



Victorian Auditor-General's Office

# Annual Report

2014–15

## Auditing in the Public Interest



**VAGO**

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

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# VAGO

Victorian Auditor-General's Office

*Auditing in the Public Interest*

The Hon Bruce Atkinson MLC President Legislative Council Parliament House Melbourne	The Hon Telmo Languiller MP Speaker Legislative Assembly Parliament House Melbourne
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Dear Presiding Officers

I am pleased to transmit, in accordance with section 7B of the *Audit Act 1994*, the annual report of the Victorian Auditor-General's Office for the year ending 30 June 2015 for presentation to Parliament.



Dr Peter Frost  
*Acting Auditor-General*  
Melbourne  
6 October 2015

## 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 2015.



Dr Peter Frost  
*Acting Auditor-General*  
Melbourne  
30 September 2015

'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 to bottom: Paul Turner VAGO, hxdbzxy/shutterstock.com, EPSTOCK/shutterstock.com

# Welcome to our Annual Report

The Victorian Auditor-General's Office *Annual Report 2014–15 Volume 1* provides the Victorian Parliament, public sector agencies and the general public with information about our operations and financial performance during 2014–15. We report in accordance with the *Financial Management Act 1994*, and we have measured our performance against our strategic objectives (pages 2 and 3), the objectives of the *Audit Act 1994* (page 8), and our own annual plan (page 11).

*Volume 2* of this report discusses our key audit themes.

## The year in review

Our achievements	Page
We increased our engagement with agencies and Parliamentary committees during the development of our 2015–16 program of proposed reports to Parliament.	11
Parliamentarians referenced 78 individual reports in debate—an increase of 28 per cent on 2013–14.	16
Agencies accepted 96 per cent of our recommendations.	18
Our Financial Audit reports achieved an average score of 84 per cent by independent assessors.	31
We issued 99 per cent of our audit opinions within the statutory deadlines, exceeding our target of 98 per cent.	32
Our Parliamentary audit reports achieved an average score of 86 per cent for external/peer assessments, exceeding our target of 80 per cent.	38
We tabled 97 per cent of our Parliamentary reports within one month of the planned tabling date.	39
The number of views of our online audit report presentations doubled on the previous year.	23
We implemented our new follow-up program, assessing agency implementation of our recommendations.	19
We developed a new governance program that includes an audit stream, a better practice stream and an education stream.	7
The Auditor-General took over as the chair and secretariat of the Australasian Council of Auditors-General Financial Reporting and Auditing Subcommittee.	62
Media articles about VAGO and our work increased 29.5 per cent on the previous year.	20
Our challenges	
The outdated <i>Audit Act 1994</i> continued to limit our ability to provide complete assurance to Parliament regarding the use of public funds.	10
We did not achieve our quality target of 100 per cent for our Output Group 2 performance measure for external/peer reviews of financial audits.	30
We did not achieve our target to produce 28 performance audit reports, due to the deferral of a number of proposed reports to a later program.	35
The delayed increases in our resources continued to limit our ability to drive continuous improvement in the accountability and performance of the public sector.	9
The year ahead	
In 2015–16	
We will aim to increase the number of face-to-face presentations on the findings of our reports so that key messages are distilled more broadly.	23
We intend to review our Financial Audit quality review program.	33
We will aim to increase the resourcing of the high risk, material and/or strategic financial audits internally.	33
We intend to deliver our limited scope follow-up audits.	41
We intend to undertake further work to develop our governance program and its audit stream.	41
We will aim to increase our environmental performance (NABERS) rating.	63
We will complete the actions from our 2013–14 Public Accounts and Estimates Committee (PAEC) audit.	63

# Our strategy



# Performance against our strategy

Figure 1 is a snapshot of our performance in 2014–15, as measured against the five objectives in our *Strategic Plan 2010–11 to 2014–15*. This year, we are required to report and comment on any variations against our targets, including whether performance has been within 5 per cent variance of the target.

A new Strategic Plan will be developed in 2015–16, and will focus on greater alignment between our strategic objectives and measures, and between our objectives and outputs as stated in the State Budget Papers. The new Strategic Plan will also provide greater cohesion between the Strategic Plan, the Annual Plan, and VAGO business plans.

[Figure 1] Our five strategic objectives and our performance in 2014–15

Objective	Strategy	Action taken in 2014–15	Result	Page
<b>Reports and advice:</b> Being authoritative and relevant	Better targeting of topics	We revised our annual plan development process to consider topics from inquiries, correspondence, consultation and engagement. We acquitted 100 per cent of all feedback provided by agencies and PAEC.	✓	11
		We surveyed Parliamentarians and 81 per cent of respondents were satisfied or very satisfied with our reports and services, against a target of 85 per cent.	○	39
	Direct audit effort to areas of public value	We surveyed audited agencies and audit committee chairs. Positive feedback was received, with 70 per cent of audit committee chairs believing our audits added value.	✓	19
		Agencies accepted 96 per cent of our recommendations.	✓	18
Promoting broader access to reports	We provided media releases and online recorded presentations, as well as both html and pdf versions, for 100 per cent of audit reports.	✓	23	
<b>Parliament:</b> Being highly regarded by Parliament	Smoothing the flow of reports	Against a target of 90 per cent, 97 per cent of our audit reports were completed on time.	✓	39
	Better engage Parliamentary committees and individual Parliamentarians	We created a section on our website that specifically targeted Parliamentarians' information needs.	✓	62
		We surveyed Parliamentarians to gain feedback on our reports and services, and 43 per cent responded.	✓	39
		We consulted extensively with PAEC on the proposed program of reports to Parliament for 2015–16.	✓	11

[Figure 1] Our five strategic objectives and our performance in 2014–15 – *continued*

Objective	Strategy	Action taken in 2014–15	Result	Page
<b>Audit clients:</b> Fostering productive relationships with audit clients	Appropriately informing about audit plans, processes and activities	We conducted client satisfaction surveys. On average 93 per cent of respondents agreed the auditors conducted themselves professionally and 82 per cent of respondents agreed that auditors kept them well informed.	✓	52
	Fostering professional relationships	The Victorian Auditor-General engaged with Victorian and other integrity bodies as appropriate, and attended and contributed to the Australasian Council of Auditors-General biennial meeting.	✓	61
<b>People:</b> Fostering a stimulating working environment	Rigorous performance planning and management	We aimed to ensure that recruitment was well-targeted and that staff are engaged in their roles. However, our staff turnover was 17.4 per cent which was above our target.	■	66
	Supporting a safe and healthy workplace	The Occupational Health and Safety (OHS) committee met quarterly to discuss ways to support a safe and healthy workplace.	✓	69
<b>Organisation:</b> Leverage our systems and processes to improve organisational performance	Aligning systems and processes	We implemented a revised annual plan development process. Time spent developing the annual plan decreased by approximately 50 per cent and staff feedback indicated increased satisfaction with the new process.	✓	11
	Investing in capability for long term sustainability	We encouraged and supported staff training and development. Staff spent an average of 8.1 days in training and development, against a target of 8 days.	✓	67
	Being a responsible corporate citizen	We supported the development of regional pacific audit offices, by engaging with our 'twinning' audit office, Tuvalu. The Social Club supported fundraising efforts and encouraged volunteering. The Social Club raised over \$4 300 for charities.	✓	59 70

Note: ✓ Target achieved or exceeded. O Target not achieved—within 5 per cent variance.  
 ■ Target not achieved—exceeds 5 per cent variance.

## Strategic planning process

### Medium-term planning—three to five years

Our Strategic Plan is developed and approved by VAGO's executive management team in consultation with staff. The Strategic Plan sets out our vision, purpose, objectives and values and informs our Annual Plan and business unit plans.

In June 2015, the VAGO *Strategic Plan 2010–11 to 2014–15* expired and a new rolling four-year plan is being developed.

### Short-term planning—two years

VAGO's Annual Plan is one of our key accountability mechanisms. It sets out, for the coming financial year, our work program and the resources required to implement the program. It gives Parliament, the public sector and the community an opportunity to learn about our audit priorities and scrutinise our proposed program. Further discussion on our Annual Plan is available on page 11.

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# Structure of this report

Our annual report is prepared in accordance with the 2014–15 Model Report produced by the Department of Treasury and Finance. The Model Report is prepared in accordance with the *Financial Management Act 1994* and incorporates the requirements of Australian Accounting Standards, Financial Reporting Directions (FRDs) and Standing Directions as at 1 March 2015, for the reporting period ended 30 June 2015. The disclosure index in Appendix five (page 137) has been prepared to facilitate identification of VAGO's compliance with statutory disclosure requirements.

This annual report is fundamental to monitoring VAGO's performance during 2014–15. The State Budget Papers contain our objectives, as seen in our Strategic Plan, our major outputs and our performance measures. By reporting against our strategic objectives and strategies, and by acquitting our Annual Plan, we acquit our performance measures as established in the State Budget Papers.

This report provides comprehensive information regarding our financial performance and demonstrates the extent of VAGO's operations, as well as the services and advice we provide to Parliament, the public sector and the general public across the year. It also describes how the organisation is governed and managed, and profiles our executive management team.

Our report aims to provide accurate and transparent information for Parliament, the public sector and the general public, as well as for local, state and federal governments.

**[Figure 2] We report on our performance against several planning documents**



# How to use this Annual Report

The overview section provides a summary of our overall performance for 2014–15 and includes reviews by the Auditor-General and the Deputy Auditor-General.

The main body of this report details:

- the impact of our organisation on improving the accountability and performance of the public sector
- our performance against our annual plan for our financial and performance audit programs
- our organisation's governance and management
- our people and their learning and development
- statements that fulfil VAGO's financial reporting requirements.

Each section discusses the elements of our performance and activities that meet our strategic objectives and outputs as proposed in our annual plan work program.

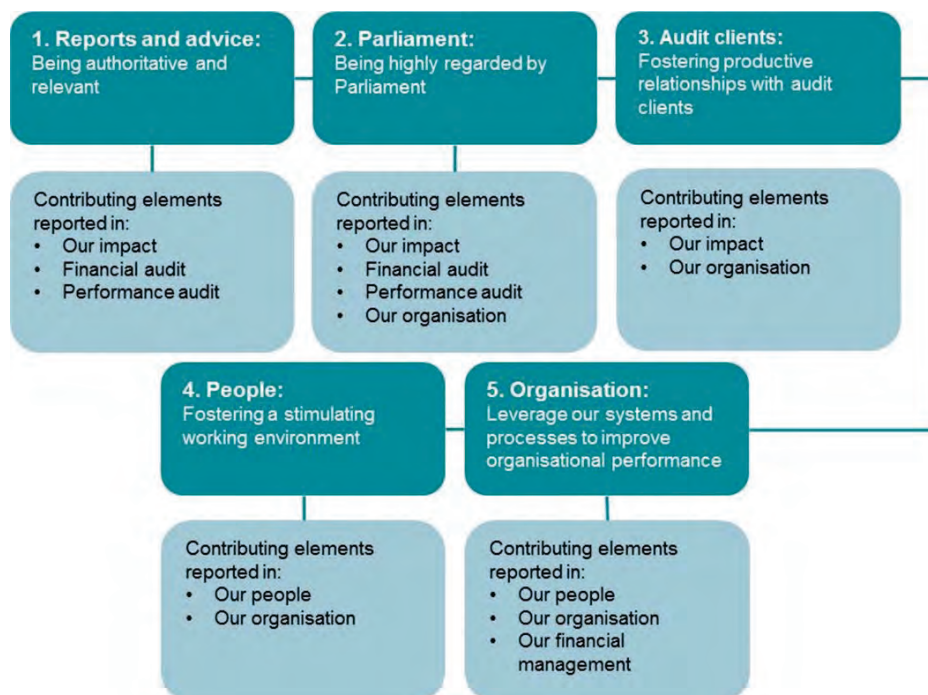
It shows the actions we have taken to meet our strategies and the results of those actions against our targets.

The first page of each section contains an introduction and a summary of the achievements and challenges covered in that section. Detailed reporting against strategic objectives and annual plan outputs then follows, with a 'looking forward' summary wrapping up each section.

Our Financial Management Report (page 72 to 124) includes detailed statements that fulfil VAGO's financial reporting requirements. The Appendices follow this and provide further notes on the information discussed in the main part of the report.

Figure 3 indicates which sections of this report address our objectives.

**[Figure 3] Our objectives and the sections where contributing elements are reported**



# Auditor-General's review



Looking back on 2014–15, I am proud of the progress VAGO has made. We tabled 36 reports in Parliament, covering topics such as schools costs for families, public hospitals and the status of ICT projects and initiatives across the Victorian public sector. We also introduced a governance program, implemented the second and third phases of our follow-up

program, increased our focus on technology, major projects, and standards and quality, and pursued a rewrite of the *Audit Act 1994*.

## Effectively engaging Parliamentarians

The 2014 election saw us welcome the 58th Parliament and a new government. VAGO has undertaken extensive engagement with Parliamentarians, especially with the new Public Accounts and Estimates Committee, to help them understand our role, our objectives and the changes we are seeking to our out-of-date mandate.

## Pursuing changes to our mandate

I was pleased to receive commitments to reform the *Audit Act 1994* from both sides of politics during the election. The new government reassured me that by the end of 2015 they will provide VAGO with legislated follow-the-dollar powers, and other amendments to integrate VAGO's work with other independent integrity bodies—with a full rewrite of the legislation to follow. Without these changes, VAGO cannot fully audit public money provided to not-for-profit or for-profit organisations delivering government services.

## Improving the accountability and performance of the public sector

In 2014–15, I issued a qualified audit opinion on the state's annual financial report (AFR) for 2013–14. My qualified opinion means that the AFR did not fairly represent the state's financial transactions and financial position in all material aspects.

I qualified the AFR on the basis that we did not agree with the accounting policy used to value school buildings. This unprecedented action demonstrates the value of the public auditor to ensure that public reporting of the state's finances is clear and accountable. In 2015–16 VAGO will look at how we can build on that value and assist departments through this challenge.

## Doing the right topics at the right time

Several of our 2014–15 reports had a significant impact, including *Effectiveness of Support for Local Government*, *Occupational Violence Against Healthcare Workers* and *Operational Effectiveness of the myki Ticketing System*. It is good to see that the recommendations of those reports are being widely implemented.

Volume 2 of this report discusses the key audit themes that arose during 2014–15. It will assist to drive continuous improvement in the public sector and is particularly valuable as it allows agencies not directly subject to our audits to benefit from them.

My *Annual Plan 2015–16* was developed with a particular emphasis on providing a nimble and well-targeted program of audits. A key factor in this was our increased engagement with agencies, members of Parliament and the general public.

## Focusing on the future

In 2015–16, VAGO will deliver the first limited scope follow-up audits and will further develop the governance program and its audit stream. The focus on technology, major projects and standards and quality will continue, and VAGO will increase efforts to ensure the public is provided with clear and accountable financial statements. VAGO will continue to pursue changes to the *Audit Act 1994*, and seek your input and feedback on future programs and tabled reports.

A handwritten signature in black ink, which appears to read 'John Doyle'.

John Doyle  
Auditor-General  
2 September 2015



# Chief Executive Officer's review



It has been a challenging and exciting year for VAGO and the team has again provided significant value for Victoria.

Several changes had to be made to our proposed program due to the refocusing of some audits and the deferral of others. Yet, we still met our targets and tabled 36 reports and delivered 547 financial audits.

We continued to progress the implementation of recommendations from the 2013 performance audit of VAGO. Implementation of all recommendations is nearing completion, which is a great result.

## Achieving and exceeding our performance targets

As per the new reporting requirements in the Department of Treasury and Finance's Model Report, this year our annual report indicates whether a performance target was met and the variance against target. Under this new format, of our 12 performance targets, two were not achieved and exceeded 5 per cent of target.

## Developing a quality governance structure

Our new governance structure provided a comprehensive testing ground for performance audit, financial audit and operational matters in 2014–15. Our committees demonstrated their ability to effectively review and enhance the quality and rigour of our work.

Our various internal committees continue to do excellent work in encouraging professional development, monitoring process quality, prioritising occupational health and safety, raising awareness of environmental impacts, and highlighting the benefits of staff engagement.

## Maintaining a professional, adaptable and experienced organisation

Our staff are highly skilled and experienced people who are passionate about contributing to the improvement of the public sector. Across 2014–15, the Auditor-General received positive feedback on their professionalism and expertise. Our staff have shown themselves to be highly adaptable through the changes and new initiatives VAGO has implemented.

## Focusing on the future

In 2015–16, a new rolling four-year strategic plan will be introduced, following engagement with staff.

We will review the mix of resourcing used to deliver our audits, considering how much audit work should be completed in-house, and we will continue to invest in the learning and development of our staff, with a commitment to 'growing our own'.

As we increase our focus on audits of information systems and infrastructure projects, we will consider how the structure of our performance audit teams can be further improved to better reflect our priorities.

Peter Frost  
*Chief Executive Officer and Deputy Auditor-General*  
2 September 2015

Note: John Doyle resigned on 22 September. During his time as Auditor-General, John used his encyclopaedic knowledge of Financial Audit and the Auditing Standards to make a substantial contribution to the development of VAGO's financial audit business and how the office operates, improving our financial and performance audit practices.

John also led several office initiatives, including the addition of an Information Systems Audit team and a Standards and Quality team and the creation of a governance program. John also made a significant contribution to growing the capability of staff through training and development, and the creation of a Careers@VAGO program, with a focus on 'growing our own'.

# About us

## Role of the Auditor-General

The Auditor-General provides independent assurance to Parliament and the Victorian community on the financial integrity and performance of the state. We do this primarily by undertaking financial audits and performance audits of public sector entities.

## History of the Auditor-General

The Office of the Auditor-General was established in July 1851 and Charles Ebdon was appointed as the first Auditor-General. In 1857, the position of Auditor-General was replaced by a group of three Commissioners of Audit. Then in 1901, with Federation came a new Audit Act which re-established the position of Auditor-General and emphasised his independence.

By the turn of the century, the office had 59 staff who audited over \$200 million of government expenditure. Today, we have around 180 staff, and we are responsible for auditing around \$50 billion of government expenditure.

Over this time, the Auditor-General's approach to providing assurance to Parliament has evolved, 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.

## Guiding legislation

The *Constitution Act 1975*, establishes the role of the Auditor-General and gives the Auditor-General complete discretion in the performance and exercise of his functions and powers.

The *Audit Act 1994*, establishes the Auditor-General's mandate, provides the legal basis for his powers, and identifies the Auditor-General's responsibilities, which are:

- auditing the annual financial report of the state
- reviewing the state's 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.

## Accountability

Balancing these extensive powers is a suite of accountability measures. VAGO has a statutory relationship with the PAEC and must consult with the committee on our annual plan and our performance audit specifications. We are also subject to regular financial and performance audits.

## Client organisations

The Auditor-General's audit responsibilities cover around 550 agencies that earn approximately \$84 billion in revenue, hold assets of over \$344 billion and employ more than 310 000 people.

The number of agencies we audit can change annually due to machinery-of-government changes, increasing or decreasing in line with the priorities of the government of the day, as discussed on page 9.

Agencies we audit include government departments, public bodies, educational institutions, public hospitals and local government authorities.

## Stakeholder consultation and engagement

We consult widely with Parliamentarians, public sector agencies and the community to gather information and ideas, and to discuss the merits and approach of potential audit topics. This helps us target our audits, both at a whole-of-government level and within sectors.

Consultation feedback is analysed to identify themes that are recurring and highly relevant to our mandate. These are fed into our annual planning process for consideration, as discussed on page 11.

## Operating environment

### Internal considerations/influencing factors

#### *Organisational changes*

During 2014–15 we continued to review our operations and outputs, and implemented several organisational changes. We updated some of our work methods and systems and changed our organisational structure, as discussed on page 46.

A new Assistant Auditor-General Financial Audit (AAG FA) was appointed following the retirement of the previous AAG FA.

#### *Resource availability—budget and capacity*

The resources available to VAGO remain a challenge and recent requests for modest increases in budget have not been accepted. We will continue to press our case for further support as we wish to increase our impact, but not at the expense of other areas of audit activity.

#### *Staff profile and skill needs*

In 2014–15, we had 184 staff, detailed on page 65. VAGO continues to develop and promote from within to grow our organisational knowledge and experience.

In addition, we recruit externally to grow our capacity and continuously improve our quality and expertise, and our website now has an ongoing portal for expressions of interest for future vacancies.

#### *A more flexible program*

A key change in 2014–15 was focusing the development of our *Annual Plan 2015–16* on doing the right audits at the right time. The plan was designed to strike a balance between predictability and flexibility to be nimble and well targeted, as discussed on page 11.

### External considerations/influencing factors

#### *The 2014 election*

Every year VAGO cannot table reports during January due to Parliament being in summer recess. The 2014 election meant that VAGO was also not able to table reports in November or December 2014. In addition, the late formation of PAEC in 2015 meant that consultation on audit specifications could not be completed according to set time frames. VAGO implemented a number of strategies to deal with these issues, including the deferral of audits to a later program and reorganising the planning phase of audits at risk of being affected.

#### *The 58th Parliament*

New Parliamentarians require increased engagement so that they understand the role of the Auditor-General. This is particularly important for Parliamentarians who sit on PAEC, as these are our principal Parliamentary stakeholders.

#### *Machinery-of-government changes*

Merging, abolishing or creating new departments and public entities always presents challenges for audits. Machinery-of-government changes, particularly after an election and especially a change of government, raise a number of complex financial audit and legal issues that need to be considered and resolved.

### *Audit Act 1994 constraints*

Since 2009, VAGO has been advocating for a complete rewrite of the *Audit Act 1994*. As governments have moved to different and innovative modes of service delivery, the *Audit Act 1994* has failed to keep pace, steadily eroding our mandate and limiting the assurance we can provide to Parliament.

The most pressing need is for 'follow-the-dollar' powers, which are common in many other Australian jurisdictions. These would allow the Auditor-General to access information and property in the hands of third parties who receive or use public resources and public money.

The *Audit Act 1994* needs to be brought up to date to deal with the way modern government operates. The government has promised to introduce 'follow-the-dollar' amendments as a minimum this year and we look forward to engaging in a constructive dialogue.

### *Australian Auditing and Assurance Standards Board*

*Additional Auditing Standard 2006:02* was applied by the Australian Auditing and Assurance Standards Board in 2014–15 as discussed on page 51.

### *Changes to auditing sector—nationally and internationally*

The non-renewable term of the 14th Auditor-General for Australia, Ian McPhee, concluded in early 2015. Grant Hehir commenced his term on 11 June 2015.

The Pacific Association of Supreme Audit Institutions is currently developing its next three-year strategic plan (page 59).

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## Performance against our output targets

The State Budget Papers contain our objectives, our major outputs and our performance measures. The outputs we are funded to provide reflect the two elements of assurance we provide to Parliament:

- Output Group 1: Parliamentary reports and services (page 11)
- Output Group 2: Audit reports on financial statements (page 12).

Each output group consists of separate products for which we have measures and targets for quantity, quality, timeliness and cost. Our performance for each of these is provided in Figure 4 and Figure 5.

### Output Group 1: Parliamentary reports and services

VAGO's Output Group 1 primarily relates to the reports we table in Parliament on the results of our financial and performance audits. We also provide a range of other services to Parliament, capitalising on our skills and experience, to help foster better accountability and performance, and promote better practice resource management in the public sector.

The Auditor-General's reports include:

- performance audit reports (page 35)
- reports on results of financial audits (page 24)
- report on the Annual Financial Report of the State of Victoria (page 27)
- annual Plan (page 11)
- annual Report (page 11).

In 2014–15 we tabled 36 reports, which achieved our target. However, this result was slightly less than expected, as we did not produce our target number of performance audit reports. The Auditor-General's audit reports are discussed further in the financial audit (page 24) and performance audit sections (page 35).

## Annual Plan

Our *Annual Plan 2015–16* was tabled on 24 June 2015 and details our work plan for the next two years. This exceeds the legislative requirement for a one-year plan.

This year we revised our annual planning process to include more rigorous consideration and acquittal of topic suggestions from inquiries, correspondence and agency and Parliamentary feedback.

We also changed our internal workshop process and included additional detail on audit topics and areas of interest for agencies, extending our consultation time from two to four weeks. We engaged extensively with PAEC, including consultation on two drafts of the proposed program and meetings with both the chair and full committee.

Comments from PAEC on the final draft of our proposed program were acquitted and can be viewed in the *Annual Plan 2015–16*, which is available on our website.

The cost of producing the Annual Plan 2015–16 was approximately \$470 600. This is above the average cost of our reports (approximately \$347 700), however, the Annual Plan requires more extensive consultation and input from stakeholders and staff. The changes to the annual planning process contributed to a significant reduction in its cost, however, this cannot be directly compared to the previous year due to the changed process and the shift from a four-year plan to a two-year plan. We will continue to improve this process over time.

## Annual report

We tabled our *Annual Report 2013–14* on 16 October 2014. This report received a silver award from the Australasian Reporting Awards.

The cost of producing the 2013–14 annual report was approximately \$161 900. No comparison can be made against the cost of producing the Annual Report prior to 2013–14 due to significant organisation changes in 2013–14.

[Figure 4] Performance against Output Group 1 targets

Performance measures	Unit of measure	2014–15				Page
		Actual	Target	Performance variation (%)	Result	
<b>Quantity</b>						
Auditor-General's reports	(number)	36	36	0	✓	24, 35
<b>Quality</b>						
Average score of audit reports by external/peer assessors <sup>(b)</sup>	(per cent)	86	80	7.5	✓	38
Overall level of external satisfaction with audit reports and services—Parliamentarians	(per cent)	81	85	-4.7	○	39
<b>Timeliness</b>						
Inquiries from Members of Parliament and the public responded to within 28 days	(per cent)	98	95	3.2	✓	40
Reports completed on time	(per cent)	97	90	7.8	✓	39
<b>Cost</b>						
Total output cost <sup>(a)</sup>	(\$ million)	16.1	15.7	-2.5	○	41

Note: ✓ Target achieved or exceeded. ○ Target not achieved—within 5 per cent variance.

■ Target not achieved—exceeds 5 per cent variance.

(a) Net total cost includes the deduction of revenue recovery mainly from staff secondments.

(b) Increase represents higher quality writing.

## Output Group 2: Audit reports on financial statements

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

Output Group 2 includes:

- audit opinion on the Annual Financial Report of the State of Victoria (page 27)
- review of the estimated financial statements of the state of Victoria (page 27)
- audit opinions issued on entities' financial statements (page 28)
- audit opinions issued on entities' non-financial performance statements (page 28)

Although not included as part of our output targets, we also certify warrants for the expenditure of public funds when we are satisfied that the funds are legally available, and we perform acquittals of Commonwealth and Victorian grants.

[Figure 5] Performance against Output Group 2 targets

Performance measures	Unit of measure	2014–15				Page
		Actual	Target	Performance variation (%)	Result	
<b>Quantity</b>						
Audit opinions issued on the financial statements of agencies	(number)	547	559	-2.1	○ <sup>(a)</sup>	28
Audit opinions issued on non-financial performance indicators	(number)	108	115	-6.1	■ <sup>(b)</sup>	29
<b>Quality</b>						
External/peer reviews finding no material departures from professional and regulatory standards	(per cent)	86	100	-14.0	■	30
<b>Timeliness</b>						
Audit opinions issued within statutory deadlines	(per cent)	99	98	1.0	✓	32
Management letters issued to agencies within established time frames	(per cent)	91	90	1.1	✓	32
<b>Cost</b>						
Total output cost <sup>(c)</sup>	(\$ million)	22.9	24.0	4.6	✓	32

Note: ✓ Target achieved or exceeded. ○ Target not achieved—within 5 per cent variance.

■ Target not achieved—exceeds 5 per cent variance.

(a) Target was revised to 552 following changes to the number of agencies subject to audit in 2014–15. Five agencies failed to deliver statements for auditing, meaning that only 547 statements could be audited.

(b) Target was revised to 108 due to a reduction in the number of statements available for audit.

(c) Total cost includes the deduction of revenue recovery mainly from staff secondments.

# Our resources

In 2014–15, we:

- received \$39.5 million in funding from Parliament and agencies (\$38.9 million in 2013–14 and \$38.5 million in 2012–13)
- had 184 in-house staff at 30 June 2015 (185 at 30 June 2014 and 179 at 30 June 2013)
- engaged 24 audit service providers (23 during 2013–14 and 24 during 2012–13).

Our financial management follows the government business model (cash controlled), however, our organisation is a professional firm.

**[Figure 6] Financial summary 2014–15 and previous four years**

Financial summary (\$'000)	2014–15	2013–14	2012–13	2011–12	2010–11	Percentage change 2013–14 to 2014–15	
Operating revenue	39 698	38 954	38 654	37 120	36 490	1.9	▲
Operating expenses	39 161	38 994	37 197	36 542	35 974	0.4	▲
Total assets	16 822	16 291	15 448	13 445	12 712	3.3	▲
Total liabilities	8 211	8 217	7 333	6 787	6 631	0.1	▼
Surplus/(deficit)	537	(40)	1 457	578	516	1 442.5 <sup>(a)</sup>	▲
Net equity	8 611	8 074	8 115	6 658	6 081	6.6	▲

(a) The significant percentage change from 2013–14 to 2014–15 is due to the generation of a sizeable surplus in 2014–15, compared to a relatively small deficit in 2013–14. The 2014–15 surplus is mainly due to a 2 per cent increase in revenue (in line with general price increases). Expenses were only 0.4 per cent higher than in 2013–14. See pages 72 to 124.

