



Victorian Auditor-General's Office

Annual Report

2007-08



VAGO

Victorian Auditor-General's Office

Auditing in the Public Interest

Table 1–Disclosure index

Legislation	Requirement	Page reference	Legislation	Requirement	Page reference
Ministerial directions			Financial report		
Report of operations—FRD guidance			Financial statements required under Part 7 of the FMA		
Charter and purpose			SD4.2(a)	Statement of changes in equity	55
FRD 22B	Manner of establishment and the relevant ministers	2	SD4.2(b)	Operating statement	53
FRD 22B	Objectives, functions, powers and duties	2–3	SD4.2(b)	Balance sheet	54
FRD 22B	Nature and range of services provided	2–3	SD4.2(b)	Cash flow statement	56
Management and structure			Other requirements under Standing Directions 4.2		
FRD 22B	Organisational structure	35	SD4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	57
Financial and other information			SD4.2(c)	Compliance with Ministerial Directions	57
FRD 8A	Budget portfolio outcomes	Not applicable	SD4.2(d)	Rounding of amounts	62
FRD 10	Disclosure index	Inside front cover	SD4.2(c)	Accountable officer's declaration	84
FRD 12A	Disclosure of major contracts	50	SD4.2(f)	Compliance with Model Financial Report	50
FRD 15B	Executive officer disclosures	38	Other disclosures as required by FRDs in notes to the financial statements		
FRD 22B	Operational and budgetary objectives and performance against objectives	7–32	FRD 9A	Departmental disclosure of administered assets and liabilities	83
FRD 22B	Employment and conduct principles	44	FRD 11	Disclosure of ex gratia payments	n.a.
FRD 22B	Occupational health and safety policy	44	FRD 13	Disclosure of parliamentary appropriations	67
FRD 22B	Summary of the financial results for the year	45–49	FRD 21A	Responsible person and executive officer disclosures	82
FRD 22B	Significant changes in financial position during the year	46–47	Legislation		
FRD 22B	Major changes or factors affecting performance	11, 46	<i>Freedom of Information Act 1982</i>		39
FRD 22B	Subsequent events	Not applicable	<i>Building Act 1993</i>		39
FRD 22B	Application and operation of <i>Freedom of Information Act 1982</i>	39	<i>Whistleblowers Protection Act 2001</i>		39
FRD 22B	Compliance with building and maintenance provisions of <i>Building Act 1993</i>	39	<i>Victorian Industry Participation Policy Act 2003</i>		39
FRD 22B	Statement on National Competition Policy	39	<i>Financial Management Act 1994</i>		57
FRD 22B	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	39	<i>Multicultural Victoria Act 2004</i>		39
FRD 22B	Details of consultancies over \$100 000	50	Victorian Auditor-General's Office		
FRD 22B	Details of consultancies under \$100 000	50	Hours of business: 8.30 am–5.00 pm		
FRD 22B	Statement of availability of other information	Appendix 3	Level 24, 35 Collins Street, Melbourne Vic. 3000		
FRD 24B	Reporting of office based environmental impacts	44	Telephone: (03) 8601 7000		
FRD 25	Victorian Industry Participation Policy disclosures	39	Facsimile: (03) 8601 7010		
FRD 29	Workforce data disclosures	41–43	E-mail: <comments@audit.vic.gov.au>		
			Website: <www.audit.vic.gov.au>		

Contents



Figures

Figure 1	Client ratings of satisfaction with performance audits	12
Figure 2	Performance Audit Topic Selection Framework	13
Figure 3	Timeliness of reports tabled in Parliament	15
Figure 4	Percentage of parliamentarians satisfied with the Auditor-General's reports and services	20
Figure 5	Audit opinions on financial statements and performance statements	28
Figure 6	Client ratings of quality of financial audit services and reports	29
Figure 7	Percentage of audit opinions issued within statutory deadlines	29
Figure 8	Cost of audit reports on financial statements	31
Figure 9	VAGO organisation chart	35
Figure 10	Revenue, 2007–08 and four previous years	47
Figure 11	Expenses, 2007–08 and four previous years	47

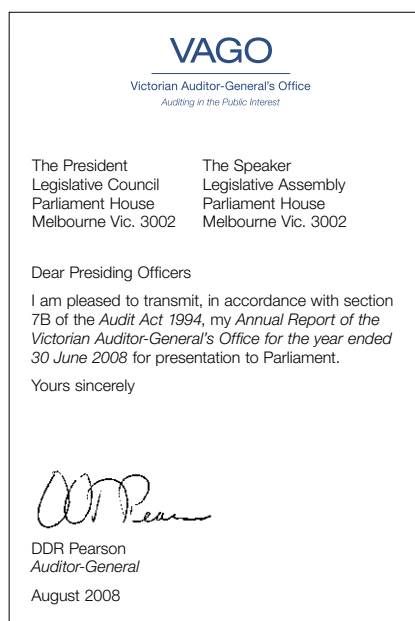
Tables

Table 1	Disclosure index	1C
Table 2	Financial summary 2007–08 and 2006–07	3
Table 3	Five-year statistics	4
Table 4	(Output Group 1) Performance against output targets	8
Table 5	Number of reports tabled by report type	9
Table 6	Reports tabled in Parliament	10
Table 7	Australasian Council of Auditors-General (ACAG) ratings of performance against set criteria	14
Table 8	Presentations given by the Auditor-General and VAGO senior staff, 2007–08	16
Table 9	Auditor-General's financial audit responsibilities (audited entities) for 2007 and 2008	26
Table 10	(Output Group 2) Performance against output targets	27
Table 11	Timeframes for issuing financial opinions, 2006–07	30
Table 12	Performance against cost targets	31
Table 13	Trends in average cost of audit opinions	31
Table 14	Objectives and strategies	34
Table 15	Employee numbers	41
Table 16	Employee profile	42
Table 17	Departures from VAGO	42
Table 18	Number of executives classified into 'ongoing' and 'special projects'	43
Table 19	Breakdown of executive officers into gender for 'ongoing' and 'special projects'	43
Table 20	Reconciliation with executive numbers	43
Table 21	Exemptions from notification of vacancy, 2007–08	43
Table 22	VAGO revenue and expenses, 2007–08 and four previous years	46
Table 23	Expenses from ordinary activities for 2007–08 and previous four years	48
Table 24	Total revenues and expenses attributed to outputs for 2007–08	48
Table 25	Asset and liability movement over five years	49
Table 26	Financial statement audits, payments to audit service providers, 2007–08	50

Contents

Letter of transmittal	2
Introduction	2
Auditor-General's review, 2007–08	5
1 Parliamentary reports and services	7
Reports and advice	9
Parliament	19
Clients	21
2 Audit reports on financial statements	25
Reports and advice	26
Clients	32
3 Managing VAGO	33
Future directions	34
Governance	35
Compliance	39
Quality	40
Our staff	41
4 Financial management	45
Financial performance	46
Financial position	49
Other financial matters	50
Financial report	51
5 Appendixes	85
Appendix 1	86
Report of independent performance audit	
Appendix 2	88
Auditor-General reports to Parliament, 2007–08	
Appendix 3	89
Additional information available on request	

Letter of transmittal



Accountable officer's declaration

In accordance with *Financial Management Act 1994*, I am pleased to present the Report of Operations for the Victorian Auditor-General's Office for the year ending 30 June 2008.

DDR Pearson
Auditor-General

Melbourne
15 August 2008

Introduction

Our history

The Victorian Auditor-General's Office (VAGO) was established in July 1851. VAGO plays a key role in providing Parliament and the Victorian community with assurance regarding the financial integrity of the state.

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

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

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 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 more than 600 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, and in compliance with all relevant Acts
- financial benefits that agencies bestow on non-government bodies are applied economically, efficiently and effectively.

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

Purpose and objectives

The purpose of the Victorian Auditor-General's Office is to provide assurance to Parliament on the accountability and performance of the Victorian public sector.

In fulfilment of this purpose, VAGO's objectives are to:

- be authoritative and relevant
- be highly regarded by Parliament
- foster productive relationships with audit clients
- be an employer of choice
- be innovative and cost-effective.

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 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.

The *2007–08 Annual Plan* was tabled in Parliament on 20 June 2007. The plan documented our key outcomes and outputs, strategic influences on the public sector and areas of major audit interest for the period.

This annual report presents our achievements against the *2007–08 Annual Plan*.

The *2008–09 Annual Plan* was tabled in Parliament on 7 May 2008. VAGO's performance against this plan will be documented in the *2008–09 Annual Report*.

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 more than 600 public sector organisations, including Parliament, government departments, public bodies, educational institutions, public hospitals and local government authorities
- 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
- independently reporting the results of audits to Parliament in an objective and timely manner.

Available resources

At 30 June 2008, we:

- had 153 in-house staff (147 at 30 June 2007)
- engaged 36 audit service providers (30 during 2006–07)
- received \$30.861 million in funding from Parliament (\$27.877 million in 2006–07).

Operating environment

The agencies we audit:

- earn approximately \$53 billion in revenue
- incur approximately \$47 billion in expenditure
- have more than \$188 billion in assets
- employ more than 270 000 staff.

Financial management

- Our net financial result for the year was a deficit of \$1 917 656 (surplus \$957 836, 2006–07).
- Financial audit fee income for the year was \$17.910 million (\$15.749 million, 2006–07).

[TABLE 2] ■ Financial summary 2007–08 and 2006–07

Financial summary	2007–08	2006–07	Change	
	(\$'000)	(\$'000)		(%)
Operating revenue	31 214	28 013	▲	11.4
Operating expenses	33 131	27 055	▲	22.5
Total assets	11 292	13 469	▼	16.2
Total liabilities	4 748	5 006	▼	5.2
Surplus	(1 917)	958	▼	300.1
Net equity	6 544	8 463	▼	22.7

Five-year statistics

[TABLE 3] ■ Five-year statistics

Reports tabled in Parliament		2007–08	2006–07	2005–06	2004–05	2003–04
Report of the Auditor-General on the finances of the state	(number)	1	1	1	1	1
Reports on public sector agencies	(number)	3	2	3	3	4
Performance audit reports	(number)	29	13	12	12	11
Client satisfaction with parliamentary reports	(score)	72	71	71	n/a	n/a

Audit reports on financial statements

Audit responsibilities (entities at 30 June 2008)	(number)	621	631	615	619	600
Audit reports on financial statements						
Unqualified opinions issued during reporting year	(number)	633	604	613	596	588
Qualified opinions issued during reporting year	(number)	7	13	18	8	23
Total opinions issued during reporting year	(number)	638	617	631	604	611
Audit opinions issued within time frame	(per cent)	96	98	96	99	98
Client satisfaction with financial audit services	(score)	73	73	73	n/a	n/a

Audit reports on performance statements

Audit reports on local government performance statements						
Unqualified opinions issued during reporting year	(number)	79	79	77	77	74
Qualified opinions issued during reporting year	(number)	–		2	2	5
Total opinions issued during reporting year	(number)	79	79	79	79	79
Audit reports on regional water authority performance statements						
Unqualified opinions issued during reporting year	(number)	15	15	15		
Qualified opinions issued during reporting year	(number)	1	1		15	
Total opinions issued during reporting year	(number)	16	16	15	15	
Audit reports on technical and further education institute performance statements						
Unqualified opinions issued during reporting year	(number)	19	18			
Qualified opinions issued during reporting year	(number)	–	–			
Total opinions issued during reporting year	(number)	19	18			

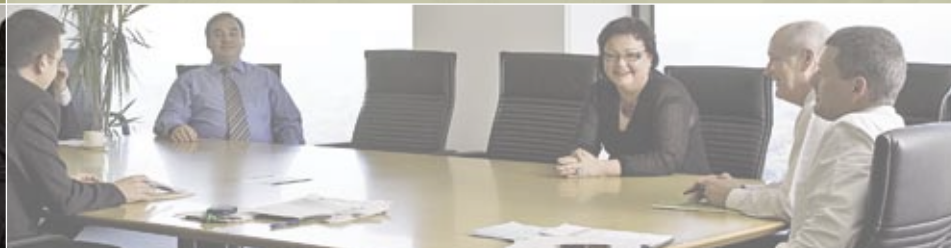
Resources

In-house staff	(number)	153	147	155	148	127
Audit service providers	(number)	36	30	32	26	46
Average days sick leave per employee	(number)	5.6	8.0	7.0	6.0	5.5
Workers compensation claims	(number)	1			1	
Injuries reported	(number)		3	4	1	7
Grievances lodged	(number)	1				
Staff training and professional development per employee	(days)	10.1	8.8	7.0	8.9	8.8

Financial management

Expenditure on audit service providers	(\$million)	8.61	6.91	6.73	6.06	6.69
Revenue from audit fees	(\$million)	17.91	15.75	14.99	14.23	14.23
Operating surplus/(deficit)	(\$million)	(1.92)	0.96	0.91	0.97	1.04
Assets	(\$million)	11.29	13.47	12.18	11.42	10.38
Liabilities	(\$million)	4.75	5.01	4.63	4.78	4.71
Financial audit costs recovered from clients	(per cent)	100	100	100	100	100

Auditor-General's review, 2007–08



A quarter of the way through my term as Auditor-General, I am pleased to report another strong year of operations from VAGO. Building on the change process initiated in 2006, 2007–08 has seen us deliver a steadier stream of products and services and achieve greater levels of engagement with our audit clients and stakeholders.

This has also been a year of significant international outreach in which we have shared some of our own good practice and sought inspiration from our counterparts in other accountability and public sector audit authorities. We have hosted auditors from across the Pacific and delivered specific development programs to benefit audit offices as far flung as Beijing, Timor-Leste and Samoa. In April VAGO hosted the fifth South Pacific Association of Supreme Audit Institutions (SPASAI) Regional Working Group on Environmental Auditing. VAGO was also proud to coordinate and host the inaugural forum of Auditors-General from Canada and Australasia. The importance of these exchanges cannot be over-estimated for the insights, initiatives and information they yield and the development opportunities they present for our staff. No accountability office can succeed alone and I hope that these strong and open relationships continue to be a feature of our operations in 2008–09.

This year, our audit program has delivered important assurance to Parliament on the soundness of Victoria's stewardship of public funds and highlighted areas where greater efficiency, effectiveness and economy are possible.

Our new, three-year strategic plan sets out our goals in five key results areas;

- reports and advice—being authoritative and relevant
- Parliament—being highly regarded by Parliament
- clients—fostering productive relationships
- people—being an employer of choice
- organisation—being innovative and cost-effective

Reports and advice

This year, compared with other years, VAGO has reported to Parliament on more audits, more frequently and more consistently.

In an environment of rising business costs and increasingly complex audit requirements, our financial audit stream has performed well. We continued to bring forward the timing of our audits of financial statements, with 90 per cent of final management letters to audited entities within targeted time frames. This compares with 79 per cent in the previous year.

Similarly, we have also seen significant improvements in both the number and timeliness of our reports to Parliament, with 88 per cent meeting target timelines.

We have streamlined our audit planning processes and systems and strengthened consultation on performance audits with the Public Accounts and Estimates Committee (PAEC).

We are communicating more often about our audit activities and in the year ahead, we will be pursuing other measures to achieve an even more regular tabling schedule for our audit reports.

Importantly, I can also report that these efficiencies across our audit program have come without us sacrificing our fundamental commitment to the quality of our reports. To that end, we have continued to enhance the frameworks and tool kits which support our audit practice through the development of a comprehensive performance audit methodology and a more transparent and robust audit topic selection framework. Our financial audit methodology (developed jointly with the Queensland Audit Office) has drawn considerable recognition from national and international audit offices. That interest extends to the methodology being actually trialled in another state and in a Canadian provincial audit office.

Parliament and clients

In addition to our progress in output, process and quality, I have been heartened by the positive results of the three-year external performance audit of VAGO, commissioned by the PAEC on behalf of Parliament. Overall, VAGO earned a 'clean bill of health' and the audit's small number of recommendations to improve our business planning processes has already been implemented.

It is also pleasing to see greater use of our reports by the PAEC. The committee has now introduced a regular program of inquiries which follow up our audit reports as an important component of the committee's broader inquiry program.

Our parliamentary survey has also seen a marked improvement in participation rates and importantly, it recorded an 83 per cent approval rating by members of Parliament for our reports and services. Nevertheless, we will continue our efforts to better address the expectations of all members especially with regard to the relevance, strength and clarity of our reports.

I also want to record my gratitude to PAEC for giving VAGO the opportunity to legitimately and publicly detail the facts surrounding the unprecedented leak of some working papers relating to the performance audit of the New Ticketing System. In the face of considerable misrepresentation and distortion, especially by some sections of the media, I appreciated both the opportunity to provide a detailed rebuttal of allegations which directly impugned the integrity of my office and for the many expressions of support I received from members of Parliament. I can also assure Parliament that in the wake of this incident, document security measures have also been strengthened at VAGO to reduce potential for further abuses of trust.

Reflecting more broadly on our engagement with Parliament and our clients, I have increased my personal engagement across the Victorian public sector, including with parliamentarians, departmental secretaries and audit committee chairs. Listening to our stakeholders has led to new directions this year, such as our first parliamentary report dedicated to our audits of local government authorities and earlier and more frequent engagement with clients on the emerging findings of our audits.

Client surveys are another important component of our stakeholder engagement program, and in 2007–08 our financial audit clients continued to rate VAGO positively in terms of the quality of our audits and their value to their organisations. In particular, our education sector ratings rose significantly from previous years and we will be

looking to replicate those results in other sectors, especially with regard to the timeliness, reporting and value of our recommendations. Our performance audit ratings have also improved, however, we continue to pursue earlier and more frequent interaction and consultation with client agencies as findings emerge, and to generate reports that, in addition to their primary role of providing assurance to Parliament, also add value to the organisations subject to audit.

Of course, positive and professional client engagement is a two-way street, and over the year just ended there has been a worrying trend in a few agencies to delay the provision of relevant documentation to VAGO in the course of our audits. Obstructions to the audit process directly affect the cost and timeliness of our audit program. They also delay the provision of advice and assurance to the Parliament. I have communicated my concerns at several forums and emphasised that cooperation with the audit process is an essential aspect of public sector accountability in Victoria.

In this respect, I have been comforted by the assurances I have since received of future agency cooperation. I am also pleased that recent collaboration with the Department of Premier and Cabinet is likely to minimise delays through the development of more explicit protocols protecting VAGO's timely and unfettered access to crucial documents. These approaches are much preferred over any recourse to section 11 of the Audit Act, which empowers me to call for persons to be examined under oath and to produce documents required for examination.

People and organisation

None of the strong operational results delivered by VAGO would have been possible without the quality, integrity and dedication of our staff. Indeed, our achievements are all the more commendable given the changes that have taken place in VAGO over the past year. Nevertheless, in the year ahead, we will be re-doubling our efforts to improve and refine our internal systems and 'means' of production without prejudicing our audit delivery performance standards.

Pre-eminently, the key to the performance of VAGO is the people it recruits and develops, and the challenges and opportunities we offer them. We take seriously our objective to be an employer of choice and we are working hard to provide a rewarding and supportive environment. We continue to look for people with strong technical and analytical skills, and people with operational and sectoral experience at all levels. Above all, we look for people with the acuity and flexibility to work in a challenging, rapidly changing environment.

Audit legislation

Finally, since I began my term as Auditor-General, I have noticed discernible changes to the environment in which VAGO is required to operate, vis-a-vis the context and provisions of the *Audit Act 1994*. As expectations regarding the timeliness, resourcing and performance of public sector services continue to rise, so different funding and delivery mechanisms—that were not contemplated when the legislation was last revised—have been increasingly adopted. Consequently, in this dynamic, shifting environment, I have raised with government the need to review the continued relevance of the Act, both to guard against any erosion of audit mandate and to protect, in line with the Constitution Act, my complete discretion in the performance of audits and to provide assurance to the Parliament on the accountability and performance of the Victorian public sector.



DDR Pearson
Auditor-General

August 2008



Section 1

Parliamentary reports and services

In this section ...
we provide details of our output group 1: parliamentary reports and services.



