

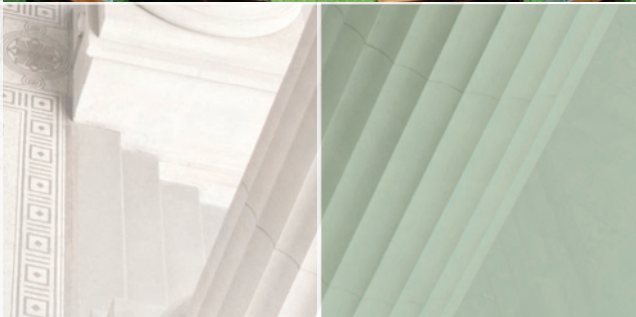
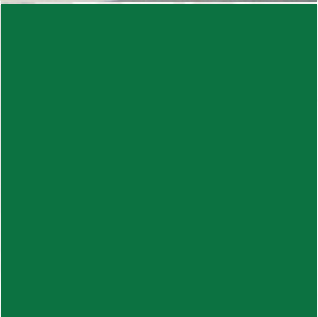


Victorian Auditor-General's Office

# Annual Report

2009–10

## Auditing in the Public Interest



**VAGO**

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

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# Introduction

## VAGO

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

The President  
Legislative Council  
Parliament House  
Melbourne Vic 3002

The Speaker  
Legislative Assembly  
Parliament House  
Melbourne Vic 3002

Dear Presiding Officers

I am pleased to transmit, in accordance with section 7B of the *Audit Act 1994*, my annual report of the Victorian Auditor-General's Office for the year ended 30 June 2010 for presentation to Parliament.



D D R Pearson  
*Auditor-General*  
4 October 2010

Established in July 1851, the Victorian Auditor-General's Office (VAGO), 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 independent officer of Parliament. The *Constitution Act 1975* has 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 from both Houses of Parliament can remove him from office.

Under the *Audit Act 1994*, the Auditor-General has a legislative mandate to provide an audit opinion on the annual financial statements of departments, public bodies and entities (557 in 2009–10), and on the state's annual financial report. The Auditor-General must also 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 conducts audits to determine whether:

- agencies are achieving their objectives
- operations and activities are being performed effectively, economically and efficiently, and in compliance with relevant Acts
- financial benefits that agencies bestow on non-government bodies are applied economically, efficiently and effectively.

While the work of the Auditor-General principally aims to provide assurance on the accountability and performance of the Victorian public sector, he also strives to be a catalyst for continued improvement.

## Accountable officer's declaration

In accordance with *Financial Management Act 1994*, I am pleased to present the Report of Operations for the Victorian Auditor-General's Office for the year ended 30 June 2010.



D D R Pearson  
*Auditor-General*

Melbourne  
29 August 2010

## Purpose and objectives

VAGO's purpose is to provide assurance to Parliament about the accountability and performance of the Victorian public sector.

In fulfilment of this purpose, VAGO's objectives, outlined in our *Strategic Plan 2007–08 to 2009–10* were 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 the annual plan

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

The *Annual Plan 2009–10* was tabled in Parliament on 6 May 2009. The plan documented our key outcomes and outputs, influences on the public sector and major areas of audit interest.

This annual report presents our achievements against the *Annual Plan 2009–10*.

The *Annual Plan 2010–11* was tabled in Parliament on 5 May 2010, VAGO's performance against this plan will be reported in the *Annual Report 2010–11*.

## 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.

## Audit responsibilities

The Auditor-General is responsible for:

- auditing the *Annual Financial Report of the State of Victoria*
- 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
- conducting wide-ranging performance audits focusing on the economic, efficient and effective use of public resources 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 way.

## Available resources

At 30 June 2010, we:

- had 173 in-house staff (152 at 30 June 2009)
- engaged 36 audit service providers (34 during 2008–09)
- received \$35.07 million in funding from Parliament (\$31.42 million in 2008–09).

## Financial management

Our net financial result for the year was a surplus of \$782 059 (deficit of \$1 540 801 in 2008–09).

Financial audit fee income for the year was \$20.83 million (\$19.32 million in 2008–09).

[Table 2] Financial summary 2009–10 and 2008–09

Financial summary	2009–10	2008–09	Change	
	(\$'000)	(\$'000)		(%)
Operating revenue	35 710	31 645	▲	12.8
Operating expenses	34 928	33 186	▲	5.2
Total assets	11 352	10 857	▲	4.6
Total liabilities	5 787	6 069	▼	4.6
Surplus/(deficit)	782	(1 541)	▲	150.7
Net equity	5 565	4 788	▲	16.2