# Our impact

In 2014–15, our impact continued to grow, despite an election impacting our ability to table reports in November and December 2014. Parliamentarians have frequently referenced our reports in debate, visitors to our website have increased, and our recent audits have contributed to significant changes in the public sector.

## Relevant strategic objectives:

- **Reports and advice:**  
Being authoritative and relevant
- **Parliament:**  
Being highly regarded by Parliament
- **Audit clients:**  
Fostering productive relationships with audit clients

## The year in review

Our achievements	Page
Parliamentarians referenced 78 individual reports—an increase of 28 per cent on the previous year.	16
We provided information to two Parliamentary Committee inquiries in the 58th Parliament.	17
Over 80 per cent of surveyed Parliamentarians agreed our reports and services help improve public sector administration.	17
Our reports contributed to significant reviews of agency and business activities.	17
Agencies accepted 96 per cent of our audit recommendations.	18
70 per cent of audit committee chairs agreed that we add value in terms of helping public sector organisations to improve their performance.	19
85 per cent of audit committee chairs agreed that performance audit recommendations have the potential to improve the administration of the audited activity or current/future activities.	19
25 per cent increase in the number of visits to our website, with 60 per cent of these unique (new) visitors.	21
46.8 per cent increase in online media articles.	20
Media articles about VAGO increased 29.5 per cent on the previous year.	20
On five days where we tabled reports we had over 1 400 visitors to our website.	21
We recorded the highest attendance in five years of individual Parliamentarians at our tabling briefings.	22
The number of views of our online audit report presentations (8 784) doubled on the previous year.	23
Our challenges	
The outdated <i>Audit Act 1994</i> still limited our ability to provide complete assurance to Parliament on the use of public funds.	21
The year ahead	
In 2015–16	
We will continue all our activities aimed at increasing the impact of our audits.	23



# Introduction



Beyond just providing assurance to Parliament, our audits can be a catalyst for change in the public sector. Our findings and recommendations have a broad impact in Parliament (page 15) and for the audited agencies (page 17). Our work also generates and contributes to public debate (page 20).

We hope to maximise our impact and so we undertake a range of activities designed to increase the impact of our audits (page 22).

## Impact on Parliament

Parliamentarians routinely use our reports in Parliamentary debates and inquiries.

### Parliamentary debate

One of the most significant ways our reports can have an impact is by being used to support the passage of new legislation.

Figure 7 provides examples of bills debated in 2014–15 where a VAGO report was referenced. Sometimes Parliamentarians will refer to an audit report listed in our proposed program that has not yet tabled.

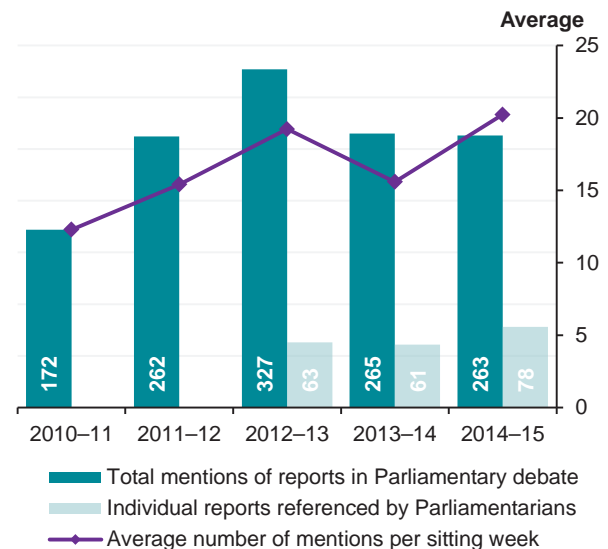
**[Figure 7] Examples of reports referenced to support passage of new legislation in Parliament**

Bill	VAGO report referenced
<i>Privacy and Data Protection Bill 2014</i>	<i>Maintaining the Integrity and Confidentiality of Personal Information</i> (2009–10:8) <i>WoVG Information Security Management Framework</i> (2013–14:12)
<i>Gambling and Liquor Legislation Amendment Bill 2014</i>	<i>Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm</i> (2011–12:34)
<i>Justice Legislation Amendment (Confiscation and Other Matters) Bill 2014</i>	<i>Occupational Health and Safety Risk in Public Hospitals</i> (2013–14:14)
<i>Emergency Management Amendment (Critical Infrastructure Resilience) Bill 2014</i>	<i>Preparedness to Respond to Terrorism Incidents: Essential Services and Critical Infrastructure</i> (2008–09:15)
<i>Freedom of Information and Victorian Inspectorate Acts Amendment Bill 2014</i>	<i>Maintaining the Integrity and Confidentiality of Personal Information</i> (2009–10:8) <i>Freedom of Information</i> (2011–12:25) <i>WoVG Information Security Management Framework</i> (2013–14:12) <i>Technical and Further Education Institutes: Results of the 2013 Audits</i> (2014–15:1)
<i>Regional Development Victoria Amendment (Jobs and Infrastructure) Bill 2015</i>	Regional Growth Fund: Outcomes and Learnings—due to be tabled in 2015–16

Hansard transcripts show that our audit reports were referenced 263 times in Parliamentary debate in 2014–15. This is a slight decrease on 2013–14 (265) however, there were fewer Parliamentary sitting weeks in 2014–15 due to the 2014 election. Our average number of report mentions per sitting week actually rose.

In 2014–15, 78 individual reports were referenced by Parliamentarians, an increase of 28 per cent on 2013–14. This increase indicates that Parliamentarians are broadening their use of the VAGO suite of audit reports. The reports referenced ranged from reports published in 1989 to future audits that will be tabled in 2015–16.

**[Figure 8] Reports referenced in Parliamentary debate**



Note: Data on individual reports referenced was not recorded for 2010–11 and 2011–12.

**[Figure 9] Examples of audits mentioned in Parliamentary debate**

#### Audit references from Hansard

'An important question put to the Treasurer related to the accounting trickery the previous government was using in relation to schools, which was highlighted by the Auditor-General and is really quite a scandalous approach. That government would write down the value of schools it described as economically obsolescent, in some cases because enrolments were down in particular schools, and thereby reduce the asset base and thereby reduce necessity for future maintenance funding. It is good to see that this government has reversed that piece of accounting trickery, which had not been used by any other jurisdiction on earth that the Auditor-General was able to find.'

*Mr Barber MP, Greens, Hansard, 11 June 2015*

'Program design for the new Regional Jobs and Infrastructure Fund has commenced and will proceed through administrative mechanisms, including published program guidelines, and will continue to be publically accountable, as demonstrated through the Auditor-General's scheduled audit of the Regional Growth Fund.'

*Mr Pakula MP, Australian Labor Party, Hansard, 15 April 2015*

The bill specifically addresses a number of data security issues identified in two reports by the Victorian Auditor-General: a 2009 report entitled *Maintaining the Integrity and Confidentiality of Personal Information* and a 2013 report entitled *Whole-of-Victorian Government Information Security Management Framework*. For example, new mechanisms for information in the public interest can be shared with the private sector where appropriate. I was thinking that an example might be a not-for-profit charity organisation advising the public sector on how to use data sensitively. But essentially any data that is collected—whether it is personal or commercial data—should be kept in confidence and handled with sensitivity at all times.'

*Ms Miller MP, Liberal Party, Hansard, 6 August 2014*

## Parliamentary committee inquiries

Parliamentary committees are often used to call agencies to account for their actions in response to our reports. In 2014–15, two committee reports drew on VAGO audit reports. This is a large decrease on previous years (seven in 2013–14 and nine in 2012–13) however, it is in line with an overall drop in the number of reports tabled by committees, due to the 2014 election.

Since the commencement of the 58th Parliament, VAGO has provided information to two committee inquiries, which are yet to report. The following committee inquiries referred to VAGO reports in 2014–15:

### 58th Parliament

- Environment and Planning Committee's inquiry into *Unconventional Gas in Victoria* has included the current VAGO audit, Unconventional gas: managing risks and impacts, in its Terms of Reference.

### 57th Parliament

- Family and Community Development Committee's *Inquiry into Social Inclusion and Victorians with a Disability*, published 17 September 2014, referred to our 2012 *Programs for Students with Special Learning Needs* report.
- Economic Development, Infrastructure and Outer Suburban/Interface Services Committee's *Inquiry into Marine Rescue Services in Victoria*, referenced our 2014 *Recreational Maritime Safety* report.

## Feedback from Parliamentarians

We survey Parliamentarians annually to assess their engagement with our reports and services.

A high proportion of surveyed Parliamentarians (93 per cent) agreed that our reports and services provided valuable information on the public sector. Over 80 per cent of surveyed Parliamentarians agreed that our reports and services help improve public sector administration.

The majority of surveyed Parliamentarians indicated that our performance audits 'highly' or 'very highly' addressed issues of significance (80 per cent, up from 68 per cent in 2013–14) and addressed their key areas of interest (65 per cent, up from 57 per cent in 2013–14).

For more information on our surveys of Parliamentarians, see page 52.

## Impact on agencies

We look for evidence of audited agencies improving their practices in response to our audits. We ask agencies to commit to implementing our recommendations, and we survey them on the value of our audits.

In some cases, reports result in significant reviews of an agency or business activity, while other reports contribute to internal changes to improve processes and controls. Recent audits that have contributed to significant changes are discussed in Figure 10.

## [Figure 10] Audits contributing to substantial changes to processes, controls or reviews by agencies

### Audit examples

#### **Water Entities: Results of the 2013–14 Audits (February 2015)**

Some agency finance teams were asked to acquit key findings and recommendations, and report back to their audit committees. In addition, the Minister for Water announced publicly that she would conduct a review of the report's findings relating to gifts, benefits and hospitality. Following the audit, a number of boards and audit committees are requiring management to provide an acquittal of findings from the report.

#### **Local Government: Results of the 2013–14 Audits (February 2015)**

VAGO received a positive submission to the report from the Department of Environment, Land, Water and Planning. While there were no specific recommendations directed at the department, they supported the recommendations for councils and have encouraged them to address the matters raised.

#### **Emergency Service Response Times (March 2015)**

Emergency service organisations did not wait for the audit to finish before making improvements to their response time performance information. The Country Fire Authority, the Metropolitan Fire and Emergency Services Board and the Department of Justice and Regulation corrected errors in performance data, strengthened reporting tools, clarified definitions and developed guidance to staff on reporting and calculating results. Midway through the audit, Ambulance Victoria and the Department of Health and Human Services acted on one of the draft recommendations and publicly released regional-level response time data.

At the close of the audit, audited agencies committed to reviewing the relevance and appropriateness of response time indicators and their reporting. Victoria Police, who did not use response time data, took the opportunity offered by the audit to understand and analyse this data for the first time.

These changes will improve the useability and reliability of emergency response time information for Parliament and the public.

#### **Operational Effectiveness of the myki Ticketing System (June 2015)**

The report found that there was a need for Public Transport Victoria to review and strengthen its performance monitoring framework prior to awarding the new myki contract.

Following VAGO's audit, Public Transport Victoria committed to improving the performance regime in the new myki contract and engaging a service provider to undertake a review of the performance data reported by the contractor. The audit also noted that the current Cabinet-in-Confidence conventions—which prevent agencies from accessing the full business case for myki to conduct a benefits review—have compromised the effectiveness of the state's Gateway Review and High Value High Risk processes. The Department of Treasury and Finance has committed to work with the Department of Premier and Cabinet to advise government on the impact of the current Cabinet conventions.

Throughout each of our audits, we brief the audited agencies on emerging findings and recommendations. In 2013–14 we began requesting action plans from agencies, and we continued that this year. These plans set out how and when agencies will respond to audit recommendations, and they are critical to ensuring that action is being taken as a result of our audits.

## Agency acceptance of recommendations

Our internal count of the number of recommendations accepted by agencies is based on agencies' formal submissions to our reports.

This is limited, as agencies sometimes do not clearly state their response.

Across our financial and performance audit reports in 2014–15, VAGO made 319 recommendations. Of the 319 recommendations, 96 per cent were counted as accepted by agencies—either supported, being reviewed or not responded to. Our follow-up program will identify how the recommendations and agency action plans are progressing.

Figure 11 provides examples of the usefulness of our recommendations and the commitment of agencies to implement change.

[Figure 11] Extracts from responses to VAGO reports

## Response extracts

### **Heatwave Management: Reducing the Risk to Public Health (October 2014)**

'I would like to acknowledge the collaborative approach adopted by your office throughout the audit process. The Department of Health welcomes the report and it is pleasing that the heatwave framework is recognised as soundly based and that it is likely that the framework and the collected efforts of all agencies have contributed to the reduced public health impact in 2014. The opportunities highlighted for improvement in heatwave management are also welcomed.'

*Response provided by the Secretary, Department of Health.*

### **Technical and Further Education Institutes: 2014 Audit Snapshot (May 2015)**

'The Department of Treasury and Finance welcomes the report's recommendations, which assist in the continuous improvement of financial and performance management across the Victorian public sector.'

*Response provided by the Secretary, Department of Treasury and Finance.*

### **Management and Oversight of the Caulfield Racecourse Reserve (September 2014)**

'The Department of Environment and Primary Industries (DEPI) welcomes the findings in the report and accepts each of the recommendations directed to DEPI.'

The findings raised in the report will provide DEPI with an opportunity to work more closely with the trustees in developing an improved governance framework for the operations of the Caulfield Racecourse Reserve...I would like to express my appreciation to your audit team for their professionalism during the conduct of this audit.'

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

We are keen to further increase the value of our work and to expand the difference we make across the Victorian public sector. The follow-up program of audits, which was introduced in 2014–15, provides us with an opportunity to actively report on agency implementation of our recommendations.

Information on this new process can be found in the *Annual Plan 2015–16*.

We also hope to see an increase in the 'ripple effect' whereby agencies that are not subject to an audit are able to use recommendations to enhance their own practices. This would promote continuous improvement and strengthen the accountability and performance of the public sector.

## Value of audits to audited agencies

For every performance audit, we undertake a post-audit survey to find out if audited agencies found the audit valuable. These surveys tell us whether the audited agencies believe the audit will help them improve their performance.

For performance audits tabled in 2014–15, the average indexed ratings for questions about audit value increased from 72 per cent (2013–14) to 73 per cent. See page 52 for overall score.

In 2014–15, we received positive feedback from our survey of audited agencies' audit committee chairs, with 70 per cent of respondents agreeing that VAGO adds value by helping public sector organisations improve their performance (up from 66 per cent in 2013–14).

The survey also found that 85 per cent of surveyed audit committee chairs (up from 66 per cent in 2013–14) agreed that performance audit findings and recommendations have the potential to improve the administration of the audited activity or similar activities. In relation to our financial audits, 94 per cent of audit committee chairs valued VAGO's recommendations to improve management and risk management in their organisation.

We also seek comments from agencies in these surveys, some of which are shown in Figure 12. These are not attributed in order to preserve anonymity. See page 52 for further discussion on our performance audit survey results.

**[Figure 12] Extracts from post-audit surveys of agencies**

**Positive responses and constructive feedback**

**Positive responses**

'The department highly valued the collaborative approach that VAGO took to this audit and the opportunities to meet regularly to clarify issues, provide information and to discuss proposed findings and recommendations.'

The reports are clearly articulated and summary sections very useful—also the presentations which are posted on the website provided an excellent snapshot of key messages.'

'The team worked with us to develop recommendations that were useful and could be acted on with maximum benefit to the community and patients.'

'Generally, we were pleased with the professionalism, capabilities, and approach by VAGO staff. Well done.'

'I found the VAGO staff extremely professional, fair and transparent throughout the process. It was clear/apparent that they wanted the audit to be useful to us, i.e. the department.'

'The process was handled very professionally. The audit team demonstrated great interest in the subject matter and excellent listening skills.'

**Constructive feedback**

'There would be value in having VAGO provide more examples of how departments can more effectively meet government requirements in this area.'

'The language was quite bureaucratic and corporate, but overall VAGO staff grasped a very good understanding of a complex social policy area within a short space of time.'

'I would have liked more face to face interaction with the auditors to discuss key issues.'

# Impact on public debate

VAGO acts in the public interest and having our reports accessed and debated, both in the media and by the public, confirms that we are focusing on relevant and significant issues.

Our impact is increased by public debate, as community concern often encourages the government to act on our findings.

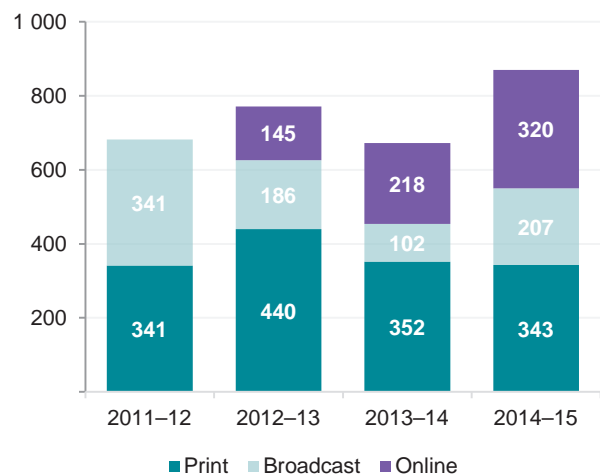
In 2014–15, 870 media articles about the Auditor-General and our work were published and broadcast—an increase of 29.5 per cent from the previous year. This includes an increase of 46.8 per cent in online articles continuing the trend of growth in this area.

## Media coverage



*John Doyle, Doorstop Media Conference at Parliament House, 16 October 2014.*

**[Figure 13] Media mentions**



Note: Our method of collating data changed significantly in 2011–12, so data from earlier years is not comparable.

Most of our media coverage (about 85 per cent) was related to our audit reports. Four reports generated over 35 per cent of this coverage:

- *Additional School Costs for Families*
- *Public Hospitals: Results of the 2013–14 Audits*
- *Occupational Violence Against Healthcare Workers*
- *Operational Effectiveness of the myki Ticketing System.*

The rest of our media coverage (15 per cent) was about older audit reports (83 mentions), the role of the Auditor-General, and the need to reform the *Audit Act 1994*.

Articles about matters other than tabled reports included calls for the East West Link project to be audited, which the Auditor-General agreed to in April 2015, and discussions of a potential investigation of bullying in hospitals.

The role and work of the Auditor-General also generated media interest in late 2014, when two major issues led to front page news coverage. The first was the qualification of the *Annual Financial Report of the State of Victoria, 2013–14*, which resulted from a significant issue around the valuation approach used for school buildings.

Media interest was also generated when the four most recent Auditors-General wrote a joint opinion piece on the urgent need for reform of the *Audit Act 1994* in November 2014. The issue of reform has continued to generate media attention since the initial burst of articles in October 2014.

While most reports generate media attention for a day or two following tabling, others generate more sustained coverage. This year these included:

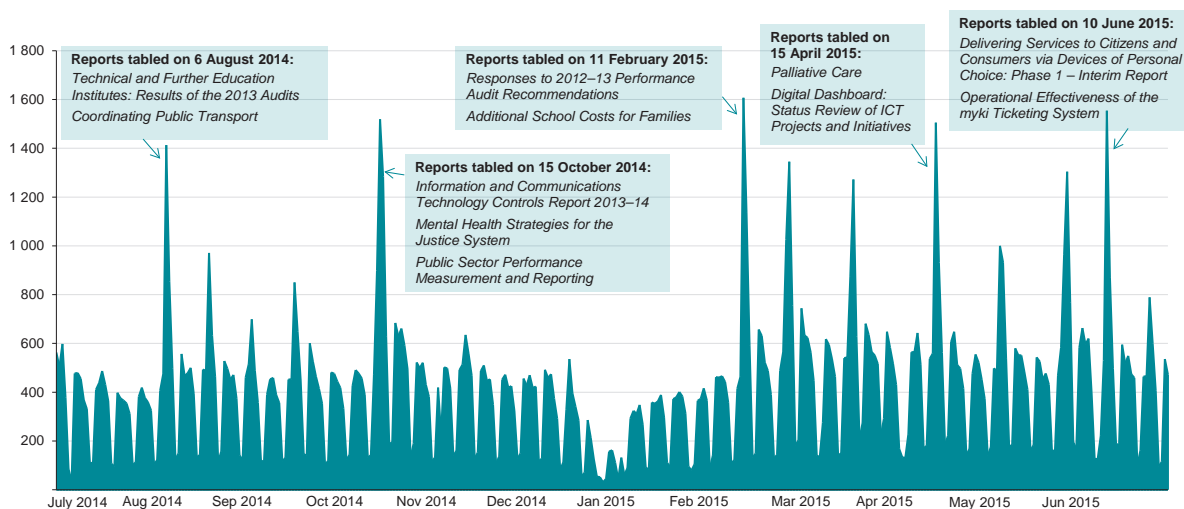
- *Management and Oversight of the Caulfield Racecourse Reserve*
- *Local Government: Results of 2013–14 Audits*
- *Effectiveness of Support for Local Government*
- *Victoria’s Consumer Protection Framework for Building Construction.*

## Website activity

In 2014–15, there were over 148 000 visits to the VAGO website by 92 366 visitors, which is a 25 per cent increase on the previous year. Around 60 per cent of these were unique (new) visitors.

Visits to the website spike when we table reports. In 2014–15, five of our tabling days resulted in over 1 400 visits to our website, a significant change from 2013–14 when only one tabling day generated over 1 000 visits. The reports tabled in early February, including *Additional School Costs for Families*, generated over 1 600 visits—a new high.

**[Figure 14] Website visits throughout the year**



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# Increasing the impact of our audits

We conduct a range of activities to increase the impact of our audits. We look for opportunities to share the knowledge we have gained from our audits with government, peak bodies, agencies and the general public.

We do this through:

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

## Parliamentary briefings and engagement

We offer briefings to relevant ministers for all our tabled reports and in 2014–15, we provided 27 such briefings to ministers or their officers.

We also conduct briefing sessions in Parliament House that are open to all Parliamentarians following the tabling of reports. In 2014–15, we held 19 briefing sessions, which were attended by 37 different Parliamentarians, the highest number in the past five years.



*Sector Director briefing Members of Parliament.*

Feedback indicated that Parliamentarians are also accessing the audio presentations on our website. These are the same as those presented in the Parliament briefing session and are discussed further on page 23.

## Presentations and addresses

Every year senior VAGO staff present at conferences, educational courses, and to professional and industry groups. The aim is to educate about our activities and broader issues such as accountability, governance and performance management, and to share our audit findings and recommendations with people who can help drive change. A full list of presentations made in 2014–15 is provided in Appendix 2.

## Departmental audit committee chairs' meetings

Twice a year, VAGO and the Department of Treasury and Finance co-host meetings with the 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 our relationships.

## Regional events

In 2014–15, the Deputy Auditor-General and Assistant Auditor-General, Standards and Quality, held a forum in Wangaratta for our audit clients in the local government, water, health services and education sectors.

These regional events are an opportunity to promote the findings from our recent reports to agencies that were not subject to the audit. This highlights our recommendations and encourages a ripple effect.



## Performance Audit contacts' events

This year VAGO held two events that brought together our audit agency contacts to discuss the running of a performance audit and VAGO's activities of interest.

The November 2014 event focused on key developments at VAGO, introducing the two new Assistant Auditors-General for Information Systems Audit and Standards and Quality, and discussing the introduction of Accellion, a secure electronic document sharing platform. The impending release of our better practice guide on *Public Participation in Government Decision-Making* was also discussed, as well as recurring issues, such as access to Cabinet-in-Confidence documents.

The April 2015 event focused on the follow-up audit process and sought feedback on the development of our new Governance Program.

## Parliament House Open Day

Every year VAGO participates in Parliament House Open Day to engage with the public and promote awareness of our reports. In 2014–15, five VAGO volunteers staffed a stand and answered questions from the public about our office and its activities.

This year we introduced a 'suggestion box' to collect suggestions for audit topics from the public, which we then included in our Annual Plan process.



Staff assisting members of the public at Parliament House Open Day.

## Improving the accessibility and communication of reports

We continually review and update our website to increase the accessibility of our reports and services.

This year we have continued issuing media releases for all Parliamentary reports and providing short recorded presentations which outline the key findings, conclusions and recommendations for each report.

There were 8 784 views of these presentations, which is almost double the number from the previous year. This demonstrates that the online presentations are a valuable tool for Parliamentarians, agencies and the community.

## Looking forward

Every year we hope to broaden the impact of our work. In 2015–16 we will continue to engage with our stakeholders through events, one-on-one meetings and briefings. We will build on the success of our online recorded presentations and will be implementing a new content management system to increase the functionality, usability and accessibility of our website.

We will also aim to increase the number of face-to-face presentations on the findings of our reports so that key messages are distilled more broadly.

# Financial audit

This year we exceeded our two timeliness targets, met our cost target, and met one of our revised quantity targets. Our other revised quantity target and our quality target were not achieved. Following evaluation, we have put in place measures to ensure that the quality of our financial audit work is increased. The lessons we have learned from this challenge have the potential to improve quality processes across VAGO.

## Relevant strategic objectives:

- **Reports and advice:**  
Being authoritative and relevant
- **Parliament:**  
Being highly regarded by Parliament

## The year in review

Our achievements	Page
We tabled nine reports on the results of financial audits in Parliament, exceeding our target of six.	25
We tabled the <i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14</i> , on 16 October 2014, which included an unprecedented qualified audit opinion on the state's annual financial report.	27
We issued 547 audit opinions on the financial statements of agencies.	28
We issued 108 audit opinions on non-financial performance indicators.	29
We issued the Auditor-General's review report on the Estimated Financial Statements on 1 May 2015.	27
Our financial audit reports achieved an average score of 84 per cent from our external assessors.	31
We issued 99 per cent of our audit opinions within the statutory deadlines, exceeding our target of 98 per cent.	32
Our challenges	
One per cent of all audited entities' financial reports were given a qualified audit opinion.	28
We did not achieve our target of 100 per cent for our external peer reviews of financial audits.	30
Our original quantity targets had to be revised following changes in the number of entities, and a reduction in the number of statements available for audit.	25–27

## The year ahead

In 2015–16	
We intend to review our financial audit quality review program and increase the number of reviews performed.	33
We intend to table seven financial reports in Parliament.	33
We intend to increase internal resourcing for high-risk, material and strategic entity audits.	33

# Introduction



*Sector Directors and Assistant Auditor-General  
Financial Audit*

This section reports on our financial audit program, which contributes to both Output Group 1 and Output Group 2, as discussed on pages 10–13 of this report

The financial audit program delivers a range of services across a range of entities.

As part of Output Group 1 the financial audit program produced reports to Parliament on the results of financial audits and on the Annual Financial Report of the State of Victoria.

As part of Output Group 2, the financial audit program produced audit opinions on financial statements and non-financial performance indicators, an opinion on the Annual Financial Report of the State of Victoria and a review report on the estimated financial statements of the State of Victoria.

Our financial audit program is dynamic, reflecting changes such as the creation of new entities and the cessation of others, including the impacts of machinery-of-government changes to departments. As such, the number of audit and assurance activities we conduct can change throughout the year in accordance with changes in the number of public sector entities. This year we met our revised quantity targets for audit opinions.

## Quantity

### Output Group 1

Our financial audit reports inform Parliament about the results of our audits of financial and performance statements, including our financial audit focus areas.

In 2014–15, our target was to produce six financial audit reports as part of the Output Group 1 products—we produced nine.

This increase was due to the tertiary education sector report being separated into two parts. During 2014–15 we tabled both the 2013 and the 2014 technical and further education institutes reports as well as the 2014 universities report. In addition, the Information Systems Audit team produced the *Information and Communications Technology Controls Report 2013–14*.

**[Figure 15] Performance for Output Group 1 products – financial audit**

Product type	2014–15		
	Actual	Target	Result
Reports on results of financial audits	7	5	✓
Report on the Annual Financial Report of the State of Victoria	1	1	✓
Other <sup>(a)</sup>	1	–	✓
<b>Total Output Group 1 products – FA</b>	<b>9</b>	<b>6</b>	<b>✓</b>

Note: ✓ Target achieved or exceeded.

(a) *Information and Communications Technology Controls Report 2013–14*.

## [Figure 16] Reports tabled in Parliament by sector

<b>Sector wide</b>
<i>Information and Communications Technology Controls Report 2013–14<sup>(a)</sup></i> (October 2014)
<i>Portfolio Departments and Associated Entities: Results of the 2013–14 Audits</i> (February 2015)
<b>Central agencies</b>
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14</i> (October 2014)
<b>Education and early childhood development</b>
<i>Technical and Further Education Institutes: Results of the 2013 Audits</i> (August 2014)
<i>Technical and Further Education Institutes: 2014 Audit Snapshot</i> (May 2015)
<i>Universities: 2014 Audit Snapshot</i> (May 2015)
<b>Environment and primary industries</b>
<i>Water Entities: Results of the 2013–14 Audits</i> (February 2015)
<b>Health</b>
<i>Public Hospitals: Results of the 2013–14 Audits</i> (February 2015)
<b>Local government</b>
<i>Local Government: Results of the 2013–14 Audits</i> (February 2015)

(a) The *Information and Communications Technology Controls Report 2013–14* was completed by the Information Systems Audit team.

These reports generally comment on:

- financial results
- financial and, where applicable, performance reporting outcomes
- financial sustainability risks
- the adequacy of certain internal controls, generally related to financial reporting
- reviews of identified focus areas, such as the effectiveness of audit committees or the management practices and oversight of gifts, benefits and hospitality at sector entities.

- audit opinions on the financial statements of agencies
- audit opinions on agencies' non-financial performance indicators, where required.

