave per employee	(number)	8.8	7.3	6.4	7.2	6.2
Workers compensation claims	(number)	1 ^(a)	2	5	4	4
Injuries reported	(number)	6	2	4	4	4
Grievances lodged	(number)	2	2	5	–	2
Training and professional development per employee	(days)	8.9	8.5	6.1	6.7	9.7
Financial management						
Expenditure on audit service providers	(\$ million)	10.8	10.7	10.8	10.2	9.5
Revenue from audit fees	(\$ million)	23.2	23.1	22.5	21.9	20.8
Operating surplus/(deficit)	(\$ million)	0.0	1.5	0.6	0.5	0.8
Assets	(\$ million)	16.3	15.4	13.4	12.7	11.4
Liabilities	(\$ million)	8.1	7.3	6.8	6.6	5.8

(a) This claim is ongoing from previous years.