



Victorian Auditor-General's Office

Annual Report

2012–13

Auditing in the Public Interest



VAGO

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

Auditing in the Public Interest

Our vision

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

Our purpose

Providing assurance to Parliament.

Our objectives

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

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

Our values

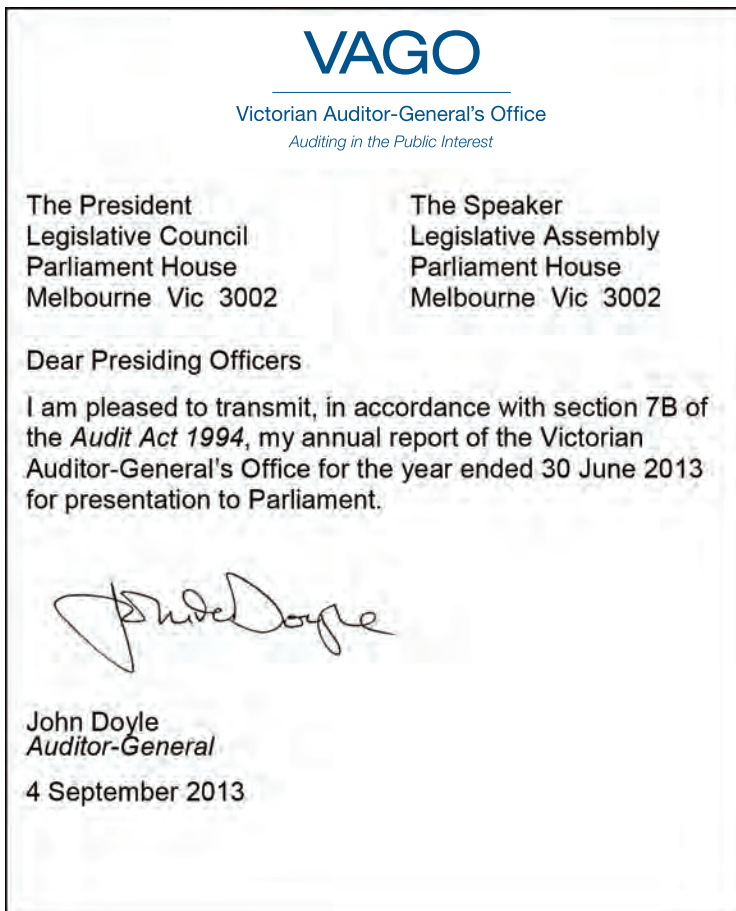
- Integrity
- Personal accountability
- Teamwork
- Learning
- Outcome focused.

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 2013.



John Doyle
Auditor-General
Melbourne
24 August 2013



The front cover images represent the following audit reports tabled in 2012–13: *Fare Evasion on Public Transport, Flood Relief and Recovery, and Collections Management in Cultural Agencies*.

HIGHLIGHTS

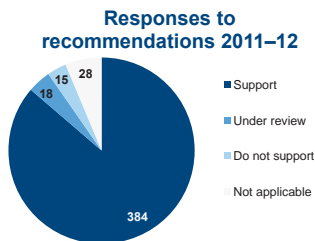
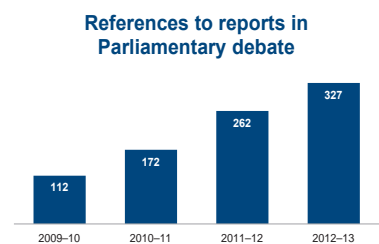


We met all of our performance measures from Budget Paper No. 3, producing **37 reports** and **550 audit opinions** (page 19)

Our reports were mentioned in print, broadcast or internet media **every week of the year** (page 16)

Our website was accessed over 115 000 times by **nearly 74 000 people**—an **increase of 13%** (page 16)

Nine Parliamentary Committees' reports referenced our reports—a **substantial increase** (page 11)



We delivered **100% of audit opinions** on agencies' financial statements **on time** (page 33)

We expanded our **survey program** to include departmental **secretaries** and **audit committee chairs** (page 40)

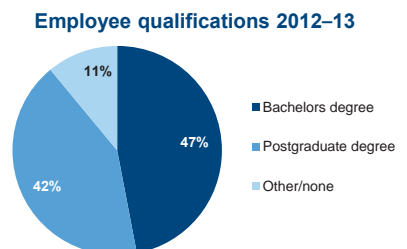
Our **staff survey** results **improved for every measure** since the last survey in 2010-11 (page 60)



More people accessed **flexible work arrangements**, following the introduction of broader availability (page 62)

We **responded to the significant changes to the integrity system**, implementing new policies and procedures (page 49)

We participated in the first **concurrent audit** with other Australian audit offices. (page 42)



[Figure 1] Five-year statistics

		2012–13	2011–12	2010–11	2009–10	2008–09
Reports tabled in Parliament						
Auditor-General's report on the finances of the state	(number)	1	1	1	1	1
Sector-based reports on results of attest audits	(number)	5	5	6	5	3
Performance audit reports	(number)	29	29	30	26	26
Non-audit reports (annual report and annual plan)	(number)	2	2	2	2	2
External assessment of Parliamentary reports	(score)	84	83	–	–	–
Parliamentarian satisfaction with reports and services	(per cent)	92	93	98	92	92
Audit reports on financial statements						
Audit responsibilities (entities at 30 June)	(number)	550	561	551	557	587
Unqualified opinions issued during reporting year	(number)	547	545	547	553	588
Disclaimed opinions issued during reporting year	(number)	–	14	–	–	–
Qualified opinions issued during reporting year	(number)	3	4	5	4	4
Total opinions issued during reporting year	(number)	550	563	551	557	592
Audit opinions issued within time frame	(per cent)	100	99	99	100	98
Audits externally reviewed meet standards	(per cent)	100	100	–	–	–
Audit reports on performance statements						
<i>Audit reports on local government performance statements</i>						
Unqualified opinions issued during reporting year	(number)	79	77	77	77	78
Qualified opinions issued during reporting year	(number)	–	2	1	1	1
Total opinions issued during reporting year	(number)	79	79	78	78	79
<i>Audit reports on regional water authority performance statements</i>						
Unqualified opinions issued during reporting year	(number)	16	16	15	15	16
Qualified opinions issued during reporting year	(number)	–	–	–	–	–
Total opinions issued during reporting year	(number)	16	16	15	15	16
<i>Audit reports on technical and further education institute performance statements</i>						
Unqualified opinions issued during reporting year	(number)	20	20	20	20	19
Qualified opinions issued during reporting year	(number)	–	–	–	–	–
Total opinions issued during reporting year	(number)	20	20	20	20	19
Resources						
In-house staff	(number)	179	176	170	173	153
Attest audit service providers (partners)	(number)	36	41	40	36	34
Average days sick leave per employee	(number)	7.3	6.4	7.2	6.2	7.1
Workers compensation claims	(number)	2 ^(a)	5	4	4	3
Injuries reported	(number)	2	4	4	4	3
Grievances lodged	(number)	2	5	–	2	2
Training and professional development per employee	(days)	8.5	6.1	6.7	9.7	6.4
Financial management						
Expenditure on audit service providers	(\$ million)	10.7	10.8	10.2	9.5	9.7
Revenue from audit fees	(\$ million)	23.1	22.5	21.9	20.8	19.3
Operating surplus/(deficit)	(\$ million)	1.5	0.6	0.5	0.8	(1.5)
Assets	(\$ million)	15.4	13.4	12.7	11.4	10.9
Liabilities	(\$ million)	7.3	6.8	6.6	5.8	6.1

(a) Both claims are ongoing from previous years.

Our history

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

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

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

Principal legislation

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

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

Audit responsibilities

The Auditor-General is responsible for:

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

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

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

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

The agencies we audit:

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

Accountability

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

Our resources

- We had 179 in-house staff at 30 June 2013 (176 at 30 June 2012).
- We engaged 36 audit service providers (41 during 2011–12).
- We received \$38.50 million in funding from Parliament (\$36.96 in 2011–12).

[Figure 2] Financial summary 2012–13 and 2011–12

Financial summary	2012–13 (\$'000)	2011–12 (\$'000)	Change (per cent)	
Operating revenue	38 654	37 120	▲	4.1
Operating expenses	37 197	36 542	▲	1.8
Total assets	15 448	13 446	▲	14.9
Total liabilities	7 333	6 787	▲	8.0
Surplus/(deficit)	1 457	578	▲	152.1
Net equity	8 115	6 658	▲	21.9

Structure of this report

This report provides a summary of our performance in 2012–13 in fulfilling our purpose to provide assurance to Parliament. It also provides information as obligated by legislated reporting requirements.

5

Auditor-General's review

Our new Auditor-General, John Doyle, farewells the former Auditor-General, provides a review of 2012–13, and looks at the year ahead.

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Our impact

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

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Our core business

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

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Our quality

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

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Our organisation

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

55

Our people

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

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Our financial management

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

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Appendices

AUDITOR-GENERAL'S REVIEW

As I write this, I am just weeks into my appointment as Auditor-General of Victoria, having commenced on 1 July 2013. As such, this report covers the final six months of the term of the previous Auditor-General, Des Pearson, and the remaining months covered by the Acting Auditor-General and Chief Operating Officer, Dr Peter Frost.

I wish to recognise the legacy of Mr Pearson, who has left VAGO a strong organisation with a reputation for scrutiny, rigour and transparency. Under Des's leadership, the work of VAGO has grown and received increased attention from Parliament, the public sector and the community. I would also like to thank Peter, who has led the office successfully since Des's retirement, as shown by the strong performance for the year.

A very successful year

I have inherited a high-performing organisation conducting its operations effectively. This is clearly shown by the fact that VAGO met all of its performance expectations in 2012–13 and delivered 550 audit opinions and 37 reports. This is an excellent result, especially in a time of transition, and is discussed further on pages 19–34.

'VAGO met all of its performance expectations in 2012–13'

VAGO's work is having a clear impact on the public sector. We are seeing more examples of audits stimulating reforms and reviews, informing Parliamentary debate, and being used by the media and community. This is discussed further on pages 9–18.

We are hearing more examples of agencies using reports of audits that they were not part of as a source of guidance and better practice information. For example, a local council advised us that it had used VAGO's report on *Fraud Prevention Strategies in Local Government* (June 2012) to inform its own fraud management approach. This shows the relevance of VAGO's work and makes the most of the state's investment in audit.



The Auditor-General, John Doyle

We look for opportunities to share our audit findings directly with professionals involved to increase this impact. During my term I will be working to get our audits used even more in this way.

Dedicated and highly qualified staff

These achievements are due in no small part to the staff of VAGO. The office is made up of dedicated professionals who are highly skilled and trained, and who are committed to producing quality work. Staff report a strong sense of achievement and that their work is interesting, challenging, meaningful and making a difference.

As you can see on page 59, our staff are highly qualified. Eighty-nine per cent of staff hold tertiary degrees, nearly half of whom have postgraduate degrees. This is well above the Victorian public sector average of just over 60 per cent holding tertiary degrees. As an organisation, we have a strong commitment to ongoing training and development. In 2012–13, this included new performance audit technical training, to boost workforce skills and capacity.

We have an excellent Executive Management Group leading four teams. Our two audit teams are well supported by two corporate teams, and this reflects a recent focus on working more cohesively as one office. We encourage movement between these teams to build knowledge transfer and communication, and we are seeing great results as a consequence.

An organisation set up for success

VAGO has a very strong focus on audit quality and practice management (see pages 35–42).

Our audit methodologies are the foundation of our work. Our attest audit methodology, developed in collaboration with the Queensland Audit Office, is used in four other Australian jurisdictions.

This year, VAGO continued to refine our approach to auditing non-financial performance statements. Starting with local government—with plans to move into the tertiary and water sectors—VAGO will begin to examine the relevance and appropriateness of performance indicators. This will encourage these sectors to improve their performance statements.

Across the organisation, changes to audit methodologies and corporate policies and procedures were also made this year to ensure compliance with the recent amendments to integrity and accountability legislation.

Not only are our quality systems well-developed and mature, but there is an obvious commitment to continuous improvement. Between 2011 and 2013, our attest audit reports were externally reviewed. We received positive feedback as well as lessons to be incorporated into future attest audit reports.

Auditing the auditors

In the coming year we ourselves are subject to a performance audit. Under the *Audit Act 1994*, a performance audit is conducted every three years to determine whether the Auditor-General and VAGO are achieving our objectives effectively and doing so economically and efficiently and in compliance with the Act. This is a reflection of the performance audits we undertake of other public sector bodies.

This is a key accountability mechanism, as well as an opportunity for furthering our continuous improvement. It will test our quality control systems and, while I am confident of an overall positive outcome, I am also looking forward to some valuable advice on improving our operations. PricewaterhouseCoopers has been appointed as the auditor by the Public Accounts and Estimates Committee, and the audit has commenced. I look forward to its outcome.

The value of audit

The role of Auditor-General is a crucial part of Victoria's accountability framework. To the citizens and Parliament of Victoria, it is a principal source of information on the performance of the public sector. We provide information on how well the sector is managing the resources of the State of Victoria, and we report what we find—good and not so good.

'We report what we find—good and not so good.'

I have arrived in Victoria at a time when this independent, objective review is more important than ever. The global economic downturn is being felt more strongly every year, with budget cuts, redundancies, and restructures across the public sector aimed at achieving efficiencies.

Doing the same job with fewer resources will therefore continue to be a challenge for the public sector. Recent machinery-of-government changes have created further challenges.

Under these pressures, agencies may decide to cut back on the resources they direct to internal audit and accountability mechanisms, leading to less internal scrutiny of financial management and performance. The scrutiny of the external auditor will therefore become even more important.

Challenges to the audit mandate

There are, however, some pressures on, and limitations to, my ability to provide the independent scrutiny valued by the sector and the Parliament.

As Auditor-General, I have extensive powers to protect my independence and allow me to fulfil my mandate. The new integrity system reforms, however, have introduced some serious challenges to the effectiveness of my office's operations. While many issues have been resolved, some very problematic provisions remain that may compromise our timeliness and efficiency.

Some changes also challenge the independence of the office. The *Constitution Act 1975* gives me complete discretion in performing my functions and exercising my powers, and states I am not subject to direction from anyone. Provisions introduced by the recent reforms, however, may be counter to these protections.

These issues do not appear hostile or intentional. Nonetheless, they are likely to have a significant impact on VAGO's operations and ultimately the independence of the role of Auditor-General.

'Reform of the Audit Act 1994 to address these challenges to our operations is urgent.'

The effectiveness of our operations is also subject to some longstanding limitations. In particular, activities by third-party providers funded by government to achieve government objectives are currently beyond my mandate. In effect, spending of significant funds, including through public-private partnerships, are not subject to audit scrutiny.

Reform of the *Audit Act 1994* to address these challenges to our operations is urgent. The Minister for Finance has stated that reform of the Act will be a priority for 2013–14. I expect to see significant progress.

Engaging effectively with agencies

The recent staff reductions across the Victorian public sector and restructures associated with the budget cuts are challenging agencies and impacting on our audits.

We are experiencing more difficulties with engagement with agencies on our audits, during conduct and clearance. VAGO is working with agencies to manage this, including running workshops with agency contacts on our audit and engagement processes and methodologies. We want to maintain our timely and thorough reporting, while understanding the pressures on the public sector in a resource-constrained environment.

Building our relationships

In a year made busy by the retirement of an Auditor-General, the appointment of a new Auditor-General, overhaul of the integrity system, and achievement of all performance targets, VAGO also maintained extensive external engagement.

VAGO provided support to the Public Accounts and Estimates Committee in its *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*. The first collaborative audit by participating Australian audit offices was also completed, with VAGO tabling *Addressing Homelessness: Partnerships and Plans* in February. It is also important to note VAGO's active role in the implementation of new auditing and accounting standards through the Australasian Council of Auditors-General.

Our international engagement was formalised with VAGO now 'twinned' with two Pacific audit offices—Tuvalu and Nauru—to provide support and guidance in their developing performance audit function.

Our external relationships are crucial and, as Auditor-General, I aim to be accessible. I am currently meeting ministers, secretaries and community leaders, to start conversations about performance and accountability in the public sector. This will be a priority in my first year.

Another priority will be reviewing our annual plan, which sets out our program for the year. This plan allows the community, the public sector and Parliament to examine our program, and is an important accountability check over the office.

Like any organisation, VAGO operates within resource constraints and the constraints of our required outputs. We therefore seek to target our efforts to maximise the impact of our program. I have inherited a four-year rolling program of audit topics and a key focus this year will be to review this plan and bring in my perspectives on the risks in the Victorian public sector.

The year ahead

The year ahead will be business as usual, as we continue to deliver a diverse array of audits. I will bring in my views in terms of audit focus, which will in time be seen in my annual plan. The year will also be filled with action on audit legislation reform, external engagement, review of annual planning and responding to the performance audit of the office.

'I appreciate the honour afforded me to take up this office.'

I appreciate the honour afforded me to take up this office. I am looking forward to working with my colleagues to provide the citizens of Victoria a level of assurance services that will make a difference.



John Doyle
Auditor-General

4 September 2013

Auditor-General of Victoria, 2006–2012

Des Pearson, BBus, GradDip Mgt, Hon D Bus, FCPA, FIPAA, FAIM, FCA



Des Pearson served as Auditor-General of Victoria from October 2006 to December 2012. During his term, Des improved the transparency and engagement in audit planning, the clarity, accessibility, relevance and impact of reports, and relationships with stakeholders. In particular, Des achieved great gains in improving the timeliness of the audit program and the quality of VAGO's outputs. Under his leadership, VAGO moved to tabling a report every sitting week of the year and now tables around 35 audit reports annually, compared to 11 in 2006.

Mr Pearson began his public service career in 1970 with the Australian National Audit Office, becoming Chief Auditor, Northern Territory Region in 1976. Subsequently he held senior executive roles with the Commonwealth Department of Primary Industries and Energy and ACT TAFE and was appointed Auditor-General of Western Australia in 1991. He held this position for 15 years. From 2001 to 2006 he was also Commissioner and Inaugural Chair of the State Records Commission of Western Australia.

Mr Pearson is a Life Member and Fellow of CPA Australia, Life Member and Fellow of the Australian Institute of Management WA, a National and Victorian Fellow of the Institute of Public Administration Australia, and a Fellow of the Institute of Chartered Accountants in Australia.

At a glance

Parliament

- 25 per cent increase in references by Parliamentarians to our audit reports in debate—up from 262 to 327.
- Nine Parliamentary Committee reports referenced VAGO reports—a substantial increase.
- 97 per cent of Parliamentarians responding to surveys agreed that our reports and services provided valuable information on the public sector.

Increased access to and use of our reports by Parliamentarians, Parliamentary Committees, and online.

Value to agencies

- 98 per cent of 2012–13 performance audit recommendations were supported.
- Increased agreement from agencies that VAGO performance audits offer value.

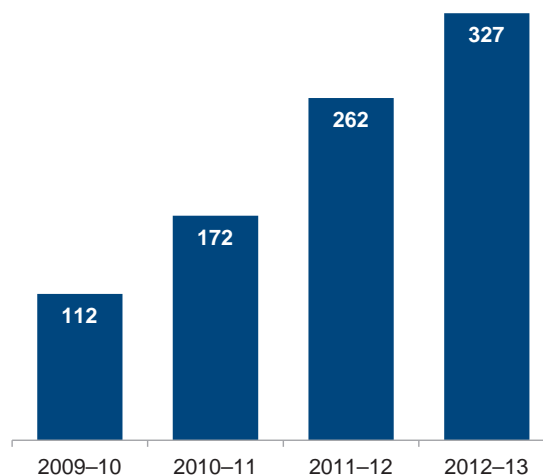
Public debate

- 771 items in print, broadcast or online media that mentioned the Auditor-General or VAGO.
- 115 650 visits by 73 992 unique visitors to the VAGO website, up 13 per cent.

Increasing impact

- 37 briefings to ministers or their offices on audit reports.
- 17 Parliamentary briefing sessions held—attended by an average of nine Parliamentarians per session.

Number of references to reports in Parliamentary debate



Introduction

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

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

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

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

practices on the basis of our findings and recommendations.

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

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

This chapter looks at our:

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

Impact on Parliament

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

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

Parliamentary debate

Parliamentarians use our reports more and more every year. Over the past few years we have seen a significant increase in references to our reports in Parliamentary debates.

Hansard transcripts show that references to our audit reports in Parliamentary debate rose by 25 per cent in 2012–13, reflecting Parliamentarians' continuing high level of interest in and use of our work. This year Parliamentarians made 327 references to our audit reports.

Parliamentarians used our reports to support their discussion of:

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

'The Auditor-General has provided a clear pathway with his recommendations for improving our public health system, and I support them all.'

*Infection Prevention and Control in Public Hospitals, June 2013
– Nazih Elasmr, MLC, Australian Labor Party, Hansard
26 June 2013.*

The report referenced most frequently was the *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12*, with around 10 per cent of mentions. Most of the speeches referencing this report were in relation to findings about water company dividends, the regional rail link and the state's financial position.

Older reports that continue to be regularly referenced include the *Allocation of Electronic Gaming Machine Entitlements* (June 2011) and *Access to Ambulance Services* (October 2010).

When Parliament uses our audits to support the passage of new legislation, this delivers some of our most significant impact. Examples of bills debated in 2012–13 where a VAGO report was referenced include:

- Building and Planning Legislation Amendment (Governance and Other Matters) Bill 2013
- Education and Training Reform Amendment (School Attendance) Bill 2013
- Energy Legislation Amendment (Flexible Pricing and Other Matters) Bill 2013
- Gambling Regulation Amendment Bill 2013.

'The office of Auditor-General is one of the most critically important agencies and institutions when it comes to integrity.'

*Jill Hennessy, MLA, Australian Labor Party, Hansard
28 November 2012*

Resources developed by the Parliamentary Library to support new bills draw on VAGO reports. Recent library research papers in relation to bills have referenced the following audit reports:

- *Student Completion Rates* (2012)
- *Compliance with Building Permits* (2011)
- *Franchising Melbourne's Train and Tram System* (2005)
- *Managing School Attendance* (2004)
- *Public Transport Reforms: Moving from a system to a service* (1998).

Parliamentary inquiries

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

In 2012–13, there was a significant increase in the number of Committee reports drawing on VAGO reports. This reflects the efforts VAGO has made to engage with these Committees.

'It is a very insightful report, so much so that the Economic Development and Infrastructure Committee, a joint all-party committee, is going to invite the Auditor-General to present the findings of this audit summary to the committee as part of its inquiry into local economic development.'

*Investment Attraction, August 2012 – Inga Peulich, MLC,
Liberal Party, Hansard, 29 August 2012*

Of note, the Public Accounts and Estimates Committee (PAEC) tabled its report on its *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*. VAGO provided significant input to this inquiry and the final report referred extensively to 11 VAGO reports.

The following Committee inquiry reports also referred to VAGO reports:

- Family and Community Development Committee's report on its *Inquiry into Opportunities for Participation of Victorian Seniors*
- Law Reform Committee's report on its *Inquiry into Access to and Interaction with the Justice System by People with an Intellectual Disability and their Families and Carers*
- Outer Suburban/Interface Services and Development Committee's report on its *Inquiry into Liveability Options in Outer Suburban Melbourne*

- PAEC's report on its *Inquiry into the Financial and Performance Outcomes 2011–12*
- PAEC's report on its *Inquiry into the 2012–13 Budget Estimates (Part Two)*
- Road Safety Committee's report on its *Inquiry into Motorcycle Safety*
- Rural and Regional Committee's report on its *Inquiry into the Impact of Food Safety Regulation on Farm and Other Businesses*
- PAEC's report on its *Inquiry into the 2013–14 Budget Estimates*.