Reports and advice	9
Quantity	9
Quality	12
Timeliness	15
Other initiatives to enhance the quality of our reports and advice	15
Cost	18
Parliament	19
Public Accounts and Estimates Committee	19
Ministerial and parliamentary briefings	19
Survey of parliamentarians	20
Clients	21
Promoting continuous improvement in the Victorian public sector	21
Fostering productive relationships with audit clients	23
Enhancing accountability and resource management in the public sector	24
Warrants for expenditure of public funds	24

VAGO produces a range of authoritative reports that address issues of interest to the community, for tabling in Parliament. These reports provide Parliament with independent assurance on the accountability and performance of Victorian public sector agencies. The reports include:

- performance audits that focus on the efficiency, economy and effectiveness of publicly funded activities
- performance audits that focus on probity and compliance
- an annual assessment of the state's finances
- reports containing observations arising out of the preceding June and December financial statement audit rounds
- audits of local government.

[TABLE 4] shows our performance for the parliamentary reports and services output group against the 2007–08 targets set out in the Budget Papers.

[TABLE 4] (Output group 1) Performance against output targets

Performance measures		Target 2008–09	Target 2007–08	Actual 2007–08	Actual 2006–07
Quantity					
Major audit reports ^(a)	(number)	31	16 (31) ^(b)	33	16
Quality					
Overall level of external satisfaction with audits	(score) ^(c)	80	80	72	nm
Timeliness					
Reports completed on time	(per cent)	90	90	88	81
Inquiries from members of Parliament and the public acknowledged within seven days, and responded to within four weeks	(per cent)	95	95	95	85
Cost					
Total output costs	\$million	12.2	12.5	13.9	11.6

Notes: (a) This performance measure has been retitled to 'Auditor-General's reports' from 2008–09. This change was introduced during 2007–08.

(b) The target for the performance measure 'major audit reports' increased from 16 to 31 during 2007–08, as a result of a change in the approach to tabling reports whereby single reports within compendiums are now published as a series of discrete reports. This change was introduced during 2007–08.

(c) This performance measure replaces the 2007–08 performance measure 'overall level of external satisfaction with audits'. The data collection methodology for the performance measure has changed from the frequency of responses to a subset of questions in a self-administered survey, to an index comprising an average response across all questions in an independent survey. Accordingly, the unit of measure has changed from a percentage to a score, or rating, out of 100 ('nm' = new measure).

Further details about our performance for 2007–08, with reference to the relevant key result areas of our 2007–08 to 2009–10 Strategic Plan, are provided in this section of the report.



Quantity

During 2007–08 VAGO changed its approach to tabling reports. The previous approach of tabling multiple audit reports within compendium reports was replaced by an approach where the audits are published as a series of discrete reports. The exceptions to this in 2007–08 were our themed reports *Funding and Delivery of Two Freeway Upgrade Projects* (tabled December 2007), *Audits of 2 Major Partnerships Victoria Projects* (November 2007), and *Piping the System—incorporating*

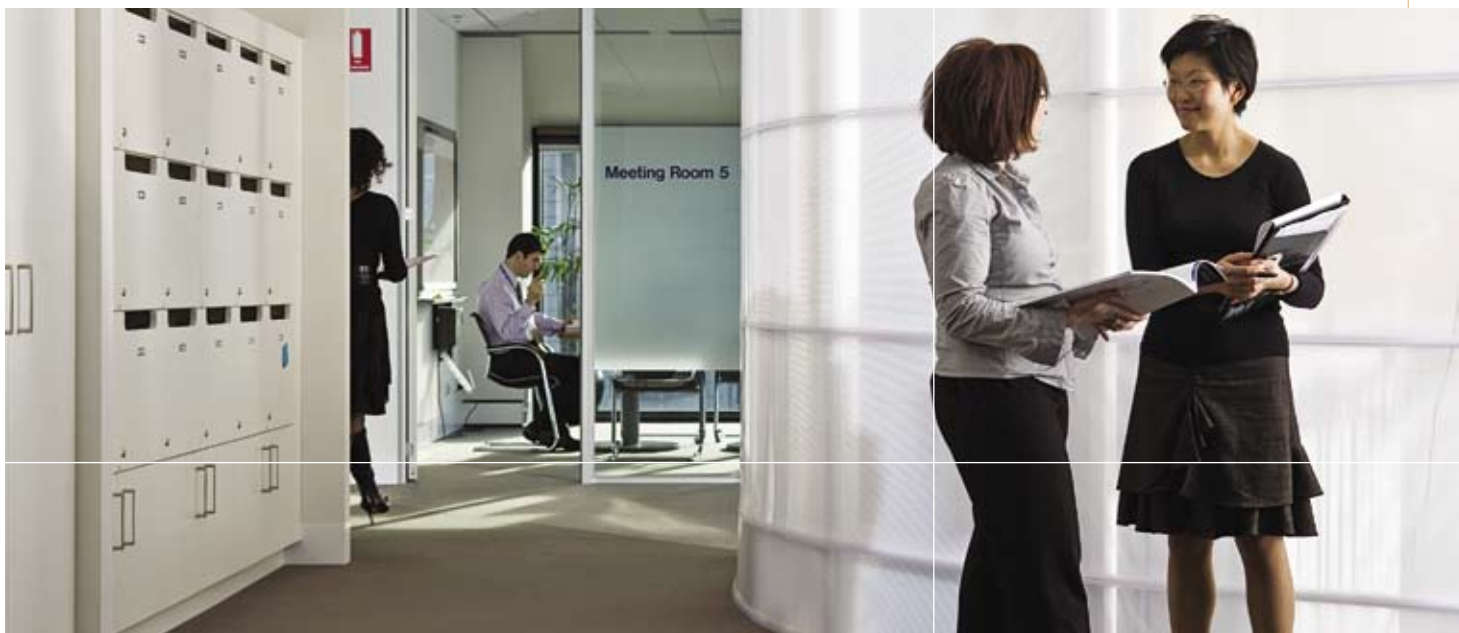
the Wimmera Mallee Pipeline and the Goldfields Superpipe (May 2008) each of which presented the results from two audits. Given this change, the 2007–08 target was revised from 16 reports to 31. The actual result of 33 reports exceeded the target for the year.

The tabled reports included a range of product types, including performance audit reports, better practice guides, and reports arising from financial audit activities. [TABLE 5] shows our performance for each product type against our 2007–08 targets.

The reports we tabled in Parliament during 2007–08 are listed in [TABLE 6]. Consistent with the approach used in VAGO’s *Annual Plan 2007–08* (published at <<http://www.audit.vic.gov.au>>), the audits are presented against each of the government’s *Growing Victoria Together (GVT)* visions and goals. (Details of GVT can be viewed or downloaded from <<http://dpc.vic.gov.au>>, the website of the Department of Premier and Cabinet.)

[TABLE 5] Number of reports tabled by report type

Product type	Target 2007–08	Actual 2007–08	Target 2008–09
Performance audit reports	28	25	27
Better practice guides or checklists	0	4	0
Report on the examination of the state’s finances	1	1	1
Reports on financial audit results	2	3	3
Total	31	33	31



[TABLE 6 ■■] Reports tabled in Parliament

GVT visions and goals	Audit report	Product type
<p>Thriving economy Goals:</p> <ul style="list-style-type: none"> • more quality jobs and thriving, innovative industries across Victoria • growing and linking all of Victoria. 	New Ticketing System Tender (October 2007)	Performance audit report
	Audits of 2 Major Partnerships Victoria projects (November 2007)	Performance audit report
	Discovering Bendigo project (November 2007)	Performance audit report
	Funding and Delivery of Two Freeway Upgrade Projects (December 2007)	Performance audit report
	Victoria's Planning Framework for Land Use and Development (May 2008)	Performance audit report
	Planning Scheme Amendment: Assessment Checklist (May 2008)	Checklist
	Planning Permit Application: Assessment Checklist (May 2008)	Checklist
	Maintaining the State's Regional Arterial Road Network (June 2008)	Performance audit report
<p>Quality health and education Goals:</p> <ul style="list-style-type: none"> • high quality, accessible health and community services • high quality education and training for lifelong learning. 	Program for Students with Disabilities: Program Accountability (September 2007)	Performance audit report
	Management of Specific Purpose Funds by Public Health Services (October 2007)	Performance audit report
	Improving our Schools: Monitoring and Support (October 2007)	Performance audit report
	Accommodation for People with a Disability (March 2008)	Performance audit report
	Delivering HealthSMART—Victoria's whole-of-health ICT strategy (April 2008)	Performance audit report
	Patient Safety in Public Hospitals (May 2008)	Performance audit report
	The New Royal Women's Hospital—a public private partnership (June 2008)	Performance audit report
	Coordinating Services and Initiatives for Aboriginal People (June 2008)	Performance audit report

GVT visions and goals	Audit report	Product type
Healthy environment Goals: <ul style="list-style-type: none"> protecting the environment for future operations efficient use of natural resources. 	Agricultural Research Investment, Monitoring and Review (February 2008)	Performance audit report
	Planning for Water Infrastructure in Victoria (April 2008)	Performance audit report
	Piping the System—incorporating the Wimmera-Mallee pipeline and the Goldfields Superpipe (May 2008)	Performance audit report
	Review of South East Water's Works Alliance Agreement (May 2008)	Performance audit report
Caring communities Goals: <ul style="list-style-type: none"> building friendly, confident and safe communities a fairer society that reduces disadvantage and respects diversity. 	Implementation of the Criminal Justice Enhancement Program (CJEP) (June 2008)	Performance audit report
	Services to Young Offenders (June 2008)	Performance audit report
Vibrant democracy Goals: <ul style="list-style-type: none"> greater public participation and more accountable government sound financial management. 	Public Sector Procurement: Turning Principles into Practice (October 2007)	Better practice guide
	Parliamentary Appropriations: Output Measures (November 2007)	Performance audit report
	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2006–07 (November 2007)	Report on the examination of the state's finances
	Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates (December 2007)	Report on financial audit results
	Local Government: Results of the 2006–07 audits (February 2008)	Report on financial audit results
	Records Management in the Victorian Public Sector (March 2008)	Performance audit report
	Project Rosetta (Streams 1 and 2) (May 2008)	Performance audit report
	Results of Audits for Entities with other than 30 June 2007 Balance Dates (May 2008)	Report on financial audit results
	Performance Reporting by Public Financial Corporations (June 2008)	Performance audit report
	Performance Reporting in Local Government (June 2008)	Performance audit report
Local Government Performance Reporting: Turning Principles into Practice (June 2008)	Better practice guide	

Our reports can be found on VAGO's website: <<http://www.audit.vic.gov.au>>.

Twenty-eight performance audits were identified in the *Annual Plan 2007–08* for completion this year. Twenty-four (86 per cent) of these were tabled in 21 reports to Parliament. Of the four performance audits that were identified but not completed during 2007–08:

- the proposed audit 'Effectiveness of Workforce Management in Corrections Victoria' was replaced by the audit 'Services to Young Offenders'
- the proposed audit 'Docklands: Transfer of Local Government Responsibilities' was removed from the program after consultation with PAEC
- the proposed audit 'Local Government Financial Viability and Cost' was removed from the program after consultation with PAEC
- the report on the audit of the 'Buyback of Intra-State Rail Infrastructure' has been delayed and is now scheduled for tabling in 2008–09.

In addition to the 24 performance audits identified in the *Annual Plan 2007–08*, VAGO tabled nine further reports during 2007–08, namely:

- four performance audits:
 1. *Services to Young Offenders* (replacing 'Effectiveness of Workforce Management in Corrections Victoria')
 2. *New Ticketing System Tender*
 3. *Discovering Bendigo Project* (carried forward from 2006–07)
 4. *Patient Safety in Public Hospitals*
- four better practice guides or checklists:
 5. *Public Sector Procurement: Turning principles into practice*
 6. *Local Government Performance Reporting: Turning principles into practice*
 7. *Planning Permit Application: Assessment Checklist*

8. *Planning Scheme Amendment: Assessment Checklist*

- one report on the results of financial audits:

9. *Local Government: Results of the 2006–07 Audits.*

Quality

Client feedback on performance audits

We survey agencies involved with performance audits through an independent research house, and use the feedback to improve our processes and products. It is in the nature of performance auditing that clients may express strong opinions, both positive and negative, about aspects of an audit. Nevertheless, VAGO is committed to an open and honest exchange of views with the agencies we audit.

Using questionnaires and interviews, we seek feedback on the three key areas: audit process, audit reporting and the value of the audit to the agency. At year end, we generate an index based on average ratings across all three areas. This is expressed as a score out of 100. Our performance is measured against a stretch target of 80, which would represent a very high level of satisfaction with our performance audits. Our survey is conducted as part of a national benchmarking project with other Australian Auditors-General. At the time of annual reporting, only the previous year's data was available. Last year, VAGO's performance audit function had room for improvement in our rankings for audit process and in the client's perception of the quality of the final report.

Overall, there was a moderate improvement in the ratings in 2007–08, with an overall client satisfaction rating of 72, a slight increase from the 2006–07 result (70.5) but still under our stretch target of 80.

Average ratings for the audit process for 2007–08 improved from 2006–07, with some very positive responses around the professionalism and knowledge of audit staff, and the effectiveness of our communication during the audit.

These areas had been specifically targeted for improvement during the year.

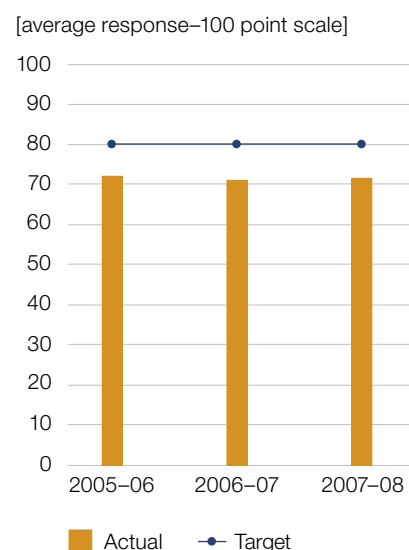
Ratings for audit reporting improved in three of four areas, although surprisingly there was a decline in the percentage of clients who felt they had adequate opportunity to comment before finalising our reports, notwithstanding our added effort to progressively engage audit clients and apprise them of audit conduct and findings.

Ratings on the value of our performance audits to client organisations remained fairly stable, with around two-thirds of clients agreeing that the audits:

- provided a sense of assurance regarding the administration of the audited activity
- would help the organisation to improve administration of the audited activity.

This feedback continues to drive us to seek ways to improve our performance audits and reports. Survey results are shared with audit teams, senior management and VAGO's Audit Committee, and regular reports provided to Senior Management Group on actions arising from this feedback.

[FIGURE 1]
Client ratings of satisfaction with performance audits



Performance audit topic selection

It is important that our audits remain relevant. To this end, during 2007–08 we reviewed our topic selection model for performance audits. The Performance Audit Topic Selection Framework considers public sector performance against the *Growing Victoria Together* visions and goals. These visions and goals represent the government’s framework for priority setting, including legislation and spending decisions to 2010 and beyond. [FIGURE 2] provides an overview of our Performance Audit Topic Selection Framework.

The analysis of public sector programs and initiatives focuses on emerging trends, inherent risks and challenges that may affect achievement of the established goals. Relevant risks include misalignment between resources and objectives, poor systems for achieving compliance with legislation, poor project management, inadequate management systems, poorly designed institutional structures and inadequate coordination and consultation arrangements.

We identify initiatives and programs where there is strong public interest and where there are significant inherent risks, underperformance issues and unmet community expectations. These initiatives and programs are identified as prospective areas of audit interest.

Our risk assessments consider the potential impact on the community in terms of economic, social and environmental sustainability, categorising them into five risk categories, ranging from ‘negligible’ to ‘catastrophic’.

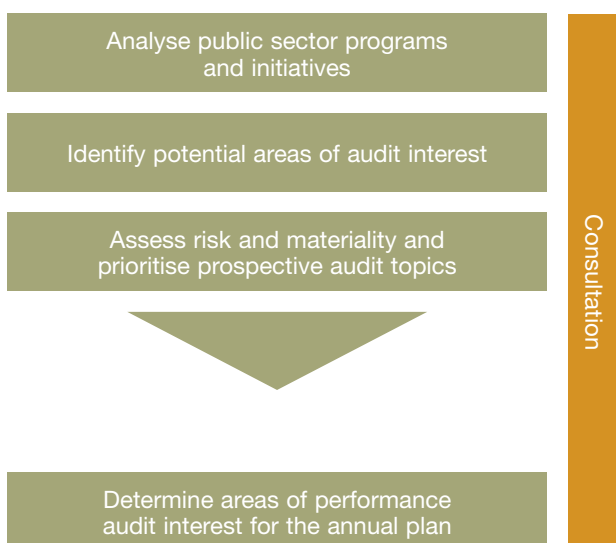
For each prospective area of audit interest, the final audit approach is determined after detailed planning, and consultation with PAEC and the relevant agencies. The Auditor-General retains the discretion to respond to emerging and unforeseen issues and to report on these to Parliament.

Performance audit methodology and training

To maintain the quality of our audits, our performance audit methodology was reviewed and revised in 2006–07. The methodology is based on the *Audit Act 1994* requirements, relevant auditing standards, VAGO’s policies and guidance and sound professional practice. The methodology has a logical structure that guides project management, evidence collection, documentation, analysis and quality control. It is supported by an electronic working paper system and a desktop interface that enables staff to access relevant policy and guidance material and business templates, VAGO’s records management, email and calendar facilities. The methodology is regarded as a best-practice methodology for public audit offices.

During 2007–08 the revised methodology was rolled out for all new performance audits and quality assurance processes were put in place to ensure that the methodology is appropriately and consistently applied.

[FIGURE 2] Performance Audit Topic Selection Framework



In 2007–08 we developed a Technical Capability Enhancement Program (TCEP). The program was developed in light of the revised performance audit methodology and works in concert with the new electronic working papers system and desktop interface. The TCEP is a ground-breaking initiative that signals our commitment to continuously developing our staff and delivering quality audit work. It was piloted during the year and will be implemented in 2008–09.

External assessments of report quality

Our parliamentary reports are reviewed by external assessors. In 2007–08 the following reports, which were tabled in 2006–07, were examined by independent external reviewers who are familiar with parliamentary needs:

- *Administration of Non-Judicial Functions of the Magistrates' Court of Victoria*
- *State Investment in Major Events*
- *Raising and Collection of Fees and Charges by Departments*
- *Public Hospital Financial Performance and Sustainability.*

The three external reviewers used an assessment method developed by the Australasian Council of Auditors-General (ACAG) that involved rating performance against set criteria.

[TABLE 7] shows the averaged scores out of a possible score of five, against each criterion, for each of the assessed reports.

In addition to rating the reports against the criteria, the reviewers provided the following encouraging comments on the reports:

- *Administration of Non-Judicial Functions of the Magistrates' Court of Victoria:* 'This audit was comprehensive, thorough and wide ranging... It is evident that the research was thorough and precise allowing for a first-rate report. The recommendations were realistic and achievable and the audit team should be congratulated on their first-rate [...] effort.'

- *State Investment in Major Events:* 'This is a very good quality report in terms of the preparations, presentation and content... This is an excellent report, properly documented, detailed in analysis and constructive... This report has enhanced the standing of VAGO... For Victoria, this seems to me to have the potential to be a very important value-adding audit which has identified some important issues on economic evaluations and contractual requirements for major events.'
- *Raising and Collection of Fees and Charges by Departments:* 'The report was well written with precise recommendations, which allowed for no ambiguity by the five departments and Treasury/Finance. It was a benchmark audit with recommendations obviously able to flow through to the whole of government.'
- *Public Hospital Financial Performance and Sustainability:* 'This is a boutique report which achieves its aims in raising the awareness of the Victorian public hospitals' financial performance and sustainability for government consideration... This is a niche report, which whilst being direct, presented a set of guidelines and recommendations with authority.'