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

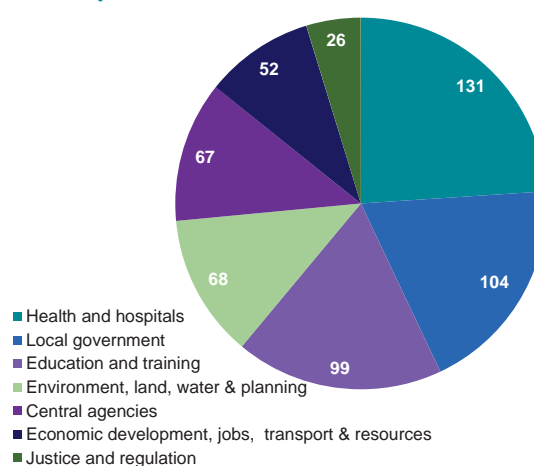
## Output Group 2

VAGO's Output Group 2 relates to our audit opinions on financial statements and non-financial performance indicators. In addition to opinions, we issue interim and final management letters and closing reports to advise agencies of issues raised by our audits.

Each year we produce:

- an audit opinion on the Annual Financial Report of the State of Victoria
- a review report on the estimated financial statements of the state

[Figure 17] Entities the Auditor-General issued an audit opinion for



[Figure 18] Performance for Output Group 2 products – financial audit

Product type	2014–15			2013–14		2012–13	
	Actual	Target	Result	Actual	Target	Actual	Target
Audit opinions issued on the financial statements of agencies	547	559	○ <sup>(a)</sup>	554	559	550	563
Audit opinions issued on non-financial performance indicators	108	115	■ <sup>(b)</sup>	114	115	115	114
<b>Total Output Group 2 products</b>	<b>655</b>	<b>674</b>	○ <sup>(c)</sup>	<b>668</b>	<b>674</b>	<b>665</b>	<b>677</b>

Note: ○ Target not achieved—within 5 per cent variance. ■ Target not achieved—exceeds 5 per cent variance.

(a) Target was revised to 552 following changes to the number of agencies subject to audit. Five agencies failed to deliver statements for auditing, meaning that only 547 statements could be audited.

(b) Target was revised to 108 due to a reduction in the number of statements available for audit.

(c) Target was revised to 655 due to changes in number of entities and reduction in the number of statements available for audit.

## Audit opinion on the Annual Financial Report of the State of Victoria

The state's accountability framework requires the Treasurer to prepare and present consolidated whole-of-government financial statements for all public sector entities to Parliament annually (excluding universities and local government entities as they are not controlled by the state for financial reporting purposes).

This is done through the annual financial report of the state of Victoria, which the Auditor-General is required to audit and report on to Parliament.

On 2 October 2014, the Auditor-General issued a qualified audit opinion on the state's annual financial report for 2013–14, as he did not agree with the state's decision to write down \$1.58 billion of taxpayers' investments in school buildings.

A qualified audit opinion means that the financial statements do not present fairly the stated transactions and balances in accordance with the relevant legislative and accounting standard reporting framework.

This qualification was an unprecedented step and is detailed in the *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14*.

The Treasurer tabled the state's annual financial report, with the Auditor-General's qualified audit opinion, in Parliament during October 2014.

## Review of the estimated financial statements of the State of Victoria

Under the *Audit Act 1994*, the Auditor-General is required to review the estimated financial statements and report to Parliament on whether it appears that they:

- have been prepared on a basis consistent with the relevant accounting policies
- are consistent with the targets established for the key financial measures
- have been properly prepared on the basis of the stated assumptions, and that the methodologies used to determine those assumptions are reasonable.

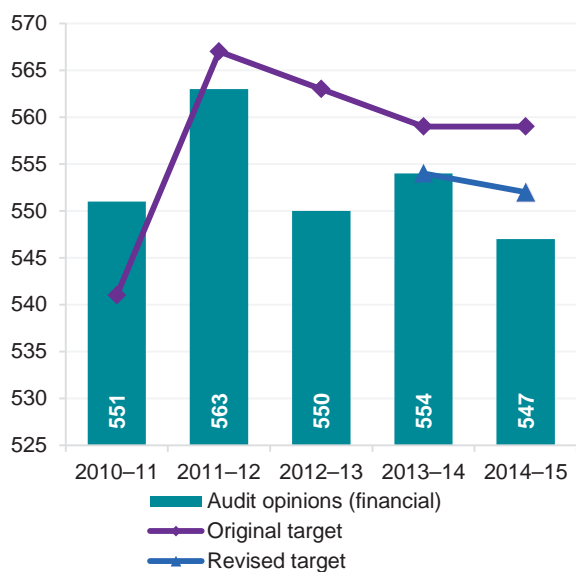
On 1 May 2015 the Auditor-General's review report on the estimated financial statements for the year ending 30 June 2016 and the following three years was issued. The Budget Papers, presented by the Treasurer to Parliament during May 2015, included the Auditor-General's review report.

## Audit opinions issued on the financial statements of agencies

Independent audit opinions add credibility to financial statements by providing reasonable assurance that they are presented fairly in accordance with the relevant financial reporting framework.

During 2014–15, VAGO issued 547 opinions on agencies' financial statements. The original target of 559 was revised due to a change in the number of agencies subject to audit. VAGO audited 552 agencies, and produced 547 opinions after five agencies failed to deliver statements for auditing.

**[Figure 19] Audit opinions issued on the financial statements of agencies**



Note: Revisions to targets prior to 2013–14 were not reported on.

Qualified audit opinions were issued on the financial statements of six agencies (four in 2013–14), representing 1 per cent of all audited agencies, because:

- school buildings valuations as they were disclosed in the annual financial statements of the State of Victoria and the relevant portfolio department were inappropriate
- the accounting treatment of non-reciprocal grants by three agencies was not in accordance with Australian Accounting Standards

- there was inherent risk associated with complete recording of cash collected through donations by one agency.

Some of our financial audits are conducted with the assistance of external firms engaged by VAGO, known as audit service providers (ASP). All of these audits are project managed and reviewed for quality assurance by VAGO staff, and the audit opinions are signed by the Auditor-General or on his behalf by delegated senior VAGO staff.

The mix of resources we use to deliver the financial audit program changes over time based on multiple factors, including materiality and risk. In 2014–15, approximately 30 per cent of our audits were undertaken by VAGO staff, with the remaining 70 per cent undertaken with the assistance of ASPs.

## Audit opinions issued on non-financial performance indicators

Some agencies are required to prepare non-financial performance statements containing indicators that must also be audited.

These indicators report against the performance measures and targets arising from:

- the *Financial Management Act 1994* for water sector agencies
- the *Local Government Act 1989* for local councils
- ministerial requests for technical and further education institutes.

VAGO issues an opinion on whether a non-financial performance statement is presented fairly in accordance with the relevant reporting framework.

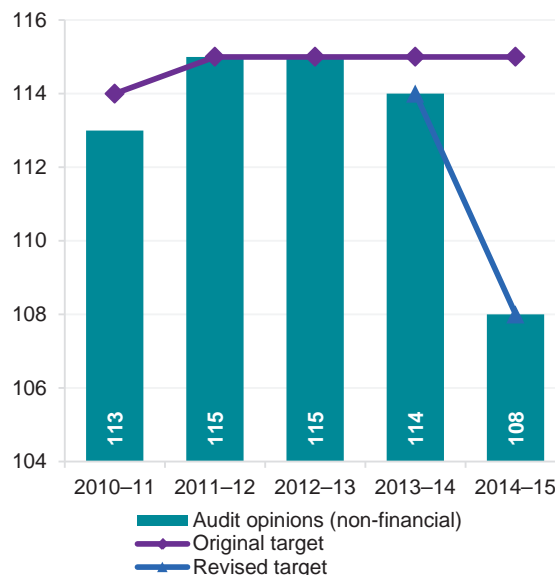
The Auditor-General also has the power to form an opinion on whether the performance indicators of an entity reporting under the *Financial Management Act 1994* are relevant and appropriate. In 2014–15, this power was not exercised.

Our original target of 115 audit opinions on non-financial performance indicators was revised to 108 due to a reduction in the number of statements available for audit. This was due to:

- ceased agencies
- agencies which no longer report
- agencies that do not have a statement of corporate intent upon which to report
- mergers of agencies
- one agency that failed to prepare a statement
- offset by new reporting agencies.

In 2014–15, we issued 108 audit opinions and achieved our revised target.

**[Figure 20] Audit opinions issued on non-financial performance indicators**



Note: Revisions to targets prior to 2013–14 were not reported on.

## Quality

The quality of our financial audit program is measured and monitored through our quality framework (page 49).

The financial audit program Quality framework includes:

- processes for the selection of financial audit areas of focus
- a standards-based financial audit methodology, including:
  - a methodology for reviewing the estimated financial statements
  - the Technical Issues Committee
  - the Financial Audit Challenge Committee
  - reviews of financial audit processes
  - external assessments of report quality.

### Selection of areas of audit focus

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

In addition ‘areas of focus’ are selected for specific review, such as governance, probity, fraud, financial prudence and noncompliance. The selected areas of focus are identified in VAGO’s annual plan and are aligned with the audit of financial reports.

Further information on VAGO’s framework for selecting areas of audit focus is available on page 50.

### Standards-based financial audit methodology

In accordance with the Australian Auditing Standards, our financial audit methodology is integrated into our electronic audit toolset, IPSAM, which was developed with the Queensland Audit Office and is in use in four other Australian jurisdictions.

Our audit methodology is discussed further in the ‘Overview of standards-based audit methodology’ on pages 50–51.

## Methodology for reviewing the estimated financial statements

VAGO's review of the state's estimated financial statements uses the principles in ASAE 3450 *Assurance Engagements involving Corporate Fundraising and/or Prospective Financial Information*. In 2014–15 the Standards and Quality business unit reviewed the quality of VAGO's approach to reviewing the state's estimated financial statements and noted no significant or material departures from ASAE 3450.

## 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 VAGO's legislative mandate.

The committee comprises the Assistant Auditor-General, Standards and Quality, the Assistant Auditor-General, Financial Audit, the Standards and Quality Director and the relevant Financial Audit Sector Director. Additional directors from Financial Audit may also be appointed to the committee for specific issues.

The terms of reference and composition of the Technical Issues Committee are currently being revised by the Standards and Quality business unit to find ways to resolve matters in a more timely and consistent manner.

## Financial Audit Challenge Committee

The Financial Audit Challenge Committee was established in April 2014. This committee reviews the progress and completion of financial audit Parliamentary reports at key points in their development to ensure their quality, accuracy, logic and rigour. The committee then determines if the approach and the report are of a sufficiently high standard to progress to the next phase, or for documentation to be issued to relevant agencies.

## Reviews of financial audit processes

To seek assurance that our audits meet the professional requirements and our quality standards, we undertake engagement quality reviews of a selection of completed financial audits, including audits undertaken by ASPs.

Our key performance measure for the quality of our financial audit reports is whether engagement quality reviews of our audits find any material departures from professional and regulatory standards.

In 2014–15, seven financial audits were reviewed and one instance of material noncompliance with Australian Auditing Standards was found, relating to an audit undertaken by an ASP. This means we did not achieve our target of 100 per cent compliance, instead achieving a result of 86 per cent.

In 2013–14, 10 reviews of financial statement audits were conducted and no material departures were identified. From 2010–11 to 2012–13, we performed between four and six reviews each year, with no material departures identified.

In recognition of these strong results, fewer reviews were initially undertaken in 2014–15. Once the instance of material noncompliance was identified, further reviews were undertaken.

We are currently examining the financial audit quality review program and will increase the number of quality reviews in 2015–16.

Our engagement quality reviews also identify areas for continuous improvement which guide the development of our technical training programs, policies and guidance materials for our financial audit staff.

## External assessments of report quality

We regularly have a selection of financial audit parliamentary reports independently assessed against criteria that have been agreed upon by the Australasian Council of Auditors-General (ACAG). The criteria were revised in 2014 and again in 2015. In addition, the assessor panel was expanded from three to six, four of whom are new.



The assessors bring experience as members of Parliament, senior public servants and journalists. Each audit office selects three assessors to review their reports, who read the audit report both in hard copy and online. They provide an opinion of the quality on our communication of our audit findings.

In 2014–15 the average overall score was 84 per cent—a good outcome. As this was the first time the revised criteria have been used for financial audit reports no comparison can be made with prior years.

**[Figure 21] Average scores for financial audit reports against ACAG criteria**



**[Figure 22] Extracts of feedback from assessor panel on financial audit reports, 2014–15**

**Assessor panel feedback**

'The arguments in this report for improvement are compelling and clearly stated. The action program in the colours of traffic lights is inspired as it gives the reader a sense of what needs to be done first.'

*Information and Communication Technology Controls Report, 2013–14*

'Again, the report sets out clearly and persuasively the case for change—to the [Auditor-General's] mandate, to financial reporting practices, to the scrutiny of the [annual financial report], to financial sustainability risks, to strengthening internal audit systems and to prudential supervision arrangements—not to mention how public/private sector partnerships should be handled and other more entity-specific problems. There is plenty there for politicians, departments and entities to think about.'

*Portfolio Departments and Associated Entities: Results of the 2013–14 Audits*

'The audit was well structured and balanced in its approach. The flow of information was such that each chapter built on the preceding chapters, thus integrating the report's findings.'

*Water Entities: Results of the 2013–14 Audits*

## 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 2014–15, we exceeded our targets for both these measures.

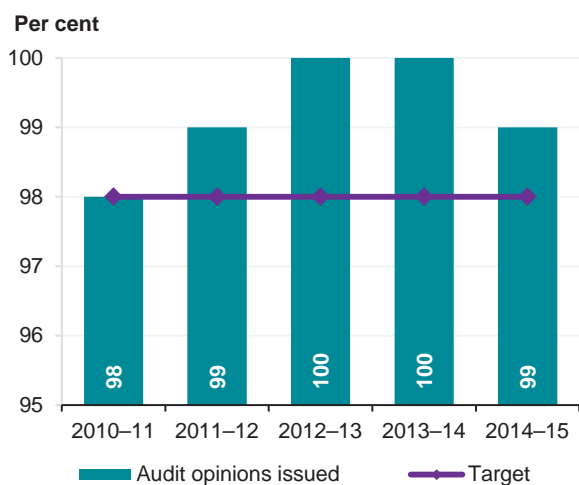
## Audit opinions issued within statutory deadlines

Public sector entities reporting under the *Financial Management Act 1994* are required to submit their annual financial statements to the Auditor-General within eight weeks of the financial year end.

Under the *Audit Act 1994*, the Auditor-General must express an opinion on these financial statements within four weeks of the receipt of the statements.

In 2014–15, we issued 99 per cent of our audit opinions within the statutory deadlines. Although this is slightly lower than the previous year’s result, it still exceeds our target of 98 per cent and continues our trend of high performance against this target.

**[Figure 22] Audit opinions issued within the statutory deadline**



## Management letters issued within established time frames

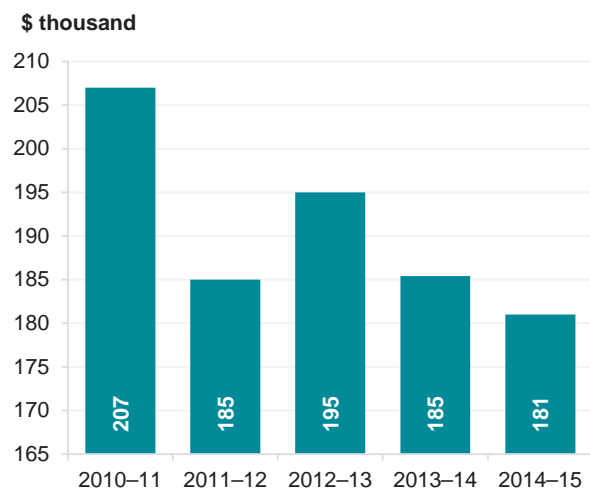
VAGO communicates significant issues identified by our financial audits in management letters during and at the completion of an audit.

In 2014–15, we issued 91 per cent of our final management letters within the established time frames, exceeding our target of 90 per cent.

## Cost

In 2014–15, the cost of our financial audit Parliamentary reports (part of Output Group 1) ranged from \$128 000 to \$274 000. The average cost per report decreased from \$185 000 in 2013–14 to \$181 000.

**[Figure 23] Average cost of financial audit reports**



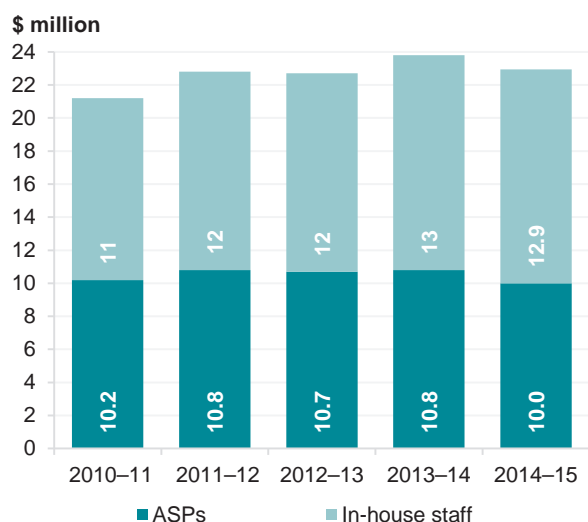
In addition, we earned revenue of \$23.9 million to deliver Output Group 2: Audit reports on financial statements.

The cost of producing our audit opinions on financial statements (Output Group 2) was \$22.9 million—\$1.1 million less than our target of \$24.0 million. This saving was largely due to lower employee-related expenses and lower expenditure on ASPs.

The cost of audits undertaken with the assistance of ASPs was just under \$10 million, and the cost of in-house audits was approximately \$12.9 million.

The cost of individual financial audits in 2014–15 ranged from \$986 to \$590 000, with an average cost of \$42 000, a decrease of approximately \$300 (or approximately 1 per cent) on 2013–14. This includes additional audit fees, which can arise from client delays or deficiencies in client documentation and systems.

**[Figure 24] Cost of audit opinions on financial statements, by ASPs and in-house staff**



**[Figure 25] Trends in average cost of audit opinions**

Product type	Unit of measure	2014-15			2013-14	2012-13	2011-12	2010-11
		Actual	Target	Result	Actual	Actual	Actual	Actual
Financial Statement audits	(number)	552	559 <sup>(a)</sup>	○	554	550	563	551
Cost	(\$ million)	22.9	24.0	✓	23.8	22.7	22.8	21.2
Average cost per audit	(\$ thousand)	42	43	✓	42	41	40	39

Note: ✓ Target achieved or exceeded. ○ Target not achieved—within 5 per cent variance.

(a) Target was revised to 547 following changes to the number of agencies subject to audit in 2014-15.

## Looking forward

In 2015-16, we plan to table seven financial audit reports and one financial systems controls report, prepared by Information Systems Audit.

One of our medium-term aims is to perform more of the high-risk, material and strategic audits internally, rather through ASPs.

We also intend to expand on the updates made in 2014-15 to our Financial Audit Policy Manual and examine our financial audit quality review program. The number of quality reviews performed will be increased in 2015-16.

For further information on our 2015-16 financial audit program see our *Annual Plan 2015-16* which is available on our website. [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

# Performance audit

A number of our 2014–15 performance audit reports had a significant impact on the public sector. There were also several changes to the performance audit work program, which resulted in us not achieving our target number of reports, however, we exceeded three of our targets in relation to the external assessments and timeliness of our reports.

## Relevant strategic objectives:

- **Reports and advice:**  
Being authoritative and relevant
- **Parliament:**  
Being highly regarded by Parliament

## The year in review

Our achievements	Page
External assessments of our audit reports achieved an average score of 86 per cent, exceeding our target of 80 per cent.	38
The Parliamentarian survey response rate more than doubled on the previous year's response.	39
Of the surveyed Parliamentarians, 81 per cent indicated that they were satisfied or very satisfied overall with our reports and services.	39
Of the surveyed Parliamentarians 84 per cent agreed that our reports communicate issues clearly.	39
We tabled 97 per cent of our reports within one month of the planned tabling date, exceeding our target of 90 per cent.	39
We responded to 98 per cent of inquiries within 28 days, exceeding our target of 95 per cent. Our average response time improved from 15 to 13 days.	40
There was a 6 per cent increase in the number of inquiries received on the previous year.	40
Our challenges	
We did not achieve our target of tabling 28 performance audit reports, largely due to the deferral of a number of proposed reports.	35

## The year ahead

In 2015–16	
We intend to table 24 performance audit reports in Parliament.	41
We intend to deliver our limited scope follow-up audits which will verify whether agencies have been implementing the actions they agreed to, and whether these have addressed the recommendations made in the original audit.	41
We intend to further develop the governance program and its audit stream.	41
We intend to review the performance audit operating structure.	41

# Introduction



Performance Audit, Sector Directors

This section reports on our performance audit program, which forms part of Output Group 1 as discussed in the 'About us' section of this report (page 10).

The performance audit program provides assurance to Parliament and the public on the effectiveness, efficiency and economy of public sector agencies' operations and activities, and the extent to which they are complying with relevant legislation.

Performance audits may examine all or part of an agency's activities, or the activities of a number of agencies. They can find examples of better practice and can identify opportunities for improvement. Current legislative arrangements, however, limit our ability to examine private and not-for-profit entities that deliver projects, programs or services on behalf of the Victorian Government on a commercial basis.

In 2014–15, the performance audit program produced 25 reports, which was three fewer than our intended target of 28. This was due to the deferral of several proposed audits.

## Quantity

### Performance audit reports

The *Annual Plan 2014–15* proposed that we would table 28 performance audits, and listed 33 possible topics to allow us to be flexible and adaptable to emerging priority areas.

In 2014–15, 24 reports on the proposed topics were tabled, plus one new topic, *Occupational Violence Against Healthcare Workers*. This was added to ensure that our efforts were directed at this topical area and replaced the proposed audit, Managing the nursing workforce.

[Figure 26] Performance for Output Group 1 products

Product type	2014–15			2013–14		2012–13	
	Actual	Target	Result	Actual	Target	Actual	Target
Performance audit reports	25	28	■	29	28	28	29

Note: ■ Target not achieved—exceeds 5 per cent variance.

In 2014–15, 25 performance audit reports were produced—three fewer than our target of 28. This was largely due to the deferral of a number of proposed reports to later programs. There were also a number of audits that were near completion but were not published until early 2015–16.

Four reports were deferred to the 2015–16 program:

- Biosecurity—renamed Biosecurity: Livestock
- High Value High Risk
- Managing mining approvals: environmental conditions—renamed Unconventional gas: Managing risks and impacts
- Realising the benefit of smart meters.

Two reports were deferred to the 2016–17 program:

- Public participation in government decision making
- Dental health services—renamed Improving timely access to dental services in Victoria.

The proposed report School funding was delivered as part of the *Additional School Costs* audit.

The proposed report *Regulation of vocational education and training* was removed from the program due to various inquiries that were occurring in and around the vocational education and training sector. This audit has been renamed *Reforming the skills system* and will be considered as part of future annual planning.

### [Figure 27] Reports tabled in Parliament by sector

#### Sector wide

*Delivering Services to Citizens and Consumers via Devices of Personal Choice: Phase 1 – Interim Report* (June 2015)

*Digital Dashboard: Status Review of Major ICT Projects and Initiatives* (April 2015)

*Responses to 2012–13 Performance Audit Recommendations* (February 2015)

#### Central agencies

*Managing Regulator Performance in the Health Portfolio* (March 2015)

*Public Sector Performance Measurement and Reporting* (October 2014)

#### Education and early childhood development

*Additional School Costs for Families* (February 2015)

*Education Transitions* (March 2015)

#### Environment and primary industries

*Effectiveness of Catchment Management Authorities* (September 2014)

*Management and Oversight of the Caulfield Racecourse Reserve* (September 2014)

*Managing Landfills* (September 2014)

#### Health

*Efficiency and Effectiveness of Hospital Services: High-value Equipment* (February 2015)

*Heatwave Management: Reducing the Risk to Public Health* (October 2014)

*Occupational Violence Against Healthcare Workers* (May 2015)

*Palliative Care* (April 2015)

#### Human services

*Early Intervention Services for Vulnerable Children and Families* (May 2015)

#### Justice

*Access to Legal Aid* (August 2014)

*Emergency Response ICT Systems* (October 2014)

*Emergency Service Response Times* (March 2015)

*Mental Health Strategies for the Justice System* (October 2014)

#### Transport, planning and local infrastructure

*Coordinating Public Transport* (August 2014)

*Managing the Environmental Impacts of Transport* (August 2014)

*Operational Effectiveness of the myki Ticketing System* (June 2015)

*Tendering of Metropolitan Bus Contracts* (May 2015)

*Victoria's Consumer Protection Framework for Building Construction* (May 2015)

#### Local Government

*Effectiveness of Support for Local Government* (February 2015)

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# Quality

The quality of our performance audits is measured and monitored through our performance audit program quality framework (page 49).

The quality framework includes:

- processes for the selection of performance audit topics
- a standards-based performance audit methodology, including:
  - the Performance Audit Challenge Committee
  - reviews of performance audit processes
  - external assessments of report quality
- feedback from Parliamentarians.

External assessments of report quality and feedback from Parliamentarians are the measures we report against.

## Selection of performance audit topics

VAGO seeks to maximise the impact of our performance audits, so when we are shortlisting potential topics, we assess the risk and materiality of the activity that would be examined.

Risks include threats 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 provide services that are topical or highly visible. Accordingly, our performance audit topic selection process also considers these programs.

See the *Annual Plan 2015–16* for more discussion of VAGO's performance audit topics.

## Standards-based performance audit methodology

VAGO's performance audits are conducted using our Audit method Performance (AmP) system, an electronic database which was developed in-house. AmP is used to document work and evidence, and assist in managing and reviewing the audit.

AmP contains policies, guidance and standard procedures that align with the auditing standards set by the Australian Auditing and Assurance Standards Board.

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 processes.

VAGO has continued to refine its performance audit methodology in 2014–15 by commencing a Performance Audit Methodology Review project to update our methodology, practice and policies, including AmP guidance to staff. In addition we established a new process for our limited scope follow-up audits.

## Performance Audit Challenge Committee

The Performance Audit Challenge Committee was established in December 2013. This committee oversees the progress of audits and clarifies any ambiguities to ensure the quality, accuracy, logic and rigour of an audit to determine if it should progress to the next stage. The committee has identified opportunities for improvement to internal processes and common themes across audits.

## Reviews of performance audit processes

To seek assurance that our audits meet professional and VAGO quality standards, we undertake internal quality reviews of a selection of completed performance audits.

In 2013–14, a number of performance audits were reviewed by PricewaterhouseCoopers as part of the triennial PAEC performance audit of VAGO. All of these audits were found to have complied with the performance assurance standards, with only minor improvements to internal documentation processes needed. A number of the activities designed to address these issues were incorporated into the Performance Audit Methodology Review project.

In previous years we have also conducted 'cold' reviews of performance audit engagement files. However, these have been deferred while Standards and Quality reviews and updates our Post Audit Quality Assurance policies and procedures.

This is due for completion by September 2015. These 'cold' reviews will specifically focus on the implementation of the changes made as a result of the Performance Audit Methodology Review project.

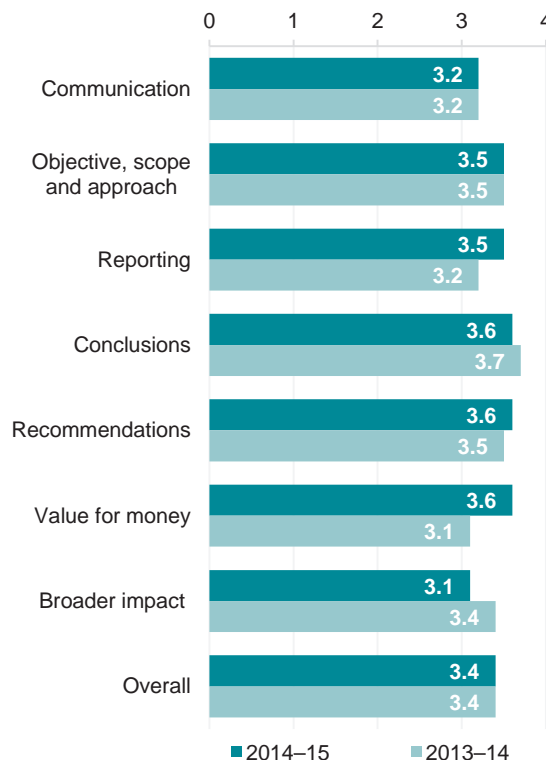
### External assessments of report quality

Each year a selection of performance audit reports are independently assessed against criteria that have been agreed by the Australasian Council of Auditors-General (ACAG). The criteria were revised in 2014 and again in 2015. In addition, the assessor panel was expanded from three to six, four of whom are new. The assessors bring experience as members of Parliament, senior public servants and journalists. Each audit office selects three assessors to review their reports, who read the audit report both in hard copy and online. They provide an opinion on the quality of our communication of our audit findings.

Due to the revision of the criteria, this year's results can only be compared with our 2013–14 scores.

In 2014–15 we exceeded our target of 80 per cent, achieving an average overall score of 86 per cent, the same as in 2013–14.

**[Figure 28] Average scores for performance audit reports against ACAG criteria**



**[Figure 29] Extracts of feedback from assessor panel on performance audit reports, 2014–15**

'Conclusions provide the reader with a clear idea of the failures and potential solutions to improve the system.'  
*Efficiency and Effectiveness of Hospital Services: High-value Equipment*

'This is a wide-ranging and in many ways a ground-breaking review of the efficiency and effectiveness of the State's ICT spend.'  
*Digital Dashboard: Status Review of ICT Projects and Initiatives*

'This is a hard hitting report which I believe will do much to ensure both [Local Government Victoria and the Municipal Association of Victoria] bring their practices into the 21st century.'  
*Effectiveness of Support for Local Government*

### Feedback from Parliamentarians

For over a decade now, VAGO has surveyed Parliamentarians annually for their feedback. This is an important part of our efforts to improve our performance and services. Feedback is collected by an accredited research company to better assure the validity of the results.