Feedback from Parliamentarians

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

This year's results are encouraging. Ninety-two per cent of respondents indicate they

were satisfied or very satisfied overall with our reports and services, and 97 per cent agreed that the reports and services provided valuable information on the public sector.

Survey results show Parliamentarians accessed reports more in 2012–13. There was a significant increase in the number of Parliamentarians who responded to our surveys who had dealings with VAGO over the year, up from 37 to 54 per cent. All respondents were aware of our performance and attest audit reports. Half reported referring to a performance audit report often or very often during the year, and just over a quarter reported referring to an attest audit report often or very often.

Ninety-one per cent of those who referred to an attest audit report said the report helped them to monitor the accountability and performance of the sector. For more information on our surveys of Parliamentarians, see pages 26 and 40.

Value to agencies

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

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

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

Case studies

Compliance with Building Permits (December 2011)

Following VAGO's report on *Compliance with Building Permits*, major reforms to governance arrangements in the building sector were outlined in *A fresh start for building industry regulation: Reforming Victoria's building system* (November 2012). In particular, the Victorian Building Commission was replaced with the Victorian Building Authority.

Managing Drug and Alcohol Prevention and Treatment Services (March 2011)

Following VAGO's report of *Managing Drug and Alcohol Prevention and Treatment Services*, a new whole-of-government strategy for reducing drug and alcohol harm was released: *Reducing the alcohol and drug toll—Victoria's plan 2013–2017* (January 2013). This plan outlined legal and regulatory reform, service delivery, cultural change and research.

Municipal Solid Waste Management (June 2011)

In response to VAGO's audit of *Municipal Solid Waste Management*, changes were announced to performance reporting and knowledge management in the government's 30-year vision for waste and resource recovery, *Getting Full Value: The Victorian Waste and Resource Recovery Policy* (April 2013).

Performance Reporting by Local Government (April 2012)

In response to one of VAGO's recommendations in the audit *Performance Reporting by Local Government*, Local Government Victoria has taken significant action to implement a new reporting framework for local government. A pilot commenced in July 2013 with full rollout planned for 2014.

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

Case studies

Freedom of Information (April 2012)

Following VAGO's report into freedom of information (FOI), the Department of Justice (DOJ):

- began publishing a Part II statement as required by legislation, to aid the public when making an FOI application.
- released a practice note to guide other departments in producing their own Part II statements.
- reformed its internal FOI processes, including tighter time frames, closer monitoring of FOI processing time, and redeveloped FOI training and education to departmental staff.

Since these reforms, DOJ reports its timeliness has improved significantly, down from 55.4 days per request to 36.

Managing Major Projects (October 2012)

In hearings for PAEC's *Inquiry into the Budget Estimates 2013–14*, the Minister for Major Projects reported that Major Projects Victoria had developed new Budget Paper 3 measures in response to VAGO's report *Managing Major Projects*, to give a clear indication of project delivery performance.

Managing Stormwater Flooding Risks in Melbourne (July 2005)

VAGO's report on *Managing Stormwater Flooding Risks in Melbourne* recommended that 'Melbourne Water and councils explore opportunities for working collaboratively to address the management of flooding risks with a view to optimising the efficient and effective use of their flood mitigation resources'. This became the catalyst for Melbourne Water developing the 2007 *Port Phillip and Westernport Region Flood Management and Drainage Strategy*. Following this, Melbourne Water collaborated with local councils and the Victorian State Emergency Service (SES) to create Municipal Flood Management Plans for each of the 38 council areas within the Port Phillip and Westernport region. These plans are intended as live documents with progress reviewed annually to ensure they accurately reflect flood risks and how they should be best treated within each municipality. In July 2013, Melbourne Water invited participating councils, SES representatives and VAGO to an event recognising this achievement.

Portfolio Departments and Associated Entities: Results of the 2011–12 Audits (November 2012)

The Department of Treasury and Finance's *2012–13 Model Report for Victorian Government Departments* contained recommended presentation of trust account balances based on a VAGO recommendation from our report on Portfolio Departments and Associated Entities. VAGO also provided additional contributions to, and support for, the Model.

Tertiary Education and Other Entities: Results of the 2011 Audits (May 2012)

Following VAGO's report on the results of audits of alpine resorts, the Alpine Resort Management Boards have strengthened internal controls through revision of procedures and realignment of duties.

Throughout each of our audits, we brief the audited agencies progressively on emerging findings. Sometimes, agencies will make changes in response to these findings while the audit is still being conducted. The following are recent examples of changes made by agencies during an audit:

- During the audit *Programs for Students with Special Learning Needs* (August 2012), the Department of Education and Early Childhood Development developed and released new guidance on restraining students. This allowed VAGO to focus our recommendation on assessing the clarity and usefulness of this guidance.
- During the audit *Collections Management in Cultural Agencies* (October 2012), changes to policies and practices included the Public Record Office Victoria moving to establish policies on collection storage and conservation.

- During the audit *Consumer Protection* (April 2013), Consumer Affairs Victoria introduced an 'Inspector's Manual' which provided detailed guidelines to its officers on compliance and enforcement procedures. This addressed VAGO's concerns about a lack of guidance for staff.

We have also observed changes made by agencies that were not subject to the audit. This is particularly encouraging as it shows the broad relevance of our reports and makes the most of our audits. An example of this is a local council that advised us it had used VAGO's report on *Fraud Prevention Strategies in Local Government* (June 2012) to carry out a self-assessment of its fraud management.

Agency implementation of recommendations

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

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

The most recent report included responses to reports tabled in 2011–12. Of the 445 responses to recommendations, 90 per cent were either in support or being reviewed by the relevant agency.

In addition, we do an internal count of the number of supported recommendations in performance audit reports for the most recent financial year, based on agencies' formal submissions to our reports. This is limited in that agencies sometimes do not clearly state their response to the recommendations.

Across our performance audit reports in 2012–13, VAGO made 214 recommendations based on our findings. Of these, our internal assessment estimates that 209 (98 per cent) were supported.

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

Extracts from responses to VAGO reports

Carer Support Programs (August 2012)

'The findings and recommendations of the audit will also inform Victoria's participation in the important development of the National Disability Insurance Scheme and response to Victoria's Vulnerable Children Strategy.'

Response provided by the Secretary, Department of Human Services.

Energy Efficiency in the Health Sector (September 2012)

'The department accepts all the recommendations and looks forward to working with health services, the Department of Treasury and Finance and Energy Service Companies to further improve the energy efficiency of the Victorian public health care system.'

Response provided by the Secretary, Department of Health.

Port of Melbourne Channel Deepening Project: Achievement of Objectives (November 2012)

'I also welcome the audit as it provides a valuable case study for the effective and efficient delivery of environmental regulation.'

Response provided by the Secretary, Department of Sustainability and Environment.

Value of audits to audited agencies

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

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

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

For performance audits tabled in 2012–13 the indexed ratings for audit value survey questions rose slightly from 2011–12 from 69 to 70. Allowing for the fact that agencies can be resistant to audits, we consider this a good result.

We also seek comments from agencies in these surveys. Extracts shown here are not attributed to preserve anonymity.

We did not survey agencies on their experiences of attest audit surveys this year (see pages 40–41 for further discussion on our survey program).

Extracts from post-audit surveys of agencies

‘Findings and recommendations from VAGO audits are always useful in considering improvements in administration of audited activities, current or future activity audits.’

‘I found the VAGO process to be professional and respectful of our circumstances. It is a challenging position to be able to grasp our unique situation... The reporting was accurate and honest and was easy to draw conclusions from.’

‘The auditors took the time to understand our organisational environment and as such the final report was balanced in its presentation of issues and findings.’

Impact on public debate

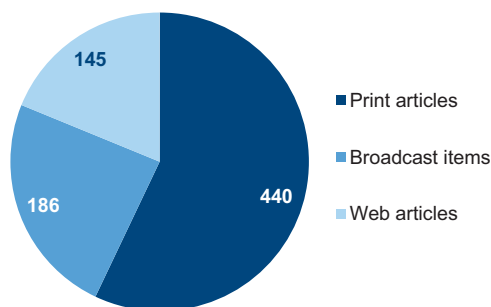
Public debate often draws on our audits. This debate can create greater transparency around some key accountability and performance issues raised by our audit program, and encourage the government to act on critical findings. The extent to which the public responds to and uses our reports is, therefore, another important factor when gauging the impact of our work.

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

Media coverage

While we do not set out to gain media attention, our reports can ignite debate on issues of public interest in the media. To some extent, the degree of media attention reflects whether an issue is topical. Also, media coverage tends to focus on exceptions and rarely canvasses positive findings. Nonetheless, when considered within a suite of measures, the degree of media interest does provide some insight into the level of public interest for VAGO reports. Media attention can also be a positive reflection on the relevance of our topic selection.

[Figure 5] Number and types of media mentions



Our reports regularly feature in national, state, regional and local media. Our method of collating and analysing media has changed significantly since 2011–12, so the data below cannot be directly compared to last year’s figures.

In 2012–13, there were 771 items in print, broadcast or online media that mentioned the Auditor-General or VAGO. Of these, 440 were print articles, 186 items were broadcast on local radio or television stations and 145 articles were published on websites. There was mention of the Auditor-General or VAGO in every week of the year. This coverage is especially encouraging as VAGO only tabled reports in 17 of those weeks (during Parliamentary sitting weeks).

Most coverage was in relation to our audit reports, with 487 items. Several reports generated intense media interest and coverage. The reports receiving the most coverage were

- *Implementation of School Infrastructure Programs* (February 2013)
- *Fare Evasion on Public Transport* (August 2012)
- *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12* (November 2012)
- *Managing Major Projects* (October 2012)
- *Prison Capacity Planning* (November 2012)
- *Managing Traffic Congestion* (April 2013).

Our older reports continued to receive media attention, accounting for 170 mentions. As in previous years, there was interest in the *State Investment in Major Events* performance audit (June 2007), mostly during the period before the 2013 Grand Prix. *Access to Public Housing* (March 2012) and *Access to Ambulance Services* (October 2010) received the most coverage. The oldest reports mentioned were from 2005.

There were also 119 mentions of the Auditor-General and VAGO relating to matters other than audit reports. Topics included the retirement of the former Auditor-General and commencement of the 26th Auditor-General, sign-off of financial statements, requests for audits and integrity system reform.

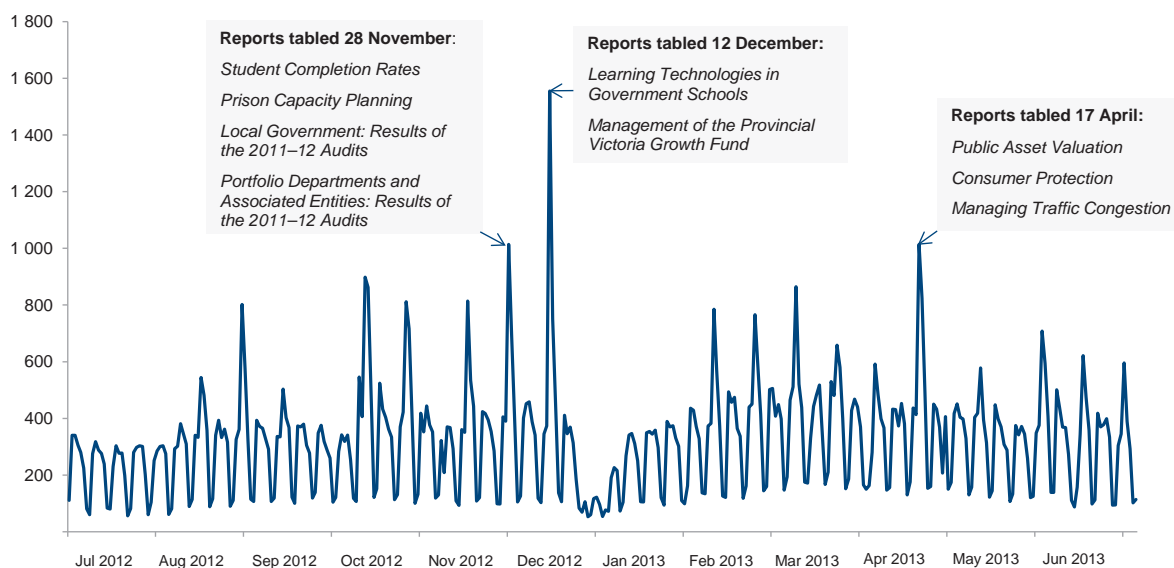
Website activity

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

In 2012–13, there were around 115 650 visits by 73 992 visitors to the VAGO website, an increase of 13 per cent. New visitors made up 60 per cent of all visitors.

Figure 6 shows the website visits in 2012–13. The peaks coincide with report tabling days.

[Figure 6] Website visits 2012–13



Increasing the impact of our audits

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

This year's activities included:

- identifying and sharing recurring audit themes
- Parliamentary briefings and engagement
- presentations and addresses
- departmental audit committee chairs meetings
- regional engagement
- Parliament House Open Day
- improving accessibility and communication of reports.

Identifying and sharing recurring audit themes

In 2012, to identify recurring findings across our audits, we analysed the 200 reports tabled during the former Auditor-General's tenure from 2006–12. We identified six aspects of public sector operations where VAGO reports have found persistent problems across the past six years.

Recurring themes we identified were in relation to:

- planning and delivery of services and infrastructure
- quality information for decision-making
- real governance and effective oversight
- measuring and communicating performance
- procurement and contract management
- managing information transparently and securely.

We published the results of this analysis in a special edition of our *Auditing in the Public Interest* newsletter, called *Reflections on audits 2006–2012: Lessons from the past, challenges for the future*. We shared the newsletter with audited agencies including secretaries.

By publishing this analysis we aimed to increase the value of our individual audits and provide agencies with an indication of risks they might be facing.

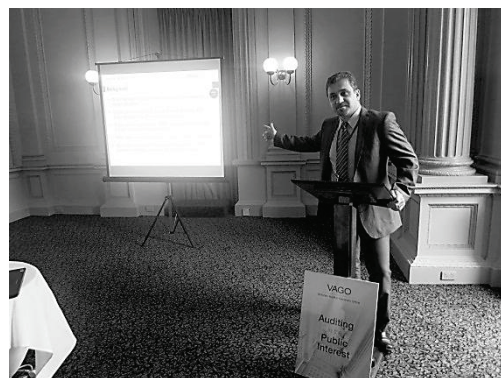
Parliamentary briefings and engagement

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

Across 2012–13, VAGO provided 37 briefings to ministers or their offices, 25 of which Ministers personally attended. We also provided four briefings to individual PAEC members on issues relating to their areas of interest. This is a significant increase in uptake on last year's result when 18 briefings were delivered to ministers or their offices. It is also above the previous high of 31 in 2010–11.

We also conduct briefing sessions in Parliament House whenever we table an audit report, detailing key findings. These sessions are open to all Parliamentarians. In 2012–13, we conducted 17 briefing sessions—one every week that Parliament sat. VAGO was commended in Parliament for the quality of these briefings.

Fewer individual Parliamentarians attended these sessions in 2012–13, with 26 coming to one or more sessions (31 in 2011–12). However, other measures of Parliamentary engagement discussed earlier clearly indicate that our reports are receiving increased attention and use by Parliamentarians.



Steven Vlahos, Performance Audit Sector Director, presents at a Parliamentary briefing.

'In moving this motion I wish to say at the outset that I have the highest regard for the work of the Auditor-General. In the six years the Parliamentary Greens have been in this Parliament we have had a representative at every Auditor-General briefing, because we rely on the Auditor-General's reports as a reliable, credible, authoritative source of information about the workings of government.'

Colleen Hartland, MLC, *The Australian Greens*

Average attendance at these briefings remained consistent at around nine per session, showing that certain Parliamentarians are attending regularly. This suggests that the Parliamentary briefing is a convenient way for those individuals to access our audit findings, while others are accessing them in other ways.

VAGO continues to investigate new ways of communicating audit findings to Parliamentarians. For example, in 2012–13 we will trial audio presentations on our website in relation to each of our audits, to allow Parliamentarians to access this information in their own time. This will also make these presentations accessible to the general public.

Presentations and addresses

Throughout 2012–13, the Auditor-General and senior VAGO staff presented at a range of events about our audits and activities, as well as broader issues such as accountability, governance and performance management. A major goal of this engagement is to make our audit findings and recommendations directly accessible to interested professionals. We presented at conferences, educational courses, and professional and industry groups.

As well as the following regular presentations, see Appendix 2 for a full list of presentations made by senior staff in 2012–13.

Departmental audit committee chairs meetings

Twice a year, VAGO and the Department of Treasury and Finance co-host meetings with chairs of departmental audit committees. We use these meetings to drive action on our audit findings, as well as to improve the efficiency and effectiveness of our operational relationships.

Regional engagement

To enhance relationships with audited entities, the Auditor-General regularly visits regional areas. In 2012–13, the Auditor-General visited Morwell, Benalla and Ballarat. These visits are also an opportunity to promote recent reports, especially from the Financial Audit group.

Attendance this year continued to be strong, and included representatives from local government, water authorities, health services and educational institutions.

Parliament House Open Day

Parliament House Open Day is an annual event for the public. VAGO participated again this year to engage with the public, communicate about VAGO and promote our reports.

Improving accessibility and communication of reports

To improve the accessibility of our reports and other information about VAGO, this year we reviewed the accessibility of our website and implemented a suite of actions. These included improving the search capability of the website, the quality of our subscription service, and how the public contacts the office.

The quality of our reports is also an ongoing focus in terms of improving accessibility to our findings and conclusions. A key focus for the coming year will be looking at how we can continue to improve accessibility and communication of our reports for Parliamentarians, agencies and the community.

At a glance

Quantity

- 29 performance audit reports.
- 6 attest audit reports.
- 1 annual plan and 1 annual report.
- 550 opinions on financial statements and 115 opinions on non-financial performance statements.

Quality

- 92 per cent of responding Parliamentarians were satisfied with our reports and services.
- A selection of performance audit reports was externally assessed and all scored highly, exceeding our target score of 80.
- External reviewers found all attest audits assessed complied with auditing standards.

Timeliness

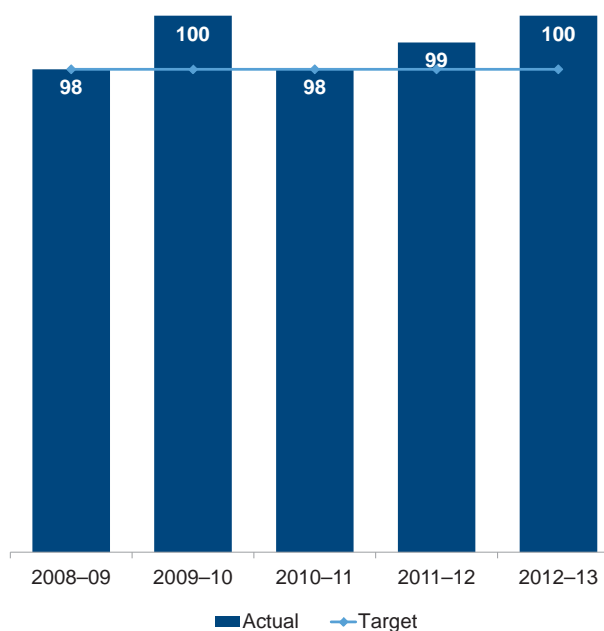
- 97 per cent of reports were tabled on time.
- 99 per cent of inquiries were responded to within 28 days, with an average response time of 15 calendar days.
- 100 per cent of audit opinions and 92 per cent of management letters were issued within time lines.

Cost

- Total cost for Parliamentary reports and services was \$14.5 million.
- Average performance audit report cost was \$367 862.
- Total cost for audits of financial and non-financial performance statements was \$22.7 million.
- Average attest audit cost was \$41 168.

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

Audit opinions issued within the statutory deadline (per cent)



Introduction

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

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

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

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

Parliamentary reports and services

Output group 1 relates to our Parliamentary reports and services.

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

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

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

[Figure 7] Performance against output group 1 targets

Performance measures	Unit of measure	Target 2013–14	Actual 2012–13	Target 2012–13	Actual 2011–12
Quantity					
Auditor-General's reports	(number)	36	37^(a)	36	37
Quality					
Average score of audit reports by external assessors	(score)	80	84	80	83
Overall level of external satisfaction with audit reports and services—Parliamentarians	(per cent)	85	92	85	93
Timeliness					
Reports completed on time	(per cent)	90	97^(b)	90	87
Inquiries from Members of Parliament and the public responded to within 28 days	(per cent)	95	99	95	99
Cost					
Total output cost	(\$ million)	15.3	14.5	14.9	13.7

(a) The higher than target result is due to carry forward of one audit from 2011–12.

(b) This improvement reflects better planning and scheduling, and more consistent management of project time lines.

Quantity

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

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

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

The reports we tabled in Parliament during 2012–13 are listed in Figure 9. Consistent with the approach used in our *Annual Plan 2012–13*, our audit reports are presented against each of the government’s five goals for a stronger, fairer and safer Victoria.

[Figure 8] Performance for each category against 2012–13 targets

Product type	Target 2013–14	Actual 2012–13	Target 2012–13
Performance audit reports	28	29	28
Reports on results of attest audits	5	5	5
Report on the annual financial report of the state of Victoria	1	1	1
Annual plan	1	1	1
Annual report	1	1	1
Total	36	37	36



Performance Audit Sector Directors: Steven Vlahos, Paul O’Connor, Andrew Evans, Chris Sheard, Dallas Mischkulnig, Kristopher Waring and Ray Winn. Not pictured: Michele Lonsdale and Renée Cassidy.

[Figure 9] Reports tabled in Parliament during 2012–13

A growing economy

Fare Evasion on Public Transport

Managing Traffic Congestion

Organisational Sustainability of Small Councils

Planning, Delivery and Benefits Realisation of Major Asset Investment: The Gateway Review Process

Port of Melbourne Channel Deepening Project: Achievement of Objectives

Investment Attraction

Services that work

Consumer Participation in the Health System

Consumer Protection

Implementation of School Infrastructure Programs

Infection Prevention and Control in Public Hospitals

Learning Technologies in Government Schools

Management of Unplanned Leave in Emergency Services

Prison Capacity Planning

Programs for Students with Special Learning Needs

Management of Staff Occupational Health and Safety in Schools

Student Completion Rates

Strong families and vibrant communities

Carer Support Programs

Collections Management in Cultural Agencies

Addressing Homelessness: Partnerships and Plans

Management of the Provincial Victoria Growth Fund

Secure water and a healthy environment

Effectiveness of Compliance Activities: Departments of Primary Industries and Sustainability and Environment

Energy Efficiency in the Health Sector

Management of Freshwater Fisheries

Government you can trust

Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12

Environment and Sustainability Sector: Performance Reporting

Flood Relief and Recovery

Local Government: Results of the 2011–12 Audits

Managing Major Projects

Portfolio Departments and Associated Entities: Results of the 2011–12 Audits

Public Asset Valuation

Public Hospitals: Results of the 2011–12 Audits

Rating Practices in Local Government

Tertiary Education and Other Entities: Results of the 2012 Audits

The State of Victoria's Children: Performance Reporting

Water Entities: Results of the 2011–12 Audits

Performance audit reports

A performance audit examines a program or area of government to determine whether government objectives have been achieved.