[TABLE 7] Australasian Council of Auditors-General (ACAG) ratings of performance against set criteria

Criteria/Audit	Administration of Non-judicial Functions of the Magistrates' Court of Victoria	State Investment in Major Events	Raising and Collection of Fees and Charges by Departments	Public Hospital Financial Performance and Sustainability
Scope and potential for significant impact	4.8	4.1	4.8	4.0
Focus on effectiveness, efficiency and economy	4.6	4.0	4.5	4.0
Persuasiveness of conclusions	4.8	4.1	5.0	4.5
Communication – printed report	4.3	4.1	4.3	4.0
Usefulness to the customer	4.5	4.5	4.3	3.5

Timeliness

Each report tabled in the Parliament is conducted against an established timeframe. For 2007–08, VAGO aimed to deliver 90 per cent of its 31 reports to Parliament within agreed timeframes. Of the 33 reports we tabled during 2007–08, 29 (88 per cent) were tabled within the agreed timeframes. Since 2005–06 we have consistently improved the timeliness of our reporting. This is as a result of a number of strategies, including briefings with our clients and with the Auditor-General at specific stages of audit conduct. These briefings help ensure that issues are resolved before the audit reports are drafted.

The reports to Parliament that did not meet their tabling schedules in 2007–08 were:

- *Local Government: Results of the 2006–07 Audits* (tabled February 2008; planned for December 2007)
- *Piping the System—incorporating the Wimmera-Mallee Pipeline and the Goldfields Superpipe* (tabled May 2008; planned for March 2008)
- *Implementation of the Criminal Justice Enhancement Program (CJEP)* (tabled June 2008; planned for November 2007)
- *Performance Reporting in Local Government* (tabled June 2008; planned for December 2007).

The changes in scheduling were principally due to delays in provision of requested information or protracted processes of consultation and review.

Other initiatives to enhance the quality of our reports and advice

VAGO is a proactive contributor to the auditing profession and to public sector auditing within Australia and internationally. In this way, we aim to increase the quality of public sector auditing generally, and the quality of the reports we provide to Parliament in particular, and to expose our staff to new opportunities to assist their development.

Contributions to professional bodies

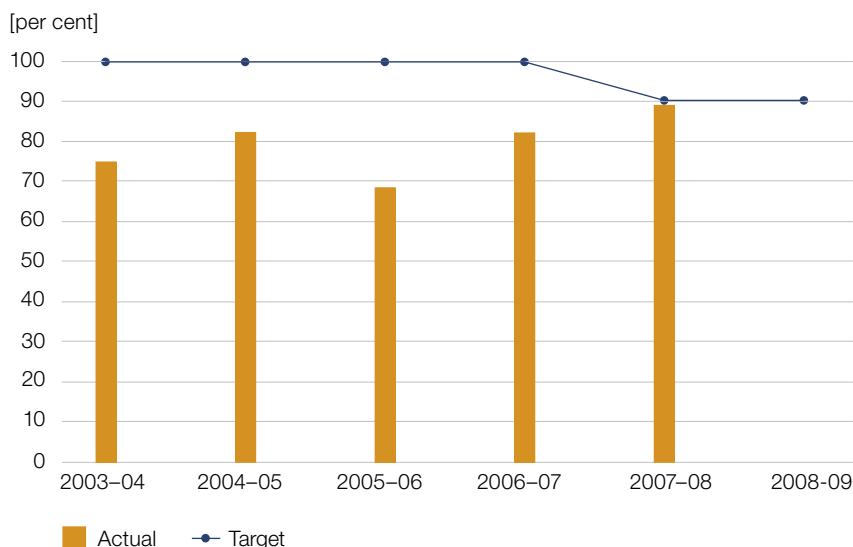
A number of our senior staff hold positions in professional bodies, committees and societies. These include the Public Sector Accountants Committee of CPA Australia, and the Australian Accounting Standards Board (AASB) Interpretations Advisory Panel on Service Concession Arrangements—Public Sector Grantors.

During 2007–08 the Auditor-General was a member of the AASB, which has responsibility for setting accounting standards. In this capacity, he provided input on issues affecting the Victorian public sector. The Auditor-General 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.

VAGO also provided input to the development of new auditing standards as members of working parties set up under the auspices of the Auditing and Assurance Standards Board (AuASB), the national assurance and auditing standards setter. In this capacity, our staff contributed to the review of the performance auditing standards and standards for compliance engagements.

During the year, the Auditor-General and a number of staff presented at a range of conferences and to professional bodies and industry groups. These included presentations on specific audits conducted by VAGO, as well as more wide-ranging matters that affect the sector generally, such as governance, asset management and business systems. A summary these presentations can be found in Table 8.

[FIGURE 3] Timeliness of reports tabled in Parliament



[TABLE 8 ■■] Presentations given by the Auditor-General and VAGO senior staff, 2007–08

Date	Presenter	Presentation to	Topic
22-Aug-07	Des Pearson	CPAA International Committee Meeting—Vietnam	Contemporary initiatives in business and government—governance and control
28-Aug-07	Des Pearson	Co-presentation to Chartered Secretaries Australia Annual Public Sector Update Conference	Current challenges in public sector governance
5-Sep-07	Des Pearson	Institute of Chartered Accountants' Contemporary Accounting Problems Discussion Group	Current developments in public sector auditing
6-Sep-07	Stuart Kells	Centre for Defence and Strategic Studies, Australian Defence College	Performance auditing in the Victorian public sector
12-Sep-07	Des Pearson	VMIA Seminar	Managing risk across the public sector: toward good practice
19-Sep-07	Des Pearson	Institute of Public Administration Australia National Conference (Perth)	The auditor's view—public sector management, service delivery and accountability
25-Sep-07	Joy Patton	Records Managers Network Forum—hosted by the Public Record Office Victoria	VAGO role and responsibilities and information about the Performance Audit: Records Management In The Victorian Public Sector
12-Oct-07	Des Pearson	Centre for Public Agency Sustainability Reporting—Australia and New Zealand Reporting Alliance	Governance, accountability and transparency in the public sector and best practice in public agency reporting
18-Oct-07	Des Pearson	National Institute of Accountants	Public sector accounting and audit—an auditor's perspective
30-Nov-07	Des Pearson	SASAC—Chinese delegation via CPA Australia	Government business enterprises in Victoria Governance and risk: An audit perspective

Date	Presenter	Presentation to	Topic
4-Feb-08	Des Pearson	World Bank Institute/Commonwealth Parliamentary Association and La Trobe Summer School	Auditors-General and Public Accounts Committees
12-Feb-08	Des Pearson	2008 Australasian Police Audit Conference	Compliance—Does it restrict performance?
13-Feb-08	Des Pearson	Deloitte Public Sector Internal Audit Conversations	Role of public sector audit committees: An Auditor-General's perspective
11-Mar-08	Des Pearson	CPA Australia—Public Sector Standards and Reporting Conference	Setting the agenda for good practice—the rationale behind reporting standards
11-Mar-08	Dr Peter Frost	CPA Australia—Public Sector Standards and Reporting Conference	Innovative approaches to management: An auditor's view
21-Apr-08	Con Chara	SPASAI—Regional Working Group on Environmental Auditing	Briefing on Victorian environmental auditing activities including current issues, and potential topics for a cooperative regional audit
24-Apr-08	Des Pearson	Monash University—governance program	Introduction to the Victorian Auditor-General's Office
2-May-08	Des Pearson	GOVIS 2008 Mini Conference, New Zealand	Concept and practice of recordkeeping audits
28-May-08	Des Pearson	Chartered Accountants Business Forum 2008	The latest in accounting standards from the AASB: government reporting
4-Jun-08	Des Pearson	Ballarat Regional Conference	Role of the Auditor-General
17-Jun-08	Steve Vlahos and Peter Stoppa	Municipal Association of Victoria	Briefing to councils on the performance audit of Victoria's Planning Framework For Land Use And Development

Contributions to the Australasian Council of Auditors-General

In 2007–08 VAGO took a prominent role in the development of public sector audit nationally and internationally, through our participation in the ACAG.

The Auditor-General attended business meetings of ACAG (held in Melbourne in July 2007 and in Brisbane in November 2007). These meetings provide a forum for Auditors-General to exchange information and views on matters of common interest and to oversee ACAG's activities and the administration of its affairs.

Office representatives attended meetings of the ACAG Financial Reporting and Auditing Committee in July 2007 and October 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 VAGO and ACAG members.

ACAG's Australian members drove an increased focus on performance audit activities in 2007–08, an increasingly significant and high profile component of their public sector audit mandates. VAGO was proud to host ACAG's performance audit workshop in September 2007, and ACAG's performance audit training in November 2007. The events were each attended by auditors from six audit offices. In November 2007 and May 2008 VAGO attended meetings of ACAG's Senior Performance Audit Executives' Forum to discuss and share matters relevant to performance auditing across and within jurisdictions.

Environmental auditing was also a key area for ACAG in 2007–08. As resource pressures mount, governments face new accountability challenges in the way they manage and monitor environmental programs. In April 2008 VAGO hosted the 5th South Pacific Association of Supreme Audit Institutions (SPASAI) Regional Working Group on Environmental Auditing. The forum was attended by international and interstate public sector audit offices, and provided an opportunity for delegates to exchange information and ideas about environmental auditing issues. The main themes for the conference focused on biodiversity and climate change. In addition, the forum identified several potential topics for cooperative regional audits.

In April 2008 VAGO hosted the joint ACAG/CCOLA (Canadian Council of Legislative Auditors) Public Sector Audit Forum. This inaugural event included more than 20 Auditors-General and their representatives from Canada, New Zealand and Australia, and attracted guests from the European and South East Asian associations of Auditors-General. The ACAG/CCOLA conference offered Auditors-General an appreciation of the challenges faced by public sector auditors in major regions of the world and the possibility of sharing ideas and solutions. The conference also improved international opportunities for public sector audit staff, and showcased Melbourne to an influential group of public sector leaders. A key feature of the conference was the breakfast seminar held in partnership with the Institute of Public Administration Australia, attended by a broad range of senior Victorian public servants, as well as Auditors-General.

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 2007–08, we hosted delegations from the Chinese National Audit Office, the Samoan Audit Office, the Iraqi Board of Supreme Audit, Timor-Leste and Indonesia.

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

Cost

In 2007–08 the cost of delivering our parliamentary reports and services was \$13.9 million. This was \$1.4 million (11.2 per cent) more than the target of \$12.5 million, due to increased overheads, including accommodation related costs and an increase in the capital asset charge, along with the transitional costs to enable the improvements in the number and timeliness of performance audits. The target for 2008–09 is \$12.2 million.

Public Accounts and Estimates Committee

The Victorian Parliament is our primary client, and the Public Accounts and Estimate Committee (PAEC) is our main point of contact with Parliament. The *Audit Act 1994* requires us to consult with the PAEC on our annual plan and budgetary needs and on individual performance audit specifications.

The *Victorian Auditor-General's Office Strategic Plan, 2007–08 to 2009–10* commits the office to 'strengthening relationships with the Public Accounts and Estimates Committee and other parliamentary committees'. In line with this commitment, in 2007–08 we worked closely with the PAEC in a number of areas, by:

- consulting extensively on VAGO's 2008–09 Annual Plan, with the Auditor-General liaising with the committee earlier on potential areas of performance audit interest and on the overall content of the plan
- presenting evidence and providing information to PAEC inquiries regarding our tabled audit reports. This included contributing to parliamentary inquiries in March and April 2008 on our audits of:
 - the *Condition of Public Sector Residential Aged Care Functions*, (tabled August 2006)
 - *Government Advertising*, (September 2006)
 - the *New Ticketing Tender System*, (November 2007).
- seconding members of VAGO staff to PAEC to assist with research and other committee activities.

Ministerial and parliamentary briefings

Members of Parliament were briefed on each of our reports once tabled. To alert members of upcoming reports, a tabling schedule is posted on our website, and details of upcoming reports are emailed to members at the start of a tabling week. The number of members attending the briefings increased during the year, and we received positive feedback on the value and format of the presentations.

Inquiries from members of Parliament and the public

VAGO receives inquiries from members of Parliament and the public about the actions of public sector agencies and about government programs and initiatives. The inquiries generally relate to concerns about the management of public resources and may include a request for an audit to be conducted by the Auditor-General. These inquiries from members of Parliament and the public are an important contribution to our audit topic selection process.

Following preliminary analysis, a limited number of matters lead to specific audits or investigations. Other matters may be referred to other review processes or accountability authorities more suited to address specific concerns, such as the Ombudsman, or the Health Services Commissioner.

During 2007–08, we received 116 inquiries:

- 8 were from members of Parliament
- 108 were from the general public and community groups.

This is a significant increase on the 89 inquiries received in 2006–07.

VAGO has established timelines for responding to these inquiries: with 95 per cent (85 per cent in 2006) of the inquiries to be acknowledged and finalised within four weeks. We are moving to a more rigorous process to respond to these inquiries within two weeks.

Survey of parliamentarians

The office seeks feedback from parliamentarians each year through a comprehensive, confidential survey on the views of members, undertaken 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.

This year, we were pleased to see an increase in participation in this survey, with 51 members responding, compared with 38 last year. We hope to see continuing strong participation in future years, as the survey is an important feedback mechanism from our primary client.

The 2007–08 parliamentary survey has returned overall positive results.

Eighty-three per cent of parliamentarians were satisfied overall with the Auditor-General's reports and services, compared with 90 per cent in 2006–07 (see **[FIGURE 4]**). However, there was an improvement in the number who were 'very satisfied' (21 per cent, up from 14 per cent in 2006–07) rather than just 'satisfied'. Of note this year was a small cohort (less than 5 per cent) who were 'very dissatisfied'. We will continue our efforts to better address the expectations of all members, especially with regard to the relevance, strength and clarity of our reports.

Parliamentarians were largely positive when asked about their general impressions of VAGO's reports and services. More than 80 per cent of respondents agreed that VAGO's reports and services:

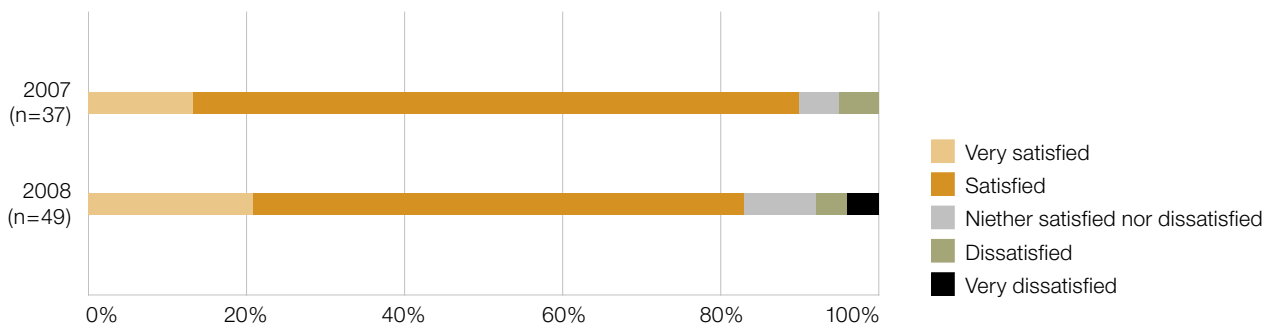
- provide valuable information on public sector performance
- are generally of a high quality
- help to improve public sector administration
- generally communicate issues clearly.

However, this year we also saw the emergence of a small but consistent number of responses that were critical of our performance in some of these areas, particularly with regard to the clarity, strength and level of detail of our audit reports.

Nearly half of the surveyed parliamentarians were able to name Auditor-General's reports that were particularly helpful for them—most of those nominated either *Planning for Water Infrastructure in Victoria* (April 2008) or *Accommodation for People with a Disability* (March 2008). Other responses included *Agricultural Research Investment, Monitoring and Review* (February 2008) and several reports related to local government.

We are heartened by the continued positive survey responses from parliamentarians, and by the affirmations provided through the survey of the importance of the role of the Auditor-General. The issues introduced through this survey are driving us to intensify our parliamentary liaison and offer an open door to those parliamentarians who have matters of significance to raise with their auditor.

[FIGURE 4] Percentage of parliamentarians satisfied with the Auditor-General's reports and services statements



Note: n = responses.



Promoting continuous improvement in the Victorian public sector

In 2007–08 we produced the following better practice guides, aimed at promoting continuous improvement in the sector. The guides have been well received across the public sector and, where relevant, in the associated industry sectors.

Public Sector Procurement: Turning Principles into Practice (October 2007)

This guide is a practical resource to help agencies to assess and improve their procurement activities. It provides an overview of the principles underpinning how procurement should be carried out, the phases of the procurement cycle, the aims of each phase and the key steps involved. It also identifies areas of good practice and the important documentation for each procurement phase. The guide draws on the office's environmental scanning, audit planning and performance audit work, and emphasises areas for particular improvement that have been identified in previous audits, including the audits *Contracting and Tendering in Selected Agencies* and *New Ticketing System Tender*. The guide should be read in conjunction with the guidance materials issued by the Department of Treasury and Finance, other Victorian Government departments and the Victorian Government Purchasing Board.

Local Government Performance Reporting: Turning Principles into Practice (June 2008)

This guide was produced to fill a significant gap in guidance on performance reporting frameworks and their application to local government. It leveraged information gathered during the audit of performance reporting in local government. The audit found room for considerable improvement, but recognised there is little authoritative guidance in this area. The guide contains a discussion of the principles of performance reporting and contains checklists and pro forma templates for performance statement.

Planning Scheme Amendment: Assessment Checklist (May 2008)

This checklist was developed to assist councils to evaluate the extent of their compliance with key aspects of the *Planning and Environment Act 1987*, associated regulations and the relevant planning scheme in the processing of planning scheme amendments. The checklist reflects statutory procedures as at May 2008, and was developed based on the work performed as part of our performance audit: *Victoria's Planning Framework for Land Use and Development* tabled in May 2008.



*Planning Permit Application:
Assessment Checklist (May 2008)*

This checklist was developed to assist councillors and planning staff to fulfil their obligations under the *Planning and Environment Act 1987* and to support planners in supervisory roles who oversee the timeliness and quality of planning activities in councils. The checklist was also developed based on work conducted as part of the recently tabled performance audit, *Victoria's Planning Framework for Land Use and Development*. The audit identified the need for a more rigorous and transparent assessment of planning permit applications by councils and closer scrutiny by senior planning staff over the level of compliance with the Act, associated regulations and the relevant planning scheme.

We also added value through our reports by making constructive recommendations and raising awareness of matters requiring attention in Parliament.

Some examples of the ways our parliamentary products added value during 2007–08 follow:

*Managing Stormwater
Flooding Risks in Melbourne
(Tabled July 2005)*

A key recommendation from the audit was that the agencies concerned, i.e., the Department of Sustainability and Environment, Melbourne Water and councils improve planning for stormwater flooding across Melbourne Water and council boundaries. Following the audit, the department asked Melbourne Water to lead the activity. During 2007–08 our audit team did a presentation on the audit at an external conference, and Melbourne Water presented the work completed to date on the strategy. Melbourne Water has taken the lead in formulating a plan and has committed to developing stormwater plans with all 38 councils over the next five years. It was clear that there has been significant progress, and the plan has laid the foundation for improved flood management over the next few years.

*Program for Students
with Disabilities: Program
Accountability (September 2007)*

This audit found that the Department of Education and Early Childhood Development had yet to establish a clear and consistently stated objective for the Program for Students with Disabilities, or to identify indicators to progressively monitor and evaluate program outcomes for reporting to the minister, Parliament and the community on the effectiveness of the program at the whole-of-program level. The audit team worked with the department to identify a range of performance indicators relevant to the program and to establish a timeframe for implementing an effective program accountability model.



