

The background of the cover features a photograph of a grand, classical building with several tall, fluted columns. In the foreground, a decorative, ornate lamp post with multiple glass globes stands prominently. The lighting is bright, suggesting a sunny day. A large, stylized blue graphic element, resembling a thick, curved line or a partial circle, overlaps the bottom right portion of the image.

Assurance and  
Accountability

# Annual Report

**VAGO**

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

2006-07

# Assurance and Accountability

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## Office information

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Hours of business: 8.30 am – 5.00 pm

## Our vision

Recognised excellence in public sector auditing.

## Our purpose

Improving performance and accountability in the Victorian public sector.

## Our values and behaviours

### We value:

- Respect
- Excellence
- Integrity.

### We are committed to the following behaviours that constantly uphold our values:

- Working together
- Openness to new ideas
- Leading by example
- Influencing change
- Celebrating successes
- Communicating honestly.

## Corporate focus for 2006-07

### During 2006-07, we worked towards achieving our objectives through:

- a high degree of **accountability to Parliament** through our annual and corporate planning and reporting functions, and in addressing issues raised in external reviews
- producing value-adding **parliamentary reports and services**
- delivering **audit reports on financial statements** to high professional standards
- **managing our Office** to deliver our internal and external products and services effectively and efficiently
- careful **financial management** and monitoring of our approved annual budget.



# Snapshot of our Office

## Our history

The Victorian Auditor-General's Office was established in July 1851. The Office plays a key role in providing Parliament and the Victorian community with assurances on the financial integrity of the State.

In the early 1980s, our financial statement auditing responsibilities were expanded to include performance auditing, which evaluates whether public sector agencies use their resources economically, efficiently and effectively, to meet their objectives.

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*, Division 3, Part V – governs the appointment and independence of the Auditor-General.
- The *Audit Act 1994* – defines the powers and responsibilities of the Auditor-General.

## 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
- conducting financial statement audits for 631 State public sector organisations, including Parliament, government departments, public bodies, educational institutions, public hospitals and municipal councils
- undertaking wide-ranging performance audits concerned with the economic, efficient and effective use of public resources applied to achieve public program objectives
- investigating instances of waste, probity or lack of financial prudence in the use of public resources
- reporting the results of audits to Parliament in an objective, competent, insightful and timely manner.

## Operating environment

The agencies we audit:


- earn approximately \$51 billion in revenue
- incur approximately \$45 billion in expenditure
- hold over \$185 billion in assets
- employ over 230 000 staff.

## Available resources

At 30 June 2007, we:

- had 141 in-house staff (155 at 30 June 2006)
- engaged 30 audit service providers (32 during 2005-06)
- received \$27.877 million in funding from Parliament (\$26.547 million in 2005-06).

## Letter of transmittal




The President Legislative Council Parliament House Melbourne Vic. 3002	The Speaker Legislative Assembly Parliament House Melbourne Vic. 3002
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Dear Presiding Officers

I am pleased to transmit, in accordance with section 7B of the *Audit Act 1994*, my *Annual Report of the Victorian Auditor-General's Office for the year ended 30 June 2007* for presentation to Parliament.

Yours sincerely



DDR Pearson  
*Auditor-General*

August 2007



# Highlights for 2006-07

## Accountability to Parliament

- Tabled our *2007-08 Annual Plan* in Parliament on 20 June 2007 (see page 7).
- Received a Gold Award for our *2005-06 Annual Report* (see page 8).
- Completed our 3-year corporate plan (see page 9).
- Developed a proposed 3-year strategic plan (see page 11).

## Parliamentary reports and services

- Tabled 16 reports in Parliament (target 16) (see page 14).
- Achieved a 90 per cent overall satisfaction rating from Members of Parliament surveyed about our reports and services (see page 24).
- Agreement by audited agencies with 86 per cent of our recommendations (see page 26).

## Audit reports on financial statements

- Improved the timeliness of issuing our audit opinions within statutory deadlines (from 96 per cent in 2005-06 to 98 per cent this year (see page 36).
- Improved the timeliness of issue of our management letters within our targeted time frame from 70 per cent in 2005-06 to 79 per cent this year (see page 37).

## Managing our Office

- Re-aligned our Office structure, and some senior management positions (see page 43).
- Introduced a new corporate identity for the Office (see page 52).
- Upgraded and enhanced our audit methodologies (see page 53).
- Progressively enhanced our people management framework and guidance, and our learning and development program (see pages 56 and 59).
- Successfully relocated to new premises, with a focus on reducing the environmental impacts of our activities (see page 61).

## Financial management

- Our net financial result for the year was a surplus of \$957 836 (\$909 074, 2005-06) (see page 64).
- Financial audit fee income for the year was \$15.749 million (\$14.996 million, 2005-06) (see page 64).
- Upgraded our financial management and reporting software (see page 66).

Financial summary	2005-06	2006-07	Change
	(\$'000)	(\$'000)	(%)
Operating revenue	26 739	<b>28 013</b>	<b>▲ 4.8</b>
Operating expenses	25 830	<b>27 055</b>	<b>▲ 4.7</b>
Total assets	12 177	<b>13 469</b>	<b>▲ 10.6</b>
Total liabilities	4 633	<b>5 006</b>	<b>▲ 8.0</b>
Surplus	909	<b>958</b>	<b>▲ 5.4</b>
Net equity	7 545	<b>8 463</b>	<b>▲ 12.2</b>

# Auditor-General's Review, 2006-07

*“Overall, our 2006-07 year has been a positive and successful one. We achieved much in meeting many of our targets, and we continued to perform at high levels throughout the year ...”*



## Change at the top – New organisational focus

My first 9 months as Victorian Auditor-General have been full of challenge and change, and personal satisfaction.

Following my appointment in October 2006, I quickly set about to more closely familiarise myself with the Victorian public sector environment, and held numerous discussions with senior public sector officials, departmental secretaries and Members of Parliament.

My discussions proved invaluable in setting my agenda - and that of the Victorian Auditor-General's Office - for the immediate and medium-term future. As an Office, we have instituted a number of organisational changes in the way we are structured to deliver our products and services, and we have sharpened our focus on delivering meaningful products and services to Parliament, and to our stakeholders.

## Accountability to Parliament

The 2006-07 year brought to an end our 3-year corporate plan, and we have included in this annual report a list of achievements against the targets we set. We also continued to refine our strategic planning processes, and are currently completing the framework for our 3-year strategic plan, to commence in 2007-08. Our annual plan for 2007-08, while concentrating on the year ahead, also included (for the first time) information on prospective audit topics through to 2010-11.

I was pleased to see the Office's *2005-06 Annual Report* receive a Gold Award from the Australasian Reporting Awards in June 2007. The award recognises the highest standard of reporting, and it was particularly pleasing to see the annual report (our key accountability report to Parliament) acknowledged as a model for other public sector organisations.

During 2006-07, we continued to act on the findings of a 2004 independent performance audit of the Office. I view these performance audits of the Office as a positive input to our future operations, and while the 2004 audit identified a number of issues which warranted improvements or changes in direction, we have gradually addressed these issues, and now consider ourselves to be well placed to meet the challenges ahead.

## Parliamentary reports and services

Undertaking audits and delivering value-adding and pertinent reports to our prime client, Parliament, is a key output of the Office. We set ourselves a target of having 16 reports tabled in Parliament, and we achieved our target. We still have some work to do in meeting targets associated with timeliness, and we have introduced a number of strategies to help us improve our performance in these areas. Overall, we achieved a 90 per cent satisfaction rating from Members of Parliament who were surveyed about our reports and services.

We continued to provide a range of services to Parliament and to our stakeholders, including regular interaction with the Public Accounts and Estimates Committee, parliamentary committees, Members of Parliament, professional organisations and other audit offices. Our program of parliamentary briefings to Members following the tabling of our reports continued, and increasing attendances and favourable feedback from Members is heartening.

## Audit reports on financial statements

During the year, we worked towards achieving our targets in delivering our financial statement audit services to our audit clients. Our prime indicators of cost, quantity, timeliness and quality were substantially met.

Our audit service providers continued to deliver quality services on our behalf to 70 per cent of our audit clients.

This year's client survey results reinforce the need to focus on fostering productive relationships with our audit clients, by informing them better and engaging early and consistently on audit issues and findings.

## Managing our Office

We experienced considerable change in our senior organisational structure with a number of departures and commencements. Essentially, we now have a new Senior Management Group in place, and some realignment of organisational responsibilities have been made to help us meet the future aims and directions of the Office.

On the audit operations side, the software tools we use to conduct our financial statement and performance audits were enhanced during the year. The financial audit toolset, which was jointly developed with the Queensland Audit Office, was successfully implemented in the Tasmanian Audit Office and the ACT Auditor-General's Office. In addition, a number of other audit jurisdictions have expressed an interest in the toolset. It is important that we remain at the forefront in the way we go about our audit work, and I am confident that these enhancements will ensure successful results for our Office and for our audit clients.



## Financial management

Practising what we preach is foremost when it comes to the efficient financial management of our Office. Our strong financial position reflects our continued focus on responsible financial and resource management.

## Acknowledgement of former Auditor-General, Wayne Cameron

Wayne Cameron's term as Auditor-General concluded in September 2006. Initially, he presided over a tumultuous time in the Office's history, with significant changes to the audit legislation which re-established the Office and the former Audit Victoria into the one organisation. His term as Auditor-General was characterised by many developments which contributed to a number of improvements to the operations of the Office. On behalf of the Office, I wish to thank Wayne for his contribution to the Victorian Auditor-General's Office during his 7-year term.

## Appreciation

I wish to express my appreciation to our staff for their patience and understanding during this year of change. I realise only too well that change can bring with it uncertainty and apprehension, but I have witnessed a willingness and enthusiasm by staff to be part of our reinvigorated organisation. Not only did staff contribute to our many successes, innovations and corporate ideals, but they performed at high, professional levels and were unwavering in their commitment and professionalism to get the job done.

Overall, our 2006-07 year has been a positive and successful one. We achieved much in meeting many of our targets, and we continued to perform at high levels throughout the year, considering it was a transition year with changes in senior staff, organisational realignments and setting a new strategic direction for the future.

I thank all staff most sincerely.

## Our future

I firmly believe that we have now set a clear course to not only continue to deliver our agreed outputs to the highest levels of professionalism, timeliness and cost-efficiency, but that we have the organisational structure to deliver what is expected of us. Our proposed *2007-08 to 2009-10 Strategic Plan* sets out our objectives for the future, and I look forward to reporting our successful performance against the plan over the coming years.

DDR Pearson  
*Auditor-General*

August 2007

# Accountability to Parliament



## Key achievements

- Our *2007-08 Annual Plan* was tabled in Parliament on 20 June 2007 (see page 7).
- The Office's *2005-06 Annual Report* received a Gold Award (see page 8).
- We completed our 3-year corporate plan for the period 2004-05 to 2006-07 (see page 9).
- We developed a proposed strategic plan to guide our operations for the next 3 years (see page 11).

## In this section ...

we provide summary information on our role, planning functions and previous external assessment of our performance. Also included is summary information on the completion of our *2004-05 to 2006-07 Corporate Plan*, and our proposed 3-year strategic plan, commencing 1 July 2007.

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## Role of the Auditor-General

The Victorian Auditor-General is an officer of Parliament. The State's constitution enshrines provisions for the appointment, tenure and independence of the position. Parliament's Public Accounts and Estimates Committee (PAEC) recommends the appointment of the Auditor-General, and only a resolution of both Houses of Parliament can remove him/her from office.

The Auditor-General has a legislative mandate under the *Audit Act 1994* to provide an audit opinion on the annual financial statements of around 650 agencies, and on the Annual Financial Report of the State, and report the results of these audits directly to Parliament. In addition, the Auditor-General is able to undertake performance audits to determine whether:

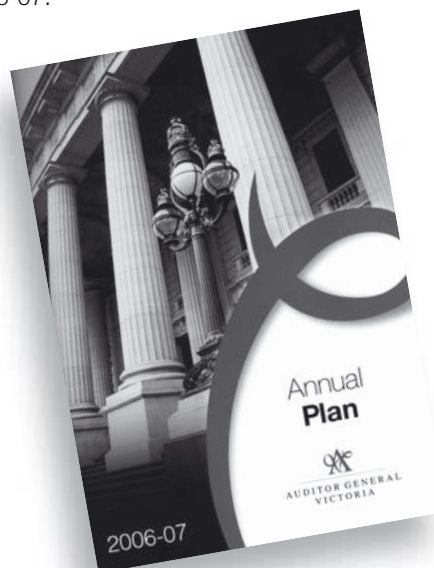
- agencies are achieving their objectives
- agencies' operations and activities are being performed effectively, economically and efficiently
- financial benefits given by a government agency to non-government bodies are being applied economically, efficiently and effectively.

While much of the work of the Auditor-General is directed towards assuring Parliament of the soundness of past public sector performance, the Office also consults with agencies to help them improve their future performance.

## Performance against annual plan

Under section 7A of the *Audit Act 1994*, the Auditor-General must prepare an annual plan and present it to Parliament, following consultation with the PAEC. This reinforces the special relationship between the Auditor-General and Parliament. It recognises that the legislative independence and autonomy of the Auditor-General also requires accountability directly to Parliament.

Our *2006-07 Annual Plan* was presented to Parliament on 18 July 2006. The plan documented our key outcomes and outputs, strategic influences on the public sector and areas of major audit interest for 2006-07.



This annual report presents our achievements against the *2006-07 Annual Plan*.

The *2007-08 Annual Plan* was tabled in Parliament on 20 June 2007. Performance against this plan will be documented in the *2007-08 Annual Report*.

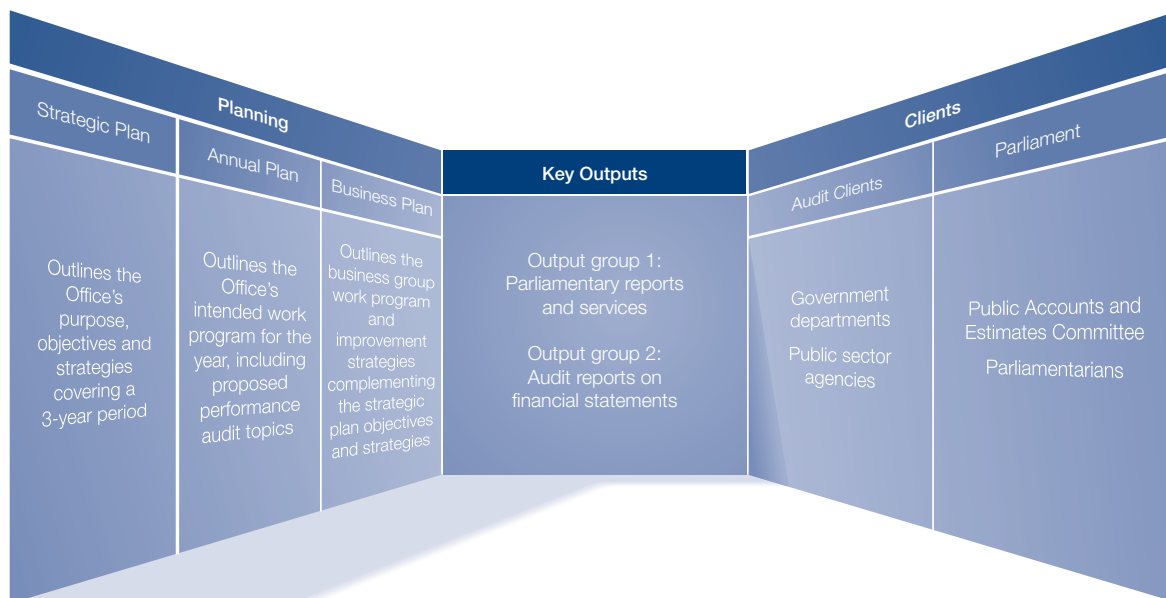
## Outputs and products

Under Victoria's output management system, the State budget allocates resources to the Office according to the outputs to be delivered. Our outputs and associated products fall into 2 output groups:

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

The following diagram links our planning functions with our outputs.

## PLANNING FUNCTIONS, KEY OUTPUTS AND CLIENTS



## Assessments of our performance

### Report of independent performance auditor, December 2004

The *Audit Act 1994* requires a person to be appointed by Parliament, on the recommendation of the Public Accounts and Estimates Committee (PAEC), at least every 3 years to conduct a performance audit of the Auditor-General and the Office. In June 2007, the PAEC appointed Mr John Phillips of Acumen Alliance, a member of the Oakton Group, to perform this audit.

The report of the previous performance audit, which was also undertaken by Mr Phillips, was tabled in Parliament in December 2004. Our *2005-06 Annual Report* provided data on the status of actions taken to implement the recommendations of this audit at 30 June 2006. Appendix 1 of this annual report shows the updated status of actions at 30 June 2007 for recommendations which were in progress at 30 June 2006.

### Gold Award for 2005-06 Annual Report

Our *2005-06 Annual Report* received a Gold Award at an awards ceremony held in Melbourne in June 2007.

The awards, hosted by Australasian Reporting Awards (ARA) Inc., seek to promote excellence in annual reporting through the publication of informative and factual annual reports. Entries in the awards are received from Australasian-wide listed companies, government agencies, community groups and not-for-profit organisations.

The Gold Award represents the highest standard of excellence in reporting.



Our 2005-06 Annual Report was praised for achieving a high level of compliance against the ARA criteria, and for presenting a comprehensive accountability document which emphasises our important value-adding and “watchdog” role in the Victorian public sector.

The Office is very proud of its achievement in producing an annual report which is acknowledged as a model for public sector organisations.



Receiving the Office's Gold Award for its 2005-06 Annual Report – from left, David Reid, John Olesky, Des Pearson and Stan Odachowski.

## Completion of 2004-05 to 2006-07 Corporate Plan

The 2006-07 year marks the end of our current 3-year corporate plan. Set out below is our record of achievement against our 5 key target areas of the plan.

### ACHIEVEMENT AGAINST OUR CORPORATE PLAN, 2004-05 TO 2006-07

Target	Achievement
<b>1. IMPROVED REPORTING</b>	
<ul style="list-style-type: none"> <li>Enhance the impact of our reports through improved presentation and use of plain English principles.</li> <li>Review performance information compiled by public sector agencies and report the results to Parliament.</li> <li>Widen coverage in reports of emerging issues impacting across, or within, government sectors.</li> <li>Make our post-tabling report briefings more useful to Members of Parliament.</li> </ul>	<ul style="list-style-type: none"> <li>The adoption of plain English principles to our reports is reflected in the results of the 2006-07 client surveys. Eighty-five per cent of audited agencies agreed that the final audit report clearly communicated the audit findings and issues.</li> <li>Issue of audit opinions on non-financial performance indicators for agencies and institutes in the local government, water, and technical and further education (TAFE) sectors.</li> <li>The volume and quality of our audit reports is a strong indicator of the wide coverage by way of topics and issues. Over the past 3 years, the Office has reported on topics which have covered a wide range of government activities, as well as regular audit reports on the financial health of the State.</li> <li>Following the tabling of Office reports, invitations are made to Members of Parliament to receive report briefings. The 2006-07 parliamentary survey shows that 42 per cent of all contacts between Members and the Auditor-General have been via attendance at these briefings. Feedback on the usefulness of the briefings is always positive, and attendance has been progressively increasing.</li> </ul>
<b>2. DELIVERING AN EFFECTIVE PRODUCT MIX</b>	
<ul style="list-style-type: none"> <li>Select products that target the best public benefit outcomes within agencies, sectors and across government.</li> <li>Deliver products that drive improvement and provide guidance to decision-makers, and be flexible in choice of products to best fulfil our purpose.</li> </ul>	<ul style="list-style-type: none"> <li>The Office's major outputs, which comprise parliamentary reports and audit reports on financial statements (and non-financial indicators), continuously serve to provide assurance to clients regarding their financial wellbeing and reinforce the importance of economy, efficiency and effectiveness.</li> <li>The Office has made a concerted effort to develop and deliver products which assist in better educating clients on improving public sector management. In recent periods, these have included occasional papers, good practice guides and model financial statements.</li> </ul>

ACHIEVEMENT AGAINST OUR CORPORATE PLAN, 2004-05 TO 2006-07 – *continued*

Target	Achievement
<b>3. SHAPING AWARENESS AND DIRECTION IN THE PUBLIC SECTOR</b>	
<ul style="list-style-type: none"> <li>Influence key public sector improvement initiatives.</li> <li>Be leaders by using our knowledge and expertise to achieve long-term improvement in public sector performance.</li> <li>Collaborate with stakeholders to inform debate on contemporary matters and advance the quality of management practices.</li> </ul>	<ul style="list-style-type: none"> <li>The Office works closely with central government agencies, peak bodies and individual agencies in areas such as drafting legislation, new proposals for financial management and intended changes to financial reporting frameworks.</li> <li>Staff are often sought out as guest speakers and presenters at both conferences and forums. International delegations visit to explore topics related to public sector auditing and how they affect public sector performance.</li> <li>Senior staff, including the Auditor-General, are contributing members to professional bodies and working parties within the accounting and auditing profession. Examples include the Australian Accounting Standards Board (AASB), the Public Sector Accounts Committee of CPA Australia and the International Committee of the Board of CPA Australia.</li> </ul>
<b>4. WORKING WITH AGENCIES TO OPTIMISE OUR EFFECTIVENESS</b>	
<ul style="list-style-type: none"> <li>Have the highest standards in service delivery to agencies.</li> <li>Develop robust communication links with agencies to support understanding and awareness of our role and products.</li> <li>Strengthen professional relationships with senior management, boards and audit committees.</li> </ul>	<ul style="list-style-type: none"> <li>Our recently improved client survey project shows that 71 per cent of agencies subject to major performance audits are satisfied with the process, quality and value provided. Seventy-three per cent of financial audit clients are satisfied overall with the audit experience. Both these ratings compare favourably with standards achieved nationally by other offices of Australian Auditors-General.</li> <li>The development of a quarterly newsletter titled <i>Auditing in the Public Interest</i> is an important feature of the Office's education and awareness-raising initiative. The newsletter is published to provide information to public sector agencies and departments on recently reported major audits and current developments in financial disclosure and reporting.</li> <li>Assignment of specific portfolios to directors and managers in financial audit over given periods improves continuity of relationships in providing audit services. This also entails regular attendance at audit committee meetings with agencies. Sector relationships have also been strengthened with presentations provided to various sector groups, including the health, local government and water sectors.</li> </ul>
<b>5. STRENGTHENING OUR BUSINESS PROCESSES AND ORGANISATIONAL CAPABILITY</b>	
<ul style="list-style-type: none"> <li>Maintain best practice audit methodologies and practices.</li> <li>Share knowledge and information effectively.</li> <li>Continually improve our business systems and resource management.</li> <li>Nurture staff and provide quality learning and development opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Having sound and robust audit methodologies is a critical business imperative. New audit methodology tools have been developed relating to both performance and financial auditing. These have been recognised by some audit offices as best practice tools within the public sector auditing environment.</li> <li>The Office has in place dedicated systems and practices to foster knowledge and information sharing. Our record keeping system makes correspondence, policies and strategic documents readily accessible by all staff. Our audit methodology tools within financial and performance audit enable staff to incorporate and share critical client information to improve the quality and cost-effectiveness of audit work.</li> <li>The introduction of the Office's Management and Reporting System (MARS) has impacted positively on how the Office manages its business processes. Recently, MARS has been converted to a web-based system allowing a more user-friendly interface.</li> <li>The Office provides a comprehensive annual training program which is underpinned by its learning and development framework.</li> </ul>



ACHIEVEMENT AGAINST OUR CORPORATE PLAN, 2004-05 TO 2006-07 – *continued*

Target	Achievement
<b>5. STRENGTHENING OUR BUSINESS PROCESSES AND ORGANISATIONAL CAPABILITY – <i>continued</i></b>	
<ul style="list-style-type: none"> <li>Value and celebrate staff and team achievements.</li> <li>Encourage all staff to live our values and share a common purpose.</li> </ul>	<ul style="list-style-type: none"> <li>The Office has instituted a reward and recognition program which recognises staff and team achievements, in the areas of:               <ul style="list-style-type: none"> <li>Projects</li> <li>New ways of doing business</li> <li>Outstanding service delivery</li> <li>Enhancing corporate culture.</li> </ul> </li> <li>Demonstrating professionalism by our staff in terms of organisational values and behaviours is encouraged through the Office's performance management framework.</li> </ul>

## Development of proposed 2007-08 to 2009-10 Strategic Plan

We have developed a proposed strategic plan to guide our operations for the next 3 years. The new plan sets out our objectives, how we intend to achieve them and our key performance indicators.



We have identified 5 key result areas to help us fulfil our purpose. These are:

- Reports and advice – To be authoritative and relevant
- Parliament – To be highly regarded by Parliament
- Clients – To foster productive relationships with audit clients
- People – To be an employer of choice
- Organisation – To be innovative and cost-effective.

We have also identified a number of indicators to measure our success in attaining our objectives.

### Outlook for 2007-08

In the coming year, we will:

- finalise our *2008-09 Annual Plan* by June 2008
- be proactive in responding to the results of the 2007 independent performance audit
- aim to maintain an award winning standard for our annual report
- successfully implement our new 3-year strategic plan.

# Parliamentary reports and services



## Key achievements

- We tabled 16 reports in Parliament (target 16) (see page 14).
- We achieved a 90 per cent overall satisfaction rating from Members of Parliament surveyed about our reports and services (see page 24).
- We implemented a new, nationally benchmarked client satisfaction survey. Our 2006-07 result of 71 per cent overall satisfaction compares favourably with other Australian audit offices (see page 25).
- Agencies subject to major audits agreed with 86 per cent of the recommendations in our reports (see page 26).
- We reviewed and updated the style and structure of our parliamentary reports to reflect a more contemporary approach (see page 26).
- We received positive feedback on our parliamentary report briefings from Members of Parliament (see page 27).

## In this section ...

we provide details of our Output group 1: *Parliamentary reports and services* – How we went about delivering a range of parliamentary reports and services, together with associated performance indicator information.

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Parliamentary services	26



## Delivering parliamentary reports

The Victorian Auditor-General produces a range of reports that address issues of interest to the community, for tabling in Parliament. The reports cover performance audits, both broad and limited in scope, focusing on the efficiency and effectiveness of publicly-funded activities or probity and compliance, as well as follow-ups of performance audits previously conducted; an annual assessment of the State's finances; and observations arising out of the preceding June and December financial statement audit rounds.

This year, the Office also presented 3 omnibus reports containing the results of other audits that focused on specific issues in the public interest.

The following table shows our performance for the *Parliamentary reports and services* output group (Output group 1) against our 2006-07 targets.

### Performance against output targets

Performance measures		Target 2006-07	Achievement 2006-07	Target 2007-08
<b>Cost</b>				
Delivering reports and services (see page 13)	(\$m)	11.28	<b>11.63</b>	11.62
<b>Quantity</b>				
Major audit reports (see page 14)	(no.)	16	<b>16</b>	16
<b>Timeliness</b>				
Finishing reports within time frames (see page 24)	(%)	100	<b>81</b>	90
Acknowledging inquiries from Members of Parliament and the public within 7 days, and responding within 4 weeks (see page 27)	(%)	95	<b>85</b>	95
<b>Quality</b>				
External satisfaction with major audit reports (see page 25)	(%)	80	<i>(a)</i> <b>71</b>	80

(a) New survey method for 2006-07.

### Cost targets

The following table shows our performance by individual products against our 2006-07 targets.

Product	Target 2006-07	Actual 2006-07
	(\$m)	(\$m)
<b>Parliamentary reports</b>		
Performance and other audits, and results of annual financial statement audits	9.47	<b>9.57</b>
Report on the State's finances	0.40	<b>0.35</b>
<b>Parliamentary services</b>		
Assistance to Parliament	0.32	<b>0.35</b>
Responding to inquiries from Members of Parliament and the public	0.22	<b>0.35</b>
Contributions to enhancing accountability	0.74	<b>0.89</b>
Liaison with international and interstate organisations	0.10	<b>0.10</b>
Examination and certification of warrants	0.03	<b>0.02</b>
<b>Aggregate output costs</b>	<b>11.28</b>	<b>11.63</b>

## Quantity targets

During 2006-07, we met our target of 16 reports tabled in Parliament, including 13 performance audit reports - an improvement on the previous year (12 performance audit reports). The following table shows our performance for each audit type against our 2006-07 targets.

Audit type	Target 2006-07	Actual 2006-07	Target 2007-08
Performance audits	13	13	13
Other	2	2	2
Examination of the State's finances	1	1	1
<b>Total</b>	<b>16</b>	<b>16</b>	<b>16</b>

Commentary on the reports tabled in 2006-07, including performance audit reports, other parliamentary reports prepared at the end of each financial audit cycle and report on the results of each audit round, and the audit on the examination of the State's finances, follows.

## Performance audits – Themes and activity

The following information on performance audits tabled during 2006-07 is presented under 3 strategic influences impacting on the public sector that were used by the Office as part of its environmental scanning process for the preparation of annual plans to 30 June 2007. The strategic influences are:

- meeting community needs
- public sector capability and resources
- sound economic, financial and performance management and accountability.

## Meeting community needs

### Condition of Public Sector Residential Aged Care Facilities (August 2006)

This audit focused on determining the condition of Victorian public sector residential aged care facilities, and the effectiveness of the Department of Human Services' (DHS) management to ensure that the facilities meet relevant standards.

The audit found that DHS needed to strengthen its stewardship and coordination efforts to encourage agencies that manage and operate public sector residential aged care facilities to provide infrastructure that contributes to the delivery of high quality care to residents.

### VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the Department of Human Services (DHS) reviews the level of State funds provided to public sector residential aged care agencies for maintenance.	We recommended that DHS introduces a periodic review of compliance of public sector residential aged care facilities with the Commonwealth's certification requirements, to ensure that standards applicable to those facilities are met.	We recommended that DHS encourages agencies that control public sector residential aged care facilities to develop and implement strategies and/or works to ensure that risks associated with failing, inadequate or obsolete infrastructure are mitigated.