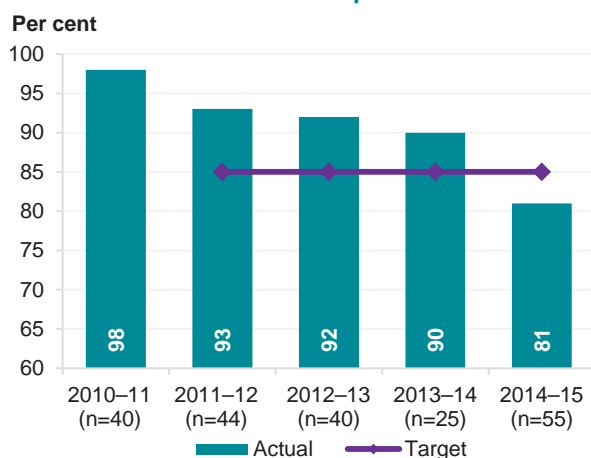


In 2014–15, we reduced the length of the survey and asked ORIMA, our survey provider, to focus on telephone interviews. As a result, the response rate improved—with 55 Parliamentarians responding, compared to 25 in 2013–14. This represents 43 per cent of all Parliamentarians.

Of the responding Parliamentarians, 81 per cent indicated that overall they were satisfied or very satisfied with our reports and services, a decline of 9 per cent from 2013–14, while 19 per cent were neutral. Parliamentarians who were neutral were more likely to have had little interaction with VAGO compared to those who were satisfied or very satisfied.

Although the result of 81 per cent is below our target of 85 per cent, it is within a 5 per cent variance of the target.

**[Figure30] Parliamentarians' satisfaction levels with the Auditor-General's reports and services**



Note: n = number of responses.

Overall feedback was positive and engagement with the Auditor-General and VAGO was viewed favourably. A large proportion of respondents reported referring to VAGO's reports in the prior 12 months—97 per cent for performance audit reports and 93 per cent for financial audit reports. Of the responding Parliamentarians, 84 per cent agreed that VAGO reports communicate issues clearly, a decrease of 12 per cent on the previous year. Nearly all responding Parliamentarians were aware of VAGO's Parliamentary engagement program and of those, 94 per cent found the information provided relevant to them.

See page 17 for further discussion of feedback from Parliamentarians.

**[Figure 31] Comments from Parliamentarians on VAGO audit reports, 2014–15**

'I think they are doing more than enough. Very satisfied with all the services.'

'I think his communication is outstanding – it's the best approach. I really like that they send me an email of tabled reports including summaries. This lets me know whether I should go to the briefing or read the report.'

'On the website it would be useful to group audit reports into portfolio groups, rather than presenting them in date order.'

## Timeliness

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

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

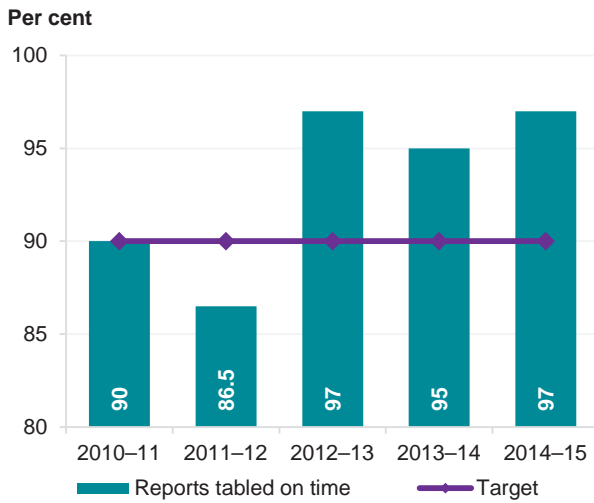
In 2014–15, we met our targets for both these measures.

### Reports completed on time

We aim to table 90 per cent of our reports within one month of the planned tabling date.

In 2014–15, we exceeded this target, tabling 97 per cent of our reports within a month of the planned date. This year's performance improved on last year, and is on par with the year before.

**[Figure 32] Timeliness of report tabling**



## Responses to inquiries

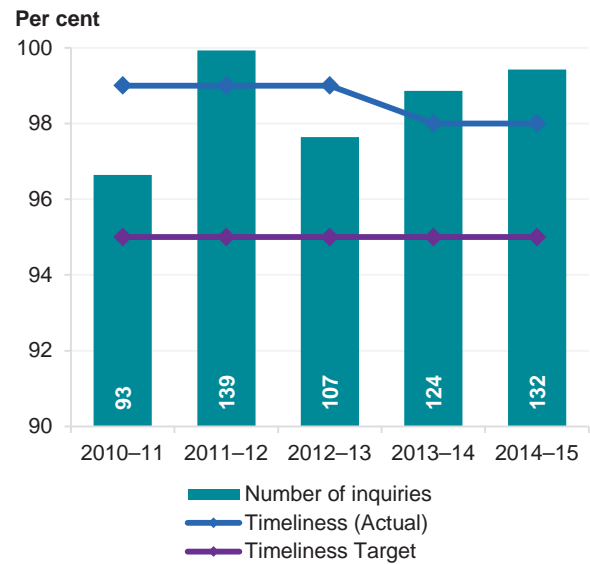
Parliamentarians and members of the public contact us about issues that concern them. In many cases, these inquiries seek to trigger or contribute to audit activity. Inquiries can help focus our audits and are considered when we develop our annual plan.

Our timeliness in responding to unsolicited inquiries measures our responsiveness in one of our most significant direct interactions with Parliamentarians and the public.

In 2014-15 we responded to 98 per cent of inquiries within 28 days, exceeding our target of 95 per cent. This is on par with our 2013-14 result, and our average response time improved from 15 to 13 calendar days.

The number of inquiries received increased 6 per cent from 124 in 2013-14, to 132 in 2014-15. Across the past five years, we have had an average of 119 inquiries a year.

**[Figure 33] Timeliness of response to inquiries**



The 132 letters, emails, online enquiries and phone calls consisted of:

- 81 inquiries from the general public
- 13 inquiries from community groups
- 13 anonymous inquiries
- nine inquiries from business
- seven inquiries from Parliamentarians
- five inquiries from local councils
- two inquiries from unions
- two inquiries from government agencies.

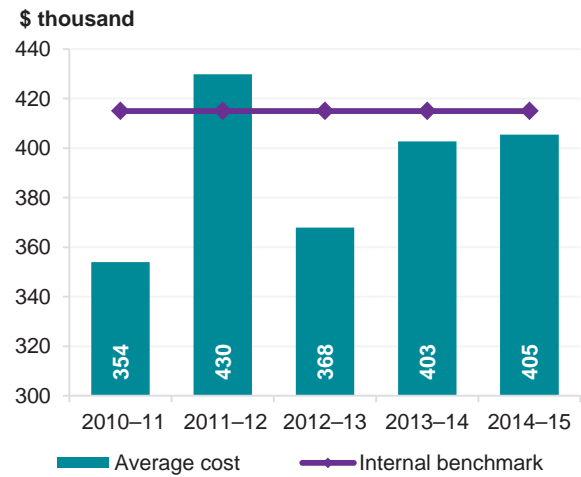
In 2014-15, VAGO continued to receive a steady stream of complaints from the general public and community groups regarding private residential building industry matters, both before and after the tabling of report on *Victoria's Consumer Protection Framework for Building Construction*. Other issues of community concern were bullying in the health sector, the East West Link, political advertising, irrigation issues and public and social housing issues.

# Cost

In 2014–15, VAGO earned \$15.84 million to deliver Output Group 1: Parliamentary reports and services, which includes performance audit reports.

Our tabled performance audits cost from \$143 000 to \$608 000 in 2014–15, with an average cost of \$405 000. This is an increase of approximately \$2 000 on the 2013–14 average cost of \$403 000, but is less than our internal benchmark target of \$415 000.

**[Figure 34] Average cost of performance audit reports**



# Looking forward

In 2015–16, we plan to table at least 24 performance audit reports drawn largely from the topics listed in our *Annual Plan 2015–16*.

We are also committed to our follow-up program. We delivered our first self-attestation-based report in 2014–15, following up on the 2012–13 performance audit recommendations. In 2015–16, we will extend this by reporting any further developments related to the uncompleted recommendations from 2012–13, as well as recommendations made in the subsequent years. We also intend to deliver our limited scope follow-up audits, which will verify whether agencies have implemented the actions they agreed to and whether these have addressed the recommendations made in the original audit.

We will also develop our governance program, which will include an audit stream. Information on the governance program is available in our *Annual Plan 2015–16* which is available on our website.

We also intend to review the performance audit operating structure in 2015–16 as part of our commitment to continuous improvement.



# Our organisation

We continue to be actively involved in the national and international development of public sector audit through our involvement in the Pacific Association of Supreme Audit Institutions (PASAI), our ‘twinning’ with regional Pacific audit offices and our support of secondments. We also introduced technological improvements to improve our efficiency and effectiveness.

## Relevant strategic objectives:

- **Parliament:**  
Being highly regarded by Parliament
- **Audit clients:**  
Fostering productive relationships with audit clients
- **People:**  
Fostering a stimulating working environment
- **Organisation:**  
Leveraging our systems and processes to improve organisational performance.

## The year in review—2014–15

Our achievements	Page
The Auditor-General's Independent Advisory Group met in November 2014 and discussed how we could increase the impact of our audits.	46
We continue to share lessons and outcomes from audits with staff and use them to inform training materials.	52
Members of our executive management team travelled to Samoa in August 2014 to attend the 17th PASAI Congress in Apia.	59
A manager from Performance Audit travelled to the United Kingdom and Ireland, for a secondment with the respective audit offices.	60
We confirmed a revised ‘twinning’ assistance arrangement with Tuvalu’s new Auditor-General.	59
The Auditor-General took part in a panel hypothetical during the 2015 Public Sector Week.	61
We engaged with the Australasian Council of Auditors-General (ACAG), with our Auditor-General taking over as the chair and secretariat of the ACAG Financial Reporting and Auditing Subcommittee.	61
We introduced a new secure electronic document transfer solution called Accellion.	62
Our challenges	
Our environmental performance rating (NABERS) decreased to 3.0 stars.	56
Our involvement with the Nauru Audit Office (Regional Pacific Audit Office) remains limited due to continuing structural changes to their office.	59

## The year ahead

In 2015–16	
We intend to implement changes to our executive management structure.	63
We will aim to increase our NABERS rating.	63
We will complete the last actions from our 2013–14 triennial PAEC audit.	63

# Introduction

VAGO's governance arrangements are critical to our organisational performance, and to ensuring that our quality and risk management frameworks are of a high standard.

This section discusses our:

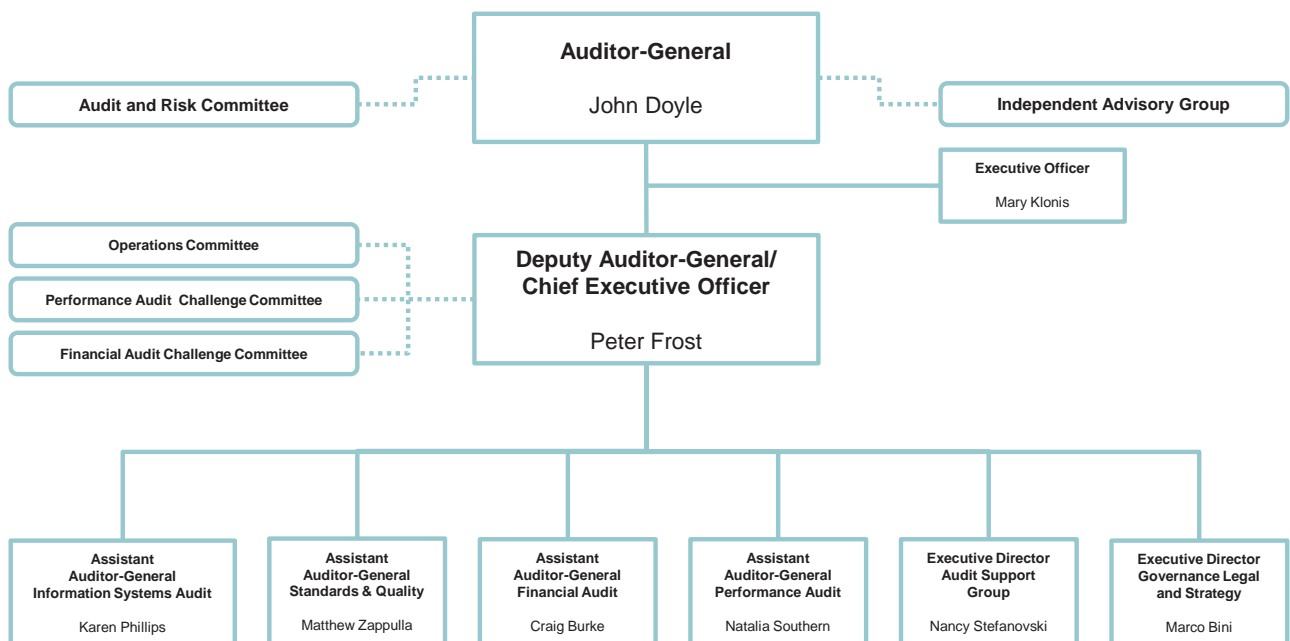
- executive management structure (page 43)
- risk, insurance and internal audit (page 46)
- quality framework (page 49)
- legislation and policy (page 53)
- contribution to capacity building (page 59)
- additional continuous improvement activities (page 61)

## Executive management

Our executive management team provides advice and counsel to the Auditor-General. In 2014–15 there was one change to the structure of the team, with the appointment of a new Assistant Auditor-General, Financial Audit.

The executive management team manages VAGO's day-to-day operations through weekly meetings, regular planning days and regular committee meetings. Further discussion of our committees is available on page 46 and 69–71. The remuneration of executives is discussed on page 66

[Figure 35] Executive management organisational chart, at 30 June 2015



## Auditor-General

**John Doyle, MBA, MAcc, FCPA, FCA, CIA, FIIA, 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.

Note: John Doyle resigned 22 September 2015

## Assistant Auditor-General, Information Systems Audit

**Karen Phillips, BBus (Acc), BComp, MIMS**



Karen joined VAGO in April 2014. Prior to this, Karen was a director at PricewaterhouseCoopers specialising in systems assurance, internal controls, internal audit and business continuity management.

Karen manages the

Information Systems Audit Group and contributes to VAGO's strategic and business unit planning.

## Deputy Auditor-General/ Chief Executive Officer

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



Peter was appointed VAGO's Chief Operating Officer in January 2007 and became the Deputy Auditor-General/Chief Executive Officer in 2013.

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. He also provides leadership to all of the business units within VAGO.

## Assistant Auditor-General, Standards and Quality

**Matthew Zappulla, BCom, FCA**



Matthew joined VAGO in April 2014. Prior to this, Matthew was a director at PricewaterhouseCoopers 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 Standards and Quality unit which is responsible for maintaining professional standards and implementing and monitoring our quality frameworks and systems. Matthew also contributes to VAGO's strategic and business unit planning.

## Assistant Auditor-General, Financial Audit

**Craig Burke, BBus (Acc), FCPA**



Craig was appointed as Assistant Auditor-General, Financial Audit in November 2014, having acted in that role since July 2014. He has substantial financial expertise with over 30 years in public sector accounting, risk management and auditing

across a number of organisations, including the Parliament of Victoria.

Craig manages the Financial Audit business unit and contributes to VAGO's strategic and business unit planning.

## Assistant Auditor-General, Performance Audit

**Natalia Southern, BBus (Hons), MPubPol**



Natalia joined VAGO 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 unit and contributes to VAGO's strategic and business unit planning.

Note: Natalia's last day at VAGO was 30 June 2015.

## Executive Director, Audit Support Group

**Nancy Stefanovski, BSc (Hons), Grad Dip Ed**



Nancy was appointed Executive Director, Audit Support Group in September 2012 following five years in the Performance Audit Group as a Senior Audit Manager and Business Manager.

Nancy manages the Audit Support Group, which consists of the Finance, Reports and Communications, Information Technology and Services, and People and Culture units. Nancy also contributes to VAGO's strategic and business unit planning.

## Executive Director, Governance, Legal and Strategy

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



Marco was appointed Director of the Policy and Coordination Directorate in January 2009. In 2014, this business unit's functions were expanded and it was renamed Governance, Legal and Strategy (GLS).

Marco has significant public sector experience and provides a range of legal, policy and administrative advice to VAGO and manages the GLS unit which provides a range of internal policy, governance and strategy services. Marco also contributes to VAGO's strategic and business unit planning

## Governance committees

In 2014–15, the Operations Committee, made up of the executive management team, focused on:

- monitoring office performance against the strategic and business plans
- sustaining the capability and performance of VAGO's workforce
- guiding information security, technology, communications and management advancements.

The Performance Audit Challenge Committee (see page 37) and Financial Audit Challenge Committee (see page 30) oversee the progress of audits and Parliamentary reports.

In the first half of 2014–15 the Financial Audit Challenge Committee had a sub-committee, the Financial Audit Operations Committee, which monitored the progress of the financial audit program, the development of the financial Parliamentary reports and the performance of audit service providers. The work of this committee, and similar functions performed by the Performance Audit Challenge Committee, were rolled into the Operations Committee in late 2014.

The Auditor-General's Independent Advisory Group was established to increase the outward focus of VAGO and to hear broader external perspectives, concerns and ideas, and for these to be reflected in the strategic plan and the audit work plan. At its meeting in November 2014 the group provided views on how to increase the impact of audits, important things to keep in mind in relation to branding of VAGO, and emerging issues for audit.

The following committees report to the Auditor-General:

- Remuneration Committee (see page 54)
- Technical Issues Committee (see page 51)
- Audit and Risk Committee (see page 47)
- Accredited Purchasing Unit.

The subcommittees listed below report to the Operations Committee:

- Occupational Health and Safety Committee (see page 69)
- Recognition Review Committee
- Staff Consultation and Development Group (see page 68).

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## Risk, insurance and internal audit

### Attestation for compliance with the Australian and New Zealand Risk Management Standard

VAGO's 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 and Risk Committee—discussed on page 47.

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



John Doyle MBA FCPA  
Auditor-General

7 August 2015



## Attestation for compliance with the Ministerial Standing Direction 4.5.5.1—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 MBA FCPA  
*Auditor-General*

7 August 2015

## Internal audit

ShineWing Australia (formerly Moore Stephens, Accountants and Advisers), were appointed as VAGO's internal auditor for the period August 2010 to June 2015. The internal auditor reports to VAGO's Audit and Risk Committee and the Auditor-General. The following reviews were carried out in 2014–15:

- professional development
- telephone / internet usage
- Penetration testing
- use of personal Information
- procurement
- general financial controls
- VAGO's response to the 2013 PAEC Performance Audit of VAGO
- follow up of internal audit recommendations.

The internal auditor also attended each meeting of VAGO's Audit and Risk Committee and provided a report on the status of the internal audit program.

## Audit and Risk Committee chair's report (year ended 30 June 2015)



*Sara Watts, Audit and Risk Committee Chair, and the Auditor-General*

The Audit and Risk Committee is appointed by the Auditor-General to provide independent advice to assist him in the discharge of his responsibilities for the management of the Victorian Auditor-General's Office's risk, control and compliance framework, and the external accountability responsibilities as prescribed in the *Financial Management Act 1994*, the *Audit Act 1994* and other relevant legislation and prescribed requirements.

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 and Risk 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 has been Chair of the Audit and Risk Committee since 1 January 2014. The members of the Audit and Risk Committee for the year ended 30 June 2015, their qualifications and attendance at meetings, are set out in Figure 36.

**[Figure 36] Members of the Audit and Risk Committee, qualifications and meeting attendance, 2014–15**

Committee member	2014–15	
	Meetings attended	Meetings held
<b>Sara Watts (Chair)</b> BSc, MBA, GAICD, FCPA Vice-Principal (Operations), University of Sydney	4	4
<b>Kerry Jacobs</b> BCom, MCom (Hons), PhD, FCPA, FCA Professor of Accounting, UNSW at ADFA, Canberra	4	4
<b>Lyn Baker</b> BA, MBA, GAICD Non-executive director and consultant	4	4
<b>Derek Parkin OAM</b> BCom, CTA, FCA, CPA, FAICD Professor of Accounting, University of Notre Dame Australia, Fremantle Non-executive director	4	4

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

In May 2015, committee members held a workshop to review the Charter. An outcome of this review was a change in name from Audit Committee to Audit and Risk Committee, together with some refinements of its ongoing role.



*The Auditor-General, Audit and Risk Committee Chair and members.*

The responsibilities of the committee include:

- to review the external auditors' proposed approach, conduct and the outcomes of the audit process
- to 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 review VAGO's approach to risk identification and management and
- to consider VAGO's approach to compliance with relevant legislation, regulations and guidelines.

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

- 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 2014, which identified no significant issues
- status updates and review reports from the internal auditor, which include management's response to matters raised by internal audit, together with subsequent follow up

- the office's risk management policies, procedures and reports and noted that risks were being appropriately identified, monitored and addressed by the office
- systems of control for conflicts of interest and the monitoring of those systems
- policies and procedures in place for the development of VAGO's annual plan, performance measurement, and budget and resource planning
- 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 effectiveness of the internal audit program and provided input on options for VAGO's internal audit function

- the specification, key performance indicators and timelines for the procurement of the new internal audit provider.

The Audit and Risk Committee has met in camera with the external financial auditors, the Auditor-General and the internal auditor. The committee has undertaken a comprehensive self-assessment and reviewed the charter and work plan.



Sara Watts (Chair)

7 August 2015

## Quality framework

VAGO has a range of quality systems and processes in place to help us continually raise our standards and better meet the needs of Parliament and audited agencies. These systems and processes are brought together in our quality framework.

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 Services Engagements*.

The most recent review of VAGO's compliance with the ACAG framework, including that performed by PricewaterhouseCoopers as part of the PAEC triennial performance audit of VAGO in 2013–14, found that VAGO has adequate quality control

systems and meets or exceeds the legal and legislative requirements and professional standards applicable to public sector audit offices.

We use a Continuous Improvement Register to monitor our progress on agreed actions that come out of reviews such as internal audits, post audit quality reviews, surveys, 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:

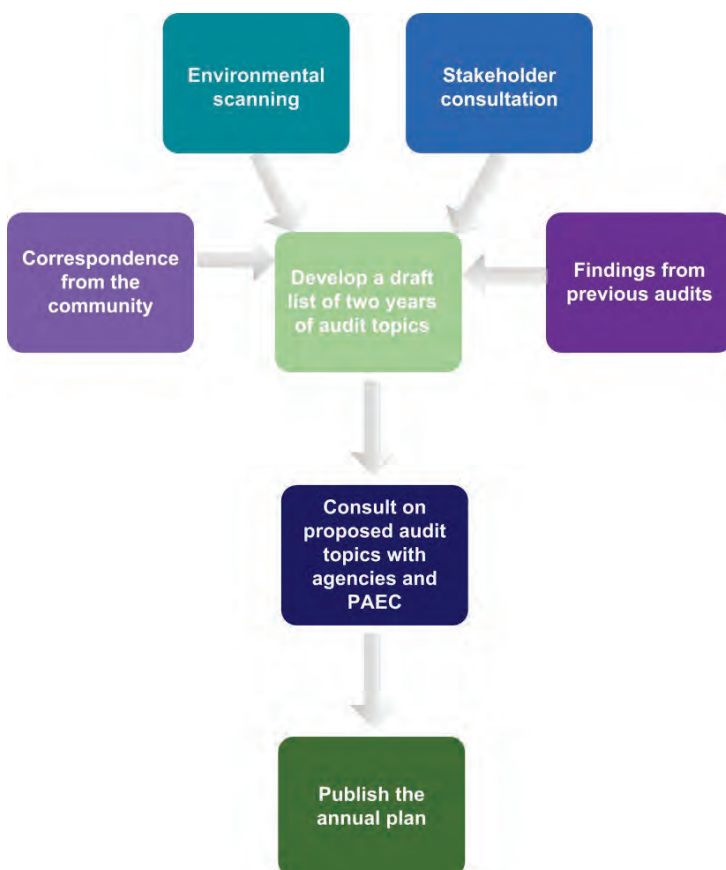
- Parliamentary accountability measures
- reviews of audit processes
- ACAG external assessments of audit report quality
- surveys of key stakeholders
- audit debrief process
- challenge committees
- benchmarking.

## 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, and we:

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

[Figure 37] Annual Planning process



In 2014–15 we reconsidered our approach to better reflect the Auditor-General’s priorities, and to focus on information and communication technology systems, major projects, quality, increased external engagement and to respond to recommendations from the PAEC triennial performance audit, detailed in Appendix 3, pages 128–135.

Increased transparency around our selection of audit topics was central to the changes introduced for the *Annual Plan 2014–15* (page 11). In 2014–15 detail was provided on proposed audits for two years, rather than one. It is hoped this will enable audited agencies to better prepare for audits. This will also provide greater flexibility to ensure the right audits are conducted at the right time.

The annual plan contains a single view of our proposed program of reports to Parliament, showing the connections between the financial and performance audit elements. This reflects a more integrated approach across VAGO, with teams working closely to determine the most appropriate audit approach to address an identified risk.

The annual plan also provides more information about our significant deliverables including financial audits and opinions, corporate publications, and education activities.

We disclosed the results of our key stakeholder consultation, so that readers can see the key issues driving our program.

Selecting areas of audit focus is also discussed in the financial audit and performance audit sections of this report (page 24 and 34). Our current and past annual plans are available on our website.

## Overview of 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 audit 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.

In 2014–15 we also applied the *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 2014–15, this included AUS 810 *Special Purpose Reports on the Effectiveness of Control Procedures*.

Key quality controls are already incorporated in our audit methodologies:

- The audit program, working papers and key deliverables are reviewed by the audit engagement leader or team leader, who must confirm that the audit meets professional standards.
- An engagement quality control reviewer—a senior officer not involved in the audit conduct—is assigned to review and confirm the quality of the audit and the 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 and significant auditing and accounting technical issues.

## Parliamentary accountability measures

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 PAEC performance audit of VAGO was undertaken by PricewaterhouseCoopers 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 and 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 our operations. We agreed to implement all of the recommendations. In 2015 our internal auditors reviewed our progress against the recommendations. See Appendix 3 for details.

## Reviews of audit processes

We undertake engagement quality reviews of a selection of completed financial and performance audits. These are discussed in detail on pages 30 and 37.

## ACAG external assessments of audit report quality

Since 2004, a selection of VAGO's audit reports have been assessed by independent external assessors. These assessments are discussed in detail on pages 30 and 38.

## 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 our website.

## Surveys of Parliamentarians

The results of our surveys of Parliamentarians are used as a performance measure of quality for Output Group 1: Parliamentary reports and services.

The overall results were positive, however, the target was not met in 2014–15, as discussed on page 38.

## Surveys of audited agencies

In 2014–15, VAGO surveyed:

- contacts nominated by the audited agency for every performance audit
- a sample of the chairs of audited agencies' audit committees.

For performance audit surveys, an overall index score out of 100 is generated based on three areas—audit process, audit reporting, and value of the audit to the agency. In 2014–15, the average index score was 75 index points, which is similar to last year's score.

Survey results are used to assess the impact of activities aimed to increase the clarity of audit reports, better understand the audited agency's environment, and improve communication with audited agencies.

The survey of audit committee chairs found that the majority of chairs had positive impressions of VAGO. Most respondents agreed that VAGO has an important role, is independent and has integrity.

## Debrief process

At the end of every Parliamentary report we conduct an audit debrief process to identify positives and areas for improvement which are considered in future activities. Each audit debrief is considered by the Performance Audit Challenge Committee or the Financial Audit Challenge Committee.

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

## Benchmarking our activities

We benchmark our activities against audit offices across Australia and use the results of this benchmarking to identify priority areas for improvement.

Two of the measures compare audit office costs to total state costs. In 2014–15, VAGO's audit cost as a proportion of:

- public sector transactions was 0.28, compared to the national average of 0.39
- public sector assets was 0.12, compared to the national average of 0.16.

While Victoria performed better than the national average, this result should be interpreted with caution given the differences between jurisdictions and audit offices.

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

# 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.

## Audit opinion delegations

Under the *Audit Act 1994* the Auditor-General can delegate the authority to sign audit opinions (section 7G(1)) and must report the names of persons to whom these powers have been delegated.

Under the current Audit Opinion Delegations policy 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 any modified opinions and the opinions for agencies whose financial operations are significant in economic and infrastructure terms in the whole-of-government context.

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 Australia and New Zealand, 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 2014–15, audit opinion delegations were changed so that they became role based as opposed to applying to specific individuals. Figure 38 names the individuals who had this delegation in 2014–15.

**[Figure 38] Audit opinions delegations by role and individual (including acting roles), 2014–15**

### Financial Audit, Assistant Auditor-General

Craig Burke

### Financial Audit, Sector Directors

Simone Bohan  
Travis Derricott  
Stan Naylor  
Tim Loughnan  
Ronald Mak  
Anna Higgs  
Roberta Skliros  
Charlotte Jeffries

### Financial Audit, Acting Sector Director

Jonathan Kyvelidis  
Tim Maxfield

### Standards and Quality, Assistant Auditor-General

Matthew Zappulla

### Standards and Quality, Director

Paul Martin

## 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 to enable public access to government data, and to enhance information sharing across the public sector.