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

Among other things, this audit looked at security in the court and found that the level of security infrastructure (e.g., surveillance cameras, electronic wands and duress alarms), security presence (e.g., Victoria Police or protective service officers) and conversely, security incidents (e.g., weapons seizures), varied considerably across the 52 court locations. We recommended that the Department of Justice (DOJ) and the Magistrates' Court determine the feasibility of applying enhanced security and electronic weapons detection technology across all court locations.

In August 2007, DOJ appointed consultants to review 17 courts to examine and profile their security risks and used the data as the basis for a budget submission to improve security infrastructure. In addition, DOJ took a number of interim steps to improve security, including reviewing perimeter security at smaller courts, providing security training to all staff in isolated small courts; and referring high-security cases to courts with appropriate levels of security.

Planning for Water Infrastructure in Victoria (April 2008)

This report examined how well the Department of Sustainability and Environment had selected, prioritised and monitored water infrastructure projects included within statewide and regional strategies. The Minister for Water welcomed the release of the report and said the government would adopt and implement all recommendations made.

Patient Safety in Public Hospitals (May 2008)

This audit examined the performance of the patient safety system, including how well agencies worked together, and the progress made since VAGO's 2005 patient safety audit. The audit found that 'there was no statewide system that collates data to monitor overall performance in patient safety, notwithstanding that health services monitor patient safety performance at the local level.' DHS advised VAGO that it planned to develop an incident information system that would provide the statewide reporting function. At the time of the audit funding had not been confirmed. The Premier subsequently announced in Parliament on 28 May 2008 that 'we welcome the Auditor-General's report, and his recommendations will be implemented'.

Fostering productive relationships with audit clients

VAGO is committed to delivering to Parliament and its committees, audit reports and related services that are objective, technically excellent and value adding. By doing this we fulfil our overriding purpose of providing independent assurance to Parliament on the accountability and performance of the Victorian public sector. We engage professionally and transparently with the entities we audit and promote continuous improvements in their performance.

Agreeing on the conduct of a performance audit involves ongoing discussions and interviews with agency personnel. A communication protocol is agreed on at the entry interview with each audited agency. Significant findings and emerging issues arising during an audit are progressively discussed with each agency's CEO or nominated contact officer to ensure the agency is kept fully informed.

The Auditor-General has powers to access information relevant to an audit. The information includes Cabinet-in-Confidence information and contracts between public sector agencies and private parties. Access to this information is essential for the audit function as it is the evidence on which findings and conclusions are based.



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 2007–08, we worked closely with the Department of Treasury and Finance to assist them in advising government on its proposed Public Finance Bill, a review of the *Financial Management Act 1994* and related legislation.

We liaised with government agencies on significant financial reporting issues and on new and revised 'Minister for Finance, Financial Reporting Directions', which 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 upcoming adoption of the reporting standard harmonising government finance statistics and generally accepted accounting principles.

In addition, VAGO:

- issued 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, water authorities, ambulance services and public hospitals on model financial reports and reporting guidelines
- worked to identify and promote draft accounting and auditing standards and other public sector issues relating to harmonising national and international accounting standards
- coordinated input from Australian audit offices into new Tasmanian audit legislation.

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 2007–08, the Auditor-General certified **44** warrants authorising Consolidated Fund expenditure of up to **\$35.2 billion** (2006–07, 24 warrants of \$31.6 billion).





Section 2

Audit reports on financial statements

In this section ...

we provide details of our output group 2: audit reports on financial statements. It describes how we went about delivering financial statement audit services for our audit clients, together with associated performance indicator information.



Reports and advice	26
Quantity	28
Quality	29
Timeliness	29
Cost	30
Clients	32

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 also provides an audit opinion on performance statements prepared by municipal councils, certain water bodies and technical and further education (TAFE) institutes.

[TABLE 9 ■■■] summarises the Auditor-General's financial audit responsibilities (audited entities) for 2007 and 2008.

[TABLE 9 ■■■] Auditor-General's financial audit responsibilities (audited entities) for 2007 and 2008

Type of entity	2007–08	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 entities	23	24
Community health services ^(a)	39	39
Companies, trusts and joint ventures	168	178
Public bodies	112	112
Public cemeteries	14	14
Public hospitals and ambulance services	94	94
Regional waste management groups	13	13
Superannuation funds	2	2
Universities and other educational institutions	22	24
Water authorities	26	27
Local government entities		
Municipal councils	79	79
Regional library corporations	12	12
Companies, trusts and joint ventures	12	10
Total	619	631

Notes: (a) The status of community health services as public bodies under the *Financial Management Act 1994* is currently the subject of a ministerial review.

[TABLE 10] shows our performance for 'audit reports on financial statements' (output group 2) against our 2007–08 targets.

[TABLE 10] (Output group 2) Performance against output targets

Performance measures		Target 2008–09	Actual 2007–08	Target 2007–08	Actual 2006–07
Quantity					
Audit opinions issued on entity financial statements	(number)	623	638	655	615
Audit opinion on the 2006–07 Annual Financial Report of the State	(number)	1	1	1	1
Review of the Estimated Financial Statements forming part of the 2008–09 State Budget	(number)	1	1	1	1
Audit opinions issued on non-financial performance indicators	(number)	115	114	113	113
Quality					
Overall external satisfaction with how we conducted financial statement audits	(score ^(a))	80	73	80	nm
Timeliness					
Audit opinions within statutory deadlines	(per cent)	98	96	100	98
Final management letters to entities within established time frames	(per cent)	90	90	90	79
Cost					
Delivering services within output cost	(\$million)	15.6	19.23	15.52	15.4

Notes: (a) This performance measure replaces the 2007–08 performance measure 'overall level of external satisfaction with audits'. The data collection methodology for the performance measure has changed from the frequency of responses to a subset of questions in a self-administered survey, to an index comprising an average response across all questions in an independent survey. Accordingly, the unit of measure has changed from a percentage to a score, or rating, out of 100 (nm = new measure).



Quantity

Audit opinions on entity financial statements

During 2007–08 we issued 638 audit opinions compared with our target of 655. The net difference of 17 (2.6 per cent) below target comprised:

- ten community health services that did not submit their 30 June 2007 financial statements for audit—the status of community health services as ‘public bodies’ is currently the subject of a review by the Minister for Health
- three audit opinions were not issued because the relevant entities had not finalised their current year financial statements
- six audit opinions were not required for Monash IVF and related entities, as it was sold during the year
- offsetting this were two unplanned audit opinions issued on entities with 30 June 2008 balance dates, which wound up during the year.

We also issued 114 opinions of non-financial performance statements, one more than planned:

- 79 audit opinions to local government councils (79 in 2006–07)
- 16 audit opinions to regional and rural water authorities (16 in 2006–07)

- 19 audit opinions to 17 technical and further education (TAFE) institutes and two training entities (18 in 2006–07).

During the year the requirement to prepare performance statements in the education sector was extended, bringing to 20 the number of entities required to prepare performance statements. One entity did not submit a certified performance statement for audit, so only 19 audit opinions were issued.

Ninety-nine per cent (98 per cent in 2006–07) of audit opinions on financial statements were unqualified. The financial statements of seven (13 in 2006–07) entities were qualified for a variety of reasons. We most commonly issued a qualified opinion where entities:

- inappropriately accounted for certain non-reciprocal (typically research) grants and for assets and liabilities that formed part of a finance lease arrangement, and
- 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 but one entity were also unqualified. That performance statement was qualified because the financial statements of the entity were qualified: the qualification carried through to its performance statement.

Audit opinion on the 2006–07 Annual Financial Report of the State

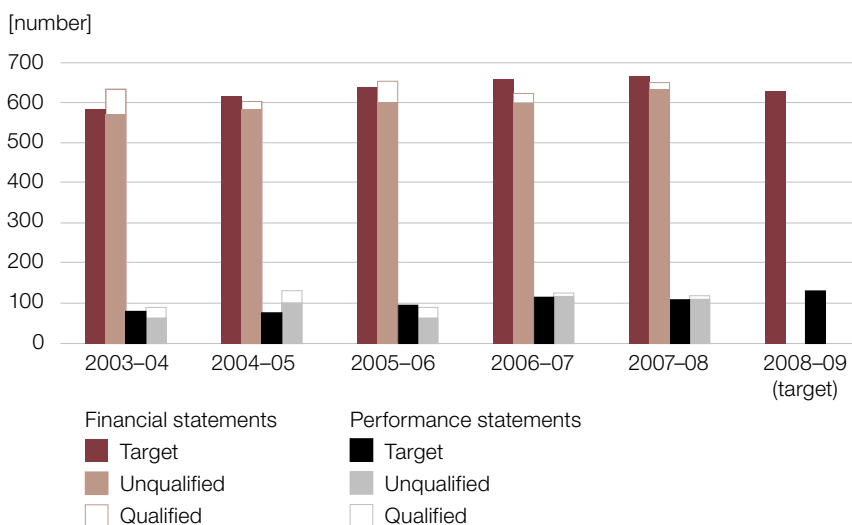
A key feature of the state’s accountability framework is that the government must prepare and present consolidated financial statements to Parliament each year. The statements include all the public sector entities that the government controls. Local government bodies and universities are not included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

On 27 September 2007 the Auditor-General issued an unqualified audit opinion on the Annual Financial Report of the State for 2006–07. The government presented its audited financial report to Parliament in October 2007.

Review of the Victorian Government’s Estimated Financial Statements

On 26 April 2008 we completed our review of the Victorian Government’s Estimated Financial Statements for the financial year ending 30 June 2009 and the following three years. The Government’s Budget Papers, presented to Parliament on 6 May 2008, included our ‘short-form’ audit report on the results of this review.

[FIGURE 5] Audit opinions on financial statements and performance statements



Quality

Client feedback on financial audit services and reports

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

Using questionnaires and interviews, we seek feedback on the three key areas: audit process, audit reporting and audit value. Entity management rates our services against a range of attributes, such as the professionalism and skill of our staff, how effective our communication is, how well we understand the entity's business, the quality of our audit reports and management letters, and the value of our audits in providing assurance and supporting entities' business improvements.

At year end, we generate an index based on average ratings across all three areas, expressed as a score out of 100. These are measured against a stretch target of 80, which would represent a very high level of satisfaction with all of our financial audit services.

Our survey is conducted 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. At the time of annual reporting, only data from the previous

financial year was available. VAGO ranked well against other participating offices in the area of audit process, but had room for improvement in our rankings for reporting and value.

It is gratifying, therefore, to see a slight rise in both these areas in the 2007–08 survey results. This has contributed to a slight, overall increase in the average rating.

VAGO received an overall client satisfaction rating of 73.4 in 2007–08, under our stretch target of 80 and a slight increase from the 2006–07 result. Average ratings of the audit process remained unchanged from last year, while ratings for reporting and audit value increased. Areas of particular improvement were in ratings of the quality and timeliness of our management letters and opinions, and the value we provided through a sense of assurance. Areas identified for further focus included meeting target timeframes and the potential of our recommendations to improve entities' financial management.

VAGO continues to work towards its stretch goals, seeking to improve this result through improved communication with our clients about our audit activities, continuing our emphasis on professional development and methodological rigour, and engaging early and consistently on audit issues and findings.

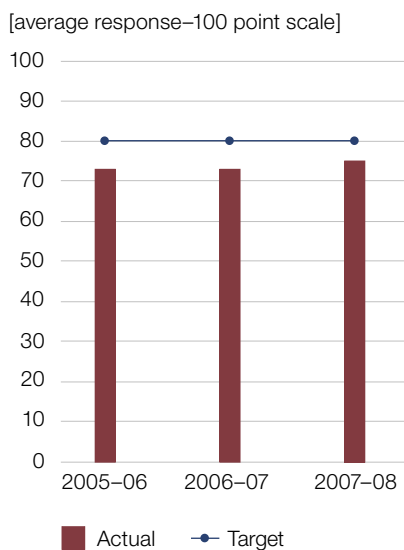
Timeliness

Audit opinions issued within statutory deadlines

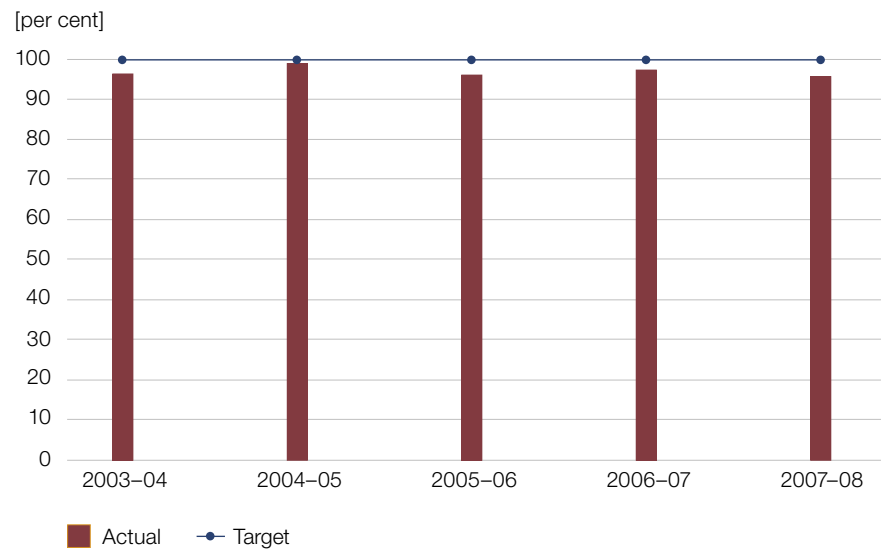
The *Financial Management Act 1994* and the *Audit Act 1994* set out the annual reporting and audit requirements for departments and other public sector entities. They must submit their annual financial statements to the Auditor-General within eight weeks of the financial year end. The Auditor-General must express an opinion on financial statements within four weeks of their receipt.

During 2007–08, we issued 96 per cent (98 per cent in 2006–07) 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. We also experienced delays in finalisation of a number of the financial audits of community health services because of the lack of clarity of the audit mandate over these entities.

[FIGURE 6] Client ratings of quality of financial audit services and reports



[FIGURE 7] Percentage of audit opinions issued within statutory deadlines



Improving timeliness of financial reporting by entities

The audited financial statements of 73 per cent of public sector entities were completed within 12 weeks of the balance date (76 per cent in 2006–07).

A significant improvement in the timeliness of reporting by education sector entities with 31 December 2007 balance dates was observed, with 82 per cent able to finalise their statements within their statutory deadlines, compared with 44 per cent of these entities last year.

However, the timeliness of entities with 30 June 2007 balance dates deteriorated this year compared with the previous year, with only 76 per cent of audited statements finalised within 12 weeks, compared with 85 per cent last year. This is a disappointing result, as we have worked collaboratively with entities to bring forward audit work wherever possible. The onus is now on each reporting entity to examine its internal reporting processes to determine where they can be streamlined and where timeframes can usefully be brought forward.

Final management letters to entities

Where we identify significant audit or accounting issues from our financial audit activity, we send the audited entity

a management letter at the completion of the audit. Before we issue our final management letter, it is our practice to obtain formal comments from the management of each entity about our findings and recommendations, and to incorporate these comments into our management letter.

During 2007–08 we sent 90 per cent of management letters within our established timeframes (79 per cent in 2006–07). This achievement marks a major milestone as it is the first year that we have met the target for this key indicator, and is a measure of the success of the strategies we implemented last year to improve the timeliness of our reporting.

Benchmarking the timeliness of audit reporting

We benchmark the timeliness of our financial audits against other Australian state jurisdictions. The latest data available, from the 2006–07 financial year shows that we finalised 81 per cent of our financial audits within four months of financial year end, compared with the Australian states and territories average of 69 per cent. Victorian public sector entities are generally required to finalise their annual reports within four months of financial year end. We finalised 98 per cent of our audits within five months—the best result for any jurisdiction.

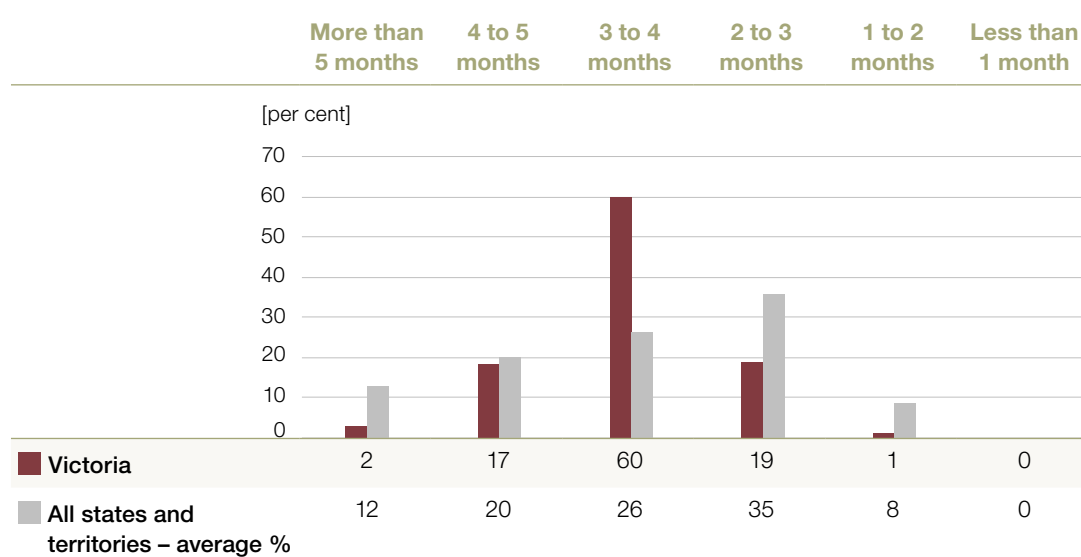
Cost

The total actual cost of financial audits increased from \$15.4 million last year to \$19.2 million this year. This was 23 per cent above our original target of \$15.5 million due to the factors identified below, combined with increased overheads including accommodation related costs and an increase in the capital asset charge. The target for 2008–09 is \$15.6 million.

A number of factors contributed to the increase in costs in 2007–08 against the 2006–07 outcome. Our costs for staff and contractors increased during the year following a review of remuneration to attract and retain professional audit staff in a highly competitive employment market, and the increasing price of contracted service providers.

Audit costs have also risen because of increased audit effort. This change has been driven by changes in auditing standards, which now have force of law, prescribing minimum documentation standards that must be adhered to for all audits regardless of the size of the entity or the risk of error.

[TABLE 11 ■] ACAG benchmark: Timeframes for issuing financial opinions, 2006–07



Source: Australasian Council of Auditors-General, 'Macro Benchmarking Survey, 2006–07', March 2008.

We also brought forward work on financial statement audits, compared with previous years as part of our strategy to undertake more timely audits. As a result, we incurred greater one-off costs on these audits within the financial year, compared with past years, as did our contracted service providers. Overall, payments to our service providers increased by 20 per cent compared with last year.

The average cost per audit opinion increased by around 19.2 per cent this year compared with last year. This trend is consistent with the increases in audit fees being charged nationally and internationally, in both the private and public sectors. The fees the audit profession charges reflect the combined effects of additional audit effort required from changes in auditing standards and cost increases, particularly in contractor costs and salaries.