[Table 3] Five-year statistics

Five-year statistics		2009–10	2008–09	2007–08	2006–07	2005–06
<b>Reports tabled in Parliament</b>						
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)	5	3	3	2	3
Performance audit reports	(number)	26	26	29	13	12
Audited agency satisfaction with parliamentary reports	(score)	69	72	72	71	71
Parliamentarian satisfaction with parliamentary reports and services	(score)	92	92	83	91	na
<b>Audit reports on financial statements</b>						
Audit responsibilities (entities at 30 June 2010)	(number)	557	587	621	631	615
Unqualified opinions issued during reporting year	(number)	553	588	633	604	613
Qualified opinions issued during reporting year	(number)	4	4	7	13	18
Total opinions issued during reporting year	(number)	557	592	640 <sup>(a)</sup>	617	631
Audit opinions issued within time frame	(per cent)	100	98	96	98	96
Audited agency satisfaction with financial audit services	(score)	75	76	73 <sup>(a)</sup>	72 <sup>(a)</sup>	72
<b>Audit reports on performance statements</b>						
Audit reports on local government performance statements						
Unqualified opinions issued during reporting year	(number)	77	78	79	79	77
Qualified opinions issued during reporting year	(number)	1	1	–	–	2
Total opinions issued during reporting year	(number)	78	79	79	79	79
Audit reports on regional water authority performance statements						
Unqualified opinions issued during reporting year	(number)	15	16	15	15	15
Qualified opinions issued during reporting year	(number)	–	–	1	1	–
Total opinions issued during reporting year	(number)	15	16	16	16	15
Audit reports on technical and further education institute performance statements						
Unqualified opinions issued during reporting year	(number)	20	19	19	18	–
Qualified opinions issued during reporting year	(number)	–	<sup>(b)</sup> –	–	–	–
Total opinions issued during reporting year	(number)	20	19	19	18	–
<b>Resources</b>						
In-house staff	(number)	173	152	153	147	155
Audit service providers	(number)	36	34	36	30	32
Average days sick leave per employee	(number)	6.2	7.1	5.6	8.0	7.0
Workers compensation claims	(number)	4	3	1	–	–
Injuries reported	(number)	4	3	–	3	4
Grievances lodged	(number)	2	2	1	–	–
Staff training and professional development per employee	(days)	9.7	6.4	10.1	8.8	7.0
<b>Financial management</b>						
Expenditure on audit service providers	(\$million)	9.45	9.67	8.61	6.91	6.73
Revenue from audit fees	(\$million)	20.83	19.32	17.91	15.75	14.99
Operating surplus/(deficit)	(\$million)	0.78	(1.54) <sup>(a)</sup>	(1.92)	0.96	0.91
Assets	(\$million)	11.35	10.86	11.29	13.47	12.18
Liabilities	(\$million)	5.79	6.07 <sup>(a)</sup>	4.75	5.01	4.63

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

(b) 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 2009–10



Looking back across the year's audit program, I can see many strengths in the Victorian public sector. It is a complex, large-scale operation supported by skilled and dedicated professionals.

However, as with any diverse and robust sector there are bound to be challenges.

Increasingly, government services are delivered at arm's length—through subsidiaries and companies, parts of departments far from central oversight, community partnerships and through private sector alliances.

However, as these modes of public service delivery increase, more of our audits are identifying weaknesses in the control systems that safeguard accountability in these arms-length services—a kind of 'oversight deficit' inside our public administration.

Sooner or later, these systemic control weaknesses show up as failures to achieve program goals, failures in probity, or failures in governance.

I am concerned that some areas of the public sector continue to deny their own role of enduring accountability, and resist addressing this 'oversight deficit'. Yet it is up to individual agencies to act decisively to improve their own performance and address deficiencies.

Central agencies too have an important part to play. Developing whole-of-government frameworks is important, however, without robust education, coordination, monitoring and enforcement in conjunction with agencies, such frameworks will ultimately prove ineffectual.

Without attention to these checks and balances at a grassroots level, it falls to the auditor—and other integrity bodies—to raise these failings. The consequent embarrassment and recriminations might easily have been avoided had there been robust and reliable management oversight and coordination in the first place.

As the external auditor of the Victorian public sector, I bring to attention this 'oversight deficit' when encountered, through a program of focused and topical audits that provide assurance to Parliament on the accountability and performance of the sector.

Going forward, I hope to see agencies becoming more effective at undertaking their own oversight, monitoring and actively discharging their accountability obligations. Audit can then more reliably undertake risk-based reviews and provide positive assurance about effective accountability frameworks.

Across 2009–10, I am proud that our products and services have met the high standards we set ourselves, received strong positive feedback from important stakeholders, and earned a clear opinion from the performance auditor appointed by Parliament.

## Reports and advice

Timeliness and quality are the cornerstones of an effective public sector audit. Our reports and advice must be timely for audit findings to be relevant. They must also be of the highest quality if we want Parliament to continue to see our advice as authoritative.

As many in the public sector know, maintaining quality under time pressures is difficult, but vital. This year has presented particular challenges, including the state election and fewer Parliamentary sitting days. These challenges have shortened reporting time lines for financial and performance audit reports and put additional pressure on our operations. Put simply, we had to deliver the same outputs in less time.

Yet, I am proud to say that, even in the face of these constraints, we have managed to deliver gains in timeliness, hand-in-hand with an unprecedented, organisation-wide focus on quality.

The quality of our audits and reports continues to satisfy our own rigorous quality assurance processes and earn accolades from independent reviewers and key stakeholders. This commitment to quality has driven further improvements to both our financial and performance audit methodologies.

At the same time, the timeliness of our reports to Parliament has also improved, with a 10 per cent increase in the number of reports that met tabling targets since last year. The timeliness of our financial audits deserves special mention, with 100 per cent of audit opinions meeting statutory time frames, and the timeliness of our management letters again exceeding target.

It is important to note, however, that we could further significantly improve the timeliness of our performance audit reports. This year there has been a disturbing trend of agencies delaying audit by withholding crucial evidence, or introducing new information and fresh challenges late in the audit process. Apart from diverting our valuable resources, this reflects the poor governance and performance management systems in some agencies.

We have tried to address this in the past through more consistent, early and transparent engagement to minimise stumbling blocks later in the process. While this has worked well for some audits and with some agencies, others continue to be uncooperative and use delaying tactics.

Looking ahead, we are considering firmer use of our statutory powers to make sure that we can provide timely reports and advice to Parliament and satisfy our dual goals of quality and timeliness.

## Audit clients

We enjoy productive working relationships with most of our audit clients. Our stakeholder survey feedback shows that most of our clients view us favourably. They complimented the professionalism of our staff and contracted service providers, the effectiveness of our communication, the quality of our financial audit reports, and the impetus for change provided by our performance audit recommendations.

We have continued to focus on client communication, through increased agency engagement during audit planning and conduct, and more inclusive approaches for dealing with complex and contentious matters. Increasingly, we directly notify agency leaders of emerging findings early in the process, rather than leaving this to operational staff and internal agency processes.

Strong relationships with clients are not only confined to the audit process. Audit committees are important stakeholders and often have a significant impact on the audit process and the agency's response to audit findings. As well as regularly attending committee meetings, in 2009-10 we met twice with the chairs of departmental audit committees to discuss audit relationships, sector-wide audit findings and the implications of potential changes to audit and public finance legislation.

