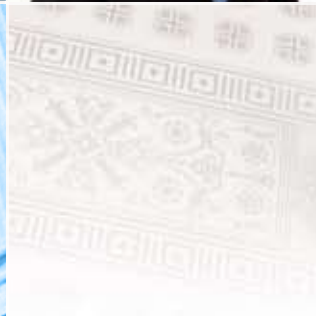
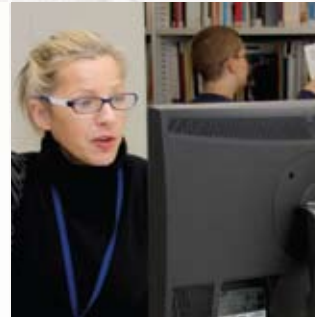
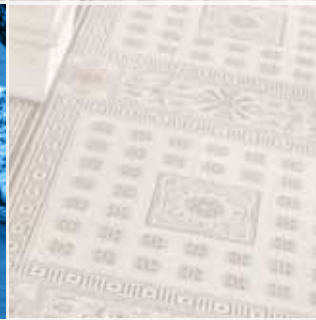


Victorian Auditor-General's Office

Annual Report

2008–09

Auditing in the Public Interest



VAGO

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

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FRD 22B	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	39	FRD 110	Cash flow statements	61
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Letter of transmittal



Introduction

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

The Victorian Auditor-General is an officer of Parliament. The *Constitution Act 1975* contains 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 departments, public bodies and entities (totalling 587 in 2008–09), and on the annual financial report of the state, and to report the results of these audits to Parliament.

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

In addition, the Auditor-General is able to undertake audits to determine whether:

- agencies are achieving their objectives
- 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 the PAEC. This reinforces the special relationship between the Auditor-General and Parliament. It recognises that the legislative independence and autonomy of the Auditor-General also means direct accountability to Parliament.

The *Annual Plan 2008–09* was tabled in Parliament in May 2008. The plan documented our key outcomes and outputs, strategic influences on the public sector and areas of major audit interest.

This annual report presents our achievements against the *Annual Plan 2008–09*.

The *Annual Plan 2009–10* was tabled in Parliament in May 2009, VAGO's performance against this plan will be reported in the *Annual Report 2009–10*.

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 and his office.

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 2009.



D D R Pearson
Auditor-General

Melbourne
1 September 2009

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 nearly 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 2009, we:

- had 152 in-house staff (153 at 30 June 2008)
- engaged 34 audit service providers (36 during 2007–08)
- received \$31.423 million in funding from Parliament (\$30.861 million in 2007–08).

Financial management

Our net financial result for the year was a deficit of \$1 411 380 (deficit of \$1 917 656, 2007–08).

Financial audit fee income for the year was \$19.317 million (\$17.910 million, 2007–08).

[TABLE 2] Financial summary 2008–09 and 2007–08

Financial summary	2008–09	2007–08	Change
	(\$'000)	(\$'000)	(%)
Operating revenue	31 645	31 214	▲ 1.4
Operating expenses	33 056	33 131	▼ 0.2
Total assets	10 857	11 292	▼ 3.9
Total liabilities	5 732	4 748	▲ 20.7
Surplus	(1 411)	(1 917)	▲ 26.4
Net equity	5 125	6 544	▼ 21.7

[TABLE 3] Five-year statistics

Five-year statistics		2008-09	2007-08	2006-07	2005-06	2004-05
Reports tabled in Parliament						
Report of the Auditor-General on the finances of the state	(number)	1	1	1	1	1
Reports on public sector agencies' financial statements	(number)	3	3	2	3	3
Performance audit reports	(number)	26	29	13	12	12
Audited agency satisfaction with parliamentary reports	(score)	72	72	71	71	n/a
Audit reports on financial statements						
Audit responsibilities (entities at 30 June 2009)	(number)	587	621	631	615	619
Audit reports on financial statements						
Unqualified opinions issued during reporting year	(number)	588	633	604	613	596
Qualified opinions issued during reporting year	(number)	4	7	13	18	8
Total opinions issued during reporting year	(number)	592	640*	617	631	604
Audit opinions issued within time frame	(per cent)	98	96	98	96	99
Audited agency satisfaction with financial audit services	(score)	76	73*	72*	72	n/a
Audit reports on performance statements						
Audit reports on local government performance statements						
Unqualified opinions issued during reporting year	(number)	78	79	79	77	77
Qualified opinions issued during reporting year	(number)	1	–	–	2	2
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)	16	15	15	15	–
Qualified opinions issued during reporting year	(number)	–	1	1	–	15
Total opinions issued during reporting year	(number)	16	16	16	15	15
Audit reports on technical and further education institute performance statements						
Unqualified opinions issued during reporting year	(number)	19	19	18	–	–
Qualified opinions issued during reporting year	(number)	** –	–	–	–	–
Total opinions issued during reporting year	(number)	19	19	18	–	–
Resources						
In-house staff	(number)	152	153	147	155	148
Audit service providers	(number)	34	36	30	32	26
Average days sick leave per employee	(number)	7.1	5.6	8.0	7.0	6.0
Workers compensation claims	(number)	3	1	–	–	1
Injuries reported	(number)	3	–	3	4	1
Grievances lodged	(number)	2	1	–	–	–
Staff training and professional development per employee	(days)	6.4	10.1	8.8	7.0	8.9
Financial management						
Expenditure on audit service providers	(\$million)	9.67	8.61	6.91	6.73	6.06
Revenue from audit fees	(\$million)	19.32	17.91	15.75	14.99	14.23
Operating surplus/(deficit)	(\$million)	(1.41)	(1.92)	0.96	0.91	0.97
Assets	(\$million)	10.86	11.29	13.47	12.18	11.42
Liabilities	(\$million)	5.73	4.75	5.01	4.63	4.78
Financial audit costs recovered from clients	(per cent)	98	100	100	100	100

Note: *Previous annual reports may show a different number, due to rounding errors or end-of-year adjustments.

** An audit opinion was not issued on the performance statement of Holmesglen Institute of TAFE as it was not certified by the governing body and was not submitted for audit.

Auditor-General's review, 2008–09

This has been a challenging year for many in the Victorian public sector as both the economic and the human cost of the global financial crisis has come to be felt in Victoria. Against this backdrop, we have also seen the extraordinary efforts of many agencies and individuals meeting the needs of the bush fire victims and embarking on the recovery process.

However, the more rapid the change and the greater the pressure on resources, the more important efficiency and effectiveness and the accountability process become.

Indeed, this has been a central theme in our engagement with the agencies we audit, the Parliament we report to and the sector more generally—that a high-performing public sector must also be a highly accountable one. There are no easy options or shortcuts on this road.

Reports and advice

I am pleased to report that we have maintained last year's strong operational profile. A steady stream of products and services has been delivered to Parliament, the sector and the community, providing assurance on the accountability and performance of our public sector.

We have exceeded our planned output of reports to Parliament, tabling 32 performance and financial audit reports against a target of 31. More than 80 per cent of these reports had been identified in our *Annual Plan 2008–09* and this improved level of consistency from last year demonstrates that our audit planning is becoming more robust and relevant.

Our financial audit mandate is the backbone of the assurance that we provide to Parliament. I am pleased that, in an environment of rising business costs and increasingly demanding audit standards, our financial audit team has continued to perform well.

Our peer review program, where experienced professionals from other audit offices review our work, has confirmed the rigour of our audit processes, with generally very positive assessments and no systemic shortcomings noted. Audited agencies again provided strongly positive feedback on the quality of our financial audits, noting particular improvement in our audit reporting and communication.

We again brought forward the timing of our audits of financial statements, with 92 per cent of final management letters issued to audited entities within target time frames compared with 90 per cent in 2007–08. Further, 98 per cent of all audits were completed within statutory time frames.

These gains in timeliness were achieved in an environment of rising complexity and cost—increases in audit contractor costs and changes to accounting and auditing standards contributed to a rise in the average cost of our financial audits of around 12 per cent. Recent forecasts from the Australian Auditing and Assurance Board suggest that audit costs will continue to rise over the next two years, as further tightening of auditing standards are mandated.

Parallel with our financial audit function, our performance audit function has also had a strong year.



The quality of our performance audits continues to be well regarded—by Parliament, external reviewers and by the agencies we audit. The five reports submitted to the Australasian Council of Auditors-General review panel scored an average of 23.6 out of 30, towards the top of the range of other Australian audit offices and an improvement from last year's result. We are particularly gratified to see that more than 90 per cent of surveyed parliamentarians referred to our performance audit reports in the last 12 months, with most agreeing that the audit reports clearly identified significant issues with agency performance and were effectively presented. Audited agencies also continued to provide largely positive ratings of our performance audits, with overall results increasing slightly from last year to reach a score of 72.3 in 2008–09.

Our performance audits are also having an impact on their target audience, informing several major parliamentary inquiries, often providing new evidence, and prompting new directions and calls for further action. Close to 90 per cent of our performance audit recommendations were accepted by the departments and agencies they applied to, comparing well with previous years and with results achieved by other states' public sector audit offices.

Although we still compare well to other jurisdictions, I was concerned to see a downturn this year in the number of

performance audit reports that met the time frames we set for completion, with only 72 per cent meeting tabling targets. Often, these delays were the result of delays and difficulties accessing information we requested from agencies—an issue I flagged in last year's annual report.

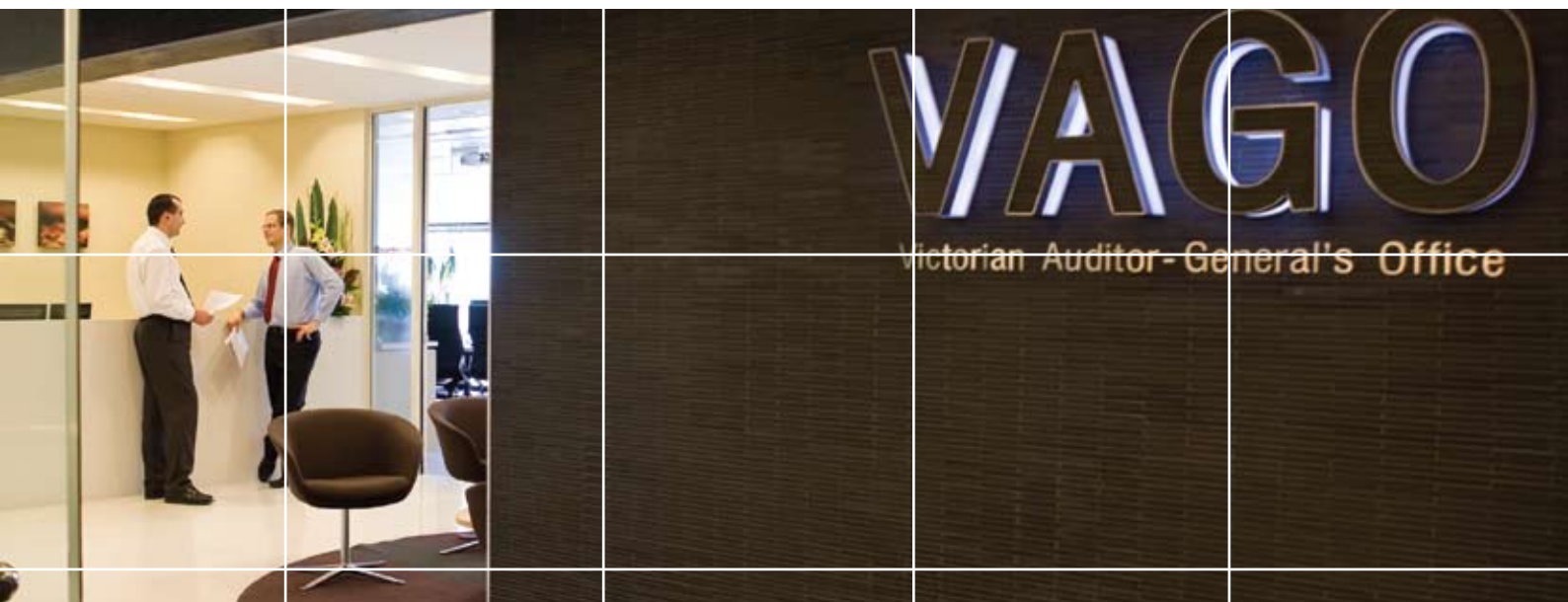
Clients

In these challenging times, I take seriously our role, of providing assurance on the accountability and performance of the public sector.

The year has also brought its own challenges to the role of Auditor-General and particularly to our performance audit mandate.

Since my appointment, I have emphasised the importance of working closely with the agencies we audit, of engaging early and often on issues as they arise, and on the importance of a 'no surprises' approach to our agency relationships.

We have introduced a range of strategies to improve the transparency of our approach, well beyond our statutory responsibilities. We provide more notice of audits, and consult more broadly on their scope. We engage more frequently across the life of our audits, and we provide many opportunities to clients to respond to emerging findings and issues. We proactively share our tabling program across the year, outside of the annual plan process.



Unfortunately, this collaborative and transparent approach has not always been enough to achieve the smooth conduct of our audits and timely production of our reports to Parliament.

In 2008–09, audit information has at times been difficult to access. Disappointingly, delays of this nature totalled 72 weeks—the equivalent of another major performance audit.

Further, there have been occasions when time lines have been delayed to accommodate belated agency challenge to audit conclusions and the provision of further evidence late in the audit process. It has not been unusual for new information to be introduced at this point in the audit process, notwithstanding earlier agency advice that all pertinent information had been made available to audit. This practice is of concern not only for its implications for our audits but it also reflects poorly on the quality and reliability of agency records management and decision-making processes. Full and open disclosure by audited agencies is essential to accountability, and a prerequisite for our capacity to provide assurance to Parliament.

Looking ahead, I hope that our continued commitment to foster productive relationships with audit clients, and our uncompromising professional standards, will result in the more timely transaction of our audits.

Parliament

While we value the feedback from agencies, it is paramount that VAGO effectively meets the needs of the Parliament, our primary stakeholder.

I was heartened to see an increase in the participation in our parliamentary survey this year, and even more pleased to see an increase in the positive feedback we received. Many members commented on the high standards of our reports, the responsiveness of the office and the value of the briefings we provide when tabling reports.

Our more structured framework for selecting areas of performance audit interest also received some positive feedback, with more than two-thirds of members agreeing that our performance audits addressed their areas of interest to a high or very high extent.

Through the survey, parliamentarians have also suggested some areas for improvement that we will build on in 2009–10. Critical

feedback urged us to report stronger and clearer audit conclusions and several respondents sought clearer government responses. Respondents also suggested we initiate more direct contact with parliamentarians—on this basis, I will be looking to expand my engagement with members across 2009–10, although PAEC remains the most important conduit for my relationship with Parliament.

I was again pleased to see PAEC making strong use of our reports and services. In 2008–09, the committee reported on the results of follow-up inquiries of 13 audits. VAGO supported the committee in these inquiries, providing advice on prioritisation and background issues, and evidence to formal hearings.

People and organisation

Last year, I identified the quality, integrity and dedication of our staff who underpin our strong operational results, and I forecast an even stronger focus both on the development of our people and our drive to achieve greater organisational efficiencies.

To these ends, a range of strategic people initiatives commenced. We implemented a new Strategic People and Culture Management Framework in 2008–09, renewing our internal policies and guidelines and re-focussing our approach to become an employer of choice. All staff were invited to participate in our Cultural Alignment Survey, followed up with focus groups, further investigations and regular reports. We strengthened our commitment to staff development, providing more training and development opportunities and balancing our professional and technical training with a new emphasis on broader communication, influence and collaboration capabilities. New coaching, mentoring and support initiatives have been introduced for our senior professional and executive staff.

Our financial position remains sound in 2008–09. Although our revenue and costs were similar to last year, we again ran a deficit, funded by prior year surplus. While additional funding has been provided to address this issue in 2009–10, the longer-term sustainability of our funding base will continue to receive our attention.

Audit legislation

As the public sector changes, new service delivery arrangements pose challenges for traditional accountability frameworks. Increasingly, public services are being provided through third-party arrangements and sometimes by entities created on the periphery of government.

Following my representations to the Premier and extensive negotiations with the Department of Treasury and Finance, I welcome the announcement by PAEC of a comprehensive inquiry into the *Audit Act 1994*. The inquiry will consider the impact of changed and more complex public sector service delivery arrangements and the potential for these to erode Parliament's audit mandate.

VAGO has been consulting with parliamentarians and government for the past year on potential areas for legislative reform to maintain established accountability standards. The PAEC inquiry provides the opportunity for us to undertake a broad review and suggest a range of areas for improvement in the Act. As such, we have commenced work on a submission to the inquiry, to be completed in 2009–10.

Supporting this submission, in 2008–09 we commissioned research on challenges to independence in Australasian audit legislation and trends in Victorian Government spending on alliance and public-private partnership projects. Early results of this research and our own review suggest areas for reform may include: access to third-party premises, 'follow the dollar' powers, clearer coverage of all public entities and strengthening the role of Parliament in the resourcing and accountability of my office.

I look forward to the year ahead, to the change and challenge it will bring, and to the enduring commitment and professionalism of my office as we fulfil our constitutional role in the accountability framework for Victoria.



D D R Pearson
Auditor-General

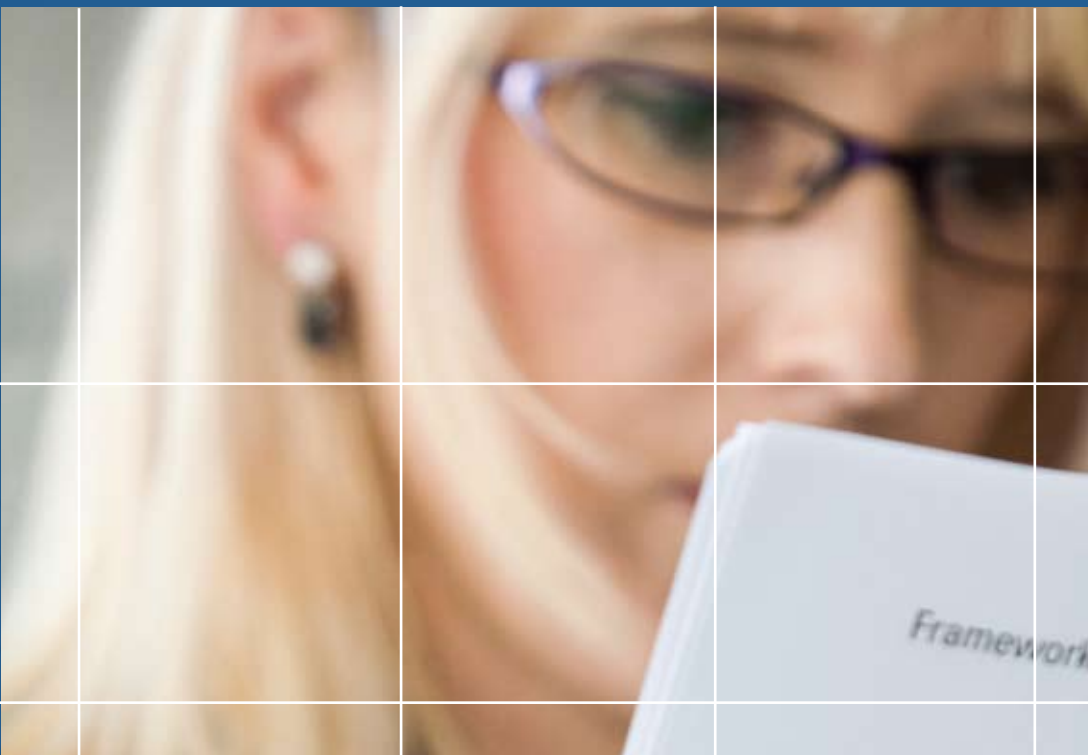
1 September 2009

Section 1

Parliamentary reports and services

In this section ...

we provide details of our output group 1: Parliamentary reports and services.



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It is through our reports that we inform Parliament, our primary stakeholder, on the results of our work. These reports provide Parliament with independent assurance on the adequacy of accountability and resource management practices in the public sector. Each year 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 based on observations from the previous June and December financial statement audit rounds.

[TABLE 4] Performance against output targets

Performance measures	Unit of measure	Target 2009–10	Actual 2008–09	Target 2008–09	Actual 2007–08
Quantity					
Auditor-General's reports	(number)	34	32	31	33
Quality					
Overall level of external satisfaction with audits	(score) ^(a)	75	72	80	72
Timeliness					
Reports completed on time	(per cent)	90	72	90	88
Inquiries from members of Parliament and the public acknowledged within seven days, and responded to within four weeks	(per cent)	95	72	95	95
Cost					
Total output cost	(\$million)	13.9	13.3	12.2	13.9

Notes: (a) The unit of measure is a rating out of 100.

Reports and advice

Quantity

Reports tabled in Parliament during 2008–09 included a range of product types, including performance audit reports, checklists, better practice guides, and reports based on financial audit activities. Table 5 shows our performance for each product type against our 2008–09 targets.

[TABLE 5] Number of reports tabled by report type

Product type	Target 2008–09	Actual 2008–09	Target 2009–10
Performance audit reports	27*	26	28
Better practice guides or checklists	N/A	2	N/A
Report on the examination of the state's finances	1	1	1
Reports on financial audit results	3	3	5
Total	31	32	34

Note: *Target from Budget Paper 3.

Performance audit reports

Twenty-nine performance audits were identified in the *Annual Plan 2008–09*. Twenty-six performance audit reports were tabled, of which 22, or 75.8 per cent, were in the plan.

Two planned performance audits for 2008–09 did not proceed:

- 'Accreditation of Overseas Trained Doctors'. This was removed from the

program due an announcement of a Commonwealth Government overhaul of the accreditation regime for overseas trained doctors.

- 'Public Entity Governance: Compliance with Part 5 of the *Public Administration Act 2004*'. This was removed from the program because it overlapped work being conducted by another review agency.



Performance audit sector directors.



We began five audits in 2008–09, that were not completed by year-end that are now part of the 2009–10 audit program:

- Community Support Fund
- Irrigation efficiency programs
- Integrity and protection of data in selected information and technology systems
- Construction of new police stations and courthouses
- Environmental management in Victorian parks.

Work on the 'Construction of new police stations and courthouses' and 'Environmental management in Victorian parks' audits was deferred, while the other three audits have been delayed.

Three new audits, not originally planned, were conducted and tabled during the year in response to emerging issues:

- *Access to Public Hospitals: Measuring Performance* replaced 'Accreditation of Overseas Trained Doctors'.
- *Withdrawal of Infringement Notices* replaced the 'Local Public Entity Governance: Compliance with Part 5 of the *Public Administration Act 2004*'.
- *Private Practice Arrangements in Health Services* was conducted.

Better practice guides

Two better practice guides were tabled this year:

- *Records Management Checklist: A Tool to Improve Records Management*
- *Investing Smarter in Public Sector ICT: Turning Principles into Practice.*

Results of financial audits

Four reports on the results of financial audits were tabled during the year as planned:

- *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2007–08*
- *Local Government: Results of the 2007–08 Audits*
- *Results of Audits for Entities with 30 June 2008 Balance Dates*
- *Results of Audits for Entities with other than 30 June 2008 Balance Dates.*

The reports we tabled in Parliament during 2008–09 are listed in Table 6. Consistent with the approach used in VAGO's *Annual Plan 2008–09* (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.)