We tabled 29 performance audit reports

This year we produced 29 performance audit reports (target 28). This is consistent with previous years. The additional audit was carried over from 2011–12.

Acquittal against our annual plan

We tabled:

- 26 of the 28 performance audits planned for 2012–13
- one audit carried over from 2011–12—*Investment Attraction*
- one audit brought forward from 2013–14—*Management of Staff Occupational Health and Safety in Schools*
- one audit brought forward from 2014–15—*The State of Victoria's Children: Performance Reporting*.

The two audits listed in the *Annual Plan 2012–13* that were not tabled were:

- *CenITex*, which was postponed to 2013–14 to allow for management to respond to a number of reviews already conducted
- *School Governance*, which was postponed until 2014–15 to account for the significant changes to governance arrangements currently being undertaken for government schools.

Reports on results of attest audits

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

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

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

The reports cover the following sectors:

- local government
- portfolio departments and associated entities
- public hospitals
- tertiary education and other entities
- water entities.

Each report discusses:

- financial results
- financial sustainability of entities
- the quality of agency reporting
- an assessment of the adequacy of internal controls.

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

Report on the annual financial report of the State of Victoria

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

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

The *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2011–12*, was tabled on 14 November 2012.

Annual plan

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



Our *Annual Plan 2013–14* was tabled on 26 June 2013.

In developing our annual plan, we consult the Public Accounts and Estimates Committee (PAEC), as well as departments—including their audit committees—stakeholders such as peak bodies, industry bodies and subject-matter experts. Pages 36–37 discuss details of our planning approach.

For six years, our annual plan has provided our work plan on a four-year rolling basis. This exceeds the legislative requirement for a one-year plan.

Annual report

The annual report is another of our outputs. We tabled our *Annual Report 2011–12* on 28 August 2012.

Quality

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

- independent assessments of report quality
- feedback from Parliamentarians.

In 2012–13, we met our targets for quality of our reports and services. This is discussed below.

Independent assessments of report quality

Each year, our performance audit reports are reviewed by independent assessors, who examine their quality. The reviewers read the report only, and provide an indication of the quality of our communication of audit findings.

The Australasian Council of Auditors-General (ACAG) has a panel of three independent assessors to conduct these reviews across participating jurisdictions. The current assessors are:

- an ex-Parliamentarian and ex-Chair of a Public Accounts Committee
- a former Auditor-General
- a member of the Board of the Australasian Reporting Awards, retired from a senior public service position.

The reports are assessed against criteria that have been agreed across the Australian audit offices that participate. See also page 40 for further discussion of these assessments.

Performance audit reports

Around a third of our performance audit reports are assessed annually. In 2012–13, the following 10 reports were assessed:

- *Addressing Homelessness: Partnerships and Plans*
- *Energy Efficiency in the Health Sector*
- *Fare Evasion on Public Transport*
- *Fraud Prevention Strategies in Local Government*
- *Investment Attraction*
- *Learning Technologies in Government Schools*
- *Management of the Provincial Victoria Growth Fund*
- *Management of Unplanned Leave in Emergency Services*
- *Managing Major Projects*
- *Science and Mathematics Participation Rates and Initiatives.*

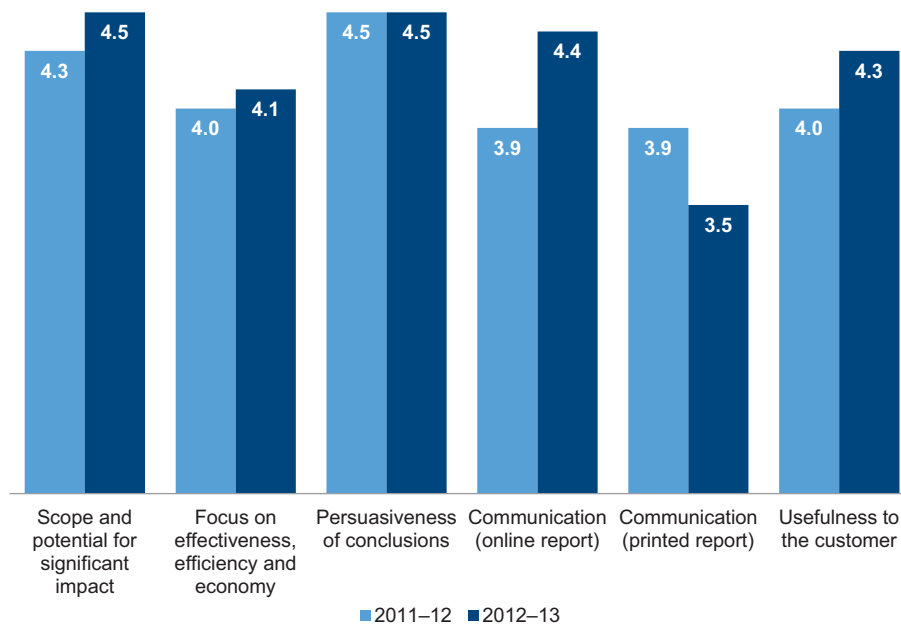
In 2012–13 we met our target for external assessments, with an average score of 84 (target 80).

This is consistent with previous years' results (83 in 2011–12). Our performance improved against four of the five criteria. Detailed results for performance audit reports assessed in 2012–13 and 2011–12 are shown in Figure 10.

'The benefits and economic arguments are excellently articulated throughout and the proposals to improve the system are clearly stated.'

Quote from an assessor on Energy Efficiency in the Health Sector

[Figure 10] Average scores out of five for performance audit reports against ACAG criteria



Attest audit reports

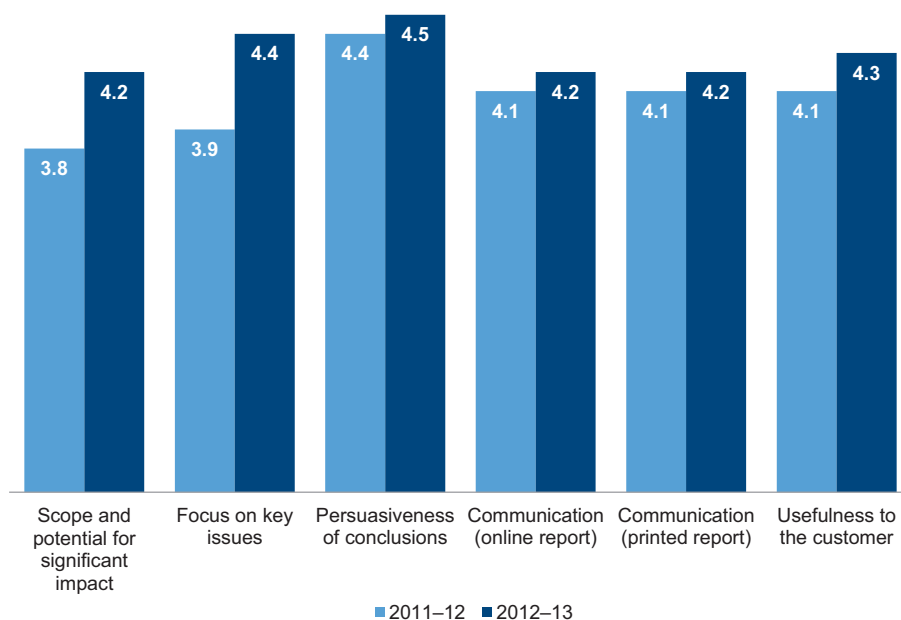
VAGO produces six attest audit reports annually and over the past two years were also assessed through the ACAG external assessment process.

Results from both years were positive, with overall scores of 86 in 2012–13 and 81 in 2011–12. In particular, the assessors highlighted the quality of report conclusions, writing style, layout of the report, and the use of charts.

Due to the high scores, positive feedback and stable nature of the content and layout of these reports, VAGO will not continue to have them assessed. This will be reviewed if there are any changes to content and layout. Therefore, the results for the attest audit reports were not included in VAGO's BP3 performance score for 2012–13.

Detailed results for attest audit reports assessed in 2012–13 and 2011–12 are shown in Figure 11.

[Figure 11] Average scores out of five for attest audit reports against ACAG criteria



Feedback from Parliamentarians

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

In 2012–13, 92 per cent of Parliamentarians who responded indicated they were satisfied or very satisfied overall with our reports and services. This

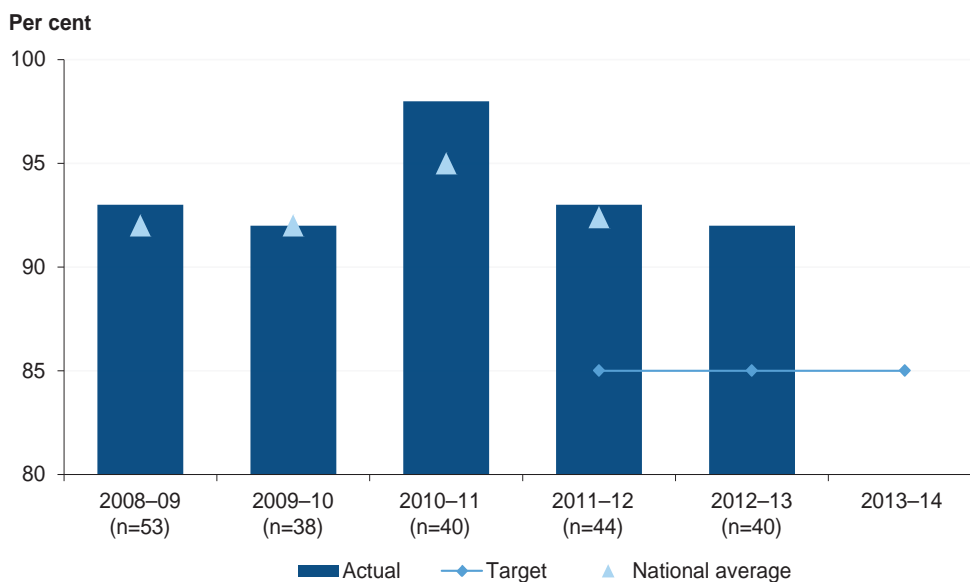
exceeds our target of 85 per cent and is consistent with last year's result (93 per cent). As in previous years and other jurisdictions, the survey response rate was low. Forty Parliamentarians responded—down slightly from last year (44 respondents). This represents 32 per cent of all Parliamentarians. Therefore, results must be interpreted with caution.

See pages 12 and 40 for further discussion of feedback from Parliamentarians.

Highlights from Parliamentarian feedback

- 98 per cent of Parliamentarians who responded agreed that the Auditor-General's reports and services provide valuable information on public sector performance.
- 100 per cent had referred to one of VAGO's performance audit reports and 86 per cent to one of our attest audit reports.
- 87 per cent agreed that reports communicate issues clearly.
- 85 per cent agreed that the Auditor-General's reports and services help improve public sector administration.
- There was strong agreement that reports clearly identified the significant issues and their implications— 90 per cent agreement for attest audit reports, and 91 per cent agreement for performance audit reports.

[Figure 12] Parliamentarians' satisfaction levels with the Auditor-General's reports and services



n = number of responses.

Target introduced for 2011-12.

National average not available for 2012-13.

Timeliness

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

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

In 2012-13, we met our targets for timeliness of our reports and services.

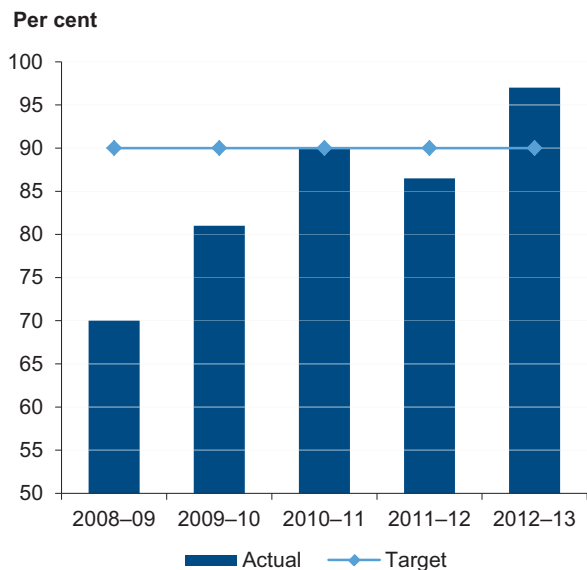
Reports completed on time

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

We met our target for timeliness of reports, with 36 reports (97 per cent) tabled within one month of the planned tabling date (target 90 per cent)

This is a strong improvement on our 2011-12 results (87 per cent) and is a result of better planning and scheduling, and more consistent management of project time lines. The one report that was late—*Investment Attraction*—was carried over from the previous financial year and tabled late due to a change of audit team mid-audit.

[Figure 13] Timeliness of report tabling



Timeliness of responses to inquiries

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

Inquiries can help refine the focus of our audits and are taken into consideration when developing our Annual Plan. The timeliness of our response to unsolicited inquiries measures our responsiveness

in one of our most significant direct interactions with Parliamentarians and the general public.

In 2012–13 we responded to 99 per cent of inquiries within 28 days (target 95 per cent). This is in line with last year’s result (99 per cent). Our average response time was 15 calendar days.

The level of inquiry correspondence in 2012–13 eased from last year, down by 23 per cent. We received 107 letters, emails or phone calls:

- two from Parliamentarians
- 60 from the general public
- 14 from community groups
- 11 from business
- eight from local councils
- six from unions
- six anonymous.

There were several requests for audit attention in relation to the local government sector, with the issue of increasing rates figuring prominently. We audit the local government sector annually through our attest audits of councils and their associated libraries. We also conduct a number of performance audits of the local government sector each year. In 2012–13, this included an audit of *Rating Practices in Local Government*.

Cost

VAGO was allocated \$14.9 million to deliver Output group 1—Parliamentary reports and services in 2012–13.

The cost of delivering our Parliamentary reports and services in 2012–13 was below target at \$14.5 million.

This underspend was largely due to lower expenditure on employee-related expenses, temporary staff and recruitment.

The cost of our performance audits ranged from \$260 000 to \$550 000 in 2012–13. The average cost was \$367 862, which is significantly lower than last year’s average (\$429 827) and our internal benchmark target (\$415 000). This reduction in cost reflects the improved timeliness and shorter average duration of audits this year.

The cost of our attest audit reports ranged from \$155 000 to \$225 000. The average cost per attest audit report increased in line with CPI to \$195 000, compared to \$185 000 last year.

Audit reports on financial statements

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

Figure 14 outlines our performance against our measures for our audit opinions and the following section discusses this performance in more detail.

[Figure 14] Performance against output group 2 targets

Performance measures	Unit of measure	Target 2013–14	Actual 2012–13	Target 2012–13	Actual 2011–12
Quantity					
Audit opinions issued on the financial statements of agencies	(number)	559 ^(a)	550^(b)	563	563
Audit opinions issued on non-financial performance indicators	(number)	115	115	114	115
Quality					
External/peer reviews finding no material departures from professional and regulatory standards	(per cent)	100	100	100	100
Timeliness					
Audit opinions issued within statutory deadlines	(per cent)	98	100	98	99
Management letters issued to agencies within established time frames	(per cent)	90	92	90	96
Total output cost	(\$ million)	22.3	22.7	22.7	22.8

(a) The reduction in target between 2012–13 and 2013–14 reflects a change in the number of entities subject to audit.

(b) Following reporting to the Public Accounts and Estimates Committee and the Department of Treasury and Finance, VAGO was advised that two more opinions were required. These were for entities that ceased operation in 2012–13 and required an opinion on their financial statements for the year ending 30 June 2012 as well as their final financial statements. The lower than target result reflects a change in the number of entities subject to audit in 2012–13.

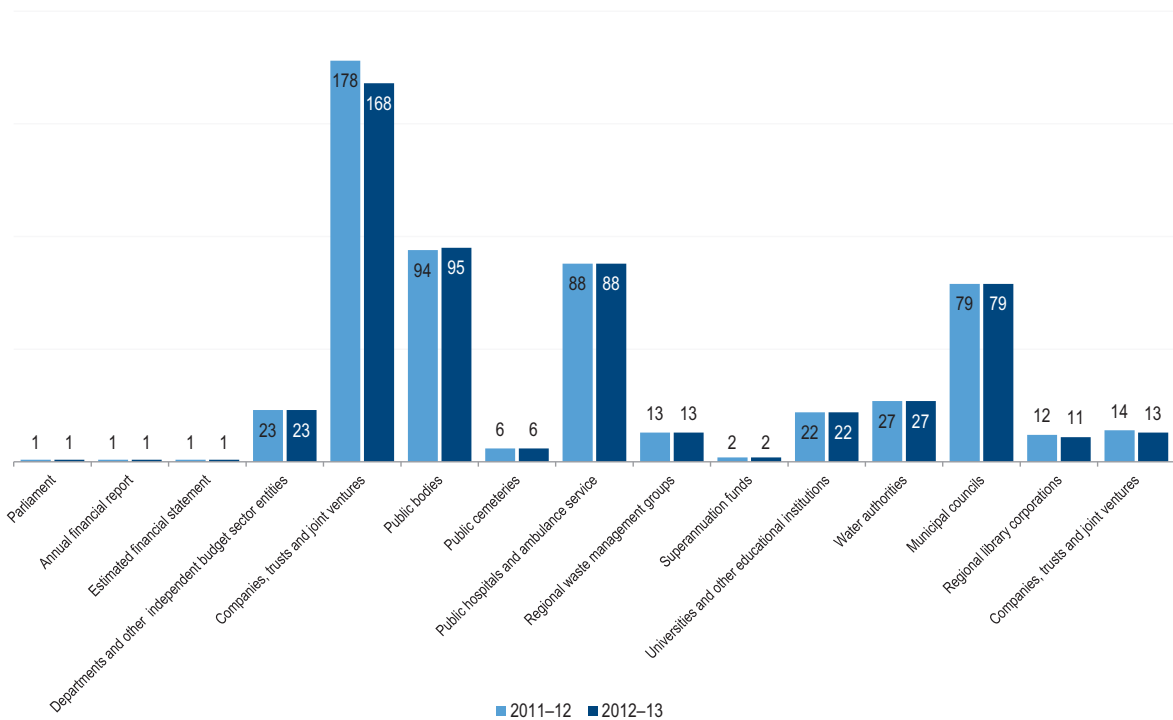


Financial Audit Directors: Paul Martin, Travis Derricott, Charlotte Jeffries, Tim Loughnan, Jo Marsh, Ron Mak, Craig Burke and Simone Bohan. Not pictured: Anna Higgs.

Quantity

VAGO is mandated to provide attest audit opinions on public sector entities. In 2012–13, while our target for number of opinions issued as reported in the budget papers was 563, following the publication of the budget papers, this number was revised down as entities ceased to operate. As such, in 2012–13 VAGO was required to audit 550 entities. Figure 15 shows the type and number of the entities audited.

[Figure 15] Type and number of entities the Auditor-General is responsible for auditing



The attest audit outputs we produce each year are:

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

We also provide authorisation of warrants for expenditure of public funds, and acquittals of Commonwealth grants to the Victorian Government. These are not included in our output targets.

This year we met our quantity targets for audit opinions. These results are discussed in more detail below.

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

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

On 5 October 2012, the Auditor-General provided a clear audit opinion on the State's annual financial report for 2011–12.

The Department of Treasury and Finance tabled the state's annual financial report, with VAGO's opinion, in Parliament on 15 October 2012.

Review of the estimated financial statements of the State of Victoria

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

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

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

On 3 May 2013 the Auditor-General's report on the review of EFS for the financial year ending 30 June 2014 and the following three years was completed.

The Budget Papers, presented to Parliament on 7 May 2013, included the Auditor-General's independent review report.

Audit opinions issued on entities' financial statements

VAGO is required to provide an attest audit opinion on all public sector entities. Independent audit opinions add credibility to financial statements by providing reasonable assurance that the information reported is reliable.

During 2012–13, VAGO issued 550 opinions on entities' financial statements. This included the audit opinion on the annual financial report of the state, and the review opinion on the review of the EFS.

We issued 550 opinions on entities' financial statements

The lower than target number of opinions reflects a change in the number of entities subject to audit (target 563).

An 'unqualified' audit opinion means that the financial statements fairly present the transactions and balances in accordance with the relevant legislative reporting framework. A 'qualified' audit opinion is issued when a material misstatement exists within the financial statements, while not being pervasive to the financial report.

The attest opinions on the financial statements of three entities (four in 2011–12), which represent less than 1 per cent of all audited entities, were qualified in 2012–13 because:

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

Audit opinions issued on entities' non-financial performance statements

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

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

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

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

In 2012–13, we issued 115 attest opinions on non-financial performance statements.

We issued 115 attest opinions on entities' non-financial performance statements

These statements comprised:

- 79 on council statements
- 16 on regional and rural water authority statements
- 14 on technical and further education institutes
- six on training entities.

No entities received qualified audit opinions on their performance statements in 2012–13 (two in 2011–12).

Quality

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

In 2012–13, external/peer reviews were conducted on 11 attest audits—seven audits that were conducted by VAGO staff and four that were conducted by contracted audit service providers.

The reviews found that 100 per cent of the audits reviewed fully complied with professional and regulatory standards.

100 per cent of our attest audits reviewed fully complied with standards

This meets our target (100 per cent) and is consistent with our result for 2011–12 (100 per cent).

Timeliness

There are two timeliness measures for our attest audits:

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

In 2012–13, we met our targets for our timeliness measures.

Audit opinions issued within statutory deadlines

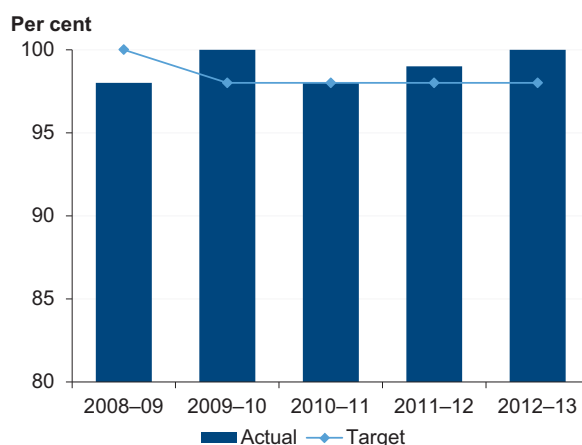
Departments and other public sector entities are required to submit their annual financial statements to the Auditor-General within eight weeks of the financial year end. According to section 9(2) of the *Audit Act 1994*, the Auditor-General must then express an opinion on the financial statements within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

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

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

As shown in Figure 16, this is consistent with last year’s result (99 per cent) and exceeds our target (98 per cent). It continues our trend of high performance against this target.

[Figure 16] Audit opinions issued within the statutory deadline



Management letters issued within established time frames

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

In 2012–13, we issued 92 per cent of final management letters within our established time frames. This is slightly lower than last year’s result (96 per cent), but above target (90 per cent).