### Giving Victorian Children the Best Start in Life (May 2007)

This audit assessed whether 3 Department of Human Services (DHS) initiatives (municipal early years plans, Best Start, and children's centres) had improved access to services for children aged 0 to 5, and for families at risk.

While the report highlighted that there was some qualitative evidence that the initiatives had improved access and participation in children's early years services, there was insufficient quantitative data to

determine whether the initiatives directly contributed to increased participation in maternal child health and kindergarten services.

The report indicated that DHS needs to further develop its performance measurement and evaluation framework to ensure that it is better placed to assess the effectiveness of its initiatives. DHS also needed to improve its targeting and monitoring of vulnerable clients.





VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the Department of Human Services (DHS), in partnership with service providers, establishes a common statewide database system for early childhood services across the State, including improved monitoring of vulnerable clients to assist in the development of targeted programs in local areas of need.	We recommended that DHS reviews its initiatives' indicators so that they measure achievements against the initiatives' objectives, particularly for improved access and participation.	We recommended that DHS develops guidance for service providers covering the classification of vulnerable clients to improve data collection and analysis of this key group.

Promoting Better Health Through Healthy Eating and Physical Activity (June 2007)

This audit assessed whether the Government's investment in health promotion had encouraged Victorians to adopt healthier diets and lifestyles.

The audit found that the growing importance of obesity had been recognised in Victoria and agencies had acted to address these risks by better planning and coordinating their activities.

However, the audit also found that these efforts had not significantly slowed the increase in obesity, and that the approach to health promotion needed to be strengthened by improving the evidence base for programs, and better coordinating plans and activities across government.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the <i>Go For Your Life</i> secretariat coordinates the development of a comprehensive plan to address unhealthy eating, physical inactivity and obesity for Victoria.	We recommended that the Department of Human Services (DHS), VicHealth, the Department of Victorian Communities and the Department of Education work collaboratively to improve the evaluation of the health promotion projects they fund to address unhealthy eating and physical inactivity.	We recommended that DHS reviews the current <i>Go For Your Life</i> governance arrangements and makes recommendations on the arrangements needed to deliver effective whole-of-government programs to reduce obesity.

Public Hospital Financial Performance and Sustainability (June 2007)

The financial viability of its public hospital system is one of the State's key risks. Victoria's public hospitals had an annual turnover in excess of \$7 billion in 2005-06, and managed assets totalling some \$7 billion at June 2006.

We assessed Victoria's public hospitals' financial performance and sustainability, using indicators of short-term solvency and longer-term viability.

Since 2002-03, a period of significant financial challenge for public hospitals, the financial performance and position of public hospitals has generally improved.

State budget funding of programs targeted at demand management and financial sustainability has contributed to this general improvement. However, this funding, a feature of State budgets both before and since the aggregate deficit position recorded by public hospitals in 2002-03, has reduced substantially since the 2004 financial year.

Several significant indicators of continuing financial challenge remain. Some indicators have shown consistent unfavourable trends or results over the 6 years to 2006, such as working capital positions, cash holdings and operating results, pointing to some short-term solvency issues and also some longer-term financial sustainability challenges.

The Department of Human Services and public hospital boards share the responsibility for financial performance and management within the sector. They have recognised the need to act on the financial challenges and have undertaken a number of

initiatives to better manage the increasing demand for services and promote financial sustainability. These initiatives have included revised governance and accountability arrangements for metropolitan and major regional public hospitals.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency
We recommended that the current legislated responsibilities of hospital boards and chief executive officers be extended to encompass all public hospitals.	We recommended that all public hospitals adopt a common suite of financial sustainability indicators.

**Public sector capability and resources**

**Maintaining Victoria's Rail Infrastructure Assets (May 2007)**

The audit assessed the arrangements for maintaining metropolitan, regional and interstate rail infrastructure.

The audit found that the metropolitan and interstate maintenance arrangements were satisfactory, but that the regional intrastate arrangements did not provide for adequate maintenance and renewal.

The report found that the Government's recent buyback of the regional intrastate infrastructure lease provided the opportunity to reassess practices and to define service levels consistent with established policies and objectives, and reconcile the level of resources necessary to meet agreed service levels.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the Department of Infrastructure (Dol) documents a long-term asset management strategy detailing its rationale for the maintenance and renewal of metropolitan rail assets.	We recommended that Dol takes the opportunity afforded by the buyback of the regional intrastate rail infrastructure lease to improve the monitoring of infrastructure condition and performance.	We recommended that Dol works with the national interstate infrastructure manager to develop clear protocols to verify that the infrastructure manager has completed maintenance and renewal activities according to its plans.

**Contracting and Tendering Practices in Selected Agencies (June 2007)**

The audit examined 15 contracts to determine whether contract and tendering guidelines were followed, and whether good practice criteria were met.

The audit found that where contracts had been re-tendered, there was evidence of improved practice, indicating that procurement standards are improving.

However, the audit found that documentation of procurement was poor, and that there were many areas for improvement, particularly with respect to monitoring of contractor performance. The audit also concluded that there was scope for improvement in elements of the whole-of-government Construction Supplier Register.



VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the Department of Infrastructure provides to users of the Construction Supplier Register, the criteria used for pre-qualifying consultants.	We recommended that all agencies maintain reliable records of their procurement activities to support decisions and actions taken.	We recommended that the Department of Sustainability and Environment reviews the relevant procurement policies and guidelines under the <i>Project Development and Construction Management Act 1994</i> , taking into account the recommendations and the good practice examples identified within this report.

Follow-up of Selected Performance Audits Tabled in 2003 and 2004 (June 2007)

The report focused on progress by agencies to address recommendations made in 4 performance audits completed in 2003 and 2004, namely:

- Managing medical equipment in public hospitals
- Managing emergency demand in public hospitals
- Addressing the needs of Victorian prisoners
- Maintaining public housing stock.

The follow-up audits found that agencies had made good progress to address the recommendations from the original audits. We made further recommendations for agencies to continue their progress in these areas.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the Department of Human Services continues to pursue opportunities with Health Purchasing Victoria to increase cost efficiencies for the sector in purchasing medical equipment.	We recommended that Corrections Victoria develops measures to evaluate the impact of the re-offending reduction initiatives in Victoria, building on its research and recommendations on patterns of recidivism.	We recommended that hospitals should, as a priority, further develop waiting room procedures for patient re-triaging and management.  We recommended that the Office of Housing should consistently assess contractor performance against performance benchmarks.

**Sound economic, financial and performance management and accountability**

Government Advertising (September 2006)

This audit assessed whether selected public sector advertising campaigns complied with government guidelines and whether processes for the management of government advertising were adequate.

The audit found that aspects of 6 of the 8 campaigns did not comply with government advertising and communications guidelines, and that a number of the procurement arrangements did not comply with relevant procurement guidelines.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the Government reviews its guidelines for government-funded advertising and communications to provide more explicit and detailed guidance about the appropriate use of public funds.	We recommended that all agencies develop the capacity to accurately identify and report on the cost of their advertising and communications.	We recommended that the Department of Premier and Cabinet establishes appropriate internal audit arrangements to provide assurance over the media buying activities of the Master Agency Media Service contractors.

State Investment in Major Events (May 2007)

The audit examined pre- and post-event assessment and contract management of major events, and commissioned 2 economic studies of the 2005 Australian Formula 1 Grand Prix.

The audit found that applications for funding needed additional analysis to justify the level of funding sought commensurate with the likely net benefits to Victoria. There was a need for greater transparency and rigour in economic assessments in terms of the workings of the economic models and the basis for assumptions used in the modeling.



2005 Australian Formula 1 Grand Prix. (Image courtesy of the Australian Grand Prix Corporation.)

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that guidelines be developed by the Department of Treasury and Finance, in consultation with relevant agencies and the Victorian Major Events Company, for the economic assessment of major events based on the size of government funding and the expected effects on the economy.	We recommended that a reporting template be developed to facilitate the public reporting of key outcomes from major events to increase transparency and accountability for the use of public funds.	We recommended that a lead agency be nominated to work in consultation with key agencies and the Victorian Major Events Company to establish a program to progressively implement, as practicable, the assessment of social and environmental impacts of major events.

Managing Risk Across the Public Sector: Toward Good Practice (June 2007)

The audit examined progress made by departments and 15 agencies following the Office's 2003 audit of risk management.

The report concluded that, since 2003, a range of steps had been taken to improve risk management, and that the formal application of risk management had become an accepted practice in the audited departments and almost all agencies.

However, the audit identified a need for further improvements, including the development of guidelines for managing enterprise-wide and statewide risks, strengthening risk management practices, and applying the Australian and New Zealand Risk Management Standard more rigorously.





VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that departments and agencies ensure that risk management arrangements are established for all joined-up government initiatives, particularly in the governance arrangements for the initiatives.	We recommended that departments and agencies report on all claims paid that fall below the deductible amount (or below a value deemed appropriate for the organisation), and on payments made for items that could have been insured but were not insured.	We recommended that the Victorian Managed Insurance Authority, in consultation with central agencies, the State Services Authority, departments and key public entities, develops risk management (enterprise-wide) guidelines for the public sector.

Administration of Non-judicial Functions of the Magistrates' Court of Victoria (June 2007)

The audit examined the administration of selected functions of the Magistrates' Court, including corporate planning, asset management, security, human resources and customer service, and followed-up the Office's 2005 special review of the Geelong Magistrates' Court.

The audit found that the core administrative functions were operating efficiently and effectively, improvements had been made to management of the Court fund, and the Court had improved recruitment and retention of staff.

The report indicated that court maintenance and security required further attention.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that the Department of Justice (DoJ) checks that the Magistrates' Court effectively discharges its asset management responsibilities to ensure the safety and functionality of court locations.	We recommended that the Magistrates' Court incorporates specific performance indicators that reflect the broader strategic directions of the Court and timelines for key strategies.	We recommended that the Magistrates' Court and DoJ periodically audit courts for compliance with the practice direction regarding the management of the Court fund.

Results of Audits (June 2007)

*Purchase of Contaminated Land by the Melbourne Port Corporation*

The audit examined whether the Melbourne Port Corporation observed good practice and conformed with government approval requirements for the purchase of a contaminated site at Yarraville in 2001, at a price of \$13.5 million.

The audit found that:

- government requirements were not complied with
- key decision-makers were poorly briefed.

These factors contributed to significant financial exposure for the corporation's successor entity, the Port of Melbourne Corporation.

VALUE-ADDING FEATURES OF THIS AUDIT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that agencies ensure that they obtain a reliable estimate of the market value of properties proposed for purchase.	We recommended that the responsible governing body (where required) be fully informed of all relevant factors impacting on purchases.	We recommended that agencies comply with government policies and procedures when purchasing contaminated properties.

*Raising and Collection of Fees and Charges by Departments*

Our examination of this activity covered 5 departments, including the former Department of Education and Training; Department of Infrastructure; Department of Justice; Department of Primary Industries; and Department of Sustainability and Environment. It also extended to the role of the Department of Treasury and Finance, as the responsible central agency, in relation to the administration of fees and charges.

Overall, we found that departments had appropriate legal authority to raise the fees and charges we examined, and generally maintained adequate systems and processes to support the administration of fees and charges. However:

- in relation to \$6.6 million of user charges, we questioned whether the current rates levied by

the relevant departments were appropriately “authorised” and valid. This is because the relevant departments could not provide the necessary documentation to demonstrate that they had complied with the required legal processes to “authorise” the current rates charged

- we could not conclude whether many of the fees and charges we examined were determined in accordance with government policy and guidelines, because information on how they had been set was not available.

We identified several areas where departments could improve their policies and internal controls over this activity to minimise the risk of financial loss.

VALUE-ADDING FEATURES OF THIS AUDIT

Improved resource management	Improved accountability and transparency	Improved operational procedures
We recommended that departments investigate acquiring or developing common systems for administering fees and charges.	We recommended that departments ensure that all fees and charges are appropriately authorised.	We recommended that departments better integrate their fees and charges systems with their financial management systems.

Results of special audits and other investigations (August 2006)

This report contained the results of 5 special audits and other investigations.

The first 2 audits examined the delivery of intended improvements to Victoria’s regional rail system, including:

- introduction of fast rail services to regional centres
- conversion of Victorian regional freight lines to a common, standard gauge compatible with the national rail network.

These audits found that none of the targeted rail lines were converted to standard gauge by the Government’s deadline of late 2005. While fast rail infrastructure upgrades were delivered to the fast rail corridors by the middle of 2006, they were between 9 and 19 months behind schedule, and are only expected to deliver modest journey time savings for most travellers. The expected costs of both these initiatives had significantly exceeded initial budget estimates.

The remaining 3 audit investigations examined matters raised by external parties, about:

- the financial support provided by the State to the developer of the Docklands film and television studios
- aspects of administration and management at the Westernport Region Water Authority
- the extent to which the State’s interests associated with the provision of public funding are protected by the funding and service agreements established between the Department of Human Services and non-government organisations.



The audits identified opportunities for improvement in each of the areas examined, and made recommendations to strengthen the practices and performance of the agencies audited. While the findings and recommendations were primarily directed towards the specific agencies examined, they also provided useful insights and lessons for other agencies with similar activities.



*A new Velocity train for use on the fast rail corridors.*

#### VALUE-ADDING FEATURES OF THIS REPORT

The *Rail Gauge Standardisation Project* report provided an independent analysis of the delivery of an important rail project for the State and highlighted the importance of sound analysis and business case development to support significant infrastructure projects.

The *Delivering Regional Fast Rail Services* report provided an independent analysis of the management of the Government's introduction of fast rail services to regional centres. It highlighted the importance of making major project decisions based on sound advice and subsequently setting realistic and manageable timelines for projects.

The *Docklands film and television studios* report provided an independent assessment of the extent to which the expected outcomes of the project were being achieved, including a review of new contractual arrangements with the developer of the studios (the original contracts were agreed in 2002). It highlighted the importance of providing government with comprehensive advice prior to entering into new contractual arrangements and also commented on areas for improvement in the monitoring, reporting and contract management of the studios' performance.

The *Westernport Region Water Authority* report provided the results of our audit of a number of allegations referred by the Ombudsman of Victoria concerning various aspects of the management and administration of the Westernport Region Water Authority. We concluded that there were areas where the authority needed to improve its policies and management procedures in place during the period subject to review (2003 to 2005). The report also identified that the overall performance of the authority has been sound and improving over the last 6 years, particularly relating to financial management and the strengthening of its overall financial position.

#### Other parliamentary reports

##### Results of Financial Statement Audits for Agencies with 30 June 2006 Balance Dates (February 2007)

This report contained the results of financial statements audits for entities with 30 June 2006 balance dates.

##### *Audit opinions issued*

We issued audit opinions on 460 signed financial statements, of which 451 were unqualified. Nine opinions on financial statements were qualified (11 in 2004-05).

Four of the qualified opinions resulted from disagreement with management about the appropriateness of the accounting treatment adopted, 2 related to the failure to consolidate controlled entities, 2 related to completeness of revenue received from voluntary donations, and one related to a failure to comply with disclosure requirements.

*Timeliness of reporting*

The timeliness of reporting improved, with 85 per cent of agencies finalising their financial statements, including the audit opinion, within 12 weeks (80 per cent for 2004-05). In addition, 97 per cent of agencies tabled their annual reports by 5 October, well within the statutory deadline of 31 October. This is a commendable achievement and a clear demonstration of better-practice performance.

*A-IFRS*

The year 2005-06 was the first that agencies with a 30 June balance date were required to prepare their financial statements in full compliance with the Australian equivalents to International Financial Reporting Standards (A-IFRS). As part of the transition process, it was noted that many agencies had to use non-routine reporting processes and establish stand-alone “systems” such as spreadsheets, to generate the information required by

A-IFRS. These ad hoc processes and systems now generally need to be further developed and integrated with agencies’ financial management information systems.

*Internal controls*

Overall, our audits confirmed that agencies’ systems of internal control were generally adequate. However, we identified opportunities to further strengthen internal control at many agencies. Our audits also found that agencies had established appropriate information systems (IS) controls over most aspects of IS operations. However, there were certain areas that required further attention. The majority of the control weaknesses identified by audit were in the areas of information security, change management and business continuity planning.

VALUE-ADDING FEATURES OF THIS REPORT

**Improved accountability and transparency**

The report highlighted the need for most agencies to continue to improve their reporting timelines.

**Improved operational procedures**

The report identified the need for agencies to better integrate the collection and accumulation of the data required to comply with the new accounting standards into their financial systems.

Results of Financial Statement Audits for Agencies with other than 30 June 2006 Balance Dates (June 2007)

This report contained the results of our financial audits of entities with other than 30 June 2006 balance dates. This includes the State’s universities and technical and further education (TAFE) institutes and their associated entities, as well as the State’s alpine resorts and several other small entities.

*Audit opinions issued*

At 30 April 2007, we had issued 121 audit opinions on entity financial statements, of which 117 were unqualified. Four entities received qualified opinions, and 14 entities’ financial statements remained outstanding.

Eighteen audit opinions were issued, for the first time in 2006, on performance statements prepared by TAFE institutes, universities’ TAFE divisions and 2 other educational agencies. The audit of one further institute’s performance statement was expected to be finalised in May 2007. One other institute did not prepare a performance statement as the request to prepare it was not ministerial or legislative.



*Timeliness of reporting*

The average elapsed time to finalise the financial statements of education sector entities was 12 weeks, which was consistent with the 12-week statutory requirement. However, there was some slippage against the timeliness of reporting achieved in the previous year - only 44 per cent of sector entities met the 12-week statutory reporting time frame in 2006, compared with 54 per cent in 2005.

*Internal control structure issues*

The internal control frameworks established to ensure reliable financial reporting were found to be sound in most sector entities. However, poor practices and inadequate documentation supporting personal expenditure reimbursement payments for senior staff and board members across the 5 alpine resorts were noted.

VALUE-ADDING FEATURES OF THIS REPORT

Improved accountability and transparency	Improved operational procedures
The report highlighted the need for most agencies to continue to improve their reporting timelines.	The report highlighted the need for alpine resorts to review and update their policies and procedures relating to personal expenditure reimbursements.

**Examination of the State's finances**

**Auditor-General's Report on the Finances of the State of Victoria, 2005-06 (September 2006)**

This report set out the results of our audit of the Annual Financial Report for the State of Victoria for the year ended 30 June 2006. A clear audit opinion was issued on the Annual Financial Report.

The report confirmed the Government's assessment of the favourable financial outcomes achieved by the State for 2005-06, and the sound financial condition of the State at 30 June 2006, as reported in the Annual Financial Report. It highlighted that the State achieved a substantial operating surplus for the year and remains in a strong financial condition.

Finally, the report set out the results of our audit of the special purpose Report on the Financial Contribution by the Victorian Government to the Melbourne 2006 Commonwealth Games that was prepared by the Government to facilitate transparency and accountability about the financial outcomes of the Games, and their impacts on the State's finances.

VALUE-ADDING FEATURES OF THIS REPORT

Improved resource management	Improved accountability and transparency	Improved operational procedures
The report identified a need for ongoing monitoring by the Government of several factors (such as the growth in general government expenditure, and the performance of the economy and the financial and property markets), given the major impacts they can have and, therefore, risks they pose, on the State's financial performance and condition.	The report highlighted the need to improve the presentation of information about State expenditures and financial commitments.	The report highlighted the need to improve the timeliness of completion of the State's annual financial statements.

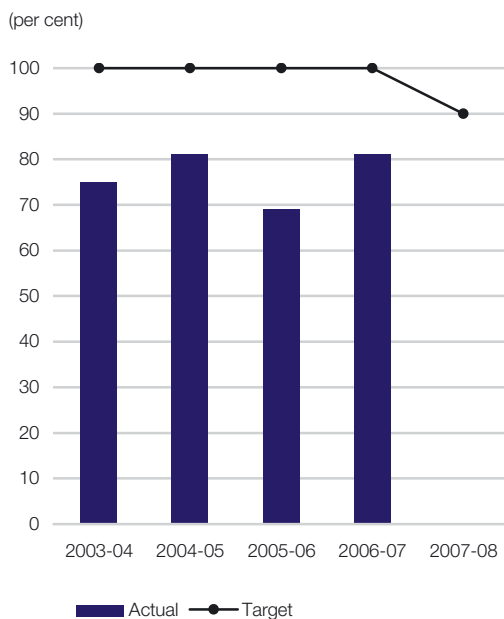


## Timeliness targets

The Auditor-General has set timeliness targets for reporting to Parliament. The Office has an external target – to present 16 reports to Parliament in 2006-07, and to table these reports within agreed time frames in 2006-07.

The following chart shows our performance against our targets since 2003-04.

TIMELINESS OF REPORTING TO PARLIAMENT



*Note:* The target for this measure for 2007-08 has been decreased to recognise practicable performance expectations.

While we completed our targeted 16 reports for the year, the above chart shows that we were unable to achieve our internal performance milestones. There are a variety of reasons for this, including audits encountering unforeseen complexity, there being greater engagement from auditees during the clearance process than anticipated, and unplanned audits being given priority.

It is the nature of auditing, particularly for major audits, that it is not possible to reliably predict how much time will be required to complete an audit to the requisite standard. Once an audit commences, our responsibilities are not only to complete it expeditiously, but to give high priority to it being conducted to the highest professional standards, and to ensure that natural justice processes are observed.

We continue to work towards finding more efficient ways to conduct audits so that our stretch timeliness targets are reached over time.

## Quality and client satisfaction targets

### Feedback on reports from Members of Parliament and external assessors

Feedback from stakeholders helps us to confirm that we are achieving our objectives, conducting our audits in line with best practice, have examined the most appropriate subjects, and reported our findings in a clear and concise way.

We seek formal feedback on our reports and services through:

- independent surveys of Members of Parliament and audited agencies
- an independent performance audit of our Office every 3 years
- external assessment of selected major reports.

We also receive feedback from our interactions with members of the Public Accounts and Estimates Committee, and as part of the audit process.

### Parliament

We have initiated a comprehensive survey of the views of Members of Parliament through an independent research house. The results of this survey are then benchmarked with other Australian audit offices to assist in prioritising areas for improvement and to learn from the experience of other jurisdictions.

The 2006-07 parliamentary survey has returned overall positive results, with all respondents agreeing that the Auditor-General's reports and services provided valuable information on public sector performance. Other survey highlights included:

- 90 per cent were **satisfied overall** with the Auditor-General's reports and services
- 84 per cent agreed that the Auditor-General's reports and services helped **improve public sector information**
- 94 per cent agreed that the Auditor-General provided **high quality** reports and services
- 90 per cent agreed that the Auditor-General's reports **communicated issues clearly**.



Going forward, we will reflect on this first year of participation in the nationally benchmarked parliamentary survey, looking for opportunities to use this intelligence in our operations and developing targets for our achievement in future years.

### External assessors

In 2006-07, 2 of our performance audit reports tabled in 2005-06 – *Condition of public sector residential aged care facilities* and *Rail gauge standardisation project*, were examined by an independent external reviewer who is familiar with parliamentary needs.

The external reviewer used an assessment method developed by the Australasian Council of Auditors-General that involved rating performance against set criteria. The following table shows the scores out of a possible 5, against each criteria for each report.

Criteria	Condition of public sector residential aged care facilities	Rail gauge standardisation project
Scope and potential for significant impact	5	5
Focus on effectiveness, efficiency and economy	4	3
Persuasiveness of conclusions	5	4
Communication – Printed report	4	3
Usefulness to the customer	4	4

The reviewer commented that the *Condition of public sector residential aged care facilities* recommendations were easily understood and would be achievable, while the readability of the *Rail gauge standardisation project* report could have benefited from improved use of diagrams and photographs.

### Views of client agencies on tabled reports

To measure the views of client agencies on our tabled reports, we ask agencies involved with major performance audits for their feedback in formal, independently conducted surveys and in face-to-face discussions. We also compare our performance against our peers.

Our measures of client satisfaction for our performance audits group around 3 key areas:

- the quality of the audit **process**
- the quality of audit **reporting**
- the **value** of the Office’s performance audit services to the agency.

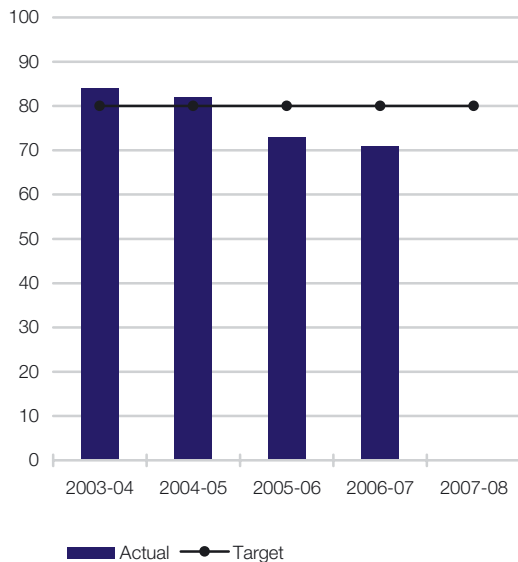
In 2006-07, we used a new method to survey agencies we audited, and a new way to calculate their overall satisfaction with our performance audits and reports. We made these changes to align with the national benchmarking project with other Australian Auditors-General. This will now allow us to more directly compare our results and learn from the experience of other jurisdictions.

The nationally-agreed satisfaction measures are based on a broad selection of answers to the survey questions, giving a result that captures clients’ views on all aspects of the audit, not just a general response. In the following chart, we have recast last year’s data, using this new method, to enable comparison.

The new measure has generated an overall client satisfaction rating of 71 in 2006-07, under our target of 80 and slightly down from the 2005-06 result of 73. However, a rating of 71 compares favourably with other Auditors-General’s offices nationally, and still shows that our reports are useful and add value to agencies’ operations. Looking forward, we are working on continuing to improve this result by better informing our clients about our audit activities, and engaging early and consistently on audit issues and findings.

## OVERALL CLIENT SATISFACTION WITH PARLIAMENTARY REPORTS

(average response – 100 point scale)



Note: New survey method shown from 2005-06.

We also separately assess the agency's level of agreement with our recommendations, through consideration of the published agency comment in each of our reports. In 2006-07, this was 86 per cent, a strong result supporting the ongoing relevance of our reports and services.

### Enhancing our parliamentary reports

Our *2005-06 Annual Report* indicated that we would:

- review our approach to the planning of major audits to improve our performance in meeting budgetary and timetable targets
- undertake a review of the style and structure of our parliamentary reports to assess whether they continue to reflect contemporary practice
- finalise our project to upgrade our performance audit processes and methods.

During 2006-07, we:

- reviewed our approach to identifying and selecting performance audits, with further work to continue across the Office during 2007-08, so that our reports to Parliament continue to be authoritative and relevant

- completed the project to upgrade our performance audit methodology. The project involved a complete revision of our policy and guidance materials so that they continue to align with contemporary performance audit practices, and the development of a new audit management toolset to assist in the conduct of performance audits and the achievement of quality reports to Parliament
- modified the style and structure of our parliamentary reports to reflect a more contemporary style.

## Parliamentary services

### Other services provided to Parliament

We provide a range of services that complement our reports to Parliament. They include consultative advice and comment on contemporary issues for key parties such as parliamentary committees, central government and peak professional bodies.

We strive to use our skills and knowledge to help Parliament and the Government improve public sector management and reporting practices. Our independence from decision-making allows us to offer objective observations regarding change in the public sector.

### Assistance to Parliament

Legislation requires us to consult with the Public Accounts and Estimates Committee (PAEC) on the Auditor-General's annual plan and budgetary needs. The annual plan outlines the proposed work program of the Office and the resource requirements for the coming year. For the first time, the *2007-08 Annual Plan* also included a prospective program of performance audits for the period 2008-09 to 2010-11. The latter will be reviewed annually by the Office, in consultation with the PAEC, to ensure its continued relevance.



During the year, we briefed Members of Parliament on each of our reports as soon as possible after the reports were tabled. The briefings aim to assist Members to better understand the contents of our reports. In order to make Members aware of forthcoming reports and the timing of briefing sessions, we consistently updated tabling dates on our website and, at the start of the tabling week, emailed Members with the report title. The number of Members attending the briefings increased during the year, and we received positive feedback on the usefulness of the presentations.



*Ray Winn regularly briefed Members of Parliament on tabled reports.*

During 2006-07, we liaised with the PAEC on performance audit specifications. In addition, one person from our Office was seconded to the PAEC, and a person from the PAEC was seconded to our Office. Both secondments assisted with research activities in the respective organisations.

### **Inquiries from Members of Parliament and the public**

Each year, we receive many inquiries from Members of Parliament and the public about the actions of public sector agencies or officers. These inquiries usually relate to concerns about the management of public resources, and often include a request for an audit examination.

During 2006-07, we received 89 inquiries: 16 were from Members of Parliament and 73 were from the general public and community groups (97 inquiries received in total in 2005-06).

We aim to initially acknowledge all inquiries within 7 days, and provide a definitive response within 4 weeks. This time frame includes considering whether the issue should be investigated by us. Following preliminary analysis, a number of matters referred to us led to specific audits or investigations.

In 2006-07, we:

- acknowledged 84 per cent of inquiries from Members of Parliament and the public within 7 days (78 per cent in 2005-06)
- responded to 85 per cent of these within 4 weeks (84 per cent in 2005-06).

The benchmarks of 95 per cent were not achieved on a number of letters, as additional work was required on these more complex inquiries. We will continue to seek to achieve the performance goals we set, notwithstanding the difficulties which can be encountered in completing sufficient preliminary work to allow a decision to proceed further or not, to be made.

### **Enhancing accountability and resource management in the public sector**

We regularly provide comment and observations to government, peak bodies and individual agencies in areas such as draft legislation, new proposals for financial management and intended changes to financial reporting frameworks.

During 2006-07, we liaised with government agencies on significant financial reporting issues and on new and revised Financial Reporting Directions. The directions set out the requirements for financial management and reporting in the Victorian public sector. We continued to provide significant input to central agencies on a range of financial reporting issues, including the recent adoption of Australian equivalents to International Financial Reporting Standards. Further, a number of the standards have been updated by the Australian Accounting Standards Board, and we have actively participated in the review and development process.