VAGO reports are also published in PDF format on our website:
<<http://www.audit.vic.gov.au>>.



VAGO received the Sir Rupert Hamer Records Management Award for our Records Management Checklist in May 2009 (see page 21). Pictured above L-R Justine Hazelwood (Director of PROV and Keeper of Public Records) Matthew Brennan, Joy Patton and Izabela Dobrostanski (VAGO), Peter Harmsworth AO, Public Records Advisory Council

[TABLE 6 ■■■] Reports tabled in Parliament categorised by *Growing Victoria Together* visions and goals

GVT visions and goals	Audit report	Product type
Thriving economy <ul style="list-style-type: none"> • more quality jobs and thriving, innovative industries across Victoria • growing and linking all of Victoria. 	Enforcement of Planning Permits (November 2008)	Performance audit report
	The Channel Deepening Project (May 2009)	Performance audit report
	Effectiveness of Drought Assistance Measures (June 2009)	Performance audit report
	Melbourne's New Bus Contracts (June 2009)	Performance audit report
	Buy-back of the Regional Intrastate Rail Network (June 2009)	Performance audit report
Quality health and education <ul style="list-style-type: none"> • high quality, accessible health and community services • high quality education and training for lifelong learning. 	Private Practice Arrangements in Health Services (October 2008)	Performance audit report
	CASES21 (October 2008)	Performance audit report
	Managing Acute Patient Flows (November 2008)	Performance audit report
	School Buildings: Planning, Maintenance and Renewal (November 2008)	Performance audit report
	Literacy and Numeracy Achievement (February 2009)	Performance audit report
	Access to Public Hospitals: Measuring Performance (April 2009)	Performance audit report
	Management of School Funds (May 2009)	Performance audit report
	The New Royal Children's Hospital—a public private partnership (May 2009)	Performance audit report
	International Students: risks and responsibilities of universities (June 2009)	Performance audit report
	Funding of the Home and Community Care Program (June 2009)	Performance audit report
Healthy environment <ul style="list-style-type: none"> • protecting the environment for future operations • efficient use of natural resources. 	Biosecurity Incidents: Planning and Risk Management for Livestock Diseases (November 2008)	Performance audit report
	Administration of the <i>Flora and Fauna Guarantee Act 1988</i> (April 2009)	Performance audit report
Caring communities <ul style="list-style-type: none"> • building friendly, confident and safe communities • a fairer society that reduces disadvantage and respects diversity. 	Managing Complaints Against Ticket Inspectors (July 2008)	Performance audit report
	Working with Children Check (October 2008)	Performance audit report
	Management of the Multi-Purpose Taxi Program (December 2008)	Performance audit report
	Preparedness to Respond to Terrorism Incidents: Essential services and critical infrastructure (January 2009)	Performance audit report
	Connecting Courts—the Integrated Courts Management System (June 2009)	Performance audit report
	Implementing Victoria Police's Code of Practice for the Investigation of Family Violence (June 2009)	Performance audit report
Vibrant democracy <ul style="list-style-type: none"> • greater public participation and more accountable government • sound financial management. 	Records Management Checklist: A Tool to Improve Records Management (July 2008)	Better practice guide
	Investing Smarter in Public Sector ICT: Turning Principles into Practice (July 2008)	Better practice guide
	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2007–08 (November 2008)	Report on the examination of the state's finances
	Local Government: Results of the 2007–08 audits (November 2008)	Report on financial audit results
	Results of Financial Statement Audits for Agencies with 30 June 2008 Balance Dates (December 2008)	Report on financial audit results
	Results of Audits for Entities with other than 30 June 2008 Balance Dates (May 2009)	Report on financial audit results
	Claims Management by the Victorian WorkCover Authority (June 2009)	Performance audit report
	Governance and Fraud Control in Selected Adult Educational Agencies (June 2009)	Performance audit report
	Withdrawal of Infringement Notices (June 2009)	Performance audit report

Quality

Performance audit topic selection

A key component of the annual planning process is the performance audit topic selection framework, aimed at providing an objective and transparent method for selecting prospective audit topics for inclusion in VAGO's annual plan.

We use the framework to identify and analyse public sector programs and initiatives with reference to the government's GVT strategy and other factors, to identify potential areas of audit interest. We assess the risk and materiality of those areas to prioritise prospective audit topics. The risk and materiality component of the framework was introduced in 2008 to address recommendations in the 2007 performance audit of the office. It assesses risk in terms of economic, environmental and social materiality. Following the risk and materiality assessment, we determine the audit topics for inclusion in the annual plan and the multi-year strategy, the prospective audit program for the three 'out' years.

The annual planning process is based on extensive consultation with:

- departments early in the development of the draft multi-year strategy, at the early stages of the sector risk assessment and development of audit proposal phases, and before finalising the plan
- peak bodies and interest groups at the early stages of the sector risk assessment and development of audit proposal phases
- PAEC on the draft multi-year strategy in November and February, and on the draft annual plan in April.

To help us understand the effectiveness of this framework for selecting topics for our performance audits, we surveyed parliamentarians to assess how well our audits addressed their areas of interest. Pleasingly, 93 per cent of surveyed members agreed that our audits addressed their key areas of interest, with more than 60 per cent stating they did to a 'high' or 'very high' degree.

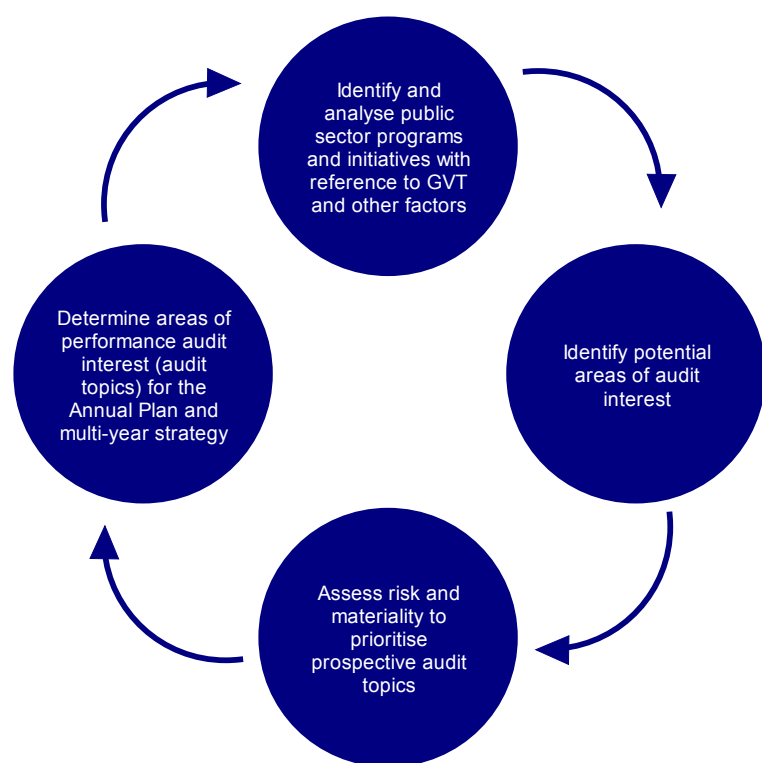
This result, combined with the improved consistency between planned and tabled audit topics, has confirmed our belief in the effectiveness of our topic selection framework.

Performance audit methodology and training

To maintain the quality of our audits, we have developed a performance audit methodology that is based on the requirements of the *Audit Act 1994* and relevant auditing standards. The methodology guides project management, evidence collection, documentation, analysis and quality control. It is supported by an electronic working paper system and a desktop interface so staff can access relevant policies and guidance and business templates, VAGO's records management, email and calendar facilities.

In 2007–08 the Technical Capability Enhancement Program was developed. This intensive, experiential in-house training program equips our staff with the necessary understanding of our audit methodology and its practical application. The full roll-out of the program started this year and it is expected that all performance audit staff will have completed the program by December 2009.

[FIGURE 1] Performance audit topic selection framework



Post audit quality assurance—cold reviews

VAGO engages external parties to review a sample of performance audits. The review assesses whether audits have been conducted in an effective, efficient and economic manner in accordance with the office’s audit methodology, relevant Australian Auditing Standards and legislation, and supports the findings, conclusions and recommendations in the report to Parliament. The 2008–09 cold review of our performance audits indicated that:

- audits were conducted in an efficient and effective manner in accordance with relevant Australian Auditing Standards
- audits were conducted in accordance with the office’s performance audit methodology
- the information collected and supporting analysis addressed audit criteria in each of the audits.

Some areas for process improvement identified included:

- a need to better demonstrate the progressive review of audit work
- more comprehensively document the audit work performed, including basis of sample size selection
- improving guidance on making risk assessments
- clarifying the expectations about the management and quality control of contract audit service providers.

Findings and issues raised from the cold reviews were communicated to staff through debrief sessions and amendments to methodology and guidance, and specific training.

Independent assessments of report quality

Each year a selection of performance audit reports produced by different audit teams is independently reviewed. In 2008–09 external reviewers who are familiar with parliamentary expectations examined the following reports:

- *Preparedness to Respond to Terrorism Incidents: Essential services and critical infrastructure* (2008–09:15)
- *Achievement of Literacy and Numeracy Benchmarks in Victoria* (2008–09:16)
- *Administration of the Flora and Fauna Guarantee Act 1988* (2008–09:17)
- *Access to Public Hospitals: Measuring Performance* (2008–09:18)
- *The New Royal Children’s Hospital—a public private partnership* (2008–09:20).

The three external reviewers used an assessment method developed by the Australasian Council of Auditors-General (ACAG) that involved scoring performance against set criteria. This year’s assessments indicate that overall quality of performance audit reports has improved.

Table 7 shows a comparison of results. The average total score for VAGO performance audit reports has increased from 76 per cent in 2007–08 to 79 per cent in 2008–09. This exceeds our previous performance and is now on par with the average score of all audit offices.

Table 8 shows the averaged scores out of a possible score of five, against each criterion, for each of the 2008–09 assessed reports.

In addition to providing a numerical rating for the reports against the criteria, qualitative assessments were also provided, examples of which follow.

[TABLE 7 ■■■] Australasian Council of Auditors-General comparison of results

ACAG assessments	Average score VAGO 2008–09 reports	Average score VAGO 2007–08 reports	Average score all Australian audit offices
Total score (out of 30)	23.6 (79%)	22.7 (75%)	23.7 (79%)

Preparedness to Respond to Terrorism Incidents: Essential services and critical infrastructure:

'This is a very timely, very well written, well structured report whose positive and adverse conclusions appear to be well supported by audit evidence and analysis'... 'The audit provided a wake up call to all departments regarding the importance of this aspect of Government policy.'

Achievement of Literacy and Numeracy Benchmarks in Victoria:

'This audit provided the reader with an excellent in-depth analysis of trends and results of literacy and numeracy in Victorian state schools'... 'Its conclusions were believable and well researched'... 'The audit gives a coherent account of the department's performance across a diverse range of educational activities'... 'This report is very clear about the issues it is setting out to tackle and does so in a logical and concise manner. It also clearly lays out the problems faced by the department in enacting the various issues'... 'This is very structured and strongly presented with clear recommendations at the start and end of each chapter.'

Administration of the Flora and Fauna Guarantee Act 1988:

'Findings and recommendations are believable and in all cases achievable if the Department accedes to a specific timetable. The format of the audit provided stimulus to the reader through excellent design and innovative techniques'... 'The editing of the report material was first class. It does

not ramble, repeat itself or be hazy in its statements'... 'It is a first class, well written audit'... 'This was a well presented report with very clear outlines. It is sharp and to the point which was a major positive.'

Access to Public Hospitals: Measuring Performance:

'The scope of the audit was succinct and provided the reader with a readily understood account—especially in the audit summary'... 'It was a timely audit which addressed an area of government activity which has been the subject of much discussion within the media and with health professionals'... 'This is a thorough and analytical audit which used an intelligent and meaningful approach to current data collection methodology'... 'It provided a forensic analysis of the way some public servants can manipulate data for their own ends'... 'The audit was strong on disclosure and demonstrated how a good evaluation of performance against results should be reported—this is to be commended.'

The New Royal Children's Hospital—a public private partnership.

'The audit was well written, concise and provided a clear understanding of all aspects of a public private partnership project'... 'The report left the reader with a feeling of confidence in their judgments and recommendations'... 'The audit was comprehensive, covering all aspects of this vast PPP project with verve and style. It set a benchmark for this type of performance auditing and should be used as a template for future similar audits.'

[TABLE 8] Australasian Council of Auditors-General ratings of performance against set criteria

Criteria/Audit	Preparedness to Respond to Terrorism Incidents: Essential services and critical infrastructure	Achievement of Literacy and Numeracy Benchmarks in Victoria	Administration of the Flora and Fauna Guarantee Act 1988	Access to Public Hospitals: Measuring Performance	The New Royal Children's Hospital—a public private partnership
Scope and potential for significant impact	4.0	4.0	3.7	4.0	4.0
Focus on effectiveness, efficiency and economy	4.0	3.0	3.0	4.0	4.2
Persuasiveness of conclusions	4.5	4.0	4.2	4.5	4.2
Communication—printed report	4.0	3.2	4.2	4.0	4.2
Usefulness to the customer	4.0	3.7	4.3	4.0	4.0

Agency feedback on performance audits

To measure the views of agencies on our performance audits, we ask agencies involved with the audit for their feedback through independently conducted surveys and interviews. We benchmark our results against other public sector audit offices, and engage with those offices that benchmark very well. This year, our comparative performance improved against our benchmarking partners, with overall scores towards the top of the range.

We seek feedback on 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, expressed as a score out of 100 and measured against a performance target of 75.

Overall, our performance audit client survey results for 2008–09 have remained level with last year, achieving an overall client satisfaction rating of 72.

While a positive result, this remains under our stretch target of 80. This target has been revised to 75 in 2009–10 to take account of a new more rigorous approach to calculation of this index.

This year, agencies' ratings for our performance audit process improved, returning to the 2006–07 levels and rising to the top of the range of Australian audit offices.

Balancing the increase in our ratings for audit process, client ratings of audit reporting and the value of the audit to the agency dipped slightly from 2007–08 levels.

Survey results are shared in more detail across the year with external stakeholders and agencies, audit teams, senior management and VAGO's Audit Committee. For example, in 2008–09 a detailed breakdown was provided in our newsletter, *Auditing in the Public Interest* (2008: number 2, page 10).

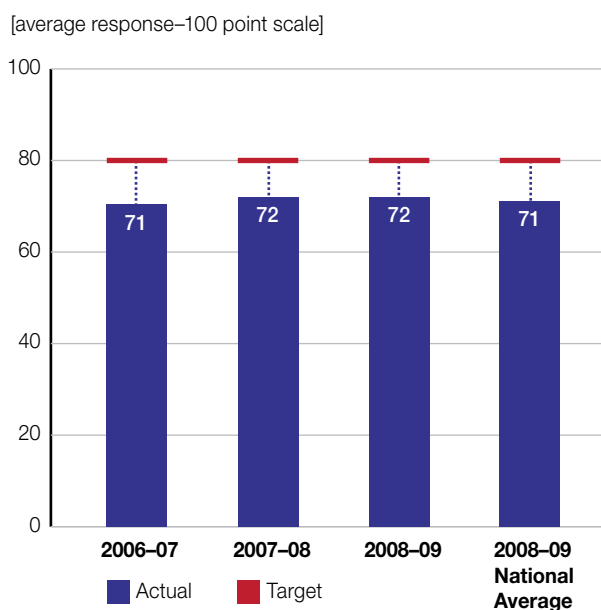
Feedback from audited agencies is analysed to seek ways to improve our performance audits and reports. Our Senior Management Group receives reports on actions arising from this feedback across the year.

Timeliness

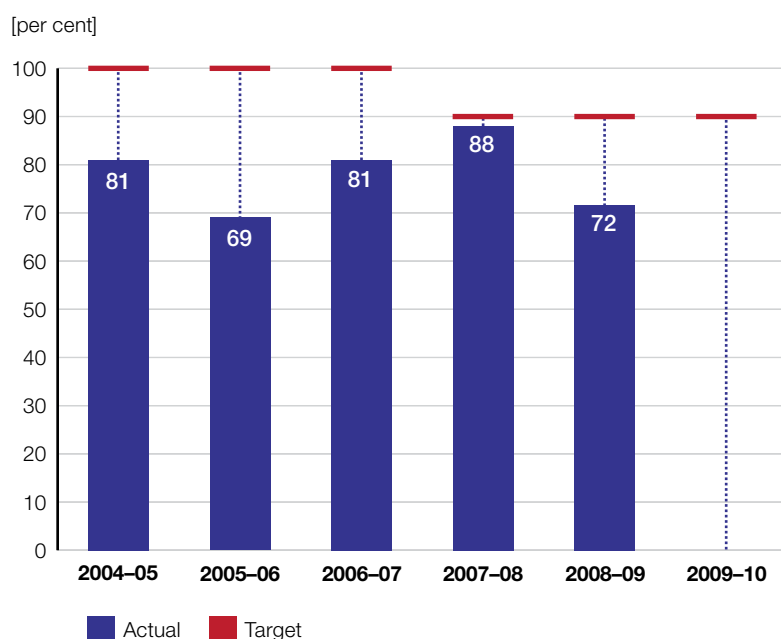
Each performance audit is conducted against internal time frames. These time frames are used to establish the timing of the report tabling program. We aim to table 90 per cent of our reports within one month of the planned program. Of the 32 parliamentary reports tabled during 2008–09, 23 (72 per cent) met this target.

The average time elapsed for the completion of performance audits in 2008–09 was 9.9 months. This compares well to the 2007–08 ACAG Macro Benchmarking range of averages (5.8 to 13.4 months) for other audit offices.

[FIGURE 2] Overall ratings of audited agency satisfaction with performance audits



[FIGURE 3] Timeliness of reports tabled in Parliament



The reports to Parliament that did not meet their tabling schedules in 2008–09 were:

- *Results of Audits for Entities with 30 June 2008 Balance Dates* (tabled December 2008, planned for October 2008)
- *Literacy and Numeracy Achievement* (tabled February 2009, planned for October 2008)
- *Administration of the Flora and Fauna Guarantee Act 1988* (tabled April 2009, planned for November 2008)
- *The New Royal Children's Hospital—a public private partnership* (tabled May 2009, planned for February 2009)
- *Governance and Fraud Control in Selected Adult Educational Agencies* (tabled June 2009, planned for February 2009)
- *Implementing Victoria Police's Code of Practice for the Investigation of Family Violence* (tabled June 2009, planned for April 2009)
- *Buy-back of the Regional Intrastate Rail Network* (tabled June 2009, planned for May 2008)
- *International Students: risks and responsibilities of universities* (tabled June 2009, planned for April 2009)
- *Funding of the Home and Community Care Program* (tabled June 2009, planned for February 2009).

Scheduling changed due to:

- delays in getting requested information from audited agencies during audit conduct
- re-work and revision of reports because new information was provided after preliminary findings had been developed and communicated to agencies

- protracted reporting processes where delays were requested by agencies to respond to draft reports, or where draft report findings were contested
- unplanned changes to audit teams because of senior staff departures.

Our analysis of the impact of the aggregated agency-initiated delays during 2008–09 is that these equate, in time and cost, to a major performance audit. VAGO is working to educate agencies about their role and requirements under the *Audit Act 1994* in an effort to strengthen avenues of communication with clients and timeliness of receipt of information. In cases where extreme delays are experienced, section 11 of the *Audit Act 1994* gives the Auditor-General the power to call for persons or documents to be made available for examination.

Cost

In 2008–09 the cost of delivering our parliamentary reports and services was \$13.3 million. This was \$1.1 million (9 per cent) more than the target of \$12.2 million. The increased costs were due in part to delivery of an additional report above target and to delays experienced during some audits. The target for 2009–10 is \$13.9 million.

The average cost per performance audit delivered in 2008–09 was \$354 000 this exceeds our target of \$311 000. The actual figure compares well with the 2007–08 ACAG Macro Benchmarking range of averages (\$127 968 to \$394 402) for other audit offices. (2007–08 benchmarking is the latest available.)

Parliamentary briefings

Members of Parliament were briefed on our reports once tabled. To alert members of upcoming reports, tabling dates are posted on our website, and details of upcoming reports are emailed to members at the start of tabling week.

Enquiries 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 the Auditor-General to conduct an audit. 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 Service Commissioner.

During 2008–09, we received 97 inquiries:

- 9 were from members of Parliament
- 88 were from the general public and community groups.

VAGO has established time lines for responding to these inquiries: with 95 per cent to be finalised within four weeks. There has been a deterioration to 72 per cent in the response rate in 2008–09, due to office restructuring and other resource constraints. We have revised response procedures to improve this figure in the next financial year.

Public Accounts and Estimates Committee

The Victorian Parliament is our primary stakeholder, 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 VAGO to 'strengthening relationships with the Public Accounts and Estimates Committee and other parliamentary committees'. In line with this commitment, in 2008–09 we worked closely with the PAEC in a number of areas, by:

- consulting extensively on VAGO's *2009–10 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 into our tabled audit reports (see below).
- seconding members of VAGO staff to PAEC to assist with research and other committee activities.
- maintaining regular contact with PAEC at officer level.

PAEC follow ups of VAGO audits

In 2008–09, PAEC reported to Parliament on the results of public hearings and evidence provided by entities involved in 12 audit reports. (See Table 9.)

Reports on these inquiries were tabled in November 2008 and June 2009, and contained more than 70 recommendations for response by the government.

The committee members commended many agencies on their positive and active response to audit findings.

They also held agencies to account to address audit recommendations, and made comment if they felt actions were inadequate or were taking too long.

These inquiries were often extensive, involving new evidence, new directions and calls for further action.

At times, PAEC made suggestions to the Auditor-General for further audit work or new reporting approaches, and these suggestions will be considered in planning our audit program.



2008–09

- Administration of non-judicial functions of the Magistrates' Court of Victoria (June 2007)
- Contracting and tendering practices in selected agencies (June 2007)
- Follow-up of selected performance audits tabled in 2003 and 2004 (June 2007)
- **Maintaining Victoria's rail infrastructure assets** (May 2007)
- **Promoting better health through healthy eating and physical activity** (June 2007)
- Results of audits (June 2007): raising and collection of fees and charges by departments
- **State investment in major events** (May 2007)
- **Condition of public sector residential aged-care facilities** (August 2006)
- **Government advertising** (September 2006)
- **New ticketing system tender** (October 2007)
- Results of special audits and other investigations (August 2006)
- Vocational education and training: meeting the skill needs of the manufacturing industry (July 2006).

Note: Bolded audits were the subject of parliamentary hearings. Other audits were subject to Committee review.

Survey of parliamentarians

Parliament is our primary stakeholder. In view of this, we ask for feedback from parliamentarians each year through a comprehensive and confidential survey process.

We benchmark our results from this survey against other Australian audit offices. On average, our results are comparable with the other offices, remaining in the mid range.

It is pleasing that parliamentarian participation has increased steadily over the past three years, moving from 30 per cent in 2006–07 to 41 per cent (or 53 responses) in 2008–09. This response rate is just above the three-year national average of 40 per cent.

Feedback from parliamentarians in 2008–09 has mainly been positive, with almost all respondents giving positive ratings for most aspects of VAGO's reports and services.