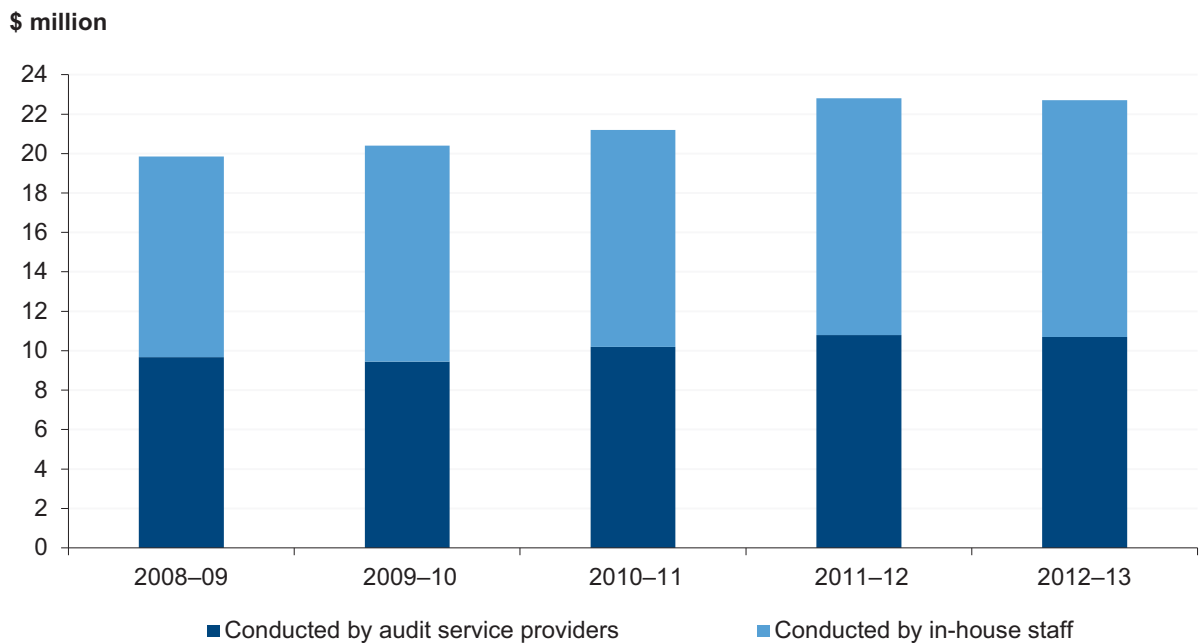
Cost

VAGO was allocated \$22.7 million to deliver Output group 2—Audit reports on financial statements.

The cost of producing our audit reports on financial statements was \$22.7 million. This is on target and decreased slightly from \$22.8 million last year.

The cost of individual attest audits ranged from \$520 to \$498 000, with an average cost of \$41 168. The increase in the average cost of attest audits since 2011–12 is in line with CPI.

[Figure 17] Cost of audit opinions on financial statements



[Figure 18] Trends in average cost of audit opinions

	Unit of measure	Target 2013–14	Actual 2012–13	Actual 2011–12	Actual 2010–11	Actual 2009–10	Actual 2008–09
Attest audit opinions	(number)	559	550	563	551	557	592
Cost	(\$ million)	22.3	22.7	22.8	21.2	20.4	19.8
Average cost per audit opinion ^(a)	(\$'000)	40	41	40	39	37	33

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

At a glance

Audit processes

- Annual planning process reviewed and found to be high quality—minor changes made to streamline advice and clarify requirements.
- Continued to implement our strategy for improving the relevance and appropriateness of performance information in three sectors.

Oversight and external review

- Prepared for the triennial performance audit of the office.
- Strong results from external peer reviews of the conduct of our audits against standards.
- Surveyed Audit Committee Chairs and Secretaries for the first time.

Benchmarking our activities

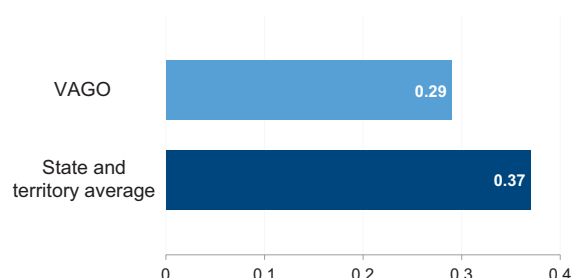
- Total audit cost as a proportion of public sector transactions was 0.29 (state/territory average of 0.37).
- Total audit cost as a proportion of public sector assets was 0.12 (state/territory average of 0.17).

Continuous improvement

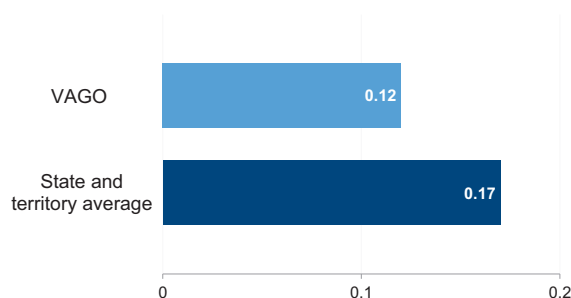
- Completed the first concurrent audit with other audit offices.
- Attended meetings and participated in information sharing with the Australasian Council of Auditors-General.

We prepared for the triennial performance audit of the office through a cycle of self-assessment, peer review and an external review.

Total audit costs per thousand dollars of public sector transactions, 2012–13



Total audit costs per thousand dollars of public sector assets, 2012–13



Introduction

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

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

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

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

Quality framework

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

Recent reviews of VAGO's compliance with the ACAG framework have demonstrated that VAGO has adequate systems of quality control and meets or exceeds legal and legislative requirements and professional standards applicable to public sector audit offices.

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

Quality controls built into our audit processes include our:

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

Quality assurance activities conducted over our audits include:

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

This section discusses these controls and activities.

Framework for selecting areas of audit focus

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

- collecting input through environmental scanning, stakeholder consultation, correspondence from the community, and previous findings from audits
- developing a draft list of four years of audit focus/topics
- consultation on the proposed audit focus/topics
- publication of the annual plan.

Selection of performance audit topics

With around 28 performance audits a year, VAGO seeks to maximize the impact of our performance audit program.

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

[Figure 19] Performance audit topic selection framework



(a) 'Five goals for a stronger, fairer and safer Victoria'.
The Governor outlined this framework at opening of the 57th Parliament, 21 December 2010.

In addition, some programs in some sectors do not rank highly against this framework, but they may provide services that are highly topical and visible. Our performance audit topic selection process includes consideration of these programs for audit attention. See Appendix C of the *Annual Plan 2013–14* for more discussion of VAGO's performance audit topic selection process.

Review of our topic selection process.

In 2013, VAGO's internal auditors examined our performance audit topic selection framework.

This review found that the systems and processes surrounding the identification of performance audit topics are adequate, with rigorous planning and consultation with stakeholders and good transparency around consideration of stakeholder input.

In addition, Parliamentarians write to the Auditor-General to suggest areas for audit attention. In 2012–13 the Auditor-General received two inquiries from Parliamentarians seeking to stimulate audit activity. The performance audit *Managing Major Projects*, which was tabled in October 2012, was brought forward and its scope modified in response to a request made by the Public Accounts and Estimates Committee (PAEC).

Selection of attest audit areas of focus

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

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

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

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

See Appendix D of the *Annual Plan 2013–14* for more discussion of VAGO's attest audit areas of focus.

Standards-based audit methodology

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

We comply with all Australian Auditing Standards and have developed our audit methodologies based on these standards. VAGO has methodologies to guide our attest and performance audits.

The *Audit Act 1994* also enables the Auditor-General to apply additional auditing standards for the conduct of audits. An additional auditing standard was applied in 2012–13, *Additional Auditing Standard 2006:02*.

Additional Auditing Standard 2006:02

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

In 2011–12, this included the following standards issued by the Australian Accounting Research Foundation, on behalf of CPA Australia and The Institute of Chartered Accountants in Australia:

- AUS 804 *The Audit of Prospective Financial Information*
- AUS 810 *Special Purpose Reports on the Effectiveness of Control Procedures*.

Key quality controls incorporated into our audit methodologies include:

- Review of the audit program, working papers and key deliverables by the audit Engagement Leader or Team Leader, who must confirm that the audit meets professional standards.

- Assigning an Engagement Quality Control Reviewer—a senior officer not involved in the audit conduct—to review and confirm the quality of the audit and the significant judgements made by the audit team. This applies to all high-risk and material entity attest audits and all performance audits.

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

Attest audit methodology

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

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

Performance audit methodology

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

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

Methodology for reviewing the estimated financial statements

VAGO's review of the state's estimated financial statements is performed applying the principles in ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* and AUS 804 *The Audit of Prospective Financial Information*. There is no specific auditing standard that deals with review conclusions issued on prospective financial information.

Technical Issues Committee

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

The committee comprises the Assistant Auditor-General, Financial Audit; the Director, Methodology and Standards; and at least two Financial Audit Directors.

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

Parliamentary accountability measures

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

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

VAGO is also subject to both attest 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 next performance audit of VAGO commenced in July 2013. VAGO has been preparing for this performance audit through a cycle of self-assessment, ACAG peer review and an external review.

Reviews of audit processes

To seek assurance that our audits meet the profession's and VAGO's quality standards, we engage external parties to undertake 'cold' reviews of a selection of completed attest and performance audits, including audits conducted by our contracted attest audit service providers.

Attest audits

Matters covered in the reviews of attest audits include whether:

- comprehensive assessments of risk (including IT risk) are documented and linked to the audit strategy
- appropriate strategy and audit programs have been developed and used on audits
- sufficient, appropriate audit evidence supports the conclusions and recommended audit opinion
- reports and management letters were clearly presented, adequately supported and incorporated key issues that were noted and agreed with management.

The overall result from our cold reviews of attest audits is our performance measure of quality for Output group 2—Audit reports on financial statements. Please see page 32 for discussion of results of cold reviews of attest audits.

Performance audits

For performance audits, we engage external parties to undertake a review of a sample of performance audits to assess whether the:

- audits have been conducted in an effective, efficient and economical way, and in accordance with standards, legislation and VAGO's audit methodology.
- findings, conclusions and recommendations are supported by sufficient and appropriate evidence.

In 2012–13, four performance audits were reviewed by peer reviewers from other Australian audit offices. All audits were found to have complied with the performance auditing standards and VAGO policy and procedures. The reviewers considered that the four reports covered highly relevant subject areas and the findings were likely to be of interest to Parliamentarians, agencies and the wider community.

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

ACAG assessments of audit report quality

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

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

The results are also used as a performance measure of quality for Output group 1—Parliamentary reports and services. The assessment process and results for 2012–13 are discussed further on pages 24–26.

Surveys of key stakeholders

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

In 2012–13, we broadened the range of stakeholders we surveyed while limiting audited agency surveys to performance audits.

In 2012–13, we surveyed:

- Parliamentarians
- a sample of audit committee chairs
- audited agencies (in relation to performance audits)
- departmental secretaries.

Surveys of Parliamentarians

As discussed on pages 12 and 26, VAGO surveys Parliamentarians and results are used as a performance measure of quality for Output group 1—Parliamentary reports and services.

For the first time, in 2012–13 we interviewed Parliamentarians face to face to collect more qualitative information. Some opted, however, for a telephone interview or to fill in a written survey.

Surveys of audit committee chairs

Audit committees are important users of our work, with their significant involvement in the attest audit process, and increasing engagement in relation to performance audits.

In 2011, following feedback from meetings with chairs of audit committees, VAGO conducted a pilot survey of chairs. The pilot survey results provided interesting insights and so we decided to do this again in 2013.

The majority of chairs who responded indicated they were satisfied with the financial statement audit process, that they found our attest audit services valuable, and that our engagement was clear and timely.

Approximately half of the audit committees had considered a performance audit report, and their responses were generally positive. Respondents reported that planned performance audits were used to inform their organisations' internal audit work program.

VAGO will use these results to help us prepare for future engagement with audit committees.

Surveys of audited agencies

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

- a contact nominated by the audited agency on every performance audit (for the Output group 1 quality measure)
- Chief Financial Officers annually on the attest audit experience (for the Output group 2 quality measure).

Following the change to our quality measures, we reconsidered our survey approach. In particular, the results of the surveys about attest audits had been consistent for several years and were providing limited new information. As such, we did not survey audited agencies on attest audits in 2012–13.

We did, however, continue to seek feedback on each performance audit, as these are discrete projects and often involve different agency staff. They also provide information of direct relevance to the audit team.

VAGO surveyed agencies on their perceptions of the audit process, reporting and value. The performance audit results for 2012–13 continue the steady improvement over recent years and in 2013 the overall result was the highest achieved to date.

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

The results this year showed a marked increase in agreement that the organisation was promptly informed of significant issues. Results were on par with prior years for effective communication and understanding of the organisation.

Surveys of departmental secretaries

This year, we also directly interviewed departmental secretaries for the first time, on their perception of VAGO, how audits inform their strategic decision-making, and opportunities for improving our communications with them.

Results are yet to be received. They will be examined in the coming months, and will feed into our continuous improvement activities.

Debrief process

At the end of every performance audit we conduct an internal audit debrief to reflect on and identify positives and negatives about the quality of the audit process and reporting. Quantitative and qualitative information is collected about each report, and areas for improvement identified are considered in future activities.

Benchmarking our activities

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

Two of the measures compare audit office costs as a proportion of total state assets and transactions. In 2012–13, VAGO's audit cost as a proportion of:

- public sector transactions was 0.29, compared to the state/territory average of 0.37
- public sector assets was 0.12, compared to the state/territory average of 0.17.

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

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

Additional continuous improvement activities

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

Working with other integrity bodies

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

In February 2013, VAGO tabled our report *Addressing Homelessness: Partnerships and Plans*. This audit was conducted concurrently with six other Australian audit offices, all examining the implementation of the National Partnership Agreement on Homelessness, using a common scope and planning approach. This was the pilot concurrent audit and VAGO supports continuing to undertake concurrent audits.

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

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

VAGO provided support during the establishment phase of Victoria's Independent Broad-based Anti-corruption Commission (IBAC). VAGO contributes a representative to IBAC's ongoing Prevention and Education Advisory Group. Further, a staff member was seconded to assist the development of IBAC's internal audit functions and frameworks.

Engaging with the Australasian Council of Auditors-General

In 2012–13 VAGO continued to be actively involved in the national and international development of public sector audit, through our participation in the ACAG. This engagement provides the opportunity to share information and drive better practice in public sector audit offices.

The Auditor-General attended ACAG meetings in Brisbane and Melbourne in 2012, and the Acting Auditor-General attended a meeting in Sydney in April 2013. The Sydney meeting was timed to coincide with a meeting of the Australasian Council of Public Accounts Committees.

VAGO participates in specialist ACAG networks that allow senior staff to share views and learn from each other.

In 2012–13, VAGO attended or hosted meetings of the ACAG:

- Financial Reporting and Audit Committee, incorporating the Heads of Financial Audit
- Heads of Performance Audit
- Practice Management Group
- Quality Assurance Panel.

Key sub-group projects this year included:

- Concurrent audit
- Intergovernmental agreements
- Advanced performance audit training
- Financial audit fees projects
- Improving the value of macro-benchmarking
- ACAG quality assurances arrangements
- Comparison of Australian audit acts.

At a glance

Executive management

- Resignation of the former Auditor-General.
- Appointment of the new Auditor-General.
- Appointment of a new Executive Director, Audit Support Group.

Risk and audit

- VAGO complied with the Australian and New Zealand Risk Management Standards.
- Audit Committee met four times.
- Internal audits of the Performance Audit Topic Selection Framework, Performance Management, Payroll, Information Management Framework and Business Continuity Planning/Disaster Recovery were conducted.

Legislation and policy

- Established new policies and procedures in relation to protected disclosures and reform of the integrity system.
- One freedom of information request received.

Environmental management

- We purchased 100 per cent green power and reduced our energy use by 6.5 per cent.
- We recycled 84.3 per cent of our total waste.
- Our greenhouse gas emissions were well below the average consumption by equivalent offices.

Contribution to capacity building

- Hosted seven delegations from Thailand, China, Indonesia and others.
- Three secondments to and one secondment from British Columbia Audit Office, and one secondment from the Board of Audit and Inspection of Korea.
- Adopted a 'twinning' arrangement to provide support and advice to the audit offices of Tuvalu and Nauru.

We prepared for the commencement of the 26th Auditor-General who was sworn in on 1 July 2013.



John Doyle, Auditor-General (right) with His Excellency, the Honourable Alex Chernov AC QC, Governor of Victoria, at Mr Doyle's swearing-in ceremony.

Introduction

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

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

Executive management

The Executive Management Group (EMG) provides advice and counsel to the Auditor-General to assist with the delivery of his statutory objectives as described in the *Audit Act 1994*. The EMG members are the:

- Auditor-General
- Chief Operating Officer
- Assistant Auditor-General, Financial Audit
- Assistant Auditor-General, Performance Audit
- Executive Director, Audit Support Group
- Director, Policy and Coordination.

Remuneration of executives is discussed on pages 49 and 108.

Key functions and responsibilities of the EMG include:

- overseeing the strategic direction of the office
- monitoring performance against the strategic and business plans and monitoring compliance
- keeping abreast of critical whole-of-government issues and developments
- fostering continuous improvement across VAGO.

The following subcommittees report directly to the Auditor-General:

- Remuneration Committee (see page 49)
- Technical Issues Committee (see page 39)
- Audit Committee (see page 48).

Other subcommittees report to the EMG:

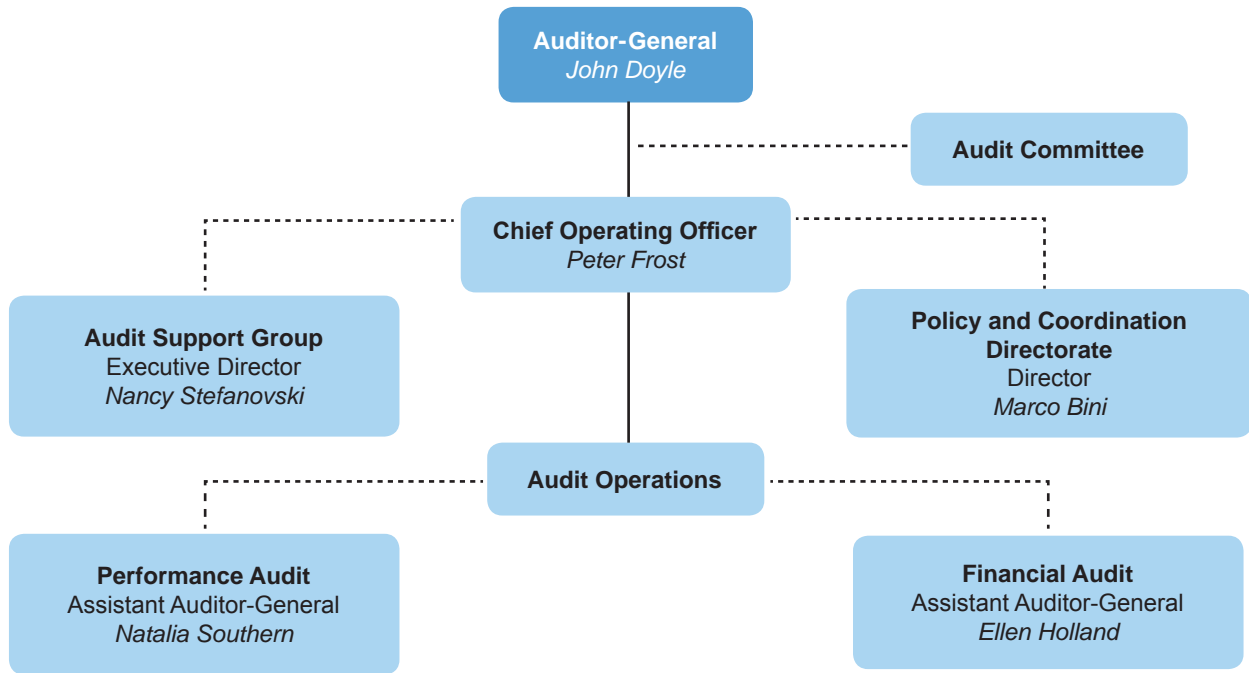
- Accredited Purchasing Unit
- Occupational Health and Safety (see page 61)
- Recognition Review
- Staff Consultation and Development Group (see page 60).

Changes in senior management

The former Auditor-General, Des Pearson, resigned from the office in 2012 and had his final day on 14 December. Mr Pearson had been Auditor-General of Victoria since October 2006. Peter Frost, Chief Operating Officer, was Acting Auditor-General from 17 December 2012 until the commencement of John Doyle as Auditor-General of Victoria on 1 July 2013.

In September 2012, Nancy Stefanovski was appointed Executive Director of the Audit Support Group.

[Figure 20] Executive management organisational chart



Auditor-General of Victoria

John Doyle, MBA, MAcc, FCPA, CA, CIA, FIIA, FCCA (United Kingdom), FCA (Canada)



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

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

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

Chief Operating Officer

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



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

Secretariat, World Bank and Asian Development Bank.

Peter reports directly to the Auditor-General on the management and performance of office operations, and oversees our technical and audit operation activities, as well as our business support activities.

Assistant Auditor-General, Financial Audit

Ellen Holland, BBus (Acc), FCPA, MIPAA



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

Ellen manages the Financial Audit Group and contributes to the office's strategic and business unit planning.

Executive Director, Audit Support Group

Nancy Stefanovski, BSc (Hons), Grad Dip Ed



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

management, reporting and evaluation.

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

Assistant Auditor-General, Performance Audit

Natalia Southern, BBus (Hons), MPubPol



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

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

Natalia manages the Performance Audit Group and contributes to the office's strategic and business unit planning. Natalia is also responsible for the development of our Annual Plan.

Director, Policy and Coordination Directorate

Marco Bini, MCom, LL.M., MPubPol



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

Marco provides a range of legal, policy and administrative advice to the office. Marco also manages the Policy and Coordination Directorate, which provides a range of internal policy, governance and strategy services.

Risk and audit

Risk management

VAGO's office-level risk management is conducted and monitored through our risk register, which is reviewed annually as part of VAGO's business planning processes. The register is updated and reported on monthly to EMG and quarterly to VAGO's Audit Committee (discussed on page 48).

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 has critically reviewed the risk profile within the last 12 months and has robust risk management processes, including internal control systems that enable the executive team to understand, manage and control risk exposures. These processes have been verified as being consistent with the Australian/New Zealand Risk Management Standard AS/NZS ISO 31000:2009.

The Audit Committee agrees that this attestation is consistent with the committee's understanding of VAGO's risk management policies and processes, based on the evidence, reports and communications provided to the committee throughout the year.



John Doyle
Auditor-General

6 August 2013

Insurance

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

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

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



John Doyle
Auditor-General

6 August 2013

Internal audit

Moore Stephens, Accountants and Advisers, are appointed as VAGO's Internal Auditor for the period August 2010 to June 2015. The Internal Auditor reports to VAGO's Audit Committee. A three-year internal audit program has been approved by the Audit Committee and the following reviews were carried out in 2012–13:

- Performance Audit Topic Selection Framework
- Performance Management
- Payroll
- Business Continuity Planning/Disaster Recovery
- Information Management Framework Review
- Follow up Review.