[TABLE 12] Performance against cost targets

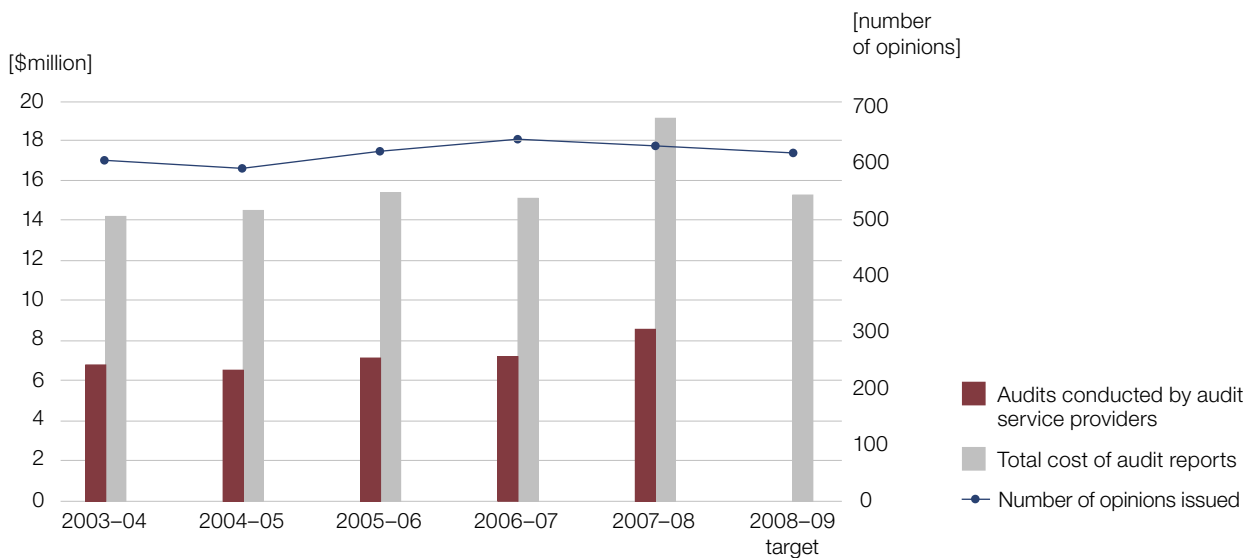
Item	Actual 2007-08	Target 2007-08
	(\$million)	(\$million)
Audit reports on financial statements	18.6	15.1
Audit opinion on the Annual Financial Report of the State	0.3	0.21
Review of Estimated Financial Statements in the State Budget	0.3	0.22
Aggregate output costs	19.2	15.52

[TABLE 13] Trends in average cost of audit opinions

		Target 2008-09	Actual 2007-08	Actual 2006-07	Actual 2005-06	Actual 2004-05	Actual 2003-04
Audit opinions	(number)	625	640	617	631	604	611
Cost	(\$million)	15.60 ^(a)	19.2	15.42	15.4	14.45	14.3
Average cost per audit opinion	(\$'000)	25.0	30.0	25.0	24.4	23.9	23.4

(a) Source: 2008-09 Budget Papers.

[FIGURE 8] Cost of audit reports on financial statements



VAGO is committed to fostering productive relationships with audit clients. Our aim is to engage professionally and transparently with the entities we audit, to produce objective, well balanced reports that add value. In order to meet this objective we have adopted the following strategies:

- improving communication with our clients about our audit activities
- early and consistent engagement on audit issues and findings
- promoting continuous improvement in the Victorian public sector.

Improving communication with audit clients about our activities

In 2007–08 we provided a ‘closing report’ to our audit clients, before their certification of the financial statements and the signing the audit opinion. The closing report is a comprehensive acquittal of our client strategy and is provided to audit committees to assist in their deliberations on the draft financial statements. This has received positive recognition through our client feedback surveys. The Auditor-General has regular meetings with the chairs of departmental audit committees established in conjunction with Department of Treasury and Finance. There is also an increasing requirement for VAGO audit managers to have a broader knowledge of client issues, so that our responses and forward planning are better informed.

In June 2008 we also piloted a regional forum in Ballarat for the chairs of boards, mayors and chief executives of audited entities. The objective of the forum was to provide advice on our audit plan for the coming year – and to highlight key financial and audit issues. It also afforded the opportunity for direct contact with the Auditor-General and key financial audit staff. The feedback from the forum was positive and we will continue this initiative in the coming year.

Early and consistent engagement

This year we adopted a number of strategies to improve the timelines and quality of our communications with client entities:

- **Bringing forward audit planning:**
We issued 41 client strategies (12.6 per cent) by the end of December 2007 for our high risk and material audit clients, and we issued 58 per cent of our client strategies by the end of March. Our client strategies set out our audit risk assessment and planned audit approaches, and provided an early indication to the governing body and to executive management of any audit concerns.
- **Completion of our reviews of internal controls of entities before balance date:**
We issued 92 interim management letters this year, 87 per cent of which were issued before year end. The increasing use and more timely issue of interim management letters to entities meant that any internal control issues highlighted by an audit could be addressed by management earlier.
- **Identification and resolution of prospective financial reporting issues before balance date:**
This meant that as we proceeded into the review of draft financial statements relatively few issues arose that required resolution.

Promoting continuous improvement

In addition to reporting individually to our audit clients through our management letters, VAGO also prepares reports to the Parliament each year that summarise the results of all our financial audits. The costs of these reports are measured under **output group 1**, parliamentary reports and services.

This year VAGO produced a sector specific report for local government for the first time. This report contained a scorecard for each council relating to its financial sustainability. We developed five key indicators of financial viability for local government and established criteria for each indicator to assess performance.

There was significant public interest in this initiative, with a number of councils indicating to us that they have or will adopt the indicators as part of their strategic financial management and forward planning.



Section 3

Managing VAGO



In this section ...

we provide information about how VAGO is managed, compliance issues, quality assurance practices, and workforce data.

Future directions	34
Governance	35
Leadership and stewardship	35
Senior management	36
Managing VAGO	37
Compliance	39
Whistleblowers legislation	39
Privacy legislation	39
Freedom of information	39
National Competition Policy	39
Victorian Industry Participation Policy	39
Building Act	39
Diversity at VAGO	39
Quality	40
Quality assurance practices	40
Independent review of audits	40
Adhering to auditing standards	40
Financial audit policy manual	40
Our staff	41
Strategic People and Culture Management Framework	41
Workforce capacity	41

→ FUTURE DIRECTIONS

VAGO's strategic plan identifies five objectives and related strategies aimed at further improving our operations over the period 2007–08 to 2009–10.

[TABLE 14 ■■] Objectives and strategies

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

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

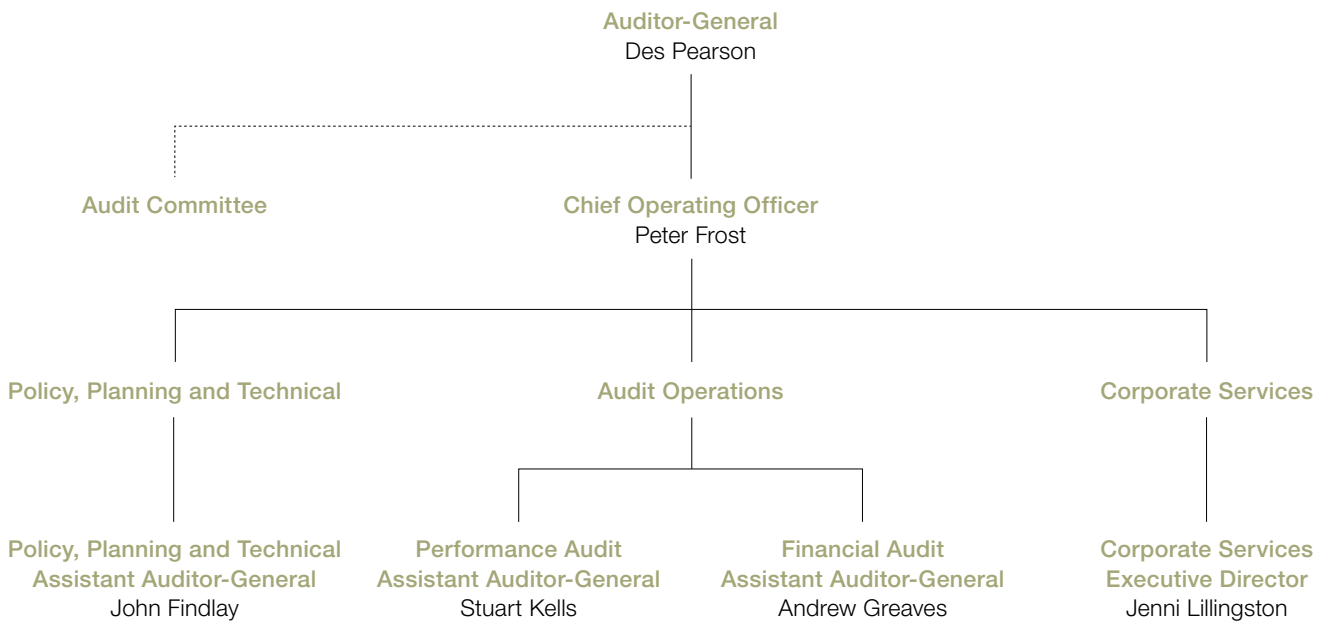
- feedback from our various stakeholders, including parliamentarians, PAEC and client agencies
- our performance compared with our peers
- achievement against our annual plans tabled in Parliament, and our internal business plans
- the level of acceptance of our recommendations (see note, below)
- the timeliness of our audits
- feedback from our employees (surveys to commence in 2008–09).

Notes: Previous VAGO Annual Reports provided data on the frequency of audited agencies' agreement with audit recommendations. In 2007–08, this information has not been aggregated and, instead, we have focused our client feedback mechanisms on the overall value of the audit to the agency involved. Agency responses to audit recommendations are still available in each individual audit report and in the comprehensive report released annually by the Minister for Finance, 'Response to Auditor-General's Reports'. This revised approach avoids duplication and is in keeping with the role of the government to implement or respond to Auditor-General recommendations.

Leadership and stewardship

VAGO continues to monitor and review its organisational structure to make sure that it is the most effective to meet future aims and directions. The revised organisational structure, based on a review in 2006–07, described in last year’s report, is outlined in the following chart. This chart also outlines our senior management structure at 30 June 2008.

[FIGURE 9] VAGO organisation chart



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*.



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 VAGO's 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 VAGO'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 that 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 tabling in Parliament.



Jenni Lillingston
BBus (Ec & Fin), GradDip (Ec)
Executive Director – Corporate Services Group

Jenni moved to VAGO as Executive Director—Corporate Services Group at the end of November 2007. She has a background in the Victorian and Commonwealth Governments, including Premier and Cabinet, Treasury and Finance and the Commonwealth Department of Finance. The Corporate Services Group provides a range of specialist services that contribute to and support the delivery of VAGO outputs, including organisational development, people management, communications, business planning, information technology and services, property and financial services.

Managing VAGO

The Senior Management Group (SMG) and five committees managed VAGO during 2007–08.

Senior Management Group

The Auditor-General, Chief Operating Officer, and the leaders of the four business groups are members of SMG, which meets monthly.

The role of the SMG is to provide advice and counsel to the Auditor-General as part of the delivery of his statutory objectives, as described in the *Audit Act 1994*. Key functions and responsibilities of SMG include overseeing the implementation of strategic directions and objectives, endorsing major policy, planning or budget initiatives, monitoring organisational performance, including the achievement of business plans, monitoring systems of risk management, internal control, codes of conduct and compliance, keeping abreast of critical whole-of-government issues and developments, and fostering continuous improvement across VAGO.

Operations Group

The Chief Operating Officer and the leaders of the four business groups are members of this group, which meets monthly.

The role of this group is to facilitate and oversee the development of business improvements and projects in accordance with the SMG-approved business plans. This group also acts as a conduit between the business groups and SMG with one of its main tasks being to receive and review

the draft SMG monthly management report prior to its submission at the subsequent, scheduled SMG monthly meeting.

Executive Remuneration Committee

This committee includes the Auditor-General, Manager of People and Culture, and an independent member, Mr Patrick O’Grady.

This committee is responsible for ensuring that VAGO has an executive remuneration policy that supports its strategic goals and business objectives and is consistent with other human resources management strategies and policies. The committee monitors the executive officer annual performance appraisal process and salary review.

Learning and Development Steering Group

This group has senior representatives from all of the VAGO business groups.

The role of this group is to promote learning and development strategically and operationally as a critical component to achieve VAGO’s planned outcomes, to provide feedback to the Manager of People and Culture and the SMG, and to assist in providing and supporting a coordinated approach on people practices within VAGO.

Staff Consultation and Development Group

This group includes representation from across all levels and from all business areas within VAGO, and includes a representative from SMG. The primary objectives of this group are to provide

a direct channel of communication between management and staff on matters directly affecting the culture and business of VAGO and to promote a spirit of cooperation in attempting to secure the efficiency of VAGO and the contentment of our staff.

Audit Committee

All committee members are independent, non-executive members appointed by the Auditor-General. They are Mr Mark Anderson, Mr Keith James, Ms Deirdre O’Donnell and Ms Joanna Perry.

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. The committee also monitors the processes and controls in place to ensure that we operate economically, efficiently and effectively in the delivery of our objectives.

Audit Committee Chairman’s report (year ended 30 June 2008)

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	Meetings held
Mark Anderson Chief Executive Officer, Doutta Galla Aged Services FCPA, MACS, GMAICD	4	4
Keith James Partner, Hall & Wilcox Lawyers FCPA	3	4
Deirdre O’Donnell Ombudsman, Telecommunications Industry Ombudsman Ltd MBA	4	4
Joanna Perry Chair, Financial Reporting Standards Board (New Zealand) and Board Member, Australian Accounting Standards Board MA, FICANZ, FICAEW	4	4

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
- review the policies and procedures in place for the development of the office's annual plan
- 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
- reviewed the adequacy of the office's policies and procedures in the development of its annual plan
- endorsed the appointment of a new internal auditor and approved the three-year internal audit plan for 2007–08 to 2009–10
- received reports from the internal auditor who advised no significant weaknesses in the internal financial controls and risk management practices
- reviewed the office's risk management reports and noted that risks were being appropriately monitored and addressed by the office
- reviewed the outcomes of the 2007 PAEC performance audit on the office and noted that the recommendations are being addressed by the office
- 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
August 2008

Risk management

Attestation on compliance with the Australian/New Zealand Risk Management Standard

I, DDR Pearson, certify that the Victorian Auditor-General's Office has critically reviewed the risk profile within the last 12 months and has robust risk management processes in place including internal control systems that enable the executive team to understand, manage and control risk exposures. However, these processes have not been verified as being consistent with the Australian/New Zealand Risk Management Standard AS4360 or considered against the proposed new International Standard ISO 31000. VAGO has committed to undertaking a Risk Framework Quality Review with the Victorian Managed Insurance Authority over the next 12 months with the intent of making an appropriate attestation in 2009.

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



DDR Pearson
Auditor-General

August 2008

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.



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 2007–08, there were no matters referred to the Auditor-General by the Ombudsman for investigation under the authority of the *Audit Act 1994*.

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. The Assistant Auditor-General—Policy, Planning and Technical Group is VAGO’s protected disclosure coordinator.

There were no disclosures on administrative matters during 2007–08.

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 received **one** application under this legislation in 2007–08.

National Competition Policy

VAGO is compliant with National Competition Policy, including the 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.

Victorian Industry Participation Policy

In October 2003, Parliament passed the *Victorian Industry Participation Policy Act 2003*, which requires public bodies and departments to report on the implementation of the Victorian Industry Participation Policy (VIPP). Departments and public bodies are required to apply VIPP in all tenders of more than \$3 million in metropolitan Melbourne and \$1 million in regional Victoria. The office completed no tenders or contracts to which the VIPP applied during the reporting period.

Building Act

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

Diversity at VAGO

VAGO continued to value diversity in the workplace during 2007–08. The ‘equity, diversity and our values’ key result area in our Strategic People and Culture Management Framework reinforces VAGO’s commitment to fair and reasonable treatment for our people and our clients through:

- living our values
- valuing diversity
- applying merit
- recognising and respecting human rights
- providing reasonable avenues of redress.

This commitment was supported during the year by:

- delivering learning and development opportunities in merit and equity for people with and without people management responsibilities
- incorporating diversity strategies and principles into the implementation strategy for the Strategic People and Culture Management Framework, to be actioned during 2008–09
- collecting diversity information from our staff survey to further inform diversity strategies in 2008–09.

Information collected indicated that of employees who responded to the survey:

- 29.6 per cent were born in countries outside Australia
- 36.6 per cent have a non-English speaking background
- 19 languages other than English are spoken
- 42.3 per cent speak at least one language other than English.

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.

Our quality assurance practices include a number of external review procedures, such as:

- an independent performance audit of VAGO conducted every three years, with the auditor appointed by Parliament (see results in Appendix 1)
- an independent review of a sample of completed audits to check that they follow professional auditing standards and the Auditor-General's policies. These reviews are conducted by audit professionals from other Australian audit offices (see below)
- reviews of selected parliamentary reports by independent experts
- independent surveys of members of Parliament and audited agencies, seeking feedback on the quality of our audits.

Independent review of audits

Routinely, a sample of financial statement audits and performance audits is reviewed to evaluate their quality.

For 2008–09 the Auditor-General has initiated a program of collaboration with other Australasian audit offices to perform these quality reviews for both financial and performance audits.

Adhering to auditing standards

In addition to our quality assurance practices, VAGO fulfils its professional and legal requirements to adhere 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 standards to the conduct of audits.

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 to review audit results to ensure that audits meet 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.

Financial audit policy manual

To complement the standards, the Auditor-General periodically issues audit policy alerts that we use to update our Financial Audit Policy Manual. The manual provides guidance for staff and audit service providers undertaking financial statement audits.

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

Financial audit policy alerts are issued to auditors 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 secure access to the VAGO network.

Strategic People and Culture Management Framework

The VAGO Strategic Plan identifies five key result areas (KRA) for the organisation as a whole, including being an employer of choice. The strategies outlined in the plan to achieve this KRA are – to demonstrate the relevance of the office to the public interest, to continuously develop our people, and to provide an attractive and stimulating work environment.

To help achieve this objective, a Strategic People and Culture Framework was developed during

2007–08 for implementation during 2008–09. The framework identifies six key result areas:

1. The right people
2. A high performance culture
3. Planned learning and development
4. Responsive employment conditions
5. Equity, diversity and our values
6. Evaluation and systems improvement

The framework will support our objective of being an employer of choice and enable a strategic and proactive approach to our culture, our people management practices, and our working conditions.

Workforce capacity

Our staffing profile

VAGO employee numbers as at 30 June 2008 are reported below in accordance with the financial reporting direction FRD 29. Please note that due to a difference in interpretation of active and inactive staff all the workforce figures relating to 2006–07 have been revised.

[TABLE 15] Employee numbers as at 30 June

Year	Ongoing employees			FTE	Fixed-term and casual
	Number (Headcount)*	Full-time (Headcount)	Part-time (Headcount)		FTE
2007	143	132	11	139.6	3.8
2008	136	125	11	132.8	15.7

Notes: *The headcount figure relates to ongoing employees only, and does not include 17 fixed-term and casual employees. Total headcount figure for 2007–08 is 153, as reported in the Five-Year Statistics table.



[TABLE 16] Employee profile

	30 June 2008			30 June 2007		
	Ongoing		Fixed-term and casual	Ongoing		Fixed-term and casual
	Number (Headcount)	FTE	FTE	Number (Headcount)	FTE	FTE
Gender						
Male	70	69.8	4.9	74	73.8	1.0
Female	66	63.0	10.8	69	65.8	2.8
Age						
Under 25	25	25	0.6	27	27.0	0.0
25-34	46	45.6	1.6	43	42.6	2.0
35-44	31	29.8	7.5	30	28.6	0.0
45-54	23	22.2	5.0	31	30.2	1.8
55-64	11	10.2	1.0	11	10.2	0.0
Over 64	0	0.0	0.0	1	1.0	0.0
Classification						
VPS Executives	21	20.4	0.0	23	22.4	0.0
VPSG1	0	0.0	0.0	0	0.0	0.0
VPSG2	26	25.8	1.0	33	32.6	1.0
VPSG3	17	17.0	2.0	25	25.0	0.0
VPSG4	23	22.6	1.6	17	17.0	1.0
VPSG5	19	18.0	4.5	22	21.0	0.0
VPSG6	28	27.0	3.6	23	21.6	1.8
VPSG7	2	2.0	3.0	0	0.0	0.0

Recruitment and retention

The overall voluntary turnover for 2007–08 was 27.2 per cent compared with 23.1 for the previous year. Further detail is provided in Table 17.