Ninety-two per cent of parliamentarians were satisfied or very satisfied with our reports and services, compared with 83 per cent in 2007–08 (see Figure 4).

Other highlights from this year's parliamentary survey include:

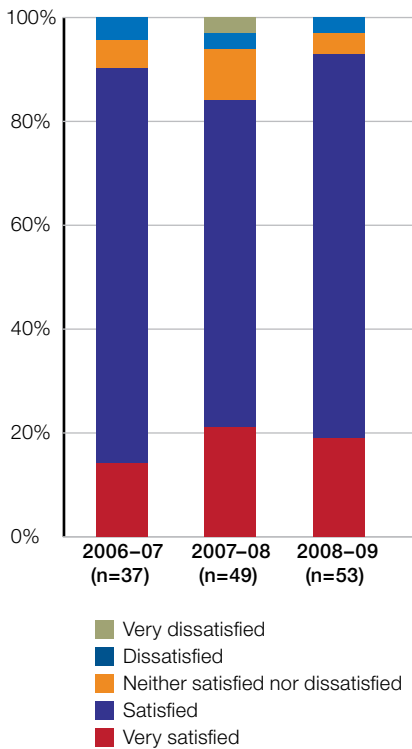
- 90 per cent of members had referred to a VAGO performance audit report in the past 12 months, with 40 per cent referring to them either often or very often

- 85 per cent of respondents had referred to financial statement audit reports in the past 12 months, although only 10 per cent referred to them often
- 93 per cent agreed that VAGO's performance audits addressed their key areas of interest, two-thirds agreed their areas of interest were mostly addressed
- 77 per cent of respondents agreed that financial audit reports clearly identified significant issues and their implications. However, when compared to other Australian audit jurisdictions, there is still room to improve this result in future years, as we scored at the lower end of the range.
- all members who had direct dealings with VAGO in the past 12 months gave positive ratings for responsiveness and extent to which our advice addressed their needs. This strong result compares well with other jurisdictions, where some parliamentarians did not rate well the responsiveness of their audit offices.

The feedback from this survey gives added impetus to our drive to intensify our parliamentary liaison and offer an open door to those parliamentarians who have matters of significance to raise with their auditor.

We will be sharing the results in more detail across 2009 with parliamentarians and the PAEC, through correspondence and briefings.

[FIGURE 4] Satisfaction level of parliamentarians with the Auditor-General's reports and services by percentage



Promoting continuous improvement in the Victorian public sector

In 2008–09 we produced two better practice guides, aimed at promoting continuous improvement in the sector. The guides were well received across the public sector and, where relevant, in the associated industry sectors.

Records Management Checklist: A tool to improve records management (July 2008)

This checklist was designed to assist government agencies to fulfil their obligations under the *Public Records Act 1973* and to improve the management of their records. VAGO developed it based on advice from records managers and in consultation with the Public Record Office Victoria (PROV), selected government agencies and consultants.

The local government sector and eight out of ten government departments are using the checklist, which is helping agencies establish and foster a culture of sound records management, increase senior management awareness and support of records management, and to identify permanent value records for transfer to the Public Records Office of Victoria.

VAGO's contribution to improving public sector performance through the Auditor-General's Records Management Checklist has been recognised by PROV, who awarded us the Sir Rupert Hamer Records Management Award, issued in May 2009, for excellence and innovation in records management.

Investing Smarter in Public Sector ICT: Turning principles into practice (July 2008)

In 2007 the Victorian public sector spent more than \$1.5 billion on new and existing information and communication technology (ICT) enabled asset investments and infrastructure. This guide and its associated checklists were designed to assist public sector chief executive officers and senior responsible officers to question and assess whether their investments are delivering their

intended benefits, resulting in better business and financial value for government and the public.

The guide uses a lessons-learned approach to develop general principles that any agency can apply when using an ICT-dependent investment. These principles are illustrated with case studies based on VAGO's experience with ICT projects across government in Victoria.

Value-adding through performance audits

The purpose of our reports is to provide independent assurance to Parliament on the accountability and performance of the Victorian public sector. Through professional and transparent engagement with the entities we audit we promote continuous improvements in performance. In addition, our report recommendations raise awareness about issues that need parliamentary attention. Some examples of the ways our parliamentary products added value during 2008–09 follow.

Preparedness to Respond to Terrorism Incidents: Essential Services and Critical Infrastructure (January 2009)

Following the 11 September 2001 attacks and the subsequent Bali bombings, a series of Victorian Government policy initiatives, legislation and arrangements were established to address the terrorist threat. Funding of more than \$255 million has been provided for state counter-terrorism initiatives since late 2002.

This audit examined the state's preparedness to respond to terrorism incidents, relating to essential services and critical infrastructure. The audit found that Victoria was the first Australian jurisdiction to develop arrangements for protecting essential services from the effects of terrorism, including at the national level, and has played a significant part in developing capability for protecting essential services and critical infrastructure, nationally and in other states.

As a result of the audit the Department of Premier and Cabinet recommended to the Commonwealth that a review of the national arrangements is warranted.



Literacy and Numeracy Achievement (February 2009)

The objective of this audit was to determine whether student literacy and numeracy are improving in Victoria's government schools. This primarily involved a detailed analysis of the Department of Education and Early Childhood Development's (DEECD) and the Victorian Curriculum and Assessment Authority's statewide student achievement data covering the period 1998 to 2007.

The audit found that over the 10-year period to 2007, DEECD's efforts have not resulted in a marked improvement in average literacy and numeracy achievement across age groups. Although improvements had been made by students in their early years, they were not sustained as they progressed through schooling. Students generally did not perform as well in numeracy as in literacy, with average student performance often further below the expected level, and fewer improving trends apparent. Improving literacy and numeracy remains a key objective for DEECD.

Access to Public Hospitals: Measuring Performance (April 2009)

Timely access to care is important. For patients requiring emergency care, as well as those waiting for elective surgery, the time taken to receive services can significantly affect clinical outcomes.

Access indicators need to be relevant i.e. logically linked to the Department of Human Services' (DHS) objective and

within the control of the hospitals being held accountable, as well as appropriate, providing sufficient information to identify achievement against the objective. The results reported should also be accurate so they fairly represent hospital performance. The audit objective was to determine whether reported access indicators are relevant, appropriate and fairly represent hospital performance.

The report examined the 12 performance indicators that DHS uses to measure the timeliness of hospital care access, as well as the accuracy of reported data. The audit found that the access indicators assist in gauging achievement against DHS's stated objective. However, lack of consistency and data capture's susceptibility to error, limit their usefulness. It is not possible to assure the accuracy of actual results that hospitals report. Most of the indicators are relevant; however, the appropriateness of some of the benchmarks and targets used need further justification.

As a result of the audit, DHS has indicated that by the end of 2009 all health services reporting emergency department data will be formally audited. In addition, DHS will conduct a formal audit of elective surgery data following the completion of the emergency department audit.

The Channel Deepening Project (May 2009)

The Port of Melbourne Corporation is the statutory authority that provides and manages port services. It developed the



Pictured above L-R: Paul O'Connor, Vishal Suchdev and Des Pearson (VAGO), Prof Mike Vitale (Monash University), Susan Gillett and Nick Pelham (Gateway Unit), co-launch the ICT better practice guide with the Department of Treasury and Finance's new investment lifecycle guidelines

channel deepening project so that ships with up to a 14-metre draught could use the port. This audit assessed how effectively the Port of Melbourne Corporation has developed and implemented the channel deepening project to date.

The audit found that the corporation has effectively managed the development process after it initially failed to gain planning approval with its Environment Effects Statement in 2005. By early 2008, it had developed a robust business case that:

- conformed with better practice guidelines for business case development and provided the government with the type and quality of information it needed to endorse the project
- included an environmental management plan that conformed to the environmental assessment process and was endorsed by ministers under the state and Commonwealth environmental legislation.

The audit also found the corporation has followed sound processes in determining how works should be procured. This includes the alliance agreement for dredging the Port Phillip Heads and the channels—which was the most technically and environmentally challenging part of the project.

Withdrawal of Infringement Notices (June 2009)

In mid-2006 the Department of Justice introduced a new system to promote a fairer and firmer framework for dealing with about 2 000 types of infringement offences.

This audit examined the extent to which the department complied with its responsibility to monitor the system's operation—specifically the withdrawal of infringement notices and the conduct of internal reviews. It also looked at whether selected enforcement agencies were withdrawing notices appropriately and in compliance with the *Infringements Act 2006*.

The audit found that legislative requirements are not being applied consistently. Our review disclosed inconsistent decision making within and across agencies.

The level of agency non-compliance was significant in many cases. In some cases agencies' internal review and withdrawal frameworks were inadequate or there were gaps. Such circumstances do not illustrate a fairer system.

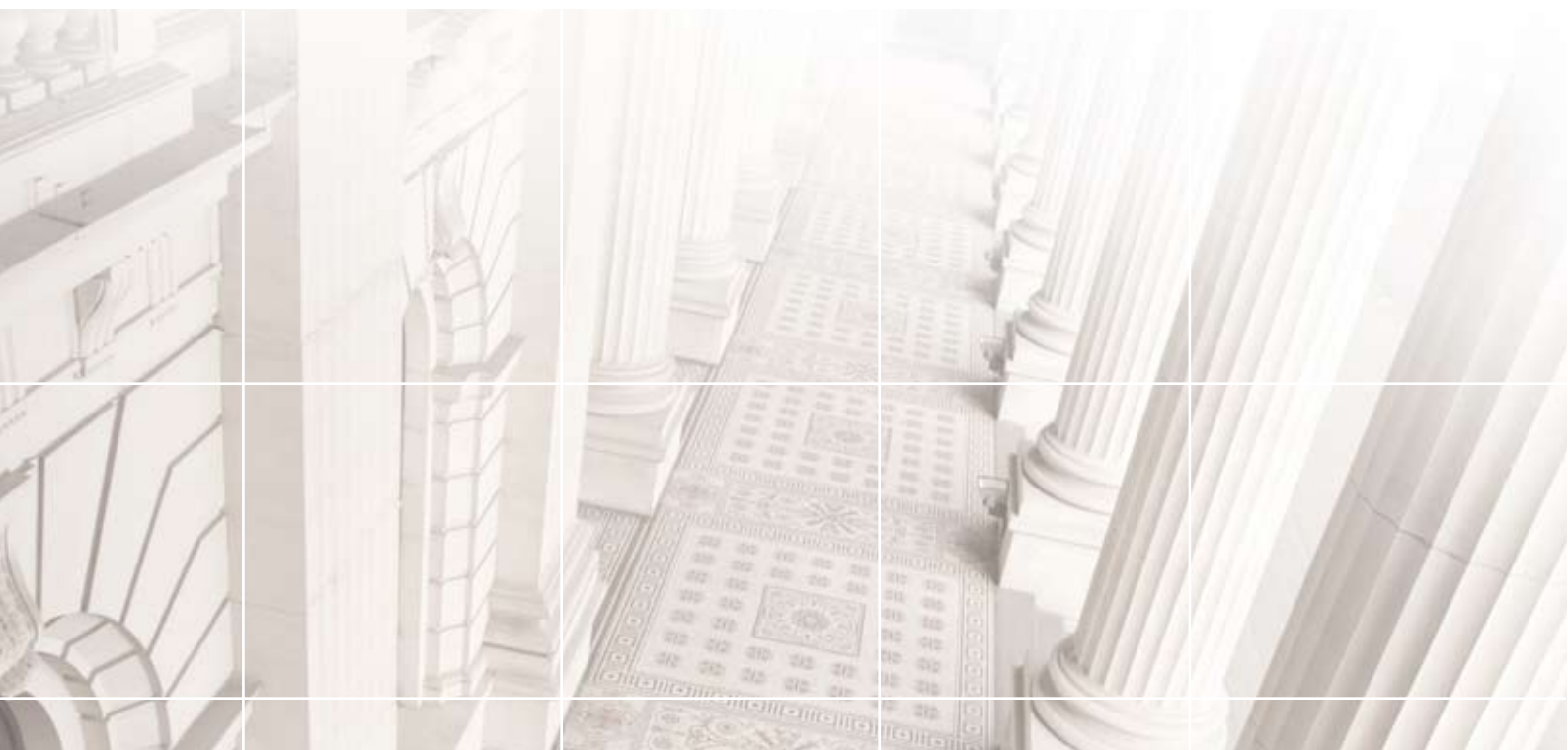
Fostering productive relationships with audit clients

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 make sure 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 upon which findings and conclusions are based.







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	27
Quantity	28
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Timeliness	30
Cost	30
Clients	32



Under the Audit Act 1994, the Auditor-General is required to examine the annual financial statements of departments and public bodies, and express an audit opinion on each of those statements. An audit report on the annual financial report of the state and a review of the government's estimated financial statements are also provided.

Financial audits provide independent assurance to public sector entities, Parliament and the public that the information in the financial reports of public sector entities is presented fairly, in all material respects, according to Australian Accounting Standards, the *Financial Management Act 1994* and/or other relevant legislative reporting requirements.

Additionally, these audits provide assurance to public sector entities and Parliament on the appropriateness of aspects of the use of public sector resources.

The results of the financial statement audits are summarised in a series of parliamentary reports. These reports and the audit report on the state's annual financial report provide Parliament with assurance regarding the overall financial stewardship of the reported entities. Observations on areas of financial audit interest and reporting of current year areas of focus on the use of public sector resources are also included in these reports.

Financial audits establish that the financial statements prepared by entities present the financial information fairly. Credibility of the statements is enhanced where an unqualified audit opinion is issued. When required the Auditor-General also audits non-financial performance statements prepared by local government, certain water bodies and technical and further education institutes, and issues an audit report.

[TABLE 10] Auditor-General's financial audit responsibilities (audited entities) for 2007–08 and 2008–09

Type of entity	2008–09	2007–08
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	23
Community health services	–	39
Companies, trusts and joint ventures	176	168
Public bodies	110	112
Public cemeteries	14	14
Public hospitals and ambulance services	94	94
Regional waste management groups	13	13
Superannuation funds	3	2
Universities and other educational institutions	21	22
Water authorities	27	26
Local government entities		
Municipal councils	79	79
Regional library corporations	12	12
Companies, trusts and joint ventures	12	12
Total	587	619

Table 10 summarises the Auditor-General's financial audit responsibilities (audited entities) for 2007–08 and 2008–09 financial years.

A number of amendments to the *Health Services Act 1998* were proclaimed during 2009. Those amendments introduced a new legislative framework for community health centres. One consequence of the new legislative arrangements is that community health centres no longer meet the definition of a public statutory authority under the *Audit Act 1994* and the *Financial Management Act 1994*. Accordingly, the Auditor-General is no longer obligated to undertake an audit of registered community health centres.

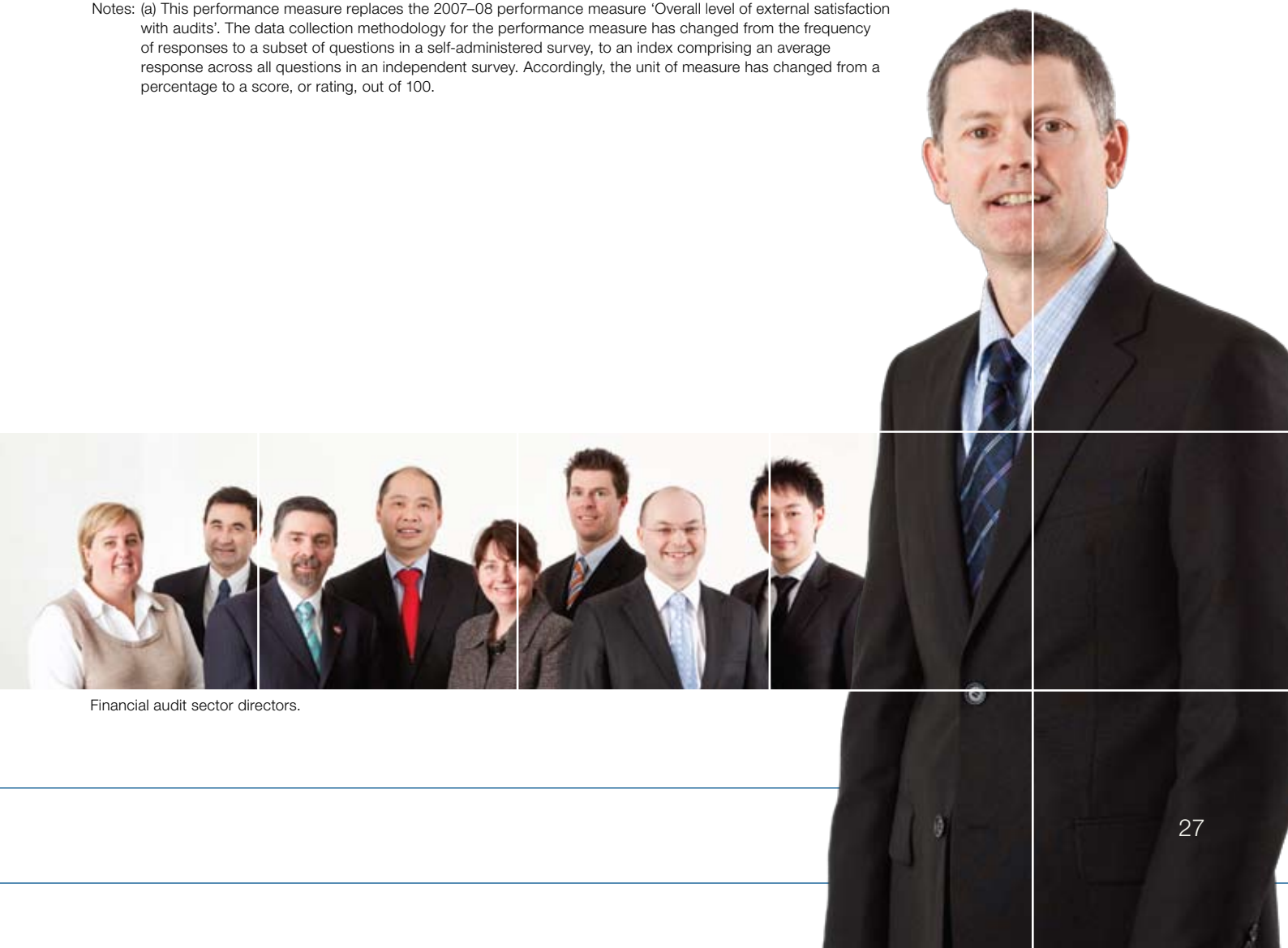
Reports and advice

The following table shows our performance for audit reports on financial statements (output group 2) against our 2008–09 targets.

[TABLE 11] Performance against output targets

Performance measures		Target 2009–10	Actual 2008–09	Target 2008–09	Actual 2007–08
Quantity					
Audit opinions issued on entity financial statements	(number)	598	592	623	638
Audit opinion on the Annual Financial Report of the State	(number)	1	1	1	1
Review of the Estimated Financial Statements forming part of the State Budget	(number)	1	1	1	1
Audit opinions issued on non-financial performance indicators	(number)	114	114	115	114
Quality					
Overall external satisfaction with how we conducted financial statement audits	(score ^(a))	75	76	80	73
Timeliness					
Audit opinions issued within statutory deadlines	(per cent)	98	98	98	96
Final management letters to entities within established time frames	(per cent)	90	92	90	90
Cost					
Total output cost	(\$million)	19.8	19.8	15.6	19.2

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.



Financial audit sector directors.

Quantity

Audit opinions issued to entities

During 2008–09 we issued 592 audit opinions, compared with our target of 623. The difference is largely due to outstanding financial statements and cessation of certain audits.

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

- 79 audit opinions to local government councils (79 in 2007–08)
- 16 audit opinions to regional and rural water authorities (16 in 2007–08)
- 19 audit opinions to 17 technical and further education (TAFE) institutes and two training entities (19 in 2007–08)
- an audit opinion was not issued on the performance statement of Holmesglen Institute of TAFE as it was not certified by the governing body and was not submitted for audit.

Ninety-nine per cent (unchanged from 2007–08) of audit opinions on financial statements were unqualified. The financial statements of four (seven in 2007–08) 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 entity did not set targets in its annual budget to enable performance to be judged.

Audit opinion on the 2007–08 Annual Financial Report of the State

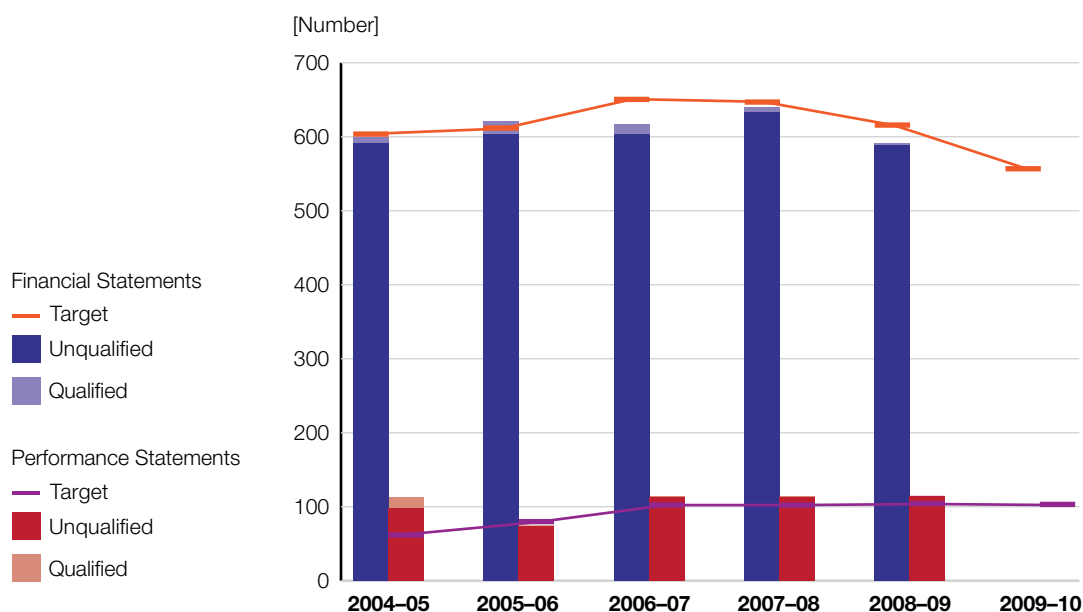
A key feature of the state's accountability framework is that the government must prepare and present consolidated financial statements to Parliament each year. The statements include all the public sector entities that the government controls. Local government bodies and universities are not included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

On 24 September 2008 the Auditor-General provided an unqualified audit opinion on the State's Annual Financial Report for 2007–08, which was tabled in Parliament on 14 October 2008.

The Victorian Government's Estimated Financial Statements

On 30 April 2009 we completed our review of the Victorian Government's Estimated Financial Statements for the financial year ending 30 June 2010 and the following three years. The government's Budget Papers, presented to Parliament on 5 May 2009, included our independent review report on the results of this review.

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



Quality

Financial audit methodology

It is important that our audit methods achieve high quality results. Our approach to financial audit is integrated into our electronic audit toolset, known as IPSAM, which was developed in a joint arrangement with the Queensland Audit Office.