We also:

- issued regular newsletters to agencies about current and topical public administration and governance matters, and the results of recent major audits
- advised technical and further education institutes, government departments, local governments, ambulance services and public hospitals on model financial reports and reporting guidelines
- developed and provided model financial reports to water authorities and university subsidiary companies
- worked to identify and promote draft accounting and auditing standards and other public sector issues relating to harmonising national and international accounting standards.



## Contributions to professional bodies

A number of our senior staff hold positions in professional bodies, committees and societies. These include the Public Sector Accountants Committee of CPA Australia, and the Australian Accounting Standards Board (AASB) Interpretations Advisory Panel on Service Concession Arrangements - Public Sector Grantors.

The Auditor-General is a member of the AASB, which has responsibility for accounting standard-setting. The Auditor-General provides input on issues affecting the Victorian public sector. He is also a member of the International Committee of the Board of CPA Australia, which provides advice in relation to CPA Australia's international strategy.

During the year, a number of staff gave presentations at a number of conferences and to professional bodies.



*Des Pearson presenting the "Occasional address" at the Victoria University Graduation Ceremony, June 2007.*





## PRESENTATIONS BY STAFF, 2006-07

Presenter	Topic
Wayne Cameron	<b>Outlining the 2006-07 agenda for the public sector.</b> Presentation to the Chartered Secretaries Australia Annual Public Sector Update, August 2006.
Wayne Cameron	<b>Governance.</b> Presentation to the Philip Island Nature Parks – Board and Senior Management, August 2006.
Wayne Cameron	<b>Good governance in the public sector.</b> Presentation to the Institute for International Research Public Sector In-House Counsel, August 2006.
Wayne Cameron	<b>How accrual accounting enhances governance and accountability.</b> Presentation to the CPA Public Sector Finance and Management Conference, August 2006.
Des Pearson	<b>Public sector audit in Victoria – The next phase.</b> Presentation to the CPA Australia Public Sector Breakfast, August 2006.
Des Pearson	<b>Public vs private accountability.</b> Presentation to the Australian New Zealand School of Government, September 2006.
Des Pearson	<b>Approaching the audit of the Victorian health sector.</b> Presentation to the Australian Health Services Financial Management Association 2006 Conference, November 2006.
Craig Burke	<b>Year-end accounts.</b> Presentation to the Australian Health Services Financial Management Association 2006 Conference, November 2006.
Ray Seidel-Davies	<b>Improving Victoria's backlog sewerage program.</b> Presentation to the Joint Institute of Water Administration/Australian Water Association Conference, November 2006.
Anne-Marie Tenni	<b>Management of occupational health and safety in local government.</b> Presentation to the 10 <sup>th</sup> Annual Safety in Action Conference, March 2007.
Des Pearson	<b>Direction of risk management in the Victorian public sector; and identifying areas of audit interest.</b> Victorian Chapter of Risk Management Institution of Australasia, May 2007.
Des Pearson	<b>Accountability and the Auditor-General.</b> Presentation to Monash University students, May 2007.
Des Pearson	<b>Public sector audit in Victoria – The next phase.</b> Presentation to the Committee for Geelong, May 2007.
Des Pearson	<b>Performance audit of government-funded capital projects.</b> Presentation to the Beijing Municipal Audit Bureau (China), May 2007.
Craig Burke	<b>Auditor-General's update.</b> Presentation to the Australian Health Services Financial Management Association – Mini conference, May 2007.
Des Pearson	<b>Auditing in the public interest.</b> Presentation to the Victorian Government Solicitor's Office Seminar, May 2007.
Des Pearson	<b>Public sector audit in Victoria – The next phase.</b> Presentation to the Victorian Water – Finance Issues Workshop, May 2007.
Joy Patton	<b>Records management in the Victorian public sector.</b> Presentation to the Records Management Network Forum hosted by the Public Record Office Victoria, May 2007.
Des Pearson	<b>Occasional address.</b> Presentation at the Victoria University Graduation Ceremony, June 2007.
Des Pearson	<b>Knowledge capital – Accounts to redefine the 3 Rs?</b> Presentation to the Australasian Reporting Awards, June 2007.

## Interstate organisations and international delegations

### Australasian Council of Auditors-General

We attended meetings of the Australasian Council of Auditors-General (ACAG) Financial Reporting and Auditing Committee in August 2006 and March 2007. This committee, which comprises senior staff with responsibilities for providing technical advice on policy and standards, examines emerging auditing and accounting issues with a view to providing a consensus position on such issues across Australian and New Zealand audit offices. These meetings provide a forum for a sharing of views and experiences between our Office and ACAG members.

In December 2006 and June 2007, we attended meetings of the ACAG Senior Performance Audit Executives' Forum to discuss and share matters relevant to performance audit across and within jurisdictions.

In June 2007, staff from our Office involved in communications activities hosted the 2007 ACAG Corporate Communications Network Conference in Melbourne. The conference enables staff engaged in communications and publishing practices to share knowledge and expertise on a range of related issues.

### Visiting delegations

We periodically meet with visiting interstate organisations, and host international delegations, such as parliamentary representatives from overseas, to share our knowledge and experiences.

During 2006-07, we hosted delegations from the Chinese National Audit Office and the State Audit Office of Vietnam.

Through such visits, we aim to build relationships and share information with our interstate and overseas colleagues for mutual benefit.



*Members of a visiting delegation from the Chinese National Audit Office.*

## Warrants for expenditure of public funds

Under the *Constitution Act 1975* and the *Financial Management Act 1994*, any money drawn from the Consolidated Fund of the Public Account must be authorised by warrants that the Auditor-General examines and certifies.

During 2006-07, the Auditor-General certified 24 warrants authorising Consolidated Fund expenditure of up to \$31.6 billion (2005-06, 38 warrants of \$30.3 billion).

## Outlook for 2007-08

### In the coming year, we will:

- restructure the Performance Audit Group on a sector-cluster basis with the aim of enhancing relationships with key agencies, and facilitating the growth of our sector-specific knowledge and expertise
- continue to refine our reports to Parliament to reflect the highest professional standards in presentation and content, and meet the expectations of our stakeholders.

# Audit reports on financial statements



Charlotte Jeffries and Ronald Mak

## Key achievements

- We improved the timeliness of issuing our audit opinions within statutory deadlines (from 96 per cent in 2005-06 to 98 per cent this year, while also coping with the first full year of adoption of Australian equivalents to International Financial Reporting Standards (see page 36).
- We improved the timeliness of issue of our management letters within our targeted time frame from 70 per cent in 2005-06 to 79 per cent this year (see page 37).

## In this section ...

we provide details of our Output group 2: *Audit reports on financial statements* – How we went about delivering financial statement audit services for our audit clients, together with associated performance indicator information and resourcing practices.

Delivering audit reports on financial statements	32
Resourcing financial statement audits	38

## Delivering audit reports on financial statements

The Auditor-General is required by law to examine the annual financial statements of departments and public bodies, and express an audit opinion on each of those statements. The Auditor-General must also provide an audit opinion on performance statements prepared by municipal councils, certain water bodies

and, for the first time in 2006-07, technical and further education (TAFE) institutes.

The following table summarises the Auditor-General's financial audit responsibilities (audited entities) for 2006 and 2007.

Type of entity	At 30 June	
	2005-06	2006-07
Parliamentary bodies -		
Parliament	1	1
State accounts -		
Annual Financial Report	1	1
Estimated Financial Statements	1	1
State entities -		
Departments and other independent budget sector agencies	24	24
Community health services	-	39
Companies, trusts and joint ventures	202	188
Public bodies	118	112
Public cemeteries	14	14
Public hospitals and ambulance services	94	94
Regional waste management groups	16	13
Superannuation funds	2	2
Universities and other educational institutions	25	24
Water authorities	27	27
Local government entities -		
Municipal councils	79	79
Regional library corporations	13	12
<b>Total</b>	<b>617</b>	<b>631</b>

Appendix 3 of this annual report lists all the agencies subject to audit at 30 June 2007.

The following table shows our performance for the *Audit reports on financial statements* output group (Output group 2) against our 2006-07 targets.



## Performance against output targets

Performance measures		Target 2006-07	Achievement 2006-07	Target 2007-08
<b>Cost</b>				
Delivering services within output cost (see page 33)	(\$m)	15.52	<b>15.42</b>	15.5
<b>Quantity</b>				
Audit opinions issued (see page 35)	(no.)	655	<i>(a)</i> <b>615</b>	655
Audit opinion on the 2005-06 Annual Financial Report of the State (see page 36)	(no.)	1	<b>1</b>	1
Review of the Estimated Financial Statements forming part of the 2007-08 State budget (see page 36)	(no.)	1	<b>1</b>	1
Audit opinions on non-financial performance indicators (see page 35)	(no.)	113	<b>113</b>	113
<b>Timeliness</b>				
Audit opinions within statutory deadlines (see page 36)	(%)	100	<b>98</b>	100
Management letters to agencies within established time frames (see page 37)	(%)	100	<i>(b)</i> <b>79</b>	90
<b>Quality</b>				
Overall external satisfaction with how we conducted financial statement audits (see page 38)	(%)	80	<i>(c)</i> <b>73</b>	80

*(a)* Target not achieved primarily because of delays in confirming the status of 39 community health bodies as public bodies under the *Financial Management Act 1994*.

*(b)* Target not achieved partly because of our practice of issuing some draft management letters after signing the audit opinion, and also due to delays in obtaining some formal management comments before issuing the final management letter.

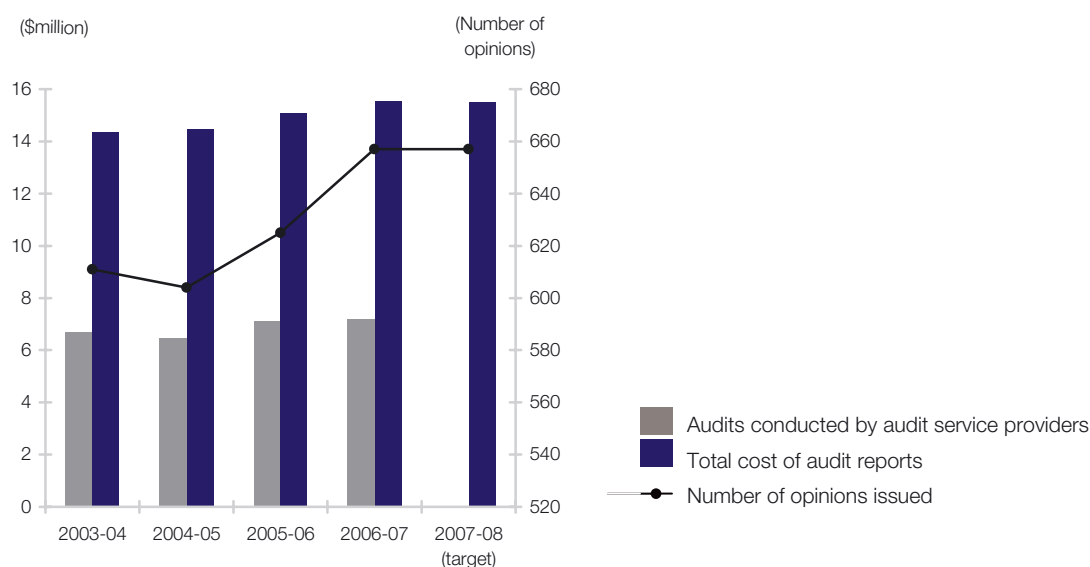
*(c)* New survey method for 2006-07.

## Cost targets

Item	Target 2006-07	Achievement 2006-07
	(\$m)	(\$m)
Audit reports on financial statements	15.09	14.91
Audit opinion on the Annual Financial Report of the State	0.21	<b>0.27</b>
Review of Estimated Financial Statements in the State budget	0.22	<b>0.24</b>
<b>Aggregate output costs</b>	<b>15.52</b>	<b>15.42</b>



## COST OF AUDIT REPORTS ON FINANCIAL STATEMENTS



The total actual cost of audits increased from \$15.38 million last year to \$15.42 million this year. This was 1.4 per cent above our original target of \$15.52 million for 2 reasons.

First, increased audit effort was required due to changes in standards:

- financial reporting issues emerged as a result of the first full year of adoption by our audit clients of the Australian equivalents to International Financial Reporting Standards

- changes to Australian auditing standards have had the effect of mandating certain audit procedures on all audit clients, irrespective of their size or risk.

Second, we have brought forward the timing of our work on audits of financial statements with 30 June 2007 balance dates, compared with previous years. This has been a part of our strategy to undertake a more timely audit. As a result, we incurred greater costs on these audits within the financial year than in past years. This is a timing issue – the total costs of financial audits have not been affected by this approach.

## TRENDS IN AVERAGE COST OF AUDIT OPINIONS

		Actual 2003-04	Actual 2004-05	Actual 2005-06	Actual 2006-07	Target 2007-08
Audit opinions	(no.)	611	604	631	<b>617</b>	657
Costs	(\$m)	14.3	14.45	15.38	<b>15.42</b>	15.52
Average cost per audit	(\$'000)	23.4	23.9	24.4	<b>25.0</b>	23.6



The average cost per audit opinion increased by around 2.5 per cent this year compared with last year. As previously explained, this was due to a combination of additional audit effort and cost increases, particularly in contractor costs and salaries. Our expectation is that average audit costs will continue to increase primarily due to increased labour costs. There will also be continuing additional audit effort required compared with prior years, as a result of changes to the auditing standards.

## Quantity targets

### Audit opinions issued to agencies

In 2006-07, we issued 617 audit opinions at 30 June 2007, compared with our target of 657. The net difference of 40 is made up of:

- 39 community health services – we did not issue an opinion on their 30 June 2006 financial statements as expected because their status as “public bodies” was challenged and our mandate to audit was, therefore, in doubt
- 11 audit opinions remained unissued because the relevant agencies had yet to finalise their current year’s financial statements
- 10 audit opinions were issued that related to the financial statements of 10 entities from prior years.

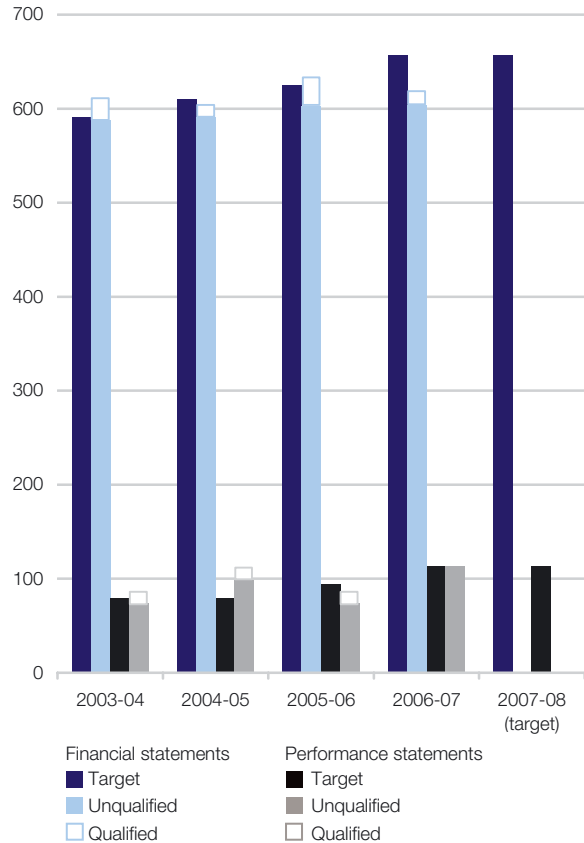
We also issued 113 opinions of non-financial performance statements as planned:

- 79 audit opinions to local government councils (79 in 2005-06)
- 16 audit opinions to regional water authorities (15 in 2005-06)
- 18 audit opinions to technical and further education (TAFE) institutes.

We report on the results of our financial statement and performance statement audits to Parliament each year (see pages 21 to 23).

### AUDIT OPINIONS ON FINANCIAL STATEMENTS AND PERFORMANCE STATEMENTS

(number)



Ninety-eight per cent (97 per cent in 2005-06) of audit opinions on financial statements were unqualified.

The financial statements of 13 (15 in 2005-06) agencies were qualified for a variety of reasons. We most commonly issued a qualified opinion where agencies:

- inappropriately accounted for certain grants, expenses, assets, liabilities and contributed capital
- failed to consolidate “controlled entities”
- were unable to attest to the completeness of cash donations as the risks associated with such collections could not be mitigated by internal controls.

Audit opinions on performance statements of all entities, except for the Grampians Wimmera Mallee Region Water Authority were unqualified (98 per cent in 2005-06). The Grampians Wimmera Mallee Region Water Authority's performance statements were qualified only because its financial statements were qualified. Consequently, this qualification carried through to its performance statement.

### Audit opinion on the 2005-06 Annual Financial Report of the State

A key feature of the State's accountability framework is that the Government must prepare and present consolidated financial statements to Parliament each year. The statements include all the public sector entities that the Government controls. Local government bodies and universities are not included in the State's financial report.

On 29 September 2006, the Auditor-General issued an unqualified audit opinion on the Annual Financial Report of the State for 2005-06. The Government presented its audited financial report to Parliament in October 2006.

### The Government's Estimated Financial Statements

On 26 April 2007, we completed our review of the Government's Estimated Financial Statements for the financial year ending 30 June 2008 and the following 3 years. The Government's *Budget Papers*, presented to Parliament on 1 May 2007, included our short-form audit report on the results of this review.

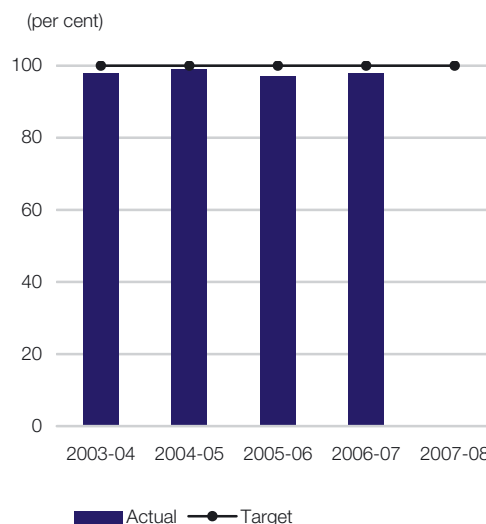
## Timeliness targets

### Audit opinions issued within statutory deadlines

The *Financial Management Act 1994* and the *Audit Act 1994* set out the annual reporting and audit requirements for departments and other public sector agencies. They must submit their annual financial statements to the Auditor-General within 8 weeks of the financial year-end.

The Auditor-General must express an opinion on the financial statements within 4 weeks of their receipt.

### PERCENTAGE OF AUDIT OPINIONS ISSUED WITHIN STATUTORY DEADLINES



During 2006-07, we issued 98 per cent (96 per cent in 2005-06) of our audit opinions within the statutory deadline. We did not reach our target of 100 per cent because accounting and disclosure issues for certain entities had to first be resolved. In particular, all agencies were required to fully adopt the Australian equivalents to International Financial Reporting Standards for the first time for the year ended 30 June 2006.

### Improving timeliness of financial reporting by agencies

The audited financial statements of 76 per cent of public sector agencies were completed within 12 weeks of the balance date (70 per cent in 2005-06). However, only 44 per cent of education sector agencies with 31 December 2006 balance dates were able to finalise their statements within their statutory deadlines, compared with 85 per cent of agencies with 30 June 2006 balance dates.

The improvement in timeliness of reporting by agencies with 30 June balance dates can be largely attributed to the request by the former Premier that all these agencies table their annual reports by 4 October 2006, which is 27 days earlier than required by statute.



We continue to work with all agencies to assist them to improve the timeliness of preparation of their annual financial statements by:

- commencing our audit planning and interim audit visits earlier
- early consultation and agreement of year-end reporting schedules
- identifying and solving accounting and auditing problems before balance date where possible
- encouraging agencies to prepare draft financial reports before balance date to resolve issues about format and disclosure
- encouraging agencies to undertake a “hard close” and prepare a set of financial statements for audit review at an interim reporting date.

### Management letters to agencies

Where we identify significant audit or accounting issues from our financial audit activity, we send the audited agency a management letter. Before we issue our management letter, it is our practice to obtain formal comments from the management of each agency about our findings and recommendations, and to incorporate these comments into our management letter.

In 2006-07, we sent 79 per cent of management letters within our targeted time frame (70 per cent in 2005-06). The improvement compared with last year has arisen from the strategies we adopted during the year in relation to the timeliness of our final management letters, primarily:

- preparing a draft of our final management letter at the time of providing verbal audit clearance on the draft financial statements
- improving our internal systems for oversight and monitoring of timeliness.

However, we acknowledge that we still need to do more to achieve our target of 90 per cent. To this end, we have already implemented further strategies that promise improvements next year. These include:

- bringing forward our audit effort so that we complete as much of the audit work as practicable before balance date
- communicating any significant issues we detect during our earlier work through the issue of “interim” management letters progressively during the year.

## Quality targets

### Agency satisfaction with how we conduct financial statement audits

Each year, we survey audited agencies for feedback on the quality of our work.

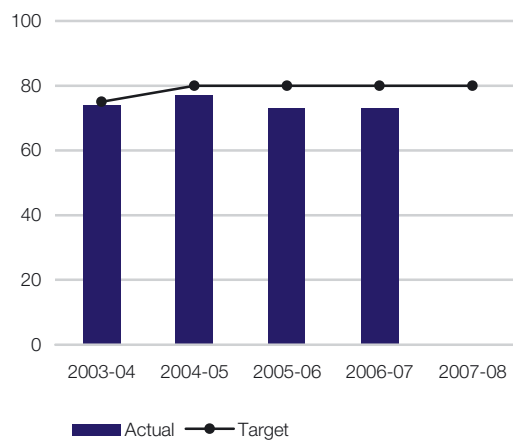
Agency management rates our services against a range of key attributes such as how professional and skilled our staff are, how effective their communication is, and how well they understand the agency’s business. We use responses to improve our service.

In 2006-07, we used a new method to survey agencies we audited, and a new way to calculate their overall satisfaction with the financial audits services. We made these changes as part of a national benchmarking project with other Australian Auditors-General, to allow us to compare our results and learn from the lessons of other jurisdictions.

The nationally-agreed satisfaction measures are now based on a broad selection of answers to the survey questions across the areas of process, reporting and value, giving us a result that captures clients’ views on all aspects of the audit, not just a general response. In the chart below, we have recast last year’s data using this new method, to enable comparison.

#### AGENCY SATISFACTION WITH FINANCIAL STATEMENT AUDIT WORK

(average response – 100 point scale)



Note: New survey method shown from 2005-06.

The new measure has generated an overall client satisfaction rating of 73 in 2006-07, under our target of 80 and consistent with the 2005-06 result of 73. While good results were returned in the areas of process and reporting, less clients agreed that financial audit services provided value to their organisation. Looking forward, we are working on continuing to improve this result by better informing our clients about our audit activities, and engaging early and consistently on audit issues and findings.

## Resourcing financial statement audits

### Policy for resourcing financial statement audits

Financial statement audits are carried out by a mix of internal staff or audit service providers. Audit service providers are engaged under a 3-year contract, which may be extended for up to 2 further years depending on performance.

During the year, we continued to review our resource mix to ensure that it remained the most appropriate means for resourcing financial statement audits.



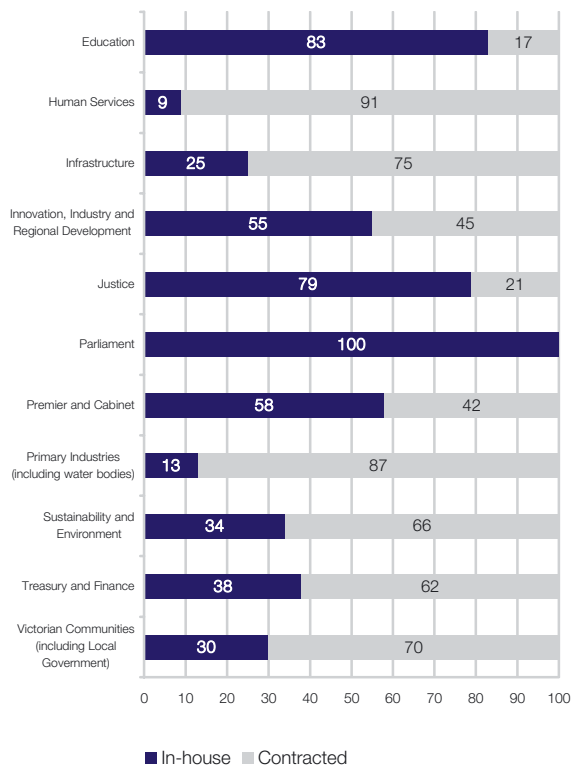
*Stephan Dietrich, from our Financial Audit Group, in discussions with audit clients.*

## Resource mix for financial statement audits

During the year, the Financial Audit Group internally staffed 211 audits, or 32 per cent (253, or 41 per cent, in 2005-06).

The following chart shows the mix of resources applied to clients across each sector at 30 June 2007.

RESOURCING FINANCIAL STATEMENT AUDITS BY DEPARTMENTAL SECTOR







## Audit service providers

In 2006-07, we paid \$6.913 million (\$6.732 million in 2005-06) to 30 audit firms.

### FINANCIAL STATEMENT AUDITS, PAYMENTS TO AUDIT SERVICE PROVIDERS, 2006-07

Audit service provider	Amount
	(\$'000)
RSM Bird Cameron	1 092
Ernst & Young	928
HLB Mann Judd (Vic) Pty Ltd	714
WHK Day Neilson	662
UHY Haines Norton (Vic) Pty Ltd	582
Richmond Sinnott & Delahunty	512
Coffey Hunt & Co	339
WHK Armitage Downie Pty Ltd	283
DFK Collins	266
KPMG	261
KPMG Albury	205
Johnsons MME	137
Mclean Delmo Hall Chadwick	135
Deloitte Touche Tohmatsu	130
Pannell Kerr Forster	123
Davidsons	115
Pricewaterhouse Coopers	114
Other <sup>(a)</sup>	315
<b>Total</b>	<b>6 913</b>

<sup>(a)</sup> Comprises payments of less than \$100 000.

The *Audit Act 1994* authorises the Auditor-General to delegate the responsibility for signing audit opinions on financial statements to audit service providers where the annual operating expenditure is under a threshold amount which is indexed annually. The base amount for 2006-07 was \$5.2 million.

In 2006-07, the Auditor-General delegated responsibility to audit service providers to issue audit opinions for 104 audits (82 in 2005-06). Appendix 4 of this annual report lists those audits delegated.

## Outlook for 2007-08

### In the coming year, we will:

- bring forward the timing of our financial audit program to further improve the timeliness of financial reporting by agencies, and our own reporting
- continue to review and enhance the IPSAM financial audit toolset
- improve the timeliness and quality of our communications with our audit service providers.

# Managing our Office



*Rossina Scarmozzino and Daniel O'Shea*

## Key achievements

- Re-alignment of Office structure, and some senior management positions (see page 43).
- A business continuity plan was developed (see page 50).
- We made further improvements to our information and knowledge management services and facilities (see page 51).
- Progress was made towards improving management reporting (see page 51).
- We introduced a new corporate identity for the Office (see page 52).
- We upgraded and enhanced our audit methodologies (see page 53).
- Progressive enhancement of our people management framework and guidance, and our learning and development program (see pages 56 and 59).
- Successful relocation to new premises, with a focus on reducing the environmental impacts of our activities (see page 61).

## In this section ...

we provide information on our governance practices; our organisation structure and senior staff; business planning and audit methodology developments; and work force policies, practices and statistics.

Performance against organisational targets	41
Governance	43
Business planning and capabilities	49
Compliance and accountability	53
Our staff	56



## Performance against organisational targets

### Initiatives for 2006-07

Our previous annual report outlined improvement initiatives to be completed in 2006-07. These initiatives were designed to strengthen our planning, reporting, audit practice and internal business capabilities.

#### 2006-07 ORGANISATIONAL TARGETS AND ACHIEVEMENTS

2006-07 target	2006-07 achievement
<ul style="list-style-type: none"> <li>Improve management reporting for both our senior management team and line managers within the Office to assist in monitoring our performance against our plans and targets.</li> </ul>	<ul style="list-style-type: none"> <li>We made progress with our management reporting by developing an electronic reporting system to improve both the efficiency of compiling management reports and the availability of more timely management information. We will continue to develop our management reporting in 2007-08 to clearly link information needs to the revised directions of the Office (see page 51).</li> </ul>
<ul style="list-style-type: none"> <li>Implement our knowledge management plan with particular emphasis on better linkages of our internet and intranet.</li> </ul>	<ul style="list-style-type: none"> <li>Work continued to enhance our knowledge management, including upgrades to our records management database. Given changes to the Office's organisation structure and the commencement of a new senior management team, we will reconsider our approach to knowledge management in 2007-08. General maintenance of our internet and intranet continued, with redevelopment work planned for 2007-08 (see page 51).</li> </ul>
<ul style="list-style-type: none"> <li>Ongoing enhancement of our new financial audit toolset to further improve the efficiency and effectiveness of our financial audit processes. (This toolset was developed in partnership with the Queensland Audit Office and was implemented on target in November 2005.)</li> </ul>	<ul style="list-style-type: none"> <li>We implemented a number of enhancements to the toolset in 2006-07. These enhancements included improvements to methods and guidance aimed at improving the efficiency and quality of our financial audits, and updates to ensure compliance with amended accounting and auditing standards (see page 53).</li> </ul>
<ul style="list-style-type: none"> <li>Finalise our project to substantially upgrade our performance audit processes and methods.</li> </ul>	<ul style="list-style-type: none"> <li>A new performance audit toolset was completed in June 2007 and is being implemented for all performance audits from late June 2007 (see page 53).</li> </ul>
<ul style="list-style-type: none"> <li>Implement the strategies outlined in our human resources plan to further foster and develop our staff, and plan for the future through ongoing succession planning.</li> </ul>	<ul style="list-style-type: none"> <li>We implemented enhancements, including the introduction of a succession planning policy, further improvement to our learning and development framework, and the upgrade of various policies and guidance (see page 56).</li> </ul>
<ul style="list-style-type: none"> <li>Continue to implement our plain English initiative through advanced training programs for staff.</li> </ul>	<ul style="list-style-type: none"> <li>Plain English and report writing continued to be a key component of our learning and development program during 2006-07 (see page 59).</li> </ul>

2006-07 ORGANISATIONAL TARGETS AND ACHIEVEMENTS - *continued*

2006-07 target	2006-07 achievement
<ul style="list-style-type: none"> <li>Continue to upgrade and implement our learning and development program to ensure that it meets the needs of our staff and our Office.</li> </ul>	<ul style="list-style-type: none"> <li>Our learning and development program was further improved through implementing a "whole-of-career" development approach and introducing a manager development program aimed at mid- and senior level non-executive staff (see page 59).</li> </ul>
<ul style="list-style-type: none"> <li>Examine options for our future accommodation when the lease on our current office accommodation expires.</li> </ul>	<ul style="list-style-type: none"> <li>In April 2007, the Office relocated to new premises at 35 Collins Street, Melbourne (see page 61).</li> </ul>
<ul style="list-style-type: none"> <li>Continue to work with our staff to reduce the environmental impact of our activities, with a major focus on reducing our energy consumption, purchasing more green power, reducing our waste and recycling more paper.</li> </ul>	<ul style="list-style-type: none"> <li>Environmental issues were a major focus of the development of our new premises to enable us to achieve the energy efficiency rating required by government. We will continue to pursue opportunities to further reduce our environmental impacts in 2007-08 (see page 61).</li> </ul>

## Future directions

Our proposed new strategic plan identifies 5 objectives and related strategies aimed at further improving our operations over the period 2007-08 to 2009-2010.