As the majority of VAGO's datasets cannot be disclosed under Section 20A of the *Audit Act 1994*, and the remainder do not meet the purpose of the policy, no datasets were uploaded in 2014–15.

## Executive remuneration

The Remuneration Committee is responsible for VAGO's remuneration policy, and for 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 2014–15 this was Ms Liz Roadley.

See page 65 for further information on 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, 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 2014–15.

Further information on what VAGO does in relation to the *Freedom of Information Act 1982* is available on the VAGO website. See also Appendix Seven.

### 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:

[helen.sloane@audit.vic.gov.au](mailto:helen.sloane@audit.vic.gov.au)

In writing:

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

## Managing and responding to complaints

VAGO's complaints policies require us to make an annual summary of complaints received, and any arising trends, publicly available.

In 2014–15, there was one complaint made about the conduct of an audit which was acknowledged outside the five business day time line, but was finalised and responded to within 11 business days. This is within the time line contained in our policy which states that all complaints about audits must be responded to within 28 business days.

There were no complaints made about matters other than audits.

Across the past five years there have been three complaints made about the conduct of audits and one complaint about matters other than audits. Due to the small number of complaints made, no trend analysis is possible.

## National Competition Policy

VAGO is compliant with the *National Competition Policy*, including compliance with the 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 2014–15, VAGO sent the following staff overseas:

- The Auditor-General and the Executive Director, Governance, Legal and Strategy, attended the 17th PASAI Congress in Apia, Samoa.
- The Executive Director, Governance, Legal and Strategy, was partially funded by VAGO to attend the 8th International Public Sector Conference in Scotland.
- A Manager, Performance Audit, undertook a secondment in the United Kingdom and Republic of Ireland Audit Offices.



See page 127 for further information on our international engagement and page 59 for how we support audit sector capacity development.

## 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.

In 2014–15 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.

Under the *Protected Disclosure Act 2012*, VAGO cannot receive protected disclosures.

Disclosures about VAGO officers may be made to the Independent Broad-based Anti-corruption Commission or the Victorian Inspectorate.

Further information on VAGO's responsibilities is available at [http://www.audit.vic.gov.au/about\\_us/corporate\\_information/whistleblowers\\_legislation.aspx](http://www.audit.vic.gov.au/about_us/corporate_information/whistleblowers_legislation.aspx).

## Victorian Industry Participation Policy

The *Victorian Industry Participation Policy Act 2003* requires public bodies and departments to report on the application of the Victorian Industry Participation Policy. VAGO did not undertake any procurement activity that was subject to the Victorian Industry Participation Policy during 2014–15.

## Environmental management

VAGO aims to minimise our:

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

We are committed to continually improving our environmental performance and do this by involving staff in our green office program and integrating environmental performance monitoring and reporting into our business. All staff are expected to help meet our environmental commitments.

## Governance

The Environmental Management Committee is responsible for:

- developing VAGO's environmental management strategy and monitoring progress
- conducting education and awareness activities and encouraging VAGO staff to make environmentally sustainable choices
- championing sustainability initiatives.

The effectiveness and efficiency of the committee is currently being reviewed. Advice and recommendations on the future operations of the committee will be provided to the Operations Committee in 2015–16.

## Environmental performance

VAGO monitors its environmental performance against seven focus areas.

[Figure 39] Environmental focus areas

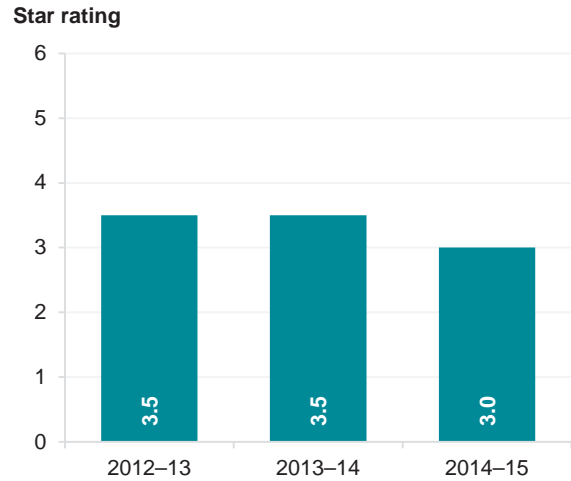


We analyse data on each of these areas to help us understand our environmental impact, identify areas for improvement and to allow us to benchmark our performance against other jurisdictions. The analysis is based on the number of annualised full-time equivalent (FTE) staff, in order to have a real world snapshot of our environmental performance.

We are rated by the National Australian Built Environment Rating System (NABERS), which uses verified performance information to give a star rating from one to six. A six star rating demonstrates market leading performance, while a one star rating is considered poor.

Our overall NABERS rating in 2014–15 was 3.0 stars. While this is above the national government average of 2.5 stars, it is a decrease on previous years.

[Figure 40] NABERS rating



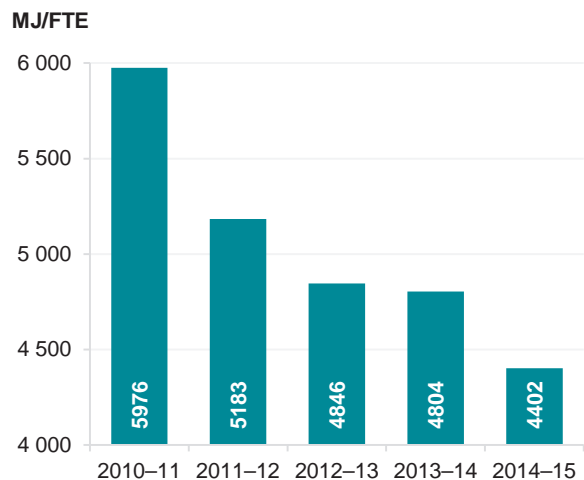
Note: NABERS ratings were introduced in 2012–13.

## Energy use

VAGO's energy use is mostly attributable to our lighting, computer servers and ventilation. We purchased 100 per cent green power in 2014–15, an increase of 50 per cent on the previous year.

Our energy use for 2014–15 was 4 402 megajoules (MJ)/FTE, which is substantially below the government average of around 7 000MJ/FTE. This is a decrease of 8.4 per cent on 2013–14 (4 804MJ/FTE) and is our lowest energy usage in the past five years.

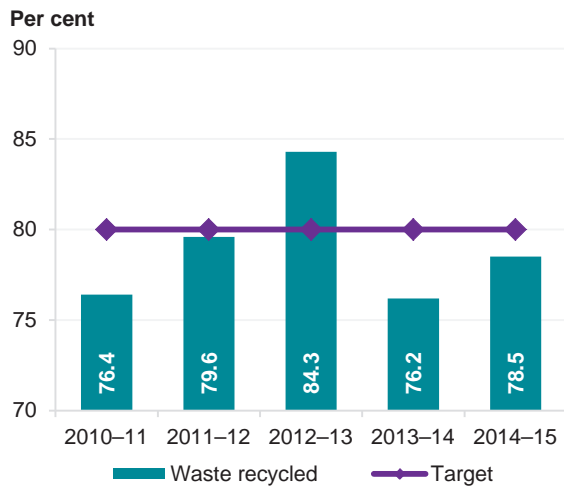
[Figure 41] Energy use



## Waste production

In 2014–15, we recycled 78.5 per cent of our waste, an increase of 2.3 per cent on 2013–14. Although this result is below our target of 80 per cent, it compares well to other similar offices where the average is around 50 per cent.

[Figure 42] Percentage of waste recycled

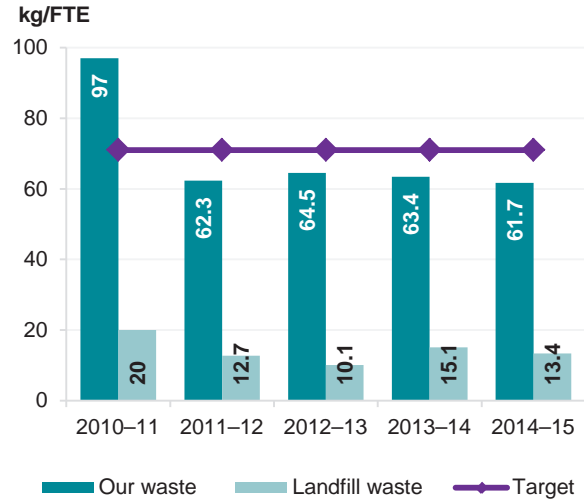


We produced 61.7kg/FTE of waste in 2014–15, just over 9kg less than our target of 71kg/FTE and a reduction of 1.7kg/FTE on 2013–14. We compare well to other similar offices where the average is around 100kg/FTE and this was our best result over the past five years. This strong performance is largely due to staff awareness campaigns.

Our volume of landfill waste decreased 11.9 per cent from 15.1kg/FTE in 2013–14 to 13.3kg/FTE in 2014–15. However, this is still above the average of around 10kg/FTE for similar offices. Our best result over the past five years was 10.1kg/FTE in 2012–13.

In 2015–16, we will focus on increasing the percentage of waste recycled and minimising landfill, by raising awareness and educating staff on waste minimisation strategies.

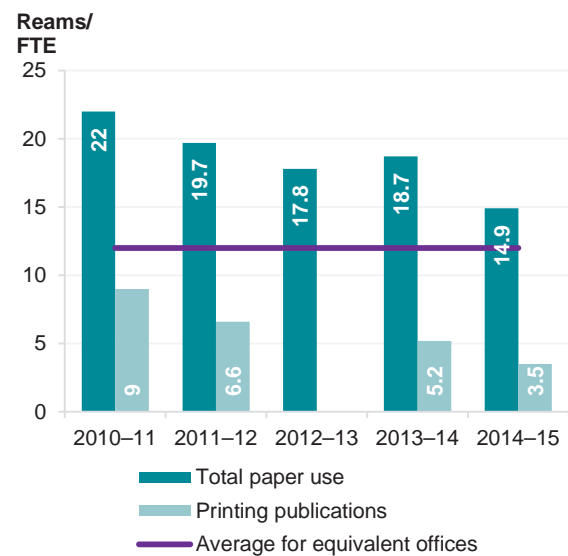
[Figure 43] Waste production



## Paper use

Our paper use has decreased from 18.7 reams/FTE in 2013–14, to 14.9 reams/FTE in 2014–15. This includes 3.5 reams/FTE for printing publications—a 20.3 per cent decrease and our lowest use in the past five years—and 11.4 reams/FTE for other uses—this is a 15.5 per cent decrease on 2013–14 and is lower than the average for similar offices of around 12 reams/FTE.

[Figure 44] Paper usage



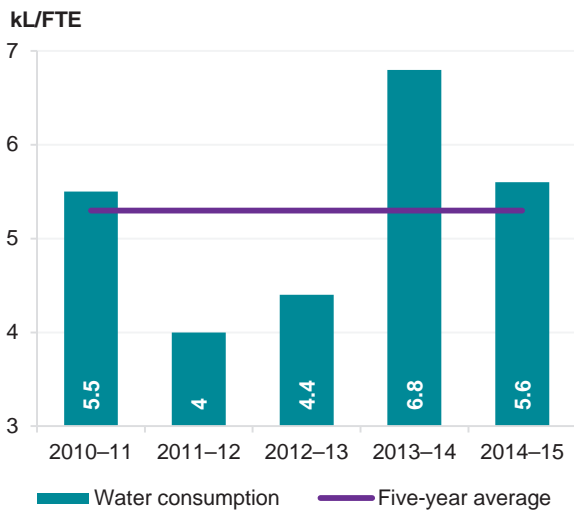
Note: No data on printing for publications for 2012–13.

To reduce paper use, in 2014–15 VAGO introduced a new electronic document transfer system called Accellion, and began using tablets. For further details see page 62.

### Water consumption

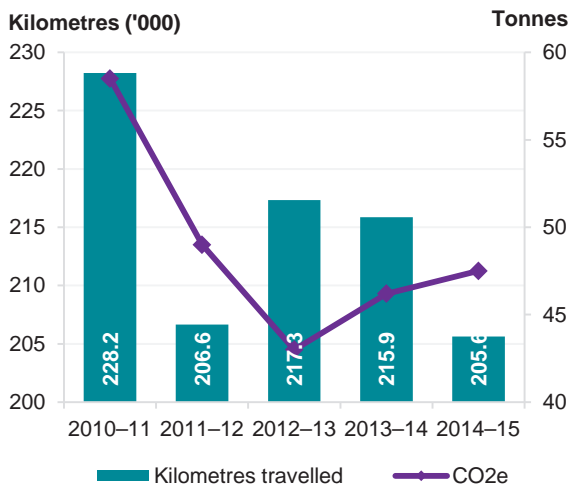
Our water consumption reduced from 6.8kL/FTE in 2013–14 to 5.6 kilolitres (kL)/FTE in 2014–15. Although positive, this is still higher than our 2011–12 low of 4kL/FTE.

[Figure 45] Water consumption



### Transportation

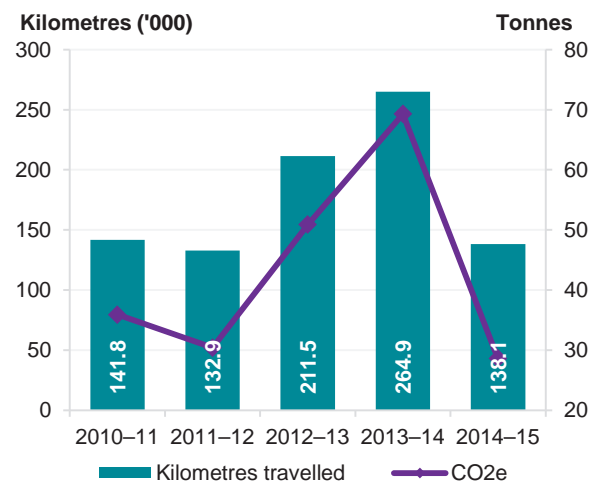
[Figure 46] Vehicle use by staff and resulting tonnes Carbon Dioxide emissions CO<sup>2</sup>e



The kilometres travelled in 2014–15 were the lowest in five years. Our CO<sup>2</sup>e, however, increased by 2.8 per cent to 47.5 tonnes as a result of using less fuel efficient vehicles.

Taxi trips by staff decreased from 793 to 646 in 2014–15, resulting in a decrease in CO<sup>2</sup>e from 4.7 tonnes to 3.5.

[Figure 47] Flights taken by staff and resulting tonnes CO<sup>2</sup>e



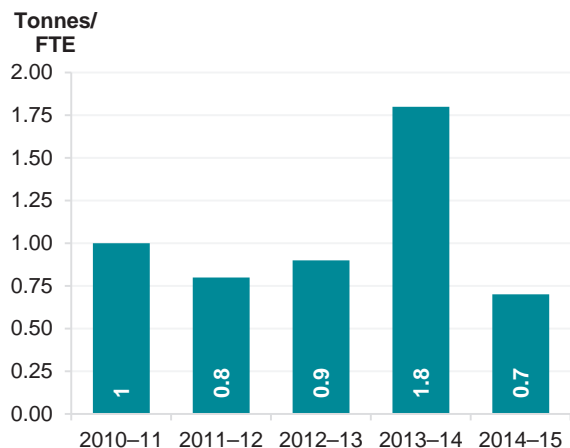
The number of kilometres travelled on flights decreased by 47.9 per cent from 264 890 to 138 138. This is a result of fewer trips being made and is the second lowest year in the past five years.

### Greenhouse gas emissions

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

Our emissions for 2014–15 were 0.7 tonnes/FTE. This decrease of 61.1 per cent on 2013–14 is largely due to the purchase of 100 per cent green electricity and fewer flights. We recorded our lowest greenhouse gas emissions for the past five years, and were significantly below the average for similar offices of 2.0 tonnes/FTE.

[Figure 48] Greenhouse gas emissions



## Procurement

VAGO undertakes sustainable procurement to reduce environmental impacts and support environmentally conscious suppliers.

Our procurement practices balance environmental concerns with 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 participate in secondment and internship programs around the world.

Over the past few years, VAGO has focused our international engagement on those with information needs relevant to VAGO's work. Implementation of our International Engagement Policy, better coordination with ACAG and improved external communication has resulted in fewer delegations visiting us, but led to improved experiences, with more engaged and relevant discussions.

Appendix 2 lists the international delegations, placements and secondments for 2014-15 and further information regarding international delegations is available on our website.

## Pacific Association of Supreme Audit Institutions (PASAI)

PASAI 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 Auditor-General attended the 17th PASAI Congress in Apia, Samoa on 19-22 August 2014, alongside 24 representatives from across the region. Auditors-General presented on the role of their audit offices in delivering value and contributing to effective governance and accountability. The next three-year strategic plan for PASAI was also discussed.

## Twining with regional Pacific audit offices

VAGO participates in a 'twinning' program, designed to focus assistance and support, using a framework agreed between ACAG and PASAI. VAGO is 'twinned' with Nauru and Tuvalu, reflecting a similar relationship of those countries to the Parliament of Victoria.

VAGO's assistance has been focused on Tuvalu, as the Nauru Audit Office has had limited involvement with PASAI and is currently subject to some structural change, following recent changes to government.

In early 2014-15, we confirmed an assistance arrangement with Tuvalu's new Auditor-General, Eli Lopati. This meant that in 2014-15 we:

- adapted and shared our comprehensive library of technical training and guidance materials
- reviewed the Tuvalu Audit Office strategic plan.

For 2015–16 we have also committed to continue to support the Tuvalu Audit Office's involvement in cooperative performance audits coordinated by

PASAI, by attending workshops and providing ongoing assistance as the audit progresses.

**[Figure 49] Location of VAGO (A) and our 'twinning' Pacific offices, Tuvalu (B) and Nauru (C)**



## Executive attendance at the 8th International Public Sector Conference

The Executive Director, Governance, Legal and Strategy (ED-GLS), was partially funded by VAGO to attend the 8th International Public Sector Conference in Scotland in September 2014, hosted by the European Institute for Advanced Studies in Management. While in the United Kingdom, the ED-GLS visited the Scottish Audit Office and the National Audit Office of the United Kingdom, and discussed topics of common interest. The ED-GLS also attended a hearing of the United Kingdom Parliamentary Accounts Committee. Upon return to VAGO, the ED-GLS reported on the results of the conference and made the conference papers available to staff.

## External secondments

### United Kingdom and Republic of Ireland Audit Offices

In 2014–15, a manager from our Performance Audit unit returned from a secondment at the United Kingdom and Republic of Ireland Audit Offices.

The five-month secondment served several purposes, including:

- developing knowledge of various offices' operating contexts and business practices
- developing our international networks
- exploring aspects of audit work that align with our current strategic interests.

Upon return to VAGO, the manager reported on the findings from the secondment to share the insights gained, to enhance our productivity, efficiency and the extent to which we provide public value.

## Other external secondments

In 2014–15, two VAGO staff returned from secondments to the Office of the Fire Services Levy Monitor and Victoria Police.

## Hosted secondments

In 2014–15, VAGO hosted two secondments from the Republic of Ireland Audit Office. One secondee worked in the Financial Audit education team, the other worked in the Performance Audit central agencies team. The secondments facilitated an exchange of ideas, procedures and audit approaches.

## Internal secondments

Where appropriate, staff are encouraged to do a secondment to other business units within VAGO, in order to broaden their professional experience and organisational knowledge. In 2014–15, six staff members undertook internal secondments.

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# Additional continuous improvement activities

## Working with other integrity bodies

Due to recent changes to our legislation, as part of the reform of Victoria's integrity system, VAGO is interacting more frequently with other Victorian integrity bodies. We are largely prevented by the *Audit Act 1994* from sharing information collected during the course of an audit, but we work within these limitations.

VAGO has commenced its mandatory reporting process and there is the capacity to receive referrals, share information with other integrity bodies and conduct coordinated investigations.

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

VAGO also participated in a hypothetical panel discussion on 24 June 2015 as part of Public Sector Week.



This hypothetical looked at how VAGO, the Victorian Ombudsman, the Independent Broad-based Anti-corruption Commission and the Victorian Public Sector Commission each play a role in protecting the integrity of Victoria.

## Engaging with the Australasian Council of Auditors-General

In 2014–15 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, 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
- receive independent expert external assessments of our work.

Highlights of our 2014–15 ACAG activity included:

- taking over as the chair and secretariat of the ACAG Financial Reporting and Auditing Subcommittee, which provides Auditors-General and ACAG with strategic and technical advice on developments in financial auditing, accounting and reporting, including leading and coordinating technical submissions on behalf of ACAG and managing relationships with accounting professional bodies, standard setters and regulators
- sharing good practice through three ACAG meetings 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 program of external assessments of reports
- reviewing and improving the national ACAG Quality Framework, which details 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 performance via the ACAG Macro Benchmarking Survey
- ongoing 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.

## Technological improvements

In 2014–15 we introduced several technologies to improve the effectiveness, efficiency and quality of our operations and services.

### Introduction of Accellion

A new electronic document transfer system called Accellion was introduced to enable VAGO staff to securely transfer and receive electronic documents.

The introduction of this system means that audit documents, previously sent to audit clients in paper form, can now be sent electronically. This means that document transfers are more secure, are faster and reduce our paper usage.

Accellion has also proved to be a reliable and secure method for transferring confidential recruitment information.

### Rollout of tablets

Executives and some auditors were provided with tablets in 2014–15 for use while out of the office. The use of tablets has helped reduce our paper usage (see page 57).

### Performance Audit scorecard completion process

The process of completing performance audit scorecards, which provide the status of each performance audit report, has been made easier through the use of our Audit method Performance (AmP) database. The time spent on this process has been significantly reduced.

### Website updates

In 2014–15, the implementation of a new content management system was progressed. Systems were trialled and a staged rollout of a new content management system will occur in 2015–16.

Other changes to our website included the addition of information targeting Parliamentarians and information reports regarding our audit service providers.



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# Looking forward

The coming year will see changes to our executive management structure, which will reflect our new priorities and areas of audit interest.

We will continue to consult with and survey our stakeholders and will continue sharing the lessons and outcomes of our audits through debriefs, using this knowledge to inform staff training.

Our development and continuous improvement will be monitored through our Continuous Improvement Register. In 2015–16, we will complete the last actions from the 2013–14 triennial Public Accounts and Estimates Committee audit of VAGO, and will prepare for the 2016 audit.

We are committed to continually improving our environmental performance and our aim in 2015–16 will be to improve our overall NABERS environmental performance rating. We will do this by recycling more, minimising landfill waste, and reducing our paper usage, water consumption and carbon emissions.

We will continue to be actively involved in the national and international development of public sector audit, through our participation in ACAG and PASAI, and through our engagement with the Tuvalu Audit Office.

Review of  
our year

Our  
impact

Financial  
audit

Performance  
audit

Our  
organisation

Our  
people

Our financial  
management

Appendices

# Our people

Our people are highly qualified and experienced, and we continue to invest in their learning and development. Our internal committees and groups improve our effectiveness and efficiency, while increasing internal engagement. Awareness of working in a safe and healthy manner remains a key focus.

## Relevant strategic objectives:

- **People:**  
Fostering a stimulating working environment
- **Organisation:**  
Leverage our systems and processes to improve organisational performance.

## The year in review

Our achievements	Page
We had 184 staff at 30 June 2015.	65
Eighty-five per cent of all our employees had a qualification at bachelor level or higher.	67
Our staff spent an average 8.1 days in training.	67
Thirty-eight employees used study assistance.	68
We rolled out our Careers@VAGO Leadership Development Program.	68
The Staff Consultation and Development Group developed terms of reference and objectives.	68
We had high performance results against all occupational health and safety (OH&S) performance indicators.	69–70
Our Social Club raised over \$4 300 for charities.	71
Our challenges	Page
Our voluntary turnover was 17.4 per cent, reflecting a number of retirements, relocations and the increase in opportunities in the external labour market.	66
The planned cultural alignment survey was deferred to 2015–16 so that the results could be used to inform the development of our new Strategic Plan.	68
There were 8 injuries but no critical incidents were reported under our OH&S policy.	69
We recorded 165.8 days of lost time due to OH&S incidents.	69

## The year ahead

In 2015–16	Page
We will continue to use our new strategic recruitment model and evaluate its results.	71
We will continue to invest in the learning and development of our staff.	71
One of our internal focus areas will be 'growing our own'.	71
We intend to analyse the results of our Careers@VAGO Leadership Development Program.	71

# 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 are also committed to providing a safe and healthy workplace.

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

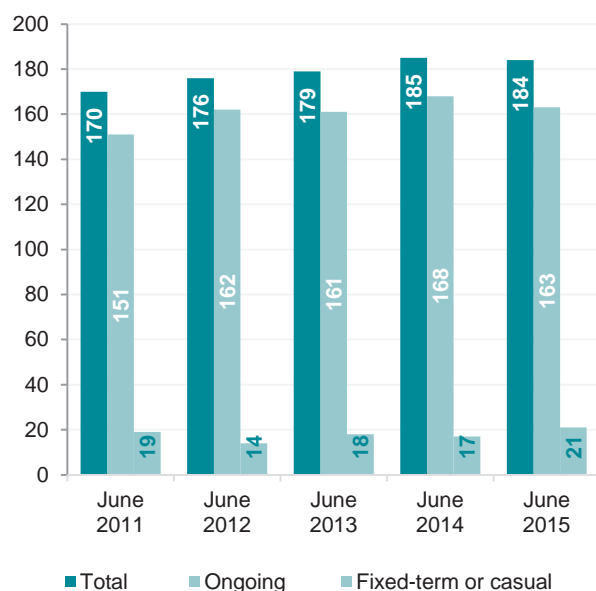
## Workforce capacity

VAGO staff numbers are reported in detail in Appendix four. At 30 June 2015 we had 184 staff, with 163 ongoing staff (156 full time equivalent) and 21 fixed-term or casual staff.

### Our staff profile

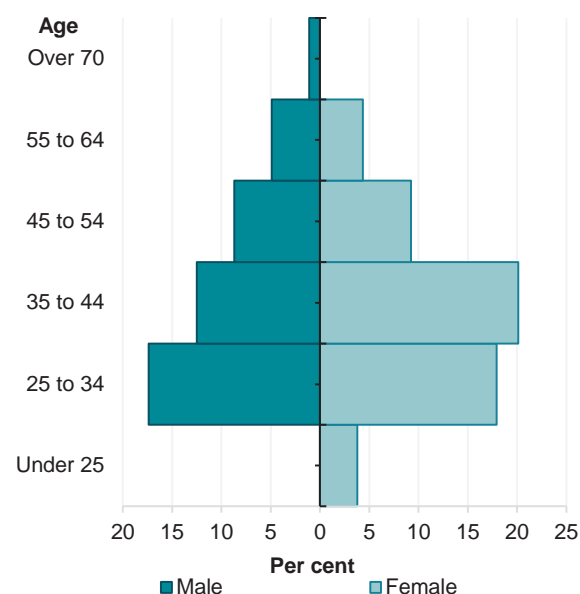
The total number of VAGO staff had been steadily increasing, by about 3.5 staff each year, however, this trend was arrested in 2014–15.

[Figure 50] Headcount, employee snapshot at 30 June 2015<sup>(a)</sup>



(a) Staff on leave without pay or absent on secondment, external contractors/consultants, and temporary staff employed by employment agencies are excluded.

[Figure 51] Age and gender pyramid, snapshot of staff at 30 June 2015



## Executive information

Figure 52 shows the breakdown of executive officers by classification, gender and variance on last year's figures.

All VAGO's executive officers are responsible for ongoing functions or outputs and none are conducting special projects. Figure 53 shows our executive remuneration and vacancies.

**[Figure 52] Number of executive officers by classification, at 30 June 2015**

Classification	Total (ongoing)		Vacancies	Male		Female	
	No.	Var. <sup>(a)</sup>	No.	No.	Var.	No.	Var.
EO1	1	0	0	1	0	0	0
EO2	5	0	0	3	1	2	-1
EO3	19	0	0	12	0	7	0
<b>Total</b>	<b>25</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>1<sup>(b)</sup></b>	<b>9</b>	<b>-1<sup>(b)</sup></b>

Note: The Auditor-General is not included in this table.

(a) Var. refers to variance to figures reported for June 2014.

(b) The variance in executive employment across gender is due to Craig Burke's appointment to the position of Assistant Auditor-General, Financial Audit following the resignation of Ellen Holland.

**[Figure 53] Reconciliation with executive numbers, June 2015 and June 2014**

Remuneration and vacancies	2015	2014
Executives employed with total remuneration over \$100 000	25	20
Vacancies	0	0
Executives employed with total remuneration below \$100 000	1	6
Accountable officer <sup>(a)</sup>	1	1
Secondment	0	-1
Separations	-1	0
<b>Total executive numbers at 30 June</b>	<b>26</b>	<b>26</b>

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

## Recruitment and retention

VAGO has rolled out the strategic recruitment model to attract and retain candidates for difficult-to-fill roles, particularly within Performance Audit at the manager level. There are now year-round opportunities for potential candidates to register their interest through our website, including for graduate positions and internships.

In 2014–15, VAGO's voluntary turnover was 17.4 per cent, up from 12.4 per cent in 2013–14, which reflects four retirements, five relocations and an increase in opportunities in the external labour market. This is the second highest voluntary turnover result in the past five years, and provided an opportunity for renewal and intensive workforce planning. There were no exemptions from notification of vacancy for ongoing positions in 2014–15.