Our financial audit approach is designed to enable us to form an audit opinion on agencies' financial statements and performance statements in an efficient and effective manner. We also have regard to the appropriateness of the use of public resources, and compliance with laws and regulations when undertaking our financial audits. It is hoped that this joint initiative will serve to facilitate other cross-jurisdictional projects in the future.

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 guides staff and audit service providers in undertaking financial statement audits.

The manual is updated annually and was released at a forum for auditors in December 2008. 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.

Agency feedback on financial audit services and reports

To measure the views of agencies on our financial audits, we ask those involved with the audit for their feedback via independently conducted surveys and interviews. We then benchmark our results against other Australian audit offices, and engage with those offices that benchmark very well.

Using questionnaires and interviews, we seek feedback on 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, expressed as a score out of 100 and measured against a performance target of 80. This target has been revised to 75 in 2009–10 to take account of a new more rigorous approach to calculation of this index.

Financial audit client survey results for 2008–09 have again seen an increase from last year, attaining an overall client satisfaction rating of 76.

We also benchmarked well, with most results remaining at the higher end of the range of participating Australian audit offices. This is particularly pleasing, given that more clients participate in our surveys than any other jurisdiction.

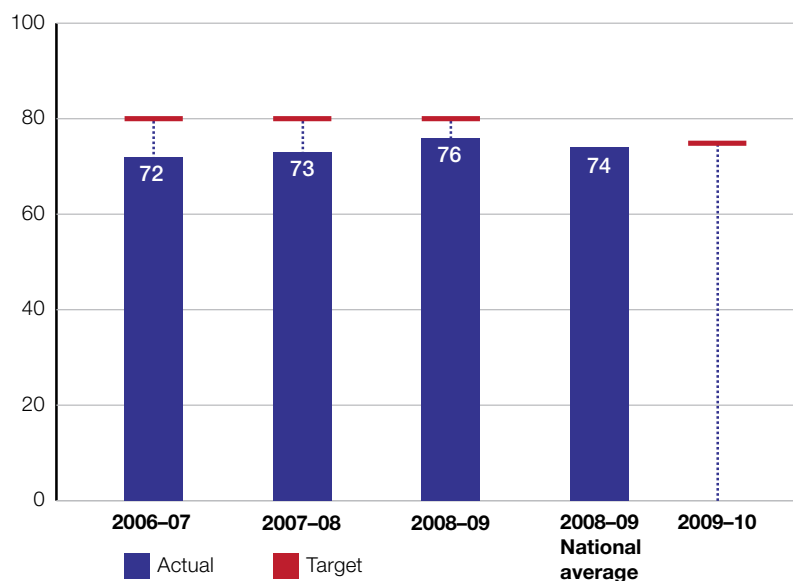
This year saw all three areas improve—in fact, financial audit clients' assessments of the quality of the financial audit process, the quality of audit reporting and the value to their agency were the most positive since this survey commenced in 2006.

Particular areas of improvement from last year were in the ratings given by clients to the:

- quality of our management letters
- timeliness of issuing of audit opinions
- quality of parliamentary reports
- potential for audits to help agencies to improve financial management.

When compared to other audit offices, we ranked significantly more highly in our clients' perception of our professional skills, knowledge and understanding of their organisations.

[FIGURE 6] Audited agency ratings of quality of financial audit services and reports [average response=100 point scale]



We share survey results and our responses in more detail across the year with external stakeholders and entities, audit teams, contracted service providers, senior management and VAGO's own Audit Committee.

These positive survey results help us identify what we are doing right, and where our clients' priorities lie. Looking ahead, we will use this intelligence and seek to maintain these high ratings as we strive to further smooth the audit cycle and tighten audit time lines.

To achieve our goal of timelier reporting to our primary stakeholder, the Parliament, the continued cooperation of agency management in providing timely, and reliable financial reports is essential.

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 the financial statements within four weeks of their receipt.

During 2008–09 we issued 98 per cent (96 per cent in 2007–08) of our audit opinions within the statutory deadline.

Timeliness of financial reporting by entities

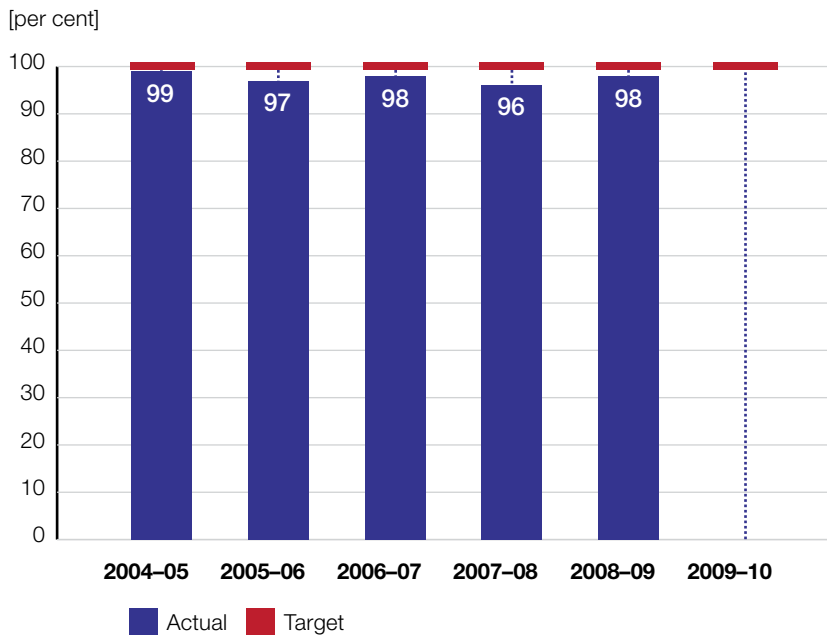
For the 2008–09 financial year the average time taken to finalise financial reports for entities with 30 June balance dates reporting under the *Financial Management Act 1994* was just over 10 weeks. This was the same as last year. Eighty per cent of these entities completed their financial reports within 12 weeks of the balance date, which was consistent with last year.

Those entities with non-30 June balance dates—principally higher education and vocational training entities—reporting under the *Financial Management Act 1994*, generally performed well. While eighty-one per cent completed their financial statements within the required 12 weeks (92 per cent in 2007–08), four TAFEs and one training entity did not meet the timetable (compared with one TAFE in 2007–08). Alpine resorts significantly improved their reporting timeliness in 2008–09, with all five entities completing their financial statements within 12 weeks (all resorts were late in 2007–08).

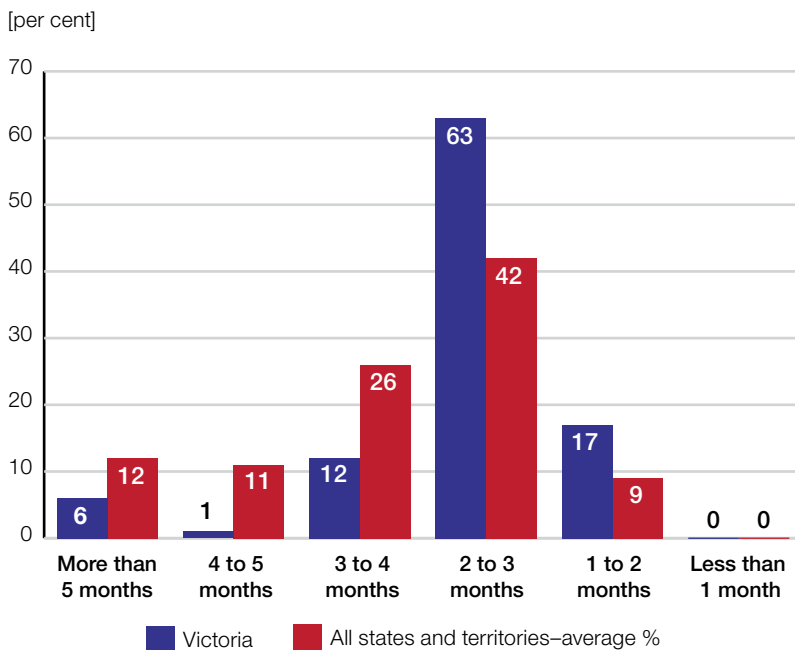
Final management letters to entities

When we identify significant audit or accounting issues we communicate this via a management letter during and/or at the completion of the audit. Before we issue our management letters, it is our practice to obtain formal comments from the management of each entity about our findings and recommendations, and then incorporate these comments into our management letters.

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



[FIGURE 8] Australasian Council of Auditors-General benchmark: Time frames for issuing financial opinions, 2007-08



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

During 2008–09 we sent 92 per cent of management letters within our established time frames (90 per cent in 2007–08). This is a significant achievement and a measure of the success of the strategies we have implemented over recent years 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 is from the 2007–08 financial year and shows that we issued 92 per cent of our financial audit opinions within four months of financial year end, a significant improvement on the previous year's result of 81 per cent. VAGO also exceeded the Australian states and territories' average of 77 per cent. 80 per cent of financial audit opinions were issued within three months, well above the states and territories' average of 51 per cent.

Victorian public sector entities are generally required to finalise their annual reports within four months of financial year end. We finalised 94 per cent of our audits within five months—the best result for any jurisdiction.

Cost

The total actual cost of financial audits increased from \$19.2 million last year to \$19.8 million this year.

A number of factors contributed to the increase in costs in 2008–09, most notably costs for contracted service providers increased.

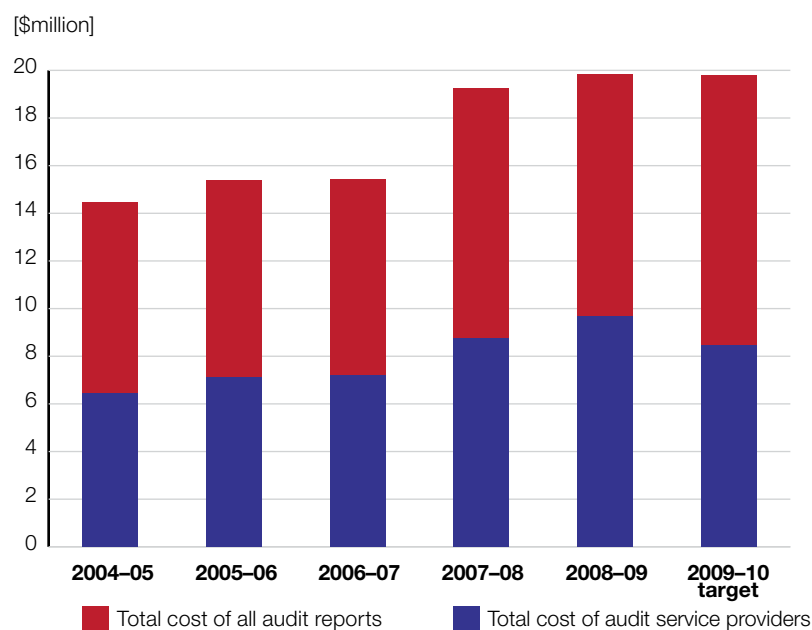
Audit costs have increased because of the need for increased audit effort. This change has been driven by changes in auditing standards, which now have force of law, prescribing minimum documentation standards that must be adhered to for all audits regardless of the size of the entity or the risk of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

We also brought forward work on financial statement audits compared with previous

years, as part of our strategy to conduct 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.

The average cost per audit opinion increased by around 12 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. Consequently, this has a flow on effect on the fees charged for audits

[FIGURE 9] Cost of audit reports on financial statements



[TABLE 12] Performance against cost targets

Item	Actual 2008-09 (\$million)	Target 2008-09 (\$million)
Audit reports on financial statements	19.0	14.8 ^(a)
Audit opinion on the Annual Financial Report of the State	0.4	0.4
Review of Estimated Financial Statements in the State Budget	0.4	0.4
Aggregate output costs	19.8	15.6

Note: (a) Audit costs have increased due to the increased audit effort, driven by changes to auditing standards, increased complexity of audit requirements, market-driven salary and service provider costs, and work brought forward. The increased cost is matched by increased \$29 revenue.

[TABLE 13] Trends in average cost of audit opinions

		Target 2009-10	Actual 2008-09	Actual 2007-08	Actual 2006-07	Actual 2005-06	Actual 2004-05
Audit opinions	(number)	600	592	640	617	631	604
Cost	(\$million)	19.8 ^(a)	19.8	19.2	15.4	15.4	14.4
Average cost per audit opinion	(\$'000)	33	33	30	25	24.4	23.9

Note: (a) Source: 2009–10 Budget Papers.

Clients

Improving communication

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 are authoritative and add value. To meet this objective we have adopted the following strategies:

Improving communication with audit clients about our activities

In 2008–09 we provided a ‘closing report’ to our audit clients prior to their certification of the financial statements and the signing of the audit opinion. The closing report is a comprehensive acquittal of our client strategy and is typically 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, 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 2009 we continued a program of regional forums that was commenced in 2008. This year’s was held in Geelong for the mayors, chairs of boards, 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 and expedite this initiative in the coming year.

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 2008–09, the Auditor-General certified 36 warrants authorising Consolidated Fund expenditure of up to \$37.8 billion (in 2007–08, 44 warrants of \$35.2 billion).

Early and consistent engagement

This year we adopted a number of strategies to improve the timeliness and quality of our communication with client entities, such as:

- **Bringing forward audit planning:** We issued 39 client strategies (83 per cent) by the end of December 2008 for material audit clients, and we issued 72 per cent of our targeted client strategies by the end of March. Our client strategies set out our audit risk assessment and planned audit approaches and provide an early indication to the governing body and to executive management of audit issues and concerns.
- **Completion of our reviews of internal controls of entities before balance date:** 89 per cent of interim management letters were issued before year end. The increasing use and more timely issue of interim management letters meant that any internal control issues highlighted by an audit could be addressed by management earlier.
- **Identification and resolution of prospective financial reporting issues as part of interim audits:** meant that as we proceeded into the review of draft financial statements relatively few issues remained for resolution after balance date as part of the final audit.

Promoting continuous improvement

In addition to reporting individually to our audit clients through our management letters, VAGO also prepares reports for 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 again produced a sector-specific report for local government. This report also contained a scorecard for each council relating to its financial sustainability. Five key indicators of financial viability have been developed and we have established criteria to assess performance.

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

For the first time financial sustainability was also addressed in the audit report, which covers government departments and other entities with financial years ending 30 June. This report covered 380 government entities, the largest group covered in a single report. Entities selected for financial sustainability assessment were those that generate their own revenue or have significant infrastructure assets. The data was averaged over three years and included a risk assessment.

New sector reports for 2009–10

Two new sector reports will be tabled in November and December 2009. In line with VAGO’s plans to provide the most relevant reports at the right time, separate reports on the Water and Human Services sectors are being developed.

Planning will also begin for an additional report on internal controls which is due to be tabled in mid-2010.

The internal control framework of an entity includes the policies, systems, behaviours and other aspects of an organisation established to reliably deliver business objectives, accurate financial reporting will result, and compliance with laws and regulations is achieved.

The report will focus on the effectiveness of internal controls and cover other areas such as internal audit, fraud management, asset procurement and management.

3

Section 3

Managing VAGO

In this section ...

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



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Future directions

VAGO's strategic plan identifies five objectives and related strategies, aimed at further improving our operations during the period 2007–08 to 2009–2010.

[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 • Continuously improving our systems, methodologies and processes • Valuing ideas and knowledge sharing
<ul style="list-style-type: none"> • Being innovative and cost-effective 	<ul style="list-style-type: none"> • 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
- the timeliness of our audits
- feedback from our employees.

Leadership and stewardship

VAGO is committed to continually improving its service delivery. This means optimally using our resources. In September 2008 there was a realignment of the financial and performance audit jobs and client relationships at director level to streamline the audit process and enhance our ability to deliver high-quality analysis.

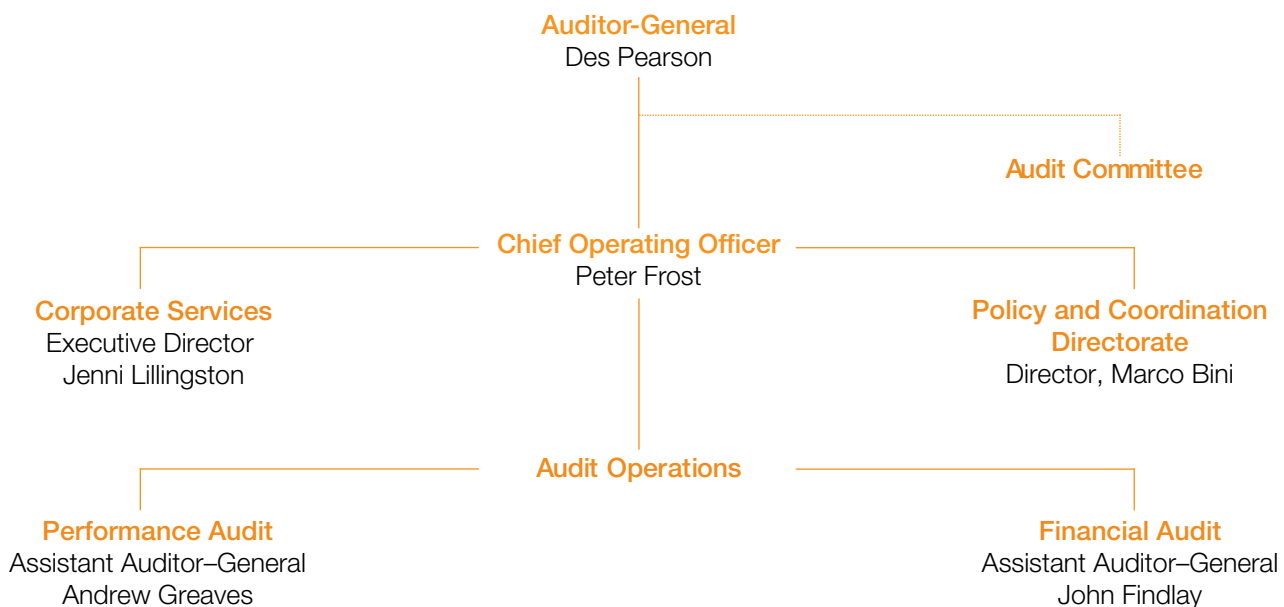
In October 2008 VAGO bade farewell to Stuart Kells, Assistant Auditor-General, Performance Audit. The Assistant Auditor-General of Financial Audit, Andrew Greaves, was appointed as Stuart's replacement and Assistant Auditor-General of Policy, Planning and Technical (PPT), John Findlay, was appointed Assistant Auditor-General of Financial Audit.

As part of this change we reviewed the way strategic support was provided to the leadership and audit groups. In consequence support providers were aligned with the operational functions they assist. As a result, expert technical advice is now provided by teams within the Financial Audit Group, while the Performance Audit Group has taken on the development of VAGO's annual plan and the selection of areas of performance audit interest.

A new Policy and Coordination Directorate has been formed to provide policy, project and secretariat services directly to the Auditor-General and senior management, and to provide strategic support for the Auditor-General's relationships with key stakeholders.

The senior management structure is outlined in Figure 10.

[FIGURE 10] 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, MPhil (Cambridge), MEd, PhD (Harvard)
Chief Operating Officer

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



Andrew Greaves, BEc, CA
Assistant Auditor-General—Performance Audit Group

Andrew was previously Assistant Auditor-General—Financial Audit Group. Since October 2008 he has led the Performance Audit Group, which is responsible for undertaking performance audits for Parliament.



John Findlay, BBus (Acc), MBus (Acc), LLB, GradDip CSP, FCPA
Assistant Auditor-General—Financial Audit Group

John was previously Assistant Auditor-General—Policy, Planning and Technical Group. Before joining VAGO he held the position of Director, Audit Policy and Reporting in the Queensland Audit Office. Since October 2008 he has led 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.



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

Jenni commenced as Executive Director—Corporate Services Group at the end of 2007. She has a background in the Victorian and Commonwealth Governments, including Premier and Cabinet, Treasury and Finance and Commonwealth Department of Finance. The Corporate Services Group provides a range of specialist services that contribute 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 and five committees managed VAGO during 2008–09.

Senior Management Group (SMG)

The Auditor-General, Chief Operating Officer, and the leaders of the 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 and 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
- fostering continuous improvement across VAGO.

Operations Group

The Chief Operating Officer and the leaders of the 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. The 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, People and Culture, and an independent member, Mr Patrick O'Grady.

This committee is responsible for VAGO's remuneration policy which supports its strategic goals and business objectives and consistency of human resources management strategies and policies. The committee monitors the executive officer annual performance appraisal process and salary review.

Learning and Development Steering Group

The role of this group is to promote learning and development strategically and operationally as a critical component to achieve VAGO's planned outcomes. This group is chaired by the Manager, People and Culture and has senior representatives from all of the VAGO business groups. It has an ongoing role to assist in providing and supporting a coordinated approach on people practices within VAGO.

In 2008–09 the work of this group has been widened to include consultation across the organisation to inform the new learning and development framework. The learning and development framework is closely linked to the role capability framework and is part of the succession planning and retention policies within VAGO.

Staff Consultation and Development Group

This group has a rotating chair and includes 8 representatives from across all levels and from all business areas, with the Executive Director, Corporate Services, representing the SMG.

The primary objectives of this committee 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 and understanding as we seek to increase operational effectiveness while also providing a stimulating and rewarding workplace.

Audit Committee

All committee members are independent, non-executive members appointed by the Auditor-General. They are Mr Mark Anderson (Chair), 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. It also monitors the processes and controls in place to assure we operate economically, efficiently and effectively in the delivery of our objectives.

Audit Committee Chairman's report (year ended 30 June 2009)

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

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

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

Risk management

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

I, Desmond 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. These processes have been verified as being consistent with the Australian/New Zealand Risk Management Standard AS4360. VAGO has undertaken a Risk Framework Quality Review with the Victorian Managed Insurance Authority in line with our commitment in 2007–08.

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.



D D R Pearson
Auditor-General

25 August 2009

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
- reviewed the 3-year internal audit plan
- 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
- monitored the progress by the office on the implementation of the recommendations from the 2007 PAEC Performance Audit on the office
- reviewed and updated the Audit Committee charter to reflect the 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)
25 August 2009

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 protects whistleblowers who disclose improper conduct by public officers and public bodies, 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 powers under the *Audit Act 1994*.

During 2008–09, 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 Executive Director, Corporate Services is the office's protected disclosure coordinator. There were no disclosures on administrative matters during 2008–09.

Privacy legislation

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

Freedom of information

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

Our administrative processes, however, come under the state's freedom of information legislation. We did not receive any applications under this legislation in 2008–09.

National Competition Policy

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

Victorian Industry Participation Policy

In October 2003 the Victorian Parliament passed the *Victorian Industry Participation Policy Act 2003* that requires public bodies and departments to report on the 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 2008–09. 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 Strategic People and Culture Management Framework
- collecting diversity information from our staff survey to further inform diversity strategies in 2009–10.

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

- 28.4 per cent were born in countries outside Australia
- 34.1 per cent have a non-English speaking background
- 12 languages other than English are spoken
- 47.7 per cent speak at least one language other than English.

Quality

Quality assurance practices

We are committed to best practice in conducting 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:

- an independent performance audit of VAGO conducted every three years, with the auditor appointed by Parliament (see results in Appendix 1). The next audit is due in late 2010.
- an independent review of a sample of completed financial and performance audits to confirm that they follow professional auditing standards and the Auditor-General's policies. These reviews are conducted by audit professionals from other Australian audit offices
- 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.