The Audit Committee's report

The role of the committee is to advise the Auditor-General independently to help him meet his management responsibilities at VAGO as prescribed in the *Financial Management Act 1994*, the *Audit Act 1994* and other relevant legislation and 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 Committee has appropriate financial and industry expertise. All members are financially literate and have an appropriate understanding of the operation of the office.

Joanna Perry was appointed Chair from 1 July 2012. The members of the Audit Committee for the year ended 30 June 2013, their qualifications and attendance at meetings, are set out in Figure 16.

Committee member	Meetings attended	Meetings held
Joanna Perry MNZM, FCA MA New Zealand professional non-executive officer	4	4
Kerry Jacobs BCom, MCom(Hons), PhD, FCPA, FCA Professor of Accounting, Australian National University	4	4
Sara Watts BSc, MBA, GAICD, FCPA Chief Financial Officer, IBM Australia and New Zealand	4	4
Lyn Baker, BA, MBA, GAICD Non-executive director and consultant Former NSW Commissioner for Fair Trading	4	4

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

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

In fulfilling its responsibilities at each meeting the Audit Committee has considered a monthly management report, a risk register report and received a briefing from the Auditor-General on salient matters including changes in the Victorian integrity landscape, and the preparation for the 2013 PAEC performance audit. During the course of the year the Audit Committee has considered:

- policies and procedures in place for the development of VAGO's annual plan, quality assurance processes, and the development of budget estimates.
- systems of control for conflicts of interest and the monitoring of those systems.
- the annual financial report for the year ended 30 June 2012 and recommended its adoption by the Auditor-General.
- the closing report from the external financial auditor for the year ended 30 June 2012, which identified no significant issues.
- status and review reports from the internal auditor, which include management's response to matters raised by internal audit. The internal auditor advised that there were no significant weaknesses in any of the areas of work undertaken during the year relating to: Procurement and Contract Management, ICT Governance, Performance Audit Topic Selection Framework, Performance Management, Payroll.
- the office's risk management policies and procedures and reports and noted that risks were being appropriately identified monitored and addressed by the office.
- whether the office has appropriate policies and practices in place to review and implement, where appropriate, recommendations from external reviews, including parliamentary committee inquiries.

The committee reviewed the effectiveness of internal audit and recommended the extension of the contract with the provider for a further two years.

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



Joanna Perry (Chair)
6 August 2013

Legislation and policy

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

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

Audit opinion delegations

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

VAGO's Audit Opinions Delegations policy states that the Auditor-General signs audit opinions for all material and high-risk entities, including the opinion on the annual financial report of the State of Victoria. Under a formal instrument, the former Auditor-General delegated the authority to sign other audit opinions under section 9. In 2012–13, this delegation applied to 13 individuals.

Audit opinion delegations

In 2012–13, the following individuals had this delegation:

Peter Frost
Ellen Holland
Natalia Southern
Kristopher Waring
Steven Vlahos
Simone Bohan
Tim Loughnan
Charlotte Jeffries
Jo Marsh
Ron Mak
Craig Burke
Travis Derricott
Anna Higgs.

Executive remuneration

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

The Remuneration Committee is responsible for this policy, and monitoring the executive officer annual performance appraisal process and salary review. This committee comprises the Auditor-General, the Manager People and Culture, and an independent member. In 2012–13, the independent member was Ms Liz Roadley.

See page 108 for further discussion of executive remuneration.

Managing and responding to complaints

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

In 2012–13, no complaints were made to VAGO under the *Managing complaints about matters other than audits* policy. One complaint was made to VAGO under the *Managing complaints about the conduct of audits* policy. This complaint was acknowledged within five business days and the final response was completed within 28 days.

Protected disclosures

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

In February 2013, the *Whistleblowers Protection Act 2001* was replaced by the *Protected Disclosures Act 2012*.

This substantially altered VAGO's responsibilities and VAGO can no longer receive protected disclosures of any kind (previously VAGO could receive disclosures about VAGO officers) and therefore no longer has a protected disclosure coordinator.

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

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

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

In the eight months that the *Whistleblowers Protection Act 2001* was still in effect, there were no disclosures made to VAGO. There were no other disclosures to report under the superseded Act.

Oversight by the Victorian Inspectorate

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

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

In 2012–13, VAGO did not formally exercise its coercive powers. Therefore, VAGO had nothing to report to the Inspectorate and the Inspectorate did not review any of VAGO's activities.

Freedom of information

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

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

Our administrative processes, however, come under the state's freedom of information legislation. VAGO received one application under this legislation in 2012–13. In order to maintain the confidentiality of this request, we are not disclosing its nature or outcome.

Freedom of information requests

Requests for access to information and documents not related to audits can be made to the Executive Director, Audit Support group:

Via email:
nancy.stefanovski@audit.vic.gov.au

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

Information on what VAGO does in relation to the *Freedom of Information Act 1982*, how we act, what information we hold and how to access the information is available in our Part II Information Statement, published on the VAGO website: http://www.audit.vic.gov.au/about_us/corporate_information/freedom_of_information.aspx. See also Appendix 5.

National Competition Policy

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

Victorian Industry Participation Policy

In October 2003 the Victorian Parliament passed the *Victorian Industry Participation Policy Act 2003* that requires public bodies and departments to report on the application of the *Victorian Industry Participation Policy* (VIPP). This is intended to promote employment and business growth by expanding opportunities for local industry. Departments and public bodies are required to apply VIPP in all tenders of more than \$3 million in metropolitan Melbourne and \$1 million in regional Victoria. VAGO did not complete any tenders or contracts that were subject to VIPP during 2012–13.

Building Act

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

Overseas travel

All overseas travel by VAGO staff must be approved by the Auditor-General. In 2012–13, VAGO sent the following staff overseas:

- The Director, Policy and Coordination Directorate travelled to New Zealand in November 2012 to represent the Auditor-General at the International Ombudsman Conference.

- A Performance Audit Director travelled to Canada for a secondment with the Audit Office, British Columbia from September to December 2012 and February to April 2013.
- A Performance Audit Director and a Performance Audit Manager travelled to Auckland in November 2012 and to Fiji in June 2013 to attend meetings of the Pacific Association of Supreme Audit Institutions (PASAI). The Performance Audit Director also travelled to New Caledonia in October 2012 for the PASAI Congress.
- A Senior Manager, Financial Audit travelled to Canada for a secondment with the Audit Office, British Columbia from February to June 2013.
- A Manager, Financial Audit travelled to Canada for a secondment with the Audit Office, British Columbia from December 2012 to May 2013.
- The Assistant Auditor-General, Financial Audit, travelled to Vietnam in November 2012 to present on behalf of CPA Australia (travel paid by CPA Australia).



Ellen Holland, Assistant Auditor-General, Financial Audit, presents to auditors, accountants and students in Vietnam on behalf of CPA Australia.

Environmental management

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

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

In 2012–13 we continued to implement our two-year *ResourceSmart* strategy, which was aimed at helping us make the environment central to our planning, operations and policy decisions.

Governance

The Environmental Management Committee provides advice and recommendations to EMG on improving VAGO's environmental management. The committee's responsibilities include:

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

In 2013–14, the committee will develop and launch a new environmental management strategy to target further possible areas for improvement and strive for better practice.

Environmental performance

VAGO monitors its environmental performance against seven focus areas. We collect data on each of these areas to help us understand our environmental impacts, identify areas for improvement and to allow us to benchmark our performance against other jurisdictions. Comprehensive reporting is available on our website, and is audited by NetBalance.

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

Our overall NABERS rating in 2012–13 was 3.5 stars. This is below the general aspirational government target of 4.5 stars. It is, however, similar to other equivalent offices and is largely due to our building fit-out.

The following section summarises our performance against focus areas in 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 2012–13.

This year, we reduced electricity use by 3.2 per cent, mostly due to the installation of new servers that are more energy efficient.

Our energy use for 2012–13 was 4 846MJ/FTE, which is substantially below the government average of around 7 000MJ/FTE. Given VAGO is an office-based organisation, this is an appropriate energy usage level.

Waste production

In 2012–13, we recycled 84.3 per cent of our total waste. This result is above our target of 80 per cent, and the average for equivalent offices of 50 per cent.

We compared well to other similar government agencies, producing 64.5kg/FTE of waste. This is below our strategy target of 71kg/FTE and the average for equivalent offices of around 100kg/FTE. This strong performance is largely due to our behaviours in relation to recycling.

Our volume of landfill waste fell from 12.7 to 10.1 kg/FTE (20 per cent) and brings us in line with similar offices (around 10kg/FTE/year).

Paper use

Our paper use fell in 2012–13 from 19.7 to 17.8 reams/FTE (9.6 per cent). While this is a good reduction, we remain above the average for equivalent offices of around 12 reams/FTE.

VAGO is investigating options for reducing the number of reports we print, and internally we are seeking to become a 'paperless' office, to improve our environmental performance, reduce costs associated with printing, and improve our efficiency.

Water consumption

VAGO's water consumption rose slightly in 2012–13 to 4.4kL/FTE from 4.0kL/FTE. This is still in line with good practice.

Transportation

VAGO's main transportation usage is through travelling to agencies as part of our audit conduct. Staff also travel to participate in conferences, audit and accountability industry meetings, and to peer offices for secondments and other learning opportunities. Figure 21 shows the impact of vehicle use and flights taken by VAGO staff.

[Figure 21] Vehicle use and flights taken by VAGO staff

	2012–13	2011–12
Vehicles (fleet vehicles and hire vehicles)		
kilometres travelled	217 238	206 640
tonnes CO ₂ -e	43	49
Flights (short/medium/long haul)		
kilometres travelled	211 254	132 891
tonnes CO ₂ -e	50.9	30.4

The kilometres travelled by our total vehicle use increased but our CO₂ emissions fell 12.2 per cent to 43 tonnes. This was a result of our change in practice in 2012–13 to hire fuel-efficient cars.

Taxi trips by staff also decreased from 826 to 532, resulting in a 35.5 per cent reduction in CO₂ emissions to 2.9 tonnes.

The number of kilometres travelled on flights increased substantially in 2012–13. This is a result of a number of exchanges between VAGO and the Audit Office of British Columbia.

Greenhouse gas emissions

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

VAGO's greenhouse gas emissions for 2012–13 was 0.9 tonnes/FTE. This is a slight increase from 2011–12 (0.8 tonnes/FTE), largely due to the increase in international flights taken. It is still, nonetheless, below the average consumption by equivalent offices of 2.0 tonnes/FTE.

Procurement

VAGO's policy on procurement and purchasing commits us to sustainable purchasing, planning and practices to reduce environmental impacts and to support suppliers that demonstrate a commitment to environmental initiatives and performance.

In relation to office supplies, purchasing considers the environment as well as other aspects such as price and availability. This will be given greater priority in our next environmental management strategy.

Contributing to capacity building

International engagement

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

Over the past few years, VAGO has focused our engagement with international stakeholders on information needs relevant to VAGO's work. Implementation of our International Engagement Policy, better coordination with ACAG and improved external communication has assisted international visitors in determining whether a visit to VAGO is right for them. As a result, visits have been better with more engaged and relevant visitors.

Appendix 2 lists the delegations, placements and secondments for 2012–13.

Pacific Association of Supreme Audit Institutions (PASAI)

PASAI is the official association of supreme audit institutions in the Pacific region. While VAGO is not a national audit institution, we engage with and support this association. In 2012–13, VAGO continued our assistance to PASAI.

This year, our support has become more targeted, as a 'twinning' framework was agreed between Australian and Pacific audit offices based on the framework in place between Parliaments.

Under this framework, Australian offices are 'twinning' with one or more Pacific offices, to provide a program of assistance. VAGO was allocated Nauru and Tuvalu.

Throughout the year, VAGO has sought to build this support in the following ways:

- A Performance Audit Director attended the 15th PASAI conference in New Caledonia in October 2012, to establish our relationships with our twinned PASAI members and outline our proposal for assistance, as well as further develop our relationships with other PASAI members, aid organisations and the PASAI Secretariat more broadly.
- A Performance Audit Director and a Performance Audit Manager attended meetings in Auckland in November 2012 and Fiji in June 2013 to support PASAI's 4th cooperative audit.
- We provided targeted 'help-desk' assistance to selected PASAI members participating in a PASAI cooperative performance audit.

To date, this assistance has been focused on Tuvalu, which has a more mature audit function. VAGO will shortly be commencing engagement with Nauru.

Collaboration with CPA Australia

In November 2012, the Assistant Auditor-General, Financial Audit, travelled to Vietnam to share practices, knowledge and experience with auditors, accountants and students. The event was organised by CPA Australia.

The Assistant Auditor-General presented on:

- 'Challenges for Victoria's environment and natural resources—findings from recent performance audits', presented to State Audit Vietnam.
- 'Key themes from VAGO's 2011–12 performance and financial audit reports', presented to the Vietnam Association of Certified Public Accountants.
- 'Accountability and transparency in the public sector—the role of audit', presented to the Faculty of Accounting and Auditing, Banking Academy.

At a glance

Workforce capacity

- We employed 179 staff—161 ongoing and 18 fixed-term or casual.
- Eighty-nine per cent of staff held a tertiary degree.
- Staff spent an average of 8.5 days in training, delivered at a total cost of \$483 277.
- Staff turnover fell to 5.6 per cent.

Staff survey results **improved on every measure** compared to the last survey in 2010–11

Employment and conduct

- Positive staff survey results with improvement on all measures.
- We met all our occupational health and safety measures.
- Two injuries were reported under our occupational health and safety policy, and there were no critical incidents.



Business Operations Group: Desiree D'Argent, Skye Wighton, Megan Mithen, Linda Pemberton, Jenny Casey, Nicole Mumford, Anna MacGill and Li La'Brooy. Not pictured: Bianca Davey and Amy Harrison.

Introduction

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

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

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

Workforce capacity

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

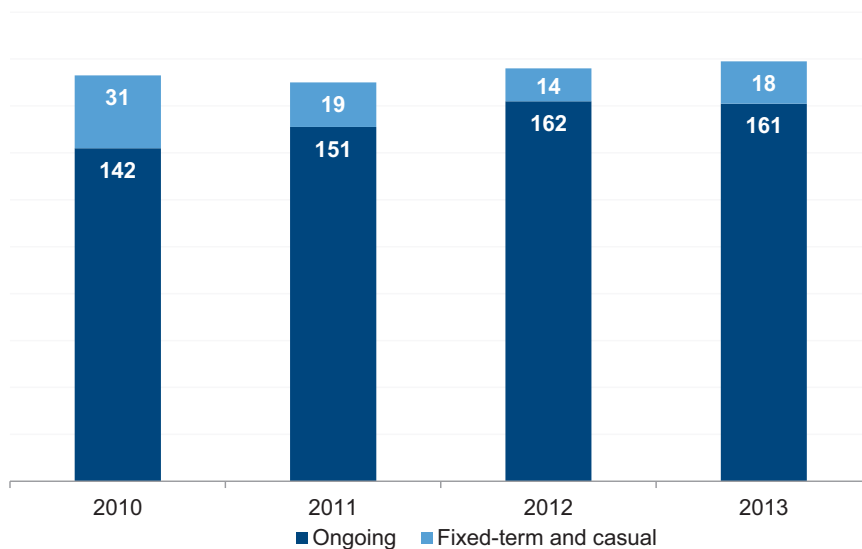
At 30 June 2013 we had 179 staff—161 ongoing staff and 18 fixed-term or casual staff.

Our staff profile

Of our 161 ongoing staff, 140 work full-time and 21 work part-time. Of our 18 fixed-term and casual staff, 15 work full-time and three work part-time or casual hours.

Figure 22 shows our employee numbers, and Figure 23 shows our workforce by gender, age and classification.

[Figure 22] Staff profile by employment type



[Figure 23] Employee profile by gender, age and classification

	30 June 2013				30 June 2012			
	Ongoing		Fixed-term and casual		Ongoing		Fixed-term and casual	
	Number (headcount)	FTE	Number (headcount)	FTE	Number (headcount)	FTE	Number (headcount)	FTE
Gender								
Male	70	69.0	8	7.7	69	66.3	3	2.0
Female	91	84.9	10	9.5	93	85.7	11	8.6
Age								
Under 25	11	11.0	1	1.0	12	12.0	1	0.0
25–34	69	67.0	7	6.5	66	60.8	8	6.0
35–44	40	36.5	5	5.0	42	38.6	2	1.6
45–54	23	21.8	3	2.8	24	23.0	2	2.0
55–64	17	16.6	1	1.0	17	16.6	1	1.0
Over 64	1	1.0	1	0.9	1	1.0	0	0.0
Classification								
VPS Executives	19	19.0	1	1.0	19	18.9	0	0.0
VPSG1	0	0.0	0	0.0	0	0.0	0	0.0
VPSG2	6	6.0	0	0.0	9	8.4	2	1.0
VPSG3	38	37.0	3	3.0	32	31.3	4	3.0
VPSG4	30	29.4	4	3.5	32	30.2	2	1.0
VPSG5	29	26.5	4	4.0	25	22.7	2	2.0
VPSG6	33	30.5	4	3.8	38	33.9	3	2.6
VPSG7 ^(a)	6	5.5	2	1.9	7	6.6	1	1.0

(a) The VPSG7 (also known as Senior Technical Specialist) roles at VAGO comprise six specialist senior auditing roles, one senior accounting role and one senior legal role.

Executive information

VAGO reports separately on executive officers, as required by financial reporting directions. This information is also available to members of Parliament and the public on request.

Figure 24 shows the breakdown of executive officers by classification. All VAGO’s executive

officers are responsible for ongoing functions or outputs and none are conducting special projects. Figure 25 show the breakdown of executive officers by gender and variance since 2011–12. Figure 26 shows our executive remuneration and vacancies, and reconciles with our financial report.

[Figure 24] Number of executive officers by classification

Classification	All		Ongoing	
	2012–13	2011–12	2012–13	2011–12
Auditor-General ^(a)	1	1	1	1
EO2	3 ^(b)	3	3 ^(b)	3
EO3	19	18	19	18
Total	23^(c)	22^(d)	23	22^(d)

(a) The Auditor-General is VAGO's Accountable Officer and is an officer of Parliament, not a VPS executive as the definition of executive officer excludes Governor-in-Council appointments of statutory office holders. However, the Auditor-General is considered in the same salary band as an EO1 and as such has been included in this table.

(b) As at 30 June 2013, the Chief Operating Officer was Acting Auditor-General. However, for the purposes of this table, he has been counted in his substantive role as an executive officer in the EO2 band.

(c) The increase from 2011–12 to 2012–13 is due to an executive officer being employed to backfill a period of maternity leave.

(d) Comparatives have been adjusted for 2011–12 to reflect ongoing vacancies.

[Figure 25] Breakdown of executive officers by gender

Classification	Male		Female		Ongoing vacancies
	Number	Variance	Number	Variance	
Auditor-General ^(a)	0	-1	0	0	1
EO2	1 ^(b)	0	2	0	0
EO3	11	1	6	1	2
Total	12	0	8	1	3^(c)

(a) The Auditor-General is VAGO's Accountable Officer and is an officer of Parliament, not a VPS executive, as the definition of executive officer excludes Governor-in-Council appointments of statutory office holders. However, the Auditor-General is considered in the same salary band as an EO1 and as such has been included in this table.

(b) At 30 June 2013, the Chief Operating Officer was Acting Auditor-General. However, for the purposes of this table, he has been counted in his substantive role as an executive officer in the EO2 band.

(c) The vacancies include that of the Auditor-General, a staff member on maternity leave—both of which are filled by staff members acting on higher duties allowance—and an ongoing vacancy that was vacant for the entire period.

[Figure 26] Reconciliation with executive numbers

	30 June 2013	30 June 2012
Executives employed with total remuneration over \$100 000	19	16
Vacancies	3 ^(a)	3
Executives employed with total remuneration below \$100 000	2	6
Accountable officer	0 ^(a)	1
Separations	-1 ^(b)	-4
Total executive numbers at 30 June	23	22

(a) At 30 June 2013, the Chief Operating Officer was Acting Auditor-General and Acting Accountable Officer. However, for the purposes of this table, he has been counted in his substantive role as Chief Operating Officer, and the role of Accountable Officer has been reported as vacant.

(b) The separation included in this table is the Auditor-General, who resigned in December 2012.

Recruitment and retention

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

In 2012–13, the overall voluntary turnover was 5.6 per cent, compared with 11.9 per cent in 2011–12. VAGO made no exemptions from notification of vacancy for ongoing positions in 2012–13.

[Figure 27] Departures from VAGO

Year	Ongoing (including executives)		Fixed-term and casual		Voluntary turnover rate (per cent)
	Employees (headcount)	FTE	FTE		
2009–10	14	14.0	16.0		17.3
2010–11	27	26.4	18.8		19.7
2011–12	21	19.7	11.8		11.9
2012–13	7	6.3	2.7		5.6

Employee qualifications and training

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

Eighty-nine per cent of all VAGO employees have a qualification at bachelor level or higher. Many of our staff have double degrees, and 4 per cent have a PhD. A breakdown by staff type is shown in Figure 28.

In addition, our financial auditors are required to undertake professional accounting accreditation from CPA Australia or the Institute of Chartered Accountants in Australia (CA). All financial audit

staff are encouraged to be accredited by these organisations or a similar overseas organisation. In 2012–13, 31 VAGO employees had CPA accreditation, 21 had CA accreditation and four staff members had accreditation from similar overseas organisations.

We also invest heavily in learning and development for our staff. In 2012–13, VAGO staff spent on average 8.5 days in training.

This includes hours spent in training provided by VAGO and was delivered at a total cost of \$483 277. Learning and development expenditure includes expenditure on training providers, study assistance, external course and seminar attendance, coaching, and professional memberships. The overall cost does not include the salary cost for staff hours spent receiving or delivering training.

[Figure 28] Qualifications of VAGO staff by business unit

	Bachelor degree held (per cent)	Postgraduate degree held (per cent)	Total staff with a tertiary qualification (per cent)
Performance Audit staff	98	72	100 ^(a)
Financial Audit staff	95	23	95
Other staff	64	36	67 ^(a)
All VAGO staff	89	42	89

(a) Postgraduate degrees are held by some staff without bachelor degrees.

Employment and conduct

Staff cultural alignment survey

VAGO's main source of information about the quality of our management of people, culture and performance is our biennial staff cultural alignment survey. Our third survey in recent years was conducted in 2012–13.

The survey results indicated that VAGO, as an organisation, displays high levels of corporate responsibility. Employees are committed to achieving operational excellence and clearly understand the behavioural and performance standards expected of them.

Since the last survey in 2010–11, results showed improvement for every measure. VAGO's highest scoring measures related to IT effectiveness, roles and expectations, corporate responsibility, work/life balance and cost consciousness. The survey identified areas for improvement in relation to organisational cohesion and empowerment. VAGO is developing an action plan in response to the results. This will include consultation with the Staff Consultation and Development Group. Actions already agreed include executive coaching for Executive Management Group (EMG) members to improve information sharing between business units.



Performance Audit Sector Directors' Meeting: Natalia Southern, Assistant Auditor-General, Performance Audit, Susanna Young, Senior Adviser, Strategy and Policy, and Dallas Mischkulnig, Sector Director, Performance Audit.

Staff Consultation and Development Group

This group provides a channel of communication between staff and management on matters directly affecting the culture and business of VAGO.