Objectives	Strategies
<ul style="list-style-type: none"> <li>Being authoritative and relevant</li> </ul>	<ul style="list-style-type: none"> <li>Increasing transparency in performance audit topic selection</li> <li>Demonstrably applying materiality and risk criteria in topic selection</li> <li>Emphasising the evidence and the application of authoritative criteria</li> <li>Reporting clearly and unequivocally</li> </ul>
<ul style="list-style-type: none"> <li>Being highly regarded by Parliament</li> </ul>	<ul style="list-style-type: none"> <li>Engaging with parliamentary committees and parliamentarians to assure the relevance and appropriateness of our audits</li> <li>Strengthening relationships with the Public Accounts and Estimates Committee and other parliamentary committees</li> </ul>
<ul style="list-style-type: none"> <li>Fostering productive relationships with audit clients</li> </ul>	<ul style="list-style-type: none"> <li>Better informing our clients about our audit activities</li> <li>Engaging early and consistently on audit issues and findings</li> <li>Promoting continuous improvement in the Victorian public sector</li> </ul>
<ul style="list-style-type: none"> <li>Being an employer of choice</li> </ul>	<ul style="list-style-type: none"> <li>Demonstrating the relevance of the Office to the public interest</li> <li>Continuously developing our people</li> <li>Providing an attractive and stimulating work environment</li> </ul>
<ul style="list-style-type: none"> <li>Being innovative and cost-effective</li> </ul>	<ul style="list-style-type: none"> <li>Continuously improving our systems, methodologies and processes</li> <li>Valuing ideas and knowledge sharing</li> <li>Aligning tasks with office-wide objectives</li> </ul>



The performance indicators of our success in attaining our objectives are:

- Feedback from our various stakeholders, including parliamentarians, the Public Accounts and Estimates Committee and client agencies
- Our performance compared with our peers
- Achievement against our Annual Plans tabled in Parliament, and our internal Business Plans
- The level of acceptance of our recommendations
- The timeliness of our audits
- Feedback from our employees.

## Governance

### Leadership and stewardship

#### Changes to organisation structure

Following the commencement of Des Pearson as Auditor-General in October 2006, a review was undertaken of the Office’s organisation structure. Resulting from this review, changes were made to the

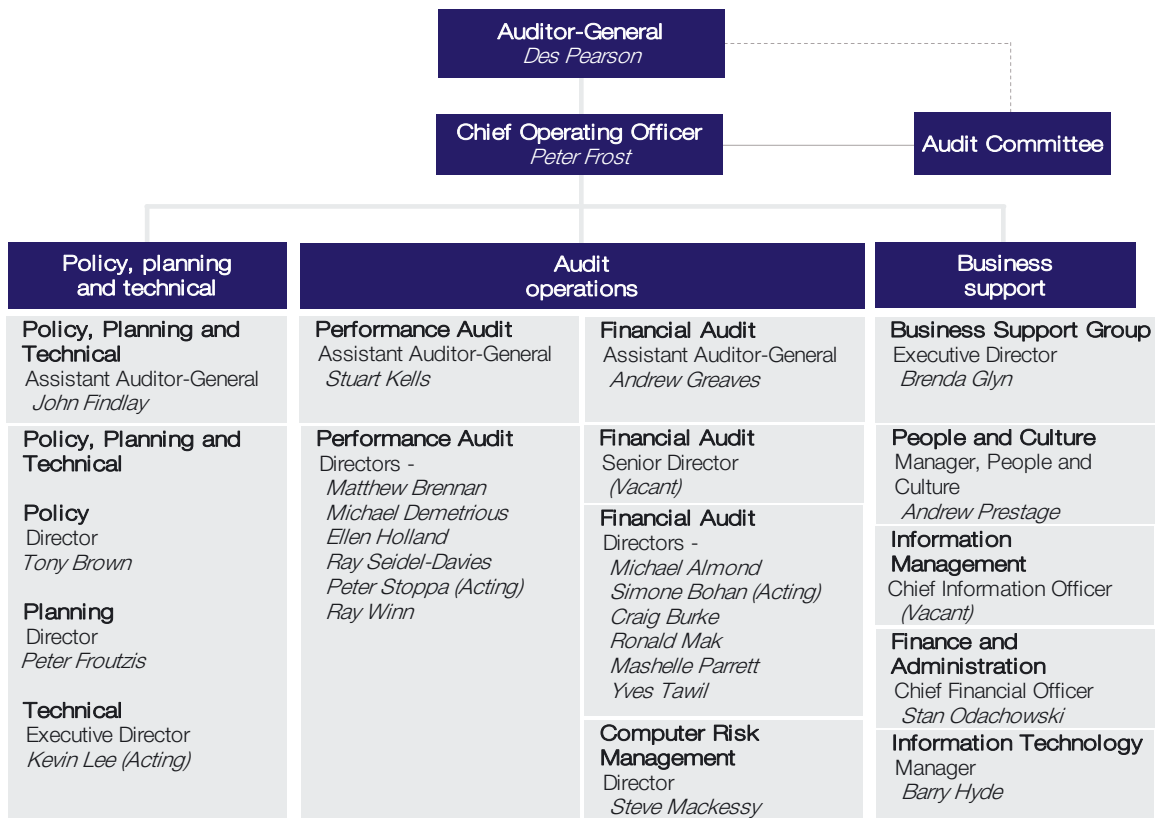
structure and responsibilities of groups within the structure. These changes included:

- creation of the Policy, Planning and Technical (PP&T) Group to replace the former Strategic Audit Planning, Policies and Standards (SAPPS) Group, with key responsibilities including preparation of the annual plan and coordination of technical development for operational staff
- moving overall responsibility for client liaison and management from the former SAPPS Group to the Financial Audit Group
- greater responsibility for the Performance Audit and Financial Audit Groups in identifying and preliminary planning of audit topics.

Overall, these changes are aimed at ensuring that our organisation structure is better aligned to our corporate needs. We will continue to monitor and review our organisation structure to make sure that it is the most effective to meet our future aims and directions.

The revised organisation structure is outlined in the following organisation chart. This chart also outlines our senior management structure at 30 June 2007.

#### ORGANISATIONAL CHART





## Retirement of Wayne Cameron

Wayne Cameron completed his 7-year term as Auditor-General and retired from the position on 19 September 2006. Wayne oversaw many developments during his term, including:

- revision of the audit legislation to restore the Auditor-General's powers and strengthen the relationship with Parliament and, in later revisions, the protection of the Auditor-General's position in the Constitution
- abolition of Audit Victoria and reintegration of its staff and audit responsibilities back into the Victorian Auditor-General's Office
- expanding the Office's role to include a review of the Government's estimated financial statements
- creating external advisory panels for key sectors
- implementing revised management arrangements for contracted audits
- introducing briefings of Members of Parliament following the tabling of reports
- implementing a new practice and document management systems
- developing a new financial audit toolset in a joint arrangement with the Queensland Audit Office
- commencing development of a new performance audit toolset
- implementing an audit methodology for the audit of non-financial performance indicators.

The Office wishes to express its gratitude to Wayne for his leadership and guidance during his 7 years as Auditor-General.



*Wayne Cameron, Auditor-General from 1999-2006.*

## Appointment of Des Pearson

Des Pearson was appointed Auditor-General for Victoria on 1 October 2006. His term of appointment is for 7 years.



*Official swearing in of Des Pearson (far right) as Auditor-General in September 2006 – with the Lieutenant-Governor, the Hon. Justice Marilyn Warren, AC, and the Premier, the Hon. Steve Bracks, MP.*

## Other senior staff movements

Edward Hay (former Deputy Auditor-General) left the Office in February 2007. David Reid (former General Manager - Business Support and Special Investigations Group) and Russell Walker (former Assistant Auditor-General - Strategic Audit Planning, Policies and Standards Group) gave notice of their intended retirements from the Office during the year. The Office wishes to thank Edward, David and Russell most sincerely for their contributions made during their time in the Victorian Auditor-General's Office.



## Senior management



**Des Pearson**, BBus, GradDip Mgt, FIPAA, FCPA, FAIM, FCA  
*Auditor-General of Victoria*

Des Pearson was appointed Auditor-General of Victoria in October 2006. He was previously Auditor-General of Western Australia (1991-2006). He is responsible to the Victorian Parliament for exercising the audit powers and functions under the *Constitution Act 1975* and the *Audit Act 1994*. He is also responsible for managing the Office overall.



**Peter Frost**, BA, BLitt, Med, MPhil (Cambridge), PhD (Harvard)  
*Chief Operating Officer*

Peter commenced as Chief Operating Officer in January 2007. He has extensive public sector management experience, gained primarily in the Victorian public sector, higher education and with the Commonwealth Secretariat. He reports directly to the Auditor-General on the management and performance of Office operations, and oversees our technical and audit operations activities, as well as our business support activities.



**John Findlay**, BBus (Acc), MBus (Acc), LLB, GradDip CSP, FCPA  
*Assistant Auditor-General - Policy, Planning and Technical Group*

John started as Assistant Auditor-General - Policy, Planning and Technical Group in April 2007. He previously held the position of Director, Audit Policy and Reporting in the Queensland Audit Office. The Policy, Planning and Technical Group is responsible for the development of the Office's annual plan, technical training and accounting and auditing policy advice, quality assurance and audit methodology development.



**Andrew Greaves, BEc, CA**

*Assistant Auditor-General - Financial Audit Group*

Andrew began as Assistant Auditor-General - Financial Audit Group in June 2006. He leads the group which is responsible for providing a range of financial statement audit services, and he manages our contractual arrangements with audit service providers. The group is also responsible for preparing a number of parliamentary reports.



**Stuart Kells, BComm, MComm**

*Assistant Auditor-General - Performance Audit Group*

Stuart commenced as Assistant Auditor-General - Performance Audit Group in April 2007. He previously held senior positions with the State Services Authority and a number of government departments, including Premier and Cabinet, and Treasury and Finance. He leads the Performance Audit Group which is responsible for undertaking performance audits for Parliament.



**Brenda Glyn, BSc (Hons), CA**

*Executive Director - Business Support Group*

Brenda began as Executive Director - Business Support Group in April 2007. She has extensive senior financial and administrative experience in the public and private sectors, and was previously Chief Finance Officer of the Office of Commonwealth Games Coordination. The Business Support Group provides a range of corporate support and advisory services.



## Managing the Office

The Senior Management Group and 4 committees managed the Office during 2006-07.

### Senior Management Group

The Senior Management Group sets our policy framework and strategic direction, and monitors our performance against organisational goals and milestones.

The Auditor-General, Chief Operating Officer and the leaders of the 4 business units are members of the group, which meets monthly.

### Information Management and Technology Steering Committee

This committee oversees our information management and technology strategies and initiatives.

During 2006-07, the committee oversaw the upgrade of business systems and the development of our performance audit toolset.

A new IT strategic plan is under development in conjunction with the introduction of our proposed strategic plan.

### Operations and Development Committee

The primary objective of this committee is to provide a channel of communication between management and staff on matters directly affecting the culture and business of the Office.

The committee met as needed during 2006-07.

### Remuneration Committee

This committee advises the Auditor-General on our remuneration policies and practices, and staff remuneration arrangements. These policies and practices help us to attract, motivate and retain quality staff.

The committee includes senior managers of the Office and an independent member, Mr Patrick O'Grady.

The committee monitored the executive and non-executive officer annual performance appraisals processes and salary review during 2006-07.

### Audit Committee

The Audit Committee independently advises the Auditor-General on the quality of internal controls, responsible resource management and whether internal financial reports are adequate. The committee monitors how we manage significant financial risks, and reviews the results of internal and external audits and annual financial statements.

During 2006-07, the Audit Committee charter was revised to expand the responsibility of the committee to also monitor the processes and controls in place to ensure that the Office operates economically, efficiently and effectively in the delivery of its objectives.

February 2007 also saw the retirement of the Deputy Auditor-General and Audit Committee member, Edward Hay. Edward provided a valuable contribution to the committee, and his commitment to both the Office and the committee during his time is greatly appreciated.

The revised charter also saw the expansion of the number of committee members to 4, with the addition of Deirdre O'Donnell (effective 27 June 2007) and Joanna Perry (effective 1 July 2007) to the committee following the departure of Edward Hay. All committee members are independent, non-executive members appointed by the Auditor-General.

**Audit Committee Chairman's report (year ended 30 June 2007)**

The Audit Committee is formally appointed by the Auditor-General to assist the Auditor-General in assuring that there are appropriate and effective accounting, auditing, internal control, business risk management, compliance and reporting systems operating within the Office.

The members of the Audit Committee, their qualifications and attendance at meetings, are set out below:

Committee member	Meetings	
	Attended	Held
Mark Anderson Chief Executive Officer, Dousta Galla Aged Services FCPA, MACS, GMAICD	5	5
Keith James Partner, Hall & Wilcox Lawyers FCPA	5	5
Edward M Hay (resigned 1 February 2007) Deputy Auditor-General BA (Accounting), CA	2	3
Deirdre O'Donnell (appointed 27 June 2007) Ombudsman, Telecommunications Industry Ombudsman Ltd MBA	1	1

During the year, Mr Edward Hay resigned from the Audit Committee upon his retirement from the Office. The Auditor-General, Mr Des Pearson, expressed his appreciation of Mr Hay's contribution and commitment to both the Office and the committee in assisting the Auditor-General in matters of audit and accounting significance to the public sector. Two new Audit Committee members were appointed during the year, Ms Deirdre O'Donnell and Ms Joanna Perry, who will bring valued skills and additional perspectives to the committee.

The Audit Committee operates in accordance with a charter which outlines the responsibilities of the committee. The main responsibilities of the committee are to:

- 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
- review the scope and quality of the external audit
- review and monitor related-party transactions
- review the committee's role and responsibilities.

In fulfilling these responsibilities, the Audit Committee has:

- reviewed the annual financial report and recommended its adoption by the Auditor-General
- reviewed the management response to the external audit management letter
- approved the 3-year internal audit plan for 2006-07 to 2008-09
- received reports from the internal auditor who advised no significant weaknesses in the internal financial controls and risk management practices
- reviewed the quarterly risk management report and noted that risks were being appropriately monitored and addressed by the Office
- met with the external auditor and discussed the audit strategy and scope
- undertaken a self-assessment against the duties set out in the Audit Committee charter and noted that all duties for 2006-07 have been completed
- reviewed and updated the Audit Committee charter to reflect the revised composition and responsibilities of the committee.

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.



Mark Anderson (Chairman)





## Risk management

Risk management planning is an integral part of effective corporate governance. It involves identifying and assessing risks and implementing appropriate actions to reduce risks to acceptable levels.

During the year, we strengthened our approach to risk management and re-focused on the major strategic risks faced by the Office. We introduced new tools to better capture risks from across all areas of the Office, and improved our reporting on these risks to the Senior Management Group.

At 30 June 2007, there were no emerging or existing risks that did not have effective risk treatments in place.

## 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.

# Business planning and capabilities

## Corporate plan



We continued to implement the Auditor-General's *Corporate Plan, 2004-05 to 2006-07*. The plan set out our organisational objectives and strategies to achieve these. Every quarter, the Senior Management Group monitored progress against the plan. As the corporate plan concluded on 30 June 2007, a detailed assessment of progress toward achieving the plan's objectives has been provided on page 9 of this annual report. Our proposed strategic plan, to cover the period 2007-08 to 2009-10, sets out our objectives, how we intend to achieve them and our key performance indicators (see pages 42 and 43).

## Annual plan

The selection of areas of prospective audit interest for performance audits is based on a framework which considers public sector performance against the Government's established vision or goals, through an environmental scanning process, as documented in the annual plan.

Our strategic audit planning approach identifies these areas through an environmental scanning process focusing on emerging trends and directions, risks, challenges and other factors which may influence the achievement of the established vision and/or goals.

This scanning includes an assessment of:

- strategic influences or factors impacting on the performance and accountability of public sector agencies now and in the future, and action being taken by these agencies to mitigate these influences or factors
- emerging issues for the public sector, including any anticipated changes in service delivery methods into the future
- international and national trends in public sector practice
- results of current and previous audit work
- concerns raised by Parliament, agencies and the community regarding the performance of public sector agencies.

As part of the identification of the prospective areas of audit interest, we identify and evaluate indicators of performance that relate to the key challenges and risks faced by public sector agencies. These challenges and risks include the growth and ageing of the population, increased urbanisation, the impact of climate change and higher expectations for government services by the community.

We also consider challenges and risks to the capability and resources of public sector agencies such as work force management, maintenance and replacement of infrastructure, including information and communication technology, and the increasing reliance on joined-up government service delivery mechanisms. Furthermore, the relevance and appropriateness of performance reporting across sectors also receives our attention.

This information also informs our budgetary needs. After consulting with the Public Accounts and Estimates Committee, we transmitted our *2007-08 Annual Plan* for tabling in Parliament on 20 June 2007.

## Business and operational group plans

The Office business plan supports the strategic plan and the annual plan. It sets out the way in which the year's planned outputs and developmental goals are to be achieved, including strategies for improving our activities. The Senior Management Group monitors progress against the business plan.

## Business continuity plan

During 2006-07, we prepared a business continuity plan to provide guidance on how we will deal with any unexpected disruptions to our activities. The plan sets out proposed actions to be undertaken should any of the following events occur:

- restricted or no access to our premises
- failure of key office systems
- unavailability of key staff.

We plan to fully implement this plan in 2007-08 through the development of overview flowcharts to summarise actions required in the case of a threat to continuity of our activities and by providing information sessions to all staff.

## Information technology

Information technology underpins most core business processes. The objective of our Information Technology Section is to "Assist the Office to deliver audit products by providing cost-effective information technology facilities and services".

To this end during the year, the section completed the following key tasks as part of its support for the Office:

- moved all computer infrastructure and telephony equipment to new premises as part of the business relocation project
- installed new data communications infrastructure to replace obsolete equipment
- purchased new servers to replace old equipment as part of the computer hardware maintenance program
- replaced 36 obsolete portable computers
- redesigned the Australian Council of Auditor-General (ACAG) website and implemented a discussion forum for ACAG member staff
- upgraded all MS SQL databases to MS SQL 2005 to improve performance
- successfully tested the disaster recovery plan at the remote site
- updated our anti-virus scanner software to improve detection of malicious software
- implemented a strategic information system to aggregate operational data and report on business performance
- upgraded our data backup software to improve performance and rectify several bugs.



*Ernest Kim from our Information Technology Section helped with the installation of new data communications equipment.*



The Information Technology Section participated in 2 core business projects:

- Financial audit methodology project (IPSAM). A number of changes were made to the software to improve the audit process. Assistance was also provided to the Tasmanian Audit Office on the installation of the hardware and software to allow it to implement the IPSAM system
- Performance audit methodology project – previously known as EMPERA. Software was developed for the system, on time as planned.

Important tasks for 2007-08 will include:

- installing and commissioning new computer server hardware to improve local area network performance, reliability and capacity
- assisting the Office to develop new versions of the financial audit and performance audit software to improve audit processes
- developing a new information technology strategic plan
- upgrading the wireless data communications equipment to improve the speed for staff working at client sites.

## Information management

### Information and Knowledge Management Strategic Framework

The Information and Knowledge Management Strategic Framework is the direction-setting component of the Office's Information and Knowledge Management Initiative.

Our vision is that the Office will manage its information and knowledge in a disciplined and coordinated manner which will improve and support effective and efficient operations through consistency, understanding and communication, and by empowering staff to achieve our objectives through the provision of immediate and user-friendly access to information.

Our goal is to have an active information and knowledge sharing culture, which facilitates innovation, and captures and capitalises on both our internal knowledge and external sources of knowledge.

In 2006-07, we continued improving the information and knowledge management services and facilities through:

- upgrading our management information and records management systems

- developing a business continuity plan
- progressing the development of improved and more timely management reports
- improving the functionality of the Office's intranet.

In 2007-08, we will reassess our approach to knowledge management to ensure that it is appropriate to meet the requirements of the Office's directions outlined in the new strategic plan and the needs of new senior managers.

## Corporate communications strategy

Our corporate communications strategy aims to make our key stakeholders – Parliament, audited agencies, the community, other Auditors-General, the accounting profession, educational institutions and our staff – more aware and confident of our role and work.

During 2006-07, we sought to improve our communications practices through:

- better communication with Parliament, executive government, the Public Accounts and Estimates Committee, government agencies, industry groups, audit committees, other audit offices and the community
- creating opportunities to communicate with respect and balance
- adding value to our audit findings, whether through our audit reports to Parliament or to our audit clients
- collaborating to enhance decision-making, reach common goals and be consistent in the views we communicate
- promoting our parliamentary reports in external forums and through professional associations
- improving our internal communications through regular staff communications meetings and our electronic staff newsletter *Insight*
- communicating proactively, strategically and clearly.

We also undertook a number of external promotional activities aimed at developing community awareness of our role and services. These included:

- staging an Office exhibit at the 2006 Royal Melbourne Show
- participating in the Open Day activities at Parliament House
- presentations to Members of Parliament and in other forums on the role, work and products of the Office

- involvement in graduate recruitment activities at various tertiary educational institutions.



*Taryn Goh (left) provided Office information to students at a careers fair.*

While we undertook a limited review of certain aspects of our communications strategy in 2006-07, we plan to conduct a broad scope review during 2007-08. The broad scope review, which will reflect strategies aligned to our proposed *2007-08 to 2009-10 Strategic Plan*, will assist us to deliver relevant, effective and valued communications to our stakeholders.

### New corporate identity for the Office

In April 2007, the Office introduced a new corporate identity program. The introduction of the new corporate identity coincided with our move to new premises at level 24, 35 Collins St, Melbourne on 2 April 2007.

A new-look logo features our new corporate colours of dark blue and white, and introduced the “VAGO” acronym as part of the Office name.

# VAGO

**Victorian Auditor-General’s Office**

*Auditing in the Public Interest*

### Office exhibit at the 2006 Royal Melbourne Show

In September 2006, the Office staged an exhibit at the Royal Melbourne Show. This year, following completion of a major redevelopment of the showgrounds, government departments and agencies were housed in a new Victorian Government Expo Centre, where they displayed and demonstrated their initiatives, products, services and achievements to the community. Around 400 000 people visited the expo centre over the 11 days of the show.

As the Royal Melbourne Show venue is primarily one for families, our exhibit focused on providing a fun and educational experience for visitors of all ages. Our exhibit featured a corporate information area, as well as an “Audit Wizard Numbers Game” which allowed participants to experience some basic audit principles and practices.



*Our exhibit at the Royal Melbourne Show attracted visitors of all ages.*

Many visitors to the exhibit complimented us on the exhibit theme and layout, with comments such as:

- “An excellent way to make the public more aware of the Auditor-General’s Office”
- “The exhibit is creative, and gives awareness about the Auditor-General’s work for the general public – well done”
- “Excellent introduction to the workings of the Auditor-General’s Office”
- “It is a great exhibit – I certainly learnt a lot about the Office”.

Staging the exhibit at the Government Expo Centre aims to broaden the community’s understanding of our important financial management and accountability role – which we undertake on behalf of Parliament and, indeed, all Victorians.





## Compliance and accountability

### Quality assurance practices

We are committed to best practice in undertaking audits. We aim to continually raise our standards to better meet the needs of Parliament and audited agencies.

### Financial Audit Policy Manual

Our Financial Audit Policy Manual guides staff and audit service providers in undertaking financial statement audits.

The manual is updated annually and was released this year at a forum for auditors in March 2007. The forum focused on current developments in auditing and financial reporting, and highlighted emerging developments in individual sectors and across the public sector.

Our Policy, Planning and Technical Group also issues financial audit policy alerts on policy developments on emerging legislative, financial reporting or auditing issues. These “as needed” alerts give timely interim guidance and we include them as updates in the manual. Auditors in the field access the manual and the alerts through controlled internet access.

### Financial audit methodology

It is important that our audit methods achieve high-quality results. Our approach to financial audit is integrated into our electronic audit toolset, known as IPSAM, which was developed in a joint arrangement with the Queensland Audit Office. Our financial audit approach is designed to enable us to form an audit opinion on agencies’ financial statements and performance statements in an efficient and effective manner. We also have regard to the appropriateness of the use of public resources, and compliance with laws and regulations when undertaking our financial audits. It is hoped that this joint initiative will serve to facilitate other cross-jurisdictional projects in the future.

Since the launch of IPSAM in November 2005, we have implemented upgrades and the Australian Capital Territory Auditor-General’s Office and the Tasmanian Audit Office have licensed the toolset. A number of other jurisdictions, both interstate and overseas, have expressed an interest in obtaining the IPSAM product.

### Performance audit methodology

During 2006-07, the Office completed a major project to enhance our performance audit methodology and upgrade the electronic working paper documentation system. The revised method reflects better practice in performance auditing and provides guidance to ensure that performance audits continue to be conducted in accordance with the *Audit Act 1994*, Australian auditing standards, and our policies and guidance.

Our performance audit methodology is based on a logical structure to guide evidence collection, documentation and analysis. It provides tools to support robust quality control processes and project management, and enables our staff to access relevant policy and guidance material and business templates, our records management system, and email and calendaring facilities.

Roll-out of the revised audit methodology to live audits commenced in late June 2007.



*Performance audit methodology development team members, from left, Celinda Estallo, Matthew Brennan, Vishal Suchdev and Joy Patton.*



## Adhering to auditing standards

Under the *Audit Act 1994*, we must follow Australian auditing standards issued by the Auditing and Assurance Standards Board. The Act also enables the Auditor-General to apply additional auditing standards to the conduct of audits.

To complement the standards, the Auditor-General periodically issues audit policy alerts which we use to update our Financial Audit Policy Manual.

We comply with auditing standards and policies, and safeguard the quality of our audits by:

- involving senior officers in all phases of the audit, including approving the plan and reviewing significant matters arising from each audit
- requiring senior staff review of audit results to ensure that the audit meets professional standards
- having senior officers external to the audit team assigned to all high-risk audits to confirm the quality of the audit.

These measures also identify key issues and, where necessary, draw the attention of Parliament and agencies to important financial management and accountability issues, and any inconsistencies in financial reporting.

External quality assurance reviews of our audit work occur through:

- Parliament appointing an independent auditor to conduct a 3-yearly performance audit of the Office
- applying a post-audit quality review program, conducted by well recognised audit professionals, of a sample of completed audits to check that they follow professional auditing standards and the Auditor-General's policies
- reviews of selected parliamentary reports by independent experts
- client satisfaction surveys on the quality of our audits.

## Independent review of audits

Each year, the Auditor-General engages external parties to review a sample of the financial statement audits and performance audits undertaken by both our audit service providers and in-house auditors. This quality assurance check provides an authoritative evaluation of the quality of all audits undertaken.

The objective of the post-audit quality review of a selection of financial statement audits undertaken in 2006-07 was to determine whether:

- the audit used Australian auditing standards and met legislative requirements
- the audit included a comprehensive risk assessment, linked to the audit strategy
- the audit strategy was appropriate and had a supporting program
- the evidence for the audit opinion was adequate
- the auditor used appropriate resources and review processes
- audit service providers met the terms of their contract
- agencies and auditors addressed all issues that arose during the audit and reported in a timely manner.

Overall, we had pleasing results from the post-audit quality review of financial statement audits. The results were released at our annual audit forum in March 2007. We also circulated the results to staff and audit service providers, and included any areas requiring re-emphasis in our learning and development program.

We appointed an external party to review a sample of our recent performance audits. The results assured us that our performance audits comply with Australian auditing standards, and meet the requirements of the *Audit Act 1994*. This review also identified areas for potential improvements, including closer adherence to our own internal guidelines for performance audits.

## Whistleblowers legislation

The *Whistleblowers Protection Act 2001* was introduced in Victoria on 1 January 2002. The legislation aims to encourage whistleblowers to disclose improper conduct by public officers and public bodies. It protects whistleblowers, and it sets up a system to investigate disclosed matters.



## Audit-related issues

The *Whistleblowers Protection Act 2001* expressly excludes the Auditor-General from application of the whistleblowers legislation.

Section 41 of the *Whistleblowers Protection Act 2001* allows the Ombudsman to refer a disclosure to the Auditor-General, if appropriate. However, the Auditor-General decides whether or not to investigate, in accordance with the powers of the position under the *Audit Act 1994*.

During 2006-07, the Ombudsman referred 2 matters to us, which we investigated under the authority of the Audit Act.

## Administrative issues

We have developed procedures for handling disclosures by whistleblowers. These procedures have been distributed to staff, and members of the public can request a copy. Under the legislation, the Assistant Auditor-General – Policy, Planning and Technical Group is the Office’s protected disclosure coordinator. There were no disclosures on administrative matters during 2006-07.