Adhering to auditing standards

In addition to our quality assurance practices, the office 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 auditing 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 confirm that the audit meets professional standards
- having senior officers external to the audit team assigned to all high-risk audits to confirm the quality of the audit.

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



An ACAG meeting held in VAGO's office.

Strategic People and Culture Management Framework

The VAGO Strategic Plan identifies five key result areas (KRAs) for the organisation as a whole, including being an employer of choice. The strategies outlined in the plan to achieve these KRA are to demonstrate the relevance of the office to the public interest, 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 and implemented 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 assist our objective to be an employer of choice and enable a strategic and proactive approach to our culture, our people management practices, and our working conditions.

Policies have been created within each key result area, and are available on the VAGO intranet for staff information.

Workforce capacity

Our staffing profile

VAGO staff numbers are reported, below, in accordance with the financial reporting direction FRD 29.

[TABLE 15] Employee numbers at 30 June 2009

Year	Ongoing employees			Fixed-term and casual	
	Number (Headcount)	Full-time (Headcount)	Part-time (Headcount)	FTE	FTE
2007	143	132	11	139.6	3.8
2008	136	125	11	132.8	15.7
2009	142	132	10	139.2	10.0



[TABLE 16] Employee profile

	30 June 2009			30 June 2008		
	Ongoing		Fixed-term and casual	Ongoing		Fixed-term and casual
	Number (headcount)	FTE	FTE	Number (headcount)	FTE	FTE
Gender						
Male	72	71.8	1.0	70	69.8	4.9
Female	70	67.4	9.0	66	63.0	10.8
Age						
Under 25	7	7	0.0	25	25.0	0.6
25-34	66	65.2	3.0	46	45.6	1.6
35-44	29	27.8	4.0	31	29.8	7.5
45-54	27	26.4	3.0	23	22.2	5.0
55-64	13	12.8	0.0	11	10.2	1.0
Over 64	0	0.0	0.0	0	0.0	0.0
Classification						
VPS Executives	18	18.0	0.0	21	20.4	0.0
VPSG1	0	0.0	0.0	0	0.0	0.0
VPSG2	24	23.8	2.0	26	25.8	1.0
VPSG3	20	19.8	5.0	17	17.0	2.0
VPSG4	24	23.8	0.0	23	22.6	1.6
VPSG5	22	20.6	1.0	19	18.0	4.5
VPSG6	26	25.2	2.0	28	27.0	3.6
VPSG7	8	8.0	0.0	2	2.0	3.0

Recruitment and retention

The overall voluntary turnover for 2008–09 was 23.7 per cent, compared with 27.2 per cent for the previous year. Further detail is provided in Table 17.

[TABLE 17] Departures from VAGO

Year	Ongoing (including executives)		Fixed term and casual	Voluntary turnover rate
	Employees (headcount)	FTE	FTE	
2006–07	31	29.6	15.5	23.1%
2007–08	38	37.2	6	27.2%
2008–09	33	33	6	23.7%

Executive information

[TABLE 18] Number of executive officers classified into 'ongoing' and 'special projects' at 30 June 2009

Classification	All		Ongoing	
	Number	Variance	Number	Variance
EO1	0	0	0	0*
EO2	4	0	4	0
EO3	14	-3	14	-3
Total	18	-3	18	-3

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

[TABLE 19] Breakdown of executive officers into gender for 'ongoing' and 'special projects' at 30 June 2009

Classification	Male		Female		Ongoing vacancies
	Number	Variance	Number	Variance	
EO1	0	0	0	0	0*
EO2	3	-1	1	1	1
EO3	9	-2	5	-1	7
Total	12	-3	6	0	8

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

[TABLE 20] Reconciliation with executive numbers

	30 June 2009	30 June 2008
Executives employed with total remuneration over \$100 000	16	21
Add:		
Vacancies	8	5
Executives employed with total remuneration below \$100 000	7	6
Accountable officers ^(a)	1	1
Separations ^(b)	-5	-6
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, 2008-09

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, 2009 Extended and Varied Version.

All of VAGO's policies have been reviewed and all amendments incorporated to include any changes as a result of the extended agreement.

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.

Upon commencement with the office, all staff are given a copy of and 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 has been updated to emphasise individual health, including a specifically designed strategy to identify and manage hazards associated with psychological health. Activities in 2008–09 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
- implementing the OH&S Committee and appropriate health and safety representative training for key OH&S Committee members.

Environment Management Committee

The Environment Management Committee (EMC) aims to improve, monitor and report the environmental performance of the office. Meetings have been held on a monthly basis throughout 2008–09 and committee members have worked hard, both in these meetings and individually, to achieve the aims of the EMC and VAGO.

The main activity of the EMC in 2008–09, which was also part of VAGO's commitment to the *ResourceSmart* program, was developing an Environmental Action Plan, to assist in achieving VAGO's environmental targets and in meeting whole-of-government environmental goals, targets and objectives. This document is a blueprint which breaks down the targets into manageable steps and assigns responsibility, resources (both staff and financial) and a timescale to achieve each step. The Senior Management Group approved the Environmental Action Plan and it was submitted to Sustainability Victoria's *ResourceSmart* group in June 2009.

Throughout 2008–09 the EMC engaged in a number of activities to promote environmental awareness and empower staff members to assist in achieving VAGO's environmental targets. These included:

- regular presentations at the monthly Staff Communications Meetings, for example, think before you print, reduction in energy consumption, etc.
- participation in environment events, for example, Earth Hour
- ensuring signage is around the office to promote environmental awareness
- change agent training for the EMC members
- updating the environment policy to include references to external parties and extend the policy beyond the office environment at VAGO.

The main tasks for the EMC in 2009–10 will be the implementation of the Environmental Action Plan and looking for new opportunities that may arise, which have not yet been identified or included in our current plan.

VAGO Social Club

VAGO's very active social club creates opportunities for staff to socialise beyond work and work hours. VAGO teams participate in bike rides, corporate games, indoor cricket and other individual and team sports. Club members also have access to various discounts, and are involved in a number of fundraising activities, such as sponsoring a child in Uganda.



Promoting accountability and continuous improvement

As part of our commitment to promoting improvement in the public sector, we look for opportunities to share lessons from our audits with government, peak bodies, individual agencies and the general public.

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 public sector generally, such as governance, asset management and business systems (see Table 22).

This year, the Auditor-General delivered keynote addresses at national and international events on topics, including the importance of record keeping for

accountability, managing infrastructure assets for public value and the challenges to independence in a changing service delivery landscape.

We also value the opportunity to promote performance and accountability to new entrants to the Victorian public sector. In 2008–09 the Victorian branch of the Institute of Public Administration Australia (IPAA) has included presentations by the Auditor-General and VAGO staff as a regular feature in their 'How Governments Work' course, aimed at participants new to government. In December 2008 some of our younger audit staff presented to the Victorian public sector graduate program, emphasising the importance of accountability and encouraging them to embrace and learn from audits and reviews across their careers.

TABLE 22 [] Auditor-General presentations, 2008–09

Date	Presentation to	Topic
24-July-2008	16th Annual Congress on Archives—Kuala Lumpur	Archives, Auditors and Accountability: Strategic Alliances
13-Aug-2008	Launch of Deloitte Survey Report	Introduction speech—'Mastering Finance in Government: Transforming the Government Enterprise through better Financial Management'
21-Aug-2008	Victoria University	'Public sector audit in the 21st Century—Where are we heading?'
28-Aug-2008	VAGO/DTF/ANZSOG launch - Smarter Investments for Better Public Sector Outcomes	Launch of Investing Smarter in Public Sector ICT
11-Sep-2008	Australia New Zealand School of Government - Annual Conference 2008—Making Federalism Work	Evaluation and Review
19-Nov-2008	Australian Health Services Finance Managers National Conference 2008	Checks & balances: Insights from audits in Victoria's health sector
01-Dec-2008	Kyneton Rotary Club	Parliament's Auditor—Role and Perspectives
04-Dec-2008	Department of Justice Executive Forum	Parliament's Auditor—Role and Perspectives
20-Jan-2009	IPAA Victoria—How Government Works	Parliament's Auditor—Role and Perspectives
09-Feb-2009	WBI/CPA/LaTrobe Summer School	WBI/CPA/LaTrobe Fourth Residential Summer School for Public Accounts Committees
23-Feb-2009	IPAA/Department of Planning & Community Development—How Government Works	Parliament's Auditor—Role and Perspectives
11-Mar-2009	Cooperative Research Centre for Integrated Engineering Asset Management, Canberra	Managing infrastructure assets: an audit perspective
16-Apr-2009	10th Biennial Conference of the Australasian Council of Public Accounts Committees, Wellington, NZ	Issues for maintaining independence: A survey of Australia's public audit legislation
21-Apr-2009	Essendon Rotary Club	Parliament's Auditor—Role and Perspectives
04-May-2009	Privacy Victoria	Launch of Privacy Awareness Week
07-May-2009	Monash University, Monash Governance Research Unit	Parliament's Auditor—Role & Perspectives
24-June-2009	ICAA Regional Council Meeting	Current issues in public sector audit

In addition to presentations and addresses, we leverage our audit role in other ways to promote improvements in accountability and performance, providing comments to parliamentary bodies and government on draft legislation, new proposals for financial management and intended changes to financial reporting frameworks.

During 2008–09, we welcomed the opportunity to provide comment to the Department of Education and Early Childhood Development on accountability issues around proposed new higher education legislation.

VAGO also continued to work closely with the Department of Treasury and Finance and the Public Accounts and Estimates Committee (PAEC) to assist them in advising government on the review of the *Financial Management Act 1994* and related legislation. The PAEC report on their inquiry: *New Directions in Accountability*, picked up many of our suggestions of areas for improvement, including a greater focus on performance reporting, need for clarity of the coverage of public finance legislation and the importance of timely annual reports.

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.

Building on our core audit program, these communication and liaison activities provide us with the opportunity to share lessons from our audits, promote improvement and drive improvements in accountability in Victoria.

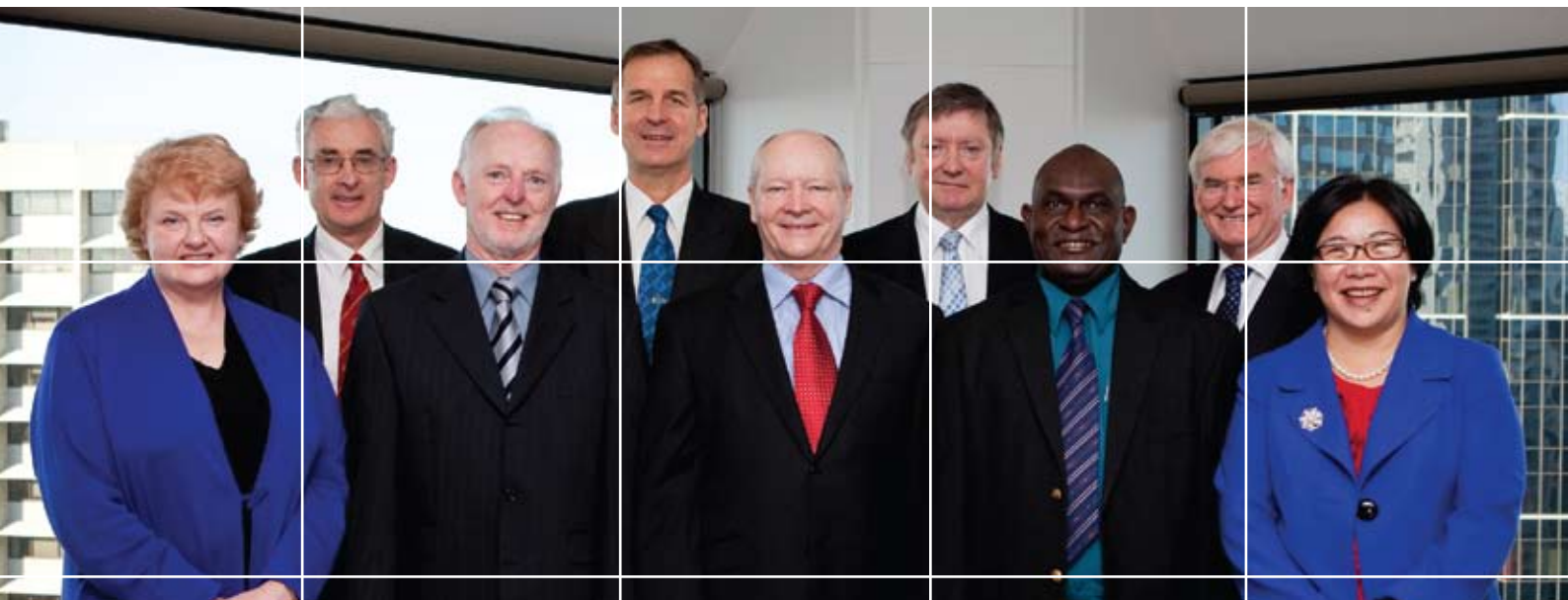
Contributions to the Australasian Council of Auditors-General

In 2008–09 VAGO took a prominent role in the development of public sector audit nationally and internationally, through our participation in the Australasian Council of Auditors-General (ACAG).

The Auditor-General attended two ACAG meetings in Brisbane in November 2008 and in Wellington in April 2009. 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.

Through ACAG, VAGO made significant contributions to two submissions to parliamentary inquiries into audit legislation in Tasmanian and Commonwealth jurisdictions.

Another key event for VAGO's involvement with ACAG was our contribution to the annual conference of the Australasian Council of Public Accounts Committees. The Auditor-General addressed the conference on our research applying the international



Pictured above from L-R: Members of the Australasian Council of Auditors-General: Phillipa Smith (NZ), Mike Blake (Tasmania), Colin Murphy (WA), Peter Achterstraat (NSW), Des Pearson (Vic), Frank McGuinness (NT), Mr Peter Siperau (PNG), Glenn Poole (QLD), Tu Pham (ACT)

best practice principle of independence to Australian audit legislation, stimulating debate and discussion on the impact of new service delivery mechanisms on accountability and audit.

Office representatives also participated in a range of sub-groups, including:

- heads of performance audit
- information systems audits
- practice management
- quality assurance
- financial reporting and auditing committee.

These networks provide important opportunities for our staff to share views, and influence the national agenda on issues of significance to VAGO. Using these networks, we collected comparative information on topics such as the application of new accounting standards for infrastructure assets and performance assessment for audit committees.

A key sub-group focus in 2008–09 has been the joint ACAG Quality Assurance project, a shared quality framework to enable audit offices to self- and peer-assess against key internal and external quality requirements, ahead of any external audit or compliance requirements. VAGO piloted this framework, and was an active member of the ACAG working group that finalised the toolkit in March 2009.

International liaison

VAGO has a history of providing support for audit offices and parliaments of countries seeking to develop their capacity to improve accountability within their jurisdictions.

In August 2008 we again participated in CPA Australia's International Partnership Program, funded through AusAid. VAGO offered participants from Samoa, Vietnam, Papua New Guinea and Laos an orientation on the role of the Auditor-General and our approach to Parliament's audit mandate.

The Auditor-General took part in the World Bank Institute/Commonwealth parliamentary Association's February 'Summer School' for Public Accounts Committee members, leading a session with participants from ten countries across the Asia-Pacific region.

In March 2009, we hosted two delegations from the Chinese National Audit Office, offering training on our approaches to performance auditing and auditing information systems.

Secondments and internships are also a significant part of our international liaison approach. In 2008–09, VAGO has hosted four auditors from the office of the Maldives Auditor-General, giving them a broad range of experience on financial and performance audit teams, across metropolitan and regional audits.

In addition to this capacity-building work, VAGO has built our own awareness of international good practice through hosting a visit from Errol Price, Deputy Auditor-General of British Columbia, in March 2009. Whilst at the office, Mr Price shared the outcomes of a recent re-engineering initiative for British Columbia's performance audit program, discussed the potential for secondment and exchange arrangements for audit staff and shared Canadian directions in public sector performance reporting.

Overseas travel

From 23 to 25 July 2008 Des Pearson attended the International Congress on Archives in Kuala Lumpur and presented a paper in the session 'Archives, Auditors and Accountability: Strategic Alliances.'

Between 3 and 5 September 2008 Marco Bini attended the 5th International Conference of Accounting, Auditing and Management in Public Sector Reform organised by the European Institute for the Advanced Study of Management to deliver a paper, 'Piecing together the fragments: Statutory Government in Victoria—a new approach.' In the UK he visited the National Audit Office. He also visited the Dutch Court of Audit in Amsterdam.

From 14 to 17 April 2009 Des Pearson attended a meeting of the Australasian Council of Auditors-General in Wellington and also participated in the Tenth Biennial Conference of the Australasian Council of Public Accounts Committees.

In May 2009 Jenni Lillingston attended the Government Information System Managers' Forum and consulted with the New Zealand Audit Office in Wellington.

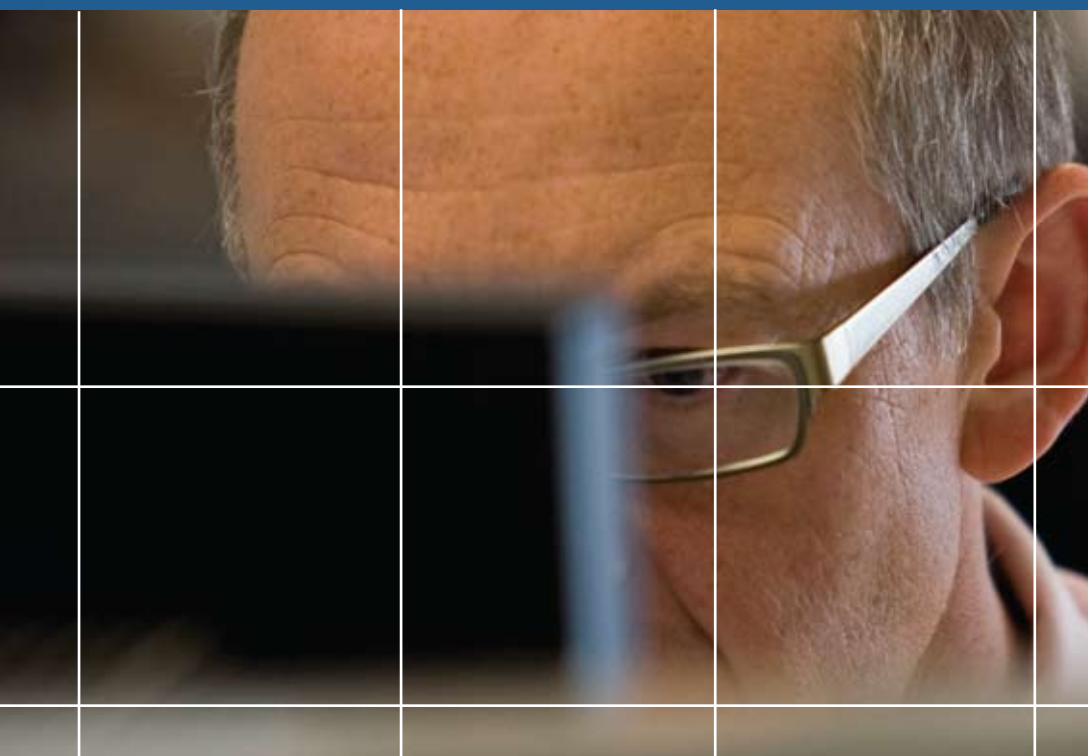
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Section 4

Financial management

In this section ...

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



Financial performance	50
Financial position	53
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Financial performance

Our net financial result for the year was a deficit of \$1 411 380 (deficit of \$1 917 656, 2007–08), managed through accumulated surpluses.

Financial audit fee income for the year was \$19.317 million (\$17.910 million, 2007–08).

Financial performance

We are predominantly funded by parliamentary appropriations. Total appropriation for the office was \$31.4 million in 2008–09.

Our 2008–09 financial result was achieved in an environment where revenue and costs were maintained at a level similar to that of the prior financial year. For the second consecutive year the office's end result was a deficit, which was funded via prior year surpluses. To address this issue, the office undertook a pricing review during the year, in consultation with the Department of Treasury and Finance. The review looked at the pricing methodology used by the office, and the level of funding required for ongoing operations. As a result, additional funding has been provided to the office for 2009–10.

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

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

Table 23 shows the movement in both actual revenues and expenses.

In 2008–09 appropriation authority for financial statement audits was obtained through an arrangement under section 29 of the *Financial Management Act 1994*. This arrangement provides for the establishment of a facility where the revenue collected from financial statement audits establishes the appropriation authority to enable the office to incur expenditure. On 7 June 2006 legislative changes brought Section 29 revenue to account on an accrual basis whereas previously it was accounted for on a cash basis.

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

[TABLE 23] VAGO revenues and expenses, 2008–09 and previous four years

Item	Actual 2008–09 (\$'000)	Actual 2007–08 (\$'000)	Actual 2006–07 (\$'000)	Actual 2005–06 (\$'000)	Actual 2004–05 (\$'000)
Revenue –					
Appropriation	11 696	12 182	10 942	10 472	10 083
Section 32 carry forward ^(a)	–	338	776	760	296
Section 29 ^(b)	19 317	17 910	15 749	14 996	14 268
Special Appropriation	410	431	410	321	276
Other	222	353	136	190	320
Total revenue	31 645	31 214	28 013	26 739	25 243
Total expenses	33 056	33 131	27 055	25 830	24 277
Surplus/(deficit)	(1 411)	(1 917)	958	909	966

Notes: The office is permitted under the *Financial Management Act 1994* to either annotate certain receipts or carry them forward to the following financial year.

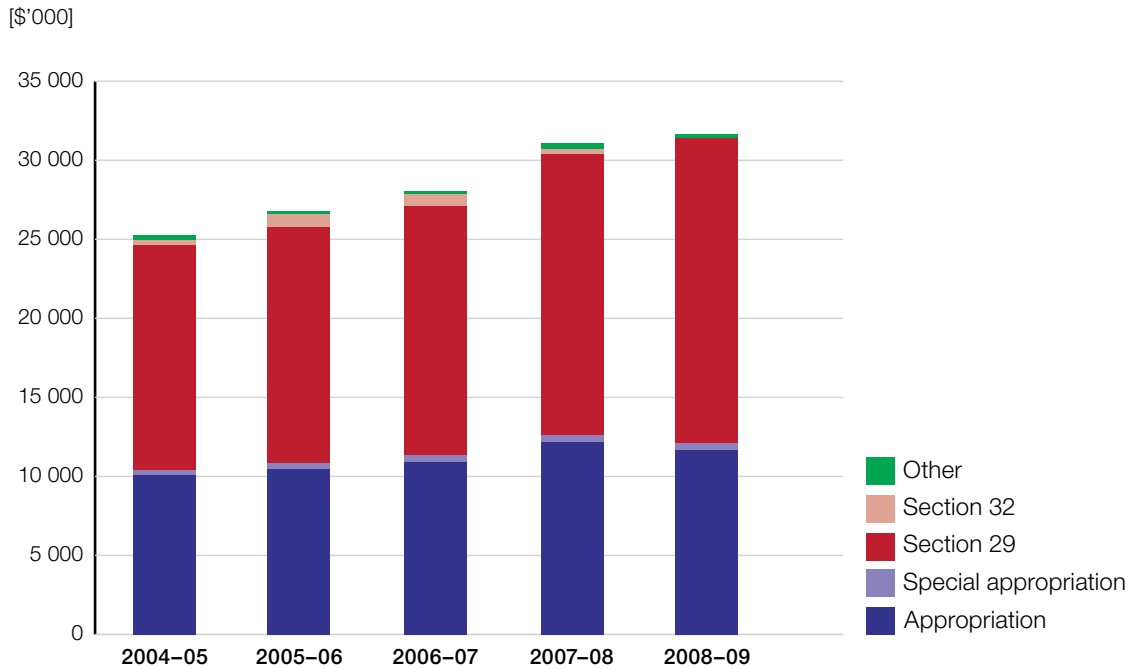
(a) Section 32: The office is permitted, under section 32, to obtain approval from the Treasurer to carry forward a nominated amount from its annual appropriation to the following financial year where the amount is not applied or is unlikely to be applied in the current financial year.