The 12-member group has a rotating chair and comprises representatives at various levels across the four business units. Meetings are also attended by the Executive Director, Audit Support Group as the representative of the EMG, the Manager, People and Culture, and a Social Club representative. The Auditor-General and Chief Operating Officer attend at least one meeting a year.

In 2012–13, the group worked to improve communication and engagement with staff on long-term leave, continued a program of guest lectures for staff, and provided input into VAGO's response to the biennial staff survey and the rewards and recognition program.

Merit and equity

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

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

- a merit and equity policy to promote and support diversity throughout VAGO
- a policy on reviewing our actions, which advises staff on addressing issues that arise
- training in merit-based recruitment practices
- a code of conduct to help staff understand the behavioural standards they must meet as officers of the public service
- information on anti-discrimination laws and expected behaviours, which is communicated in staff induction training, and at staff meetings.

Occupational health and safety

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



First aid officers: Dean Anagnos, Kate Kuring, Elsie Alcardo and Rowan Jennion. Not pictured: Jan Carrigg and Kobi Perkal.

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

In 2012–13, there were two injuries reported under our OH&S policy, and no critical incidents. There were no new workers compensation claims over the reporting period.

In 2012–13:

- VAGO continued OH&S workplace inspections of all areas of the workplace in addition to off-site agency workplaces as necessary, to identify hazards and agree on solutions to remove or minimise them.
- All staff were required to complete an annual e-learning module on OH&S to reinforce the safe working message.
- Free flu vaccinations were once again offered to staff in April 2013.
- Staff were able to access free workplace health checks held in July 2012.
- Healthy eating and cooking demonstrations were offered to staff as part of the workplace health program.

Our performance indicators for OH&S are reported in Figure 29.

[Figure 29] Performance against OH&S performance indicators

Performance indicator	Met?	Performance
All new and existing staff are offered ergonomic assessments and required products are sourced and purchased	✓	All staff have been offered an ergonomic assessment within two weeks of commencement
All claims received are lodged with WorkCover within five working days	✓	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	✓	Met in accordance with WorkCover requirements
Report on the number of claims and costs is provided to EMG as required	✓	Reported as required
Coordinate and chair the OH&S committee and schedule quarterly meetings	✓	Four meetings held in 2012–13, meeting the requirements of the <i>Occupational Health and Safety Act 2004</i>

Work arrangements for staff

In 2012–13 we reviewed our relevant policies to provide broader access to flexible working arrangements, in response to increasing requests for flexible working arrangements and new legislative obligations for employers to provide flexible working conditions. We encourage our staff to take advantage of the arrangements available to them.

Social Club

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

Our social club arranges events to promote a spirit of teamwork and maintain a high level of staff morale. Staff participate in various events, such as the Biggest Morning Tea, rock climbing, futsal, netball, Run Melbourne and an annual sports contest with the Department of Treasury and Finance.

We also conducted fundraising activities for various charities, including Jeans for Genes, the Cancer Council, RSPCA, the National Breast Cancer Foundation, Movember, Suicide Prevention Australia, Fragile X, and Surf Life Saving.

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.



Team Unhealthy took out the inaugural VAGO Futsal Championship.



Social Club rock climbing event

At a glance

Financial performance

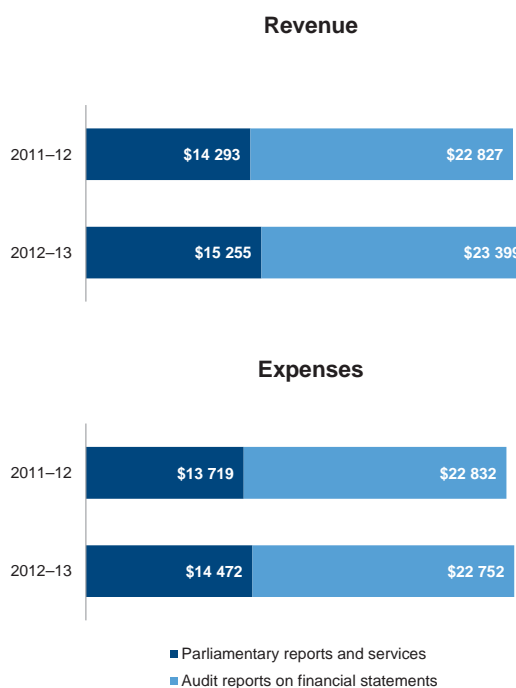
- We had a surplus of \$1 457 260.
- Revenue increased 4.1 per cent.
- Expenditure increased 1.8 per cent.
- Output group 1 costs increased \$0.8 million.
- Output group 2 costs decreased \$0.1 million.

Consultancies and contractors

- We engaged four consultants with total fees greater than \$10 000.
- We engaged four consultants with total fees less than \$10 000.
- We engaged 32 contractors for services related to our performance audits.
- We engaged 24 audit firms (36 partners) for services related to our attest statement audits.

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

Revenue and expenses for Output groups for 2011–12 and 2012–13



Financial performance

Our net financial result for the year was a surplus of \$1 457 260 (compared with a surplus of \$578 173 in 2011–12). This surplus is a result of a reduction in the average cost of audits, more even tabling of audits across the year, less recruitment due to the

Sustainable Government Initiative, and a vacancy of a senior key executive.

Figure 30 shows the movement in both actual revenues and expenses

[Figure 30] Revenues and expenses, 2012–13 and previous four years

	2012–13 (\$'000)	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)
Revenue					
General appropriation	14 661	13 959	13 612	13 433	11 696
Section 32 carry-over	344	–	200	360	–
Section 29	23 136	22 547	21 899	20 829	19 317
Special appropriation	362	456	447	445	410
Other	151	158	332	643	222
Total revenue	38 654	37 120	36 490	35 710	31 645
Total expenses	37 197	36 542	35 974	34 928	33 186
Surplus/(deficit)	1 457	578	516	782	(1 541)

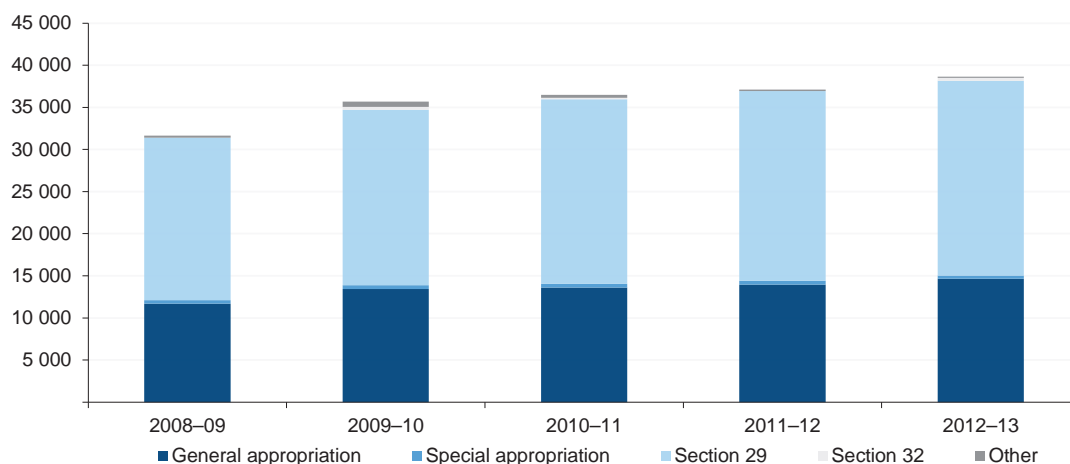
Revenue

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

Revenue increased in 2012–13 mainly due to general price increases plus a carry-over of appropriation of \$344 000 into 2012–13 year

following a deferral of performance audit project expenses. Our Special Appropriation was reduced as a result of the departure of the previous Auditor-General at mid-year.

[Figure 31] Source of VAGO funding over the past five years



Expenses

VAGO spends most of its budget on employees, contract audit services, accommodation, and supplies and services.

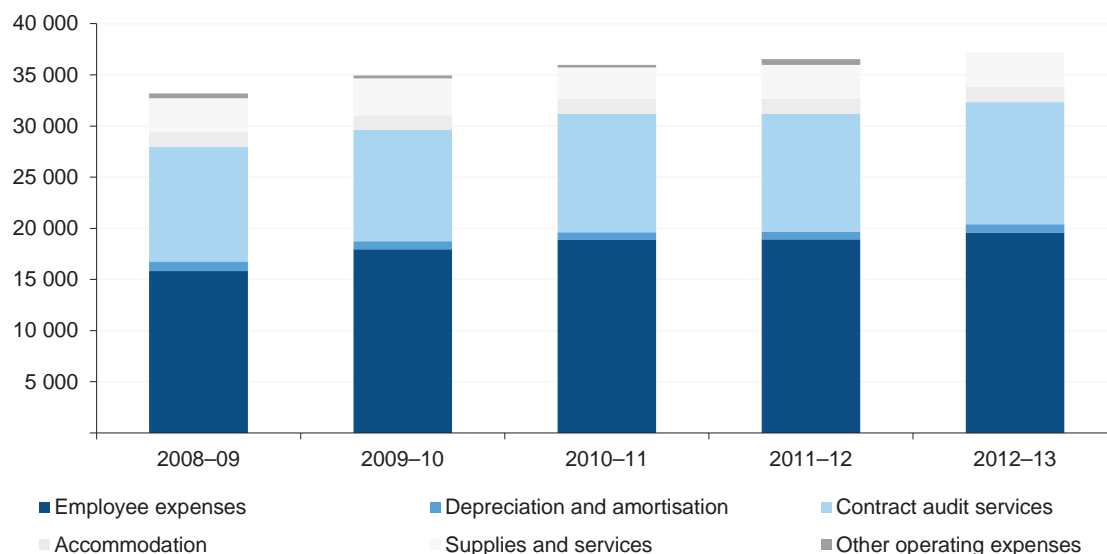
Expenditure in 2012–13 increased mainly as a result of general price increases, higher use of contract performance audits, higher employee costs, and higher consultancy costs due to an external review.

This is offset by gains from a downward revaluation of long service leave provisions (following an increase in the discount rate) and lower recruitment and training activities following lower staff turnover and a poor employment market.

[Figure 32] Expenses from ordinary activities for 2012–13 and previous four years

Item	2012–13 (\$'000)	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)
Expenses					
Depreciation and amortisation	802	732	764	801	928
Employee expenses	19 587	18 917	18 862	17 946	15 829
Contract audit services	11 956	11 531	11 558	10 859	11 220
Rental expenses – accommodation	1 462	1 477	1 475	1 454	1 437
Supplies and services	3 408	3 317	3 060	3 580	3 297
Other operating expenses	(18)	568	255	288	475
Total expenses	37 197	36 542	35 974	34 928	33 186

[Figure 33] Expenses, 2012–13 and four previous years



Output results

The financial results for our two output groups were:

- Output group 1—Parliamentary reports and services:** Output costs are higher by \$0.8 million due to higher contract costs, higher consultancy fees as a result of an external review, and higher employee costs—offset by gains from a downward revaluation of long service leave provisions and a lower recruitment and training spend.
- Output group 2—audit reports on financial statements:** Output costs were lower by \$0.1 million due to lower temporary employee costs, lower recruitment and training spend, and gains from a downward revaluation of long service leave provisions – offset by higher employee entitlements.

[Figure 34] Total revenues and expenses attributed to outputs for 2012–13 and 2011–12

Output group	2012–13			2011–12		
	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)
1. Parliamentary reports and services	15 255	14 472	783	14 293	13 719	574
2. Audit reports on financial statements	23 399	22 725	674	22 827	22 823	4
Total	38 654	37 197	1 457	37 120	36 542	578

Financial position

Our financial position at 30 June 2013 remained strong, with total assets of \$15.4 million, total liabilities of \$7.3 million and net assets of \$8.1 million.

[Figure 35] Asset and liability movement over five years

Item	2012–13 (\$'000)	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)
Financial assets	12 930	10 755	9 734	8 361	7 933
Non-financial assets	2 518	2 690	2 978	2 991	2 924
Total assets	15 448	13 445	12 712	11 352	10 857
Total liabilities	7 333	6 787	6 631	5 787	6 069
Net assets	8 115	6 658	6 081	5 565	4 788

Other financial matters

Financial report

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

Consultancies

In 2012–13, we engaged four consultancies where the total fees payable to the consultants were greater than \$10 000. Details of these consultancies are outlined in the table below. We also engaged four consultancies where the total fees payable to the consultants were less than \$10 000, with a total expenditure of \$23 770 (excluding GST).

[Figure 36] Details of individual consultancies

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (excluding GST)	Expenditure 2012–13 (excluding GST)	Future expenditure (excluding GST)
Dr Gordon M Robertson	Review of current public audit legislation in Australia	2 May 2013	31 July 2013	\$21 240	\$21 240	–
Oakton Services Pty Ltd	Targeted performance review of the Office.	4 March 2013	Early July 2013	\$188 800	\$188 000	\$800
Quantum Management Indicators	VAGO employment engagement survey	18 March 2013	29 April 2013	\$18 355	\$18 355	–
Sinclair Knight Merz Pty Ltd	Advice regarding the practice of flexible working arrangements and its impact on operational performance	16 April 2013	24 May 2013	\$22 727	\$22 727	–

Performance audit contractors

In 2012–13, we paid \$1.2 million (\$0.8 million in 2011–12) to 32 contractors for services related to our performance audits.

[Figure 37] Payments to performance audit contractors, 2012–13

Performance audit contractor	2012–13 (\$'000)	2011–12 (\$'000)
Aperium Pty Ltd	36	0
Australian Survey Research Group Pty Ltd	41	0
Certitude Pty Ltd	46	0
Collison Fogarty Laws P/L	0	64
E W Russell & Associates Pty Ltd	93	137
Eastern Health	0	45
Ernst & Young	0	218
Gardner Group Pty Ltd	0	72
Gartner Australasia Pty Ltd	0	29
HLB Mann Judd (Vic) Pty Ltd	101	0
J H Resources Pty Ltd	145	68
Ovum Pty Ltd	33	0
P S Consulting	56	0
Paul Edney	16	37
P G Rorke	143	32
Pivotal Point Consulting Services	83	0
Replete Group	46	0
Stuart McLennan	0	6
The Allen Consulting Group	26	0
The Kiwipower Group	0	55
Trusted Impact	201	0
Other – 18 service providers (8 in 2011–12)	175	11
Total	1 241	774

Attest audit service providers

In 2012–13, we paid \$10.7 million (\$10.8 million in 2011–12) to 24 audit firms (36 partners) that provided services related to our attest statement audits.

[Figure 38] Payments to attest audit service providers, 2012–13

Attest audit service provider	2012–13 (\$'000)	2011–12 (\$'000)
Accounting and Auditing Solutions	45	39
BDO East Coast Partnership (previously Pannell Kerr Forster)	29	16
Coffey Hunt & Co	462	522
Crowe Horwath Melbourne (previously WHK Horwath)	959	1 143
Davidsons	34	10
Deloitte Touche Tohmatsu	678	697
DFK Collins	109	163
Dixon & Associates Pty Ltd	57	113
Ernst & Young	1 366	1 230
HLB Mann Judd (Vic) Pty Ltd	2 062	1 983
Johnsons MME	322	269
KPMG	141	305
LD Assurance	154	267
McLean Delmo Hall Chadwick	279	288
MGR Accountants Pty Ltd (previously Mulqueen Griffin Rogers P/L)	97	126
Richmond Sinnott & Delahunty	875	803
RMA Specialists	10	60
RSM Bird Cameron	1 266	1 244
UHY Haines Norton (Vic) Pty Ltd	930	595
University of Melbourne ^(a)	52	84
WHK Audit (Vic)	582	554
WHK Audit & Risk Assessment	107	162
Other—two service providers (four in 2011–12)	99	84
Total	10 715	10 757

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

Financial report

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Declaration

Accountable officer's and chief finance and accounting 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 2013 and financial position of VAGO at 30 June 2013.

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 2013.



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

Melbourne
7 August 2013



C Yip
Chief Finance and Accounting Officer
Victorian Auditor-General's Office

Melbourne
7 August 2013

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 2013, 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 Finance and Accounting 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 2013 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*.

Lawler Draper Dillon

Steven Bradby

Partner

Melbourne, 7 August 2013

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Comprehensive operating statement

for the financial year ended 30 June 2013

	Note	2012-13 \$	2011-12 \$
Income from transactions			
Output appropriations	4(a)	38,141,139	36,506,529
Special appropriations	4(b)	362,343	455,655
Sale of goods and services	4(c)	116,987	125,387
Fair value of services received free of charge	4(d)	34,000	32,600
Total income from transactions		38,654,469	37,120,171
Expenses from transactions			
Employee expenses	5(a)	19,587,267	18,916,849
Depreciation and amortisation	5(b)	801,614	732,375
Interest expense	5(c)	25,775	18,198
Capital asset charge		207,354	202,000
Fair value of services provided free of charge		79,220	112,853
Contract audit services		11,955,533	11,530,930
Rental expenses – accommodation		1,461,675	1,476,654
Recruitment and training		648,770	862,859
Other operating expenses	5(d)	2,758,955	2,454,351
Total expenses from transactions		37,526,163	36,307,069
Net result from transactions (net operating balance)		1,128,306	813,102
Other economic flows included in net result			
Net gain / (loss) on non-financial assets (i)	6(a)	(7,075)	9,173
Other gains / (losses) from other economic flows	6(b)	336,029	(244,102)
Total other economic flows included in net result		328,954	(234,929)
Net result		1,457,260	578,173
Comprehensive result		1,457,260	578,173

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

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

Balance sheet

as at 30 June 2013

	Note	2012–13 \$	2011–12 \$
Assets			
Financial assets			
Cash	18(a)	900	900
Receivables	7	12,929,382	10,754,061
Total financial assets		12,930,282	10,754,961
Non-financial assets			
Property, plant and equipment	8	1,813,339	1,845,997
Intangible assets	9	189,405	372,602
Prepayments	10	515,126	471,979
Total non-financial assets		2,517,870	2,690,578
Total assets		15,448,152	13,445,539
Liabilities			
Payables	11	1,456,642	1,330,003
Borrowings	12	240,354	236,895
Provisions	13	5,636,345	5,220,274
Total liabilities		7,333,341	6,787,172
Net assets		8,114,811	6,658,367
Equity			
Accumulated surplus		7,819,332	6,362,072
Contributed capital		295,479	296,295
Net worth		8,114,811	6,658,367
Commitments for expenditure	16		
Contingent assets and contingent liabilities	17		

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

Statement of changes in equity

for the financial year ended 30 June 2013

	Accumulated surplus \$	Contributed capital \$	TOTAL \$
Balance at 1 July 2011	5,783,899	296,931	6,080,830
Net result for the year	578,173	-	578,173
Withdrawal of equity (i)	-	(636)	(636)
Balance at 30 June 2012	<u>6,362,072</u>	<u>296,295</u>	<u>6,658,367</u>
Net result for the year	1,457,260	-	1,457,260
Withdrawal of equity (i)	-	(816)	(816)
Balance at 30 June 2013	<u>7,819,332</u>	<u>295,479</u>	<u>8,114,811</u>

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

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

Cash flow statement

for the financial year ended 30 June 2013

	Note	2012-13 \$	2011-12 \$
Cash flows from operating activities			
Receipts			
Receipts from government		38,595,041	38,220,216
Receipts from other entities		116,987	125,387
Total receipts		38,712,028	38,345,603
Payments			
Payments to suppliers and employees		(37,481,246)	(37,077,716)
Goods and Services Tax paid to the ATO (i)		(610,307)	(435,219)
Capital asset charge payments		(207,354)	(202,000)
Interest paid		(16,500)	(4,098)
Total payments		(38,315,407)	(37,719,033)
Net cash flows from / (used in) operating activities	19(b)	396,621	626,570
Cash flows from investing activities			
Purchases of non-financial assets		(423,717)	(777,813)
Sales of non-financial assets		23,637	155,365
Net cash flows from / (used in) investing activities		(400,080)	(622,448)
Cash flows from financing activities			
Proceeds from finance leases		98,946	211,250
Repayment of finance leases		(95,487)	(215,372)
Net cash flows from / (used in) financing activities		3,459	(4,122)
Net increase / (decrease) in cash held		-	-
Cash at the beginning of the financial year		900	900
Cash at the end of the financial year	19(a)	900	900

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

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

Notes to the financial statements

for the financial year ended 30 June 2013

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 2013. 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 AAS 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 J Doyle (Auditor-General) and C Yip (Chief Finance and Accounting Officer) on 7 August 2013.

(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.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2013 and the comparative information presented for the year ended 30 June 2012.

Note 1. Summary of significant accounting policies (continued)

(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 primary objectives of VAGO are to determine whether:

- authorities are achieving their objectives effectively and doing so economically and efficiently and in compliance with all relevant Acts; and
- Victorian public sector operations and activities are being performed effectively, economically and efficiently and in compliance with all relevant Acts.

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

VAGO's outputs

VAGO has 2 outputs:

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

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

(d) Administered items

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

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

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

Specific financial disclosures related to administered items can be found in Note 3.

(e) Scope and presentation of financial statements

Comprehensive operating statement

Income and expenses in the comprehensive operating statement are classified according to whether or not they arise from 'transactions' or 'other economic flows'. This classification is consistent with the whole of government reporting format and is allowed under AASB 101 *Presentation of Financial Statements*.

'Transactions' and 'other economic flows' are defined by the *Australian System of Government Finance Statistics: Concepts, Sources and Methods 2005* and *Amendments to Australian System of Government Finance Statistics, 2005* (ABS Catalogue No. 5514.0) (the GFS manual) (see Note 25).

Note 1. Summary of significant accounting policies (continued)

'Transactions' are those economic flows that are considered to arise as a result of policy decisions, usually interactions between two entities by mutual agreement. Transactions also include flows within 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.

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

- gains and losses from disposals and impairments of non-current physical and intangible assets;
- gains and losses arising from revaluation of long service liability; and
- fair value changes of financial instruments.

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

Balance sheet

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

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

Statement of changes in equity

The statement of changes in equity presents reconciliations of non-owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balances at the end of the reporting period. It also shows separately changes due to amounts recognised in the 'Comprehensive result' and amounts recognised in 'Other economic flows - other movements in equity' 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 (including the notes) have been rounded to the nearest dollar, unless otherwise stated. Figures in the financial statements may not equate due to rounding. Please refer to the end of Note 25 for a style convention for explanations of minor discrepancies resulting from rounding.

(f) **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:

Note 1. Summary of significant accounting policies (continued)

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 retains neither 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

Contributions of services received free of charge 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.

(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 their Annual Financial Statements, disclose on behalf of the State as the sponsoring employer, the net defined benefit cost related to the members of these plans as an administered liability. Refer to DTF's Annual Financial Statements for more detailed disclosures in relation to these plans.

Note 1. Summary of significant accounting policies (continued)***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 is recognised in the period in which it is incurred. Refer to *Glossary of terms and style conventions* in 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.

Contract audit services, rental expenses - accommodation, recruitment and training and other operating expenses

Contract audit services, rental expenses - accommodation, recruitment and training and other operating expenses are recognised as an expense in the reporting period in which they are incurred.

Fair value of services provided free of charge

Contributions of resources provided free of charge 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 the change in volume or value of assets or liabilities that do not result from transactions. These include:

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:

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 from the proceeds 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*.