## Privacy legislation

We work closely with the Office of the Victorian Privacy Commissioner, as required, to make sure that our audits complement information privacy principles and legislation.

## Freedom of information

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

Our administrative processes, however, come under the State’s Freedom of Information legislation. We did not receive any applications under this legislation in 2006-07.

## National Competition Policy

The Office is compliant with National Competition Policy, including compliance with requirements of the policy statement *Competitive Neutrality: A Statement of Victorian Government Policy, Victorian Government Timetable for the Review of Legislative Restrictions on Competition*, and any subsequent reforms.

## Additional Office information available on request

In compliance with the requirements of the Ministerial Directions of the Minister for Finance, details in respect of the information items below have been retained by the Office and are available to the relevant ministers, Members of Parliament and the public (subject to the Freedom of Information requirements, if applicable). However, in adopting best practice disclosure policies and to ensure that the Office discharges its accountability obligations, where relevant, details about the following matters have, where possible, been disclosed within this annual report:

- a statement that declarations of pecuniary interests have been duly completed by all relevant staff of the Office (see page 49)
- details of publications produced by the Office about its activities, and where they can be obtained (see page 104)
- details of changes in prices, fees, charges, rates and levies charged by the Office for its services, including services that are administered (available on request)
- details of any major external reviews carried out in respect of the operation of the Office (see page 8)
- details of any other research and development activities undertaken by the Office (available on request)
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit (available on request)
- details of major promotional, public relations and marketing activities undertaken by the Office to develop community awareness of the services provided (see page 51)
- details of assessments and measures undertaken to improve the occupational health and safety of employees (see page 60)

- a general statement on industrial relations within the Office and details of time lost through industrial accidents and disputes (see page 58)
- a list of major committees sponsored by the Office, the purposes of each committee and the extent to which the purposes have been achieved (see page 47).

## Our staff

In 2006-07, we continued to implement our People Strategy based around meeting strategy 5 “Strengthening our business processes and

organisational capability” of the Office’s *2004-05 to 2006-07 Corporate Plan*. To successfully achieve this strategy, we implemented plans to attract, recruit, develop and retain the right numbers and quality of staff. The 3 strategic drivers of the People Strategy are:

- Work force capacity – staff have the capacity and capability to support the advancement of current and future business goals
- Value driven leadership – leadership at all levels promotes and sustains the Office’s values
- Motivating work environment – a work environment that fosters self-esteem and performance.

### PEOPLE MANAGEMENT FRAMEWORK

Drivers	Objectives
Work force capacity	Staff have the knowledge, skills and abilities to achieve their assigned goals and expectations.
	Recruitment, retention and succession planning enables staff to achieve the purpose of the Office.
	Work force planning principles apply to resource planning and staff scheduling.
Value driven leadership	Learning opportunities assist in the development of organisational capabilities.
	Performance management systems align business planning with individual performance, behaviours and capabilities.
	Our individual behaviours are always consistent with our Office values.
Motivating work environment	Decisions affecting staff are based on merit, equity and diversity.
	Staff are motivated to excel because their achievements and contributions are recognised.
	Healthy work environment and practices have a positive effect on performance.

## Progress against organisational strategies

### Improvement initiatives in 2006-07

The following key initiatives were developed to meet the 3 strategic drivers of the People Strategy for 2006-07.

### PEOPLE STRATEGY INITIATIVES

2006-07 business initiative	Achievement
<ul style="list-style-type: none"> <li>• Establish succession planning processes which link both work force planning and individual career.</li> </ul>	<ul style="list-style-type: none"> <li>• Incorporated succession planning principles in the Office Performance, Development and Progression program.</li> </ul>
<ul style="list-style-type: none"> <li>• Develop a formal management development program where individuals are provided support to strengthen their management and leadership skills.</li> </ul>	<ul style="list-style-type: none"> <li>• The Learning and Development program has been extended to include a module-based Management Development program.</li> </ul>
<ul style="list-style-type: none"> <li>• Performance management systems align business planning with individual performance.</li> </ul>	<ul style="list-style-type: none"> <li>• The Performance, Development and Progression program has been revised to incorporate core and challenge goals to better align with the Office’s “stretch” targets.</li> </ul>



## Work force capacity

### Our staffing profile

From 1 July 2006, public service staff numbers are to be reported in accordance with the financial reporting direction FRD 29. We have, therefore, revised our work force information to meet the new directions.

#### EMPLOYEE NUMBERS

At 30 June	Number (Headcount)	Ongoing employees			Fixed-term and casual
		Full-time (Headcount)	Part-time (Headcount)	FTE	FTE
2006	155	136	14	145.8	5
2007	141	127	7	132.0	7

#### EMPLOYEE PROFILE

	30 June 2006				30 June 2007		
	Ongoing		Fixed-term and casual		Ongoing		Fixed-term and casual
	Number (Headcount)	FTE		FTE	Number (Headcount)	FTE	FTE
<b>Gender -</b>							
Male	81	79.5		4.7	73	73	2
Female	74	70.5		5.8	61	59	5
<b>Age -</b>							
Under 25	29	29		1	26	26	-
25-34	53	47		2	39	39	4
35-44	29	24		6	29	28	-
45-54	34	33		13	29	28	2
55-64	10	9		4	10	10	1
Over 64	-	-		-	1	1	-
<b>Classification -</b>							
VPS Executives	20	19.8		1	20	20	1
VPS 1	-	-		-	-	-	-
VPS 2	37	36.8		5.8	32	32	2
VPS 3	27	27		2	25	25	-
VPS 4	19	18.1		1.7	15	15	2
VPS 5	25	23.9		1	21	21	-
VPS 6	27	25.2		1	21	21	2

## Recruitment and retention

A major external recruitment firm was chosen to provide an overall solution to improving the Office's marketing, branding and streamlined recruitment process. Since November 2006, this firm has been active in assisting the Office secure a number of key positions, including all the Assistant Auditors-General positions, the Executive Director, Business Support Group, and several Audit Director positions.

All commencing staff undertook a formal induction program using a mix of presentations and web-based technology which gives easy access to relevant Office information, such as policies, forms and overviews of activities.

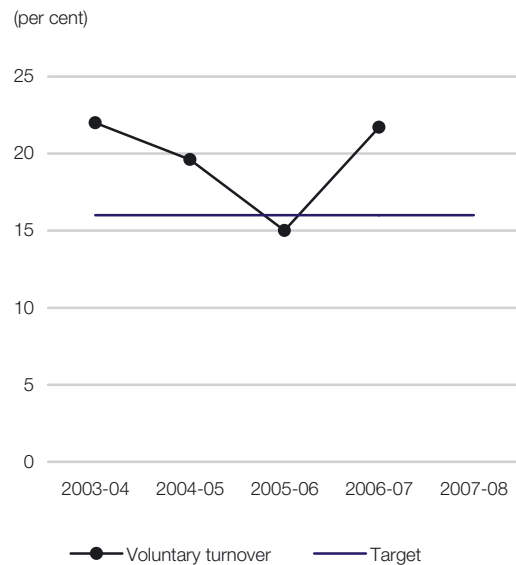
In February 2007, 14 graduates commenced with the Office. The graduates undertook a comprehensive 12-month program to help them learn about the Office, accounting and auditing standards, the work environment, our personnel policies and information about the wider public service. Their 12-month program is complemented with the Office's mentor scheme which enables graduates to partner with experienced staff.

We also encouraged our graduates to work towards Certified Practising Accountant or Chartered Accountant membership by providing them with financial and coaching opportunities.

### Staff turnover

The following chart shows our performance against our net turnover target since 2003-04.

### STAFF TURNOVER



The overall voluntary turnover for 2006-07 was 21.7 per cent, an increase of 6.7 per cent over the previous year. Financial audit staff accounted for 75 per cent of this overall voluntary turnover. Sixty-six per cent of staff who left the Office in 2006-07 indicated that they were leaving to take up positions in their profession; 34 per cent indicated that they were pursuing jobs in other professions.

This reflects the buoyant labour market for the financial services sector. Talent management and improved promotion opportunities have been identified as strategies to address the higher turnover in the Financial Audit Group.

### Industrial relations

The Office continues to maintain excellent industrial relations outcomes with no disputes lodged either internally or with the Australian Industrial Relations Commission. During the year, there was no lost time due to industrial disputes.





## Certified Agreement

All non-executive employees are employed under the Victorian Public Service Agreement 2006 which came into operation on 1 March 2006.

## Staff survey

During 2006-07, the Office introduced a psychological risk management approach to the staff survey to embrace the aims of psychological health requirements in the *Occupational Health and Safety Act 2004*. This project, known as the "Organisational Effectiveness and Wellbeing project", included surveying staff, identifying psychological risks, workshops and action planning. While we were able to collect valuable information for future staff surveys, due to the significant change to the Senior Management Group from early in 2007, the action planning will be finalised in 2007-08.

## Value driven leadership

### Learning and development

Learning and development is a central part of the Office's organisational function.

The development and release of the Office's annual training program is underpinned by its Learning and Development Capability Framework. The framework was originally designed to provide a stepping-stone approach to learning and career development, as well as ensuring that staff acquire the necessary knowledge and skills to perform their role. Now in its second year, the framework has been enhanced to comprise both a program curriculum and a core curriculum.

The program curriculum illustrates training programs for all staff by subject matter. The core curriculum outlines training programs that will be offered over a 3-year period. The framework's 3-year core training program is then converted into the training calendar for the next year.

These enhancements are designed to assist staff to make clearer choices about their professional development in the Office.

Staff have embraced the framework which has become an important tool in assisting staff and their managers to determine learning requirements.

The improved framework has enabled the Office to roll-out a more comprehensive training program for staff. For example, the technical training component has been bolstered with a wider range of targeted courses which show a clearer career pathway, particularly within the Financial Audit Group. This has also been supported with an expansion in training on accounting and auditing standards. Plain English training has continued to feature as part of our regular programs. Such training plays an important role in enhancing the impact and effectiveness of our written communications.

Also during the year, we introduced a management development program for VPS 5 and VPS 6 level staff. The program enabled participants to develop their people management and relationship skills.

To increase options, the training calendar features training that is offered by some selected external providers. This feature is included to expand the options that staff have, particularly where in-house programs are unable to satisfy the needs of staff.



*Our learning and development program enables staff, such as Chad Kennedy, to improve communications and client relationship skills.*

## Secondments

We encourage secondments to or from other government departments and agencies.

Secondments to and from the Office in 2006-07 were:

- Joy Patton, to Corrections Victoria
- Piero Ammirato, from the Department of Innovation, Industry and Regional Development
- Dallas Mischkuling, from Ombudsman Victoria
- Ian Claessen, from the Public Accounts and Estimates Committee
- Caleb Stuart, to the Department of Premier and Cabinet
- Andrea de Almeida, to the Office of the Victorian Privacy Commissioner
- Brook Hall, to the Office of the Commissioner for Sustainability
- Joanne Marsh, to the Public Accounts and Estimates Committee
- Alison Jansz-Senn, to Swinburne University of Technology
- Toula Varvarigos, from Public Record Office Victoria.

## Code of conduct

Our code of conduct which incorporates the Victorian public service's code of conduct for employees in the Victorian public sector is applicable to all staff.

The code is a public statement of how we conduct our business and the respect we have for Parliament, the public, our audit clients and our work colleagues. It builds on the employment and conduct principles contained in the *Public Administration Act 2004* and the Office's values of respect, excellence and integrity.

Upon commencement with the Office, all staff sign the code and attend an induction session which provides information on the code's requirements.

As of 1 July 2007, all staff will automatically have to abide by the newly introduced Code of Conduct for Victorian Public Sector Employees of Special Bodies.

## IT security policy

The policy aims to minimise the risk of disruption, damage or degradation of our information technology infrastructure, and to manage risks if they arise.

During 2006-07, the policy was reviewed and updated to reflect the Australian Standard for Information Technology Security.

All staff acknowledge that they will abide by the policy each time they connect to the Office computer network.

## Motivating work environment

### Occupational health and safety

Our annual occupational health and safety (OH&S) management plan emphasises individual health, including a specifically designed strategy to identify and manage hazards associated with psychological health. Activities in 2006-07 included:

- continuing OH&S workplace inspections of all areas of the workplace in addition to off-site agency work sites as necessary, to identify hazards and agree on solutions to remove or minimise them
- biennial check of electrical items as part of the new Inspection of Electrical Equipment policy
- free flu vaccination program with a 40 per cent take-up by staff
- establishment of a Health and Wellbeing Interest Group as a means of invigorating the corporate culture through greater staff participation in developing new health and wellbeing initiatives
- an organisational effectiveness and wellbeing project to identify, assess and manage the factors that impact on employees' health, wellbeing and their ability to successfully perform their role with the Office
- continuing the regular Health and Wellbeing column in the Office's internal newsletter *Insight*, and to the Health and Wellbeing section on the Office's intranet.

Details of our OH&S statistics are included on the inside back cover of this annual report.

### Merit and equity

We maintain the following programs and policies to ensure that our workplace remains free from discrimination:

- a trained equal opportunity (EO) contact officer to help staff with queries and concerns about EO, harassment, discrimination and our complaints process
- a Merit and Equity policy to promote and support diversity throughout the Office
- an Employee Assistance Program that gives staff professional and confidential counselling on work-related or personal problems that affect their work



- a code of conduct to help staff understand the behavioural standards they must meet as officers of the public service
- staff induction training, with information on anti-discrimination laws, expected behaviours and the complaints process
- half-day training sessions annually for all new staff and every 3 years for existing staff, provided by the Equal Opportunity Commission Victoria.

### Flexible working arrangements

To help our staff maintain a good balance between professional and personal roles, we offer various work arrangements such as flexible work hours, telecommuting and extended leave.

### Green Office Working Group

During the year, the Green Office Working Group concentrated its efforts on the Office's relocation to new premises which took place during March/April 2007. The group provided advice and comment to the relocation team, and these were, where possible, incorporated into the final plans. The Office's new accommodation incorporates many energy efficient and environmental features that will assist us in reducing our environmental footprint in the long-term (see below).

In late 2006-07, the group was restructured to reflect recent staff changes. Also, the group is now a part of the Office's Operations and Development Committee, which reports directly to the senior management of the Office.

As part of the group's restructure, there is now a renewed focus on identifying further potential energy savings and reducing the environmental impacts of the Office's operations, and this will be a key component of the group's activities in 2007-08.

### New Office accommodation

#### New environmentally sustainable workplace

In April 2007, the Office relocated to new premises at 35 Collins St, Melbourne. A priority of the new fit-out arrangements was to create an environmentally sustainable workplace for staff. A number of environmental design and performance initiatives were included in the fit-out, including:

- minimal energy use and greenhouse gas abatement – featuring a 50 per cent reduction in energy used for lighting, mainly due to motion sensors and high-efficiency lighting
- a reduction in office electricity consumption by reducing the number of printers, photocopiers and fax machines
- installing energy efficient mechanical equipment such as supplementary air-conditioning systems.

As for energy usage, sub-meters have been installed to monitor electricity usage within the fit-out, and the percentage of Greenpower purchased has increased from 10 per cent to 25 per cent.

The indoor environmental quality has been enhanced through better use of natural light, and a comprehensive environmental management plan and a waste management plan have been instituted.

The Office has committed to achieve:

- a 4-Star certified rating under Green Building Council Australia Green Star Scheme which recognises and rewards "best practice"
- a 4.5-Star Australian Building Greenhouse Tenancy rating which demonstrates excellent energy performance.



*Roberta Cole and Rob Hewko, in our new workplace environment at 35 Collins St, Melbourne.*

### Office social club

Our social club promotes a spirit of friendship and teamwork among staff, encourages Office morale, and coordinates cultural and recreational activities for staff.

The club's activities in 2006-07 included monthly social get-togethers, an end of financial year function, a Christmas party and several sports days. The money we raise from these events sponsors a child in Uganda through World Vision.

## Outlook for 2007-08

### In the coming year, we will:

- further develop our management reporting to clearly link information needs to the revised directions of the Office as outlined in our new strategic and annual plans
- reconsider our approach to knowledge management to best suit our future directions and needs
- develop and implement internal and external communications strategies to support the key directions of our new strategic plan
- continue to pursue opportunities to further reduce our environmental impacts.

# Financial management



## Key achievements

- Our net financial result for the year was a surplus of \$957 836 (\$909 074; 2005-06) (see page 64).
- Financial audit fee income for the year was \$15.749 million (\$14.996 million, 2005-06) (see page 64).
- We upgraded our financial management and reporting software (see page 66).

## In this section ...

we provide information on the management of our budget for the year, our financial performance and position, and our audited financial statements.

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## Financial performance

We are predominantly funded by parliamentary appropriations. Total appropriation for the Office was \$27.877 million in 2006-07.

Our 2006-07 financial result was achieved in an environment of challenging economic conditions and continuing change.

Our strong financial performance reflects our focus on responsible financial management and our efficient approach to resource management, processes and procedures, and particularly our business plan targets.

Each year, we aim to exceed expectations, and improve the quality, cost and timeliness of our 2 outputs, namely:

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

The following table shows modest movement in both actual revenues and expenses.

Item	Actual 2002-03	Actual 2003-04	Actual 2004-05	Actual 2005-06	Actual 2006-07
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenues -					
Appropriation	23 380	12 259	10 083	10 472	10 942
Section 32 carry forward	-	-	296	760	776
Section 29	-	11 762	14 268	14 996	15 749
Special Appropriation	231	256	276	321	410
Other	151	130	320	190	136
Total revenues	23 762	24 407	25 243	26 739	28 013
Total expenses	23 464	23 366	24 277	25 830	27 055
<b>Surplus</b>	<b>298</b>	<b>1 041</b>	<b>966</b>	<b>909</b>	<b>958</b>

*Note:* The Office is permitted, under specific sections of the *Financial Management Act 1994*, to either annotate certain receipts or carry them forward to the following financial year.

Section 29: Under section 29, certain receipts can be annotated to the annual appropriation. The receipts, which form part of a section 29 agreement, are received by the Office and paid into the Consolidated Fund as administered revenue. At that point, section 29 provides for an equivalent amount to be added to the annual appropriation authority limit, which is then available for application by the Treasurer.

Section 32: The Office is permitted, under section 32, to obtain approval from the Treasurer to carry forward a nominated amount from its annual appropriation to the following financial year where the amount is not applied or is unlikely to be applied in the current financial year.

In 2006-07, appropriation authority for financial statement audits was obtained through an arrangement under section 29 of the *Financial Management Act 1994*. This arrangement provides for the establishment of a facility where the revenue collected from financial statement audits establishes the appropriation authority to enable the Office to incur expenditure. On 7 June 2006, legislative changes brought section 29 revenue to account on an accrual basis whereas previously it was accounted for on a cash basis.

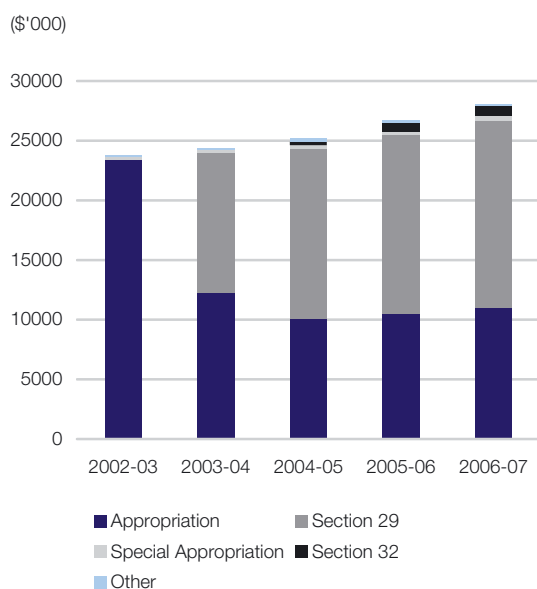
Audit fee income arising from financial statement audits is required, under the *Financial Management Act 1994*, to be paid into the Consolidated Fund and is treated as an administered item.





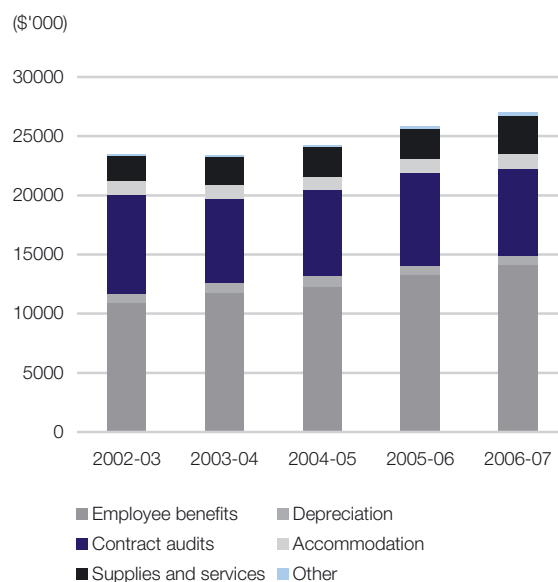
The following chart shows the source of our funding over the last 5 years.

#### REVENUES



The following chart shows our expenditure trends over the last 5 years.

#### EXPENSES



Expenses from ordinary activities comprised:

Item	Actual 2002-03 (\$'000)	Actual 2003-04 (\$'000)	Actual 2004-05 (\$'000)	Actual 2005-06 (\$'000)	Actual 2006-07 (\$'000)
Expenses -					
Depreciation	794	909	972	685	768
Employee benefits	10 924	11 727	12 236	13 325	14 135
Contract audits	8 360	7 119	7 208	7 925	7 328
Accommodation	1 138	1 136	1 195	1 168	1 297
Supplies and services	2 103	2 338	2 532	2 485	3 207
Other	145	137	134	242	320
<b>Total expenses</b>	<b>23 464</b>	<b>23 366</b>	<b>24 277</b>	<b>25 830</b>	<b>27 055</b>

## Output results

Total revenues and expenses for 2006-07 were attributed to outputs as follows:

Output Group	Revenues (\$'000)	Expenses (\$'000)	Net result \$'000
1. Parliamentary reports and services	11 675	11 634	41
2. Audit reports on financial statements	16 338	15 421	917
<b>Total</b>	<b>28 013</b>	<b>27 055</b>	<b>958</b>

## Financial position

Our financial position at 30 June 2007 remains strong with total assets of \$13.469 million, total liabilities of \$5.006 million and net assets of \$8.463 million.

The table below shows asset and liability movement over 5 years, and indicates a slow but steady growth in the net assets of the Office:

Item	Actual 2002-03	Actual 2003-04	Actual 2004-05	Actual 2005-06	Actual 2006-07
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Current assets	2 898	2 987	4 773	4 433	4 856
Non-current assets	6 543	7 394	6 647	7 744	8 613
<b>Total assets</b>	<b>9 441</b>	<b>10 381</b>	<b>11 420</b>	<b>12 177</b>	<b>13 469</b>
Current liabilities	2 830	2 875	4 410	4 208	4 474
Non-current liabilities	1 983	1 837	374	425	532
<b>Total liabilities</b>	<b>4 813</b>	<b>4 712</b>	<b>4 784</b>	<b>4 633</b>	<b>5 006</b>
<b>Net assets</b>	<b>4 628</b>	<b>5 669</b>	<b>6 636</b>	<b>7 544</b>	<b>8 463</b>

## Other financial matters

### Model 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 contained within the model financial reports. The annual report of the Victorian Auditor-General's Office complies with this requirement.

### Management and reporting software upgrade

In February 2007, we upgraded the software used to provide timely management and reporting information. The upgrade achieved:

- migration from Solomon V5.0 to Dynamics SL V6.5
- testing all custom written and customised Crystal report functions
- installation of Business Portal (V3.0)
- development of a financial reporting dashboard.

### Consultancies

The Office engaged consultants on 19 projects during the year, costing \$248 098. No consultancy project exceeded \$100 000. A further \$49 147 was spent on audit and legal fees, resulting in a total Supplies and Services expense of \$297 245.

## Outlook for 2007-08

### In the coming year, we will:

- seek to live within the incomes appropriated to us
- ensure, where possible, that each output activity lives within budget
- maintain our overall financial position while maintaining operating capability over the long-term
- restructure and automate, where appropriate, internal management reporting systems
- implement revised resource plan and budget procedures for the 2008-09 budget cycle.



# Financial report

for the financial year ended 30 June 2007

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*A glossary of terms used in this financial report can be found on page 116.*

## Independent auditor's report to the Victorian Auditor-General's Office

We have audited the accompanying financial report of the Victorian Auditor-General's Office, which comprises the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and 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 the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the Auditor-General also states, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financing Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### Auditor's responsibility

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements, and plan and perform the audit to obtain reasonable assurance 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 in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Auditor-General'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 Auditor-General'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 accounting profession.

### Auditor's opinion

In our opinion:

- (a) the financial report is in accordance with the *Financial Management Act 1994*, including
  - (i) giving a true and fair view of the Victorian Auditor-General's Office's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Financial Management Act 1994*
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



T J BENFOLD



PITCHER PARTNERS  
Melbourne  
21 August 2007



# Operating statement

for the financial year ended 30 June 2007

	Notes	2006-07 (\$)	2005-06 (\$)
<b>Continuing operations</b>			
<b>INCOME</b>			
<b>Revenue -</b>			
Output appropriations	2(b), 3(a)	27 466 727	26 227 578
Special appropriations	2(b), 3(b)	410 488	320 972
Resources received free of charge	4(a)	27 500	26 400
Other Revenue	4(b)	108 305	164 434
<b>Total income</b>	2(b), 4	<b>28 013 020</b>	26 739 384
<b>Expenses -</b>			
Employee benefits	1(i)	14 134 708	13 325 444
Contract audit services		7 327 912	7 925 212
Supplies and services	5	3 207 487	2 484 696
Rental expenses - accommodation		1 296 610	1 168 056
Depreciation and amortisation	1(i), 8(b)	768 450	685 018
Resources provided free of charge		20 400	-
Capital asset charge	1(i)	242 000	212 000
Finance costs	1(i)	25 683	20 309
Net losses on disposal of plant and equipment	1(i)	31 934	9 575
<b>Total expenses</b>	2(b), 5	<b>27 055 184</b>	25 830 310
<b>Net result from continuing operations</b>	12(b)	<b>957 836</b>	909 074
<b>Net result for the period</b>		<b>957 836</b>	909 074

This operating statement should be read in conjunction with the accompanying notes.

# Balance sheet

as at 30 June 2007

	Notes	2006-07 (\$)	2005-06 (\$)
<b>Current assets -</b>			
Cash		900	900
Receivables	6	4 561 816	4 260 518
Other	7	293 269	171 884
<b>Total current assets</b>		<b>4 855 985</b>	<b>4 433 302</b>
<b>Non-current assets -</b>			
Receivables	6	5 028 134	5 889 563
Property, plant and equipment	8	3 584 760	1,854,573
<b>Total non-current assets</b>		<b>8 612 894</b>	<b>7 744 136</b>
<b>Total assets</b>		<b>13 468 879</b>	<b>12 177 438</b>
<b>Current liabilities -</b>			
Payables	9	1 551 587	917 034
Interest-bearing liabilities	10	162 871	144 083
Provisions	11	2 759 155	3 146 823
<b>Total current liabilities</b>		<b>4 473 613</b>	<b>4 207 940</b>
<b>Non-current liabilities -</b>			
Interest-bearing liabilities	10	313 273	221,244
Provisions	11	218 689	203,686
<b>Total non-current liabilities</b>		<b>531 962</b>	<b>424 930</b>
<b>Total liabilities</b>		<b>5 005 575</b>	<b>4 632 870</b>
<b>Net assets</b>		<b>8 463 304</b>	<b>7 544 568</b>
<b>Equity</b>			
Contributed capital	12 (a)	311 027	350 127
Accumulated surplus	12 (b)	8 152 277	7 194 441
<b>Total equity</b>		<b>8 463 304</b>	<b>7 544 568</b>
<b>Contingent liabilities</b>	15		

This balance sheet should be read in conjunction with the accompanying notes.





## Statement of changes in equity

for the financial year ended 30 June 2007

	Notes	2006-07	2005-06
		(\$)	(\$)
Total equity at beginning of financial year		7 544 568	6 635 494
Net result for the period	12(b)	957 836	909 074
Transactions with the State in its capacity as owner	12(a)	(39 100)	-
<b>Total equity at end of financial year</b>		<b>8 463 304</b>	<b>7 544 568</b>

This statement of changes in equity should be read in conjunction with the accompanying notes.

# Cash flow statement

for the financial year ended 30 June 2007

	Notes	2006-07 (\$)	2005-06 (\$)
<b>Cash flows from operating activities</b>			
<b>Receipts -</b>			
Receipts from Government		30 032 515	27 838 206
Receipts from other entities		108 305	164 434
Goods and Services Tax recovered from the ATO		1 412 209	1 263 063
<b>Total receipts</b>		<b>31 553 029</b>	<b>29 265 703</b>
<b>Payments -</b>			
Payments to suppliers and employees		(27 400 610)	(26 464 061)
Goods and Services Tax paid to the ATO		(1 425 882)	(1 705 941)
Capital asset charge		(242 000)	(212 000)
Finance cost		(25 683)	(20 309)
<b>Total payments</b>		<b>(29 094 175)</b>	<b>(28 402 311)</b>
<b>Net cash flows from/(used in) operating activities</b>	18(b)	<b>2 458 854</b>	<b>863 392</b>
<b>Cash flows from investing activities -</b>			
Payments for property, plant and equipment	8(b)	(2 647 744)	(1 097 302)
Proceeds from sale of property plant and equipment		80 226	111 781
<b>Net cash flows from/(used in) investing activities</b>		<b>(2 567 518)</b>	<b>(985 521)</b>
<b>Cash flows from financing activities -</b>			
Proceeds from finance leases		295 780	293 477
Repayment of finance leases		(187 116)	(171 348)
<b>Net cash flows from/(used in) financing activities</b>		<b>108 664</b>	<b>122 129</b>
<b>Net increase/(decrease) in cash held</b>		<b>-</b>	<b>-</b>
Cash at the beginning of the financial year		900	900
<b>Cash at the end of the financial year</b>	18(a)	<b>900</b>	<b>900</b>

The cash flow statement is inclusive of the Goods and Services Tax, where applicable.