**[Figure 54] Staff departures and turnover**

Year	Employees (Headcount)		Full Time Equivalent (FTE)		Voluntary turnover rate
	Ongoing	Fixed-term and casuals	Ongoing	Fixed-term and casuals	Per cent
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
2014–15	26	6	25.2	6.0	17.4

## Employee qualifications, development and training

VAGO's staff are professionally qualified and accredited in a broad range of disciplines. The 2014 Victorian People Matter Survey reported that 61 per cent of public sector employees have a qualification at bachelor level or higher. At VAGO this is the case for 85 per cent of employees.

Approximately three in 10 staff have a masters qualification (29 per cent)



Approximately one in six staff have two or more bachelor degrees (16 per cent)



Approximately one in 17 staff have a PhD (6 per cent)



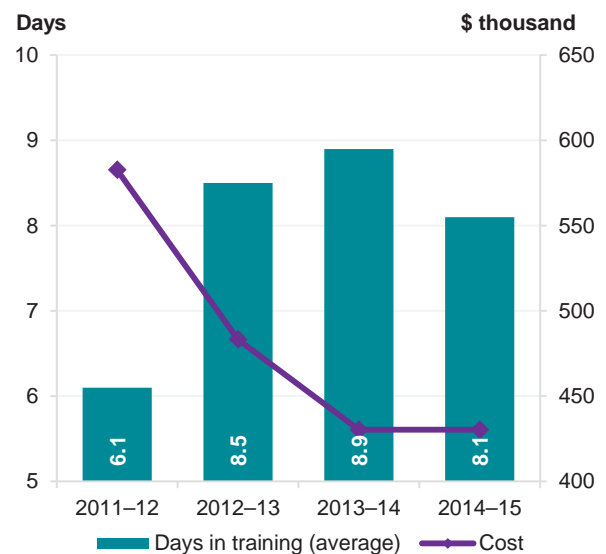
[Figure 55] Qualifications of staff by business unit, June 2015

	Tertiary qualification (per cent)	Bachelor degree held (per cent)	Postgraduate degree held (per cent)
All VAGO staff	85	78	37
Performance Audit staff	100	100	61
Financial Audit staff	99	99	24
Other staff	81	40	23

Our financial auditors are required to undertake professional accounting accreditation from CPA Australia, Chartered Accountants Australia and New Zealand, or a similar overseas organisation. In 2014–15, 30 VAGO employees had CPA accreditation (including five CPA Fellows), 31 had CA accreditation (including two CA Fellows), and five had accreditation from overseas organisations.

In 2014–15, VAGO staff spent on average 8.1 days in training, a slight decrease on the 8.9 days in 2013–14. This year's results are, however, above our four year average. The VAGO business plan allows for at least five days of training per staff member.

[Figure 56] Average number of days staff spent in training and cost of training



Note: Training and cost data was not reported in 2010–11.

## Study assistance

VAGO supports lifelong learning and development through our Study Assistance Program which provides reimbursement of study fees as well as study and examination leave.

In 2014–15, 38 employees used study assistance. The majority of these employees, 60 per cent, were continuing their CPA or CA. Others undertook a Bachelor of Law, Masters of Science (Applied Statistics), Masters of Business, Masters of International Relations and Masters of Social Policy.

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# Employment and conduct

## Careers@VAGO Leadership Development Program

The Careers@VAGO Leadership Development Program aims to develop leaders who are adaptable, responsive and resilient strategic thinkers. They are able to coach, mentor and upskill staff and build flexible, collegiate teams. This program supports VAGO's commitment to 'growing our own'.

## Staff cultural alignment survey

The survey planned for 2014–15 was deferred to 2015–16 so that the results could be used to inform the development of our new Strategic Plan.

## Staff Consultation and Development Group

This Staff Consultation and Development Group (SCDG) represents staff to management. Staff are encouraged to approach SCDG members at any time in complete confidence.

The group comprises representatives from various levels across the organisation, including a People and Culture representative and the Assistant Auditor-General, Standards and Quality. Having a senior executive in the group provides a direct line to the leadership group. In addition, the Auditor-General and the Deputy Auditor-General attend at least one SCDG meeting a year, and the SCDG is discussed by the Operations Committee every two months.

In 2014–15, the SCDG developed terms of reference with the following objectives:

- contribute to the implementation of the strategic direction and values of VAGO
- provide a channel of communication between staff and the leadership group, and a source of staff consultation for the leadership group on matters directly affecting the culture and business of VAGO
- promote relevant, useful professional development of staff at VAGO.

In 2014–15 the SCDG:

- undertook work on organisational culture, and was briefed by an expert in organisational culture from the Victorian Public Sector Commission
- contributed to the Workforce Planning Project
- advised the executive management team on sources of stress for VAGO staff
- continued to provide advice and coordinate the development of the transition briefing into intranet resources for staff
- provided feedback on Key Audit Themes analysis methodology and how to achieve an impact with this product
- consulted on the Auditor-General's ideas for internal culture activities
- engaged with Gill Callister, former Secretary of the Department of Human Services, to present to VAGO staff on what it is like to be audited.

## Merit and equity

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 Discrimination policy, which seeks to prevent staff from engaging in bullying, unlawful discrimination, vilification, harassment or victimisation of employees or others.

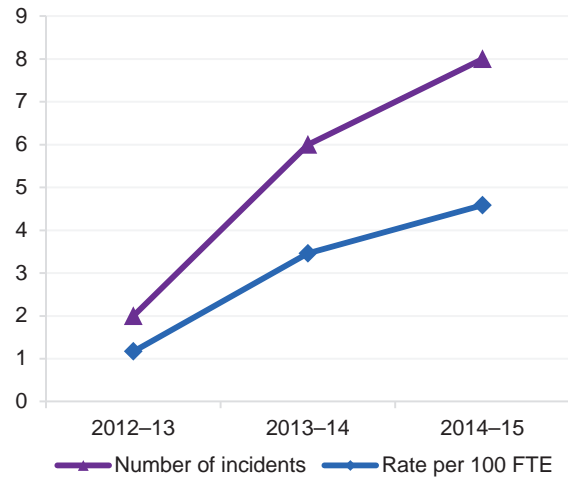
## Occupational health and safety

VAGO's OH&S management emphasises individual health, and includes a strategy to identify and manage hazards to psychological health. We have an OH&S policy and a range of related policies, as well as a WorkCover policy that aim to ensure all staff remain safe and healthy at work.

Currently we are only able to compare OH&S data across three years, due to changes in operations and systems.

In 2014–15, there were eight injuries reported, and no critical incidents. In real terms, this equates to two more incidents than 2013–14. The incident rate per 100 FTE in 2014–15 was 4.5, which is more than our incident rate in 2013–14 (rate per 100 FTE of 3.4). The trend across the past three years shows an increasing number of reported incidents.

**[Figure 57] Number of OH&S incidents and rate per 100 FTE**



There were three standard WorkCover claims lodged in 2014–15.

**[Figure 58] Workcover claims**

Claims and rate	2012–13	2013–14	2014–15
No. of standard claims	2	0	3
Rate per 100 FTE	1.2	0.0	1.7

In 2014–15, we recorded 165.8 days of lost time in relation to claims. There was also a significant increase in the average cost of claims, rising from \$4 702 in 2012–13 to \$26 214 in 2014–15. These increases are the result of one unique claim made during the year.

**[Figure 59] Lost time and average cost of claims**

Lost time and cost	2012–13	2013–14	2014–15
Lost time (days)	4.2	0	165.8
Average cost of claims	\$4 702	\$0	\$26 214

During 2014–15 the OH&S committee:

- organised workplace inspections of the whole office to identify hazards and agree on solutions to remove or minimise them
- prepared educative material to reinforce the safe working message and ensured it was frequently provided to staff members
- reviewed the OH&S e-learning module which staff will be required to complete in 2015–16
- rolled out 70 lighter laptops to our audit staff in the field, with more scheduled for 2015–16
- organised free flu vaccinations for staff.

**[Figure 60] Performance against OH&S performance indicators, 2014–15**

Performance indicator	Result	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.	✓	100 per cent.
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.	✓	100 per cent.
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 2014–15, meeting the requirements of the <i>Occupational Health and Safety Act 2004</i> .

Note: ✓ = Target achieved or exceeded.

## Work arrangements

VAGO offers flexible work arrangements for staff, in response to staff demand and 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

### Social Club

The Social Club at VAGO arranges many events and charity drives throughout the year to promote engagement, teamwork and maintain staff morale. Events are often held after business hours to allow staff who do not regularly interact to get to know each other.

In 2014–15, VAGO staff participated in numerous events including the Pink Ribbon breakfast, futsal competitions, a bake-off morning tea, trivia nights, movie and gallery nights and other social functions including Halloween and Christmas parties.



In 2014–15, the Social Club raised over \$4 300 for various charities; White Lion, Deaf Children Australia, Second Chance Animal Rescue, Pink Ribbon, Movember, Berry Street, Fred Hollows, Nicholas Timms Foundation, World's Greatest Shave, Fragile X Association, St Kilda Mums, Arts Project Australia, World Vision.

### *Our donations are appreciated*

*'...thank you for the donation. Every contribution matters to us, as we are a small organisation and 100% reliant on donations. All funds raised help us to support and provide services to the Fragile X community within Australia.'*

Fragile X Association of Australia

In 2014–15, the Social Club reviewed how charities for fundraising were selected, and decided to focus on small organisations in order to increase the impact of our donations. Staff nominated charities each month and a lot of positive feedback has been received from staff about this change.

### Volunteering

In 2014–15, a diverse range of volunteering activities was undertaken by our staff, ranging from being involved in sporting groups to providing community legal advice and donating blood.

---

## Looking forward

In 2015–16 we will continue to use and evaluate the results of our new strategic recruitment model, in order to attract potential candidates for difficult-to-fill roles.

We will continue to support staff training by investing in learning and development while keeping training costs around similar levels. Study assistance will also remain available.

Our commitment to 'growing our own' will be a focus in 2015–16, with the results from the first year of the Careers@VAGO Leadership Development Program becoming available for analysis.

With the new terms of reference in place and clear objectives, the SCDG will work to ensure staff engagement occurs effectively throughout the organisation. Our executive management team and our OH&S committee will continue to ensure all staff remain safe and healthy at work, by raising awareness of how staff can improve and promote health and safety in the workplace.

The Social Club will be looking to increase staff engagement by making events more flexible for staff who work part-time or are only in the office during specific periods of the day. There will also be a focus on co-campaigning with other VAGO committees and groups relating to volunteering, environmental performance and health.

# Our financial management

We received a clear audit opinion from our auditor, with no issues raised. This financial report presents fairly, in all material aspects, the financial position of VAGO and its financial performance.

## Relevant strategic objectives:

- **Organisation:**  
Leverage our systems and processes to improve organisational performance.

## The year in review

Our achievements	Page
Our net financial result for the year was a surplus of \$0.54 million.	73
Revenue increased 2 per cent in 2014–15.	74
Our output expenses for OG2 were lower by \$0.90 million due to lower audit service provider expenses as a result of a recent competitive tender round.	75
Our challenges	
Our output expenses for OG1 were higher by \$1.07 million due to higher employee expenses.	75

# Introduction



Chief Financial Officer and members of VAGO's finance team

In this section we provide information on the management of our budget for the year, including:

- our financial performance
- our financial position
- other financial matters.

This chapter also includes our financial report for 2014–15, for which a contents list is available on page 78.

## Financial performance

Our net financial result for the year was a surplus of \$0.54 million (compared with a surplus of \$0.04 million in 2013–14).

Figure 61 shows the movement in both actual revenues and expenses.

[Figure 61] Revenues and expenses

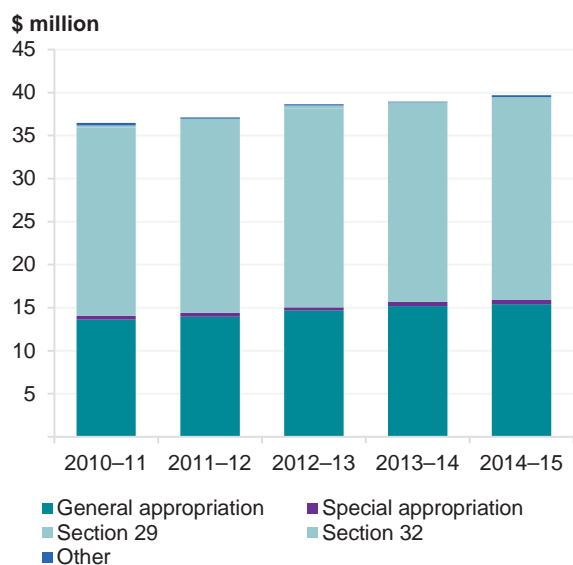
Item	2014–15 (\$'000)	2013–14 (\$'000)	2012–13 (\$'000)	2011–12 (\$'000)	2010–11 (\$'000)
<b>Revenue</b>					
General appropriation	15 404	15 179	14 661	13 959	13 612
Special appropriation	541	495	362	456	447
Section 29	23 536	23 191	23 136	22 547	21 899
Section 32 carry-over	–	–	344	–	200
Other	217	89	151	158	332
<b>Total revenue</b>	<b>39 698</b>	<b>38 954</b>	<b>38 654</b>	<b>37 120</b>	<b>36 490</b>
<b>Total expenses</b>	<b>39 161</b>	<b>38 994</b>	<b>37 197</b>	<b>36 542</b>	<b>35 974</b>
<b>Surplus/(deficit)</b>	<b>537</b>	<b>(40)</b>	<b>1 457</b>	<b>578</b>	<b>516</b>

## Revenue

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

Revenue increased 2 per cent in 2014–15. Increases in internally generated Section 29 revenue are offset by reductions in the recovery of audit service provider expenses. Other revenue increased as a result of cost recovery from our staff secondment to other agencies.

[Figure 62] Source of VAGO funding



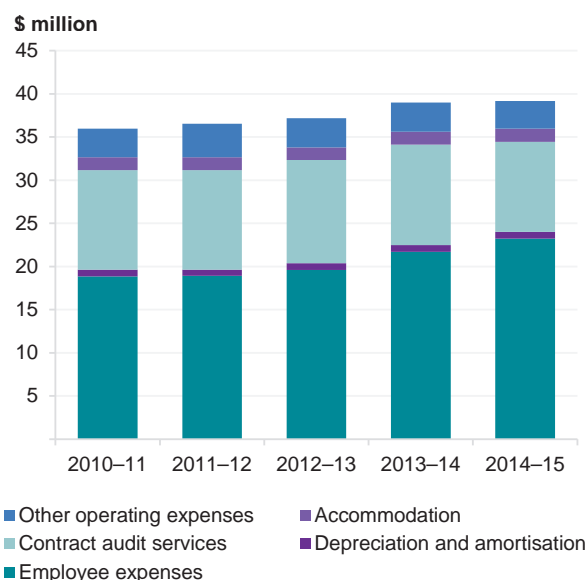
Note: Refer Figure 61 for breakdown.

## Expenses

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

Expenditure in 2014–15 increased mainly as a result of staff increases (184.4 annualised FTE compared with 174.9 annualised FTE in 2013–14) and general wage increases. This is offset by the lower use of contractors for financial and performance audits.

[Figure 63] Expenses



Note: Refer Figure 64 for breakdown.

[Figure 64] Expenses from ordinary activities

Item	2014-15 (\$'000)	2013-14 (\$'000)	2012-13 (\$'000)	2011-12 (\$'000)	2010-11 (\$'000)
<b>Expenses</b>					
Depreciation and amortisation	765	753	802	732	764
Employee expenses	23 238	21 714	19 587	18 917	18 862
Contract audit services	10 446	11 652	11 956	11 531	11 558
Rental expenses – accommodation	1 514	1 509	1 462	1 477	1 475
Other expenses	3 198	3 366	3 390	3 885	3 315
<b>Total expenses<sup>(a)</sup></b>	<b>39 161</b>	<b>38 994</b>	<b>37 197</b>	<b>36 542</b>	<b>35 974</b>

(a) Gross including secondment costs.

# Output results

## Output Group 1: Parliamentary reports and services

Output expenses are higher by \$1.07 million, due to higher employee expenses. This is offset by lower contract expenses.

## Output Group 2: Audit reports on financial statements

Output expenses were lower by \$0.90 million due to lower audit service provider expenses as a result of a recent competitive tender round. This is offset by higher employee expenses.

[Figure 65] Total revenues and expenses attributed to outputs

Output Group	2014–15			2013–14		
	Revenue (\$'000)	Expenses <sup>(a)</sup> (\$'000)	Net result (\$'000)	Revenue (\$'000)	Expenses <sup>(a)</sup> (\$'000)	Net result (\$'000)
1. Parliamentary reports and services	15 840	16 221	(381)	15 398	15 155	243
2. Audit reports on financial statements	23 858	22 940	918	23 556	23 839	(283)
<b>Total</b>	<b>39 698</b>	<b>39 161</b>	<b>537</b>	<b>38 954</b>	<b>38 994</b>	<b>(40)</b>

(a) Gross including secondment costs.

# Financial position

Our financial position at 30 June 2015 remained strong, with total assets of \$16.8 million, total liabilities of \$8.2 million and net assets of \$8.6 million.

Assets increased by \$0.5 million due to a rise in receivables as a result of increased surplus.

Net equity increased by \$0.5 million as a result of reduced expenses.

Liabilities remain relatively unchanged (decreased by \$6 000).

[Figure 66] Asset and liability movement

Item	2014–15 (\$'000)	2013–14 (\$'000)	2012–13 (\$'000)	2011–12 (\$'000)	2010–11 (\$'000)
Financial assets	15 019	13 965	12 930	10 755	9 734
Non-financial assets	1 803	2 326	2 518	2 690	2 978
<b>Total assets</b>	<b>16 822</b>	<b>16 291</b>	<b>15 448</b>	<b>13 445</b>	<b>12 712</b>
<b>Total liabilities</b>	<b>8 211</b>	<b>8 217</b>	<b>7 333</b>	<b>6 787</b>	<b>6 631</b>
<b>Net assets</b>	<b>8 611</b>	<b>8 074</b>	<b>8 115</b>	<b>6 658</b>	<b>6 081</b>

# 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. This annual report complies with this requirement.

## Consultancies

In 2014–15, we engaged one consultancy where the total fees payable were greater than \$10 000. Details of this consultancy are outlined in Figure 67. We also engaged 10 consultancies where the total fees payable were less than \$10 000, with a total expenditure of \$21 813 (excluding GST).

**[Figure 67] Details of individual consultancies – payments in excess of \$10 000**

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (excluding GST)	Expenditure 2014-15 (excluding GST)	Future expenditure (excluding GST)
Mercer Consulting (Australia) Pty Ltd	Job evaluations / Remuneration advice for Executive Officer positions	2 Jun 2014	7 Jul 2014	\$15 330	\$15 330	–

## Performance audit contractors

In 2014–15, we paid \$0.4 million (\$0.8 million in 2013–14) to 17 contractors for services related to our performance audits. The decrease in the use of performance audit contractors is largely due to increased reliance on internal staff.

**[Figure 68] Payments to performance audit contractors**

Performance audit contractor	2014–15 (\$'000)	2013–14 (\$'000)
Australian Survey Research Group Pty Ltd	13	47
Certitude Pty Ltd	0	10
Chappell Dean Pty Ltd	29	0
Clear Horizon Consulting Pty Ltd	77	23
Deakin University	12	0
Deloitte Touche Tohmatsu	0	21
EMI Partners	10	0
E W Russell & Associates Pty Ltd	16	8
J H Resources Pty Ltd	29	94
Monash University	0	28
O'Connor Marsden & Associates Pty Ltd	21	0
Orima Research Pty Ltd	43	0
Ovum Pty Ltd	21	4
P S Consulting	47	69
Paul Edney	0	13
P G Rorke	59	155
Pitt Group	34	196
Synergistiq Pty Ltd	0	28

[Figure 68] Payments to performance audit contractors – continued

Performance audit contractor	2014–15 (\$'000)	2013–14 (\$'000)
The Allen Consulting Group	0	23
Trusted Impact	0	22
Victoria University	0	18
Wallis	22	20
Other—three service providers (10 in 2013–14)	16	54
<b>Total</b>	<b>449</b>	<b>833</b>

## Financial audit service providers

In 2014–15, we paid \$10.0 million (\$10.8 million in 2013–14) to 24 audit firms that provided services related to our financial statement audits.

[Figure 69] Payments to financial audit service providers

Financial Audit Service Provider (ASP)	2014–15 (\$'000)	2013–14 (\$'000)
Accounting and Auditing Solutions	66	56
BDO East Coast Partnership	0	21
Coffey Hunt Audit (previously Coffey Hunt & Co)	466	546
Crowe Horwath (previously Crowe Horwath Melbourne)	838	1 122
Crowe Horwath Albury	336	184
Crowe Horwath Vic	478	591
Davidsons Assurance Services Pty Ltd (previously Davidsons)	57	39
Deloitte Touche Tohmatsu	401	529
DFK Kidsons (previously DFK Collins)	110	154
DMG Audit and Advisory	75	0
Ernst & Young	846	912
Grant Thornton Audit Pty Ltd	90	96
HLB Mann Judd (VIC Partnership) (previously HLB Mann Judd (Vic) Pty Ltd)	2 013	2 229
Johnsons MME	278	355
KPMG	6	12
LD Assurance	128	177
McLean Delmo Bentleys Pty Ltd	186	263
MGR Accountants Pty Ltd	62	99
Pricewaterhousecoopers (Vietnam) Ltd	34	0
Richmond Sinnott & Delahunty	982	916
RSM Bird Cameron	1 551	1 660
UHY Haines Norton Melbourne Pty Ltd (previously UHY Haines Norton (Vic) Pty Ltd)	872	764
University of Melbourne <sup>(a)</sup>	81	63
Other—two service providers (two in 2013–14)	41	31
<b>Total</b>	<b>9 997</b>	<b>10 819</b>

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

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# 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 2015 and financial position of VAGO at 30 June 2015.

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 7 August 2015.



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

Melbourne  
7 August 2015



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

Melbourne  
7 August 2015

# 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 2015, 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 2015 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 Melbourne Audit & Assurance

Steven Bradby

Partner

Melbourne, 7 August 2015

PKF Melbourne  
Audit & Assurance  
ABN 15 503 135 070

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# Comprehensive operating statement

for the financial year ended 30 June 2015

	Note	2014-15 \$	2013-14 \$
<b>Income from transactions</b>			
Output appropriations	4(a)	38,939,957	38,369,624
Special appropriations	4(b)	541,000	495,388
Sale of goods and services	4(c)	182,170	53,986
Fair value of services received free of charge or for nominal consideration	4(d)	35,000	35,000
<b>Total income from transactions</b>		<b>39,698,127</b>	<b>38,953,998</b>
<b>Expenses from transactions</b>			
Employee expenses	5(a)	23,237,974	21,714,491
Depreciation and amortisation	5(b)	765,437	752,978
Interest expense	5(c)	32,586	27,538
Capital asset charge		117,000	110,000
Fair value of services provided free of charge or for nominal consideration		75,060	120,651
Contract audit services		10,445,965	11,651,529
Rental expenses – accommodation		1,514,315	1,509,112
Recruitment and training		530,811	643,912
Other operating expenses	5(d)	2,358,221	2,458,908
<b>Total expenses from transactions</b>		<b>39,077,369</b>	<b>38,989,119</b>
<b>Net result from transactions (net operating balance)</b>		<b>620,758</b>	<b>(35,121)</b>
<b>Other economic flows included in net result</b>			
Net gain / (loss) on non-financial assets (i)	6(a)	(9,532)	8,945
Other gains / (losses) from other economic flows	6(b)	(74,673)	(14,212)
<b>Total other economic flows included in net result</b>		<b>(84,205)</b>	<b>(5,267)</b>
<b>Net result</b>		<b>536,553</b>	<b>(40,388)</b>
<b>Comprehensive result</b>		<b>536,553</b>	<b>(40,388)</b>

(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.

Review of  
our year

Our  
impact

Financial  
audit

Performance  
audit

Our  
organisation

Our  
people

Our financial  
management

Appendices

## Balance sheet

as at 30 June 2015

	Note	2014-15 \$	2013-14 \$
<b>Assets</b>			
<b>Financial assets</b>			
Cash	19(a)	900	900
Receivables	7	15,018,339	13,964,445
<b>Total financial assets</b>		<b>15,019,239</b>	<b>13,965,345</b>
<b>Non-financial assets</b>			
Property, plant and equipment	8	1,240,247	1,784,780
Intangible assets	9	51,218	98,347
Prepayments and accrued income	10	511,025	443,319
<b>Total non-financial assets</b>		<b>1,802,490</b>	<b>2,326,446</b>
<b>Total assets</b>		<b>16,821,729</b>	<b>16,291,791</b>
<b>Liabilities</b>			
Payables	11	1,639,635	2,190,542
Borrowings	12	196,916	242,662
Provisions	13	6,374,202	5,784,164
<b>Total liabilities</b>		<b>8,210,753</b>	<b>8,217,368</b>
<b>Net assets</b>		<b>8,610,976</b>	<b>8,074,423</b>
<b>Equity</b>			
Accumulated surplus		8,315,497	7,778,944
Contributed capital		295,479	295,479
<b>Net worth</b>		<b>8,610,976</b>	<b>8,074,423</b>
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

### STATEMENT OF CHANGES IN EQUITY for the financial year ended 30 June 2015

	Accumulated surplus \$	Contributed capital \$	TOTAL \$
<b>Balance at 1 July 2013</b>	<b>7,819,332</b>	<b>295,479</b>	<b>8,114,811</b>
Net result for the year	(40,388)	-	(40,388)
<b>Balance at 30 June 2014</b>	<b>7,778,944</b>	<b>295,479</b>	<b>8,074,423</b>
Net result for the year	536,553	-	536,553
<b>Balance at 30 June 2015</b>	<b>8,315,497</b>	<b>295,479</b>	<b>8,610,976</b>

*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 2015

	Note	2014-15 \$	2013-14 \$
<b>Cash flows from operating activities</b>			
<i>Receipts</i>			
Receipts from government		40,782,131	40,203,894
Receipts from other entities		182,170	53,986
<b>Total receipts</b>		<b>40,964,301</b>	<b>40,257,880</b>
<i>Payments</i>			
Payments to suppliers and employees		(39,796,591)	(38,950,519)
Goods and Services Tax paid to the ATO (i)		(808,981)	(566,898)
Capital asset charge payments		(117,000)	(110,000)
Interest paid		(12,676)	(8,355)
<b>Total payments</b>		<b>(40,735,248)</b>	<b>(39,635,772)</b>
<b>Net cash flows from / (used in) operating activities</b>	19(b)	<b>229,053</b>	<b>622,108</b>
<b>Cash flows from investing activities</b>			
Purchases of non-financial assets		(187,310)	(750,173)
Sales of non-financial assets		4,003	125,757
<b>Net cash flows from / (used in) investing activities</b>		<b>(183,307)</b>	<b>(624,416)</b>
<b>Cash flows from financing activities</b>			
Proceeds from finance leases		39,815	186,029
Repayment of finance leases		(85,561)	(183,721)
<b>Net cash flows from / (used in) financing activities</b>		<b>(45,746)</b>	<b>2,308</b>
<b>Net increase / (decrease) in cash held</b>		<b>-</b>	<b>-</b>
Cash at the beginning of the financial year		900	900
<b>Cash at the end of the financial year</b>	19(a)	<b>900</b>	<b>900</b>

(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 2015

### 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 2015. 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 7 August 2015.

#### (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.

## Note 1. Summary of significant accounting policies (continued)

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.

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).



## Note 1. Summary of significant accounting policies (continued)

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.

### (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.

'Other economic flows' are changes arising from market remeasurements. They include:

- gains and losses from disposals of non-financial assets;
- revaluations and impairments of non-financial physical and intangible assets; and
- revaluation of the long service leave liability.

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 noncurrent assets and liabilities are disclosed in the notes, where relevant. In general, non-current assets or liabilities are expected to be recovered or settled more than 12 months after the reporting period, except for the provisions of employee benefits, which are classified as current liabilities if VAGO does not have the unconditional right to defer the settlement of the liabilities within 12 months after the end of the reporting period.

#### **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.

## Note 1. Summary of significant accounting policies (continued)

### (f) 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.

##### *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.

## Note 1. Summary of significant accounting policies (continued)

### (g) 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(l) 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 its annual financial statements, discloses 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(k) 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 represents costs incurred in connection with borrowings. It includes interest components of finance lease repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

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

#### **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.

## Note 1. Summary of significant accounting policies (continued)

### *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.

### (h) **Other economic flows included in net result**

Other economic flows measure are changes in the 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 determined after deducting the proceeds from 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.

If there is an indication that there has been a reversal in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

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(k) 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.

#### **Other gains / (losses) from other economic flows**

Other gains / (losses) from other economic flows include the gains or losses from the revaluation of the present value of the long service leave liability due to changes in the bond interest rates.

## Note 1. Summary of significant accounting policies (continued)

### (i) 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).

### (j) 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.

### (k) Non-financial assets

#### **Property, plant and equipment**

All non-financial physical assets are initially measured at cost, and subsequently measured at fair value less accumulated depreciation and impairment.

The initial cost for non-financial physical assets under a finance lease (refer to Note 1(m)) is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

For the accounting policy on impairment of non-financial physical assets, refer to impairment of non-financial assets under Note 1(h) *Impairment of non-financial assets*.

More details about the valuation techniques and inputs used in determining the fair value of non-financial physical assets are discussed in Note 8 *Property, plant and equipment*.

#### **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.

### ***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.

### ***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.

## **Note 1. Summary of significant accounting policies (continued)**

### **(l) 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(m) *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.

## Note 1. Summary of significant accounting policies (continued)

### **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:

- nominal 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 should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- nominal 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(h)).