Our regional client forum program provided another valuable opportunity to interact with our clients. Audit committee representatives and chief executive officers from many of our smaller clients attended a series of seminar lunches in Benalla, Ballarat, Morwell and Preston. Topics of discussion included board responsibilities, fraud management, asset revaluations, information systems and controls, performance measurement, audit fees, use of external contractors and the timing of the financial audit cycle. Feedback from these events was positive, with clients often commenting on the value of seeing how individual audits fit into the 'bigger picture' of the Auditor-General's mandate.

These kinds of client engagement strategies have been a priority since my appointment in 2006. I firmly believe that audits benefit from professional, open and effective relationships with audit clients.

A positive audit relationship does not mean that clients always agree with our findings. Some of our best relationships are with agencies who respectfully disagree with recommendations from time to time. In positive relationships, differences of view never erode the professionalism of our communication, nor do they undermine the client's commitment to use audits constructively for continuous improvement.

For most of our client relationships, this commitment to engagement has been effective. Unfortunately, there are some relationships that are resistant to these consultative approaches. Some agencies remain unnecessarily adversarial and often delay or obstruct audits. This requires both individual agency and whole-of-government

attention. In these instances, to meet our responsibilities as Parliament's auditor, VAGO must look beyond consultation and communication and use the more formal instruments of audit engagement available to us.

## Parliament

I was pleased to see Parliament's close interest in our work this year, affirming the relevance of our audit program. There has been a marked increase in the number of inquiries from individual Parliamentarians, Parliamentary committees and Parliament itself. We received 22 requests for audits throughout the year, compared with nine in 2008–09.

Parliament has put to good use our reports in debate and committee inquiries, with more than 100 references to our audits in debate in both Houses during the year. The Public Accounts and Estimates Committee (PAEC) used our audits to underpin its scrutiny of the state's management of resources, using 12 VAGO reports in its Budget Estimates and Financial and Performance outcomes inquiries.

PAEC's follow-up program on our audits is a crucial part of the accountability cycle, picking up from where we left off. PAEC reviewed or reported on 17 audit reports in 2009–10, making 71 recommendations to government.

Our survey of Parliamentarians is an important feedback mechanism, and I am happy to see that last year's positive results have continued. One measure I pay particular attention to is how often members refer to our reports during the year. In 2009–10 I was delighted to see a strong increase in the proportion who use our reports 'very regularly', which affirms the relevance and accessibility of our reports. Parliamentarian feedback continues to challenge us to improve the clarity and directness of our reports. We continued to deliver Plain English training across the office in 2009–10, and trust that its benefits will be increasingly evident in future reports.

One of our most significant interactions with Parliament this year has been through our involvement in the PAEC review of the *Audit Act 1994*. VAGO provided the committee with a wide range of information, building on practical experience, research in other jurisdictions and international best practice.

Our proposed reforms aim to address both the erosion of the audit mandate caused where public sector activity is delivered through private sector partnerships, and the current gaps in accountability around the administration of courts and the Parliament.

In considering these growing limitations to Parliament's audit mandate, PAEC's inquiry planned to take account of the findings of another important, parallel review: the State Services Authority's (SSA) 2009–10 *Review of the Victoria's Integrity and Anti-Corruption System*. Unfortunately, although we raised these issues with the SSA during their review, their final report declined to comment on this risk to accountability, and referred the matter back to the PAEC's inquiry.

I look forward to PAEC's report to Parliament on this crucial inquiry, and particularly to its findings on these growing 'gaps' in Victoria's accountability framework. Contemporary, comprehensive and rigorous audit legislation is essential not simply for this office. It is a fundamental, 'first order' consideration in establishing the legal and organisational frameworks for a credible, functionally coherent integrity and anti-corruption regime.

An important government initiative, now at a critical stage is the replacement of the *Financial Management Act 1994*, with the Public Finance and Accountability Bill, currently before Parliament.

The Bill contains a number of initiatives around outcome reporting for government, differential reporting for a broad range of public sector entities and refreshed financial principles.

Much of the Bill contains desirable reforms, broadly consistent with past audit findings and recommendations. Elements of the Bill; however, were clear threats both to the constitutional independence of my office and to other offices of Parliament. Once we became aware of these impediments in our consultations with DTF and PAEC, this office repeatedly raised these matters, both at officer level and formally. More recently still, I was provided the opportunity to appear before PAEC to reiterate our concerns and to provide direct commentary on other components of the draft legislation.

I am now pleased to report that these critical independence issues have been acknowledged and appropriate amendments are now proposed. I want to record my thanks to the Premier for responding so positively to the concerns I had conveyed to him.

## People and organisation

To acknowledge the importance of the people delivering our audit products, VAGO introduced a new office-wide performance and development framework in 2009–10.

This framework allows us to more effectively recognise and reward excellence and aligns with our new *Strategic Plan 2010–11 to 2014–15*; making sure that organisational goals and strategies are reflected in the daily work priorities of our people.

In 2009–10, we have focused on the quality both of our business systems and governance, as well as on our audits and reports. As an audit practice we must meet the requirements of professional standard APES 320, *Quality control for firms*. Under this new standard we have to comprehensively document our office-wide system of quality control. Using the Australian Council of Auditors-General framework for compliance with APES 320, VAGO's quality framework maps our practices and systems. The framework incorporates compliance in our everyday processes, checks and balances, and aims to remove the need for superfluous documentation, policy or procedure.

The VAGO quality framework helped us prepare for our external triennial performance audit, commissioned by Parliament on the advice of the PAEC. The framework allowed us to benchmark our activity against national best practice and professional standards and provide evidence and examples to our external auditors. In the future we will capitalise on this proactive quality approach, integrate it into everyday management and streamline our preparation for future external performance audits of this office.

The *Audit Act 1994* requires that at least every three years an audit is conducted to determine whether the Auditor-General and the Victorian Auditor-General's Office are achieving their objectives effectively, are doing so economically and efficiently and in compliance with the *Audit Act 1994*. Victoria has the most frequent audit requirement. We welcome this scrutiny as an opportunity not only to be formally accountable to

Parliament but also to use this as a means of furthering our continuous improvement.