This cash flow statement should be read in conjunction with the accompanying notes.



# Notes to the financial statements

## for the financial year ended 30 June 2007

### 1. Summary of accounting policies

#### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared on an accrual basis in accordance with the *Financial Management Act 1994*, applicable Australian Accounting Standards in particular AAS29 *Financial Reporting by Government Departments*, Interpretations and other mandatory professional requirements. Accounting Standards include Australian equivalents to International Financial Reporting Standards ("A-IFRS").

The financial report was authorised for issue by DDR Pearson (Auditor-General) on 20 August 2007.

#### (b) Basis of preparation

The financial report has been prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS, the Victorian Auditor-General's Office (VAGO) management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by VAGO management in the application of A-IFRS 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 in the financial statements.

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.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2007 and, the comparative information presented for the year ended 30 June 2006.

#### (c) Reporting entity

The financial report includes all the controlled activities of VAGO.

##### Administered resources

VAGO administers, but does not control, certain resources on behalf of the Victorian Government. It is accountable for the transactions involving those administered resources, but does not have the discretion to deploy those resources for the achievement of VAGO's objectives. For these resources, VAGO acts only on behalf 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 financial statement audits and relate to the activities of Output Group 2 (also refer note 2).

Transactions and balances relating to these administered resources are not recognised as VAGO's revenues, expenses, assets or liabilities within the body of the financial statements but are disclosed in note 20. Except as otherwise disclosed, administered items are accounted for on the same basis and using the same accounting policies as for departmental items.

#### Non-current assets

All non-current assets controlled by VAGO are reported in the Balance Sheet. Non-current assets which VAGO administers on behalf of the Victorian Government are reported as administered resources.

#### (d) Objectives and funding

The primary objectives of VAGO are to assure Parliament that public sector agencies are delivering their services effectively, and doing so efficiently and economically, have operated lawfully and ethically, and have reported their performance fairly.

VAGO is predominantly funded by 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.

#### (e) VAGO Outputs

VAGO has 2 major output groups:

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

Information about VAGO output groups is set out in note 2.

#### (f) Events after reporting date

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 balance date. Adjustments are made to amounts recognised in the financial statements for events which occur after the reporting date and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. Note disclosure is made about events between the balance date and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting date and which may have a material impact on the results of subsequent years.

#### (g) Goods and services tax

Revenue, expenses and assets are recognised net 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 an asset or as part of an item of expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of 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.



(h) Income recognition

All income received by VAGO is generally required to be paid into the Consolidated Fund.

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 *Financial Management Act 1994* to have certain revenue annotated to the annual appropriation. The revenue 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 revenue recognition, section 29 provides for an equivalent amount to be added to the annual appropriation, which is then available for application.

Other revenue received by VAGO is generally required to be paid into the Consolidated Fund and is treated as an administered item and disclosed in note 20.

Output appropriations

Revenue 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.

Resources received free of charge

Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated.

(i) Expenses

Employee benefits

Employee benefits expenses include all costs related to employment, including wages and salaries, leave entitlements, redundancy payments and superannuation. These are recognised when incurred, except for contributions in respect of defined benefit plans.

Depreciation and amortisation of non-current assets

Non-current assets are depreciated on a straight-line basis to write-off the net cost or revalued amount of each asset group over its expected useful life to VAGO.

The expected useful lives are as follows:

	2006-07	2005-06
	Years	Years
Furniture and fittings	10	10
Computer hardware	4	4
Computer software	3	3
Office equipment	5	5
Motor vehicles - Leased	3	3

#### Leasehold improvements

The cost of improvements to, or on, leased properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to VAGO, whichever is the lesser.

In 2001-02, VAGO elected to exercise the option under the lease agreement for premises at 140 William Street, Melbourne, to extend the lease for a further term of 4 years. Accordingly, from 1 July 2001, the leasehold improvements were amortised on a straight line basis over the remaining extended term of the lease, which expired in March 2007.

On 2 April 2007, VAGO occupied new premises at 35 Collins Street, Melbourne. The term of the new lease was for 10 years - ending in March 2017.

#### Finance costs

Finance costs are recognised as expenses in the period in which they are incurred.

Finance costs include interest on short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowing and finance lease charges.

#### Capital asset charge

The capital asset charge represents the opportunity cost of capital invested in the non-current physical assets used in the provision of outputs. The charge is calculated on the budgeted carrying amount of non-current physical assets.

#### Resources provided free of charge

Resources provided free of charge are recognised at their fair value.

#### Impairment of assets

Goodwill and intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment (i.e. as to whether their carrying value exceeds their recoverable amount, and so require write-downs) and whenever there is an indication that the asset may be impaired. All other assets are assessed annually for indications of impairment.

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their possible recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written-off by a charge to the operating statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

It is deemed that, in the event of the loss 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.

#### 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. These items are recognised as an expense in the reporting period in which they are incurred. The carrying amount of any inventories held for distribution is expensed when distributed.





#### Net losses on disposal of plant and equipment

Net profits or losses on disposal of motor vehicles held under finance leases are treated as a controlled item, and disclosed in the 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 *Financial Management Act 1994*. 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 2A *Contributions by Owners*.

#### (j) Assets

All non-current assets controlled by VAGO are reported in the balance sheet.

#### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, deposits at call and highly liquid investments with an original maturity of 3 months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

#### (l) 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 20.

Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any accumulated impairment.

A provision for doubtful receivables is made when there is objective evidence that the debts will not be collected. Bad debts are written-off when identified.

#### (m) Property, plant and equipment

The cost method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets at the date of acquisition, plus incidental costs directly attributable to the acquisition.

Non-current assets are measured at cost, less accumulated depreciation and impairment.

#### (n) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and rewards incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are 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 depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum lease payments are allocated between the principal component of the lease liability, and the interest expense calculated using the interest rate implicit in the lease, and charged directly to the operating statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

Operating lease payments, including any contingent rentals, are recognised as an expense in the 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.

In October 2003, Cabinet endorsed the termination and wind-down over time of the existing motor vehicle lease facility with the Commonwealth Bank of Australia, and its replacement by a new internally-managed VicFleet Lease Facility. Under this decision, all motor vehicle leasing arrangements made between VicFleet and VAGO on or after 1 February 2004 constitute finance leases.

VAGO is now directly responsible for all the risks and benefits of operating its motor vehicles, and reflects the leases in its financial report accordingly.

(o) Liabilities

Payables

Payables consist predominantly of creditors and other sundry liabilities.

Payables are carried at amortised cost and 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 these goods and services.

Trade and other creditors

These amounts represent liabilities for goods and services provided to VAGO prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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 reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recognised from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Employee benefits

(i) Wages and salaries, and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employee services up to the reporting date, 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.



*Current liability - Unconditional LSL* (representing 7 or more years of continuous service for VPS staff and 10 or more years of continuous service for executives) is disclosed as a current liability even where VAGO does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months:

The components of this LSL liability are measured at:

- present value - component that VAGO does not expect to settle within 12 months
- nominal value - component that VAGO expects to settle within 12 months.

*Non-current liability - Conditional LSL* (representing less than 7 years of continuous service for VPS staff and less than 10 years of continuous service for executives) 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.

#### (iii) Performance incentive payments

The Executive Officers' performance incentive benefits for the performance review period to 30 June 2007, payable within the next financial year, are classified as a current liability in the Balance Sheet.

#### (iv) Superannuation

The amount charged to the Operating Statement for defined benefit plan superannuation represents the contributions made by VAGO to the superannuation plan for the services of current VAGO staff. Superannuation contributions are made to the plans based on the relevant rules of each plan.

VAGO does not recognise any defined benefit liability for any superannuation plan because VAGO has no legal or constructive obligation to pay future benefits for its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance (DTF) administers and discloses the State's defined benefit liabilities for all State employees who are members of that plan in its financial report. Funds are allocated to DTF for this purpose and applied as required.

#### Interest-bearing liabilities

Interest-bearing liabilities are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, interest-bearing liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the Operating Statement over the period of the interest-bearing liability using the effective interest rate method.

#### (p) Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources and are disclosed at their nominal value.

#### (q) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

(r) Cash flow statement

For the purposes of the cash flow statement, cash comprises cash on hand, cash at bank, bank overdrafts and deposits at call, and highly liquid investments with short periods to maturity that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

(s) Contributed capital

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.

Transfers of net assets arising from administrative restructurings are treated as distributions to or 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. The contributed capital balance is disclosed in note 12.

(t) Functional and presentation currency

The functional currency of VAGO is the Australian dollar, which has also been identified as its presentation currency.

(u) Rounding of amounts

All figures in the financial report have been rounded off to the nearest dollar, unless otherwise stated.

(v) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting period. The Department of Treasury and Finance assesses the impact of these new standards and advises departments and other entities of their applicability and early adoption where applicable.

As at 30 June 2007, the following standards and interpretations (applicable to VAGO) had been issued but were not mandatory for financial years ending 30 June 2007. VAGO has not, and does not intend to, adopt these standards early.

Standard/Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on VAGO financial statements
AASB 7 <i>Financial Instruments: Disclosures</i> .	New standard replacing disclosure requirements of AASB 132.	Beginning 1 Jan. 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in VAGO's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the VAGO financial report.
AASB 2005-10 <i>Amendments to Australian Accounting Standards</i> [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038].	Amendments arise from the release in August 2005 of AASB 7 <i>Financial Instruments: Disclosures</i> .	Beginning 1 Jan. 2007	As above.



Standard/Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on VAGO financial statements
AASB 101 <i>Presentation of Financial Statements</i> (revised).	Removes Australian specific requirements from AASB 101, including the Australian illustrative formats of the income statement, balance sheet and statement of changes in equity which entities were previously "encouraged" to adopt in preparing their financial statements.	Beginning 1 Jan. 2007	Impact on presentation not expected to be significant.
Interpretation 10 <i>Interim Financial Reporting and Impairment</i> .	Equivalent to IFRIC 10 of the same name. Concludes that where entity has recognised an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements.	Beginning 1 Nov. 2006	VAGO does not publish interim financial results, so there is no impact.
Interpretation 12 <i>Service Concession Arrangements</i> .	AASB approved an Australian Interpretation 12, equivalent to IFRIC 12, applying to private sector operators, but is silent on accounting by public sector grantors. The AASB intends to consider how public sector grantors should account for service concession arrangements, and will appoint an advisory panel to make recommendations.	Beginning 1 Jul. 2008	The impact of any changes that may be required cannot be reliably estimated and is not disclosed in the financial statements.
AASB 2007-2 <i>Amendments to Australian Accounting Standards arising from AASB Interpretation 12</i> .	Amendments arise from the release in February 2007 of Interpretation 12 <i>Service Concession Arrangements</i> .	Beginning 1 Jul. 2008	As above.
AASB 8 <i>Operating Segments</i> .	Supersedes AASB 114 <i>Segment Reporting</i> .	Beginning 1 Jan. 2009	Not applicable.
AASB 2007-3 <i>Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 and AASB 1038]</i> .	An accompanying amending standard, also introduced consequential amendments into other Standards.	Beginning 1 Jan. 2009	Impact expected to be not significant.

Standard/Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on VAGO financial statements
Interpretation 4 <i>Determining whether an Arrangement contains a Lease</i> [revised].	Where arrangements might fall both within this Interpretation and Interpretation 12, Interpretation 12 will take precedence.  As advised above, Interpretation 12 only applies to the private sector operation and the AASB is still considering public sector accounting for these arrangements.	Beginning 1 Jan. 2008	May or may not lead to certain arrangements being reclassified. At this stage, the financial impact is unknown as it depends on whether there are arrangements being reclassified.
Interpretation 129 <i>Service Concession Arrangements: Disclosures</i> [revised].	Operator to disclose revenue and profit.	Beginning 1 Jan. 2008	VAGO is not an operator of service concessions, so there will be no impact on disclosures.

## 2. Departmental outputs

(a) Output groups - VAGO has 2 output groups:

(1) Parliamentary reports and services

The following contribute to the output group:

- an examination of the State's finances
- the results of annual financial statement audits
- major programmed audits
- other audits on specific issues
- any investigations following inquiries by Members of Parliament and the general public
- other matters that merit investigation by VAGO
- broader contributions to enhancing public sector accountability.





(2) Audit reports on financial statements

The following contribute to the output group:

- our program of performance audits, including follow-up of earlier performance audit reports, addressing issues of effectiveness, efficiency and economy in the management of public resources, and compliance with relevant legislation
- our analysis and examination of the State's finances
- the results of annual audits of public sector agencies' financial and performance statements.

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 financial statement audits. The costs of such are expensed as a controlled item. Audit fee income arising from financial statement audits, whether undertaken directly or contracted out, is required under the *Financial Management Act 1994* to be paid into the Consolidated Fund and is treated as an administered item.

VAGO is predominantly funded by parliamentary appropriations.

**2b). Controlled income and expenses for the year ended 30 June 2007**

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Income -</b>						
Output appropriations	10 942 000	10 471 932	15 748 727	14 995 646	26 690 727	25 467 578
S. 32 carry forward	324 000	320 000	452 000	440 000	776 000	760 000
Special appropriations	315 392	246 614	95 096	74 358	410 488	320 972
Revenue from other parties	84 702	100 779	23 603	63 655	108 305	164 434
Resources received free of charge	9 075	13 570	18 425	12 830	27 500	26 400
<b>Total income</b>	<b>11 675 169</b>	<b>11 152 895</b>	<b>16 337 851</b>	<b>15 586 489</b>	<b>28 013 020</b>	<b>26 739 384</b>
<b>Expenses -</b>						
Employee benefits	9 065 379	6 778 638	5 069 329	6 546 806	14 134 708	13 325 444
Contract audit services	414 808	1 192 922	6 913 104	6 732 290	7 327 912	7 925 212
Supplies and services	1 132 038	1 145 637	1 839 813	1 083 229	2 971 851	2 228 866
Printing	235 636	255 830	-	-	235 636	255 830
Rental expenses - accommodation	427 881	600 381	868 729	567 675	1 296 610	1 168 056
Depreciation and amortisation	253 588	352 099	514 862	332 919	768 450	685 018
Resources provided free of charge	3 843	-	16 557	-	20 400	-
Capital asset charge	79 860	108 968	162 140	103 032	242 000	212 000
Net losses on disposal of plant and equipment	10 538	4 922	21 396	4 653	31 934	9 575
Finance costs	10 742	10 439	14 941	9 870	25 683	20 309
<b>Total expenses</b>	<b>11 634 313</b>	<b>10 449 836</b>	<b>15 420 871</b>	<b>15 380 474</b>	<b>27 055 184</b>	<b>25 830 310</b>
<b>Net result for the period</b>	<b>40 856</b>	<b>703 059</b>	<b>916 980</b>	<b>206 015</b>	<b>957 836</b>	<b>909 074</b>

**2c). Controlled assets and liabilities as at 30 June 2007**

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Assets -</b>						
Current assets	2 257 205	2 278 717	2 598 780	2 154 585	4 855 985	4 433 302
Non-current assets	4 003 527	3 980 486	4 609 367	3 763 650	8 612 894	7 744 136
<b>Total assets</b>	<b>6 260 732</b>	<b>6 259 203</b>	<b>7 208 147</b>	<b>5 918 235</b>	<b>13 468 879</b>	<b>12 177 438</b>
<b>Liabilities -</b>						
Current liabilities	2 079 467	2 162 881	2 394 146	2 045 059	4 473 613	4 207 940
Non-current liabilities	247 272	218 414	284 690	206 516	531 962	424 930
<b>Total liabilities</b>	<b>2 326 739</b>	<b>2 381 295</b>	<b>2 678 836</b>	<b>2 251 575</b>	<b>5 005 575</b>	<b>4 632 870</b>
<b>Net assets</b>	<b>3 933 993</b>	<b>3 877 908</b>	<b>4 529 311</b>	<b>3 666 660</b>	<b>8 463 304</b>	<b>7 544 568</b>



### 3. Summary of compliance with annual parliamentary appropriations

(a) *Parliamentary appropriations*

The following tables disclose the details of the various 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
	2005-06	2006-07	2005-06	2006-07		2005-06	2006-07	
<b>Controlled</b>								
Provision for outputs	10 795 932	-	16 854 939	776 000	28 410 871	26 227 578	106 273	2 183 293
Additions to net assets	-	-	-	-	-	-	-	-
<b>Total</b>	<b>10 795 932</b>	<b>-</b>	<b>16 854 939</b>	<b>776 000</b>	<b>28 410 871</b>	<b>26 227 578</b>	<b>106 273</b>	<b>2 183 293</b>

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

Parliamentary appropriations

	2006-07	2005-06
<b>Appropriation Act</b>		
Annual appropriation - Budget Paper No. 3	11 280 000	10 801 000
Less, WorkCare adjustment	-	5 068
	<b>11 280 000</b>	<b>10 795 932</b>
<b>Financial Management Act 1994</b>		
Section 29 - Estimate in Budget Paper No. 3	15 517 000	15 065 000
Plus, variance from budget which includes the impact of the 6 June 2006 legislative change	-	1 789 939
	<b>15 517 000</b>	<b>16 854 939</b>

**Section 32**

Brought forward	776 000	760 000
	<b>776 000</b>	<b>760 000</b>
Total parliamentary authority	<b>27 573 000</b>	<b>28 410 871</b>
Appropriations applied	<b>27 466 727</b>	<b>26 227 578</b>
Variance	<b>106 273</b>	<b>2 183 293</b>

The variance in provision for outputs \$106 273 (2005-06, \$2 183 293) comprises annual appropriation not drawn-down of \$338 000 (2005-06, \$760 000), reduced by excess section 29 revenue applied of \$231 727 (2005-06, \$1 407 293 not applied).

### 3. Summary of compliance with annual parliamentary appropriations – *continued*

#### (b) *Special appropriation*

Authority	Purpose	Appropriation applied	
		2006-07	2005-06
		(\$)	(\$)
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with the Auditor-General	410 488	320 972

### 4. Income

	2006-07	2005-06
	(\$)	(\$)
<b>Revenue from government -</b>		
Output appropriations	27 466 727	26 227 578
Special appropriations	410 488	320 972
Resources received free of charge (a)	27 500	26 400
<b>Total revenue from government</b>	<b>27 904 715</b>	<b>26 574 950</b>
<b>Other revenue -</b>		
Revenue from the rendering of services (b)	108 305	131 028
Revenue from sale of goods	-	33 406
<b>Total other revenue</b>	<b>108 305</b>	<b>164 434</b>
<b>Total income</b>	<b>28 013 020</b>	<b>26 739 384</b>

(a) This represents the cost of the external audits of the Victorian Auditor-General's Office. The financial and performance auditors are appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the *Audit Act 1994*. In 2004-05, both financial statement and performance audits were performed, whereas in 2005-06 and 2006-07 only a financial statement audit was performed. Refer note 13.

(b) 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.



## 5. Expenses

	2006-07	2005-06
Expenses from ordinary activities	(\$)	(\$)
<b>Expenses -</b>		
Depreciation -		
Furniture and fittings	2 925	3 355
Computer hardware and software	475 356	389 843
Office equipment	13 915	15 338
<b>Total depreciation</b>	<b>492 196</b>	<b>408 536</b>
Amortisation -		
Leasehold improvements	196 857	225 908
Motor vehicles	79 397	50 574
<b>Total amortisation</b>	<b>276 254</b>	<b>276 482</b>
<b>Total depreciation and amortisation</b>	<b>768 450</b>	<b>685 018</b>
<b>Other expenses -</b>		
Resources provided free of charge	20 400	-
Capital asset charge	242 000	212 000
Net losses on disposal of plant and equipment	31 934	9 575
Employee entitlements	14 134 708	13 325 444
Contract audit services	7 327 912	7 925 212
Rental expense - Accommodation	1 296 610	1 168 056
Supplies and services -		
Recruitment and training	819 845	570 645
Information technology	471 658	411 222
Information management	544 430	489 234
Consultants	297 245	332 705
Other office expenses	1 074 309	680 890
Finance costs -		
Interest and finance charges paid/payable on motor vehicles under finance leases	25 683	20 309
<b>Total other expenses</b>	<b>26 286 734</b>	<b>25 145 292</b>
<b>Total expenses</b>	<b>27 055 184</b>	<b>25 830 310</b>

**6. Receivables**

	2006-07	2005-06
	\$	\$
<b>Current receivables-</b>		
Amounts owing from Victorian Government	4 473 613	4 207 940
Other receivables	88 203	9 793
GST input tax credit recoverable	-	42 785
<b>Total current receivables</b>	<b>4 561 816</b>	<b>4 260 518</b>
<b>Non-current receivables-</b>		
Amounts owing from Victorian Government	5 028 134	5 889 563
<b>Total non-current receivables</b>	<b>5 028 134</b>	<b>5 889 563</b>
<b>Total receivables</b>	<b>9 589 950</b>	<b>10 150 081</b>

The total amount owed by the Victorian Government was \$9 501 747 (2005-06, \$10 097 503) of which \$4 473 613 (2005-06, \$4 207 940) is likely to be drawn-down in the next financial year and is reported accordingly as a current receivable.

The amount owing from 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 amortization, net of asset acquisition.

**7. Other assets**

	2006-07	2005-06
	\$	\$
<b>Current other assets -</b>		
<b>Prepayments -</b>		
Information management	5 867	9 212
Software and hardware maintenance contracts	95 176	136 025
Rental expense – accommodation	103 508	-
Other	69 467	26 647
<b>Total prepayments</b>	<b>274 018</b>	<b>171 884</b>
Accrued income	19 251	-
<b>Total current other assets</b>	<b>293 269</b>	<b>171 884</b>
<b>Total other assets</b>	<b>293 269</b>	<b>171 884</b>





## 8. Property, plant and equipment

(a) Cost, accumulated amortisation and depreciation

	2006-07	2005-06
	\$	\$
<b>Leasehold improvements -</b>		
At cost	1 341 462	1 840 054
Less: Accumulated amortisation	(25 685)	(1 668 882)
<b>Total leasehold improvements</b>	<b>1 315 777</b>	<b>171 172</b>
<b>Furniture and fittings -</b>		
At cost	98 694	457 150
Less: Accumulated depreciation	(97 307)	(430 336)
<b>Total furniture and fittings</b>	<b>1 387</b>	<b>26 814</b>
<b>Computer software -</b>		
At cost	2 243 836	1 788 056
Less: Accumulated depreciation	(1 194 034)	(904 024)
<b>Total computer software</b>	<b>1 049 802</b>	<b>884 032</b>
<b>Computer hardware -</b>		
At cost	1 998 216	1 821 643
Less: Accumulated depreciation	(1 341 203)	(1 438 436)
<b>Total computer hardware</b>	<b>657 013</b>	<b>383 207</b>
<b>Office equipment -</b>		
At cost	154 039	181 622
Less: Accumulated depreciation	(65 112)	(155 599)
<b>Total office equipment</b>	<b>88 927</b>	<b>26 023</b>
<b>Motor vehicles - Leased</b>		
At cost	568 291	410 158
Less: Accumulated amortisation	(96 437)	(46 833)
<b>Total motor vehicles - Leased</b>	<b>471 854</b>	<b>363 325</b>
<b>Total property, plant and equipment</b>	<b>3 584 760</b>	<b>1 854 573</b>

## 8. Property, plant and equipment – *continued*

### (b) Movements in property, plant and equipment

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Motor vehicles- Leased	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Carrying amount -</b>							
Balance at 1 July 2005	390 890	27 924	449 509	413 683	39 861	241 778	1 563 645
Additions	6 190	2 245	669 302	124 588	1 500	293 477	1 097 302
Disposals	-	-	-	-	-	(152 177)	(152 177)
Disposals - Accumulated depreciation	-	-	-	-	-	30 821	30 821
Depreciation/amortisation expense	(225 908)	(3 355)	(234 779)	(155 064)	(15 338)	(50 574)	(685 018)
<b>Balance at 1 July 2006</b>	<b>171 172</b>	<b>26 814</b>	<b>884 032</b>	<b>383 207</b>	<b>26 023</b>	<b>363 325</b>	<b>1 854 573</b>
<b>Additions</b>	<b>1 341 462</b>	<b>761</b>	<b>455 780</b>	<b>466 408</b>	<b>85 400</b>	<b>297 933</b>	<b>2 647 744</b>
<b>Disposals</b>	<b>(1 840 054)</b>	<b>(359 217)</b>	<b>-</b>	<b>(289 834)</b>	<b>(112 983)</b>	<b>(148 077)</b>	<b>(2 750 165)</b>
<b>Disposals - Accumulated depreciation</b>	<b>1 840 054</b>	<b>335 954</b>	<b>-</b>	<b>282 578</b>	<b>104 402</b>	<b>39 070</b>	<b>2 602 058</b>
<b>Depreciation/amortisation expense</b>	<b>(196 857)</b>	<b>(2 925)</b>	<b>(290 010)</b>	<b>(185 346)</b>	<b>(13 915)</b>	<b>(79 397)</b>	<b>(768 450)</b>
<b>Other – rebate on capital value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1 000)</b>	<b>(1 000)</b>
<b>Balance at 30 June 2007</b>	<b>1 315 777</b>	<b>1 387</b>	<b>1 049 802</b>	<b>657 013</b>	<b>88 927</b>	<b>471 854</b>	<b>3 584 760</b>

## 9. Payables

	2006-07	2005-06
	(\$)	(\$)
Creditors	981 587	574 051
GST payable	112 965	-
Other payables	457 035	342 983
<b>Total payables</b>	<b>1 551 587</b>	<b>917 034</b>



## 10. Interest-bearing liabilities

	2006-07	2005-06
	(\$)	(\$)
<b>Current -</b>		
Unsecured liabilities -		
Lease liability (a)	162 871	144 083
<b>Total current interest-bearing liabilities</b>	<b>162 871</b>	<b>144 083</b>
<b>Non-current -</b>		
Unsecured liabilities -		
Lease liability (a)	313 273	221 244
<b>Total non-current interest-bearing liabilities</b>	<b>313 273</b>	<b>221 244</b>
<b>Aggregate carrying amount of interest-bearing liabilities -</b>		
Current	162 871	144 083
Non-current	313 273	221 244
<b>Total aggregate carrying amount of interest-bearing liabilities</b>	<b>476 144</b>	<b>365 327</b>

(a) Refer notes 1(o) and 14.

## 11. Provisions

	2006-07	2005-06
	(\$)	(\$)
<b>Current -</b>		
Employee entitlements -		
Annual leave (a) (b)	974 616	986 625
Unconditional long service leave (a) (c)	1 775 789	1 968 046
Performance Incentive Scheme	8 750	192 152
<b>Total current provisions</b>	<b>2 759 155</b>	<b>3 146 823</b>
<b>Non-current -</b>		
Employee entitlements		
Conditional long service leave (a)	218 689	203 686
<b>Total non-current provisions</b>	<b>218 689</b>	<b>203 686</b>
<b>Aggregate carrying amount of provisions -</b>		
Current	2 759 155	3 146 823
Non-current	218 689	203 686
<b>Total aggregate carrying amount of provisions</b>	<b>2 977 844</b>	<b>3 350 509</b>

**11. Provisions – continued**

	2006-07	2005-06
	(\$)	(\$)
(a) Refer note 1(o)		
(b) <b>Annual leave</b>		
Annual leave expected to be utilised within 12 months after the end of the reporting period	708 432	702 189
Annual leave expected to be utilised more than 12 months after the end of the reporting period	266 184	284 436
<b>Total annual leave provisions</b>	<b>974 616</b>	<b>986 625</b>
(c) <b>Unconditional long service leave</b>		
Long service leave expected to be utilised within 12 months after the end of the reporting period	1 320 692	1 363 404
Long service leave expected to be utilised more than 12 months after the end of the reporting period	455 097	604 642
<b>Total unconditional long service leave provisions</b>	<b>1 775 789</b>	<b>1 968 046</b>

**12. Equity and movements in equity**

	2006-07	2005-06
	(\$)	(\$)
(a) <b>Contributed capital</b>		
Balance at beginning of financial year	350 127	350 127
Capital transactions with the State in its capacity as owner arising from: Withdrawal of equity	(39 100)	-
Balance at end of financial year	<b>311 027</b>	<b>350 127</b>
(b) <b>Accumulated surplus</b>		
Balance at beginning of financial year	7 194 441	6 285 367
Net result for the period	957 836	909 074
Balance at end of financial year	<b>8 152 277</b>	<b>7 194 441</b>
<b>Total equity at the end of the financial year</b>	<b>8 463 304</b>	<b>7 544 568</b>

**13. Auditors' remuneration**

	2006-07	2005-06
	(\$)	(\$)
<b>Financial statement audit</b>	<b>27 500</b>	<b>26 400</b>

The auditor of the Victorian Auditor-General's Office is appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the *Audit Act 1994*. Mr Terry Benfold from Pitcher Partners was initially appointed to this position in 2004. A condition of his appointment is that he does not provide other services to VAGO, including contract financial statement audits.

	2006-07	2005-06
	(\$)	(\$)
<b>Performance audit</b>	-	-

A performance audit of VAGO is undertaken every 3 years and the cost of these audits is paid for by Parliament.

The last performance audit was undertaken in the year ended 30 June 2005.