(b) Section 29: Under section 29, certain receipts can be annotated to the annual appropriation. The financial statement audit fee 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 back to VAGO.

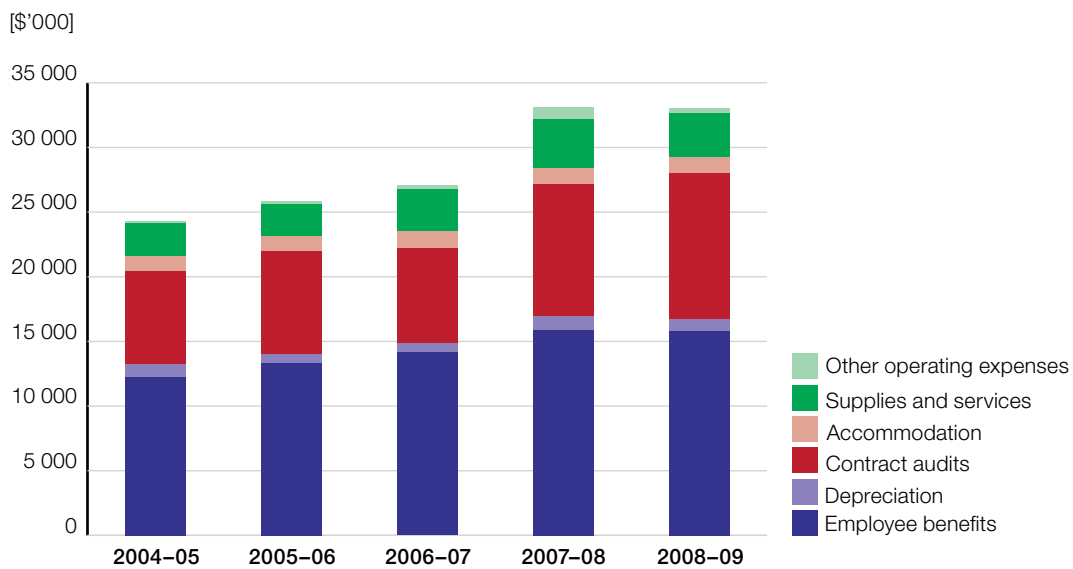
The increased S29 revenue in 2008–09 is a result of increased audit fees related to increased audit effort required by audit standards and brought forward work on financial statements to facilitate more timely reporting by entities.

Figure 11 shows the source of our funding over the past five years.

[FIGURE 11] Revenues, 2008-09 and four previous years



[FIGURE 12] Expenses, 2008-09 and four previous years



[TABLE 24] Expenses from ordinary activities for 2008–09 and previous four years

Item	Actual 2008–09 (\$'000)	Actual 2007–08 (\$'000)	Actual 2006–07 (\$'000)	Actual 2005–06 (\$'000)	Actual 2004–05 (\$'000)
Expenses					
Depreciation	928	1 028	768	685	972
Employee benefits	15 829	15 892	14 135	13 325	12 236
Contract audits	11 220	10 213	7 328	7 925	7 208
Accommodation	1 308	1 260	1 297	1 168	1 195
Supplies and services	3 297	3 788	3 207	2 485	2 532
Other operating expenses	474	950	320	242	134
Total expenses	33 056	33 131	27 055	25 830	24 277

Note: The office's expenditure in 2008–9 was significantly affected by:

- increase 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 increased output of parliamentary reports on our audits
- decrease in other expenditure due to the capital asset charge and services received free of charge

Output results

[TABLE 25] Total revenues and expenses attributed to outputs for 2008–09

Output group	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)
1. Parliamentary reports and services	12 124	13 275	(1 151)
2. Audit reports on financial statements	19 521	19 781	(260)
Total	31 645	33 056	(1 411)

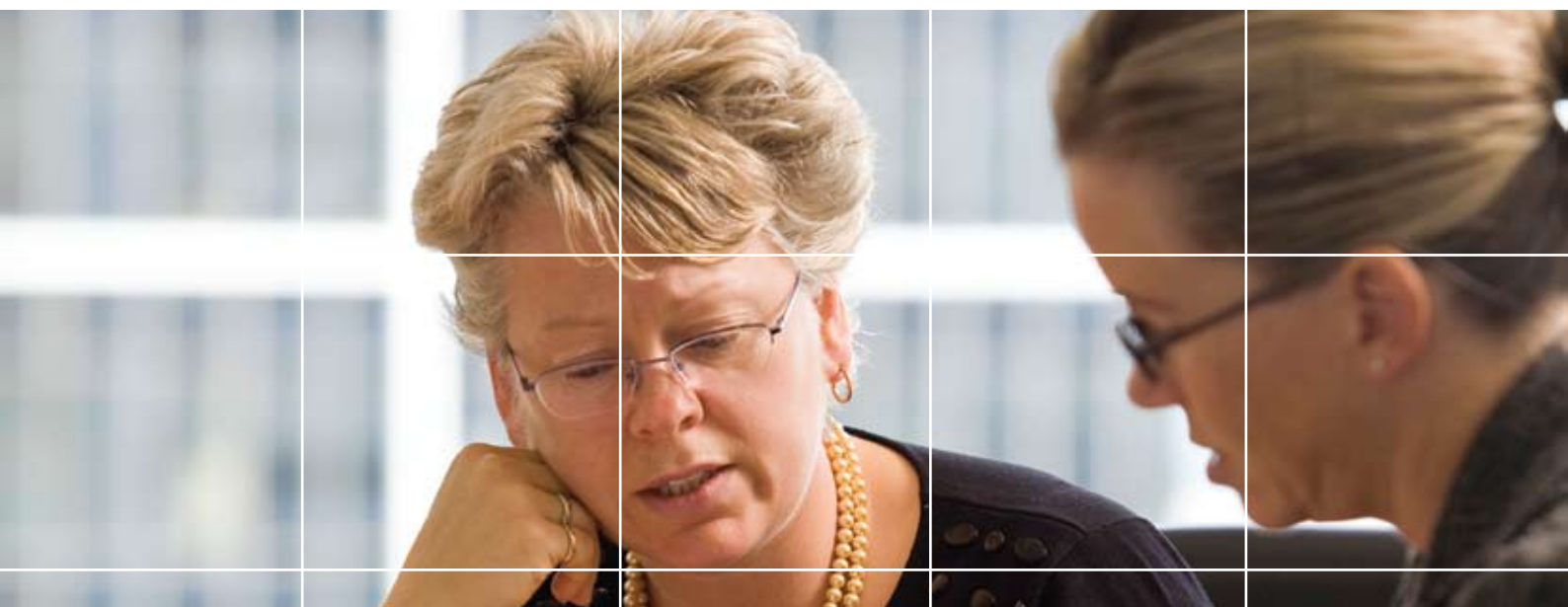
Financial position

Our financial position at 30 June 2009 remains strong, with total assets of \$10.85 million, total liabilities of \$5.73 million and net assets of \$5.12 million.

Table 26 shows asset and liability movement over five years.

[TABLE 26] Asset and liability movement over five years

Item	Actual 2008-09 (\$'000)	Actual 2007-08 (\$'000)	Actual 2006-07 (\$'000)	Actual 2005-06 (\$'000)	Actual 2004-05 (\$'000)
Financial assets	7 933	7 980	9 591	10 150	9 735
Non-financial assets	2 924	3 312	3 878	2 027	1 685
Total assets	10 857	11 292	13 469	12 177	11 420
Total liabilities	5 732	4 748	5 006	4 633	4 784
Net assets	5 125	6 544	8 463	7 544	6 636



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 18 projects during the year, costing \$324 572. No individual consultancy project exceeded \$100 000.

Financial audit service providers

In 2008–09, we paid \$9.671 million (\$8.614 million in 2007–08) to 23 audit firms for work on financial statement audits as our agents.

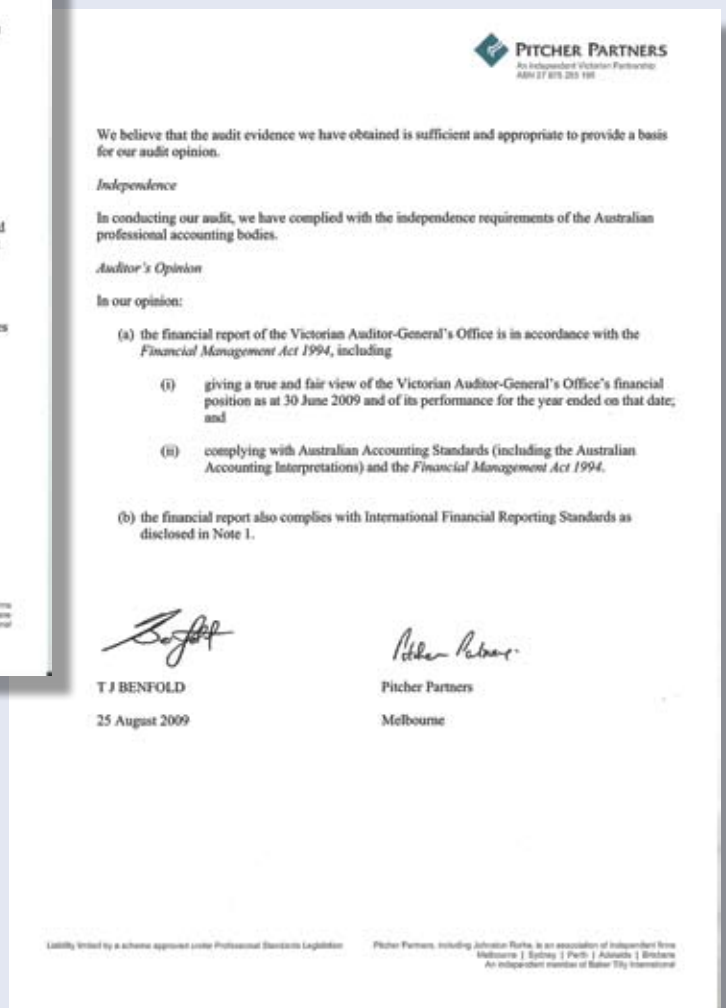
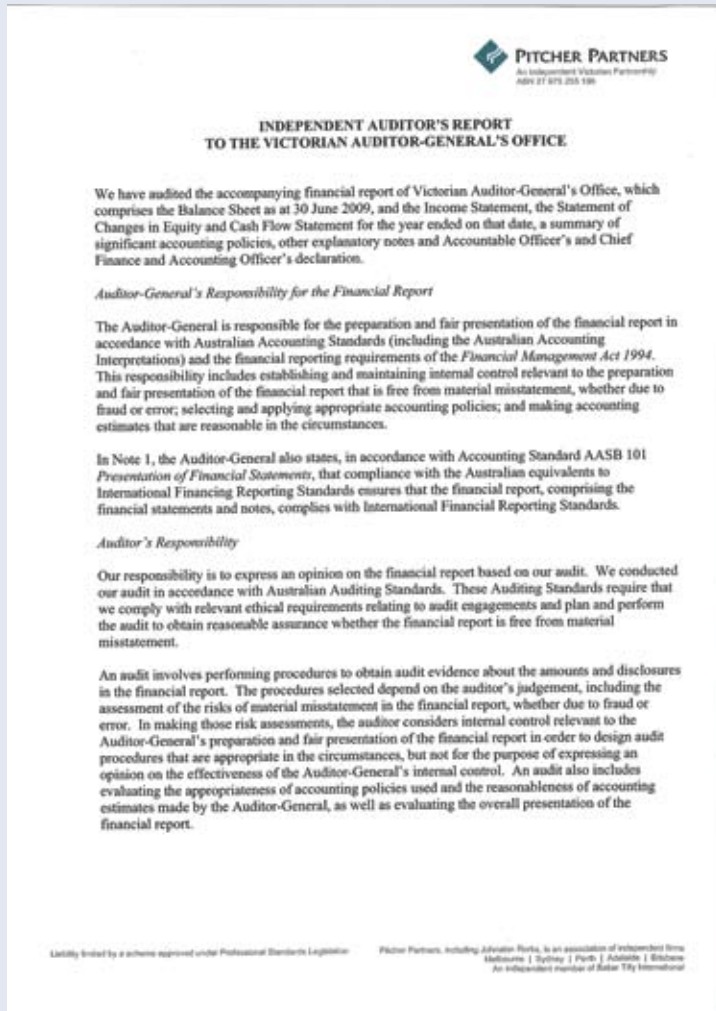
TABLE 27 Financial statement audits, payments to audit service providers, 2008–09

Audit service provider	2008–09 (\$'000)	2007–08 (\$'000)
Cardell Assurance & Audit	5	–
Coffey Hunt & Co	435	462
Daley & Co	9	–
Davidsons	130	111
Deloitte Touche Tohmatsu	694	417
DFK Collins	524	454
Ernst & Young	1 081	1 186
Evolve Accounting Solutions	30	–
Grant Thornton	14	–
Hayes Knight Audit Pty Ltd	15	–
HLB Mann Judd (Vic) Pty Ltd	1 150	1 184
Johnsons MME	204	200
KPMG	398	299
Mclean Delmo Hall Chadwick	333	231
Mulqueen Griffin Rogers P/L	131	201
Pannell Kerr Forster	57	49
PricewaterhouseCoopers	26	–
Richmond Sinnott & Delahunty	695	771
RSM Bird Cameron	1 266	930
UHY Haines Norton (Vic) Pty Ltd	807	758
WHK Armitage Downie Pty Ltd	414	349
WHK Audit & Risk Assessment (previously KPMG Albury)	219	271
WHK Horwath (previously WHK Day Neilson)	945	730
Other— 2 service providers (1 in 2007–08)	89	11
Total	9 671	8 614

Financial Report

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Independent auditor's report



Accountable Officer's and Chief Finance and Accounting Officer's declaration

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

We further state that, in our opinion, the information set out in the Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2009 and financial position of VAGO at 30 June 2009.

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 20 August 2009.



D D R Pearson
Auditor-General

Melbourne
20 August 2009



J Watson
Chief Finance and Accounting Officer

Melbourne
20 August 2009

Comprehensive operating statement

for the financial year ended 30 June 2009

	Note	2008–09	2007–08
		\$	\$
Continuing operations			
Income from transactions			
Output appropriations	2, 4(a)	31,013,166	30,430,176
Special appropriations	2, 4(b)	409,707	430,874
Sales of goods and services	4(c)	192,975	92,677
Fair value of services received free of charge	4(d)	29,175	260,000
Total income from transactions		31,645,023	31,213,727
Expenses from transactions			
Employee benefits	5(a)	15,828,548	15,892,296
Depreciation and amortisation	5(b)	927,867	1,027,637
Interest expense	5(c)	35,889	26,290
Capital asset charge		253,000	810,000
Fair value of services provided free of charge		101,431	102,571
Contract audit services		11,219,829	10,213,452
Rental expenses - accommodation		1,307,836	1,260,264
Recruitment and training		846,759	889,976
Other operating expenses	5(d)	2,449,857	2,897,727
Total expenses from transactions		32,971,016	33,120,213
Net result from transactions (net operating balance)		(1,325,993)	(1,906,486)
Other economic flows included in net result			
Net gain/(loss) on non-financial assets	6(a)	(20,455)	(11,170)
Other gains/(losses) from other economic flows	6(b)	(64,932)	–
Total other economic flows included in net result		(85,387)	(11,170)
Net result from continuing operations		(1,411,380)	(1,917,656)
Net result		(1,411,380)	(1,917,656)
Comprehensive result		(1,411,380)	(1,917,656)

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

Balance sheet

as at 30 June 2009

	Note	2008-09	2007-08
		\$	\$
Assets			
Financial assets			
Cash	18(a)	900	900
Receivables	8	7,932,229	7,979,300
Total financial assets		7,933,129	7,980,200
Non-financial assets			
Property, plant and equipment	10	2,633,235	2,999,444
Other	9	290,237	312,077
Total non-financial assets		2,923,472	3,311,521
Total assets		10,856,601	11,291,721
Liabilities			
Payables	11	1,810,511	1,279,022
Interest bearing liabilities	12	343,461	318,983
Provisions	13	3,577,858	3,149,701
Total liabilities		5,731,830	4,747,706
Net assets		5,124,771	6,544,015
Equity			
Accumulated surplus		4,823,241	6,234,621
Contributed capital		301,530	309,394
Total equity		5,124,771	6,544,015

Commitments for expenditure 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 2009

	Equity at 1 July 2008 \$	Total comprehensive result \$	Transactions with owners in their capacity as owners \$	Equity at 30 June 2009 \$
Accumulated surplus / (deficit)	6,234,621	(1,411,380)	–	4,823,241
	6,234,621	(1,411,380)	–	4,823,241
Contributions by owners	309,394	–	–	309,394
Withdrawal of equity	–	–	(7,864)	(7,864)
	309,394	–	(7,864)	301,530
Total equity at end of financial year	6,544,015	(1,411,380)	(7,864)	5,124,771

	Equity at 1 July 2007 \$	Total comprehensive result \$	Transactions with owners in their capacity as owners \$	Equity at 30 June 2008 \$
Accumulated surplus / (deficit)	8,152,277	(1,917,656)	–	6,234,621
	8,152,277	(1,917,656)	–	6,234,621
Contributions by owners	311,027	–	–	311,027
Withdrawal of equity	–	–	(1,633)	(1,633)
	311,027	–	(1,633)	309,394
Total equity at end of financial year	8,463,304	(1,917,656)	(1,633)	6,544,015

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 2009

	<i>Note</i>	2008–09 \$	2007–08 \$
Cash flows from operating activities			
<i>Receipts</i>			
Receipts from Government		33,376,455	34,196,041
Receipts from other entities		192,975	92,677
Goods and Services Tax recovered from the ATO		1,722,100	1,766,445
Total receipts		35,291,530	36,055,163
<i>Payments</i>			
Payments to suppliers and employees		(32,853,617)	(32,662,297)
Goods and Services Tax paid to the ATO		(1,815,036)	(1,944,291)
Capital asset charge		(253,000)	(810,000)
Finance costs		(23,861)	(26,290)
Total payments		(34,945,514)	(35,442,878)
Net cash flows from/(used in) operating activities	18(b)	346,016	612,285
Cash flows from investing activities			
Payments for non-financial assets		(492,173)	(587,866)
Proceeds from sale of non-financial assets		121,679	132,742
Net cash flows from/(used in) investing activities		(370,494)	(455,124)
Cash flows from financing activities			
Proceeds from finance leases		238,868	64,804
Repayment of finance leases		(214,390)	(221,965)
Net cash flows from/(used in) financing activities		24,478	(157,161)
Net increase/(decrease) in cash held		–	–
Cash at the beginning of the financial year		900	900
Cash at the end of the financial year	18(a)	900	900

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

Notes to the financial statements

for the financial year ended 30 June 2009

Note 1. Summary of significant 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 and Interpretations (AASs), applicable Financial Reporting Directions and other mandatory professional reporting requirements. AASs include Australian equivalents to International Financial Reporting Standards.

In complying with AASs, VAGO has, where relevant, applied those paragraphs applicable to not-for-profit entities.

The financial report was authorised for issue by DDR Pearson (Auditor-General) and J Watson (Chief Finance and Accounting Officer) on 25 August 2009.

(b) Basis of preparation

The financial statements have 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 2009 and the comparative information presented for the year ended 30 June 2008.

(c) Scope and presentation of financial statements

Early adoption of AASB101 Presentation of financial statements (September 2007).

As a result of a state wide policy to improve consistency in public sector reporting, VAGO has revised the presentation of its complete set of financial statements to align with the AASB 1049 *Financial reporting of general government sectors by governments* presentation format, used in the Financial Report for the State and the general government sector. In addition, VAGO has also early adopted the September 2007 version of AASB 101 *Presentation of financial statements*.

In keeping with AASB 101 *Presentation of financial statements* (September 2007) this complete set of financial statements includes the following changes:

(a) the notion of

- 'a complete set of financial statements' rather than using 'financial report';
- 'changes in equity' rather than 'movements in equity'; and
- transactions with owners in their capacity as owners' rather than 'transactions with owners as owners'.

(b) references to equity holders as owner.

Some of the changes applied to the financial statements and notes as a result of alignment to AASB 1049 that are allowable under the AASB 101 (September 2007) include the following:

- extended operating statement incorporating non-owner changes in equity, which is now referred to as comprehensive operating statement;
- items being presented by liquidity order in the balance sheet;
- the inclusion of a limited number of Government Finance Statistics (GFS) classifications, such as income or expenses from transactions, and other economic flows; and
- a glossary of terms included in the notes explaining certain terms, including GFS terms adopted.

Comprehensive operating statement

The comprehensive operating statement includes items previously included in the statement of changes in equity.

Income and expenses in the comprehensive operating statement are separated into either 'transactions' or 'other economic flows'.

Balance sheet

Items of assets and liabilities in the balance sheet are:

- ranked in liquidity order;
- aggregated into financial and non-financial assets;
- classified according to GFS terminology, but retain measurement and disclosure rules under existing accounting standards applicable to VAGO; and
- current versus non-current assets and liabilities are disclosed in the notes where relevant.

Statement of changes in equity

The statement of changes in equity presents reconciliations of each non-owner and owner equity opening balance at the beginning of the year to the closing balance at the end of the year, showing separately movements

due to amounts recognised in the comprehensive result and amounts recognised in equity related to transactions with owners in their capacity as owners.

Cash flow statement

The cash flow statement classifies flows by operating, investing and financing activities in accordance with AASB 107 *Cash Flow Statements*. There were no significant changes due to alignment of VAGO's financial statements presentation formats to AASB 1049.

(d) Reporting entity

The financial statements include all the controlled activities of VAGO.

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.

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.

(e) Administered activities

Administered items

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 3. 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 3.

(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 reporting 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)

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

Commitments and contingent assets or liabilities are presented on a gross basis.

(h) Income from transactions

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.

Amounts disclosed as income 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 income in the schedule of administered income and expenses (see note 3). Revenue is recognised for each of VAGO's major activities as follows:

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.

Sales of goods and services

Revenue from the provision of services

Revenue from the provision of services is recognised by reference to the stage of completion of the contract. The revenue is recognised when:

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

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.

Fair value of services received free of charge

Contributions of services received free of charge are recognised at their fair value when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated.

(i) Expenses from transactions

Employee benefits

Expenses for employee benefits are recognised when incurred, except for contributions in respect of defined benefit plans.