[TABLE 17] Departures from VAGO

Year	Employees (headcount)	Ongoing (including executives)	Fixed term and casual	Voluntary turnover rate
		FTE	FTE	
2007–08	38	37.2	6.0	27.2%*
2006–07	31	29.6	15.5	23.1%

Notes: *This figure includes three secondees who are expected to return to VAGO and be reinstated on the payroll at the end of their secondments. This treatment of secondees is in compliance with FRD 29.

Executive information

[TABLE 18 ■■■]

Number of executive officers classified into 'ongoing' and 'special projects' at 30 June 2008

Classification	All		Ongoing	
	Number	Variance	Number	Variance
EO1	0	0	0	0*
EO2	4	-3	4	-3
EO3	17	1	17	1
Total	21	-2	21	-2

Notes: *VAGO has no 'special projects' executives.

[TABLE 19 ■■■]

Breakdown of executive officers into gender for 'ongoing' and 'special projects' as at 30 June 2008

Classification	Male		Female		Ongoing Vacancies
	Number	Variance	Number	Variance	
EO1	0	0	0	0	0*
EO2	4	-2	0	-1	1
EO3	11	-1	6	2	4
Total	15	-3	6	1	5

Notes: *VAGO has no 'special projects' executives.

[TABLE 20 ■■■] Reconciliation with executive numbers

	30 June 2008	30 June 2007
Executives employed with remuneration over \$100 000	21	19
Add–		
Vacancies	5	3
Executives employed with total remuneration below \$100 000	6	11
Accountable officers ^(a)	1	1
Separations ^(b)	-6	-7
Total executive numbers at June	27	27

Notes: (a) VAGO's Accountable Officer is the Auditor-General who is an officer of Parliament and not a VPS executive.

The Auditor-General is not included in other executive statistics presented in this report. His inclusion in this table adds one to VAGO's executive totals.

(b) Separations include one executive officer who left VAGO on 29 June 2007 and received payment in 2007–08.

The separations number also includes one executive officer who was reclassified during 2007–08, leaving a vacant executive position.

[TABLE 21 ■■■] Exemptions from notification of vacancy, 2007–08

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

Industrial relations

VAGO continues to maintain positive 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.

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.

On commencement with the office, all staff are required to sign their agreement to abide by the 'Code of Conduct for Victorian Public Sector Employees of Special Bodies'.

Merit and equity

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

- a merit and equity policy to promote and support diversity throughout VAGO
- 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.

Occupational health and safety

Occupational health and safety (OH&S) management is being reviewed to ensure our plan emphasises individual health, including a specifically designed strategy to identify and manage hazards associated with psychological health. Activities in 2007–08 included:

- continuing OH&S workplace inspections of all areas of the workplace in addition to off-site agency workplaces, as necessary, to identify hazards and agree on solutions to remove or minimise them
- free flu vaccination program.

Environment Management Committee

In 2007–08 VAGO joined the ResourceSmart program for change run by Sustainability Victoria to help manage the environmental footprint of organisations. The program is being rolled out in stages across all government entities. VAGO staff attended training for the program and recommended that an in-house committee for the environment would be the best way to implement the necessary changes throughout the office.

The new Environment Management Committee aims to improve, monitor and report on the environmental performance of the office. Nominations of volunteers were sought and the committee held its first meeting on 29 May 2008. VAGO's revised environment policy was approved by the Auditor-General in May 2008. The major activities of the committee in 2008–09 will be to develop and implement an action plan enabling each group in VAGO to monitor and reduce their environmental impacts.



Section 4

Financial management



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.

Financial performance	46
Output results	48
Financial position	49
Other financial matters	50
Model financial report	50
Consultancies	50
Financial audit service providers	50
Financial report	51
Contents list for financial report	51

→ FINANCIAL PERFORMANCE

We are predominantly funded by parliamentary appropriations. Total appropriation for the office was \$30.9 million in 2007–08.

Our 2007–08 financial result was achieved in an environment of transition, where the office sought to have a more consistent and steadier stream of products and services, and an increasing level of engagement with our clients and stakeholders. This audit environment was characterised by rising business costs and increasingly complex audit requirements.

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

- **output 1:** parliamentary reports and services
- **output 2:** audit reports on financial statements.

[TABLE 22 ■■] shows the movement in both actual revenue and expenses.

In 2007–08 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.

Under the *Financial Management Act 1994*, audit fee income arising from financial statement audits is required to be paid into the consolidated fund and is treated as an administered item.

[FIGURE 10 ■■] shows the source of our funding over the last five years.

[FIGURE 11 ■■] shows our expenditure trends over the last five years.



[TABLE 22] VAGO revenue and expenses, 2007–08 and four previous years

Item	Actual 2007–08 (\$'000)	Actual 2006–07 (\$'000)	Actual 2005–06 (\$'000)	Actual 2004–05 (\$'000)	Actual 2003–04 (\$'000)
Revenue –					
Appropriation	12 182	10 942	10 472	10 083	12 259
Section 32 carry forward ^(a)	338	776	760	296	–
Section 29 ^(b)	17 910	15 749	14 996	14 268	11 762
Special Appropriation	431	410	321	276	256
Other	353	136	190	320	130
Total revenue	31 214	28 013	26 739	25 243	24 407
Total expenses	33 131	27 055	25 830	24 277	23 366
Surplus/(deficit)	(1 917)	958	909	966	1 041

Notes: 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.

(a) 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

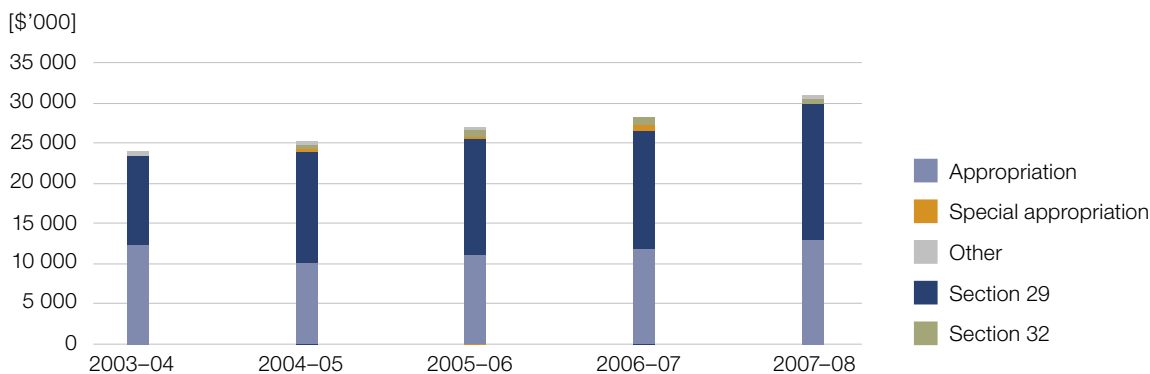
amount is not applied or is unlikely to be applied in the current financial year.

(b) 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.

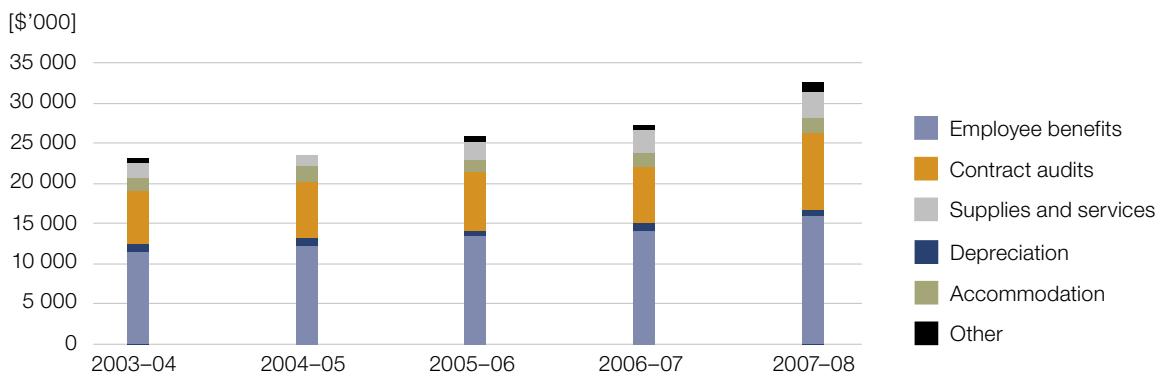
The office's revenue in 2007–08 was significantly affected by:

- increased S29 revenue as a result of increased audit fees earned
- increased funding to deliver resources received free of charge
- a Treasurer's advance in the amount of \$568 000 to cover the additional capital asset charge.

[FIGURE 10] Revenue, 2007–08 and four previous years



[FIGURE 11] Expenses, 2007–08 and four previous years



[TABLE 23] Expenses from ordinary activities for 2007–08 and previous four years

Item	Actual 2007–08 (\$'000)	Actual 2006–07 (\$'000)	Actual 2005–06 (\$'000)	Actual 2004–05 (\$'000)	Actual 2003–04 (\$'000)
Expenses					
Depreciation	1 028	768	685	972	909
Employee benefits	15 892	14 135	13 325	12 236	11 727
Contract audits	10 213	7 328	7 925	7 208	7 119
Accommodation	1 260	1 297	1 168	1 195	1 136
Supplies and services	3 788	3 207	2 485	2 532	2 338
Other	950	320	242	134	137
Total expenses	33 131	27 055	25 830	24 277	23 366

The office's expenditure in 2007–08 was significantly affected by:

- an increase in employee benefits, to attract and retain professional staff under highly competitive employment conditions
- increases in contract audit fees, due to general cost increases passed on by audit service providers, the increased audit effort driven by changes in auditing standards, and faster turnaround of parliamentary reports on our audits
- increases in other expenditure, due to the capital asset charge, and resources received free of charge
- an increase in depreciation, due to a higher asset base in software and hardware

Output results

[TABLE 24] Total revenues and expenses attributed to outputs for 2007–08

Output group	Revenue (\$'000)	Expenses (\$'000)	Net result \$'000
1. Parliamentary reports and services	12 661	13 896	(1 235)
2. Audit reports on financial statements	18 553	19 235	(682)
Total	31 214	33 131	(1 917)



→ FINANCIAL POSITION

Our financial position at 30 June 2008 remains strong, with total assets of \$11.29 million, total liabilities of \$4.75 million and net assets of \$6.54 million.

The table below shows asset and liability movement over five years.

[TABLE 25] Asset and liability movement over five years

Item	Actual 2007-08	Actual 2006-07	Actual 2005-06	Actual 2004-05	Actual 2003-04
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Current assets	4 571	4 856	4 433	4 773	2 987
Non-current assets	6 721	8 613	7 744	6 647	7 394
Total assets	11 292	13 469	12 177	11 420	10 381
Current liabilities	4 179	4 474	4 208	4 410	2 875
Non-current liabilities	569	532	425	374	1 837
Total liabilities	4 748	5 006	4 633	4 784	4 712
Net assets	6 544	8 463	7 544	6 636	5 669



→ 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.

Consultancies

VAGO engaged consultants on 24 projects during the year, costing \$391 046. No consultancy project exceeded \$100 000. A further \$358 962 was spent on audit and legal fees (including \$305 000 on accommodation related costs), whilst a further \$232 000 was recognised in relation to the PAEC initiated external performance audit.

Financial audit service providers

In 2007–08, we paid \$8.614 million (\$6.913 million in 2006–07) to 18 audit firms for work on financial statement audits as our agents.

[TABLE 26 ■■] Financial statement audits, payments to audit service providers, 2007–08

Audit service provider	2007–08	2006–07
	(\$'000)	(\$'000)
Coffey Hunt & Co	462	339
Davidsons	111	115
Deloitte Touche Tohmatsu	417	130
DFK Collins	454	266
Ernst & Young	1186	928
HLB Mann Judd (Vic) Pty Ltd	1184	714
Johnsons MME	200	137
KPMG Total	299	261
KPMG Services (Proprietary) Limited Total	11	–
Mclean Delmo Hall Chadwick	231	135
Mulqueen Griffin Rogers P/L	201	–
Pannell Kerr Forster	49	123
Pricewaterhouse Coopers	–	114
Richmond Sinnott & Delahunty	771	512
RSM Bird Cameron	930	1 092
UHY Haines Norton (Vic) Pty Ltd	758	582
WHK Armitage Downie Pty Ltd	349	283
WHK Audit & Risk Assessment (previously KPMG Albury)	271	205
WHK Horwath (previously WHK Day Neilson)	730	662
Other ^(a)	–	315
Total	8 614	6 913

Notes: (a) 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 2007–08 was \$5.2 million.

In 2007–08, the Auditor-General determined not to use this provision to delegate responsibility to any audit service providers to issue audit opinions (104 audits in 2006–07).

Financial Report



Independent auditor's report	52	Notes to the financial statements	57
Operating statement	53	1 Summary of accounting policies	57
Balance sheet	54	2 Departmental outputs	65
Statement of changes in equity	55	3 Summary of compliance with annual parliamentary and special appropriations	67
Cash flow statement	56	4 Income	68
		5 Expenses	69
		6 Revision of accounting estimates	70
		7 Receivables	70
		8 Other assets	71
		9 Property, plant and equipment	72
		10 Payables	74
		11 Interest bearing liabilities	74
		12 Provisions	75
		13 Movements in equity	76
		14 Auditors' remuneration	76
		15 Commitments:	77
		Finance leases	
		Operating leases	
		Contract audits	
		16 Contingent liabilities	78
		17 Executive officers' remuneration	78
		18 Financial instruments	79
		19 Cash flow information	81
		20 Responsible persons	82
		21 Administered items	83
		Accountable officer's and chief finance and accounting officer's declaration	84



**INDEPENDENT AUDITOR'S REPORT
TO THE VICTORIAN AUDITOR-GENERAL'S OFFICE**

We have audited the accompanying financial report of Victorian Auditor-General's Office, which comprises the Balance Sheet as at 30 June 2008, and the Income Statement, the 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.

C.725638.1



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 2008 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

15 August 2008

Pitcher Partners

Melbourne

C.725638.1

→ OPERATING STATEMENT

for the financial year ended 30 June 2008

	Note	2007-08 \$	2006-07 \$
Continuing operations			
INCOME			
Revenue			
Output appropriations	2, 3(a), 4(a)	30,430,176	27,466,727
Special appropriations	2, 3(b), 4(a)	430,874	410,488
Resources received free of charge	4(a)	260,000	27,500
Other revenue	4(b)	92,677	108,305
Total income	2, 4	31,213,727	28,013,020
EXPENSES			
Employee benefits	1(i), 5(a)	15,892,296	14,134,708
Depreciation and amortisation	1(i), 5(b), 9(b)	1,027,637	768,450
Resources provided free of charge		102,571	20,400
Capital asset charge	1(i)	810,000	242,000
Contract audit services		10,213,452	7,327,912
Supplies and services	5(c)	3,787,703	3,207,487
Rental expenses – accommodation		1,260,264	1,296,610
Finance costs	1(i), 5(d)	26,290	25,683
Net losses on disposal of plant and equipment	1(i)	11,170	31,934
Total expenses	2	33,131,383	27,055,184
Net result from continuing operations		(1,917,656)	957,836
Net result for the period		(1,917,656)	957,836

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

→ BALANCE SHEET

as at 30 June 2008

	Note	2007-08 \$	2006-07 \$
Current assets			
Cash	19(a)	900	900
Receivables	7	4,257,922	4,561,816
Other	8	312,077	293,269
Total current assets		4,570,899	4,855,985
Non-current assets			
Receivables	7	3,721,378	5,028,134
Property, plant and equipment	9(a), 9(b)	2,999,444	3,584,760
Total non-current assets		6,720,822	8,612,894
Total assets		11,291,721	13,468,879
Current liabilities			
Payables	10	1,279,022	1,551,587
Interest bearing liabilities	11	151,700	162,871
Provisions	12	2,748,029	2,759,155
Total current liabilities		4,178,751	4,473,613
Non-current liabilities			
Interest bearing liabilities	11	167,283	313,273
Provisions	12	401,672	218,689
Total non-current liabilities		568,955	531,962
Total liabilities		4,747,706	5,005,575
Net assets		6,544,015	8,463,304
Equity			
Contributed capital	13 (a)	309,394	311,027
Accumulated surplus	13 (b)	6,234,621	8,152,277
Total equity		6,544,015	8,463,304
Contingent liabilities	16		

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

→ STATEMENT OF CHANGES IN EQUITY

for the financial year ended 30 June 2008

	Notes	2007-08 \$	2006-07 \$
Total equity at beginning of financial year		8,463,304	7,544,568
Net result for the period	13 (b)	(1,917,656)	957,836
Transactions with the State in its capacity as owner	13 (a)	(1,633)	(39,100)
Total equity at end of financial year		6,544,015	8,463,304

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

→ CASH FLOW STATEMENT

for the financial year ended 30 June 2008

	Note	2007-08 \$	2006-07 \$
Cash flows from operating activities			
Receipts			
Receipts from Government		34,196,041	30,032,515
Receipts from other entities		92,677	108,305
Goods and Services Tax recovered from the ATO		1,766,445	1,412,209
Total receipts		36,055,163	31,553,029
Payments			
Payments to suppliers and employees		(32,662,297)	(27,400,610)
Goods and Services Tax paid to the ATO		(1,944,291)	(1,425,882)
Capital asset charge		(810,000)	(242,000)
Finance costs		(26,290)	(25,683)
Total payments		(35,442,878)	(29,094,175)
Net cash flows from/(used in) operating activities	19 (b)	612,285	2,458,854
Cash flows from investing activities			
Payment for property, plant and equipment	9 (b)	(587,866)	(2,647,744)
Proceeds from sale of property, plant and equipment		132,742	80,226
Net cash flows from/(used in) investing activities		(455,124)	(2,567,518)
Cash flows from financing activities			
Proceeds from finance leases		64,804	295,780
Repayment of finance leases		(221,965)	(187,116)
Net cash flows from/(used in) financing activities		(157,161)	108,664
Net increase/(decrease) in cash held		-	-
Cash at the beginning of the financial year		900	900
Cash at the end of the financial year	19 (a)	900	900

The cash flow statement is inclusive of the Goods and Services Tax, where applicable.
The above cash flow statement should be read in conjunction with the accompanying notes.

for the financial year ended
30 June 2008

Note 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 (AAS), in particular AAS29 *Financial Reporting by Government Departments*, Interpretations and other mandatory professional requirements.

The financial report also complies with relevant Financial Reporting Directions (FRDs) issued by the Department of Treasury and Finance, and relevant Standing Directions (SD) authorised by the Minister for Finance .

The financial report was authorised for issue by DDR Pearson (Auditor-General) on 15 August 2008.

(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 AASs, 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.

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 2008 and the comparative information presented for the year ended 30 June 2007.

(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 the resources for 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 21. Except as otherwise disclosed, administered items are accounted for on the same basis and using the same accounting policies as for departmental items.

Specific financial disclosures related to administered items can be found in note 21.

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

(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 (GST)

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 the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included 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 21.

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.

Other revenue

Amounts disclosed as revenue are, where applicable, net of returns, allowances and duties and taxes. All amounts of revenue over which VAGO does not have control are disclosed as administered revenue in the schedule of administered income and expenses (see note 21). Revenue is recognised for each of VAGO's major activities as follows:

Revenue from the provision of services

Revenue from the provision of services is recognised when:

- the amount of the revenue can be reliably measured;

and

- it is probable that the economic benefits associated with the transaction will flow to VAGO.

Revenue from sale of goods

Revenue from the sale of goods is recognised by VAGO when:

- the significant risks and rewards of ownership of the goods have transferred to the buyer;
- VAGO retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to VAGO; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(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.

Superannuation

Defined benefit plans

The amount charged to the operating statement in respect of defined benefit superannuation plans represents the contributions made by VAGO to the superannuation plan in respect to the current services of current VAGO staff. Superannuation contributions are made to the plans based on the relevant rules of each plan.

The Department of Treasury and Finance centrally recognises the defined benefit liability or surplus of most Victorian Government employees in such funds.

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 shown in the table below.