## 14. Commitments

	Minimum future lease payments		Present value of minimum future lease payments	
	2006-07	2005-06	2006-07	2005-06
<b>(a) Finance leases</b>	\$	\$	\$	\$
<b>Leasing arrangements</b>				
Finance leases relate to motor vehicles with lease terms of up to 3 years				
Payable -				
Not later than 1 year	190 231	164 234	183 793	158 123
Later than 1 year but less than 5 years	333 946	235 216	294 162	208 411
Later than 5 years	-	-	-	-
Minimum lease payments	524 177	399 450	477 955	366 534
Less future finance charges	48 033	34 123	-	-
Present value of minimum lease payments	476 144	365 327	477 955	366 534
Included in the financial statements as -				
Current interest-bearing liabilities (note 10)	162 871	144 083		
Non-current interest-bearing liabilities (note 10)	313 273	221 244		
<b>Total interest-bearing liabilities</b>	<b>476 144</b>	<b>365 327</b>		
Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual. Refer note 1(o) for further information.				
<b>(b) Operating leases</b>				
Payable -				
Not later than 1 year			1 253 738	978 738
Later than 1 year but less than 5 years			5 503 066	-
Later than 5 years			7 673 632	-
<b>Total</b>			<b>14 430 436</b>	<b>978 738</b>
The above operating leases relate primarily to leasing costs associated with VAGO's accommodation valued at current rental rates. The accommodation lease at 140 William Street, Melbourne expired within the financial year. A new lease was entered into on 1 April 2007 at a new location, 35 Collins Street, Melbourne.				
<b>(c) Contract audits</b>				
Commitments for the payment of future auditing services under contracts in existence at the reporting date, payable as follows:				
Not later than 1 year			757 527	2 560 249
Later than 1 year but less than 5 years			333 230	376 657
<b>Total</b>			<b>1 090 757</b>	<b>2 936 906</b>

## 15. Contingent liabilities

Claims were lodged during the year against VAGO in relation to alleged non-performance under a premises leasing contract. VAGO has disclaimed liability and is defending the action. It is not practicable to disclose an estimate of the financial effect of the claim.

## 16. Executive officers' remuneration

The numbers of executive officers, other than Accountable Officers, whose total remuneration exceeded \$100 000 during the reporting period are shown in the first 2 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 includes cash salary, superannuation and fringe benefits. Total remuneration incorporates base remuneration plus any bonus benefits, long service and retirement benefits paid.

Income band	Total remuneration		Base remuneration	
	2006-07	2005-06	2006-07	2005-06
	(no.)	(no.)	(no.)	(no.)
\$80 000 to \$89 999	-	-	1	-
\$100 000 to \$109 999	-	-	-	1
\$110 000 to \$119 999	-	2	2	2
\$120 000 to \$129 999	4	-	4	4
\$130 000 to \$139 999	6	5	4	6
\$140 000 to \$149 999	1	5	3	2
\$150 000 to \$159 999	2	3	1	1
\$160 000 to \$169 999	1	2	1	1
\$170 000 to \$179 999	1	-	-	1
\$180 000 to \$189 999	-	1	3	1
\$190 000 to \$199 999	2	1	-	-
\$200 000 to \$209 999	1	-	-	-
\$210 000 to \$219 999	-	-	-	1
\$220 000 to \$229 999	1	-	-	-
\$230 000 to \$239 999	-	1	-	-
<b>Total numbers</b>	<b>19</b>	<b>20</b>	<b>19</b>	<b>20</b>
<b>Total amount</b>	<b>\$2 929 555</b>	<b>\$3 026 469</b>	<b>\$2 660 223</b>	<b>\$2 811 816</b>

During the year, there were also 5 departures and 6 arrivals, none of whom held office for the full reporting period. The total remuneration of each of these executive officers fell below the reporting threshold of \$100 000. The total remuneration of the 11 affected executive officers was \$662 375 (2005-06, \$82 264).





## 17. Financial instruments

### (a) Financial risk management objectives

VAGO's activities do not expose it to significant financial risks of changes in foreign currency exchange rates and interest rates. VAGO does not enter into derivative financial instruments to manage any exposure to interest rate risk and foreign currency risk.

VAGO does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The policies for managing these risks are discussed in more detail below.

### (b) Terms, conditions and accounting policies

VAGO's accounting policies, including the terms and conditions of each class of financial asset and financial liability, recognised at the balance date, are as follows:

Recognised Financial Instruments	Accounting policies	Terms and conditions
<b>(i) Financial assets</b>		
Amounts owing from Victorian Government	Receivables from the Public Account are carried at nominal amounts.	The Victorian Government has established terms and conditions that allow amounts held in Receivables from the Public Account to be drawn-down by VAGO to meet its normal trading obligations as and when they fall due.
Controlled debtors	Controlled debtors are carried at nominal amounts due, less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable.	Controlled debtors are to be settled within 30 days from the date of issue of invoice.
<b>(ii) Financial liabilities</b>		
Controlled creditors and other payables	Controlled liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to VAGO.	Controlled trade liabilities are normally settled on government terms of 30 days or as agreed with the supplier on specific contractual terms.

### (c) Net fair values

The carrying amounts of financial assets and financial liabilities recognised at the balance date, consisting of debtors, investments, creditors and accruals approximate fair value.

### (d) Credit risk exposures

While 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.

### (e) Interest rate risk exposures

VAGO's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. VAGO intends to hold fixed rate assets and liabilities to maturity.

17. Financial instruments – *continued*(e) Interest rate risk exposures – *continued*

2006-07	Notes	Weighted average effective interest rate	Variable interest rate	Fixed interest maturing in -			Non-interest bearing	Total
				1 year or less	Over 1 to 5 years	More than 5 years		
			(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Financial assets -</b>								
Cash and deposits		-	-	-	-	-	900	900
Receivables	6	-	-	-	-	-	9 589 950	9 589 950
			-	-	-	-	9 590 850	9 590 850
<b>Financial liabilities -</b>								
Payables	9	-	-	-	-	-	1 551 587	1 551 587
Lease liabilities	10	6.67%	-	162 871	313 273	-	-	476 144
			-	162 871	313 273	-	1 551 587	2 027 731
<b>Net financial assets (liabilities)</b>			-	<b>(162 871)</b>	<b>(313 273)</b>	-	<b>8 039 263</b>	<b>7 563 119</b>

2005-06	Notes	Weighted average effective interest rate	Variable interest rate	Fixed interest maturing in -			Non-interest bearing	Total
				1 year or less	Over 1 to 5 years	More than 5 years		
			\$	\$	\$	\$	\$	\$
<b>Financial assets -</b>								
Cash and deposits		-	-	-	-	-	900	900
Receivables	6	-	-	-	-	-	10 150 081	10 150 081
			-	-	-	-	10 150 981	10 150 981
<b>Financial liabilities -</b>								
Payables	9	-	-	-	-	-	917 034	917 034
Lease liabilities	10	6.50%	-	144 083	221 244	-	-	365 327
			-	144 083	221 244	-	917 034	1 282 361
<b>Net financial assets (liabilities)</b>			-	<b>(144 083)</b>	<b>(221 244)</b>	-	<b>9 233 947</b>	<b>8 868 620</b>



## 18. Cash flow information

(a) Reconciliation of cash and cash equivalents	2006-07	2005-06
	\$	\$
Total cash and cash equivalents disclosed in the balance sheet	900	900
Bank overdraft	-	-
<b>Balance as per cash flow statement</b>	<b>900</b>	<b>900</b>

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 revenue is paid into the State's bank account, known as the Public Account. Similarly, any VAGO expenditure, 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.

(b) Reconciliation of net result for the period to net cash flows from operating activities	2006-07	2005-06
	\$	\$
<b>Net result for the period</b>	<b>957 836</b>	909 074
<b>Non-cash movements -</b>		
Loss on disposal of non-current assets	31 934	9 575
Depreciation and amortisation of non-current assets	768 450	685 018
<b>Movements in assets and liabilities -</b>		
(Increase)/decrease in receivables	560 131	(416 285)
(Increase)/decrease in prepayments	(121 385)	(50 564)
Increase/(decrease) in payables	634 553	(539 038)
Increase/(decrease) in provisions	(372 665)	265 612
<b>Net cash flows from/(used in) operating activities</b>	<b>2 458 854</b>	863 392

## 19. Responsible persons

Given the independent relationship of the Auditor-General with the Parliament, no government minister has any direct responsibility for the operations of the Victorian Auditor-General's Office. 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*:

### (i) Names

Persons who held the Accountable Officer position in relation to the Office at any time during the reporting period are:

- DDR Pearson, Auditor-General (1 October 2006 to 30 June 2007)
- JW Cameron, Auditor-General (1 July to 19 September 2006)
- EM Hay (Acting, for 10 days during the period 1 July 2006 to 30 June 2007)
- P Frost (Acting, for 5 days during the period 1 July 2006 to 30 June 2007)

## (ii) Remuneration

Remuneration received or receivable by the Accountable Officer in connection with the responsibilities of the position during the reporting period was in the range:

\$350 000 - \$359 999 (2005-06, \$290 000 - \$299 999).

The amount relating to the Acting Accountable Officers is included in "Executive officers' remuneration" (note 16).

## (iii) 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.

**20 Administered items**

	2006-07	2005-06
	\$	\$
<b>Administered revenue -</b>		
Audit fees - S.29	15 748 728	16 854 939
Special review	-	220 000
Royal Melbourne Show	-	8 250
Miscellaneous income	13 445	5 573
<b>Total revenue</b>	<b>15 762 173</b>	<b>17 088 762</b>
<b>Administered expenses -</b>		
Net transfers into the Consolidated Fund	15 728 116	17 080 512
Royal Melbourne Show (grant funded)	-	8 250
Net losses on disposal of plant and equipment	34 057	-
<b>Total expenses</b>	<b>15 762 173</b>	<b>17 088 762</b>
<b>Revenue less expenses</b>	<b>-</b>	<b>-</b>
<b>Administered assets -</b>		
Debtors (a)	4 205 951	1 936 933
Work-in-progress	1 358 155	1 858 416
<b>Total assets</b>	<b>5 564 106</b>	<b>3 795 349</b>
<b>Administered liabilities -</b>		
Amounts owing to the State	5 564 106	3 795 349
<b>Total liabilities</b>	<b>5 564 106</b>	<b>3 795 349</b>
<b>Net assets</b>	<b>-</b>	<b>-</b>
<b>(a) Aged debtors:</b>		
Current	3 814 024	1 819 398
Overdue between 30 to 60 days	391 927	112 739
Overdue beyond 60 days	-	4 796
	<b>4 205 951</b>	<b>1 936 933</b>



VAGO administers, but does not control, certain resources on behalf 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 on behalf of the State.

The accrual basis of accounting has been used in accounting for administered resources.

The accounting policies adopted by VAGO for administered items are consistent with those applied to items it controls.

## Accountable officer's and chief finance and accounting officer's declaration

---

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

We further state that, in our opinion, the information set out in the Operating Statement, Balance Sheet, Statements of Changes in Equity, Cash Flow Statement and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2007 and financial position of VAGO as at 30 June 2007.

We are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.



DDR Pearson  
Auditor-General

Melbourne  
21 August 2007



SG Odachowski  
Chief Finance and Accounting Officer

Melbourne  
21 August 2007



# Appendixes

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## Appendix 1

### Report of independent performance auditor – Status of actions against recommendations

Our *2005-06 Annual Report* summarised the recommendations of the independent performance audit of the Office, which were tabled in a report to Parliament in December 2004, and provided comment on the status of action at 30 June 2006. The table below, by exception, shows the updated status at 30 June 2007.

Recommendation	Comment and status at 30 June 2006	Comment and status at 30 June 2007
<b>Governance</b>		
6. Continue consideration of the streamlining of contracting processes.	Under review.	Completed. A more streamlined contracting process has been adopted for 2006-07.
<b>Strategic audit planning</b>		
9. The annual planning cycle should be amended.	Subject to resolution by the Public Accounts and Estimates Committee (PAEC).	Completed. A revised annual planning cycle was adopted for the development of the <i>2007-08 Annual Plan</i> , which was supported by the current PAEC.
<b>Stakeholder relationships</b>		
11. The annual consultative process between the Auditor-General and the PAEC should be amended.	Changes proposed to the PAEC. Currently under consideration by the PAEC.	Revised protocol with the current PAEC under development.
13. Surveys should incorporate an opportunity for agencies to comment on good practice guides issued to date.	Under review.	Completed. Surveys were revised to include questions relating to good practice guides.
<b>Financial audit</b>		
19. Particular emphasis on work paper consistency and clarity be incorporated into independent quality reviews.	Accepted. Action in progress.	Completed. Quality assurance policy amended to address recommendation.
<b>Performance audit</b>		
21. Accelerate existing efforts to develop methods and guidance.	Accepted. Development in progress.	Completed. A new performance audit methodology was adopted in June 2007.
22. Consider conducting audits in stages to ensure timeliness.	Accepted in principle. To be considered on an audit-by-audit basis.	Completed. Guidance on this aspect has been incorporated into the new performance audit methodology.
23. Introduce "change schedule" for any modifications to original scope of performance audits.	Accepted. Action in progress.	Completed. A change schedule has been built into the new performance audit methodology.



Recommendation	Comment and status at 30 June 2006	Comment and status at 30 June 2007
<b>Performance audit</b>		
24a to d Continued attention to: <ul style="list-style-type: none"> <li>• development of audit method and guidance material</li> <li>• establishing clear and relevant audit criteria</li> <li>• management of audit costs, progress against plan and achievement of time lines</li> <li>• communication with clients.</li> </ul>	Accepted. Action in progress.	Completed. Policy and guidance materials have been included in the new performance audit methodology to address these recommendations.
25. Complete review and reintroduction of post-audit debrief form.	Accepted. Action in progress.	Completed. Post-audit debrief form is included in the new performance audit methodology.
26. Update EMPERA and enforce use of EMPERA on all performance audits.	Accepted. Action in progress.	Completed. Policy and guidance require the new performance audit methodology to be used for all performance audits.
<b>Special reviews</b>		
29. Include conclusions of independent reviews in KPIs.	Under review.	Completed. Conclusions of independent reviews are addressed in follow-up action plans in accordance with established quality assurance policy.
30. Inclusion of special reviews in performance audit business improvement project.	Accepted. Action in progress.	Completed. Special reviews are now referred to as limited scope performance audits. New performance audit methodology to be used for all broad scope and limited scope performance audits.
<b>Business management</b>		
33. Define standard suite of MARS management reports and conduct ongoing MARS training.	Accepted. Action in progress.	Completed. Improved reporting facilities and ongoing MARS training have been implemented.
35. Review practice of “write ons and offs” for financial audit fees.	Under review.	Completed. Audit fees are monitored and charged to ensure compliance with established audit methodologies.
36. Develop formal business continuity plan.	Accepted. Action in progress.	A broad business continuity plan is currently being implemented in full.
39. Improve the analysis of staff turnover.	Accepted. Action in progress.	Completed. Reporting enhanced to provide a more strategic view of the nature of staff departures.
40. Develop formal succession planning strategies.	Accepted. Action in progress.	Accepted. Action in progress.
42. Consider external consultants to conduct surveys of agencies and parliamentarians.	Accepted. Action in progress.	Completed. Surveys of agencies and parliamentarians are now conducted by an external independent firm.
43. Consider additional KPIs and reporting these to the PAEC.	Under review.	KPIs reported as agreed with the current PAEC.
<b>Audit Act</b>		
45. Section 7A of the Act adequately provides for the development of the annual plan. Accordingly, the need for section 15(3) of the Act should be reviewed.	Under review.	Matter for consideration by the current PAEC.

## Appendix 2

### Office publications

#### How to obtain our publications

Copies of publications of the Auditor-General are available through either the Information Victoria bookshop, or through our Office, at the following addresses:

- Information Victoria bookshop (reports only)  
505 Little Collins Street, Melbourne Vic. 3000  
Phone: 1300 366 356 (local call cost)  
Fax: (03) 9603 9920  
Website: [www.information.vic.gov.au](http://www.information.vic.gov.au)
- Victorian Auditor-General's Office (all publications)  
Level 24, 35 Collins Street, Melbourne Vic. 3000  
Phone: (03) 8601 7000  
Fax: (03) 8601 7010  
Email: [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au)  
Website: [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

Information on all Auditor-General's publications is also available on our website at [www.audit.vic.gov.au](http://www.audit.vic.gov.au). The website also features a "search" facility and a comprehensive "index of issues contained in reports and publications" which enables users to quickly locate issues of interest.

#### Reports issued during 2006-07

##### July 2006

- Review of public cemeteries (2006:5)
- Vocational education and training: Meeting the skill needs of the manufacturing industry (2006:6)
- Making travel safer: Victoria's speed enforcement program (2006:7)

##### August 2006

- Auditor-General's Report – Results of special audits and other investigations (2006:8)
- Condition of public sector residential aged care facilities (2006:9)

##### September 2006

- Government advertising (2006:10)
- Auditor-General's Report on the Finances of the State of Victoria, 2005-06 (2006:11)

##### February 2007

- Auditor-General's Report – Results of financial statement audits for agencies with 30 June 2006 balance dates (2007:1)

##### May 2007

- Giving Victorian children the best start in life (2007:2)
- State Investment in Major Events (2007:3)
- Maintaining Victoria's Rail Infrastructure Assets (2007:4)

##### June 2007

- Follow-up of Selected Performance Audits Tabled in 2003 and 2004 (2007:5)
- Results of Financial Statement Audits for Agencies with other than 30 June 2006 Balance Dates (2007:6)
- Results of Audits: Purchase of Contaminated Land by the Melbourne Port Corporation *and* Raising and Collection of Fees and Charges by Departments (2007:7)
- Public Hospital Financial Performance and Sustainability (2007:8)
- Administration of Non-judicial Functions of the Magistrates' Court of Victoria (2007:9)
- Promoting Better Health Through Healthy Eating and Physical Activity (2007:10)
- Contracting and Tendering Practices in Selected Agencies (2007:11)
- Managing Risk Across the Public Sector: Toward Good Practice (2007:12)

#### Other publications

- Annual Report, 2005-06
- Annual Plan, 2006-07
- "Auditing in the Public Interest" newsletter
  - Seven years on ... time to reflect, *Winter 2006*
  - New Auditor-General, Des Pearson, appointed, *Spring 2006*
  - Changes, improvements and new directions, *Autumn 2007*



## Appendix 3

### Audit responsibilities at 30 June 2007

#### Parliamentary bodies

Parliament of Victoria

#### State accounts

Annual Financial Report

Estimated Financial Statements

#### Departments and other independent budget sector agencies

Education (previously Education and Training, Department of)

Emergency Services Super Board

Environment Protection Authority

Victorian Equal Opportunity and Human Rights Commission (previously Equal Opportunity Commission)

Essential Services Commission

Housing Guarantee Claims Fund

Human Services, Department of

Infrastructure, Department of

Innovation, Industry and Regional Development, Department of

Justice, Department of

Ombudsman, Office of the

Police Integrity, Office of

Police, Office of the Chief Commissioner of

Premier and Cabinet, Department of

Primary Industries, Department of

Public Advocate, Office of the

Public Prosecutions, Office of

State Services Authority

Supreme Court, Senior Master of the

Sustainability and Environment, Department of

Treasury and Finance, Department of

Victorian Communities, Department for

Victorian Electoral Commission

Victorian Privacy Commissioner, Office of the

#### Public bodies

2007 World Swimming

Championships Corporation

Accident Compensation Conciliation Service

Adult Community and Further Education Board

Adult Education, Centre for

Adult Multicultural Education Services

Alpine Resorts Co-ordinating Council

Architects' Registration Board of Victoria

Australian Centre for the Moving Image

Australian Grand Prix Corporation

Building Commission

Cancer Council of Victoria, The

Chinese Medicine Registration Board of Victoria

Chiropractors Registration Board of Victoria

Commissioner for Environmental Sustainability

Country Fire Authority

Dairy Food Safety Victoria

Dental Practice Board of Victoria

Domestic Building (HIH) Indemnity Fund

Emerald Tourist Railway Board

Emergency Services Telecommunications Authority

Energy Safe Victoria

Falls Creek Alpine Resort Management Board

Film Victoria

Greyhound Racing Victoria

Harness Racing Victoria

Health Purchasing Victoria

Heritage Council

Industry Supervision Fund

Infertility Treatment Authority

Judicial College of Victoria

La Trobe University Union

Lake Mountain Alpine Resort Management Board

Legal Practitioners Liability Committee

Legal Services Board

Legal Services Commissioner

Library Board of Victoria

Lorne Nursing Home

Medical Practitioners Board of Victoria

Melbourne Market Authority

Melbourne Water Corporation

Mental Health Review Board of Victoria

Metropolitan Fire and Emergency Services Board

Mount Baw Baw Alpine Resort Management Board

Mount Buller and Mt Stirling Alpine Resort Management Board

Mount Hotham Alpine Resort Management Board

Murray Valley Citrus Board

Murray Valley Wine Grape Industry Development Committee

Museums Board of Victoria

National Gallery of Victoria, Council of Trustees of the

National Institute of Forensic Science

Network Tariff Rebate Trust Fund

Northern Victorian Fresh Tomato Industry Development Committee

Nurses Board of Victoria

Optometrists Registration Board of Victoria

Osteopaths Registration Board of Victoria

Parks Victoria

Peter MacCallum Cancer Foundation

Pharmacy Board of Victoria

Phillip Island Nature Park Board of Management

Physiotherapists Registration Board of Victoria

Plumbing Industry Commission

Podiatrists Registration Board of Victoria

Port of Hastings Corporation

Port of Melbourne Corporation

PrimeSafe  
 Prince Henry's Institute of Medical Research  
 Professional Standards Council  
 Psychologists Registration Board of Victoria  
 Psychosurgery Review Board  
 Public Transport Ticketing Body  
 Residential Tenancies Bond Authority  
 Roads Corporation  
 Royal Botanic Gardens Board  
 Rural Finance Corporation of Victoria  
 Sentencing Advisory Council  
 Shrine of Remembrance Trustees  
 Southern and Eastern Integrated Transport Authority  
 Southern Cross Station Authority (formerly Spencer Street Station Authority)  
 State Electricity Commission of Victoria  
 State Library of Victoria Foundation  
 Surveyor's Registration Board of Victoria  
 Sustainability Victoria  
 Tourism Victoria  
 Transport Accident Commission  
 Treasury Corporation of Victoria  
 V/Line Passenger Corporation  
 Veterinary Practitioners Registration Board of Victoria  
 VicForests  
 Victoria Legal Aid  
 Victorian Commission for Gambling Regulation  
 Victorian Curriculum and Assessment Authority  
 Victorian Energy Networks Corporation  
 Victorian Funds Management Corporation  
 Victorian Health Promotion Foundation  
 Victorian Institute of Forensic Medicine  
 Victorian Institute of Forensic Mental Health  
 Victorian Law Reform Commission  
 Victorian Learning and Employment Skills Commission  
 Victorian Managed Insurance Authority  
 Victorian Plantations Corporation

Victorian Qualifications Authority  
 Victorian Rail Track  
 Victorian Regional Channels Authority  
 Victorian Relief Committee  
 Victorian State Emergency Service Authority  
 Victorian Strawberry Industry Development Committee  
 Victorian Tertiary Admissions Centre  
 Victorian Urban Development Authority  
 Victorian Veterans Council  
 Victorian WorkCover Authority  
 VITS Languagelink  
 Zoological Parks and Gardens Board

### Universities and other educational institutions

Bendigo Regional Institute of Technical and Further Education  
 Box Hill Institute of Technical and Further Education  
 Central Gippsland Institute of Technical and Further Education  
 Chisholm Institute of Technical and Further Education  
 Deakin University  
 East Gippsland Institute of Technical and Further Education  
 Gordon Institute of Technical and Further Education  
 Goulburn Ovens Institute of Technical and Further Education  
 Holmesglen Institute of Technical and Further Education  
 Kangan Batman Institute of Technical and Further Education  
 La Trobe University  
 Monash University  
 Northern Melbourne Institute of Technical and Further Education  
 RMIT International University Vietnam  
 Royal Melbourne Institute of Technology  
 South West Institute of Technical and Further Education  
 Sunraysia Institute of Technical and Further Education  
 Swinburne University of Technology  
 The University of Melbourne  
 University of Ballarat  
 Victoria University  
 Victorian College of the Arts

William Angliss Institute of Technical and Further Education  
 Wodonga Institute of Technical and Further Education

### Public hospitals and ambulance services

Alexandra and District Ambulance Service  
 Alexandra District Hospital  
 Alpine Health  
 Ambulance Service Victoria – Metropolitan Region  
 Austin Health  
 Bairnsdale Regional Health Service  
 Ballarat Health Services  
 Barwon Health  
 Bass Coast Regional Health  
 Bayside Health  
 Beaufort and Skipton Health Service  
 Beechworth Health Service  
 Benalla and District Memorial Hospital  
 Bendigo Health Care Group  
 Boort District Hospital  
 Calvary Health Care Bethlehem Limited  
 Caritas Christi Hospice Limited  
 Casterton Memorial Hospital  
 Central Gippsland Health Service  
 Cobram District Hospital  
 Cohuna District Hospital  
 Colac Area Health  
 Dental Health Services Victoria  
 Djerrivarrh Health Services  
 Dunmunkle Health Services  
 East Grampians Health Service  
 East Wimmera Health Service  
 Eastern Health  
 Echuca Regional Health  
 Edenhope and District Memorial Hospital  
 Gippsland Southern Health Service  
 Goulburn Valley Health  
 Hepburn Health Service  
 Hesse Rural Health Service  
 Heywood Rural Health  
 Inglewood and Districts Health Service  
 Kerang District Health  
 Kilmore and District Hospital, The  
 Kooweerup Regional Health Service





Kyabram and District Health Services  
 Kyneton District Health Service  
 Latrobe Regional Hospital  
 Lorne Community Hospital  
 Maldon Hospital  
 Mallee Track Health and Community Service  
 Manangatang and District Hospital  
 Mansfield District Hospital  
 Maryborough District Health Service  
 McIvor Health and Community Services  
 Melbourne Health  
 Mercy Public Hospitals Incorporated  
 Moyne Health Services  
 Mt Alexander Hospital  
 Nathalia District Hospital  
 Northeast Health Wangaratta  
 Northern Health  
 Numurkah District Health Service  
 O'Connell Family Centre (Grey Sisters) Inc.  
 Omeo District Health  
 Orbost Regional Health  
 Otway Health and Community Services  
 Peninsula Health  
 Peter MacCallum Cancer Centre  
 Portland District Health  
 Queen Elizabeth Centre, The  
 Robinvale District Health Services  
 Rochester and Elmore District Health Service  
 Royal Children's Hospital, The  
 Royal Victorian Eye and Ear Hospital, The  
 Royal Women's Hospital, The  
 Rural Ambulance Victoria  
 Rural Northwest Health  
 Seymour District Memorial Hospital  
 South Gippsland Hospital  
 South West Healthcare  
 Southern Health  
 St George's Health Service Limited  
 St Vincent's Hospital (Melbourne) Limited  
 Stawell Regional Health  
 Swan Hill District Hospital  
 Tallangatta Health Service  
 Terang and Mortlake Health Service

Timboon and District Healthcare Service  
 Tweddle Child and Family Health Service  
 Upper Murray Health and Community Services  
 West Gippsland Healthcare Group  
 West Wimmera Health Service  
 Western District Health Service  
 Western Health  
 Wimmera Health Care Group  
 Wodonga Regional Health Service  
 Yarram and District Health Service  
 Yarrowonga District Health Service  
 Yea and District Memorial Hospital

### Community health

Ballarat Community Health Centre Inc.  
 Banyule Community Health Service Inc.  
 Bass Coast Community Health Service Inc.  
 Bellarine Community Health Inc.  
 Bendigo Community Health Services Incorporated  
 Bentleigh Bayside Community Health Service Inc.  
 Castlemaine & District Community Health Service  
 Central Bayside Community Health Services Inc.  
 Cobaw Community Health Service Inc.  
 Darebin Community Health Service Inc.  
 Dianella Community Health Inc.  
 Doutta Galla Community Health Service Inc.  
 Eastern Access Community Health Inc.  
 Ensay Community Health Centre Inc.  
 Gippsland Lakes Community Health Service Inc.  
 Goulburn Valley Community Health Service Inc.  
 Grampians Community Health Centre Inc.  
 Inner East Community Health Service Inc.  
 Inner South Community Health Service Inc.  
 ISIS Primary Care Inc.  
 Knox Community Health Service

Latrobe Community Health Service Inc.  
 Manningham Community Health Service Inc.  
 Mitchell Community Health Services Inc.  
 MonashLink Community Health Service Inc.  
 Moreland Community Health Service Inc.  
 Nillumbik Community Health Service  
 North Richmond Community Health Centre Inc.  
 North Yarra Community Health Inc.  
 Northern District Community Health Service Inc.  
 Nowa Nowa Community Health Centre Inc.  
 Ovens and King Community Health Service Inc.  
 Peninsula Community Health Service  
 Plenty Valley Community Health Services Inc.  
 Ranges Community Health Service Inc.  
 Sunbury Community Health Inc.  
 Sunraysia Community Health Services Inc.  
 Upper Hume Community Health Service Inc.  
 Whitehorse Community Health Service

### Superannuation funds

Emergency Services Superannuation Scheme  
 Parliamentary Contributory Superannuation Fund

### Companies, trusts and joint ventures

Agriculture Victoria Services Pty Ltd  
 AMES Vietnam  
 Angliss Consulting Pty Ltd  
 Angliss Multimedia Pty Ltd  
 Angliss Solutions Pty Ltd  
 Australian International Health Institute (The University of Melbourne) Ltd  
 Australian Music Examinations Board (Vic.) Ltd  
 Australian National Academy of Music Foundation Ltd  
 Australian National Academy of Music Ltd