Superannuation - defined benefit plans

The amount charged to the comprehensive 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

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is generally calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. Note 10 provides details on the estimated useful lives that are used in the calculation of depreciation on property, plant and equipment.

Interest expense

Interest expenses are recognised as expenses in the period in which they are incurred.

Capital asset charge

Capital asset charge is calculated on the budgeted carrying amount of non-current physical assets.

Other operating expenses

Contract audit services, rental expenses and other operating expenses

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

Fair value of services provided free of charge

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

(j) Other economic flows included in net result

Other economic flows measure the change in volume or value of assets or liabilities that do not result from transactions.

Net gain/(loss) on non-financial assets

Net gain/(loss) on non-financial assets and liabilities includes realised and unrealised gains and losses from revaluations, impairments, and disposals of all physical assets.

Disposal of non-financial assets

Any gain or loss on the sale of non-financial assets is recognised at the date that control of the asset is passed to the buyer and is determined after deducting from the proceeds the carrying value of the asset at that time.

Net profits or losses on disposal of motor vehicles held under finance leases are treated as a controlled item, and disclosed in the comprehensive operating statement.

When any other type of plant and equipment is disposed of, the disposal proceeds are treated as an administered item, being remitted to the Consolidated Fund according to the provisions of the *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*.

Impairment of non-financial 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, except for:

- financial assets (refer note 1(l)); and
- non-current physical assets held for sale (refer note 1(m)).

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 as an other economic flow, 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.

Net gain/(loss) on financial instruments

Net gain/(loss) on financial instruments includes realised and unrealised gains and losses from revaluations of financial instruments that are designated at fair value through profit or loss or held-for-trading, impairment and reversal of impairment for financial instruments at amortised cost, and disposals of financial assets

Revaluation of financial instruments at fair value

The revaluation gain/(loss) on financial instruments at fair value excludes dividends or interest earned on financial assets, which is reported as part of income from transactions.

Impairment of financial assets

Bad and doubtful debts are assessed on a regular basis. Those bad debts considered as written off by mutual consent are classified as a transaction expense. The allowance for doubtful receivables and bad debts not written off by mutual consent are adjusted as 'other economic flows'.

Other gains/(losses) from other economic flows

Other gains/(losses) from other economic flows include the gains or losses from reclassifications of amounts

from reserves and/or accumulated surplus to net result, and from the revaluation of the present value of the long service leave liability due to changes in the bond interest rates.

(k) Administered income

VAGO does not gain control over assets arising from audit fees, consequently no income is recognised in VAGO's financial statements.

VAGO collects these amounts on behalf of the Victorian Government. Accordingly, the amounts are disclosed as income in the schedule of Administered Items (see note 3).

(l) Financial assets

Cash

Cash comprises cash on hand

Receivables

Receivables mainly represent amounts owing from the Victorian Government. Receivables and work-in-progress related to audit fees raised are reported as administered items in note 3.

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

A provision for doubtful receivables is made when there is objective evidence that the debts may not be collected, and bad debts are written off when identified (refer to note 1(j)).

(m) Non-financial assets

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 physical 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 comprehensive 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 comprehensive operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset.

(n) Liabilities

Payables

Payables consist predominantly of creditors and other sundry liabilities. Payables are initially measured at fair value, being the cost of goods and services, and then subsequently measured at amortised cost.

Interest bearing liabilities

Interest bearing liabilities are initially measured at fair value, being the cost of the interest bearing liabilities, 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 comprehensive 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 in the notes to the financial statements as a current liability even where VAGO does not expect to settle the liability within 12 months because it

will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- 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. Gain or loss following revaluation of the present value of the LSL liability due to changes in bond interest rates is recognised as an other economic flow (refer to note 1(j)).

(iii) Performance incentive payments

The Executive Officers' performance incentive benefits for the performance review period to 30 June 2009, payable within the next financial year, are classified as a current liability in the balance sheet.

(o) Commitments

Commitments are disclosed at their nominal value and inclusive of the GST payable.

(p) Equity

Contributions by owners

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

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.

(q) Functional and presentation currency

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

(r) Rounding of amounts

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

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting period. DTF assesses the impact of these new standards and advises departments and other entities of their applicability and early adoption where applicable.

As advised in note 1(c) VAGO has early adopted the September 2007 version of AASB 101.

As at 30 June 2009, the following standards and interpretations (applicable to VAGO) had been issued but were not mandatory for financial year ending 30 June 2009. VAGO has not, and does not intend to, adopt these standards early.

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on VAGO financial statements
AASB 123 <i>Borrowing Costs</i>	Option to expense borrowing cost relating to a qualifying asset had been removed. Entities are now required to capitalise borrowing costs relevant to qualifying assets.	Beginning 1 January 2009	VAGO continues to expense borrowing costs.
AASB 2007-6 <i>Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]</i>	An accompanying amending standard, also introduced consequential amendments into other Standards.	Beginning 1 January 2009	Standard will have no impact to not-for-profit public sector as departments have an exemption from capitalising borrowing costs.
AASB 2007-10 <i>Further Amendments to Australian Accounting Standards arising from AASB 101</i>	This Amending Standard changes the term 'general purpose financial report' to 'general purpose financial statements' and the term 'financial report' to 'financial statements'.	Beginning 1 January 2009	Impact is insignificant.
AASB 2008-5 <i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASBs 5, 7, 101, 102, 107, 108, 110, 116, 118, 119, 120, 123, 127, 128, 129, 131, 132, 134, 136, 138, 139, 140, 141, 1023 & 1038]</i>	Some amendments result in accounting changes for presentation, recognition and measurement purposes, while some other amendments that relate to terminology and editorial changes are expected to have no or minimal effect on VAGO's accounting.	Beginning 1 January 2009	Impact is being evaluated.
AASB 2008-9 <i>Amendments to AASB 1049 for Consistency with AASB 101</i>	Amendments to AASB 1049 for consistency with AASB 101 (September 2007 version).	Beginning 1 January 2009	Not applicable to public sector entities except for certain presentation formats.
AASB 2009-1 <i>Amendments to Australian Accounting Standards - Borrowing Costs of Not-for-Profit Public Sector Entities [AASB 1, AASB 111 & AASB 123]</i>	The amendments arise from the AASB's review of the requirements in AASB 123 to capitalise borrowing costs. In February 2009, the AASB decided that not-for-profit public sector entities could continue to expense borrowing costs attributable to qualifying assets pending the outcome of various IPSASB/ AASB projects	Operative for periods beginning on or after 1 Jan 2009 that end on or after 30 Apr 2009	VAGO continues to expense borrowing costs.
AASB 2009-2 <i>Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]</i>	These amendments arise from the issuance of <i>Improving Disclosures about Financial Instruments (Amendments to IFRS 7)</i> by the IASB in March 2009. The amendments require enhanced disclosures about fair value measurements and liquidity risk.	Operative for periods beginning on or after 1 Jan 2009 that end on or after 30 Apr 2009	Impact is being evaluated.

Standard / Interpretation	Summary	Applicable for annual reporting periods beginning or ending on	Impact on VAGO financial statements
AASB 2009-6 <i>Amendments to Australian Accounting Standards</i>	This standard makes numerous editorial amendments as a consequence of the issuance in September 2007 of a revised AASB 101. For example, the term 'revaluation reserve' is changed to 'revaluation surplus'.	Operative for periods beginning on or after 1 Jan 2009 that end on or after 30 Jun 2009	Impact is expected to be insignificant.
AASB 2008-3 <i>Amendments to Australian Accounting Standards arising from AASB 3 & AASB 127 [AASB 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]</i>	This Standard gives effect to consequential editorial changes to other Australian Accounting Standards arising from revised AASB 3 and amended AASB 127.	Beginning 1 Jul 2009	Impact is being evaluated.
AASB 2008-13 <i>Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110]</i>	Some of the amendments are in respect of the classification, presentation and measurement of non-current assets held for distribution to owners in their capacity as owners.	Beginning 1 Jul 2009	Impact is being evaluated.
AASB 2009-4 <i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]</i>	Various consequential amendments to existing standards as a result of IASB's Annual Improvements project.	Beginning 1 Jul 2009	Impact is expected to be insignificant.
AASB 2009-7 <i>Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]</i>	A suite of amendments as a result of editorial corrections by the AASB and by the IASB, some of which relate to correcting errors made in AASB 2008-12.	Beginning 1 Jul 2009	Impact is being evaluated.
AASB 2009-3 <i>Amendments to Australian Accounting Standards – Embedded Derivatives [AASB 139 & Interpretation 9]</i>	The amendments clarify the requirements in AASB 139 and Interpretation 9 in relation to the treatment of embedded derivatives within a host contract that is reclassified out of the fair value through profit or loss category.	Ending 30 Jul 2009	Impact is insignificant as the Department does not have embedded derivatives.
AASB 2009-5 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]</i>	Some amendments will result in accounting changes for presentation, recognition or measurement purposes, while other amendments will relate to terminology and editorial changes.	Beginning 1 Jan 2010	Impact is being evaluated.

(t) Prospective accounting changes

Borrowing costs

In May 2007, the AASB agreed on amendments to AASB 123 *Borrowing Costs* in respect of both for-profit entities and not-for-profit entities for application to annual reporting periods beginning on or after 1 January 2009. These amendments removed the option of recognising borrowing costs

immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

In 2008, the IPSASB considered whether to withdraw the expensing option and proposed in Exposure Draft 35 *Borrowing Costs*, retention of the expense option. The IPSASB timetable is to issue a standard at its May 2009 meeting. In February 2009,

the AASB decided to extend the option to expense borrowing costs attributable to qualifying assets for another two years while AASB continues to observe developments from IPSASB. This extension is applicable to not-for-profit public sector entities only. Pending resolution of this matter, the State is continuing with its existing policy of expensing borrowing costs in the period in which they are incurred.

Note 2. Departmental (controlled) outputs

Output groups - VAGO has 2 output groups:

(1) Parliamentary reports and services

It is through our reports that we inform Parliament, our primary client, on the results of our work. These reports provide Parliament with independent assurance on the adequacy of accountability and resource management practices in the public sector. Each year, 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 of observations arising out of the preceding June and December financial statement audit rounds; and
- a report of observations arising out of the annual financial statement, standards statements and performance statements.

(2) Audit reports on financial statements

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

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

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

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. Departmental (controlled) outputs (continued)

Controlled income and expenses for the year ended 30 June 2009

	Parliamentary reports and services		Audit reports on financial statements		VAGO Total	
	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08
	\$	\$	\$	\$	\$	\$
Continuing operations						
Income from transactions						
Output appropriations	11,696,205	11,805,300	19,316,961	18,286,876	31,013,166	30,092,176
S. 32 carry forward	-	338,000	-	-	-	338,000
Special appropriations	204,854	330,911	204,853	99,963	409,707	430,874
Sales of goods and services	192,975	49,119	-	43,558	192,975	92,677
Fair value of services received free of charge	29,175	137,800	-	122,200	29,175	260,000
Total income from transactions	12,123,209	12,661,130	19,521,814	18,552,597	31,645,023	31,213,727
Expenses from transactions						
Employee benefits	8,661,957	8,422,917	7,166,592	7,469,379	15,828,548	15,892,296
Depreciation and amortisation	454,655	544,648	473,212	482,989	927,867	1,027,637
Interest expense	17,387	13,934	18,502	12,356	35,889	26,290
Capital asset charge	123,970	429,300	129,030	380,700	253,000	810,000
Fair value of services provided free of charge	23,626	54,363	77,805	48,208	101,431	102,571
Contract audit services	1,548,387	1,599,635	9,671,442	8,613,817	11,219,829	10,213,452
Rental expenses - accommodation	640,840	667,940	666,996	592,324	1,307,836	1,260,264
Recruitment and training	455,135	507,001	391,624	382,975	846,759	889,976
Other operating expenses	1,302,178	1,650,775	1,147,679	1,246,952	2,449,857	2,897,727
Total expenses from transactions	13,228,135	13,890,513	19,742,881	19,229,700	32,971,016	33,120,213
Net result from transactions (net operating balance)	(1,104,926)	(1,229,383)	(221,067)	(677,103)	(1,325,993)	(1,906,486)
Other economic flows included in net result						
Net gain/(loss) on non-financial assets	(10,023)	(5,920)	(10,432)	(5,250)	(20,455)	(11,170)
Other gains/(losses) from other economic flows	(36,764)	-	(28,168)	-	(64,932)	-
Total other economic flows included in net result	(46,787)	(5,920)	(38,600)	(5,250)	(85,387)	(11,170)
Net result from continuing operations	(1,151,713)	(1,235,303)	(259,667)	(682,353)	(1,411,380)	(1,917,656)
Net result	(1,151,713)	(1,235,303)	(259,667)	(682,353)	(1,411,380)	(1,917,656)
Comprehensive result	(1,151,713)	(1,235,303)	(259,667)	(682,353)	(1,411,380)	(1,917,656)

Note 2. Departmental (controlled) outputs (continued)

Controlled assets and liabilities as at 30 June 2009

	Parliamentary reports and services		Audit reports on financial statements		VAGO Total	
	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08
	\$	\$	\$	\$	\$	\$
Assets						
Financial assets	3,185,817	3,347,168	4,747,312	4,633,032	7,933,129	7,980,200
Non-financial assets	1,174,020	1,388,965	1,749,452	1,922,556	2,923,472	3,311,521
Total assets	4,359,837	4,736,133	6,496,764	6,555,588	10,856,601	11,291,721
Liabilities						
Total liabilities	2,301,811	1,991,350	3,430,019	2,756,356	5,731,830	4,747,706
Net assets	2,058,026	2,744,783	3,066,745	3,799,232	5,124,771	6,544,015

Note 3. Administered (non-controlled) items

In addition to the specific operations of VAGO which are included in the financial statements (balance sheet, comprehensive operating statement, cash flow statement and statement of changes in equity), VAGO administers other resources on behalf of the State. The transactions relating to these State activities are reported as administered items in this note. Administered transactions give rise to income, expenses, assets and liabilities and are determined on an accrual basis. Administered income includes audit fees raised from performing financial statement audits. Administered assets include debtors and work-in-progress arising from financial statement audits. Administered liabilities include an amount equivalent to administered assets, yet to be paid to the State. Although presented here as administered items, they are consolidated and presented within the financial results of the whole of government and general government sector.

Note 3. Administered (non-controlled) items (continued)

	2008–09	2007–08
	\$	\$
Administered income from transactions		
Sales of services	19,316,961	17,910,176
Miscellaneous income	20,394	30,859
Total administered income from transactions	19,337,355	17,941,035
Administered expenses from transactions		
Payments into the Consolidated Fund	19,331,927	17,942,560
Total administered expenses from transactions	19,331,927	17,942,560
Total administered net result from transactions (net operating balance)	5,428	(1,525)
Administered other economic flows included in the administered net result		
Net gain/(loss) on non-financial assets	(5,428)	1,525
Total administered other economic flows	(5,428)	1,525
Administered net result	–	–
Total administered comprehensive result	–	–
Administered financial assets		
Receivables ^(a)	3,213,754	2,705,761
Total administered financial assets	3,213,754	2,705,761
Administered non-financial assets		
Work in progress	1,179,180	2,152,226
Total administered non-financial assets	1,179,180	2,152,226
Total administered assets	4,392,934	4,857,987
Administered liabilities		
Amounts owing to the State	4,392,934	4,857,987
Total administered liabilities	4,392,934	4,857,987
Total administered net assets	–	–
<i>(a) Receivables comprise debtors falling due as follows:</i>		
Current	2,461,128	2,071,862
Overdue between 30 to 60 days	580,921	625,552
Overdue beyond 60 days	171,705	8,347
	3,213,754	2,705,761

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

Note 4. Income from transactions

	2008–09	2007–08
	\$	\$
(a) Output appropriations^(a)		
Annual appropriation for the provision of outputs	11,696,205	12,520,000
Appropriation under s29 FMA 1994	19,316,961	17,910,176
Total output appropriations	31,013,166	30,430,176
(b) Special appropriations^(a)		
Appropriation under s94A(6) of the <i>Constitution Act 1975</i>	409,707	430,874
Total special appropriations	409,707	430,874
(c) Sales of goods and services		
Sale of goods ^(b)	43,314	51,493
Rendering of services ^(c)	149,661	41,184
Total revenue from sale of goods and services	192,975	92,677
(d) Fair value of services received free of charge		
Services ^(d)	29,175	260,000
Total fair value of services received free of charge	29,175	260,000

(a) Refer note 19 for further details of appropriations.

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

(c) 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.

(d) 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 2007-08 both financial statement and performance audits were performed, whereas in 2008-09 only a financial statement audit was performed. Refer note 22.

Note 5. Expenses from transactions

	2008–09	2007–08
	\$	\$
(a) Employee benefits		
Post employment benefits:		
Defined contribution superannuation plans	904,321	892,214
Defined benefit superannuation expense	210,268	250,191
	1,114,589	1,142,405
Termination benefits	308,417	417,388
Salaries and wages and long service leave	14,405,542	14,332,503
Total employee benefits	15,828,548	15,892,296
(b) Depreciation and amortisation		
Depreciation of non-current assets:		
Furniture and fittings	1,657	1,033
Computer software	390,134	499,492
Computer hardware	255,042	287,459
Office equipment	18,588	19,297
Mobile phones	14,202	8,523
Total depreciation of non-current assets	679,623	815,804
Amortisation of non-current assets:		
Leasehold improvements	177,178	134,712
Motor vehicles – leased	71,066	77,121
Total amortisation of non-current assets	248,244	211,833
Total depreciation and amortisation	927,867	1,027,637
(c) Interest expense		
Finance lease costs	23,861	26,290
Other finance costs	12,028	-
Total interest expense from financial liabilities not at fair value through comprehensive operating statement	35,889	26,290
(d) Other operating expenses		
Information technology	618,810	499,915
Information management	529,166	621,743
Consultants	324,572	318,842
Legal expenses	26,964	330,962
Auditors' remuneration	29,175	260,000
Other office expenses	921,170	866,265
Total other operating expenses	2,449,857	2,897,727

Note 6. Other economic flows included in net result

	2008–09	2007–08
	\$	\$
(a) Net gain/(loss) on non-financial assets		
Net gain/(loss) on disposal of physical assets	(20,455)	(11,170)
Total net gain/(loss) on non-financial assets	(20,455)	(11,170)
(b) Other gains/(losses) from other economic flows		
Net gain/(loss) arising from revaluation of long service leave liability ^(a)	(64,932)	-
Total other gains/(losses) from other economic flows	(64,932)	-

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

Note 7. Revision of accounting estimates

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 a decrease in VAGO's liability of \$38,000 and expense of \$38,000.

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

Year ending 30 June	\$
2010	43,000
2011	48,000
2012	54,000
2013	60,000

Note 8. Receivables

	2008–09	2007–08
	\$	\$
Current receivables		
Contractual		
Other receivables - related to sale of goods and services	52,925	78,132
	52,925	78,132
Statutory		
Amounts due from Victorian Government ^{(a)(b)}	4,915,373	4,178,751
GST input tax credit recoverable	68,176	1,039
Total current receivables	5,036,474	4,257,922
Non-current receivables		
Statutory		
Amounts due from Victorian Government ^{(a)(b)}	2,895,755	3,721,378
Total non-current receivables	2,895,755	3,721,378
Total receivables	7,932,229	7,979,300

(a) The total amount recognised as being due from the Victorian Government was \$7,811,128 (2007-08, \$7,900,129) of which \$4,915,373 (2007-08, \$4,178,751) 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 9. Other assets

	2008–09	2007–08
	\$	\$
Current other assets		
Prepayments		
Information management	7,558	11,977
Software and hardware maintenance contracts	122,249	138,576
Rental expense - accommodation	111,584	107,819
Other	48,846	53,705
Total current other assets	290,237	312,077
Total other assets	290,237	312,077

Note 10. Property, plant and equipment

(a) Cost, accumulated amortisation and depreciation

	2008-09	2007-08
	\$	\$
Leasehold improvements		
At cost	1,757,885	1,464,654
Less: Accumulated amortisation	(337,575)	(160,397)
Total leasehold improvements	1,420,310	1,304,257
Furniture and fittings		
At cost	117,027	109,790
Less: Accumulated depreciation	(99,997)	(98,341)
Total furniture and fittings	17,030	11,449
Computer software		
At cost	2,350,485	2,316,929
Less: Accumulated depreciation	(2,083,659)	(1,693,526)
Total computer software	266,826	623,403
Computer hardware		
At cost	2,072,974	2,117,812
Less: Accumulated depreciation	(1,547,054)	(1,457,894)
Total computer hardware	525,920	659,918
Office equipment		
At cost	146,468	146,339
Less: Accumulated depreciation	(99,470)	(81,554)
Total office equipment	46,998	64,785
Mobile Phones		
At cost	40,335	31,281
Less: Accumulated depreciation	(25,272)	(11,069)
Total mobile phones	15,063	20,212
Motor vehicles - leased		
At cost	446,948	432,500
Less: Accumulated amortisation	(105,860)	(117,080)
Total motor vehicles - leased	341,088	315,420
Total property, plant and equipment	2,633,235	2,999,444

(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 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
Additions	293,231	7,238	33,557	128,908	801	9,053	238,868	711,656
Disposals	-	-	-	(173,746)	(673)	-	(224,421)	(398,840)
Disposals - Accumulated depreciation	-	-	-	165,882	673	-	82,287	248,842
Depreciation/amortisation expense	(177,178)	(1,657)	(390,134)	(255,042)	(18,588)	(14,202)	(71,066)	(927,867)
Balance at 30 June 2009	1,420,310	17,030	266,826	525,920	46,998	15,063	341,088	2,633,235

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

Leasehold improvements	2-10 years
Furniture and fittings	10 years
Computer software	3 years
Computer hardware	4 years
Office equipment	5 years
Mobile phones	2 years
Motor vehicles - leased	3 year lease term

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in note 5 to the financial statements.

Note 11. Payables

	2008–09	2007–08
	\$	\$
Current payables		
<i>Contractual</i>		
Amounts payable to other government agencies	138,035	94,038
Supplies and services	1,187,701	854,128
Other payables	407,564	340,129
	1,733,300	1,288,295
<i>Statutory</i>		
Taxes payable	77,211	(9,273)
Total current payables	1,810,511	1,279,022
Total payables	1,810,511	1,279,022

(a) Maturity analysis of contractual payables

Please refer to Table 17.4 in note 17 for the maturity analysis of contractual payables.

(b) Nature and extent of risk arising from contractual payables

Please refer to note 17 for the nature and extent of risks arising from contractual payables.

Note 12. Interest bearing liabilities

	2008–09	2007–08
	\$	\$
Current interest bearing liabilities		
Finance lease liabilities ^(a) (note 15(a))	145,610	151,700
Total current interest bearing liabilities	145,610	151,700
Non-current interest bearing liabilities		
Finance lease liabilities ^(a) (note 15(a))	197,851	167,283
Total non-current interest bearing liabilities	197,851	167,283
Total interest bearing liabilities	343,461	318,983

(a) Secured by the assets leased. Finance leases are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(a) Maturity analysis of interest bearing liabilities

Please refer to Table 17.4 in note 17 for the maturity analysis of interest bearing liabilities.

(b) Nature and extent of risk arising from interest bearing liabilities

Please refer to note 17 for the nature and extent of risks arising from interest bearing liabilities.