On 1 January 2008, a new category of fixed assets was recognised, entitled mobile phones. The assets in this category were previously disclosed as office equipment.

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.

Resources provided free of charge

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

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.

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.

	2007-08 Years	2006-07 Years
Leasehold improvements	see above	see above
Furniture and fittings	10	10
Computer hardware	4	4
Computer software	3	3
Office equipment	5	5
Mobile phones	2	not applicable
Motor vehicles – Leased	3	3

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.

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.

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 21.

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.

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.

Leased non-current assets

Leases of property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

VAGO as lessee

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.

(k) 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 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.

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.

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.

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* 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; and

nominal value – component that VAGO expects to settle within 12 months

- *Non-current liability – conditional LSL* 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 2008, payable within the next financial year, are classified as a current liability in the Balance Sheet.

(l) 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.

(m) 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.

(n) Equity

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 13.

(o) Functional and presentation currency

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

(p) Rounding of amounts

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

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 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 2008, the following standards and interpretations (applicable to VAGO) had been issued but were not mandatory for financial year ending 30 June 2008. VAGO has not, and does not intend to, adopt these standards early.

See table opposite.

(r) Prospective accounting changes

GAAP-GFS Convergence

The AASB has recently approved AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, which will apply to future financial reports of the Victorian general government sector. In October 2007, the AASB extended AASB 1049 to also apply to financial reports of the Whole of Government economic entity. The standard, which will be applicable for annual reporting periods beginning on or after 1 July 2008, converges Australian Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) reporting. It also includes additional disclosure requirements. The application and the effects of this new standard are being evaluated.

New accounting standards and interpretations

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on VAGO financial statements
Revised AASB 1004 <i>Contributions</i>	AASB decided to relocate requirements on contributions from AAS 27, 29 and 31, substantively unamended, into AASB 1004 as part of its short-term review of AAS 27, AAS 29, and AAS 31.	Beginning 1 July 2008	Impact expected to be insignificant.
AASB 1050 <i>Administered Items</i>	As part of the short-term review of AAS 27, AAS 29, and AAS 31, AASB decided to relocate the requirements for the disclosure of administered items from AAS 29, substantively unamended (with some exception as noted in Appendix A) into a new topic-based standard AASB 1050.	Beginning 1 July 2008	Impact expected to be insignificant.
AASB 1052 <i>Disaggregated Disclosures</i>	AASB decided to relocate requirements relating to reporting of disaggregated information from AAS 27 and AAS 29 into AASB 1052, a new topic-based standard, as part of its short-term review of AAS 27, AAS 29 and AAS 31.	Beginning 1 July 2008	Impact expected to be insignificant.
AASB 2007-09 <i>Amendments to Australian Accounting Standards arising from the review of AAS 27, AAS 29 and AAS 31</i>	An accompanying amendment standard to amend existing accounting standards as part of the short term review of AAS 27, AAS 29 and AAS 31 in December 2007.	Beginning 1 July 2008	Impact expected to be insignificant.
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 insignificant.
AASB 2007-8 <i>Amendments to Australian Accounting Standards arising from AASB 101</i>	Editorial amendments to Australian Accounting Standards to align with IFRS terminology.	Beginning 1 Jan 2009	Impact expected to be insignificant.

Note 2. Departmental outputs

Output groups –
VAGO has 2 output groups:

(1) Parliamentary reports and services

The following contribute to the
output group:

- our program of performance audits, addressing issues of effectiveness, efficiency and economy in the management of public resources
- our analysis and examination of the Estimated Financial Statements and Annual Financial Report of the State of Victoria
- our reports on the results of annual audits of public sector agencies' financial and performance statements, including the local government sector.

(2) Audit reports on financial statements

The following contribute to the
output group:

- provision of audit opinions on the financial statements of public sector agencies and on the Annual Financial Report of the State of Victoria
- furnishing of audit reports on non-financial performance indicators prepared by local government, certain water bodies, and technical and further education institutes
- preparation of an independent review report on the state's Estimated Financial Statements for inclusion in the annual budget papers.

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.

Note 2. Controlled income and expenses for the year ended 30 June 2008

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07
	\$	\$	\$	\$	\$	\$
Income						
Output appropriations	11,805,300	10,942,000	18,286,876	15,748,727	30,092,176	26,690,727
S. 32 carry forward	338,000	324,000	–	452,000	338,000	776,000
Special appropriations	330,911	315,392	99,963	95,096	430,874	410,488
Resources received free of charge	137,800	9,075	122,200	18,425	260,000	27,500
Other revenue	49,119	84,702	43,558	23,603	92,677	108,305
Total income	12,661,130	11,675,169	18,552,597	16,337,851	31,213,727	28,013,020
Expenses						
Employee benefits	8,422,917	9,065,379	7,469,379	5,069,329	15,892,296	14,134,708
Depreciation and amortisation	544,648	253,588	482,989	514,862	1,027,637	768,450
Resources provided free of charge	54,363	3,843	48,208	16,557	102,571	20,400
Capital asset charge	429,300	79,860	380,700	162,140	810,000	242,000
Contract audit services	1,599,635	414,808	8,613,817	6,913,104	10,213,452	7,327,912
Supplies and services ^(a)	1,838,002	1,132,038	1,629,927	1,839,813	3,467,929	2,971,851
Printing ^(a)	319,774	235,636	–	–	319,774	235,636
Rental expenses – accommodation	667,940	427,881	592,324	868,729	1,260,264	1,296,610
Finance costs	13,934	10,742	12,356	14,941	26,290	25,683
Net losses on disposal of plant and equipment	5,920	10,538	5,250	21,396	11,170	31,934
Total expenses	13,896,433	11,634,313	19,234,950	15,420,871	33,131,383	27,055,184
Net result for the period	(1,235,303)	40,856	(682,353)	916,980	(1,917,656)	957,836

(a) The total of supplies and services, and printing, equals the supplies and services total in note 5.

Note 2. Controlled assets and liabilities as at 30 June 2008

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2007-08 \$	2006-07 \$	2007-08 \$	2006-07 \$	2007-08 \$	2006-07 \$
Assets						
Current assets	1,917,191	2,257,205	2,653,708	2,598,780	4,570,899	4,855,985
Non-current assets	2,818,942	4,003,527	3,901,880	4,609,367	6,720,822	8,612,894
Total assets	4,736,133	6,260,732	6,555,588	7,208,147	11,291,721	13,468,879
Liabilities						
Current liabilities	1,752,711	2,079,467	2,426,040	2,394,146	4,178,751	4,473,613
Non-current liabilities	238,639	247,272	330,316	284,690	568,955	531,962
Total liabilities	1,991,350	2,326,739	2,756,356	2,678,836	4,747,706	5,005,575
Net assets	2,744,783	3,933,993	3,799,232	4,529,311	6,544,015	8,463,304

Note 3. Summary of compliance with annual parliamentary and special appropriations

(a) Summary of compliance with annual parliamentary appropriations

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

	Financial Management Act 1994																
	Appropriation Act				Total												
	Annual appropriation		Advance from Treasurer		Section 3(2)		Section 29		Section 32		parliamentary authority		Appropriations applied		Variance		
2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	2006-07	2007-08	
Controlled																	
Provision for outputs	11,614,000	11,280,000	568,000	-	-	-	17,910,176	15,517,000	338,000	776,000	30,430,176	27,573,000	30,430,176	27,466,727	-	106,273	
Additions to net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total	11,614,000	11,280,000	568,000	-	-	-	17,910,176	15,517,000	338,000	776,000	30,430,176	27,573,000	30,430,176	27,466,727	-	106,273	

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

Parliamentary appropriations

Appropriation Act	2007-08	2006-07
Annual appropriation – Budget Paper No. 3	11,618,000	11,280,000
Less, Workcare adjustment	(4,000)	-
Add: Advance from Treasurer	568,000	-
	12,182,000	11,280,000

Financial Management Act 1994

Section 29 – Estimate in Budget Paper No. 3	15,517,000	15,517,000
Plus, variance from budget	2,393,176	-
	17,910,176	15,517,000

Section 32

Brought forward	338,000	776,000
	338,000	776,000

Total parliamentary Authority	30,430,176	27,573,000
Appropriations applied	30,430,176	27,466,727

Variance	-	106,273
-----------------	---	---------

The variance in provision for outputs \$- (2006-07, \$106,273) comprises annual appropriation not drawn down of \$- (2006-07, \$338,000), reduced by excess section 29 revenue applied of \$- (2006-07, \$231,727).

Note 3. Summary of compliance with annual parliamentary and special appropriations (continued)

(b) Summary of compliance with special appropriations

Authority	Purpose	Appropriation applied	
		2007-08 \$	2006-07 \$
Section 94A(6) of the Constitution Act 1975	Costs associated with the Auditor-General	430,874	410,488

Note 4. Income

	2007-08 \$	2006-07 \$
(a) Revenue from Government		
Output appropriations	30,430,176	27,466,727
Special appropriations	430,874	410,488
Resources received free of charge ^(a)	260,000	27,500
Total revenue from Government	31,121,050	27,904,715
(b) Other revenue		
Revenue from the rendering of services ^(b)	41,184	71,913
Revenue from sale of goods ^(c)	51,493	36,392
Total other revenue	92,677	108,305
Total income	31,213,727	28,013,020

(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 2005-06 and 2006-07 only a financial statement audit was performed, whereas in 2007-08, both financial statement and performance audits were performed Refer note 14.

(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.

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

Note 5. Expenses

	2007–08 \$	2006–07 \$
(a) Employee benefits		
Post employment benefits:		
Defined contribution plans	892,214	698,266
Defined benefit expense	250,191	307,874
	1,142,405	1,006,140
Termination benefits	417,388	426,642
Salaries and wages	14,332,503	12,701,926
Total employee benefits	15,892,296	14,134,708
(b) Depreciation and amortisation		
Depreciation of non-current assets	815,804	492,196
Amortisation of non-current assets	211,833	276,254
Total depreciation and amortisation	1,027,637	768,450
(c) Supplies and services		
Recruitment and training	889,976	819,845
Information technology	499,915	471,658
Information management	621,743	544,430
Consultants	391,046	248,098
Legal expenses	330,962	21,647
Resources received free of charge	260,000	27,500
Other office expenses	794,061	1,074,309
Total supplies and services	3,787,703	3,207,487
(d) Finance costs		
Interest expense:		
Finance lease costs	26,290	25,683
Total finance costs	26,290	25,683

Note 6. Revision of accounting estimates

(a) Revision of staff retention rate methodology used for calculating Long Service Leave liability

During the financial year VAGO revised the staff retention rate methodology used in determining the Long Service Leave Liability. The net financial effect of the changes in current financial year was an increase in VAGO's liability of \$43,000 and expense of \$43,000.

VAGO's liability and expense will each increase by the following amounts:

Year ending 30 June	\$
2009	47,000
2010	50,000
2011	53,000
2012	56,000

Note 7. Receivables

	2007-08 \$	2006-07 \$
Current receivables		
Amounts due from Victorian Government (a)(b)	4,178,751	4,473,613
Other receivables	78,132	88,203
GST input tax credit recoverable	1,039	–
Total current receivables	4,257,922	4,561,816
Non-current receivables		
Amounts due from Victorian Government (a)(b)	3,721,378	5,028,134
Total non-current receivables	3,721,378	5,028,134
Total receivables	7,979,300	9,589,950

(a) The total amount recognised as being due from by the Victorian Government was \$7,900,129 (2006-07, \$9,501,747) of which \$4,178,751 (2006-07, \$4,473,613) is likely to be drawn down in the next financial year and is reported accordingly as a current receivable.

(b) The amount recognised as being due from the Victorian Government comprises previously applied parliamentary appropriations not yet drawn down. The balance is represented by accumulated surpluses, payables, movements in provisions and accumulated depreciation and amortisation net of asset acquisition.

Note 8. Other assets

Current other assets	2007-08	2006-07
	\$	\$
Prepayments		
Information management	11,977	5,867
Software and hardware maintenance contracts	138,576	95,176
Rental expense – accommodation	107,819	103,508
Other	53,705	69,467
Total prepayments	312,077	274,018
Accrued income	–	19,251
Total current other assets	312,077	293,269
Total other assets	312,077	293,269

Note 9. Property, plant and equipment

(a) Cost, accumulated amortisation and depreciation

	2007-08 \$	2006-07 \$
Leasehold improvements		
At cost	1,464,654	1,341,462
Less: Accumulated amortisation	(160,397)	(25,685)
Total leasehold improvements	1,304,257	1,315,777
Furniture and fittings		
At cost	109,790	98,694
Less: Accumulated depreciation	(98,341)	(97,307)
Total furniture and fittings	11,449	1,387
Computer software		
At cost	2,316,929	2,243,836
Less: Accumulated depreciation	(1,693,526)	(1,194,034)
Total computer software	623,403	1,049,802
Computer hardware		
At cost	2,117,812	1,998,216
Less: Accumulated depreciation	(1,457,894)	(1,341,203)
Total computer hardware	659,918	657,013
Office equipment		
At cost	146,339	154,039
Less: Accumulated depreciation	(81,554)	(65,112)
Total office equipment	64,785	88,927
Mobile Phones		
At cost	31,281	–
Less: Accumulated depreciation	(11,069)	–
Total mobile phones	20,212	–
Motor vehicles – leased		
At cost	432,500	568,291
Less: Accumulated amortisation	(117,080)	(96,437)
Total motor vehicles – leased	315,420	471,854
Total property, plant and equipment	2,999,444	3,584,760

(b) Movements in property, plant and equipment

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Mobile phones	Motor vehicles – leased	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Carrying amount								
Balance at 1 July 2006	171,172	26,814	884,032	383,207	26,023	–	363,325	1,854,573
Additions	1,341,462	761	455,780	466,408	85,400	–	297,933	2,647,744
Disposals	(1,840,054)	(359,217)	–	(289,834)	(112,983)	–	(148,077)	(2,750,165)
Disposals – Accumulated depreciation	1,840,054	335,954	–	282,578	104,402	–	39,070	2,602,058
Depreciation/ amortisation expense	(196,857)	(2,925)	(290,010)	(185,346)	(13,915)	–	(79,397)	(768,450)
Other – rebate on capital value	–	–	–	–	–	–	(1,000)	(1,000)
Balance at 30 June 2007	1,315,777	1,387	1,049,802	657,013	88,927	–	471,854	3,584,760
Additions	123,192	11,095	73,093	290,364	3,773	21,545	64,804	587,866
Disposals	–	–	–	(170,768)	–	(1,737)	(200,595)	(373,100)
Disposals – Accumulated depreciation	–	–	–	170,768	205	104	56,478	227,555
Depreciation/ amortisation expense	(134,712)	(1,033)	(499,492)	(287,459)	(19,297)	(8,523)	(77,121)	(1,027,637)
Other – reclassifications	–	–	–	–	(8,823)	8,823	–	–
Balance at 30 June 2008	1,304,257	11,449	623,403	659,918	64,785	20,212	315,420	2,999,444

Note 10. Payables

	2007-08 \$	2006-07 \$
Creditors	959,443	981,587
GST payable	–	112,965
Other payables	319,579	457,035
Total payables	1,279,022	1,551,587

Note 11. Interest bearing liabilities

	2007-08 \$	2006-07 \$
Current		
Secured:		
Finance lease liabilities ^(a)	151,700	162,871
Total current interest bearing liabilities	151,700	162,871
Non-current		
Secured:		
Finance lease liabilities ^(a)	167,283	313,273
Total non-current interest bearing liabilities	167,283	313,273
Aggregate carrying amount of interest bearing liabilities		
Current	151,700	162,871
Non-current	167,283	313,273
Total aggregate carrying amount of interest bearing liabilities	318,983	476,144

(a) Refer notes 1(k) and 15

Note 12. Provisions

	2007-08 \$	2006-07 \$
Current		
Employee benefits		
Annual leave ^{(a) (b)}	1,075,697	974,616
Unconditional long service leave ^{(a) (c)}	1,511,923	1,775,789
Performance Incentive Scheme	160,409	8,750
Total current provisions	2,748,029	2,759,155
Non-current		
Employee benefits		
Conditional long service leave ^(a)	401,672	218,689
Total non-current provisions	401,672	218,689
Aggregate carrying amount of provisions		
Current	2,748,029	2,759,155
Non-current	401,672	218,689
Total aggregate carrying amount of provisions	3,149,701	2,977,844

(a) Refer note 1(k).

	2007-08 \$	2006-07 \$
(b) Annual leave		
Annual leave expected to be utilised within 12 months after the end of the reporting period	786,752	708,432
Annual leave expected to be utilised more than 12 months after the end of the reporting period	288,945	266,184
Total annual leave provisions	1,075,697	974,616
(c) Unconditional long service leave		
Long service leave expected to be utilised within 12 months after the end of the reporting period	1,060,612	1,320,692
Long service leave expected to be utilised more than 12 months after the end of the reporting period	451,311	455,097
Total unconditional long service leave provisions	1,511,923	1,775,789

Note 13. Movements in equity

	2007-08 \$	2006-07 \$
(a) Contributed capital		
Balance at beginning of financial year	311,027	350,127
Capital transactions with the State in its capacity as owner arising from:		
Withdrawal of equity	(1,633)	(39,100)
Balance at end of financial year	309,394	311,027
(b) Accumulated surplus		
Balance at beginning of financial year	8,152,277	7,194,441
Net result for the period	(1,917,656)	957,836
Balance at end of financial year	6,234,621	8,152,277
Total equity at the end of the financial year	6,544,015	8,463,304

Note 14. Auditors' remuneration

	2007-08 \$	2006-07 \$
Financial statement audit	28,000	27,500
<p>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 <i>Audit Act 1994</i>. 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.</p>		
Performance audit	232,000	-

A performance audit of VAGO is undertaken every 3 years and the cost of these audits is paid for by Parliament. The performance audit was undertaken in the year ended 30 June 2008.

Note 15. Commitments

(a) Finance leases

Leasing arrangements

Finance leases relate to motor vehicles with lease terms of up to 3 years.

	Minimum future lease payments ^(a)		Present value of minimum future lease payments	
	2007-08 \$	2006-07 \$	2007-08 \$	2006-07 \$
Payable:				
Not later than 1 year	167,432	190,231	163,374	183,793
Later than 1 year but less than 5 years	174,818	333,946	156,521	294,162
Later than 5 years	–	–	–	–
Minimum lease payments	342,250	524,177	319,895	477,955
Less future finance charges	23,267	48,033	–	–
Present value of minimum lease payments	318,983	476,144	319,895	477,955
Included in the financial statements as:				
Current interest-bearing liabilities (note 11)	151,700	162,871		
Non-current interest-bearing liabilities (note 11)	167,283	313,273		
Total interest-bearing liabilities	318,983	476,144		

(a) Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual. Refer note 1(k) for further information.

(b) Operating leases

Leasing arrangements

Operating leases relate to VAGO's office accommodation with a lease term of 10 years, with an option to extend for a further 5 years. The operating lease contract contains a market review clause in the event that VAGO exercises its option to renew. VAGO does not have an option to purchase the leased asset at the expiry of the lease period.

	2007-08 \$	2006-07 \$
Non-cancellable operating leases payable:		
Not longer than 1 year	1,311,789	1,253,738
Longer than 1 year and not longer than 5 years	5,819,105	5,503,066
Longer than 5 years	6,391,413	7,673,632
Total	13,522,307	14,430,436

(c) Contract audits

Commitments for the payment of future auditing services under contracts in existence at the reporting date, payable as follows:

	2007-08 \$	2006-07 \$
Not longer than 1 year	8,741,922	757,527
Longer than 1 year and not longer than 5 years	3,496,948	333,230
Total	12,238,870	1,090,757

Note 16. Contingent liabilities

There are no contingent liabilities existing at 30 June 2008. The contingent liability identified at 30 June 2007 was settled during the year, and is reflected in the financial statements.

Note 17. 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 two columns in the table below in their relevant income bands. The base remuneration of executive officers receiving more than \$100,000 in total remuneration is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits.