#### *(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 ending on the balance sheet date and payable within the next financial year, are classified as a current liability in the balance sheet.

### **Employee benefits on-costs**

Employee benefits on-costs such as payroll tax, workers' compensation and superannuation are recognised separately from the provision for employee benefits.

## Note 1. Summary of significant accounting policies (continued)

### ***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.

### **(m) 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.

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.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

In the event that lease incentives are received to enter into operating leases, the aggregate cost of incentives are recognised as a reduction of rental expense over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **(n) Equity**

#### ***Contributions by owners***

Consistent with the requirements of AASB 1004 *Contributions*, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of VAGO.

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.



## Note 1. Summary of significant accounting policies (continued)

### (o) 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.

### (p) 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.

### (q) 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(o) and Note 1(p)).

### (r) 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.

### (s) 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.

### (t) Australian Accounting Standards issued that are not yet effective

Certain new Australian Accounting Standards (AAS) have been published that are not mandatory for the 30 June 2015 reporting period. VAGO has assessed their applicability and potential for early adoption and has chosen not to early adopt these standards.

## Note 1. Summary of significant accounting policies (continued)

<i>Standard/Interpretation</i>	<i>Summary</i>	<i>Applicable for annual reporting periods beginning on</i>	<i>Impact on VAGO financial statements</i>
<i>AASB 15 Revenue from Contracts with Customers</i>	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1/01/2017  (Exposure Draft 263 – potential deferral to 1 Jan 2018)	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications.
<i>AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</i>  <i>[AASB 10, AASB 124 &amp; AASB 1049]</i>	The Amendments extend the scope of <i>AASB 124 Related Party Disclosures</i> to not-for-profit public sector entities. A guidance has been included to assist the application of the Standard by not-for-profit public sector entities.	1/01/2016	The amending standard will result in extended disclosures on VAGO's key management personnel (KMP), and the related party transactions.

## 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 audit of the financial statements, and in some cases other statements (such as performance statements), of public authorities, including departments and municipal councils, and to issue an audit opinion on whether the financial statements, and other statements where applicable, are fairly presented.

The main products from this output group are:

- a negative assurance report on the review of the General Government Sector's Estimated Financial Statements for inclusion in the State's annual budget papers presented to Parliament
- audit reports on the financial statements of public sector authorities and on the State's Annual Financial Report
- audit reports on performance and other statements prepared by local government, certain water bodies, and technical and further education institutes
- management letters issued to audited authorities conveying matters for improvement and other findings 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 legislative authority for the Treasurer to issue funding in accordance with the relevant parliamentary authority and must be signed by the Auditor-General and approved by the Governor.

Another product from this output group comprises the audit of acquittal statements for the receipt and expenditure of Commonwealth-funded activities or capital works. These audits are undertaken in accordance with the requirements of the relevant funding agreement.

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 2015

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
	\$	\$	\$	\$	\$	\$
<b>Income from transactions</b>						
Output appropriations	15,404,000	15,179,000	23,535,957	23,190,624	38,939,957	38,369,624
Special appropriations	276,938	179,885	264,062	315,503	541,000	495,388
Sale of goods and services	140,076	21,125	42,094	32,861	182,170	53,986
Fair value of services received free of charge or for nominal consideration	19,250	17,500	15,750	17,500	35,000	35,000
<b>Total income from transactions</b>	<b>15,840,264</b>	<b>15,397,510</b>	<b>23,857,863</b>	<b>23,556,488</b>	<b>39,698,127</b>	<b>38,953,998</b>
<b>Expenses from transactions</b>						
Employee expenses	12,718,120	11,417,974	10,519,854	10,296,517	23,237,974	21,714,491
Depreciation and amortisation	420,991	376,489	344,446	376,489	765,437	752,978
Interest expense	19,040	16,833	13,546	10,705	32,586	27,538
Capital asset charge	64,350	55,000	52,650	55,000	117,000	110,000
Fair value of services provided free of charge or for nominal consideration	75,060	84,124	-	36,527	75,060	120,651
Contract audit services	449,136	832,818	9,996,829	10,818,711	10,445,965	11,651,529
Rental expenses – accommodation	832,873	754,556	681,442	754,556	1,514,315	1,509,112
Recruitment and training	286,211	282,355	244,600	361,557	530,811	643,912
Other operating expenses	1,310,646	1,331,753	1,047,575	1,127,155	2,358,221	2,458,908
<b>Total expenses from transactions</b>	<b>16,176,427</b>	<b>15,151,902</b>	<b>22,900,942</b>	<b>23,837,217</b>	<b>39,077,369</b>	<b>38,989,119</b>
<b>Net result from transactions (net operating balance)</b>	<b>(336,163)</b>	<b>245,608</b>	<b>956,921</b>	<b>(280,729)</b>	<b>620,758</b>	<b>(35,121)</b>
<b>Other economic flows included in net result</b>						
Net gain / (loss) on non-financial assets	(5,243)	4,473	(4,289)	4,472	(9,532)	8,945
Other gains / (losses) from other economic flows	(39,776)	(7,627)	(34,897)	(6,585)	(74,673)	(14,212)
<b>Total other economic flows included in net result</b>	<b>(45,019)</b>	<b>(3,154)</b>	<b>(39,186)</b>	<b>(2,113)</b>	<b>(84,205)</b>	<b>(5,267)</b>
<b>Net result</b>	<b>(381,182)</b>	<b>242,454</b>	<b>917,735</b>	<b>(282,842)</b>	<b>536,553</b>	<b>(40,388)</b>
<b>Comprehensive result</b>	<b>(381,182)</b>	<b>242,454</b>	<b>917,735</b>	<b>(282,842)</b>	<b>536,553</b>	<b>(40,388)</b>

### Controlled assets and liabilities as at 30 June 2015

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Financial assets	6,221,246	5,427,591	8,797,993	8,537,754	15,019,239	13,965,345
Non-financial assets	746,625	904,167	1,055,865	1,422,279	1,802,490	2,326,446
<b>Total assets</b>	<b>6,967,871</b>	<b>6,331,758</b>	<b>9,853,858</b>	<b>9,960,033</b>	<b>16,821,729</b>	<b>16,291,791</b>
<b>Liabilities</b>						
<b>Total liabilities</b>	<b>3,401,045</b>	<b>3,193,656</b>	<b>4,809,708</b>	<b>5,023,712</b>	<b>8,210,753</b>	<b>8,217,368</b>
<b>Net assets</b>	<b>3,566,826</b>	<b>3,138,102</b>	<b>5,044,150</b>	<b>4,936,321</b>	<b>8,610,976</b>	<b>8,074,423</b>

### 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 (i)) in this

	2014-15 \$	2013-14 \$
<b>Administered income from transactions</b>		
Sales of services	23,535,957	23,190,624
Miscellaneous income	1,130	2,256
<b>Total administered income from transactions</b>	<b>23,537,087</b>	<b>23,192,880</b>
<b>Administered expenses from transactions</b>		
Payments into the Consolidated Fund	23,537,087	23,192,880
<b>Total administered expenses from transactions</b>	<b>23,537,087</b>	<b>23,192,880</b>
<b>Total administered net result from transactions (net operating balance)</b>	<b>-</b>	<b>-</b>
<b>Administered other economic flows included in administered net result</b>		
Net gain / (loss) on non-financial assets	-	-
<b>Total administered other economic flows</b>	<b>-</b>	<b>-</b>
<b>Administered net result</b>	<b>-</b>	<b>-</b>
<b>Total administered comprehensive result</b>	<b>-</b>	<b>-</b>
	2014-15 \$	2013-14 \$
<b>Administered financial assets</b>		
Receivables (i)	2,385,160	2,917,406
<b>Total administered financial assets</b>	<b>2,385,160</b>	<b>2,917,406</b>
<b>Administered non-financial assets</b>		
Work in progress	3,618,746	3,081,739
<b>Total administered non-financial assets</b>	<b>3,618,746</b>	<b>3,081,739</b>
<b>Total administered assets</b>	<b>6,003,906</b>	<b>5,999,145</b>
<b>Administered liabilities</b>		
Amounts owing to the state	6,003,906	5,999,145
<b>Total administered liabilities</b>	<b>6,003,906</b>	<b>5,999,145</b>
<b>Total administered net assets</b>	<b>-</b>	<b>-</b>
<i>(i) Receivables comprise debtors falling due as follows:</i>		
Current	2,182,089	2,902,006
Overdue between 30 to 60 days	192,071	0
Overdue beyond 60 days	11,000	15,400
	<b>2,385,160</b>	<b>2,917,406</b>

## Note 4. Income from transactions

	2014-15	2013-14
	\$	\$
<b>(a) Output appropriations (i)</b>		
Annual appropriation for the provision of outputs	15,404,000	15,179,000
Appropriation under s29 <i>FMA 1994</i>	23,535,957	23,190,624
<b>Total output appropriations</b>	<b>38,939,957</b>	38,369,624
<b>(b) Special appropriations (i)</b>		
Appropriation under s94A(6) of the <i>Constitution Act 1975</i>	541,000	495,388
<b>Total special appropriations</b>	<b>541,000</b>	495,388
<b>(c) Sale of goods and services</b>		
Sales of goods (ii)	33,963	39,356
Rendering of services (iii)	148,207	14,630
<b>Total sale of goods and services</b>	<b>182,170</b>	53,986
<b>(d) Fair value of services received free of charge or for nominal consideration</b>		
Services (iv)	35,000	35,000
<b>Total fair value of services received free of charge or for nominal consideration</b>	<b>35,000</b>	35,000

(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. The basis for cost recovery is determined by the terms of the various secondments.

(iv) This represents the cost of the external audit of VAGO. Refer to Note 23.

## Note 5. Expenses from transactions

	2014-15 \$	2013-14 \$
<b>(a) Employee expenses</b>		
Post employment benefits:		
Defined contribution superannuation expense	1,596,883	1,411,170
Defined benefit superannuation expense	138,647	177,718
	<u>1,735,530</u>	<u>1,588,888</u>
Termination benefits	222,448	542,690
Salaries, wages and long service leave	21,279,996	19,582,913
<b>Total employee expenses</b>	<u>23,237,974</u>	<u>21,714,491</u>
<b>(b) Depreciation and amortisation</b>		
Depreciation of non-current assets:		
Furniture and fittings	1,704	1,661
Computer software	62,222	68,951
Computer hardware	186,234	195,924
Office equipment	13,978	9,816
<b>Total depreciation of non-current assets</b>	<u>264,138</u>	<u>276,352</u>
Amortisation of non-current assets:		
Leasehold improvements	348,630	287,283
Intangible produced assets	81,157	124,192
Motor vehicles – leased	71,512	65,151
<b>Total amortisation of non-current assets</b>	<u>501,299</u>	<u>476,626</u>
<b>Total depreciation and amortisation</b>	<u>765,437</u>	<u>752,978</u>
<b>(c) Interest expense</b>		
Interest on finance leases	12,676	8,355
Unwinding of discount on make-good provision	19,910	19,183
<b>Total interest expense</b>	<u>32,586</u>	<u>27,538</u>
<b>(d) Other operating expenses</b>		
Information technology	612,773	616,885
Information management	250,508	354,675
Consultants	37,143	89,537
Legal expenses	14,589	42,011
Auditors' remuneration	35,000	35,000
Other office expenses	1,408,208	1,320,800
<b>Total other operating expenses</b>	<u>2,358,221</u>	<u>2,458,908</u>

## Note 6. Other economic flows included in net result

	2014-15 \$	2013-14 \$
<b>(a) Net gain / (loss) on non-financial assets</b>		
Net gain / (loss) on disposal of property, plant and equipment	(9,532)	8,945
<b>Total net gain / (loss) on non-financial assets</b>	<u>(9,532)</u>	<u>8,945</u>
<b>(b) Other gains / (losses) from other economic flows</b>		
Net gain / (loss) arising from revaluation of long service liability (i)	(74,673)	(14,212)
<b>Total other gains / (losses) from other economic flows</b>	<u>(74,673)</u>	<u>(14,212)</u>

(i) Revaluation gain / (loss) due to changes in bond rates.

## Note 7. Receivables

	2014-15 \$	2013-14 \$
<b>Current receivables</b>		
<b>Contractual</b>		
Other receivables (i)	54,292	45,397
	<u>54,292</u>	<u>45,397</u>
<b>Statutory</b>		
Amounts due from Victorian Government (ii) (iii)	6,987,644	6,736,051
<b>Total current receivables</b>	<u>7,041,936</u>	<u>6,781,448</u>
<b>Non-current receivables</b>		
<b>Statutory</b>		
Amounts due from Victorian Government (ii) (iii)	7,976,403	7,182,997
<b>Total non-current receivables</b>	<u>7,976,403</u>	<u>7,182,997</u>
<b>Total receivables</b>	<u>15,018,339</u>	<u>13,964,445</u>

- (i) Other receivables comprises recoup of expenses of production of reports, and a receivable relating to a WorkCover claim.
- (ii) The total amount recognised as being due from the Victorian Government was \$14,964,047 (2013-14: \$13,919,048) of which \$6,987,644 (2013-14: \$6,736,051) 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 2014-15 or the previous year 2013-14.



## Note 8. Property, plant and equipment

### (a) Carrying amounts (i)

	2014-15	2013-14
	\$	\$
<b>Class of asset (ii)</b>		
Leasehold improvements at fair value	625,667	974,297
Furniture and fittings at fair value	6,074	6,579
Computer software at fair value	58,100	120,322
Computer hardware at fair value	314,828	390,137
Office equipment at fair value	40,360	52,995
Motor vehicles – leased, at fair value	195,218	240,450
<b>Net carrying amount of property, plant and equipment</b>	<b>1,240,247</b>	<b>1,784,780</b>

- (i) *FRD103F 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

	2014-15	2013-14
	\$	\$
<b>Leasehold improvements at fair value</b>		
Gross carrying amount	2,390,458	2,390,458
Less: Accumulated amortisation	(1,764,791)	(1,416,161)
<b>Net carrying amount</b>	<b>625,667</b>	<b>974,297</b>
<b>Furniture and fittings at fair value</b>		
Gross carrying amount	108,208	107,008
Less: Accumulated depreciation	(102,134)	(100,429)
<b>Net carrying amount</b>	<b>6,074</b>	<b>6,579</b>
<b>Computer software at fair value</b>		
Gross carrying amount	266,722	266,721
Less: Accumulated depreciation	(208,622)	(146,399)
<b>Net carrying amount</b>	<b>58,100</b>	<b>120,322</b>
<b>Computer hardware at fair value</b>		
Gross carrying amount	1,619,764	1,508,839
Less: Accumulated depreciation	(1,304,936)	(1,118,702)
<b>Net carrying amount</b>	<b>314,828</b>	<b>390,137</b>
<b>Office equipment at fair value</b>		
Gross carrying amount	160,748	159,406
Less: Accumulated depreciation	(120,388)	(106,411)
<b>Net carrying amount</b>	<b>40,360</b>	<b>52,995</b>
<b>Motor vehicles – leased, at fair value</b>		
Gross carrying amount	322,353	316,623
Less: Accumulated amortisation	(127,135)	(76,173)
<b>Net carrying amount</b>	<b>195,218</b>	<b>240,450</b>
<b>Total net carrying amount</b>	<b>1,240,247</b>	<b>1,784,780</b>

## 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 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
Additions	-	1,199	-	110,925	1,343	39,815	153,282
Disposals	-	-	-	-	-	(13,535)	(13,535)
Depreciation / amortisation expense	(348,630)	(1,704)	(62,222)	(186,234)	(13,978)	(71,512)	(684,280)
<b>Balance at 30 June 2015</b>	<b>625,667</b>	<b>6,074</b>	<b>58,100</b>	<b>314,828</b>	<b>40,360</b>	<b>195,218</b>	<b>1,240,247</b>

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 2015

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.

### (e) Reconciliation of Level 3 fair value

	Property, plant and equipment	
	2014-15	2013-14
	\$	\$
<b>Balance at 1 July 2014</b>	<b>1,784,780</b>	1,813,339
Purchases	153,282	717,039
Sales	(13,535)	(116,812)
Gains or losses recognised in net result	-	-
Depreciations and amortisations	(684,280)	(628,786)
<b>Balance at 30 June 2015</b>	<b>1,240,247</b>	1,784,780

**Note 8. Property, plant and equipment (continued)**

**(f) Description of significant unobservable inputs to Level 3 valuations**

	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>	<i>Range (weighted average)</i>	<i>Sensitivity of fair value measurement to changes in significant unobservable inputs</i>
Leasehold improvements	Depreciated replacement cost	Depreciated replacement cost per unit	\$0–\$288 000 per unit (\$62 600)	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	Depreciated replacement cost per unit	\$0–\$45 000 per unit (\$600)	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 and (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

	2014-15 \$	2013-14 \$
<b>Intangible assets</b>		
At cost	1,663,824	1,629,796
Less: Accumulated amortisation	<u>(1,612,606)</u>	<u>(1,531,449)</u>
<b>Total intangible assets</b>	<u>51,218</u>	<u>98,347</u>

### (b) Movements in intangible assets

	Computer software \$	TOTAL \$
<b>Carrying amount</b>		
Balance at 1 July 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
Additions	<b>34,028</b>	<b>34,028</b>
Amortisation expense (i)	<b>(81,157)</b>	<b>(81,157)</b>
<b>Balance at 30 June 2015</b>	<u><b>51,218</b></u>	<u><b>51,218</b></u>

(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 and accrued income

	2014-15 \$	2013-14 \$
<b>Current prepayments and accrued income</b>		
Information management	24,081	23,065
Software and hardware maintenance contracts	191,460	159,180
Rental expense – accommodation	138,760	134,078
Recruitment and training	37,428	40,079
Insurance	-	25,896
Accrued income - salaries of secondees	63,900	-
Other	52,460	56,322
<b>Total current prepayments and accrued income</b>	<u>508,089</u>	<u>438,620</u>
<b>Non-current prepayments</b>		
Information management	871	-
Software and hardware maintenance contracts	2,065	4,699
<b>Total non-current prepayments</b>	<u>2,936</u>	<u>4,699</u>
<b>Total prepayments and accrued income</b>	<u>511,025</u>	<u>443,319</u>

## Note 11. Payables

	2014-15	2013-14
	\$	\$
<b>Current payables</b>		
<b>Contractual</b>		
Supplies and services (i)	937,472	1,628,291
Amounts payable to government and agencies (ii)	13,583	34,179
Other payables	305,367	188,606
	<u>1,256,422</u>	<u>1,851,076</u>
<b>Statutory</b>		
PAYG payable	191,519	184,634
FBT payable	89,257	7,882
GST payable	13,613	19,950
Payroll tax payable	88,824	127,000
<b>Total current payables</b>	<u>1,639,635</u>	<u>2,190,542</u>
<b>Total payables</b>	<u>1,639,635</u>	<u>2,190,542</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

	2014-15	2013-14
	\$	\$
<b>Current borrowings</b>		
Finance lease liabilities (i) (Note 15(a))	134,565	91,057
<b>Total current borrowings</b>	<u>134,565</u>	<u>91,057</u>
<b>Non-current borrowings</b>		
Finance lease liabilities (i) (Note 15(a))	62,351	151,605
<b>Total non-current borrowings</b>	<u>62,351</u>	<u>151,605</u>
<b>Total borrowings</b>	<u>196,916</u>	<u>242,662</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

	2014-15	2013-14
	\$	\$
<b>Current provisions</b>		
Employee benefits (i) (Note 13(a))		
Annual leave (Note 13(a)):		
– Unconditional and expected to settle within 12 months (ii)	1,153,243	1,051,272
– Unconditional and expected to settle after 12 months (iii)	380,789	325,951
Long service leave (Note 13(a)):		
– Unconditional and expected to settle within 12 months (ii)	313,742	320,780
– Unconditional and expected to settle after 12 months (iii)	2,365,016	1,950,495
Performance incentive entitlements (Note 13(a)):		
– Unconditional and expected to settle within 12 months (ii)	191,989	145,242
	<u>4,404,779</u>	<u>3,793,740</u>
Provisions for on-costs (Note 13(a) and Note 13(b)):		
– Unconditional and expected to settle within 12 months (ii)	225,935	199,954
– Unconditional and expected to settle after 12 months (iii)	426,680	350,128
	<u>652,615</u>	<u>550,082</u>
Lease contracts (iv) (Note 16)	156,050	110,630
<b>Total current provisions</b>	<u><b>5,213,444</b></u>	<u><b>4,454,452</b></u>
<b>Non-current provisions</b>		
Employee benefits: (i) (Note 13(a)) – long service leave	408,593	433,869
On-costs (Note 13(a) and Note 13(b)):	63,613	67,536
Lease contracts (iv) (Note 13(b) and Note 16)	143,299	302,964
Make-good provision (v) (Note 13(b))	545,253	525,343
<b>Total non-current provisions</b>	<u><b>1,160,758</b></u>	<u><b>1,329,712</b></u>
<b>Total provisions</b>	<u><b>6,374,202</b></u>	<u><b>5,784,164</b></u>

### (a) Employee benefits and on-costs (i)

	2014-15	2013-14
	\$	\$
<b>Current employee benefits</b>		
Annual leave entitlements	1,534,032	1,377,223
Long service leave entitlements	2,678,758	2,271,275
Performance incentive entitlements	191,989	145,242
	<u>4,404,779</u>	<u>3,793,740</u>
<b>Non-current employee benefits</b>		
Long service leave entitlements	408,593	433,869
<b>Total employee benefits</b>	<u><b>4,813,372</b></u>	<u><b>4,227,609</b></u>
<b>On-costs</b>		
Current on-costs	652,615	550,082
Non-current on-costs	63,613	67,536
<b>Total on-costs</b>	<u><b>716,228</b></u>	<u><b>617,618</b></u>
<b>Total employee benefits and on-costs</b>	<u><b>5,529,600</b></u>	<u><b>4,845,227</b></u>

- (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 (2013-14: 4.44%) and discount rate of 3.03% (2013-14: 3.69%), 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
	2014-15	2014-15	2014-15	2014-15
	\$	\$	\$	\$
<b>Opening balance</b>	617,618	413,594	525,343	1,556,555
Additional provisions recognised	98,610	-	19,910	118,520
Provisions released	-	(114,245)	-	(114,245)
<b>Closing balance</b>	<b>716,228</b>	<b>299,349</b>	<b>545,253</b>	<b>1,560,830</b>
Current	652,615	156,050	-	808,665
Non-current	63,613	143,299	545,253	752,165
	<b>716,228</b>	<b>299,349</b>	<b>545,253</b>	<b>1,560,830</b>

## 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	
	2014-15	2013-14	2014-15	2013-14
	\$	\$	\$	\$
<b>Defined benefit plans (i):</b>				
State Superannuation Fund – revised and new	139,157	177,316	1,382	1,892
<b>Defined contribution plans:</b>				
VicSuper	1,097,144	1,007,397	8,810	5,561
Other	539,851	441,579	4,443	2,615
<b>Total</b>	<b>1,776,152</b>	<b>1,626,292</b>	<b>14,635</b>	<b>10,068</b>

(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	
	2014-15 \$	2013-14 \$	2014-15 \$	2013-14 \$
<b>Finance lease liabilities payable</b>				
Not longer than one year	140,089	101,485	137,025	98,654
Longer than one year and not longer than five years	64,087	156,637	59,487	143,980
Longer than five years	-	-	-	-
<b>Minimum future lease payments</b>	<b>204,176</b>	<b>258,122</b>	<b>196,512</b>	<b>242,634</b>
Less future finance charges	(7,260)	(15,460)	-	-
<b>Present value of minimum lease payments</b>	<b>196,916</b>	<b>242,662</b>	<b>196,512</b>	<b>242,634</b>
<b>Included in the financial statements as:</b>				
Current borrowings lease liabilities (Note 12)	134,565	91,057		
Non-current borrowings lease liabilities (Note 12)	62,351	151,605		
<b>Total interest-bearing liabilities</b>	<b>196,916</b>	<b>242,662</b>		

(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:

	2014-15	2013-14
	\$	\$
<b>Commitments payable (i)</b>		
<b>Non-cancellable operating lease payables (ii)</b>		
Not longer than one year	1,850,252	1,784,257
Longer than one year and not longer than five years	1,423,870	3,265,762
Longer than five years	-	-
<b>Total</b>	<b>3,274,122</b>	<b>5,050,019</b>
<b>Contract audit commitments</b>		
Not longer than one year	10,147,805	3,809,150
Longer than one year and not longer than five years	2,922,140	2,821,253
Longer than five years	-	-
<b>Total contract audit commitments</b>	<b>13,069,945</b>	<b>6,630,403</b>
<b>Novated lease commitments</b>		
Not longer than one year	51,453	52,695
Longer than one year and not longer than five years	66,640	77,922
Longer than five years	-	-
<b>Total novated lease commitments</b>	<b>118,093</b>	<b>130,617</b>
<b>Total commitments for expenditure (inclusive of GST)</b>	<b>16,462,160</b>	<b>11,811,039</b>
Less GST recoverable from the Australian Taxation Office	<b>(1,488,987)</b>	<b>(1,670,080)</b>
<b>Total commitments for expenditure (exclusive of GST)</b>	<b>14,973,173</b>	<b>10,140,959</b>

(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**

	2014-15 \$	2013-14 \$
<b>Contractual financial assets - loans and receivables</b>		
Cash	900	900
Receivables: (i)		
Other receivables	54,292	45,397
<b>Total contractual financial assets</b>	<b>55,192</b>	<b>46,297</b>
<b>Contractual financial liabilities at amortised cost</b>		
Payables: (i)		
Supplies and services	937,472	1,628,291
Amounts payable to government and agencies	13,583	34,179
Other payables	305,367	188,606
Borrowings:		
Finance lease liabilities	196,916	242,662
<b>Total contractual financial liabilities</b>	<b>1,453,338</b>	<b>2,093,738</b>

(i) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government (2014-15: \$14,964,047, 2013-14: \$13,919,048) and taxes payable (2014-15: \$383,213, 2013-14: \$339,466)). 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

	2014-15	2013-14
	\$	\$
<b>Contractual financial liabilities</b>		
Financial liabilities at amortised cost:		
Interest on finance leases	(12,676)	(8,355)
<b>Total contractual financial liabilities</b>	<b>(12,676)</b>	<b>(8,355)</b>

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
	\$	\$	\$	\$	\$	\$
<b>2014-15</b>						
<b>Receivables (i):</b>						
Other receivables	54,292	54,292	-	-	-	-
<b>Total</b>	<b>54,292</b>	<b>54,292</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2013-14</b>						
<b>Receivables (i):</b>						
Other receivables	45,397	45,397	-	-	-	-
<b>Total</b>	<b>45,397</b>	<b>45,397</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(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 amount 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
<b>2014-15</b>						
<b>Payables (ii):</b>						
Supplies and services	937,472	937,472	937,472	-	-	-
Amounts payable to government and agencies	13,583	13,583	13,583	-	-	-
Other payables	305,367	305,367	305,367	-	-	-
<b>Borrowings:</b>						
Finance lease liabilities	196,916	204,176	19,550	37,534	83,005	64,087
	<b>1,453,338</b>	<b>1,460,598</b>	<b>1,275,972</b>	<b>37,534</b>	<b>83,005</b>	<b>64,087</b>
<b>2013-14</b>						
<b>Payables (ii):</b>						
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	-	-	-
<b>Borrowings:</b>						
Finance lease liabilities	242,662	258,122	6,921	25,766	68,798	156,637
	<b>2,093,738</b>	<b>2,109,198</b>	<b>1,857,997</b>	<b>25,766</b>	<b>68,798</b>	<b>156,637</b>

(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
<b>2014-15</b>					
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash	-	900	-	-	900
Receivables (i):					
Other receivables	-	54,292	-	-	54,292
<b>Total financial assets</b>		<b>55,192</b>	<b>-</b>	<b>-</b>	<b>55,192</b>
<b>Financial liabilities</b>					
Payables (i):					
Supplies and services	-	937,472	-	-	937,472
Amounts payable to government and agencies	-	13,583	-	-	13,583
Other payables	-	305,367	-	-	305,367
Borrowings:					
Finance lease liabilities	5.10%	196,916	196,916	-	-
<b>Total financial liabilities</b>		<b>1,453,338</b>	<b>196,916</b>	<b>-</b>	<b>1,256,422</b>
<b>2013-14</b>					
<b>Financial assets</b>					
Cash	-	900	-	-	900
Receivables (i):					
Other receivables	-	45,397	-	-	45,397
<b>Total financial assets</b>		<b>46,297</b>	<b>-</b>	<b>-</b>	<b>46,297</b>
<b>Financial liabilities</b>					
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	-	-
<b>Total financial liabilities</b>		<b>2,093,738</b>	<b>242,662</b>	<b>-</b>	<b>1,851,076</b>

(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

	2014-15	2013-14
	\$	\$
Total cash disclosed in the balance sheet (i)	900	900
<b>Balance as per cash flow statement</b>	<b>900</b>	<b>900</b>

(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 2015, cash at bank included the amount of a notional shortfall for the payment of unrepresented cheques of \$44 (30 June 2014: \$4,462).