Note 1. Summary of significant accounting policies (continued)

Impairment of non-financial assets

Assets are assessed annually for indications of impairment, except for non-financial physical assets held for sale.

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an other economic flow.

It is deemed that, in the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

Refer to Note 1(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:

- transfer of amounts from reserves and/or accumulated surplus to net result due to disposal or derecognition or reclassification; and
- the revaluation of the present value of the long service leave liability due to changes in the bond interest rates.

(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, except those measured at fair value through profit or loss, are subject to annual review for impairment.

Note 1. Summary of significant accounting policies (continued)

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

Leasehold improvements

The cost of leasehold improvements is capitalised as an asset and depreciated over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

Non-current physical assets arising from finance leases

Refer to Note 1(m) Leases.

Intangible assets

Purchased intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to VAGO.

When the recognition criteria in AASB 138 *Intangible Assets* are met, internally generated intangible assets are recognised and measured at cost less accumulated amortisation and impairment.

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.

(l) Liabilities***Payables***

Payables consist predominantly of accounts payable and other sundry liabilities. 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.

Other liabilities included in payables mainly consist of unearned/prepaid income, goods and services tax and fringe benefits tax payables, and accrued employee expenses.

Payables are initially recognised at fair value, being the cost of the goods and services, and subsequently measured at amortised cost.

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 expected to be settled within 12 months of the end of the reporting period are recognised in the provision for employee benefits. These liabilities are classified as current liabilities and measured at their nominal values.

Those liabilities that are not expected to be settled within 12 months are recognised in the provision for employee benefits as current liabilities, measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

(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.

The components of this current LSL liability are measured at:

- nominal value – component that VAGO expects to settle within 12 months; and
- present value – component that VAGO does not expect to 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 accepts voluntary redundancy in exchange for these benefits. VAGO recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Performance incentive entitlements

The Executive Officers' performance incentive entitlements for the performance review period to 30 June 2013 payable within the next financial year, are classified as a current liability in the balance sheet.

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.

Note 1. Summary of significant accounting policies (continued)**(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 and is depreciated over the shorter of the estimated useful life of the asset or the term of the lease.

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.

(n) Equity**Contributions by owners**

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners.

Based on Department of Treasury and Finance Accounting and Financial Reporting Bulletin 40, VAGO has determined a part of its accumulated surplus as at 1 July 2001 as the opening balance of contributed capital.

(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) at their nominal value and inclusive of the Goods and Services Tax (GST) payable.

(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) 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, it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Note 1. Summary of significant accounting policies (continued)

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.

(r) 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 after the reporting period and before the date the financial statements are authorised for issue, where those events provide information about conditions which existed in the reporting period. 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 and which may have a material impact on the results of subsequent reporting periods.

(s) Australian Accounting Standards issued that are not yet effective

Certain new AASs have been published that are not mandatory for the 30 June 2013 reporting period. VAGO has assessed their applicability and potential for early adoption.

As at 30 June 2013, all new accounting standards and interpretations that had been issued but which were not applicable for the financial year ended 30 June 2013 had been considered, and whilst the impact of some standards was still to be assessed, the likely impact is not considered to be significant.

Note 2. Departmental (controlled) outputs

Output groups – VAGO has 2 output groups:

(1) Parliamentary reports and services

We inform Parliament, our primary client, of the results of our work through our reports. These 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 report on the state's finances;
- reports of observations from the previous June and December attest audit rounds.

(2) Audit reports on financial statements

A core statutory responsibility of the Auditor-General is to undertake an annual examination of the financial statements, and in some areas performance statements, of departments and public bodies, including municipal councils, and to issue an audit opinion on the presentation of those statements.

The main products of the exercise of this mandatory responsibility are the:

- independent review of the Government's Estimated Financial Statements and provision of a report for inclusion in its annual budget papers presented to Parliament;
- audit opinions (also referred to as audit reports) on the financial statements of public sector agencies and on the government's Annual Financial Report;
- audit opinions on non-financial performance indicators prepared by local government, certain water bodies, and technical and further education institutes; and
- letters to management of audited agencies conveying the findings of audits.

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.

VAGO is predominantly funded by Parliamentary appropriations.

Note 2. Departmental (controlled) outputs (continued)

Controlled income and expenses for the year ended 30 June 2013

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	\$	\$	\$	\$	\$	\$
Income from transactions						
Output appropriations	15,005,000	13,959,000	23,136,139	22,547,529	38,141,139	36,506,529
Special appropriations	199,089	227,417	163,254	228,238	362,343	455,655
Sale of goods and services	33,530	89,911	83,457	35,476	116,987	125,387
Fair value of services received free of charge	17,753	16,271	16,247	16,329	34,000	32,600
Total income from transactions	15,255,372	14,292,599	23,399,097	22,827,572	38,654,469	37,120,171
Expenses from transactions						
Employee expenses	10,181,754	9,824,078	9,405,513	9,092,771	19,587,267	18,916,849
Depreciation and amortisation	418,561	365,528	383,053	366,847	801,614	732,375
Interest expense	14,402	11,134	11,373	7,064	25,775	18,198
Capital asset charge	108,269	100,818	99,085	101,182	207,354	202,000
Fair value of services provided free of charge	48,272	64,724	30,948	48,129	79,220	112,853
Contract audit services	1,240,661	773,929	10,714,872	10,757,001	11,955,533	11,530,930
Rental expenses – accommodation	763,210	736,998	698,465	739,656	1,461,675	1,476,654
Recruitment and training	291,568	393,392	357,202	469,467	648,770	862,859
Other operating expenses	1,604,531	1,327,395	1,154,424	1,126,956	2,758,955	2,454,351
Total expenses from transactions	14,671,228	13,597,996	22,854,935	22,709,073	37,526,163	36,307,069
Net result from transactions (net operating balance)	584,144	694,603	544,162	118,499	1,128,306	813,102
Other economic flows included in net result						
Net gain / (loss) on non-financial assets	(3,694)	4,578	(3,381)	4,595	(7,075)	9,173
Other gains / (losses) from other economic flows	202,789	(125,802)	133,240	(118,300)	336,029	(244,102)
Total other economic flows included in net result	199,095	(121,224)	129,859	(113,705)	328,954	(234,929)
Net result	783,239	573,379	674,021	4,794	1,457,260	578,173
Comprehensive result	783,239	573,379	674,021	4,794	1,457,260	578,173

Controlled assets and liabilities as at 30 June 2013

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	\$	\$	\$	\$	\$	\$
Assets						
Financial assets	5,030,720	4,037,811	7,899,562	6,717,150	12,930,282	10,754,961
Non-financial assets	979,615	1,010,143	1,538,255	1,680,435	2,517,870	2,690,578
Total assets	6,010,335	5,047,954	9,437,817	8,397,585	15,448,152	13,445,539
Liabilities						
Total liabilities	2,853,146	2,548,156	4,480,195	4,239,016	7,333,341	6,787,172
Net assets	3,157,189	2,499,798	4,957,622	4,158,569	8,114,811	6,658,367

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 other 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 note.

	2012-13 \$	2011-12 \$
Administered income from transactions		
Sales of services	23,136,139	22,547,529
Miscellaneous income	228,954	101,398
Total administered income from transactions	23,365,093	22,648,927
Administered expenses from transactions		
Payments made on behalf of the state	-	9,600
Payments into the Consolidated Fund	23,365,330	22,642,191
Total administered expenses from transactions	23,365,330	22,651,791
Total administered net result from transactions (net operating balance)	(237)	(2,864)
Administered other economic flows included in administered net result		
Net gain / (loss) on non-financial assets	237	2,864
Total administered other economic flows	237	2,864
Administered net result	-	-
Total administered comprehensive result	-	-
	2012-13 \$	2011-12 \$
Administered financial assets		
Receivables (i)	1,557,738	2,195,303
Total administered financial assets	1,557,738	2,195,303
Administered non-financial assets		
Work in progress	3,392,418	2,952,344
Total administered non-financial assets	3,392,418	2,952,344
Total administered assets	4,950,156	5,147,647
Administered liabilities		
Amounts owing to the state	4,950,156	5,147,647
Total administered liabilities	4,950,156	5,147,647
Total administered net assets	-	-

(i) Receivables comprise debtors falling due as follows:

Current	1,550,698	2,178,652
Overdue between 30 to 60 days	7,040	16,651
Overdue beyond 60 days	-	-
	1,557,738	2,195,303

Note 4. Income from transactions

	2012–13	2011–12
	\$	\$
(a) Output appropriations (i)		
Annual appropriation for the provision of outputs	15,005,000	13,959,000
Appropriation under s29 <i>FMA</i> 1994	23,136,139	22,547,529
Total output appropriations	38,141,139	36,506,529
(b) Special appropriations (i)		
Appropriation under s94A(6) of the <i>Constitution Act</i> 1975	362,343	455,655
Total special appropriations	362,343	455,655
(c) Sale of goods and services		
Sales of goods (ii)	47,195	47,168
Rendering of services (iii)	69,792	78,219
Total sale of goods and services	116,987	125,387
(d) Fair value of services received free of charge		
Services (iv)	34,000	32,600
Total fair value of services received free of charge	34,000	32,600

(i) Refer to Note 20 for further details of appropriations.

(ii) This revenue stream arises principally from the sale of reports.

(iii) From time to time, staff are seconded to other Victorian government departments and agencies and other State Government Auditor-General's Offices on the basis of full cost recovery.

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

Note 5. Expenses from transactions

	2012–13 \$	2011–12 \$
(a) Employee expenses		
Post employment benefits:		
Defined contribution superannuation expense	1,238,544	1,155,566
Defined benefit superannuation expense	186,536	227,600
	<u>1,425,080</u>	<u>1,383,166</u>
Termination benefits	245,757	284,547
Salaries, wages and long service leave	17,916,430	17,249,136
Total employee expenses	<u>19,587,267</u>	<u>18,916,849</u>
(b) Depreciation and amortisation		
Depreciation of non-current assets:		
Furniture and fittings	1,973	2,008
Computer software	31,464	24,610
Computer hardware	206,641	202,446
Office equipment	5,725	17,855
Mobile phones	-	8,930
Total depreciation of non-current assets	<u>245,803</u>	<u>255,849</u>
Amortisation of non-current assets:		
Leasehold improvements	240,163	192,790
Intangible produced assets	244,227	215,680
Motor vehicles – leased	71,421	68,056
Total amortisation of non-current assets	<u>555,811</u>	<u>476,526</u>
Total depreciation and amortisation	<u>801,614</u>	<u>732,375</u>
(c) Interest expense		
Interest on finance leases	16,500	4,098
Interest on make-good provision	9,275	14,100
Total interest expense	<u>25,775</u>	<u>18,198</u>
(d) Other operating expenses		
Information technology	530,432	459,041
Information management	464,599	590,336
Consultants	274,092	100,708
Legal expenses	69,251	16,977
Auditors' remuneration	34,000	32,600
Other office expenses	1,386,581	1,254,689
Total other operating expenses	<u>2,758,955</u>	<u>2,454,351</u>

Note 6. Other economic flows included in net result

	2012–13	2011–12
	\$	\$
(a) Net gain / (loss) on non-financial assets		
Net gain / loss on disposal of property, plant and equipment	(7,075)	9,173
Total net gain / (loss) on non-financial assets	<u>(7,075)</u>	<u>9,173</u>
(b) Other gains / (losses) from other economic flows		
Net gain / (loss) arising from revaluation of long service liability (i)	336,029	(244,102)
Total other gains/(losses) from other economic flows	<u>336,029</u>	<u>(244,102)</u>

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

Note 7. Receivables

	2012–13	2011–12
	\$	\$
Current receivables		
Contractual		
Sale of goods and services (i)	-	34,231
Other receivables	1,313	9,541
	<u>1,313</u>	<u>43,772</u>
Statutory		
Amounts due from Victorian Government (ii) (iii)	5,686,553	5,319,222
GST input tax credit recoverable	27,850	-
Total current receivables	<u>5,715,716</u>	<u>5,362,994</u>
Non-current receivables		
Statutory		
Amounts due from Victorian Government (ii) (iii)	7,213,666	5,391,067
Total non-current receivables	<u>7,213,666</u>	<u>5,391,067</u>
Total receivables	<u>12,929,382</u>	<u>10,754,061</u>

(i) The average credit period for sales of goods and services is 30 days.

(ii) The total amount recognised as being due from the Victorian Government was \$12,900,219 (2011–12: \$10,710,289) of which \$5,686,553 (2011–12: \$5,319,222) 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.

Note 8. Property, plant and equipment
(a) Cost, accumulated amortisation and depreciation (i)

	2012–13	2011–12
	\$	\$
Leasehold improvements		
At cost	2,152,474	1,950,164
Less: Accumulated amortisation	(1,128,878)	(888,715)
Total leasehold improvements	1,023,596	1,061,449
Furniture and fittings		
At cost	105,963	117,027
Less: Accumulated depreciation	(98,768)	(106,022)
Total furniture and fittings	7,195	11,005
Computer software		
At cost	250,493	83,927
Less: Accumulated depreciation	(77,448)	(49,876)
Total computer software	173,045	34,051
Computer hardware		
At cost	1,288,366	2,446,869
Less: Accumulated depreciation	(922,778)	(1,955,480)
Total computer hardware	365,588	491,389
Office equipment		
At cost	104,625	170,831
Less: Accumulated depreciation	(97,094)	(156,580)
Total office equipment	7,531	14,251
Mobile phones		
At cost	41,082	63,579
Less: Accumulated depreciation	(41,082)	(63,579)
Total mobile phones	-	-
Motor vehicles – leased		
At cost	346,437	288,470
Less: Accumulated amortisation	(110,053)	(54,618)
Total motor vehicles – leased	236,384	233,852
Total property, plant and equipment	1,813,339	1,845,997

- (i) FRD103D 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'.

Note 8. Property, plant and equipment (continued)

(b) Movements in property, plant and equipment

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Mobile phones	Motor vehicles – leased	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$
Carrying amount								
Balance at 1 July 2011	1,107,123	13,013	58,661	533,835	32,106	8,930	236,850	1,990,518
Additions	147,116	-	-	160,636	-	-	211,250	519,002
Disposals	-	-	-	(141,428)	-	-	(289,542)	(430,970)
Disposals – Accumulated depreciation / amortisation	-	-	-	140,792	-	-	143,350	284,142
Depreciation / amortisation expense	(192,790)	(2,008)	(24,610)	(202,446)	(17,855)	(8,930)	(68,056)	(516,695)
Balance at 30 June 2012	1,061,449	11,005	34,051	491,389	14,251	-	233,852	1,845,997
Additions	202,310	-	170,458	81,893	2,650	-	98,946	556,257
Disposals	-	(11,064)	(3,891)	(1,240,397)	(68,856)	(22,497)	(40,979)	(1,387,684)
Disposals – Accumulated depreciation / amortisation	-	9,227	3,891	1,239,344	65,211	22,497	15,986	1,356,156
Depreciation / amortisation expense	(240,163)	(1,973)	(31,464)	(206,641)	(5,725)	-	(71,421)	(557,387)
Balance at 30 June 2013	1,023,596	7,195	173,045	365,588	7,531	-	236,384	1,813,339

The following useful lives of assets are used in the calculation of depreciation and amortisation:

Leasehold improvements	2–10 years
Furniture and fittings	10 years
Computer software	3 years
Computer hardware	4 years
Office equipment	5 years
Mobile phones	2 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.

Note 9. Intangible assets

(a) Cost and accumulated amortisation

	2012–13	2011–12
	\$	\$
Intangible assets		
At cost	1,596,661	3,106,598
Less: Accumulated amortisation	(1,407,256)	(2,733,996)
Total intangible assets	<u>189,405</u>	<u>372,602</u>

(b) Movements in intangible assets

	Computer software	TOTAL
	\$	\$
Carrying amount		
Balance at 1 July 2011	329,471	329,471
Additions	258,811	258,811
Amortisation expense (i)	(215,680)	(215,680)
Balance at 30 June 2012	372,602	372,602
Additions	61,030	61,030
Disposals	(1,570,966)	(1,570,966)
Disposals – Accumulated amortisation	1,570,966	1,570,966
Amortisation expense (i)	(244,227)	(244,227)
Balance at 30 June 2013	<u>189,405</u>	<u>189,405</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:

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

	2012–13	2011–12
	\$	\$
Current prepayments		
Information management	21,283	17,300
Software and hardware maintenance contracts	171,931	144,994
Rental expense – accommodation	170,017	123,787
Other	144,689	164,800
Total current prepayments	<u>507,920</u>	<u>450,881</u>
Non-current prepayments		
Software and hardware maintenance contracts	7,206	21,098
Total non-current prepayments	<u>7,206</u>	<u>21,098</u>
Total prepayments	<u><u>515,126</u></u>	<u><u>471,979</u></u>

Note 11. Payables

	2012-13	2011-12
	\$	\$
Current payables		
Contractual		
Supplies and services (i)	1,110,802	997,760
Amounts payable to government and agencies (ii)	24,806	49,597
Other payables	58,962	4,318
	<u>1,194,570</u>	<u>1,051,675</u>
Statutory		
PAYG payable	164,109	148,714
FBT payable	30,873	29,070
GST payable	-	7,567
Payroll tax payable	67,090	92,977
Total current payables	<u>1,456,642</u>	<u>1,330,003</u>
Total payables	<u>1,456,642</u>	<u>1,330,003</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

	2012-13	2011-12
	\$	\$
Current borrowings		
Lease liabilities (i) (Note 15(a))	85,454	62,888
Total current borrowings	<u>85,454</u>	<u>62,888</u>
Non-current borrowings		
Lease liabilities (i) (Note 15(a))	154,900	174,007
Total non-current borrowings	<u>154,900</u>	<u>174,007</u>
Total borrowings	<u>240,354</u>	<u>236,895</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

	2012–13	2011–12
	\$	\$
Current provisions		
Employee benefits: (i) (Note 13(a)) – annual leave:		
– Unconditional and expected to settle within 12 months (ii)	1,117,909	1,074,657
– Unconditional and expected to settle after 12 months (iii)	325,842	365,489
Employee benefits: (i) (Note 13(a)) – long service leave:		
– Unconditional and expected to settle within 12 months (ii)	339,173	355,414
– Unconditional and expected to settle after 12 months (iii)	2,165,370	1,956,116
Employee benefits: (i) (Note 13(a)) – performance incentive entitlements:		
– Unconditional and expected to settle within 12 months (ii)	129,312	150,000
	4,077,606	3,901,676
Lease contracts (iv) (Note 15)	66,851	24,655
Total current provisions	4,144,457	3,926,331
Non-current provisions		
Employee benefits: (i) (Note 13(a)) – long service leave	575,749	513,798
Lease contracts (iv) (Note 13(b) and Note 15)	409,979	476,830
Make-good provision (v) (Note 13(b))	506,160	303,315
Total non-current provisions	1,491,888	1,293,943
Total provisions	5,636,345	5,220,274

(a) Employee benefits (i)

	2012–13	2011–12
	\$	\$
Current employee benefits		
Annual leave entitlements	1,443,751	1,440,146
Long service leave entitlements	2,504,543	2,311,530
Performance incentive entitlements	129,312	150,000
	4,077,606	3,901,676
Non-current employee benefits		
Long service leave entitlements	575,749	513,798
Total employee benefits	4,653,355	4,415,474

- (i) Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, including on-costs, and assuming wage inflation of 4.50% per annum (2011-12: 4.31%) and discount rate of 3.79% (2011-12: 3.06%), each as advised by the Department of Treasury and Finance.
- (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

	Lease contracts 2012-13	Make-good 2012-13	Total 2012-13
	\$	\$	\$
Opening balance	501,485	303,315	804,800
Additional provisions recognised (i)	-	211,046	211,046
Effect of changes in the discount rate	-	(8,201)	(8,201)
Provisions released	(24,655)	-	(24,655)
Closing balance	476,830	506,160	982,990
Current	66,851	-	66,851
Non-current	409,979	506,160	916,139
	476,830	506,160	982,990

(i) Included in additional provisions recognised is an amount of \$201,771 resulting from a review of the make-good provision during the reporting period by an independent external body.

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	
	2012-13	2011-12	2012-13	2011-12
	\$	\$	\$	\$
Defined benefit plans (i):				
State Superannuation Fund – revised and new	186,202	226,444	1,490	1,156
Defined contribution plans:				
VicSuper	940,976	886,637	2,668	3,193
Other	329,541	295,385	960	-
Total	1,456,719	1,408,466	5,118	4,349

(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	
	2012–13	2011–12	2012–13	2011–12
	\$	\$	\$	\$
Finance lease liabilities payable				
Not longer than one year	98,125	76,634	95,730	74,229
Longer than one year and not longer than five years	161,983	184,786	145,014	163,141
Longer than five years	-	-	-	-
Minimum future lease payments	260,108	261,420	240,744	237,370
Less future finance charges	(19,754)	(24,525)	-	-
Present value of minimum lease payments	240,354	236,895	240,744	237,370
Included in the financial statements as:				
Current borrowings lease liabilities (Note 12)	85,454	62,888		
Non-current borrowings lease liabilities (Note 12)	154,900	174,007		
Total interest-bearing liabilities	240,354	236,895		

(i) Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

(b) Operating leases

Leasing arrangements

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.

	2012–13	2011–12
	\$	\$
Non-cancellable operating lease payables		
Not longer than one year	1,568,698	1,650,575
Longer than one year and not longer than five years	4,596,987	6,706,166
Longer than five years	-	-
Total	6,165,685	8,356,741

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:

Commitments payable (i)

Contract audit commitments

	2012–13	2011–12
	\$	\$
Not longer than one year	8,490,881	4,740,182
Longer than one year and not longer than five years	1,000,030	3,509,474
Longer than five years	-	-
Total contract audit commitments	9,490,911	8,249,656

Novated lease commitments

Not longer than one year	39,755	14,591
Longer than one year and not longer than five years	105,928	4,490
Longer than five years	-	-
Total novated lease commitments	145,683	19,081

Total commitments for expenditure (inclusive of GST)	9,636,594	8,268,737
Less GST recoverable from the Australian Taxation Office	(869,499)	(750,852)
Total commitments for expenditure (exclusive of GST)	8,767,095	7,517,885

(i) All amounts shown in the commitments note are nominal amounts inclusive of GST.

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

	2012-13	2011-12
	\$	\$
Contractual financial assets		
Cash	900	900
Receivables: (i)		
Sale of goods and services	-	34,231
Other receivables	1,313	9,541
Total contractual financial assets	2,213	44,672
Contractual financial liabilities		
Payables: (i)		
Supplies and services	1,110,802	997,760
Amounts payable to government and agencies	24,806	49,597
Other payables	58,962	4,318
Borrowings:		
Finance lease liabilities	240,354	236,895
Total contractual financial liabilities	1,434,924	1,288,570

(i) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government (2012-13: \$12,900,219, 2011-12: \$10,710,289), GST input tax recoverable (2012-13: \$27,850, 2011-12: \$Nil), and taxes payable (2012-13: \$262,072, 2011-12: \$278,328)). 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

	2012–13	2011–12
	\$	\$
Contractual financial liabilities		
Financial liabilities at amortised cost:		
Interest on finance leases	(16,500)	(4,098)
Total contractual financial liabilities	(16,500)	(4,098)

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
	\$	\$	\$	\$	\$	\$
2012–13						
Receivables (i):						
Sale of goods and services	1,313	1,313	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	1,313	1,313	-	-	-	-
2011–12						
Receivables (i):						
Sale of goods and services	34,231	34,231	-	-	-	-
Other receivables	9,541	9,541	-	-	-	-
Total	43,772	43,772	-	-	-	-

(i) The carrying amounts disclosed here exclude statutory amounts (e.g. Amounts owing from Victorian Government and GST input tax credit recoverable).