During my almost four years as Auditor-General this is the second performance audit. The first was completed 12 months into my term. As I noted in my response at the time, the recommendations from that first audit, together with our *Strategic Plan 2007–08 to 2009–10*, provided a sound blueprint to guide and improve my office's service to Parliament and for addressing the challenges ahead. That audit concluded VAGO was performing effectively and efficiently. All of the recommendations that we accepted have now been implemented.

The second performance audit occurred from May to August 2010, and required 43 items to be examined—a marked increase on the 26 items considered in 2004 and 28 in 2007. Notwithstanding this audit also found that in all material respects we operate in compliance with the *Audit Act 1994* and are operating effectively and efficiently to discharge our duties.

Looking back over the year I feel that VAGO has met the significant external challenges and opportunities that we faced in 2009–10. It is not often that a broad-ranging review of enabling legislation, a comprehensive organisation-wide performance audit and a significantly tightened operational time frame coincide in one year.

In closing I have to acknowledge the commitment and dedication of our staff and service providers to VAGO. Without them our considerable achievements over the year would not have been possible. I thank them sincerely.

I commend this annual report to you, and trust you share our sense of achievement.



D D R Pearson  
*Auditor-General*

4 October 2010

# Measuring VAGO's impact on public sector accountability and performance

Our purpose is to provide assurance on public sector accountability and performance. Parliament and government agencies are responsible for making changes based on audit findings. Like all external auditors, the Auditor-General has no executive authority to direct our audit clients to accept recommendations. This preserves the independence of external audits.

The Auditor-General, however, aims to be a catalyst for change in the public sector. VAGO's vision is to influence improvements in accountability and performance through the relevance, accessibility and quality of our reports.

To measure our impact on public sector accountability and performance in 2009–10, we looked at a range of qualitative information, including:

- agency responses to audit process and recommendations
- impact on Parliamentary debates and reports and on the Public Accounts and Estimates Committee (PAEC) follow-up inquiries
- audited agency survey feedback
- media and public debate.

Ultimately, we assess our impact by focusing on the uses, and users, of our audit reports.

## Agency responses to audit process and reports

In 2009–10, VAGO made 203 recommendations to government agencies in our audit reports. Audited agencies responded favourably to most recommendations, often committing to direct and immediate action and sometimes noting favourable outcomes following past audit reports.

External reviews of agency responses to our recommendations show similar strong levels of support. The *Response by the Minister for Finance to the Auditor-General's Reports issued during 2008–09*, published in December 2009, found 98 per cent of recommendations were either supported or partially supported.

### *Agency responses to 2009–10 audits: Extracts from Auditor-General reports*

#### **Public Hospitals: Results of the 2008–09 Audits (November 2009)**

*RESPONSE provided by the Secretary, Department of Health:*

'I believe that the report generally provides a balanced analysis of the issues of health service financial sustainability... The department agrees with all the audit recommendations apart from partially agreeing to [recommendations 8 and 10].'

#### **Use of Development Contributions by Local Government (December 2009)**

*RESPONSE provided by the Acting Chief Executive Officer, City of Port Phillip:*

'As a result of the audit process, I am pleased to advise that the council has initiated a number of actions to directly respond to the matters raised in the review.'

#### **The Community Building Initiative (May 2010)**

*RESPONSE provided by the Secretary, Department of Planning and Community Development:*

'In line with the audit recommendations, DPCD has made a number of significant changes to the way we work with communities.'

#### **Control of Invasive Plants and Animals in Victoria's Parks (May 2010)**

*RESPONSE by the Secretary, Department of Sustainability and Environment:*

'The audit report will be an invaluable resource in formulating the future implementation of the government's Invasive Plants and Animals Policy Framework.'

#### **Hazardous Waste Management (June 2010)**

*RESPONSE provided by the Chief Executive Officer, Environment Protection Authority:*

'EPA acknowledges and accepts the report's recommendations. Implementation of the recommendations is underway, with interim solutions being put in place where longer-term solutions are required for a permanent resolution.'

Source: VAGO 2009–10 reports.

We do not measure our impact solely through how often accountable officers formally agree with our recommendations when the report is tabled. Sometimes we are aware of changes that occur more informally, during or soon after, the audit. In 2009–10, VAGO audit teams reported through our debrief process that several agencies responded to issues identified in the audit before, or soon after, the audit was finished.

### *Agency responses to 2009–10 audits: Observations from audit teams*

#### **Local Government: Results of the 2008–09 audits (November 2009)**

Since the introduction of this report and the adoption of VAGO's sustainability indicators by many councils, financial sustainability in the sector has improved markedly, with no councils now rated as having a high financial sustainability risk.

#### **Maintaining the integrity and confidentiality of personal information (November 2009)**

The audit was a catalyst for DTF to finalise and issue whole-of-government information security policies and guidelines that had been under development or in draft for a number of years. Audited agencies acted quickly to address security over sensitive datasets and the rigour of their risk management practices.

#### **Management of the Community Support Fund (November 2009)**

DPCD brought its deadline forward for reporting publicly on all programs and aims to adopt all audit recommendations before 2012.

#### **Making Public Transport More Accessible for People who Face Mobility Challenges (November 2009)**

DOT strongly endorsed our recommendation to evaluate the effectiveness of the Public Transport Access Committee and address the management issues we raised in the audit.

#### **Tendering and Contracting in Local Government (February 2010)**

All five audited councils acknowledged audit findings and recommendations and all have started to review and change their tendering and contracting practices.

#### **Tertiary Education and Other Entities: Results of the 2009 Audits (May 2010)**

Universities and TAFEs have already begun to periodically self-assess their travel management policies and practices against the framework used in the audit report.

#### **Administration of the Victorian Certificate of Education (June 2010)**

VCAA indicated to VAGO that, following feedback during the audit, it had already put plans in place to improve its coursework audit processes, tighten exam security practices and develop a more data driven program of continuous improvement.