### (b) Reconciliation of net result for the period

	2014-15	2013-14
	\$	\$
<b>Net result for the period</b>	<b>536,553</b>	<b>(40,388)</b>
<b>Non-cash movements:</b>		
(Gain) / loss on disposal of non-current assets	9,532	(8,945)
Depreciation and amortisation of non-current assets	765,437	752,978
<b>Movements in assets and liabilities:</b>		
(Increase) / decrease in receivables	(1,053,894)	(1,035,063)
(Increase) / decrease in prepayments	(67,706)	71,807
Increase / (decrease) in payables	(550,907)	733,900
Increase / (decrease) in provisions	590,038	147,819
<b>Net cash flows from / (used in) operating activities</b>	<b>229,053</b>	<b>622,108</b>

**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		Variance		
	Advance from Treasurer		Section 3(2)		Section 29		Parliamentary authority		Appropriations applied		
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	
<b>Controlled</b>											
Provision for outputs (i) (ii)	15,404,000	15,179,000	-	-	23,535,957	23,190,624	38,939,957	38,369,624	38,939,957	38,369,624	-
Additions to net assets	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>15,404,000</b>	<b>15,179,000</b>	<b>-</b>	<b>-</b>	<b>23,535,957</b>	<b>23,190,624</b>	<b>38,939,957</b>	<b>38,369,624</b>	<b>38,939,957</b>	<b>38,369,624</b>	<b>-</b>

See Note 2 for the break-up of annual appropriation by output group.

**Parliamentary appropriations**

	2014-15	2013-14
	\$	\$

**Appropriation Act**

Annual appropriation (i)	15,404,000	15,179,000
	<u>15,404,000</u>	<u>15,179,000</u>

**Financial Management Act 1994**

Section 29 – estimate (ii)	23,400,000	23,400,000
Plus: variance from estimate	135,957	(209,376)
	<u>23,535,957</u>	<u>23,190,624</u>

**Total Parliamentary Authority**

Appropriations applied	38,939,957	38,369,624
Variance	-	-

(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)).  
 (ii) \$42,304 of the section 29 Appropriation drawn down in 2014-15 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	
		2014-15	2013-14
		\$	\$
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with the Auditor-General (i) (ii)	<b>541,000</b>	495,388

(i) In 2014-15, the total costs associated with the Auditor-General were \$583,304. VAGO applied \$42,304 of the costs against its section 29 appropriation for the provision of outputs. This was due to the requirement to provide for a Fringe Benefits Tax event, which was not foreseen at the time of finalising the original warrant for special appropriation.

(ii) In 2013-14, 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 2014 to 30 June 2015)
- P Frost (Acting, for 75 days during the period 1 July 2014 to 30 June 2015)

**(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:

\$510,000 – \$519,999 (2013-14 \$500,000 – \$509,999)

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.

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## 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	
	2014-15 No.	2013-14 No.	2014-15 No.	2013-14 No.
\$70,000 to \$79,999	-	-	1	-
\$100,000 to \$109,999	-	-	-	2
\$110,000 to \$119,999	-	2	-	-
\$120,000 to \$129,999	-	-	1	-
\$130,000 to \$139,999	1	-	2	-
\$140,000 to \$149,999	1	-	-	1
\$150,000 to \$159,999	3	3	6	3
\$160,000 to \$169,999	4	2	1	5
\$170,000 to \$179,999	3	6	6	6
\$180,000 to \$189,999	6	4	1	-
\$210,000 to \$219,999	-	-	2	-
\$220,000 to \$229,999	2	-	2	1
\$230,000 to \$239,999	2	1	1	-
\$240,000 to \$249,999	1	-	-	-
\$250,000 to \$259,999	-	-	1	1
\$370,000 to \$379,999	-	-	-	1
\$380,000 to \$389,999	-	1	-	-
\$410,000 to \$419,999	1	-	-	-
\$420,000 to \$429,999	-	-	1	-
\$430,000 to \$439,999	1	-	-	-
\$630,000 to \$639,999 (i)	-	1	-	-
<b>Total numbers</b>	<b>25</b>	<b>20</b>	<b>25</b>	<b>20</b>
<b>Total annualised employee equivalents (ii)</b>	<b>24.4</b>	<b>19.4</b>	<b>24.4</b>	<b>19.4</b>
<b>Total amount</b>	<b>\$ 5,079,869</b>	<b>\$ 4,080,744</b>	<b>\$ 4,610,098</b>	<b>\$ 3,550,281</b>

### 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 was 1 executive officer 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. This officer was on secondment, and their total remuneration was \$8,358. In 2013-14, there were 6 executive officers whose total remuneration was less than \$100,000 (1 maternity leave, 4 appointments part way through the year, 1 on secondment). The total remuneration of those executive officers was \$295,998.

(i) In 2013-14, 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 Melbourne Audit & Assurance

	2014-15	2013-14
	\$	\$
Audit of the financial statements of VAGO	<b>35,000</b>	35,000

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 Melbourne Audit & Assurance (formerly known as PKF Lawler) was appointed to this position in 2012.

PKF Melbourne Audit & Assurance 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'.

## **Note 25. Glossary of terms and style conventions (continued)**

### **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.

### **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) balance sheet as at the end of the period;
- (b) comprehensive operating statement for the period;
- (c) a statement of changes in equity for the period;
- (d) cash flow statement 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 paragraph 41 of AASB 101.

## Note 25. Glossary of terms and style conventions (continued)

### 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.

### 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, taxes and interest payable.

### Produced assets

Produced assets include plant and equipment and certain intangible assets. Intangible produced assets include computer software.

## **Note 25. Glossary of terms and style conventions (continued)**

### **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.

### **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 2014–15 *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.

# Appendices

## Appendix one

### Audit reports tabled in Parliament in 2014–15

Tabling date	Number	Report title
6 August 2014	2014–15:1	<i>Technical and Further Education Institutes: Results of the 2013 Audits</i>
6 August 2014	2014–15:2	<i>Coordinating Public Transport</i>
20 August 2014	2014–15:3	<i>Managing the Environmental Impacts of Transport</i>
20 August 2014	2014–15:4	<i>Access to Legal Aid</i>
3 September 2014	2014–15:5	<i>Managing Landfills</i>
17 September 2014	2014–15:6	<i>Management and Oversight of the Caulfield Racecourse Reserve</i>
17 September 2014	2014–15:7	<i>Effectiveness of Catchment Management Authorities</i>
14 October 2014	2014–15:8	<i>Heatwave Management: Reducing the Risk to Public Health</i>
14 October 2014	2014–15:9	<i>Emergency Response ICT Systems</i>
15 October 2014	2014–15:10	<i>Public Sector Performance Measurement and Reporting</i>
15 October 2014	2014–15:11	<i>Mental Health Strategies for the Justice System</i>
15 October 2014	2014–15:12	<i>Information and Communications Technology Controls Report 2013–14</i>
16 October 2014	2014–15:13	<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14</i>
11 February 2015	2014–15:14	<i>Additional School Costs for Families</i>
11 February 2015	2014–15:15	<i>Responses to 2012–13 Performance Audit Recommendations</i>
12 February 2015	2014–15:16	<i>Water Entities: Results of the 2013–14 Audits</i>
12 February 2015	2014–15:17	<i>Portfolio Departments and Associated Entities: Results of the 2013–14 Audits</i>
25 February 2015	2014–15:18	<i>Public Hospitals: Results of the 2013–14 Audits</i>
25 February 2015	2014–15:19	<i>Efficiency and Effectiveness of Hospital Services: High-value Equipment</i>
26 February 2015	2014–15:20	<i>Effectiveness of Support for Local Government</i>
26 February 2015	2014–15:21	<i>Local Government: Results of the 2013–14 Audits</i>
18 March 2015	2014–15:22	<i>Managing Regulator Performance in the Health Portfolio</i>
18 March 2015	2014–15:23	<i>Education Transitions</i>
19 March 2015	2014–15:24	<i>Emergency Service Response Times</i>
15 April 2015	2014–15:25	<i>Digital Dashboard: Status Review of ICT Projects and Initiatives</i>
15 April 2015	2014–15:26	<i>Palliative Care</i>
6 May 2015	2014–15:27	<i>Tendering of Metropolitan Bus Contracts</i>
6 May 2015	2014–15:28	<i>Occupational Violence Against Healthcare Workers</i>
27 May 2015	2014–15:29	<i>Early Intervention Services for Vulnerable Children and Families</i>
27 May 2015	2014–15:30	<i>Universities: 2014 Audit Snapshot</i>
28 May 2015	2014–15:31	<i>Technical and Further Education Institutes: 2014 Audit Snapshot</i>
28 May 2015	2014–15:32	<i>Victoria's Consumer Protection Framework for Building Construction</i>
10 June 2015	2014–15:33	<i>Operational Effectiveness of the myki Ticketing System</i>
10 June 2015	2014–15:34	<i>Delivering Services to Citizens and Consumers via Devices of Personal Choice: Phase 1 – Interim Report</i>

Review of  
our year

Our  
impact

Financial  
audit

Performance  
audit

Our  
organisation

Our  
people

Our financial  
management

Appendices

# Appendix two

## External engagements in 2014–15

### Presentations by the Auditor-General and senior staff in 2014–15

Date	Presentation to	Topic
19 August 2014	Foundation for Alcohol Research and Education – Book Launch	Stemming the tide of alcohol: Liquor licensing and the public interest
29 August 2014	University of Melbourne	Oversight of the public sector: explosion or erosion?
8 October 2014	CBS-Sauder-Monash Public Private Partnerships Conference	Public Private Partnerships
9 September 2014	Australian and New Zealand School of Government	Responding to changing times – an audit perspective
10 September 2014	Health Services CEO Forum	Health sector: audit perspective
16 September 2014	Institute of Public Administration Australia	Integrity in the Public Sector
18 September 2014	Governance Institute	Lessons from recent audits
1 September 2014	La Trobe University	Performance audit in the Victorian public health system
22 September 2014	Monash University	Legislative audit
8 October 2014	CBS-Sauder-Monash Public Private Partnerships Conference	Public Private Partnerships
23 October 2014	Municipal Association of Victoria	Defining performance – an audit perspective
30 October 2014	Institute of Public Administration Australia & Australian and New Zealand School of Government	Better Regulation, Better Regulators: Reform challenges and opportunities
14 November 2014	Australian Financial Review's Higher Education Reform Summit	Sustainability challenges for universities: lessons from public sector audit
20 November 2014	Performance Audit Client Forum	Responses to 2012–13 performance audit recommendations and the follow-up program
4 December 2014	CEDA Lunch – Infrastructure and Major Projects	Infrastructure planning and delivery – an audit perspective
	ACCA International Public Sector Conference	Holding government to account
14 January 2015	Emergency Services Telecommunications Authority	The role of VAGO audits in driving performance
21 January 2015	Grattan Institute	Victorian Auditor-General's Office and key issues for 2015
23 January 2015	Glen Eira Australia Day Breakfast	Victorian public sector audit and citizen participation
7 February 2015	Australian and New Zealand School of Government Ministerial Staff Training	Victorian Auditor-General's Office
10 February 2015	Members of Parliament joint information session	Safeguarding integrity
23 February 2015	VicWater Audit and Risk Committee Workshop	Challenges for the water industry – an audit perspective
26 February 2015	FinPro – Local Government Finance Professionals	Asset Accounting



Date	Presentation to	Topic
16 March 2015	Melbourne University School of Governance	Monitoring and Evaluation – performance audit perspective
8 April 2015	Department of Environment, Land, Water and Planning CFO Forum	2014–15 Audit focus
15 April 2015	6th Annual Victorian Major Projects Conference	Scrutiny of major infrastructure projects
16 April 2015	Metropolitan Mayors, MAV representatives and CEOs	Local Government: Integrity bodies working together panel
23 April 2015	Australian Academy of Technological Sciences and Engineering	Infrastructure planning and delivery
24 April 2015	University of Melbourne	Oversight of the public sector: explosion or erosion?
15 May 2015	La Trobe University	Occupational Violence, Bullying and Harassment
29 May 2015	VicWater Finance Conference	Leading into year-end 2014–15
17 June 2015	International Association of Public Participation – Victorian Network	Public Participation in Government Decision-making Better Practice Guide
3 June 2015	Ombudsman Victoria's Diploma of Government Services (Investigation) course	Planning and investigation – an audit perspective
24 June 2015	Institute of Public Administration Australia Public Sector Week	Hypothetical debate

## International delegations to VAGO in 2014–15

Date	Organisation	Purpose, interest or theme of visit
24 September 2014	Executive Yuan, the Republic of China (Taiwan)	Internal Controls (internal audit) Mechanism in Victorian Government
12 November 2014	Hubei Provincial Audit Office	Performance auditing processes, cost control, application of auditing techniques and risk aversion
18 November 2014	Ugandan Ministry of Finance	Financial reporting, frameworks and performance measurement

## International secondments in 2014–15

Date	Organisation	Purpose, interest or theme of visit
March to 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*.

The most recent audit was conducted by Andrew Nicolaou, Lead Partner – Victorian Government, PricewaterhouseCoopers (PwC) in 2013 and the report on the Performance Audit of Victorian Auditor-General and Victorian Auditor-General's Office was tabled by PwC on 27 November 2013.

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 was required to determine exactly how the recommendation could be implemented. A number of the recommendations reflected the current practice of the office or work that VAGO has already identified and was working on. Some recommendations such as taking more financial audits in-house required further investigation to determine the optimal balance and this was indicated in our response to those recommendations.

There are also recommendations which we 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*.

As well as the twice-yearly formal report of progress to the Auditor-General against the recommendations through the continuous improvement register, in June 2015 VAGO's internal auditors reviewed the status of VAGO's actions.

The internal audit review considered all recommendations and assessed four of the eight strategic recommendations as complete and 27 of the 31 operational recommendations as complete.

Three recommendations which were previously considered to have been completed were classified as in progress. For two of the recommendations the change in status reflects the decision to undertake a detailed look at the rationale behind and the effectiveness of current performance audit processes. The change for the third recommendation reflects the decision to further update the policies and tools on sampling in financial audit.

The table below summarises the recommendations, provides the VAGO response to the recommendation and the internal audit assessment of status of the implementation, as at 30 June 2015. Comments have been made where a status has moved from 'complete' to 'in progress' since the last report.

Recommendation	VAGO response – all recommendations accepted	Current status
<b>Strategic recommendations</b>		
<p><b>Model for delivery of Financial Audits</b>            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.</p>	<p>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.</p>	In progress
<p><b>VAGO Internal resourcing model</b>            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.</p>	<p>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.</p>	Completed
<p><b>Funding Implications</b>            VAGO should undertake a comprehensive review of the current funding model to consider the most appropriate funding model required for the implementation of all or components of the recommendations in Issues 2.1 and 2.2.</p>	<p>VAGO will review funding models including consideration of a fully appropriated model.</p>	<p>In progress due June 2016  <i>(Comment:</i> The status of this recommendation remains 'in progress' and a further submission on changes to the funding model will be made when there have been changes to the <i>Audit Act 1994</i>. The completion of this recommendation is not completely within VAGO's control.)</p>
<p><b>Performance audit methodology</b>            Enhancement to detailed scoping and planning activities.</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. Increased onsite presence of sector directors during the conduct phase of audit will be considered.</p>	<p>In progress            Due June 2016  <i>(Comment:</i> The status of this has changed from 'complete' in the last report to 'in progress'. This reflects the decision by VAGO to undertake a detailed look at the rationale behind and the effectiveness of current audit processes.)</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>		

Recommendation	VAGO response – all recommendations accepted	Current status
<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> <hr/> <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>		
<p><b>Performance Audit reporting</b> 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> <hr/> <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>	<p>Completed</p>
<p><b>Follow up reviews</b> 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 <i>Audit Act 1994</i> identified in recommendation 2.5.</p>	<p>Completed</p>
<p><b>Stakeholder engagement</b> Consider further strategies and initiatives to improve stakeholder engagement and minimise the perception of adversarial interactions.</p>	<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.</p>	<p>In progress due Sept 2015 (<b>Comment:</b> The status of this recommendation will remain 'in progress' until all sector engagement plans are finalised.)</p>

Recommendation	VAGO response – all recommendations accepted	Current status
<b>Technology capability</b> 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.	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
<b>Operational recommendations</b>		
<b>VAGO governance and planning</b>		
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 it's 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
<b>Accepted recommendations from 2010 Performance Audit</b>		
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
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

Recommendation	VAGO response – all recommendations accepted	Current status
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.	Completed
<b>Not accepted recommendation from 2010 Performance Audit</b>		
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.	Completed
<b>Human resources management</b>		
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.	Completed
<b>Monitoring and measuring performance effectiveness</b>		
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

Recommendation	VAGO response – all recommendations accepted	Current status
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 September 2015
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
<b>Conduct and management of Financial Audits</b>		
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. The training will supplement the group’s established technical training program.	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.		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.
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
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.	Refer to responses above regarding sampling policy and tools (IPSAM).	In progress ( <b>Comment:</b> The status of this has changed from 'Complete' in the last report to 'In progress'. The case study intensive was held in 2014, the policy and guidance undergoing further updating and will be applicable for all VAGO financial audits from December 2015.)
<b>Efficiency opportunities (not clear if recommendations or not)</b>		
The work of internal auditors to be used more effectively to optimise VAGO resource use where appropriate.	VAGO assesses the work of internal auditors in all financial audits and whether that work adequately addresses audit risks, is sound, and its use is cost-effective, and relies upon that work in order to optimise use of VAGO resources.	Completed
Identify audit risks and responses more clearly to ensure audit resources are optimised. Greater use of templates to guide audit teams in documenting audit work more efficiently.	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.	Completed
<b>Conduct and management of Performance Audits</b>		
Clearer identification of risk, materiality and complexity within AmP of each Performance Audit.	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.	Complete
Ensure supporting documentation for monitoring of budget captured on the AmP file to enable review of budget outcomes.	VAGO will continue to monitor how managers are reporting program against budget in milestone briefs.	Completed
Provide guidance on documentation to be included in the issues paper section, to enable linkage of the final report to the issues paper section.	VAGO will consider how better linkages between issues papers and the final report can be achieved.	Completed



Recommendation	VAGO response – all recommendations accepted	Current status
<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 reports 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 June 2016  <b>(Comment:</b> The status of this has changed from 'Complete' in the last report to 'In progress'. This reflects the decision by VAGO to undertake a detailed look at the rationale behind and the effectiveness of current audit processes.)</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>	<p>Completed</p>
<p>Significant delays in the delivery of an audit should be formally communicated to relevant external stakeholders 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>	<p>Completed</p>

# Appendix four

## Employee profile by gender, age and classification<sup>(a)(b)</sup>

	2014–15						2013–14					
	Headcount			FTE			Headcount			FTE		
	O <sup>(c)</sup>	F/C <sup>(d)</sup>	Total	O <sup>(c)</sup>	F/C <sup>(d)</sup>	Total	O <sup>(c)</sup>	F/C <sup>(d)</sup>	Total	O <sup>(c)</sup>	F/C <sup>(d)</sup>	Total
<b>Overall</b>	163	21	184	156.0	20.6	176.6	168	17	185	160.4	17.0	177.4
<b>Gender</b>												
Male	72	10	82	71.0	10.0	81.0	74	6	80	72.8	6.0	78.8
Female	91	11	102	85.0	10.6	95.6	94	11	105	87.6	11.0	98.6
<b>Age</b>												
Under 25	6	2	8	6.0	2.0	8.0	9	1	10	9.0	1.0	10.0
25–34	59	8	67	58.0	8.0	66.0	60	8	68	58.2	8.0	66.2
35–44	51	7	58	46.5	6.6	53.1	52	5	57	47.9	5.0	52.9
45–54	32	2	34	30.9	2.0	32.9	28	2	30	26.9	2.0	28.9
55–64	14	2	16	13.6	2.0	15.6	18	0	18	17.4	0.0	17.4
Over 64	1	0	1	1.0	0.0	1.0	1	1	2	1.0	1.0	2.0
<b>Classification</b>												
VPSG2	11	3	14	11.0	3.0	14.0	7	1	8	7.0	1.0	8.0
VPSG3	33	4	37	32.4	3.6	36.0	34	5	39	33.2	5.0	38.2
VPSG4	34	1	35	32.8	1.0	33.8	32	2	34	31.0	2.0	33.0
VPSG5	24	8	32	22.0	8.0	30.0	29	5	34	26.8	5.0	31.8
VPSG6	33	4	37	30.4	4.0	34.4	35	3	38	32.2	3.0	35.2
VPSG7 <sup>(e)</sup>	3	0	3	2.6	0.0	2.6	5	1	6	4.6	1.0	5.6
<b>Executive</b>	24	1	25	23.8	1.0	24.8	25	0	25	24.6	0.0	24.6
<b>Auditor-General</b>	1	0	1	1.0	0.0	1.0	1	0	1	1.0	0.0	1.0

(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 2015.

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

(e) The VPSG7 (also known as Senior Technical Specialist) roles at VAGO comprise one specialist senior auditing role one specialist senior accounting role, one senior business management role.

# Appendix five

## 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
<b>Ministerial directions</b>		
<b>Report of operations—FRD guidance</b>		
<b>Charter and purpose</b>		
FRD 22F	Manner of establishment and the relevant Minister	8
FRD 22F	Objectives, functions, powers and duties	8
FRD 22F	Initiatives and key achievements	2–3
FRD 22F	Nature and range of services provided	8
<b>Management and structure</b>		
FRD 22F	Organisational structure	43
<b>Financial and other information</b>		
FRD 8C, SD 4.2(k)	Performance against output performance measures	10
FRD 8C	Budget portfolio outcomes	140
FRD 10	Disclosure index	137
FRD 15B	Executive officer disclosures	65
FRD 22F	Employment and conduct principles	68
FRD 22F	Occupational health and safety policy	69
FRD 22F	Summary of the financial results for the year	73
FRD 22F	Significant changes in financial position during the year	74
FRD 22F	Major changes or factors affecting performance	74
FRD 22F	Subsequent events	121
FRD 22F	Application and operation of <i>Freedom of Information Act 1982</i>	54
FRD 22F	Compliance with building and maintenance provisions of <i>Building Act 1993</i>	53
FRD 22F	Statement on National Competition Policy	54
FRD 22F	Application and operation of the <i>Protected Disclosure Act 2012</i>	55
FRD 22F	Details of consultancies over \$10 000	76
FRD 22F	Details of consultancies under \$10 000	76–77
FRD 22F	Statement of availability of other information	141
FRD 24C	Reporting of office-based environmental impacts	55
FRD 25B	Victorian Industry Participation Policy disclosures	55
FRD 29A	Workforce data disclosures – Public Sector Employees	65, 136, 142
SD 4.5.5	Risk management compliance attestation	46
SD 4.5.5.1	Ministerial Standing Direction 4.5.5.1 compliance attestation	47
SD 4.2(g)	Specific information requirements	1–77
SD 4.2(j)	Sign-off requirements	Inside cover

Legislation	Requirement	Page
<b>Financial report</b>		
<b><i>Financial statements required under Part 7 of the Financial Management Act 1994</i></b>		
SD4.2(b)	Statement of changes in equity	83
SD4.2(b)	Operating statement	81
SD4.2(b)	Balance sheet	82
SD4.2(b)	Cash flow statement	84
<b><i>Other requirements under Standing Directions 4.2</i></b>		
SD4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	85
SD4.2(c)	Compliance with Ministerial Directions	79
SD4.2(c)	Accountable officer's and chief financial and accounting officer's declaration	79
SD4.2(d)	Rounding of amounts	87
SD4.2(f)	Compliance with Model Financial Report	76
<b><i>Other disclosures as required by FRDs in notes to the financial statements</i></b>		
FRD 9A	Disclosure of administered assets and liabilities	99
FRD 13	Disclosure of Parliamentary appropriations	118
FRD 21B	Disclosures of responsible persons, executive officers and other personnel (contractors with significant management responsibilities) in the financial report	119–120
FRD 103E	Non-current physical assets (pending revision)	103
FRD104	Foreign currency	95
FRD 106	Impairment of assets	90
FRD 109	Intangible assets	92
FRD 110	Cash flow statements	84
FRD 112D	Defined benefit superannuation obligations	89
FRD 114A	Financial Instruments – General Government Entities and Public Non-Financial Corporations	113
<b><i>FRDs applicable to VAGO with no disclosures to make in 2014–15</i></b>		
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	
<i>Financial Management Act 1994</i>	85
<i>Audit Act 1994</i>	8
<i>Freedom of Information Act 1982</i>	54
<i>Building Act 1993</i>	53
<i>Protected Disclosure Act 2012</i>	55
<i>Victorian Industry Participation Policy Act 2003</i>	55

*Note:* The only departure from FRDs is in relation to FRD 30B *Standard Requirements for the Publication of Annual Reports, April 2015*. The departure is specifically in relation to 5.3 *Design*. Section 5.3 *Design* of FRD30B suggests that internal colour should be kept to one colour, or as few colours as possible where it is essential to enable the readability and legibility of complex charts, graphs, maps or diagrams. Our *Annual Report 2014–15* uses multiple colours in complex charts, graphs, maps or diagrams to enable our readers to easily understand content and the flow of our Report.

# Appendix six

## 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 2014–15* (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.

	2014-15				
	Budget			Actual	Variance (ii)
	Parliament	VAGO	Controlled Parliament (i)	VAGO	VAGO
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Income from transactions</b>					
Output appropriations	105,566.6	39,085.0	144,651.6	38,940.0	(145.0)
Special appropriations	38,048.0	541.0	38,589.0	541.0	0.0
Sale of goods and services	0.0	0.0	0.0	182.2	182.2
Grants	28.1	0.0	28.1	0.0	0.0
Fair value of services received free of charge	0.0	35.0	35.0	35.0	0.0
<b>Total income from transactions</b>	<b>143,642.7</b>	<b>39,661.0</b>	<b>183,303.7</b>	<b>39,698.2</b>	<b>37.2</b>
<b>Expenses from transactions</b>					
Employee benefits	85,534.9	22,388.0	107,922.9	23,238.0	(850.0)
Depreciation and amortisation	13,938.0	799.0	14,737.0	765.4	33.6
Interest expense	192.2	40.0	232.2	32.6	7.4
Capital asset charge	2,218.1	117.0	2,335.1	117.0	0.0
Other operating expenses	41,759.5	16,317.0	58,076.5	14,924.4	1,392.6
<b>Total expenses from transactions</b>	<b>143,642.7</b>	<b>39,661.0</b>	<b>183,303.7</b>	<b>39,077.4</b>	<b>583.6</b>
<b>Net result from transactions (net operating balance)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>620.8</b>	<b>620.8</b>

(i) Budget figures are as published in 2014–15 *Statement of Finances: Budget Paper No. 5*, page 144 (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 seven

## 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 70)
- 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 32)
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit (see also page 54 & 59–61)
- details of assessments and measures undertaken to improve the occupational health and safety of employees (see also pages 69–70)
- 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 46, 68–69)
- further information on VAGO's environmental performance (see also pages 55–59)

details of all consultancies and contractors (see also pages 76 to 77) 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: [helen.sloane@audit.vic.gov.au](mailto:helen.sloane@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](http://www.audit.vic.gov.au)

# Appendix eight

## Five-year statistics

		2014–15	2013–14	2012–13	2011–12	2010–11
<b>Reports tabled in Parliament</b>						
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)	9	5	5	5	6
Performance audit reports	(number)	25	29	29	29	30
Non-audit reports (annual report and annual plan)	(number)	2	2	2	2	2
External assessment of Parliamentary reports	(per cent)	86	84	84	83	–
Parliamentarian satisfaction with reports and services	(per cent)	81	90	92	93	98
<b>Audit reports on financial statements</b>						
Audit responsibilities (entities at 30 June 2015)	(number)	547	553	550	561	551
Unqualified opinions issued during reporting year	(number)	541	550	547	545	547
Disclaimed opinions issued during reporting year	(number)	–	–	–	14	–
Qualified opinions issued during reporting year	(number)	6	4	3	4	5
Total opinions issued during reporting year	(number)	547	554	550	563	551
Audit opinions issued within time frame	(per cent)	99	100	100	99	99
Audits externally reviewed meet standards	(per cent)	86	100	100	100	–
<b>Audit reports on performance statements</b>						
Total opinions on performance statements	(number)	108	114	115	115	113
<b>Audit reports on local government performance statements</b>						
Unqualified opinions issued during reporting year	(number)	79	78	79	77	77
Qualified opinions issued during reporting year	(number)	–	1	–	2	1
Total opinions issued during reporting year	(number)	79	79	79	79	78
<b>Audit reports on regional water authority performance statements</b>						
Unqualified opinions issued during reporting year	(number)	19	16	16	16	15
Qualified opinions issued during reporting year	(number)	–	–	–	–	–
Total opinions issued during reporting year	(number)	19	16	16	16	15
<b>Audit reports on technical and further education institute performance statements</b>						
Unqualified opinions issued during reporting year	(number)	10	19	20	20	20
Qualified opinions issued during reporting year	(number)	–	–	–	–	–
Total opinions issued during reporting year	(number)	10	19	20	20	20
<b>Resources</b>						
In-house staff	(number)	184	185	179	176	170
Financial audit service providers	(number)	24	23	36	41	40
Average days sick leave per employee	(number)	8.7	8.8	7.3	6.4	7.2
Workers compensation claims	(number)	3	0	2	5	4
Injuries reported	(number)	8	6	2	4	4
Grievances lodged	(number)	4	2	2	5	–
Training and professional development per employee	(days)	8.1	8.9	8.5	6.1	6.7
<b>Financial management</b>						
Expenditure on audit service providers	(\$ million)	10.0	10.8	10.7	10.8	10.2
Revenue from audit fees	(\$ million)	23.5	23.2	23.1	22.5	21.9
Operating surplus/(deficit)	(\$ million)	0.5	0.0	1.5	0.6	0.5
Assets	(\$ million)	16.8	16.3	15.4	13.4	12.7
Liabilities	(\$ million)	8.2	8.2	7.3	6.8	6.6







# Auditing in the Public Interest

**VAGO**

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*Auditing in the Public Interest*

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