Note 18. Financial instruments (continued)

(c) Liquidity risk

Liquidity risk is the risk that VAGO would be unable to meet its financial obligations as and when they fall due. VAGO operates under the Government fair payments policy of settling financial obligations within 30 days and in the event of a dispute, making payment within 30 days from the date of resolution.

VAGO's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Cash for unexpected events is generally sourced from the SAU balances held with Victorian Government.

Maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed on the face of the balance sheet.

The following table discloses the contractual maturity analysis for VAGO's contractual financial liabilities:

Table 18.4 Maturity analysis of contractual financial liabilities (i)

	Carrying amount	Nominal amount	Maturity dates			
			Less than 1 month	1–3 months	3 months – 1 year	1–5 years
2012–13						
	\$	\$	\$	\$	\$	\$
Payables (ii):						
Supplies and services	1,110,802	1,110,802	1,062,790	48,012	-	-
Amounts payable to government and agencies	24,806	24,806	24,806	-	-	-
Other payables	58,962	58,962	58,962	-	-	-
Borrowings:						
Finance lease liabilities	240,354	260,108	7,439	27,562	63,124	161,983
	1,434,924	1,454,678	1,153,997	75,574	63,124	161,983
2011–12						
Payables (ii):						
Supplies and services	997,760	997,760	481,725	511,085	4,950	-
Amounts payable to government and agencies	49,597	49,597	20,091	29,506	-	-
Other payables	4,318	4,318	4,318	-	-	-
Borrowings:						
Finance lease liabilities	236,895	261,420	6,386	12,772	57,476	184,786
	1,288,570	1,313,095	512,520	553,363	62,426	184,786

(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
2012–13					
		\$	\$	\$	\$
Financial assets					
Cash	-	900	-	-	900
Receivables (i):					
Sale of goods and services	-	-	-	-	-
Other receivables	-	1,313	-	-	1,313
Total financial assets		2,213	-	-	2,213
Financial liabilities					
Payables (i):					
Supplies and services	-	1,110,802	-	-	1,110,802
Amounts payable to government and agencies	-	24,806	-	-	24,806
Other payables	-	58,962	-	-	58,962
Borrowings:					
Finance lease liabilities	6.60%	240,354	240,354	-	-
Total financial liabilities		1,434,924	240,354	-	1,194,570
2011–12					
Financial assets					
Cash	-	900	-	-	900
Receivables (i):					
Sale of goods and services	-	34,231	-	-	34,231
Other receivables	-	9,541	-	-	9,541
Total financial assets		44,672	-	-	44,672
Financial liabilities					
Payables (i):					
Supplies and services	-	997,760	-	-	997,760
Amounts payable to government and agencies	-	49,597	-	-	49,597
Other payables	-	4,318	-	-	4,318
Borrowings:					
Finance lease liabilities	6.59%	236,895	236,895	-	-
Total financial liabilities		1,288,570	236,895	-	1,051,675

(i) The carrying amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government, GST input tax credit recoverable, and GST payables).

(e) Fair value

The carrying amounts of financial assets and financial liabilities recognised at the balance date, consisting of cash, receivables, payables and borrowings, represent fair value.

Note 19. Cash flow information

(a) Reconciliation of cash and cash equivalents

	2012–13	2011–12
	\$	\$
Total cash and cash equivalents disclosed in the balance sheet (i)	<u>900</u>	900
Balance as per cash flow statement	<u><u>900</u></u>	<u>900</u>

(i) Due to the State of Victoria's investment policy and government funding arrangements, VAGO does not hold a large cash reserve in its bank accounts. Cash received by VAGO from the generation of income is generally paid into the State's bank account, known as the Public Account. Similarly, any VAGO expenditures, including those in the form of cheques drawn by VAGO for the payment of goods and services to its suppliers and creditors are made via the Public Account. The process is such that, the Public Account would remit to VAGO the cash required for the amount drawn on the cheques. This remittance by the Public Account occurs upon the presentation of the cheques by VAGO's suppliers or creditors. The balance of the Public Account is represented by amounts receivable from Victorian Government.

The above funding arrangements often result in VAGO having a notional shortfall in the cash at bank required for payment of unrepresented cheques at the end of the reporting period.

At 30 June 2013, cash at bank included the amount of a notional shortfall for the payment of unrepresented cheques of \$9,576 (30 June 2012: \$3,162).

(b) Reconciliation of net result for the period

	2012–13	2011–12
	\$	\$
Net result for the period	1,457,260	578,173
Non-cash movements:		
(Gain) / loss on disposal of non-current assets	7,075	(9,173)
Depreciation and amortisation of non-current assets	801,614	732,375
Items classified as financing and investing activities:		
Additions to non-current assets accounted for via an increase in make-good provision	(193,570)	-
Movements in assets and liabilities:		
(Increase) / decrease in receivables	(2,175,321)	(1,020,870)
(Increase) / decrease in prepayments	(43,147)	185,659
Increase / (decrease) in payables	126,639	(219,998)
Increase / (decrease) in provisions	416,071	380,404
Net cash flows from / (used in) operating activities	<u><u>396,621</u></u>	<u>626,570</u>

Note 20. Summary of compliance with annual Parliamentary and special appropriations

(a) Summary of compliance with annual Parliamentary appropriations

The following table discloses the details of the various annual Parliamentary appropriations received by VAGO for the year. In accordance with accrual output-based management procedures, 'Provision for outputs' and 'Additions to net assets' are disclosed as 'controlled' activities of VAGO.

	Appropriation Act				Financial Management Act 1994				Total Parliamentary authority		Appropriations applied		Variance						
	Annual appropriation		Advance from Treasurer		Section 3(2)		Section 29		Section 32		2012-13		2011-12		2012-13		2011-12		
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
Controlled																			
Provision for outputs	14,661,000	13,959,000	-	-	-	-	23,136,139	22,547,529	344,000	-	-	38,141,139	36,506,529	38,141,139	36,506,529	-	-	-	-
Additions to net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	14,661,000	13,959,000	-	-	-	-	23,136,139	22,547,529	344,000	-	-	38,141,139	36,506,529	38,141,139	36,506,529	-	-	-	-

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

Parliamentary appropriations

	2012-13	2011-12
	\$	\$

Appropriation Act

Annual appropriation	14,661,000	14,303,000
Less: Carried forward to 2013-14	-	(344,000)
	14,661,000	13,959,000

Financial Management Act 1994

Section 29 – estimate	22,433,000	21,886,000
Plus: variance from estimate	703,139	661,529
	23,136,139	22,547,529

Section 32

Brought forward	344,000	-
	344,000	-

Total Parliamentary Authority

Appropriations applied	38,141,139	36,506,529
Variance	38,141,139	36,506,529
	-	-

Note 20. Summary of compliance with annual Parliamentary and special appropriations (continued)

(b) Summary of compliance with special appropriations

Authority	Purpose	Appropriations applied	
		2012-13	2011-12
		\$	\$
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with the Auditor-General	<u>362,343</u>	<u>455,655</u>

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:

- D D R Pearson, Auditor-General (1 July 2012 to 14 December 2012)
- P Frost (Acting, for 196 days during the period 1 July 2012 to 30 June 2013)
- E Holland (Acting, for 11 days during the period 1 July 2012 to 30 June 2013)

(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:

\$250,000 – \$259,999 (2011-12: \$430,000 – \$439,999)

The amounts relating to the acting Accountable Officers are included in Note 22 *Remuneration of executives*.

(c) Other transactions

Other related party transactions requiring disclosure under the Directions of the Minister for Finance have been considered and there are no matters to report.

Note 22. Remuneration of executives

The numbers of executive officers, other than the Accountable Officer, whose total remuneration exceeded \$100,000 during the reporting period are shown in the first two columns in the table below in their relevant income bands. The base remuneration of executive officers receiving more than \$100,000 in total remuneration is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy 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	
	2012-13 No.	2011-12 No.	2012-13 No.	2011-12 No.
\$100,000 to \$109,999	-	-	1	-
\$110,000 to \$119,999	1	1	-	1
\$120,000 to \$129,999	-	-	1	-
\$130,000 to \$139,999	-	1	-	2
\$140,000 to \$149,999	2	-	4	1
\$150,000 to \$159,999	2	1	2	6
\$160,000 to \$169,999	6	6	7	3
\$170,000 to \$179,999	5	4	1	1
\$180,000 to \$189,999	-	1	-	-
\$210,000 to \$219,999	-	-	1	1
\$220,000 to \$229,999	1	1	1	-
\$240,000 to \$249,999	1	-	-	-
\$290,000 to \$299,999	-	-	-	1
\$310,000 to \$319,999	-	1	-	-
\$370,000 to \$379,999	1	-	1	-
Total numbers	19	16	19	16
Total annualised employee equivalents (AEE) (i)	18.4	15.1	18.4	15.1
Total amount	\$ 3,405,510	\$ 2,814,353	\$ 3,248,028	\$ 2,635,596

Remuneration of executive officers whose total remuneration was less than \$100,000 during the reporting period:

Other than those executive officers whose remuneration is disclosed in the table above, there were 2 executive officers for whom remuneration disclosure is required whose remuneration was less than the reportable threshold of \$100,000 because they held office for only part of the year (1 maternity leave, 1 appointment part way through the year) (2011-12: 4 appointments, 2 departures). The total remuneration of these executive officers was \$150,649 (2011-12: \$337,772).

(i) Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.

Note 23. Remuneration of auditors

Lawler Draper Dillon

	2012-13 \$	2011-12 \$
Audit of the financial statements of VAGO	34,000	32,600

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 Lawler Draper Dillon was appointed to this position in 2012.

Lawler Draper Dillon 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" 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 reflect movements in the superannuation liability resulting from differences between the assumptions used to calculate the superannuation expense from transactions and actual experience.

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 non-owner movements in equity.

Capital asset charge

The capital asset charge represents the opportunity cost of capital invested in the non-financial physical assets used in the provision of outputs.

Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Depreciation

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a 'transaction' and so reduces the 'net result from transactions'.

Employee benefits expenses

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

Financial asset

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual or statutory right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Note 25. Glossary of terms and style conventions (continued)

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets or liabilities that are not contractual (such as statutory receivables or payables that arise as a result of statutory requirements imposed by governments) are not financial instruments.

Financial liability

A financial liability is any liability that is:

- (a) A contractual obligation:
 - (i) To deliver cash or another financial asset to another entity; or
 - (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (b) A contract that will or may be settled in the entity's own equity instruments and is:
 - (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial statements

Depending on the context of the sentence where the term 'financial statements' is used, it may include only the main financial statements (i.e. comprehensive operating statement, balance sheet, cash flow statements, and statement of changes in equity); or it may also be used to replace the old term 'financial report' under the revised AASB 101 (September 2007), which means it may include the main financial statements and the notes.

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 acquisition of non-financial assets (from transactions)

Purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. It includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write-offs and impairment write-downs.

Note 25. Glossary of terms and style conventions (continued)

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner changes in equity'.

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

Other economic flows 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.

In simple terms, other economic flows are changes arising from market re-measurements.

Payables

Includes short and long term trade debt and accounts payable, grants and interest payable.

Produced assets

Produced assets include plant and equipment and certain intangible assets. Intangible produced assets include computer software.

Receivables

Includes amounts owing from government through appropriation receivable, short and long term trade credit and accounts receivable, grants, taxes and interest receivable.

Sales of goods and services

Refers to income from the direct provision of goods and services and includes fees and charges for services rendered and sales of goods and services.

Supplies and services

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operations of VAGO.

Note 25. Glossary of terms and style conventions (continued)

Transactions

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within 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 2012–13 *Model Report for Victorian Government Departments*. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of VAGO's annual reports.

APPENDIX 1: AUDIT REPORTS TO PARLIAMENT

Date report was tabled	VAGO report number	Report title
15 August 2012	2012–13:1	<i>Carer Support Programs</i>
15 August 2012	2012–13:2	<i>Investment Attraction</i>
29 August 2012	2012–13:3	<i>Fare Evasion on Public Transport</i>
29 August 2012	2012–13:4	<i>Programs for Students with Special Learning Needs</i>
12 September 2012	2012–13:5	<i>Energy Efficiency in the Health Sector</i>
10 October 2012	2012–13:6	<i>Consumer Participation in the Health System</i>
10 October 2012	2012–13:7	<i>Managing Major Projects</i>
24 October 2012	2012–13:8	<i>Collections Management in Cultural Agencies</i>
24 October 2012	2012–13:9	<i>Effectiveness of Compliance Activities: Departments of Primary Industries and Sustainability and Environment</i>
14 November 2012	2012–13:10	<i>Auditor General's Report on the Annual Financial Report of the State of Victoria, 2011–12</i>
14 November 2012	2012–13:11	<i>Public Hospitals: Results of the 2011–12 Audits</i>
14 November 2012	2012–13:12	<i>Water Entities: Results of the 2011–12 Audits</i>
14 November 2012	2012–13:13	<i>Port of Melbourne Channel Deepening Project: Achievement of Objectives</i>
28 November 2012	2012–13:14	<i>Portfolio Departments and Associated Entities: Results of the 2011–12 Audits</i>
28 November 2012	2012–13:15	<i>Local Government: Results of the 2011–12 Audits</i>
28 November 2012	2012–13:16	<i>Prison Capacity Planning</i>
28 November 2012	2012–13:17	<i>Student Completion Rates</i>
12 December 2012	2012–13:18	<i>Management of the Provincial Victoria Growth Fund</i>
12 December 2012	2012–13:19	<i>Learning Technologies in Government Schools</i>
6 February 2013	2012–13:20	<i>Addressing Homelessness: Partnerships and Plans</i>
20 February 2013	2012–13:21	<i>Implementation of School Infrastructure Programs</i>
20 February 2013	2012–13:22	<i>Rating Practices in Local Government</i>
6 March 2013	2012–13:23	<i>Management of Unplanned Leave in Emergency Services</i>
20 March 2013	2012–13:24	<i>Management of Freshwater Fisheries</i>
17 April 2013	2012–13:25	<i>Managing Traffic Congestion</i>
17 April 2013	2012–13:26	<i>Consumer Protection</i>
17 April 2013	2012–13:27	<i>Public Asset Valuation</i>
8 May 2013	2012–13:28	<i>Planning, Delivery and Benefits Realisation of Major Asset Investment: The Gateway Review Process</i>
29 May 2013	2012–13:29	<i>Tertiary Education and Other Entities: Results of the 2012 Audits</i>
29 May 2013	2012–13:30	<i>The State of Victoria's Children: Performance Reporting</i>
29 May 2013	2012–13:31	<i>Management of Staff Occupational Health and Safety in Schools</i>
12 June 2013	2012–13:32	<i>Infection Prevention and Control in Public Hospitals</i>
12 June 2013	2012–13:33	<i>Organisational Sustainability of Small Councils</i>
26 June 2013	2012–13:34	<i>Environmental and Sustainability Sector: Performance Reporting</i>
26 June 2013	2012–13:35	<i>Flood Relief and Recovery</i>

APPENDIX 2: EXTERNAL ENGAGEMENTS

Presentations by the Auditor-General and senior staff in 2012–13

Date	Presentation to	Topic
20 July	CPA Australia Public Sector Leaders Luncheon	Ten challenges facing the Victorian public sector: an audit perspective
9 August	Chartered Secretaries Australia Governance Luncheon	Lessons from audits: Key themes from VAGO's 2011–12 audit program
17 August	Japan Local Government Centre (CLAIR Sydney)	Performance Reporting in Victorian Local Government
6 September	Local Governance Association Leading Edge Forum	Rating Practice in Local Government Performance Audit
10 September	Monash University Governance Masters course	Parliament's Auditor: Role and Perspectives
5 October	Municipal Association of Victoria's Insurance and Risk Conference	Fraud prevention strategies in local government
8 and 19 October	ANZSOG and University of Melbourne	Auditing in the public interest
17 October	Neil Walker memorial lecture, CPA Australia's Congress 2012	Significant reforms in public sector audit-staying relevant in times of changes and challenge
23 October	KPMG Public Sector Audit Committee Lunch	Parliament's Auditor: Roles and Perspectives
25 October	Local Government Financial Professionals	FinPro Professional Development Seminar
26 October	Department of Sustainability and Environment's Risk and Audit Committee	Role of the Auditor-General and Key Audit Themes 2011–12
30 October	Financial Reporting in Higher Education Forum	Improving accountability and performance in the tertiary education sector
15 November	International Water Association Finance Special Interest Group	The year in review
15 November	State Audit Vietnam, for CPA Australia	Challenges for Victoria's environment and natural resources—findings from recent performance audits
16 November	Vietnam Association of Certified Public Accountants, for CPA Australia	Key themes from VAGO's 2011–12 performance and financial audit reports
16 November	Faculty of Accounting and Auditing, Banking Academy, Vietnam, for CPA Australia	Accountability and transparency in the public sector—the role of audit
16 November	International Ombudsman Conference	Public Sector Accountability: Keeping pace with a changing public service landscape
28 November	VPS Graduate induction	Auditing in the Public Interest
29 November	Lean Government Congress	Performance measurement in the public sector: Lessons from audits
29 November	Department of Justice Contract Managers Forum	Managing Major Projects performance audit
5 December	Municipal Association of Victoria Annual Conference	Performance and accountability—reflections from audits
22 January and 30 April	Swinburne University Professional Issues in Information Technology Masters course	Auditing of public sector ICT projects
12 February	VicWater	How PCI DSS compliance might be considered as part of the financial audit
22 February	Victorian Ombudsman Investigation Skills Workshop	Project Planning and Management

Presentations by the Auditor-General and senior staff in 2012–13—*continued*

Date	Presentation to	Topic
1 March	Local Government Financial Professionals	FinPro Annual Conference
21 March	IPWEA Victorian Annual Conference	Reflections of audit
22 March	University of Melbourne	Reflections on Victoria's changing integrity system: an Auditor-General perspective
12 April	University of Melbourne	Oversight of the public sector: explosion or erosion?
17 April	Revenue Management Association Annual Country Conference	Auditing in the Public Interest
19 April	Health Informatics Society of Australia Big Data conference	ICT and the Victoria Public Health Sector: What lessons can we learn from the last decade
23 April	Department of Environment and Primary Industries	Improving accountability and performance in the public sector
14 May	Australian and New Zealand Universities Internal Auditors Group	VAGO recently released reports with learnings for Universities
31 May	VicWater	What's on the radar for 2012–13?
13 June	Local Government—FinPro Professional Development Seminar	Year End Audit
19 June	5 th Annual Victorian Transport Infrastructure Conference	Managing Traffic Congestion

International delegations to VAGO in 2012–13

Organisation	Dates	Purpose, interest or theme of visit
18 July	Thai Comptroller-General's Department	Role and responsibility of VAGO
5 Sept	Jiangsu Provincial Audit Department	IT audit methodology
24 Oct	Chinese National Audit Office	Annual planning process
21 Nov	Chinese Ministry of Finance (external presentation)	Accountability processes for infrastructure financing
22 Nov	Jiangxi Provincial Audit Office (external presentation)	Role and responsibility of VAGO and types of Performance Audits
29 Nov	BPKP Indonesia: Finance and Development Supervisory Agency	Internal controls and risk management
17 April	International Partnership Program (IPP) via CPA	VAGO's interaction with the accounting profession

International secondments in 2012–13

Organisation	Dates	Purpose, interest or theme of visit
Secondment to the Office of the Auditor General, British Columbia	20 August–28 April	VAGO Performance Audit Director seconded to BC—knowledge transfer and professional development
Secondment to the Office of the Auditor General, British Columbia	20 February–7 June	VAGO Financial Auditor seconded to BC—knowledge transfer and professional development
Secondment to the Office of the Auditor General, British Columbia	14 January–31 May	VAGO Financial Auditor seconded to BC—knowledge transfer and professional development
Secondment from the Office of the Auditor General, British Columbia	6 February–7 December	BC auditor seconded to VAGO—knowledge transfer and professional development
Secondment from the Board of Audit and Inspection of Korea (BAI)	2 July–31 May	BAI auditor seconded to VAGO—knowledge transfer and professional development

APPENDIX 3: DISCLOSURE INDEX

VAGO's annual report is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to facilitate identification of VAGO's compliance with statutory disclosure requirements.

Legislation	Requirement	Page reference
Ministerial directions		
Report of operations—FRD guidance		
Charter and purpose		
FRD 22C	Manner of establishment and the relevant minister	3
FRD 22C	Objectives, functions, powers and duties	Inside cover, 3
FRD 22C	Nature and range of services provided	3
Management and structure		
FRD 22C	Organisational structure	45
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	<i>Whistleblowers Protection Act 2001</i>	50
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APPENDIX 4: BUDGET PORTFOLIO OUTCOMES

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 2012–13* (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.

	2012–13				
	Budget			Actual VAGO	Variance (ii) VAGO
	Parliament	VAGO	Controlled Parliament (i)		
\$'000	\$'000	\$'000	\$'000	\$'000	
Income from transactions					
Output appropriations	92,935.6	37,094.0	130,029.6	38,141.2	1,047.2
Special appropriations	33,300.0	484.0	33,784.0	362.3	(121.7)
Sale of goods and services	0.0	0.0	0.0	117.0	117.0
Grants	30.0	0.0	30.0	0.0	0.0
Fair value of services received free of charge	0.0	0.0	0.0	34.0	34.0
Total income from transactions	126,265.6	37,578.0	163,843.6	38,654.5	1,076.5
Expenses from transactions					
Employee benefits	70,835.0	20,631.0	91,466.0	19,587.3	1,043.7
Depreciation and amortisation	5,778.0	752.0	6,530.0	801.6	(49.6)
Interest expense	282.0	19.0	301.0	25.8	(6.8)
Capital asset charge	2,218.1	207.0	2,425.1	207.4	(0.4)
Other operating expenses	47,152.5	15,969.0	63,121.5	16,904.1	(935.1)
Total expenses from transactions	126,265.6	37,578.0	163,843.6	37,526.2	51.8
Net result from transactions (net operating balance)	0.0	0.0	0.0	1,128.3	1,128.3

(i) Budget figures are as published in 2012–13 Statement of Finances: Budget Paper No. 5 page 156 (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 5: 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 relation to 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 62)
- 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 34)
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit (see also page 51)
- details of assessments and measures undertaken to improve the occupational health and safety of employees (see also page 61)
- 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 44).
- Further information on VAGO's environmental performance (see also pages 52–53)
- Details of all consultancies and contractors (see also page 67) including:
 - consultants/contractors engaged
 - services provided
 - expenditure committed to for each engagement.

This information can be requested from VAGO's Freedom of Information officer:

- Via email to:
nancy.stefanovski@audit.vic.gov.au
- In writing to: Freedom of Information, Victorian Auditor-General's Office, Level 24, 35 Collins St, Melbourne 3000.

In relation to 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 VAGO reports since 1956
- a list of all entities currently audited by VAGO.

www.audit.vic.gov.au