Follow-up inquiries conducted by PAEC also highlight the impact of our audits on agency performance and accountability. Agencies' evidence at these hearings in 2009–10 included their progress in addressing areas of concern from past audits. Few agencies had not acted on our recommendations.

### *Agency responses to audits: PAEC follow-up inquiries 2009–10*

#### **Patient Safety in Public Hospitals (May 2008)**

'The Department [of Human Services] responded that it was addressing the recommendations from the 2005 audit through two large scale projects, the review of clinical governance in Victoria's public health services and the incident information system project.

'... [Regarding the 2008 audit] two recommendations had been fully completed, one was being supplemented by further tools and another recommendation was almost complete.'

#### **Coordinating Services and Initiatives for Aboriginal People (June 2008)**

'The Department of Planning and Community Development... [advised] that work in respect to... recommendations was already underway at the time of the audit.'

#### **Planning for Water Infrastructure in Victoria (April 2008)**

'The Department [of Sustainability and Environment] stated that quality control processes and guides for the review of plans had been implemented.'

Source: PAEC's review of the findings and recommendations of the Auditor-General's reports 2008, May 2010.

## Impact on Parliament and PAEC

As well as guiding change at agency level, the Auditor-General's reports also support Parliamentary accountability mechanisms, inquiries and debate. As Parliament's auditor, we welcome this evidence of our impact on the state's accountability framework.

Surveys of Parliamentarians show that 86 per cent of members surveyed in 2009–10 agreed that our reports helped them monitor public sector accountability and financial performance, and around 90 per cent referred to our financial or performance audit reports at some point throughout the year.

Sometimes, Auditor-General reports are used intensively and in detail, to drive particular Parliamentary accountability processes. In 2009–10, PAEC used nine Auditor-General reports to inform their two crucial accountability

inquiries for Victorian public sector financial management—the Budget Estimates and the Financial and Performance Outcome inquiries.

Audits also inform broader Parliamentary debate on where government can improve. Hansard transcripts show that Parliamentarians made 112 references to our reports in the past financial year, with Parliamentarians from all sides commending them as important catalysts for action.

*Impact on Parliament's accountability framework: extracts from Parliamentary debate 2009–10*

**Maintaining the integrity and confidentiality of personal information (November 2009)**

'The government has ... asked the Department of Treasury and Finance to provide it with a program of activity to assist departments and agencies in their compliance with these guidelines and to identify any issues that would prevent agencies from protecting and securely handling individuals' personal information. The Auditor-General has highlighted these concerns, and we are acting on them.' (John Brumby, MLA, Premier)

**Management of Concessions by the Department of Human Services (February 2009)**

'There are 10 recommendations contained in the report ... and they all make a lot of sense. They are worthy of our support and speedy implementation.' (Nazih Elasmr, MLC, ALP)

**Management of Safety Risks at Level Crossings (March 2010)**

'The government will of course address the findings and recommendations in the report and work with all parties with a shared interest in and responsibility for level crossing safety to enable active participation in the upgrade process.' (Jaala Pulford, MLC, ALP)

**Fees and Charges—cost recovery by local government (April 2010)**

'I fully support these principles set by the Auditor-General; it is a good idea every now and then to have an independent review of how councils are going with their fees and charges'. (John Vogels, MLC, Liberals)

**General comments after 9 June 2010 tabling of four reports**

'A fantastic part of having an independent Auditor-General is that we should get a really good report, as we have had several excellent reports today, and that is much more important than just making a statement in the house'. (Colleen Hartland, MLC, Greens)

'I have found the Auditor-General, his key management team and his staff to be very professional and productive. For example, just yesterday four Auditor-General's reports were tabled, two of which are very significant in holding the government to account'. (Bill Sykes, MLA, Nationals)

Source: Victorian Parliament Hansard 2009–10.

## Feedback from audited agencies

Agencies can only commit to act on our recommendations if they are constructive and achievable. One of the ways we measure this is through annual agency surveys.

This year, more than 70 per cent of performance and financial audit clients agreed that VAGO's findings and recommendations could improve the administration of audited activities. This is an improvement from last year and ranks higher than historical ratings received by most other Australian public sector audit offices.

We also value agencies' comments as a measure of our impact on accountability and performance. This year, 81 agencies took part in confidential interviews with our independent survey provider, to provide feedback on the quality and value of their financial or performance audits. Many agencies commented on how audits have been translated to action in their organisations. Other agencies reported that audit outcomes and advice supported and strengthened their responses to areas already identified for improvement.

*Agency responses to audits: stakeholder interviews 2009–10*

**Performance Audit reports**

The agency reported that:

It was 'keen to implement many of the audit recommendations, affirming [that it] saw value in putting the changes into practice. It stated [its] intention to improve the training of managers in relation to the setting of fees and charges.'

It 'had been using the audit findings and recommendations to ensure it was not neglecting any details.'

'The audit prompted [it] to make changes to the way it managed its programs..., including the way it handled its agreements with service providers.'

'The validation [the agency's] team received from the audit provided other areas of [the] organisation with a best practice benchmark framework that they could learn from.'

'The audit was beneficial for alerting [the] organisation to a capability in its IT system, which led to its more effective use of the system.'

'The audit recommendations were very sound. Once implemented, probity and procedures will be substantially improved.'

'As a direct result of the audit, their organisation was drafting a process to review its regional fleets and ensure that its service delivery remained in line with whole-of-government policies.'

### *Agency responses to audits: stakeholder interviews 2009–10 – continued*

#### **Financial Audit reports**

The agency reported that:

'The key benefit of the financial audit had been VAGO's identification of the accounting treatments that [it] should adopt. [It] indicated that every audit [VAGO] conducted identified new improvement opportunities for his organisation.'

'[It was] both beneficial and important that [the agency] had undergone an independent, external audit. The rigour [of] the audit had enabled [it] to meet its statutory requirements and corporate governance needs.'

'[It] appreciated receiving the auditors' views on how [the agency] planned to handle some issues that had already been identified internally.'