Ballarat Health Services Foundation Limited	La Trobe International Proprietary Limited	Monash Ultrasound Pty Ltd
Bass Coast Regional Health Benefit Fund Trust	La Trobe University Housing Limited	Monash University Foundation
Beaufort and Skipton Health Service Foundation	learningFast Inc.	Monash University Foundation Pty Ltd
Box Hill Enterprises Ltd	LMHA Network Limited	Montech Pty Ltd
Callista Software Services Pty Ltd	MAPS Group Limited	Monyx Education Services Pty Ltd
Canopi Network Pty Ltd	Meanjin Company Limited	Monyx Pty Ltd
Caroline Chisholm Education Foundation	Medical Centre Development Pty Ltd	Monyx Services Pty Ltd
Cash Common Fund 1	Melbourne and Olympic Parks Trust	Moyne Health Services Inc
Cash Common Fund 2	Melbourne Business School Building Fund	Mt Eliza Graduate School of Business and Government Limited
Cell Therapies Pty Ltd	Melbourne Business School Foundation	MU Student Union Ltd
CFA & Brigade Donations Fund	Melbourne Business School Foundation Limited	MUP Services Pty Ltd
Charitable Common Fund	Melbourne Business School Ltd	National Institute of Circus Arts Limited
City West Water Limited	Melbourne Convention and Exhibition Trust	NMIT International Limited
CityWide Service Solutions Pty Ltd	Melbourne Cricket Ground Trust	Northern Health Research, Training and Equipment Foundation Limited
Communities That Care Limited	Melbourne Enterprises International Limited	Northern Health Research, Training and Equipment Trust
DECA Ltd (previously Transport Education and Training Australia Ltd)	Melbourne Health Research and Development Limited	Peter MacCallum Cancer Foundation Ltd
Driver Education Centre of Australia Ltd	Melbourne Information Management Pty Ltd	Phytogene Pty Ltd
Dunmunkle Health Services Foundation	Melbourne Recital Centre Ltd	Prahran Market Pty Ltd
Echuca Regional Health Foundation Ltd	Melbourne University Private (NZ) Ltd	Premium Cash Fund
Equity Common Fund	Melbourne University Publishing Ltd	Premium Cash Plus Fund
Evor Medical Pty Ltd (previously Virtual Virology Pty Limited)	Melbourne Ventures Pty Ltd	Premium Diversified Fund
Fed Square Pty Ltd	Melbourne Wholesale Fish Market Pty Ltd	Premium Equity Fund
Fixed Interest Common Fund	Meltech Services Limited	Premium Fixed Interest Fund
Gascor (TH) Pty Ltd	Monash College Pty Ltd	Premium International Fund
Gascor Holdings No. 1 Pty Ltd	Monash Commercial Pty Ltd	Premium Property Fund
Gascor Holdings No. 2 Pty Ltd	Monash Custodians Pty Ltd	Property Common Fund
Gascor Holdings No. 3 Pty Ltd	Monash Educational Enterprises	Queen Victoria Market Pty Ltd
Geelong Performing Arts Centre Trust	Monash Health Research Precinct Pty Ltd	Queen Victoria Women's Centre Trust
Gippsland Health Alliance	Monash International SRL	Recreational Fishing Licence Trust Account
Gordon Foundation Trust	Monash Investment Holdings Pty Ltd	Regent Management Company Pty Ltd
GOTEC Limited	Monash Investment Trust	RMIT Foundation
Hawthorn Edinburgh Limited	Monash IVF Pty Ltd	RMIT Innovation Ltd
Hawthorn English Language Centres (Canada) Ltd	Monash Learningfast Pty Ltd	RMIT International Pty Ltd
Holmesglen International Training Services Pty Ltd	Monash Property Management Pty Ltd	RMIT Training Pty Ltd
HumeNET Limited	Monash Property South Africa Pty Ltd	RMIT Union
Inskill Limited	Monash Reproductive Health Enterprises Pty Ltd	RMIT Vietnam Holdings Pty Ltd
International Fibre Centre Limited	Monash Reproductive Pathology and Genetics Pty Ltd	Rolling Stock (VL-1) Pty Ltd
International Training Australia Pty Ltd	Monash South Africa Limited	Rolling Stock (VL-2) Pty Ltd
John Batman Consultancy and Training Pty Ltd		Rolling Stock (VL-3) Pty Ltd
Kitaya Holdings Pty Ltd		Rolling Stock Holdings (Victoria) Pty Ltd
		Rolling Stock Holdings (Victoria-VL) Pty Ltd



Royal Children's Hospital Education Institute Limited  
 Royal Melbourne Hospital Foundation Ltd  
 South East Water Limited  
 South West Alliance of Rural Health (Vic.)  
 Spatial Vision Innovations Pty Ltd  
 St Arnoud District Hospital Foundation  
 State Sport Centres Trust  
 State Trustees Limited  
 Stawell District Hospital Foundation  
 STL Financial Services Limited  
 Streetsahead Cleaning Service  
 Sunraysia Institute of Technical and Further Education Community Child Care Centre Incorporated  
 Sustainable Melbourne Trust Fund  
 Swinburne (Holdings) Pty Ltd  
 Swinburne Intellectual Property Trust  
 Swinburne Ltd  
 Swinburne Student Amenities Ltd  
 Swinburne Ventures Limited  
 TAFE Development Centre Ltd  
 Telematics Course Development Fund  
 The Australian Professional Associations Service Company Pty Ltd (previously Australian Human Resources Institute Pty Ltd)  
 The Donald District Hospital Foundation  
 The Gordon Foundation Ltd  
 The Royal Children's Hospital Foundation Limited  
 The Royal Children's Hospital Foundation Trust Funds  
 The Royal Women's Hospital Foundation Limited  
 The Royal Women's Hospital Foundation Trust Funds  
 The School of Mines and Industries Ballarat Limited  
 The Winchelsea and District Nursing Home Society  
 Trust for Nature (Victoria)  
 UMEE Ltd  
 Unilink Ltd  
 V/Line Passenger Pty Ltd  
 VCAMM Limited  
 VCPO Limited  
 VERNet Pty Limited

VFM Emerging Markets Trust  
 VFM Global Small Companies Trust  
 VFM Infrastructure Trust  
 Vicfleet Pty Ltd  
 Victoria Trade and Investment Office Pty Ltd  
 Victoria University – AFIC College Ltd  
 Victoria University Enterprises Pty Ltd  
 Victoria University Foundation  
 Victoria University Foundation Ltd  
 Victoria University International Pty Ltd  
 Victoria University of Technology (Singapore) Pty Ltd  
 Victorian Arts Centre Trust  
 Victorian Institute for Chemical Sciences Limited  
 Victorian Institute of Sport Limited  
 Victorian Institute of Sport Trust  
 Victorian Rail Heritage Operations Pty Ltd  
 Victorian Trauma Foundation  
 Victorian Trauma Foundation Pty Ltd  
 Wesley Monash IVF Joint Venture  
 Wesley Monash IVF Pty Ltd  
 Wimmera Base Hospital Foundation  
 Wimmera Development Association  
 Yarra Bend Park Trust  
 Yarra Valley Water Limited

### Water authorities

Barwon Region Water Authority  
 Central Gippsland Region Water Authority  
 Central Highlands Region Water Authority  
 Coliban Region Water Authority  
 Corangamite Catchment Management Authority  
 East Gippsland Catchment Management Authority  
 East Gippsland Region Water Authority  
 First Mildura Irrigation Trust  
 Gippsland and Southern Rural Water Authority  
 Glenelg Hopkins Catchment Management Authority  
 Goulburn Broken Catchment Management Authority  
 Goulburn Valley Region Water Authority

Goulburn-Murray Rural Water Authority  
 Grampians Wimmera Mallee Water Authority  
 Lower Murray Urban and Rural Water Authority  
 Mallee Catchment Management Authority  
 North Central Catchment Management Authority  
 North East Catchment Management Authority  
 North East Water  
 Port Phillip and Westernport Catchment Management Authority  
 Smart Water Fund  
 South Gippsland Region Water Authority  
 Wannon Water  
 West Gippsland Catchment Management Authority  
 Western Region Water Authority  
 Westernport Region Water Authority  
 Wimmera Catchment Management Authority

### Regional waste management groups

Barwon Regional Waste Management Group  
 Calder Regional Waste Management Group  
 Central Murray Regional Waste Management Group  
 Desert Fringe Regional Waste Management Group  
 Gippsland Regional Waste Management Group  
 Goulburn Valley Regional Waste Management Group  
 Grampians Regional Waste Management Group  
 Highlands Regional Waste Management Group  
 Metropolitan Waste Management Group  
 Mildura Regional Waste Management Group  
 Mornington Peninsula Regional Waste Management Group  
 North East Victorian Regional Waste Management Group  
 South Western Regional Waste Management Group

## Municipal councils

Alpine Shire Council  
 Ararat Rural City Council  
 Banyule City Council  
 Bass Coast Shire Council  
 Baw Baw Shire Council  
 Bayside City Council  
 Benalla Rural City Council  
 Boroondara City Council  
 Borough of Queenscliffe  
 Brimbank City Council  
 Buloke Shire Council  
 Campaspe Shire Council  
 Cardinia Shire Council  
 Casey City Council  
 Central Goldfields Shire Council  
 City of Ballarat  
 City of Port Phillip  
 City of Whittlesea  
 Colac-Otway Shire Council  
 Corangamite Shire Council  
 Darebin City Council  
 East Gippsland Shire Council  
 Frankston City Council  
 Gannawarra Shire Council  
 Glen Eira City Council  
 Glenelg Shire Council  
 Golden Plains Shire Council  
 Greater Bendigo City Council  
 Greater Dandenong City Council  
 Greater Geelong City Council  
 Greater Shepparton City Council  
 Hepburn Shire Council  
 Hindmarsh Shire Council  
 Hobsons Bay City Council  
 Horsham Rural City Council  
 Hume City Council  
 Indigo Shire Council  
 Kingston City Council  
 Knox City Council

Latrobe City Council  
 Loddon Shire Council  
 Macedon Ranges Shire Council  
 Manningham City Council  
 Mansfield Shire Council  
 Maribyrnong City Council  
 Maroondah City Council  
 Melbourne City Council  
 Melton Shire Council  
 Mildura Rural City Council  
 Mitchell Shire Council  
 Moira Shire Council  
 Monash City Council  
 Moonee Valley City Council  
 Moorabool Shire Council  
 Moreland City Council  
 Mornington Peninsula Shire Council  
 Mount Alexander Shire Council  
 Moyne Shire Council  
 Murrindindi Shire Council  
 Nillumbik Shire Council  
 Northern Grampians Shire Council  
 Pyrenees Shire Council  
 South Gippsland Shire Council  
 Southern Grampians Shire Council  
 Stonnington City Council  
 Strathbogie Shire Council  
 Surf Coast Shire Council  
 Swan Hill Rural City Council  
 Towong Shire Council  
 Wangaratta Rural City Council  
 Warrambool City Council  
 Wellington Shire Council  
 West Wimmera Shire Council  
 Whitehorse City Council  
 Wodonga City Council  
 Wyndham City Council  
 Yarra City Council  
 Yarra Ranges Shire Council  
 Yarriambiack Shire Council

## Regional library corporations

Casey-Cardinia Regional Library Corporation  
 Central Highlands Regional Library Corporation  
 Corangamite Regional Library Corporation  
 Eastern Regional Library Corporation  
 Geelong Regional Library Corporation  
 Goulburn Valley Regional Library Corporation  
 High Country Library Corporation  
 North Central Goldfields Regional Library Corporation  
 West Gippsland Regional Library Corporation  
 Whitehorse-Manningham Regional Library Corporation  
 Wimmera Regional Library Corporation  
 Yarra Plenty Regional Library Corporation

## Public cemeteries

Andersons Creek Cemetery Trust  
 Ballarat General Cemeteries Trust  
 Bendigo Cemeteries Trust  
 Cheltenham and Regional Cemeteries Trust  
 Geelong Cemeteries Trust  
 Keilor Cemetery Trust  
 Lilydale Cemeteries Trust  
 Mildura Cemetery Trust  
 Preston Cemetery Trust  
 Templestowe Cemetery Trust  
 Trustees of Altona Memorial Park  
 Trustees of the Fawkner Crematorium and Memorial Park  
 Trustees of The Necropolis Springvale  
 Wyndham Cemeteries Trust



## Appendix 4

### Delegation for signing audit opinions

DELEGATION PROVIDED TO AUDIT SERVICE PROVIDERS FOR SIGNING AUDIT OPINIONS,  
2006-07 (EXPENDITURE LESS THAN \$5.2 MILLION)

Agency	Audit service provider	Firm
Alexandra and District Ambulance Service	B Potgeiter	WHK Day Neilson
Anderson's Creek Cemetery Trust	M Peters	HLB Mann Judd
Architect's Registration Board of Victoria	A Roberts	UHY Haines Norton
Ballarat General Cemetery Trust	K Richmond	Richmond Sinnott & Delahunty
Ballarat Health Services Foundation Limited	R Hutton	UHY Haines Norton
Barwon Regional Waste Management Group	C Kol	Coffey Hunt
Bass Coast Regional Health Benefit Fund Trust	J Howson	WHK Armitage Downie
Bendigo Cemeteries Trust	K Richmond	Richmond Sinnott & Delahunty
Boort District Hospital	K Richmond	Richmond Sinnott & Delahunty
Calder Regional Waste Management Group	R Fraser	WHK Day Neilson
Casey-Cardinia Regional Library Corporation	M Strickland	RSM Bird Cameron
Cell Therapies Pty Ltd	J Parias	Pannell Kerr Forster
Central Murray Regional Waste Management Group	H McKenzie-McHarg	Johnsons MME
Chinese Medicine Registration Board of Victoria	S O'Kane	DFK Collins
Chiropractors Registration Board of Victoria	S O'Kane	DFK Collins
Corangamite Regional Library Corporation	B Potgeiter	WHK Day Neilson
Dairy Food Safety Victoria	D Nairn	HLB Mann Judd
Dental Practice Board of Victoria	S O'Kane	DFK Collins
Desert Fringe Regional Waste Management Group	M Gunn	Coffey Hunt
Echuca Regional Health Foundation Ltd	P Delahunty	Richmond Sinnott & Delahunty
Geelong Cemeteries Trust	K Richmond	Richmond Sinnott & Delahunty
Geelong Performing Arts Centre Trust	J Parias	Pannell Kerr Forster
Geelong Regional Library Corporation	P Delahunty	Richmond Sinnott & Delahunty
Gippsland Health Alliance	J Howson	WHK Armitage Downie
Gippsland Regional Waste Management Group	K Wood	RSM Bird Cameron
Goulburn Valley Regional Waste Management Group	M Crossley	WHK Day Neilson
Grampians Regional Waste Management Group	M Gunn	Coffey Hunt
Health Purchasing Victoria	S O'Kane	DFK Collins
Hesse Rural Health Service	R Hutton	UHY Haines Norton
Heywood Rural Health	C Kol	Coffey Hunt
High Country Library Corporation	P Delahunty	Richmond Sinnott & Delahunty
Highlands Regional Waste Management Group	R Fraser	WHK Day Neilson
Infertility Treatment Authority	S O'Kane	DFK Collins
Inglewood and Districts Health Service	K Richmond	Richmond Sinnott & Delahunty

DELEGATION PROVIDED TO AUDIT SERVICE PROVIDERS FOR SIGNING AUDIT OPINIONS,  
2006-07 (EXPENDITURE LESS THAN \$5.2 MILLION) – *continued*

Agency	Audit service provider	Firm
Lilydale Memorial Park	M Peters	HLB Mann Judd
Lorne Community Hospital	R Hutton	UHY Haines Norton
Lorne Nursing Home	R Hutton	UHY Haines Norton
Maldon Hospital	K Richmond	Richmond Sinnott & Delahunty
Manangatang and District Hospital	R Fraser	WHK Day Neilson
Maps Group Limited	S Wight	Davidsons
Mclvor Health and Community Services	K Richmond	Richmond Sinnott & Delahunty
Mental Health Review Board of Victoria	S O'Kane	DFK Collins
Mildura Cemetery Trust	P Delahunty	Richmond Sinnott & Delahunty
Mildura Regional Waste Management Group	S Wight	Davidsons
Monash Health Research Precinct Pty Ltd	S Naylor	RSM Bird Cameron
Monash Investment Holdings Pty Ltd	S Naylor	RSM Bird Cameron
Monash Investment Trust	S Naylor	RSM Bird Cameron
Monash IT Pty Ltd	S Naylor	RSM Bird Cameron
Monash Learningfast Pty Ltd	S Naylor	RSM Bird Cameron
Monash Property Management Pty Ltd	S Naylor	RSM Bird Cameron
Monash Reproductive Health Enterprises Pty Ltd	S Naylor	RSM Bird Cameron
Monash Reproductive Pathology and Genetics Pty Ltd	S Naylor	RSM Bird Cameron
Monash Ultrasound Pty Ltd	S Naylor	RSM Bird Cameron
Monash University Foundation Pty Ltd	S Naylor	RSM Bird Cameron
Montech Pty Ltd	S Naylor	RSM Bird Cameron
Mornington Peninsula Regional Waste Management Group	M Crossley	WHK Day Neilson
Murray Valley Citrus Board	S Wight	Davidsons
Murray Valley Wine Grape Industry Development Committee	S Wight	Davidsons
Nathalia District Hospital	P Delahunty	Richmond Sinnott & Delahunty
North Central Goldfields Regional Library Corporation	J Gavens	WHK Day Neilson
North East Victorian Regional Waste Management Group	R Lindner	UHY Haines Norton
Northern Regional Waste Management Group	R Lindner	UHY Haines Norton
Northern Victorian Fresh Tomato Industry Development Committee	S Naylor	RSM Bird Cameron
Omeo District Health	E Jewell	Armitage Downie & Co
Optometrists Registration Board of Victoria	S O'Kane	DFK Collins
Osteopaths Registration Board of Victoria	S O'Kane	DFK Collins
Otway Health and Community Services	R Hutton	UHY Haines Norton
Peter MacCallum Cancer Foundation	M Peters	HLB Mann Judd
Peter MacCallum Cancer Foundation Limited	M Peters	HLB Mann Judd
Pharmacy Board of Victoria	S O'Kane	DFK Collins
Physiotherapists Registration Board of Victoria	S O'Kane	DFK Collins
Phytogene Pty Ltd	M Somerville	KPMG



DELEGATION PROVIDED TO AUDIT SERVICE PROVIDERS FOR SIGNING AUDIT OPINIONS,  
2006-07 (EXPENDITURE LESS THAN \$5.2 MILLION) – *continued*

Agency	Audit service provider	Firm
Podiatrists Registration Board of Victoria	S O'Kane	DFK Collins
Port of Hastings Corporation	D Shewring	Ernst & Young
Prahran Market Pty Ltd	S Naylor	RSM Bird Cameron
Preston Cemetery Trust	R Lindner	UHY Haines Norton
PrimeSafe	D Nairn	HLB Mann Judd
Psychologists Registration Board of Victoria	S O'Kane	DFK Collins
Psychosurgery Review Board	S O'Kane	DFK Collins
Shrine of Remembrance Trustees	S Naylor	RSM Bird Cameron
South Eastern Regional Waste Management Group	M Crossley	WHK Day Neilson
South Gippsland Hospital	J Howson	WHK Armitage Downie
South West Alliance of Rural Health (Vic.)	C Kol	Coffey Hunt
South Western Regional Waste Management Group	M Gunn	Coffey Hunt
Swinburne (Holdings) Pty Ltd	S Naylor	RSM Bird Cameron
Swinburne Graduate School of Integrative Medicine Pty Ltd	S Naylor	RSM Bird Cameron
Swinburne Institute of Technical and Further Education Community Child Care Centre Incorporated	W Sinnott	Richmond Sinnott & Delahunty
Swinburne Intellectual Property Trust	S Naylor	RSM Bird Cameron
Swinburne Limited	S Naylor	RSM Bird Cameron
Swinburne Student Amenities Ltd	S Naylor	RSM Bird Cameron
Swinburne Ventures Ltd	S Naylor	RSM Bird Cameron
Templestowe Cemetery Trust	M Peters	HLB Mann Judd
The Winchelsea District & Nursing Home Society	R Hutton	UHY Haines Norton
Timboon and District Healthcare Service	C Kol	Coffey Hunt
Tweddle Child and Family Health Service	K Wood	RSM Bird Cameron
Utemis Pty Ltd	S Naylor	RSM Bird Cameron
Veterinary Practitioners Registration Board of Victoria	M Somerville	KPMG
Victorian Regional Channels Authority	M Strickland	RSM Bird Cameron
Victorian Strawberry Industry Development Committee	S Naylor	RSM Bird Cameron
Wesley Monash IUF Joint Venture	S Naylor	RSM Bird Cameron
Wesley Monash IUF Pty Ltd	S Naylor	RSM Bird Cameron
West Gippsland Regional Library Corporation	J Howson	WHK Armitage Downie
Wyndham Cemeteries Trust	S O'Kane	DFK Collins
Yea and District Memorial Hospital	P Delahunty	Richmond Sinnott & Delahunty

*Note:* During 2006-07, there were no extensions to audit service providers' contracts which exceeded 5 years.



## Appendix 5

### Additional staff statistics

#### Number of executives and executive vacancies

At 30 June 2007	Ongoing executive officers	Special projects executive officers	Total
Executives employed	23	-	23
Vacancies being filled	3	-	3

#### Reconciliation with executive numbers

At 30 June	2003	2004	2005	2006	2007
Executives with remuneration over \$100 000 <i>(a)</i>	20	23	21	20	14
<i>Add -</i>					
Recruiting for vacant positions	1	1	1	5	3
Executives employed with total remuneration below \$100 000	3	3	2	-	9
Accountable Officers <i>(b)</i>	-	-	-	-	-
<b>Total executive numbers at 30 June</b>	<b>24</b>	<b>27</b>	<b>24</b>	<b>25</b>	<b>26</b>

*(a)* Refer to executive officers' remuneration, note 16 of the financial report.

*(b)* This position is held by the Auditor-General who is an officer of Parliament, and not an executive officer.

#### Exemptions from notification of vacancy, 2006-07

Number of exemptions	Classification	Circumstances as defined in Office policy
Nil	-	-



## Appendix 6

### Glossary of terms

#### Audit service provider

An audit service provider is a private sector auditor engaged by the Auditor-General under contractual arrangements, and appointed following a contestability process, to carry out audits on his behalf.

#### EMPERA

EMPERA (Electronic Management of Performance Audits) is the Office's electronic database system used to document and manage performance audits, special reviews and investigations.

#### Financial statement audit

A financial statement audit is an audit assignment which directly relates to the objective of forming an opinion on the financial statements of an agency. The auditor's objective is to provide a high level of assurance to Parliament and the community regarding the fair presentation of the financial information contained in the published statements of agencies.

#### Governance

The term "governance" describes the role of persons entrusted with the supervision, control and direction of an entity. Those charged with governance ordinarily are accountable for ensuring that the entity achieves its objectives, financial reporting, and reporting to interested parties.

#### IPSAM

IPSAM (Integrated Public Sector Audit Methodology) is an integrated financial audit toolset that embeds the Office's methodology in an electronic medium and provides easy access to our policy, guidance procedures and work papers.

#### Management letter

A management letter is a letter that draws to the attention of an entity's senior management the significant findings and recommendations from the audit of an entity's financial report, in particular, internal control and other accounting matters.

#### Opinion on financial statements

This is the vehicle used to convey the Auditor-General's opinion as to whether the financial statements have been prepared in accordance with

applicable legislation and present fairly in accordance with applicable accounting standards, and other mandatory professional reporting requirements.

#### Performance audit

A performance audit evaluates whether an organisation is effectively meeting its objectives, and using its resources economically and efficiently. It can cover all or part of the activities of an agency, or a number of agencies.

#### Performance statement (local government)

Pursuant to the *Local Government Act 1989* each municipal council prepares an annual business plan for the next financial year. The performance statement shows the extent to which the council has achieved the performance measures and targets relating to the key strategic activities contained in the annual budget.

#### Practice management system

That part of our information system that controls client billing and work in progress.

#### Qualified opinion

A qualified opinion is expressed when the audit results in a significant disagreement with management regarding the financial statements, a material conflict between applicable financial reporting frameworks or an unavoidable limitation on the scope of the audit work.

#### Warrant

The instrument which authorises the draw-down of funds from the Consolidated Fund. The *Constitution Act 1975*, together with a complementary requirement in the *Financial Management Act 1994*, provides that the Government shall not issue any moneys from the Consolidated Fund (the account into which all consolidated revenue is paid) unless authorised by warrants approved by the Governor. Warrants are prepared by the Treasurer and examined by the Auditor-General, to determine whether the requested funds are legally available, prior to approval by the Governor for the release of funds from the Consolidated Fund.

## Terms used in the financial report

### Accrual accounting

An accounting method in which revenue and costs are recognised for the period in which they are incurred, rather than when cash is received or disbursed.

### Administered items

The Office administers, but does not control, certain resources on behalf of the State. These resources are primarily audit fees raised from performing financial statement audits and relate to the activities of our Output group 2.

Transactions relating to these administered resources are not recognised as the Office's revenue or expenses in the statement of financial performance.

### Australian Accounting Standard

Accounting standards issued by the Australian Accounting Standards Board (AASB).

### Balance sheet

Sets out the Office's net accumulated financial worth at a point in time. It shows the assets that the Office holds, as well as the liabilities or claims against these assets.

### Budget

The originally published budget of the Office.

### Cash flow statement

Summarises the Office's cash receipts and payments for the financial year and the net "cash in hand" position.

### Controlled items

Transactions and balances relating to controlled resources are recognised as the revenues, expenses, assets and liabilities of the Office.

### Fair value

The amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms-length transaction, i.e. current market value of an asset.

### Finance leases

A lease which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets.

### Fixed assets

Physical assets owned or controlled by the Office and used for its operational requirements.

### Gain/(loss) on disposal

The gross proceeds of sale less the carrying amount of the asset at the time of disposal and expenses directly incurred in disposing of that asset.

### General ledger

The accounting system that records the entries that affect each account.

### GST

Goods and services tax.

### Key performance indicators

A set of indicators that assist in measuring overall performance.

### Liabilities

Future sacrifices of service potential or economic benefits that an entity is presently obliged to make to other entities as a result of past transactions or other past events.

### Notes

Provide further information in relation to the rules and assumptions used to prepare the financial report, as well as additional information and detail about specific items within the report.

### Operating leases

A lease under which the lessor effectively retains substantially all the risks and benefits incidental to ownership of the leased asset.

### Operating statement

Measures the Office's operating performance over the year and shows if a surplus or deficit has been made in delivering services.

### Ordinary activities

Operations of a kind carried on regularly from reporting period to reporting period to achieve the objectives of the Office.

### Performance indicator

A statistic identifying the extent of activity in meeting a specific objective.



### **Revaluation**

The process where the fair value of an asset is reassessed.

### **Statement of changes in equity**

Summarises the change in the Office's net worth.

### **Useful life**

The estimated period of time over which a depreciable asset is expected to be able to be used, or the benefits represented by the asset are expected to be able to be derived.

### **User charge**

A cost-reflective fee or charge imposed on the users of services.

### **Work in progress**

Works where the project is not yet completed and has not been expensed at the end of the reporting period.

### **Write-off**

Term used in relation to amounts receivable, recognising that an amount so receivable is uncollectible.

### **Written-down value**

The fair value of the asset less the accumulated depreciation.

# Indexes

## Disclosure index

The annual report of the Victorian Auditor-General's Office is prepared in accordance with all relevant Victorian legislation. This index has been prepared to facilitate identification of the Office's compliance with statutory disclosure requirements.

Legislation	Requirement	Page reference
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<b>Report of operations</b>		
<b>Charter and purpose</b>		
FRD 22 B	Manner of establishment and the relevant ministers	1
FRD 22 B	Objectives, functions, powers and duties	1
FRD 22 B	Nature and range of services provided	1
<b>Management and structure</b>		
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<b>Financial and other information</b>		
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FRD 22 B	Statement on National Competition Policy	55
FRD 22 B	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	54
FRD 22 B	Details of consultancies over \$100 000	n.a.
FRD 22 B	Details of consultancies under \$100 000	66
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FRD 22 B	Statement of availability of other information	55
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FRD 8 A	Budget portfolio outcomes	n.a.



Legislation	Requirement	Page reference
<b>PREMIER'S CIRCULAR</b>		
2003/3	Whole-of-government reporting on responsiveness to cultural diversity, women, youth and indigenous affairs	n.a.
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# Five-year statistics

		2002-03	2003-04	2004-05	2005-06	2006-07
<b>Parliamentary reports and services</b>						
Reports tabled in parliament -						
Report of the Auditor-General on the Finances of the State	(number)	1	1	1	1	1
Reports on public sector agencies	(number)	3	4	3	3	2
Major (including performance) audit reports	(number)	12	11	12	12	13
Client satisfaction with parliamentary reports	(per cent)	77	84	82	81	(a) 71
Non-parliamentary products -	(number)	-	4	1	-	-
<b>Audit reports on financial statements</b>						
Audit responsibilities (entities at 30 June)	(number)	587	600	619	615	631
Audit reports on financial statements -						
Unqualified opinions issued during reporting year	(number)	558	588	596	613	604
Qualified opinions issued during reporting year	(number)	29	23	8	18	13
Total opinions issued during reporting year	(number)	587	611	604	631	617
Audit reports on local government performance statements -						
Unqualified opinions issued during reporting year	(number)	69	74	77	77	79
Qualified opinions issued during reporting year	(number)	9	5	2	2	-
Total opinions issued during reporting year	(number)	78	79	79	79	79
Audit reports on regional water authority performance statements -						
Unqualified opinions issued during reporting year	(number)	-	-	-	15	16
Qualified opinions issued during reporting year	(number)	-	-	15	-	-
Total opinions issued during reporting year	(number)	-	-	15	15	16
Audit opinions issued within time frame	(per cent)	94	98	99	96	98
Client satisfaction with audit services	(per cent)	75	74	77	81	(a) 73
<b>Resources</b>						
In-house staff	(number)	129	127	148	155	141
External audit service providers	(number)	47	46	26	32	39
Average days sick leave per employee	(number)	5.0	5.5	6.0	7.0	8.0
Workers compensation claims	(number)	-	-	1	-	-
Injuries reported	(number)	7	7	1	4	3
Grievances lodged	(number)	-	-	-	-	-
Staff training and professional development per employee	(days)	9.5	8.8	8.9	7.0	8.8
<b>Financial management</b>						
Expenditure on audit service providers	(\$million)	6.84	6.69	6.06	6.73	6.91
Revenue from audit fees	(\$million)	14.03	14.23	14.23	14.99	15.75
Operating surplus/(deficit)	(\$million)	0.30	1.04	0.97	0.91	0.96
Assets	(\$million)	9.44	10.38	11.42	12.18	13.47
Liabilities	(\$million)	4.81	4.71	4.78	4.63	5.01
Financial audit costs recovered from clients	(per cent)	102	100	100	100	100

(a) New survey method.



# Assurance and Accountability

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