Income band	Total remuneration		Base remuneration	
	2007-08 No.	2006-07 No.	2007-08 No.	2006-07 No.
\$80,000 to \$89,999	-	-	-	1
\$90,000 to \$99,999	-	-	1	-
\$100,000 to \$109,999	2	-	1	-
\$110,000 to \$119,999	-	-	1	2
\$120,000 to \$129,999	-	4	1	4
\$130,000 to \$139,999	3	6	4	4
\$140,000 to \$149,999	4	1	6	3
\$150,000 to \$159,999	4	2	2	1
\$160,000 to \$169,999	2	1	-	1
\$170,000 to \$179,999	1	1	-	-
\$180,000 to \$189,999	1	-	2	3
\$190,000 to \$199,999	1	2	-	-
\$200,000 to \$209,999	-	1	2	-
\$210,000 to \$219,999	1	-	-	-
\$220,000 to \$229,999	1	1	-	-
\$240,000 to \$249,999	-	-	1	-
\$260,000 to \$269,999	1	-	-	-
Total numbers	21	19	21	19
Total amount	\$3,420,271	\$2,929,555	\$3,198,179	\$2,660,223

Other than those executive officers whose remuneration is disclosed in the above table, there were also 3 departures, 1 full-time arrival and 1 reclassification (2006-07: 5 departures and 6 arrivals) during the year, none of whom held office for the full reporting period. Further, there was 1 part-time executive officer. The total remuneration of each of these executive officers fell below the reporting threshold of \$100,000. The total remuneration of the 6 affected executive officers was \$250,540 (2006-07, \$662,375).

Note 18. 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
(i) Financial assets		
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.
(ii) Financial liabilities		
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

Whilst it is recognised that the Victorian Government is VAGO's largest debtor, VAGO's exposure to credit risk is limited due to legislative provisions provided under the *Audit Act 1994* which requires an audited entity to pay to the Consolidated Fund an amount to be determined by the Auditor-General to defray the reasonable costs and expenses of a financial audit undertaken by VAGO.

(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.

2007-08	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 \$		
Financial assets								
Cash and deposits		-	-	-	-	-	900	900
Receivables	7	-	-	-	-	-	7,979,300	7,979,300
			-	-	-	-	7,980,200	7,980,200
Financial liabilities								
Payables	10	-	-	-	-	-	1,279,022	1,279,022
Lease liabilities	11	6.87%	-	151,700	167,283	-	-	318,983
			-	151,700	167,283	-	1,279,022	1,598,005
Net financial assets (liabilities)			-	(151,700)	(167,283)	-	6,701,178	6,382,195

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 \$		
Financial assets								
Cash and deposits		-	-	-	-	-	900	900
Receivables	7	-	-	-	-	-	9,589,950	9,589,950
			-	-	-	-	9,590,850	9,590,850
Financial liabilities								
Payables	10	-	-	-	-	-	1,551,587	1,551,587
Lease liabilities	11	6.67%	-	162,871	313,273	-	-	476,144
			-	162,871	313,273	-	1,551,587	2,027,731
Net financial assets (liabilities)			-	(162,871)	(313,273)	-	8,039,263	7,563,119

Note 19. Cash flow information

(a) Reconciliation of cash and cash equivalents

	2007-08 \$	2006-07 \$
Total cash and cash equivalents ^(a) disclosed in the balance sheet	900	900
Bank overdraft	-	-
Balance as per cash flow statement	900	900

(a) 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

	2007-08 \$	2006-07 \$
Net result for the period	(1,917,656)	957,836
Non-cash movements:		
Loss on disposal of non-current assets	11,170	31,934
Depreciation and amortisation of non-current assets	1,027,637	768,450
Movements in assets and liabilities:		
(Increase)/decrease in receivables	1,610,650	560,131
(Increase)/decrease in prepayments	(18,808)	(121,385)
Increase/(decrease) in payables	(272,565)	634,553
Increase/ (decrease) in provisions	171,857	(372,665)
Net cash flows from/(used in) operating activities	612,285	2,458,854

Note 20. 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 July 2007 to 30 June 2008)
- P Frost (Acting, for 38 days during the period 1 July 2007 to 30 June 2008)

(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:

\$390,000 – \$399,999
(2006–2007 \$350,000 – \$359,999)

The amounts relating to the Acting Accountable Officers are included in "Executive officers' remuneration" (note 17)

(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.

Note 21. Administered items

	2007-08 \$	2006-07 \$
Administered revenue		
Audit fees – S.29	17,910,176	15,748,728
Miscellaneous income	30,859	13,445
Total revenue	17,941,035	15,762,173
Administered expenses		
Net transfers into the Consolidated Fund	17,942,560	15,728,116
Net losses on disposal of plant and equipment	(1,525)	34,057
Total expenses	17,941,035	15,762,173
Revenue less expenses	–	–
Administered assets		
Debtors ^(a)	2,705,761	4,205,951
Work-in-progress	2,152,226	1,358,155
Total assets	4,857,987	5,564,106
Administered liabilities		
Amounts owing to the State	4,857,987	5,564,106
Total liabilities	4,857,987	5,564,106
Net assets	–	–
(a) Aged debtors:		
Current	2,071,862	3,814,024
Overdue between 30 to 60 days	625,552	391,927
Overdue beyond 60 days	8,347	–
	2,705,761	4,205,951

All administered income, expenses, assets and liabilities are attributable to the output "Audit reports on financial statements".

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 report for the Victorian Auditor-General's Office has 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, Statement of Changes in Equity, Cash Flow Statement and notes to and forming part of the financial report presents fairly the financial transactions during the year ended 30 June 2008 and financial position of VAGO at 30 June 2008.


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

We authorise the attached financial statements for issue on 15 August 2008.



DDR Pearson
Auditor-General

Melbourne
15 August 2008



J Watson
Chief Finance and
Accounting Officer

Melbourne
15 August 2008



Section 5

Appendixes



Appendix 1

Report of independent performance auditor	86
---	----

Appendix 2

Auditor-General reports to Parliament, 2007–08	88
--	----

Appendix 3

Additional information available on request	89
---	----

Report of independent performance auditor

Status of actions against recommendations

Pursuant to the requirements of the *Audit Act 1994*, an independent performance audit of VAGO was conducted during 2007 to determine whether the Auditor-General and the Victorian Auditor-General's Office are achieving their objectives effectively and doing so economically and efficiently and in compliance with the Audit Act. VAGO's implementation of the recommendations from the preceding performance audit conducted in 2004 was also considered as part of the 2007 performance audit. The results of the audit were tabled in Parliament in December 2007.

The table below outlines the status of VAGO's implementation of the recommendations made as at 30 June 2008.

Recommendation	Comment and status at 30 June 2008
Objectives and governance	
1. VAGO should continue to refine the Senior Management Group (SMG) reporting framework to ensure the future KPIs are identified and reported to senior management on a timely basis.	Completed. KPIs are continuously reviewed to ensure relevance and alignment with the office's strategic plan. Revised output performance measures have been incorporated into the 2008–09 Budget Paper No. 3.
2. The decision to replace 'special reviews' with limited scope performance audits requiring PAEC consultation should be kept under review depending on the nature and extent of ministerial requests for investigations of improper conduct, procedural irregularity and/or waste.	Completed. The <i>Audit Act 1994</i> provides a mandate for VAGO to conduct financial audits and performance audits, i.e., audits of efficiency, effectiveness and economy. VAGO considers that requests for investigations of the type identified by the performance auditor can be managed within these powers.
3. PAEC should formally consider the meaning and significance of section 15(3) of the <i>Audit Act 1994</i> to ensure that use of the all-embracing term 'performance audit' does not create any misunderstandings in the future.	For PAEC's consideration.
4. VAGO's policies and procedures should be updated to reflect the decision to introduce limited scope performance audits and discontinue 'special reviews'.	Completed. Our performance audit methodology, <i>AmP</i> , has been updated to reflect this change.
Stakeholder relationships	
5. The revised draft set of protocols for VAGO-PAEC liaison should be carefully applied and subject to regular review and/or update.	Completed. A revised protocol was finalised in July 2008.
6. In the face of resistance from some community health services (CHSs) during 2006–07, the Minister was forced to issue a directive confirming that the Auditor-General has a mandate to conduct their financial audit. To ensure that there is no misunderstanding about the breadth of VAGO's mandate in the future, we suggest that the term 'authority' be clearly and consistently defined in the relevant legislation.	For PAEC's consideration. Resolution of this matter rests with the responsible minister, the Department of Human Services and the Department of Treasury and Finance.
Strategic audit planning	
7. Recent efforts to ensure that statewide IT issues are given appropriate attention should be enhanced by reference to the expert knowledge of suitable IT strategists.	Completed. 2007–08 VAGO IT strategic plan prepared to consider statewide IT issues.
8. The present topic selection framework should be summarised in a statement which clearly describes VAGO's selection policy.	Completed. Revised Topic Selection Framework and policy statement completed in April 2008 and outlined in our <i>2008–09 Annual Plan</i> .

Recommendation	Comment and status at 30 June 2008
9. VAGO's topic selection process should continue to evolve to ensure areas of greatest risk receive adequate coverage.	Completed. Risk and materiality criteria have been reviewed in the revised Topic Selection Framework which was completed in April 2008.
Financial audit	
10. VAGO should continue to consider other computer interrogation packages to enhance its existing suite of products.	Agreed.
Performance audit	
11. VAGO should ensure that its future performance audit KPIs appropriately address efficiency and effectiveness and are clearly communicated and properly understood.	Agreed. KPIs are periodically reviewed to ensure their relevance and alignment with VAGO's strategic plan.
12. The present resolve to roll out a comprehensive performance audit training program supporting the introduction of the new performance audit method must be sustained as methods evolve and staff change.	Completed. Program roll out in 2008–09.
13. On occasions VAGO has experienced considerable delays in obtaining access to relevant Cabinet-in-Confidence documents. Revised Cabinet-in-Confidence protocols currently in development should be finalised and put into place as soon as possible to expedite access to all relevant information.	Completed. The Cabinet-in-Confidence protocol has been finalised and implemented. Subsequent access difficulties have been addressed at secretary level.
Business management	
14. VAGO should fully test its newly approved business continuity plan (BCP) and develop a regular testing program as soon as possible.	In progress. The business continuity test program is being developed for inclusion in VAGO's 2008–09 business plan.
15. Although there is no evidence of material cross-subsidisation, VAGO follows the normal commercial practice of offsetting small budget overruns against small budget savings. PAEC should review the intention of section 10(1) of the Audit Act in consultation with VAGO to ensure VAGO is given reasonable flexibility in respect of the application of financial audit fees across agencies.	For PAEC consideration, in consultation with VAGO. The office has commenced discussion on a range of legislative amendments to the <i>Audit Act 1994</i> , including this recommended action item.
Human resources	
16. VAGO should conduct a full staff survey across the office as soon as possible and report the results back to staff without delay.	In progress. This matter is being progressed as part of the development of the Strategic People and Culture Management Framework.
17. As recommended in 2004, VAGO should develop a comprehensive HR strategic plan that links to and supports the achievement of all of VAGO's strategic plans.	In progress. This matter is being progressed as part of the development of the Strategic People and Culture Management Framework.
18. The HR strategic plan should incorporate specific forward projections of future staff profiles linked to innovative recruitment strategies and synchronised training programs.	In progress. This matter is being progressed as part of the development of the Strategic People and Culture Management Framework.
19. To help ensure that it recruits and retains quality staff, VAGO needs to support its desire to become an 'employer of choice' by marketing itself aggressively across the tertiary sector and across the market generally.	In progress. This matter is being progressed as part of the development of the Strategic People and Culture Management Framework. In addition, a revised approach has been adopted in graduate recruitment, including the development of a graduate recruitment video.
20. To help offset its relative salary disadvantage, VAGO should broaden its offering of additional staff benefits, including the provision of mobile phones, financial support for fee-paying courses and sponsored travel for training and development.	In progress. This matter is being progressed as part of the Strategic People and Culture Management Framework.

Auditor-General reports to Parliament, 2007–08

Date report was tabled	VAGO report number	Report title	Pages
19-Sep-07	2007–08:1	Programs for Students with Disabilities: Program Accountability	60
10-Oct-07	2007–08:2	Improving our Schools: Monitoring and Support	68
10-Oct-07	2007–08:3	Management of Specific Purpose Funds by Public Health Services	36
31-Oct-07	2007–08:4	New Ticketing System Tender	100
31-Oct-08	2007–08:5	Public Sector Procurement: Turning Principles into Practice	32
21-Nov-07	2007–08:6	Discovering Bendigo Project	60
21-Nov-07	2007–08:7	Audits of 2 Major Partnerships Victoria Projects	84
21-Nov-07	2007–08:8	Parliamentary Appropriations: Output Measures	52
21-Nov-07	2007–08:9	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2006–07	52
05-Dec-07	2007–08:10	Funding and Delivery of Two Freeway Upgrade Projects	120
05-Dec-07	2007–08:11	Results of Financial Statement Audits for Agencies with 30 June 2007 Balance Dates	160
06-Feb-08	2007–08:12	Local Government: Results of the 2006–07 audits	36
27-Feb-08	2007–08:13	Agricultural Research Investment, Monitoring and Review	84
12-Mar-08	2007–08:14	Accommodation for People with a Disability	64
12-Mar-08	2007–08:15	Records Management in the Victorian Public Sector	152
09-Apr-08	2007–08:16	Planning for Water Infrastructure in Victoria	76
16-Apr-08	2007–08:17	Delivering HealthSMART—Victoria's whole-of-health ICT strategy	72
07-May-08	2007–08:18	Victoria's Planning Framework for Land Use and Development	128
07-May-08	2007–08:19	Planning Permit Application: Assessment Checklist	48
07-May-08	2007–08:20	Planning Scheme Amendment: Assessment Checklist	36
28-May-08	2007–08:21	Patient Safety in Public Hospitals	64
28-May-08	2007–08:22	Project Rosetta (Streams 1 and 2)	40
28-May-08	2007–08:23	Results of Audits for Entities with other than 30 June 2007 Balance Dates	60
28-May-08	2007–08:24	Review of South East Water's Works Alliance Agreement	72
28-May-08	2007–08:25	Piping the System	124
11-Jun-08	2007–08:26	Implementation of the Criminal Justice Enhancement Program (CJEP)	96
11-Jun-08	2007–08:27	Performance Reporting in Local Government	24
11-Jun-08	2007–08:28	Services to Young Offenders	80
11-Jun-08	2007–08:29	Local Government Performance Reporting: Turning Principles into Practice	36
25-Jun-08	2007–08:30	Performance Reporting by Public Financial Corporations	56
25-Jun-08	2007–08:31	Coordinating Services and Initiatives for Aboriginal People	76
25-Jun-08	2007–08:32	The New Royal Women's Hospital—a public private partnership	84
25-Jun-08	2007–08:33	Maintaining the State's Regional Arterial Road Network	68

Additional 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). Details about the following matters have, where possible, been disclosed within this annual report:

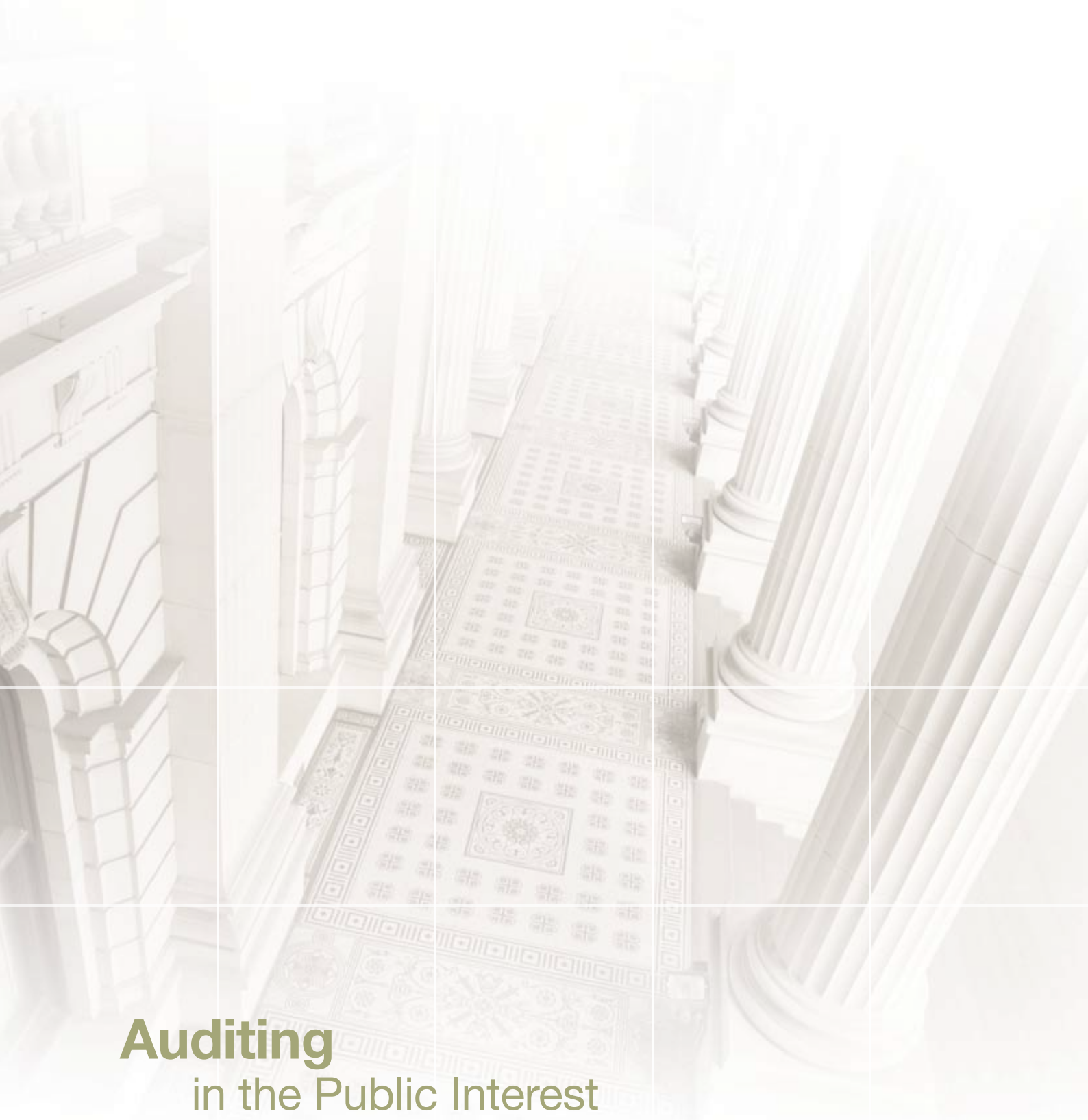
- a statement that declarations of pecuniary interests have been duly completed by all relevant staff of the office (see page 38)
- details of changes in prices, fees, charges, rates and levies charged by the office for its services, including services that are administered (available on request)
- details of any major external reviews carried out in respect of the operation of the office (see Appendix 1)
- 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 pages 5 and 16)
- details of assessments and measures undertaken to improve the occupational health and safety of employees (see page 44)
- a general statement on industrial relations within the office and details of time lost through industrial accidents and disputes (see page 44)
- a list of major committees sponsored by VAGO, and the purposes of each (see page 37)

The following information is available from VAGO's website:

- details of publications produced by VAGO about its activities
- copies of all VAGO reports since 1982
- a list of all entities currently audited by VAGO.

www.audit.gov.vic.au

The VAGO Annual Report 2007–08 contains many photographs, all of which were taken at the VAGO offices on levels 23 and 24, 35 Collins Street, Melbourne. The people depicted in this report are VAGO staff who gave their permission for meetings to be photographed by Marcel Aucar.



Auditing in the Public Interest

VAGO

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

Level 24
35 Collins Street
Melbourne Vic. 3000

Telephone 61 3 8601 7000
Facsimile 61 3 8601 7010
www.audit.vic.gov.au