Source: ORIMA Research, *Report on VAGO 2009–10 Client and Parliamentary Surveys*, 23 July 2010.

## Media and public debate

Extensive media coverage during the past financial year demonstrates the strong public interest in our audit work. In 2009–10, 360 press articles discussed our audits and the response to our reports. This kind of public debate has generated greater transparency around some key accountability and performance issues raised through our audit program, and encouraged the government to act on some critical findings.

Two reports that sparked some of the most interest and ongoing debate were *Towards a 'smart grid—the roll-out of advanced metering infrastructure* (November 2009) and *Irrigation Efficiency Programs* (June 2010). The following is a summary of the media and public debate that was generated by these reports, along with some of the responses from the government.

### *Media coverage highlights 2009–10: Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure*

Tabled on 11 November 2009, this report found that the Department of Primary Industries' roll-out of smart electricity meters was not subjected to the usual checks and balances of major state-funded investments.

The report prompted immediate and ongoing media and parliamentary debate. *Towards a 'smart grid' — the roll-out of Advanced Metering Infrastructure* appeared in 56 articles, across regional, state, national and local press. The report was referred to in 23 internet news and discussion portals and across Victorian radio stations.

The government responded with several community consultation strategies, a new cost-benefit analysis and an eventual moratorium on the roll-out. However, public debate on the issue continues, with calls for a full and independent cost-benefit analysis, in line with our audit recommendations.

### *Media coverage highlights 2009–10: Irrigation Efficiency Programs*

Tabled on 9 June 2010, this audit assessed some of Victoria's most significant irrigation efficiency programs. We found planning was rushed, some investment decisions were poorly informed and that the rationale behind prioritising some approaches above others was unclear.

Since June, there have been 63 articles across regional, state, federal and local media referring to VAGO's report.

Parliamentary debate and discussion on the issue also continues. In an article for the *North East Farmer* in July 2010 Shadow Minister for Country Water Resources, Peter Walsh, called for an independent inquiry on the probity of public funds used for these projects.



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# Output group 1: Parliamentary reports and services

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We inform our primary stakeholder, Parliament, about the results of our audits through our reports. These reports give Parliament independent assurance about the adequacy of accountability and resource management practices in the public sector. Each year the reports include:

- performance audits, focusing on the efficiency, economy and effectiveness of publicly funded activities, and 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 2010–11	Actual 2009–10	Target 2009–10	Actual 2008–09
<b>Quantity</b>					
Auditor-General's reports <sup>(a)</sup>	(number)	37	32	34	32
<b>Quality</b>					
Overall level of external satisfaction with audits—audit clients <sup>(b)</sup>	(score) <sup>(c)</sup>	75	69	75	72
Overall level of external satisfaction with audit reports and services—Parliamentarians <sup>(d)</sup>	(per cent)	85	92	na	92
<b>Timeliness</b>					
Reports completed on time <sup>(e)</sup>	(per cent)	90	81	90	72
Inquiries from members of Parliament and the public acknowledged within seven days, and responded to within four weeks	(per cent)	95	93	95	72
<b>Cost</b>					
<b>Total output cost</b>	<b>(\$mil)</b>	<b>14.1</b>	<b>14.5</b>	<b>13.9</b>	<b>13.3</b>

Notes: (a) The target for the performance measure 'Auditor-General's reports' has increased from 34 to 37 between 2009–10 and 2010–11. This is due to the inclusion of the VAGO Annual Report, VAGO Annual Plan, and the *Portfolio Departments: Interim Results of the 2009–10 Audits* report.

(b) This performance measure replaces the 2009–10 performance measure 'Overall level of external satisfaction with audits'. The 2010–11 performance measure calculates the same activity as the performance measure in 2009–10. The change simply clarifies which agency is measured.

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

(d) A new performance measure for 2010–11 that reflects the different stakeholder groups for which satisfaction is measured.

(e) The 2009–10 actual is lower than the 2009–10 target because of delays, mainly in the first half of the year, in getting necessary information from agencies, and in clearing agency responses to draft reports.

# Reports and advice

## Quantity

Table 5 shows our performance for each report category against our 2009–10 targets.

[Table 5] Number of reports tabled by report type

Product type	Target 2010–11	Actual 2009–10	Target 2009–10
Performance audit reports	28	26	28
Report on the examination of the state's finances	1	1	1
Reports on financial audit results	6	5	5
Annual Report	1	–	–
Annual Plan	1	–	–
<b>Total</b>	<b>37</b>	<b>32</b>	<b>34</b>

## Performance audit reports

The 2009–10 performance audit report target was 28, of which 26 were tabled. Of those 26, three were not in the *Annual Plan 2009–10*:

- The *Irrigation Water Stores: Lake Mokoan and Tarago Reservoir*, was added to the audit program at the Public Accounts and Estimates Committee's (PAEC) request.
- The *Community Support Fund* report, which was carried over from 2008–09
- *Managing Requirements for the Disclosure of Private Contracts* was brought forward a year.

In October 2009, VAGO stopped work on the VicForests audit, which was listed in the *Annual Plan 2009–10*. This was because the Minister for Finance announced a review 'to assess whether VicForests has delivered the outcomes that government sought at its establishment and to identify opportunities to enhance VicForests' management of the state native forest resource'. The terms of reference for the departmental review mirrored our audit objectives so we deferred the audit until 2012–13, pending the review results.

The *Annual Plan 2009–10* outlined 27 performance audits. However, VAGO has the flexibility to add audit topics, such as the *Irrigation Water Stores*, or remove them, as it did with *VicForests*, as appropriate. In 2009–10, 23, or 85 per cent of the audits in the annual plan were tabled in Parliament.

The three audits in the 2009–10 program that were not tabled by year end were added to the 2010–11 program:

- *Biotechnology and the Victorian Public Sector*
- *Construction of Police Stations and Courthouses*
- *Sustainable Management of Victoria's Groundwater Resources*.