(c) Defaults and breaches

During the current and prior year, there were no defaults and breaches of any of the loans.

Note 13. Provisions

	2008-09	2007-08
	\$	\$
Current provisions		
Employee benefits: ^(a) Note 13(a)		
Unconditional and expected to be settled within 12 months ^(b)	1,357,989	2,007,773
Unconditional and expected to be settled after 12 months ^(c)	1,601,263	740,256
Total current provisions	2,959,252	2,748,029
Non-current provisions		
Employee benefits: ^(a) Note 13(a)	387,095	401,672
Restoration of property, plant and equipment ^(d)	231,511	–
Total non-current provisions	618,606	401,672
Total provisions	3,577,858	3,149,701

(a) Employee benefits^(a)

	2008-09	2007-08
	\$	\$
Current employee benefits		
Annual leave entitlements	1,163,303	1,075,697
Unconditional long service leave entitlements	1,614,699	1,511,923
Performance incentive entitlements	181,250	160,409
	2,959,252	2,748,029
Non-current employee benefits		
Conditional long service leave entitlements	387,095	401,672
Total employee benefits	3,346,347	3,149,701

(a) Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, including on-costs.

(b) The amounts disclosed are nominal amounts.

(c) The amounts disclosed are discounted to present values.

(d) The provision for restoration of property, plant and equipment reflects a requirement in the terms of the lease of VAGO's premises to restore the property at the end of the lease term. The provision was introduced in 2008-09.

Note 14. Superannuation

Employees of VAGO are entitled to receive superannuation benefits and VAGO contributes to both defined benefit and defined contribution plans. The defined benefit plan provides benefits based on years of service and final average salary.

VAGO does not recognise any defined benefit liability in respect of the plan because the entity has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance recognises and discloses the State's defined benefit liabilities in its financial statements.

However, superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the Comprehensive Operating Statement of VAGO.

The name and details of the major employee superannuation funds and contributions made by VAGO are as follows:

Fund	Paid Contribution for the Year		Contribution Outstanding at Year End	
	2008-09	2007-08	2008-09	2007-08
	\$	\$	\$	\$
Defined benefit plans:				
State Superannuation Fund - revised and new	210,186	252,907	6,604	6,522
Defined contribution plans:				
VicSuper	707,415	715,126	19,733	17,739
Other	226,928	200,542	6,900	5,569
Total	1,144,529	1,168,575	33,237	29,830

(a) The bases for contributions are determined by the various schemes.

(b) The above amounts were measured at 30 June of each year, or in the case of employer contributions they relate to the years ended 30 June.

Note 15. Leases

(a) Finance leases

Leasing arrangements

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

	Minimum future lease payments ^(a)		Present value of minimum future lease payments	
	2008-09	2007-08	2008-09	2007-08
	\$	\$	\$	\$
Finance lease liabilities payable;				
Not longer than one year	164,255	167,432	159,331	163,374
Longer than one year and not longer than five years	215,174	174,818	184,462	156,521
Longer than five years	–	–	–	–
Minimum future lease payments	379,429	342,250	343,793	319,895
Less future finance charges	(35,968)	(23,267)	–	–
Present value of minimum lease payments	343,461	318,983	343,793	319,895
Included in the financial statements as:				
Current interest-bearing liabilities (note 12)	145,610	151,700		
Non-current interest-bearing liabilities (note 12)	197,851	167,283		
Total interest-bearing liabilities	343,461	318,983		

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

(b) Operating leases

Leasing arrangements

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

	2008-09	2007-08
	\$	\$
Non-cancellable operating leases payable:		
Not longer than one year	1,488,680	1,442,968
Longer than one year and not longer than five years	6,514,379	6,401,016
Longer than five years	5,071,572	7,030,554
Total	13,074,631	14,874,538

(a) Maturity analysis of finance lease liabilities

Please refer to Table 17.4 in note 17 for the ageing analysis of finance lease liabilities.

(b) Nature and extent of risk arising from finance lease liabilities

Please refer to note 17 for the nature and extent of risks arising from finance lease liabilities.

Note 16. Commitments for expenditure

The following commitments have not been recognised as liabilities in the financial statements:

(a) Contract audits

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

	2008-09	2007-08
	\$	\$
Not longer than one year	2,805,963	9,616,114
Longer than one year and not longer than five years	2,629,127	3,846,643
Longer than five years	-	-
	5,435,090	13,462,757

(b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 15 to the financial statements.

Total commitments for expenditure (inclusive of GST)	5,435,090	13,462,757
Less GST recoverable from the Australian Taxation Office	(494,099)	(1,223,887)
Total commitments for expenditure (exclusive of GST)	4,940,991	12,238,870

All amounts shown in the commitments note are inclusive of GST.

Note 17. Financial instruments

(a) Financial risk management objectives and policies

VAGO's principal financial instruments comprise of:

- cash assets;
- receivables (excluding statutory receivables);
- payables (excluding statutory payables); and
- finance lease payables.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument above are disclosed in note 1 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage VAGO's financial risks within the Government policy parameters.

The carrying amounts of VAGO's financial assets and financial liabilities by category are in table 17.1 below.

Table 17.1 Categorisation of financial instruments

	2008-09	2007-08
	\$	\$
Financial assets		
Cash	900	900
Other receivables - related to sale of goods and services	52,925	78,132
Total financial assets^(a)	53,825	79,032
Financial liabilities		
At amortised cost	2,076,761	1,607,278
Total financial liabilities^(b)	2,076,761	1,607,278

(a) The total amount of financial assets disclosed here excludes statutory receivables (i.e. Amounts owing from Victorian Government and GST input tax credit recoverable).

(b) The total amount of financial liabilities disclosed here excludes statutory payables (i.e. Taxes payable).

Note 17. Financial instruments (continued)

Table 17.2 Net holding gain/(loss) on financial instruments by category

	2008–09	2007–08
	\$	\$
Financial assets		
Cash	–	–
Other receivables - related to sale of goods and services	–	–
	–	–
Financial liabilities		
At amortised cost	(23,861)	(26,290)
	(23,861)	(26,290)

The net holding gains or losses disclosed above are determined as follows:

- For cash and receivables, the net gain or loss is calculated by taking the interest revenue, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result; and
- For financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost.

(b) Credit risk

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

Financial assets that are either past due or impaired

Currently VAGO does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

As at the reporting date, there is no event to indicate that any of the financial assets were impaired.

There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated. The following table discloses the ageing only of financial assets that are past due but not impaired:

Note 17. Financial instruments (continued)

Table 17.3 Ageing analysis of financial assets^(a)

	Carrying amount	Not past due and not impaired	Past due but not impaired				Impaired financial assets
			Less than 1 month	1–3 months	3 months – 1 year	1–5 years	
	\$	\$	\$	\$	\$	\$	\$
2008-09							
Receivables:							
Sale of goods and services	52,925	38,654	14,271	–	–	–	–
	52,925	38,654	14,271	–	–	–	–
2007-08							
Receivables:							
Sale of goods and services	78,132	78,132	–	–	–	–	–
	78,132	78,132	–	–	–	–	–

(a) Ageing analysis of financial assets must exclude the types of statutory financial assets (e.g. Amounts owing from Victorian Government and GST input tax recoverable).

Note 17. Financial instruments (continued)

(c) Liquidity risk

Liquidity risk arises when VAGO is unable to meet its financial obligations as they fall due. VAGO operates under the Government fair payments policy of settling financial obligations within 30 days and in the event of a dispute, making payment within 30 days from the date of resolution. It also continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets and dealing in highly liquid markets.

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

Maximum exposure to liquidity risk is the carrying amount of financial liabilities as disclosed on the face of the Balance Sheet.

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

Table 17.4 Maturity analysis of financial liabilities

	Carrying amount	Nominal amount	Maturity dates ^(a)			
			Less than 1 month	1–3 months	3 months – 1 year	1–5 years
	\$	\$	\$	\$	\$	\$
2008-09						
Payables:						
Amounts payable to other government agencies	138,035	138,035	122,119	15,916	–	–
Supplies and services	1,187,701	1,187,701	776,721	410,980	–	–
Other payables	407,564	407,564	407,564	–	–	–
Interest bearing liabilities:						
Finance lease liabilities	343,461	343,461	38,488	12,594	94,528	197,851
	2,076,761	2,076,761	1,344,892	439,490	94,528	197,851
2007-08						
Payables:						
Amounts payable to other government agencies	94,038	94,038	28,038	66,000	–	–
Supplies and services	854,128	854,128	804,816	28,973	20,339	–
Other payables	340,129	340,129	340,129	–	–	–
Interest bearing liabilities:						
Finance lease liabilities	318,983	318,983	24,557	30,445	96,698	167,283
	1,607,278	1,607,278	1,197,540	125,418	117,037	167,283

(a) The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities.

(d) Market risk

VAGO's exposure to market risk is primarily through interest rate risk, with only insignificant exposure to foreign currency risk. Objectives, policies and processes used to manage interest rate risk are disclosed below.

Interest rate risk might arise primarily through VAGO's fixed rate interest rate interest bearing liabilities. VAGO's interest bearing liabilities are managed by VicFleet.

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates are set out in the following table. VAGO has no sensitivity to interest rate risk, as all its interest bearing liabilities are fixed rate.

Note 17. Financial instruments (continued)

Table 17.5 Interest rate exposure of financial instruments

	Weighted average effective interest rate	Carrying amount	Interest rate exposure		
			Fixed interest rate	Variable interest rate	Non-interest bearing
		\$	\$	\$	\$
2008-09					
Cash	–	900	–	–	900
Receivables:					
Other receivables - related to sale of goods and services	–	52,925	–	–	52,925
		53,825	–	–	53,825
Payables:					
Amounts payable to other government agencies	–	138,035	–	–	138,035
Supplies and services	–	1,187,701	–	–	1,187,701
Other payables	–	407,564	–	–	407,564
Interest bearing liabilities:					
Finance lease liabilities	7.22%	343,461	343,461	–	–
		2,076,761	343,461	–	1,733,300
2007-08					
Cash	–	900	–	–	900
Receivables:					
Other receivables - related to sale of goods and services	–	78,132	–	–	78,132
		79,032	–	–	79,032
Payables:					
Amounts payable to other government agencies	–	94,038	–	–	94,038
Supplies and services	–	854,128	–	–	854,128
Other payables	–	340,129	–	–	340,129
Interest bearing liabilities:					
Finance lease liabilities	6.87%	318,983	318,983	–	–
		1,607,278	318,983	–	1,288,295

Note 17. Financial instruments (continued)

(e) Fair value

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

Note 18. Cash flow information

(a) Reconciliation of cash and cash equivalents

	2008–09	2007–08
	\$	\$
Total cash and cash equivalents ^(a) disclosed in the balance sheet	900	900
Bank overdraft	–	–
Balance as per cash flow statement	900	900

(a) Note: 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 expenditures, including those in the form of cheques drawn by VAGO for the payment of goods and services to its suppliers and creditors are made via the Public Account. The process is such that, the Public Account would remit to VAGO the cash required for the amount drawn on the cheques. This remittance by the Public Account occurs upon the presentation of the cheques by VAGO's suppliers or creditors. The balance of the Public Account is represented by amounts receivable from Victorian Government.

(b) Reconciliation of net result for the period to net cash flows from operating activities

	2008–09	2007–08
	\$	\$
Net result for the period	(1,411,380)	(1,917,656)
Non-cash movements:		
Loss on disposal of non-current assets	20,455	11,170
Depreciation and amortisation of non-current assets	927,867	1,027,637
Items classified as financing and investing activities:		
Additions to non-current assets accounted for via an increase in provision for restoration of property, plant and equipment	(219,483)	–
Movements in assets and liabilities:		
(Increase)/decrease in receivables	47,071	1,610,650
(Increase)/decrease in prepayments	21,840	(18,808)
Increase/(decrease) in payables	531,489	(272,565)
Increase/ (decrease) in provisions	428,157	171,857
Net cash flows from/(used in) operating activities	346,016	612,285

Note 19. Summary of compliance with annual parliamentary and special appropriations

(a) Summary of compliance with annual parliamentary appropriations

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

	Appropriation Act		Financial Management Act 1994						Total Parliamentary authority	Appropriations applied	Variance				
	Annual appropriation	Advance from Treasurer	Section 3(2)	Section 29	Section 32	2007-08	2008-09	2007-08				2008-09	2007-08	2008-09	
	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Controlled															
Provision for outputs	11,614,000	568,000	-	17,910,176	-	338,000	31,013,166	30,430,176	31,013,166	30,430,176	31,013,166	30,430,176	-	-	-
Additions to net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	11,614,000	568,000	-	17,910,176	-	338,000	31,013,166	30,430,176	31,013,166	30,430,176	31,013,166	30,430,176	-	-	-

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

Note 19. Summary of compliance with annual parliamentary and special appropriations (continued)

Parliamentary appropriations	2008-09	2007-08
	\$	\$
Appropriation Act		
Annual appropriation	12,003,000	11,618,000
Add: Indexation adjustment	55,205	–
Less, Workcare adjustment	(2,000)	(4,000)
Add: Advance from Treasurer	–	568,000
Less: Carried forward to 2009-10	(360,000)	–
	11,696,205	12,182,000
Financial Management Act 1994		
Section 29 – estimate	15,517,000	15,517,000
Plus, variance from estimate	3,799,961	2,393,176
	19,316,961	17,910,176
Section 32		
Brought forward	–	338,000
	–	338,000
Total Parliamentary Authority	31,013,166	30,430,176
Appropriations applied	31,013,166	30,430,176
Variance	–	–

Summary of compliance with special appropriations

Authority	Purpose	Appropriation applied	
		2008-09	2007-08
		\$	\$
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with the Auditor-General	409,707	430,874

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 VAGO's at any time during the reporting period are:

- D D R Pearson, Auditor-General (1 July 2008 to 30 June 2009)
- P Frost (Acting, for 23 days during the period 1 July 2008 to 30 June 2009)

(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:

\$400,000 – \$409,999 (2007-08 \$390,000 – \$399,999)

The amounts relating to the Acting Accountable Officers are included in "Executive officers' remuneration" (note 21).

(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. Remuneration of executives

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 and retirement benefits.

Income band	Total remuneration		Base remuneration	
	2008-09 No.	2007-08 No.	2008-09 No.	2007-08 No.
\$80,000 to \$89,999	–	–	1	–
\$90,000 to \$99,999	–	–	–	1
\$100,000 to \$109,999	2	2	2	1
\$110,000 to \$119,999	1	–	2	1
\$120,000 to \$129,999	1	–	–	1
\$130,000 to \$139,999	–	3	–	4
\$140,000 to \$149,999	3	4	4	6
\$150,000 to \$159,999	2	4	3	2
\$160,000 to \$169,999	3	2	1	–
\$170,000 to \$179,999	1	1	1	–
\$180,000 to \$189,999	2	1	1	2
\$190,000 to \$199,999	–	1	–	–
\$200,000 to \$209,999	–	–	–	2
\$210,000 to \$219,999	–	1	–	–
\$220,000 to \$229,999	–	1	1	–
\$240,000 to \$249,999	1	–	–	1
\$260,000 to \$269,999	–	1	1	–
\$280,000 to \$289,999	1	–	–	–
Total numbers	17	21	17	21
Total amount	\$2,780,052	\$3,420,271	\$2,568,756	\$3,198,179

Other than those executive officers whose remuneration is disclosed in the above table, there were also 5 departures, 2 full-time arrivals and 4 reclassifications (2007-08: 3 departures, 1 arrival and 1 reclassification) during the year, none of whom held office for the full reporting period. The total remuneration of each of these executive officers fell below the reporting threshold of \$100,000. The total remuneration of the 11 affected executive officers was \$687,377 (2007-08, \$250,540).

Note 22. Remuneration of auditors

	2008-09	2007-08
	\$	\$
Financial statement audit	29,175	28,000

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

Performance audit	-	232,000
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A performance audit of VAGO is undertaken every 3 years and the cost of these audits is paid for by Parliament.

The last performance audit was undertaken in the year ended 30 June 2008.

Note 23. Glossary of terms

Actuarial gains or losses on superannuation defined benefit plans

Actuarial gains or losses reflect movements in the superannuation liability resulting from differences between the assumptions used to calculate the superannuation expense from transactions and actual experience.

Comprehensive result

Total comprehensive result is the change in equity for the period other than changes arising from transactions with owners. It is the aggregate of net result and other non-owner changes in equity.

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.

Commitments

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

Employee benefits expenses

Employee benefits expenses include all costs related to employment including wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Financial asset

A financial asset is any asset that is:

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

Financial statements

Depending on the context of the sentence where the term 'financial statements' is used, it may include only the main financial statements (i.e. comprehensive operating statement, balance sheet, cash flow statements, and statement of changes in equity); or it may also be used to replace the old term 'financial report' under the revised AASB 101 (Sept 2007), which means it may include the main financial statements and the notes.

Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance.

Interest expense

Costs incurred in connection with the borrowing of funds. Interest expenses include interest on bank overdrafts and short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

Note 23. Glossary of terms (continued)

Net acquisition of non-financial assets (from transactions)

Purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write-offs, impairment write-downs and revaluations.

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner changes in equity'.

Net result from transactions/net operating balance

Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Non-financial assets

Non-financial assets are all assets that are not 'financial assets'.

Other economic flows

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. It includes gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal. In simple terms, other economic flows are changes arising from market re-measurements.

Payables

Includes short and long term trade debt and accounts payable, grants and interest payable.

Receivables

Includes short and long term trade credit and accounts receivable, grants, taxes and interest receivable.

Sales of goods and services

Refers to revenue from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods and services, fees from regulatory services, work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land. User charges includes sale of goods and services revenue.

Supplies and services

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operations of VAGO.

Transactions

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.



5

Section 5

Appendixes



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Appendix 1

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 2009.

Recommendation	Comment and status at 30 June 2009
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 included in 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.	Resolved. A number of amendments to the <i>Health Services Act 1998</i> were proclaimed during 2009. Those amendments introduced a new legislative framework for community health centres. One consequence of the new legislative arrangements is that community health centres no longer meet the definition of a public statutory authority under the <i>Audit Act 1994</i> and the <i>Financial Management Act 1994</i> . Accordingly the Auditor-General is no longer required to undertake an audit of registered community health centres.
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> .
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.

Recommendation

Comment and status at 30 June 2009

Financial audit

10. VAGO should continue to consider other computer interrogation packages to enhance its existing suite of products. Completed. VAGO has considered other packages and live testing of a product is scheduled to be complete by 31 December 2009.

Performance audit

11. VAGO should ensure that its future performance audit KPIs appropriately address efficiency and effectiveness and are clearly communicated and properly understood. Completed. 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.
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. Completed. The business continuity plan and associated test program were implemented in 2008–09.
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 *Audit Act 1994*, 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. Completed in 2008–09 and results discussed with staff.
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. Completed. The Strategic People and Culture Management Framework along with the staff survey results has informed the action plan for the next three years. The three key target areas are improved people leadership, capability and motivation.
18. The HR strategic plan should incorporate specific forward projections of future staff profiles linked to innovative recruitment strategies and synchronised training programs. Completed. This matter was addressed through 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. Completed. This matter was addressed under the Strategic People and Culture Management Framework.
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. Completed. This matter was addressed through the Strategic People and Culture Management Framework.
21. In accordance with its desire to be recognised as an 'employer of choice' VAGO should carefully consider the benefits of implementing an integrated HR Management Information system. Completed. Benefit assessment undertaken and implementation to be completed in 2009–10.

Appendix 2

Auditor-General reports to Parliament, 2008–09

Date report was tabled	VAGO report number	Report title	Pages
30 July 08	2008–09:1	Managing Complaints Against Ticket Inspectors	72
30 July 08	2008–09:2	Records Management Checklist: A Tool to Improve Records Management	28
30 July 08	2008–09:3	Investing Smarter in Public Sector ICT: Turning Principles into Practice	70
29 October 08	2008–09:4	Private Practice Arrangements in Health Services	44
29 October 08	2008–09:5	Working with Children Check	68
29 October 08	22008–09:6	CASES21	52
12 November 08	2008–09:7	School Buildings: Planning, Maintenance and Renewal	72
12 November 08	2008–09:8	Managing Acute Patient Flows	76
12 November 08	2008–09:9	Biosecurity Incidents: Planning and Risk Management for Livestock Diseases	88
13 November 08	2008–09:10	Enforcement of Planning Permits	56
13 November 08	2008–09:11	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2007–08	48
13 November 08	2008–09:12	Local Government: Results of the 2007–08 Audits	112
03 December 08	2008–09:13	Management of the Multi-Purpose Taxi Program	36
03 December 08	2008–09:14	Results of Audits for Entities with 30 June 2008 Balance Dates	136
21 January 09	2008–09:15	Preparedness to Respond to Terrorism Incidents: Essential services and critical infrastructure	96
04 February 09	2008–09:16	Literacy and Numeracy Achievement	96
01 April 09	2008–09:17	Administration of the <i>Flora and Fauna Guarantee Act 1988</i>	56
01 April 09	2008–09:18	Access to Public Hospitals: Measuring Performance	84
06 May 09	2008–09:19	Management of School Funds	32
06 May 09	2008–09:20	The New Royal Children's Hospital—a public private partnership	88
06 May 09	2008–09:21	The Channel Deepening Project	68
06 May 09	2008–09:22	Results of Audits for Entities with other than 30 June 2008 Balance Dates	80
03 June 09	2008–09:23	Governance and Fraud Control in Selected Adult Educational Agencies	60
03 June 09	2008–09:24	Withdrawal of Infringement Notices	84
03 June 09	2008–09:25	Claims Management by the Victorian WorkCover Authority	72
10 June 09	2008–09:26	Connecting Courts—the Integrated Courts Management System	64
10 June 09	2008–09:27	Implementing Victoria Police's Code of Practice for the Investigation of Family Violence	64
10 June 09	2008–09:28	Effectiveness of Drought Assistance Measures	44
24 June 09	2008–09:29	Buy-back of the Regional Intrastate Rail Network	84
24 June 09	2008–09:30	Melbourne's New Bus Contracts	60
24 June 09	2008–09:31	International Students: risks and responsibilities of universities	48
24 June 09	2008–09:32	Funding of the Home and Community Care Program	84

Additional information available on request

In compliance with the requirements of the ministerial directions of the Minister for Finance, further details in respect of the information items below have been retained by the office and are available (subject to the Freedom of Information requirements, if applicable):

- a statement that declarations of pecuniary interests have been duly completed by all relevant staff of the office (see page 38)
- audit fees, which are revised annually (see page 31)
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit (see page 48)
- 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 pages 37–38)
- In respect of the following areas there were no relevant activities undertaken by VAGO:
 - details of any major external reviews carried out in respect of the operation of the office
 - details of any other research and development activities undertaken by the office
 - details of major promotional, public relations and marketing activities undertaken by the office to develop community awareness of the services provided

The following information is available from VAGO's website:

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

<www.audit.gov.vic.au>

www.audit.vic.gov.au

The VAGO Annual Report 2008–09 contains photographs, many which were taken at the VAGO offices on levels 23 and 24, 35 Collins Street, Melbourne. The photographs were taken by Marcel Aucar, Andrew Greaves and Thomas Kropf.