The tabling of these audits changed because of a range of factors that affected these and other audits, such as:

- delays in getting requested information from audited agencies during audit conduct
- revision of reports because new information came to light after preliminary findings were documented and communicated to agencies
- drawn-out reporting processes when agencies asked for more time to respond to draft reports, or contested draft report findings
- unforeseen changes to audit teams because of staff departures.

The overall effect of these factors on time and cost is the equivalent to more than one major audit, which directly affects the number of reports tabled in Parliament.

## Results of financial audits

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

- *Local Government: Results of the 2008–09 Audits*
- *Public Hospitals: Results of the 2008–09 Audits*
- *Auditor-General’s Report on the Annual Financial Report of the State of Victoria, 2008–09*
- *Water Entities: Results of the 2008–09 Audits*
- *Portfolio Departments and Associated Entities: Results of the 2008–09 Audits*
- *Tertiary Education and Other Entities: Results of the 2009 Audits.*

The reports we tabled in Parliament during 2009–10 are listed below. Consistent with the approach used in VAGO’s *Annual Plan 2010–11* (published at [www.audit.vic.gov.au](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 the Department of Premier and Cabinet’s website [www.dpc.vic.gov.au](http://www.dpc.vic.gov.au).)

VAGO reports are also published in PDF format on our website: [www.audit.vic.gov.au](http://www.audit.vic.gov.au).

[Table 6] Reports tabled in Parliament by *Growing Victoria Together* visions and goals

<b>Thriving economy</b>	
<ul style="list-style-type: none"> <li>• more quality jobs and thriving, innovative industries across Victoria</li> <li>• growing and linking all of Victoria.</li> </ul>	
Performance audit reports:	<p><i>Towards a ‘smart grid’—the roll-out of Advanced Metering Infrastructure</i> (November 2009)</p> <p><i>Management of the Community Support Fund</i> (November 2009)</p> <p><i>Vehicle Fleet Management</i> (November 2009)</p> <p><i>Management of Safety Risks at Level Crossings</i> (March 2010)</p> <p><i>Management of Major Rail Projects</i> (June 2010)</p>
<b>Quality health and education</b>	
<ul style="list-style-type: none"> <li>• high quality, accessible health and community services</li> <li>• high quality education and training for lifelong learning.</li> </ul>	
Performance audit reports:	<p><i>The Effectiveness of Student Wellbeing Programs and Services</i> (February 2010)</p> <p><i>Management of Concessions by the Department of Human Services</i> (February 2010)</p> <p><i>Managing Teacher Performance in Government Schools</i> (May 2010)</p> <p><i>Access to Social Housing</i> (June 2010)</p> <p><i>Partnering with the Community Sector in Human Services and Health</i> (May 2010)</p> <p><i>Administration of the Victorian Certificate of Education</i> (June 2010)</p>
<b>Healthy environment</b>	
<ul style="list-style-type: none"> <li>• protecting the environment for future operations</li> <li>• efficient use of natural resources.</li> </ul>	
Performance audit reports:	<p><i>Irrigation Water Stores: Lake Mokoan and Tarago Reservoir</i> (March 2010)</p> <p><i>Irrigation Efficiency Programs</i> (June 2010)</p> <p><i>Control of Invasive Plants and Animals in Victoria’s Parks</i> (May 2010)</p> <p><i>Hazardous Waste Management</i> (June 2010)</p>

[Table 6] Reports tabled in Parliament by *Growing Victoria Together* visions and goals – *continued*

<b>Caring communities</b>	
<ul style="list-style-type: none"> <li>• building friendly, confident and safe communities</li> <li>• a fairer society that reduces disadvantage and respects diversity.</li> </ul>	
Performance audit reports:	<p><i>Responding to Mental Health Crises in the Community</i> (November 2009)</p> <p><i>Managing Offenders on Community Corrections Orders</i> (November 2009)</p> <p><i>Making Public Transport More Accessible for People Who Face Mobility Challenges</i> (December 2009)</p> <p><i>Use of Development Contributions by Local Government</i> (December 2009)</p> <p><i>The Community Building Initiative</i> (May 2010)</p> <p><i>Personal Safety and Security on the Metropolitan Train System</i> (June 2010)</p>
<b>Vibrant democracy</b>	
<ul style="list-style-type: none"> <li>• greater public participation and more accountable government</li> <li>• sound financial management.</li> </ul>	
Performance audit reports:	<p><i>Maintaining the Integrity and Confidentiality of Personal Information</i> (November 2009)</p> <p><i>Tendering and Contracting in Local Government</i> (February 2010)</p> <p><i>Performance Reporting by Departments</i> (May 2010)</p> <p><i>Fees and Charges—cost recovery by local government</i> (April 2010)</p> <p><i>Managing Requirements for the Disclosure of Private Contracts</i> (June 10)</p>
Reports on financial audit results	<p><i>Local Government: Results of the 2008–09 Audits</i> (November 2009)</p> <p><i>Public Hospitals: Results of the 2008–09 Audits</i> (November 2009)</p> <p><i>Water Entities: Results of the 2008–09 Audits</i> (November 2009)</p> <p><i>Portfolio Departments and Associated Entities: Results of the 2008–09 Audits</i> (December 2009)</p> <p><i>Tertiary Education and other Entities: Results of the 2009 Audits</i> (May 2010)</p>
Report on the examination of the state's finances	<p><i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–09</i> (November 2009)</p>

## Quality

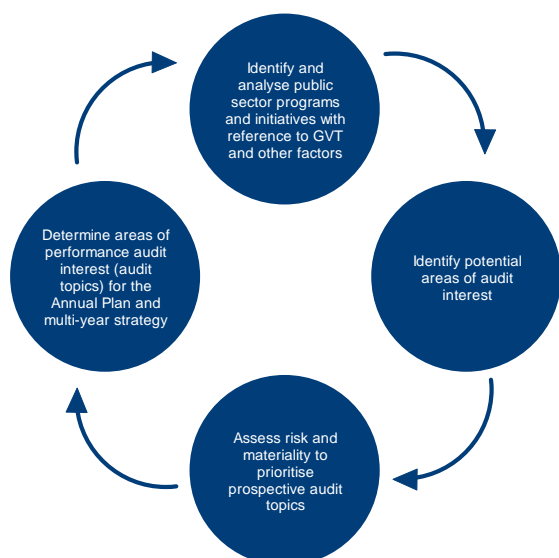
The quality of our reports is assessed through internal and external quality assurance reviews, independent assessments of our audit reports by a panel of experts, and feedback from Parliament and audited agencies. These processes, and the underlying checks and balances throughout the audit, are part of VAGO's quality framework. More information on our whole-office approach to quality is on page 49.

Quality begins with the right audit topic and qualified, well-trained, competent staff.

### Selection of performance audit areas of focus and annual planning

Performance audit topics are selected using a framework that considers public sector performance against the government's GVT visions and goals. The visions and goals represent the government's priority setting framework, including legislation and spending decisions for 2010 onwards. We identify programs, initiatives and areas of public sector activity that help to meet GVT objectives. We also consider wastage and lack of probity or financial prudence.

[Figure 1] Framework for selecting areas of performance audit focus



We consult widely with:

- departmental secretaries individually and in agency management forums
- agency senior management and line managers
- industry regulators
- other statutory office bearers and commissioners
- sector experts and industry representatives
- community organisations
- academics
- other stakeholders, such as the recipients of government services
- Parliamentarians
- other interested parties.

Through these discussions we develop our knowledge of emerging issues, performance gaps and risks to efficient, effective and economic service delivery. We also review and respond to correspondence and representations to the Auditor-General from Parliamentarians and the public, and consider issues warranting further attention.

We assess the economic, environmental and social risks to the areas identified, to prioritise our prospective areas of audit focus for inclusion in the annual plan and the areas of audit focus in the three 'out' years in the multi-year strategy.

The annual planning process also includes extensive consultation with the PAEC. When we developed our *Annual Plan 2010–11* we consulted with PAEC in November 2009, February and April 2010 on the proposed areas of financial and performance audit focus.

Under section 7A(1)(b) of the *Audit Act 1994*, the draft annual plan must be submitted to PAEC, which can provide comment under section 7A(3). We provided the draft annual plan to PAEC on 1 April 2010 and PAEC responded by 20 April 2010.

To help us understand the effectiveness of this framework for selecting performance audit topics we survey Parliamentarians to assess how well our audits address their areas of interest.

Pleasingly, this year all surveyed members agreed that our audits addressed their key areas of interest, with more than 60 per cent saying their satisfaction was 'high' or 'very high'. None of the members rated this measure as 'low' or 'very low', an improvement on last year.

This result, combined with the improved consistency between planned and tabled audit topics, confirms 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 Australian Auditing and Assurance 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 where staff can access relevant policies, guidance and business templates, VAGO's record management, email and calendar facilities. During the year we reviewed and updated our electronic working paper system, based on staff feedback, to strengthen use of our methodology and to streamline its project management capability.

During the year all performance audit staff received in-house training about the new capabilities of the working paper system as planned. As part of the upgrade we also further strengthened the training program by integrating system use into the methodology training, so that staff get a more 'hands-on' feel of its correct use and application.

## Post-audit quality assurance—cold reviews

VAGO engages external parties to review a sample of completed performance audits. Their reviews assess whether audits have been conducted in an effective, efficient and economic way in accordance with VAGO's audit methodology; Australian Auditing and Assurance Standards and legislation; and whether the findings, conclusions and recommendations in the report to Parliament are supported by sufficient and appropriate evidence. The 2009–10 cold reviews of our performance audits indicated that:

- audits met internal and professional expectations
- audits were based on sound evidence and analysis
- audits came to fair and reasonable conclusions.

Some areas for process improvement identified included:

- better demonstration of the involvement of the quality control reviewer
- more comprehensive linking of evidence to criteria and audit findings
- more thorough identification and management of risk.

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

## Independent assessments of report quality

Each year the Australasian Council of Auditors-General (ACAG) selects independent assessors to review a selection of performance audit reports. Five reports are selected from different audit teams, with a mix of audit scope. In 2009–10 three eminent external reviewers examined the following reports:

- *Making Public Transport More Accessible for People Who Face Mobility Challenges* (2009–10:12)
- *Tendering and Contracting in Local Government* (2009–10:15)
- *Management of Concessions by the Department of Human Services* (2009–10:16)
- *Performance Reporting by Departments* (2009–10:20)
- *Control of Invasive Plants and Animals in Victoria's Parks* (2009–10:23).

The three reviewers used ACAG criteria to score each report, as well as providing comments. This year's assessments indicate that overall quality of VAGO's performance audit reports has improved.

Table 7 shows a comparison of results. The average total score for VAGO performance audit reports has increased from 79 per cent in 2008–09 to 81 per cent in 2009–10. This is continues a positive trend from 2007–08.

[Table 7] Australasian Council of Auditors-General comparison of results

ACAG assessments	Average score VAGO 2009–10 reports	Average score VAGO 2008–09 reports	Average score VAGO 2007–08 reports
Total score (out of 30)	24.3 (81%)	23.6 (79%)	22.7 (76%)

Table 8 shows the averaged scores out of a possible score of five, against each criterion, for each of the reports assessed in 2009–10.

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

Scope and potential for significant impact	Focus on effectiveness and economy	Persuasiveness of conclusions	Communication – Printed report	Communication – Online report	Usefulness to the customer
Making Public Transport More Accessible for People Who Face Mobility Challenges					
3.8	3.3	3.5	3.5	4.0	4.0
Tendering and Contracting in Local Government					
4.5	3.7	4.5	4.2	4.3	4.5
Management of Concessions by the Department of Human Services					
4.0	4.0	4.2	4.2	3.7	4.5
Performance Reporting by Departments					
4.7	3.8	4.5	3.8	4.0	4.5
Control of Invasive Plants and Animals in Victoria's Parks					
4.2	3.3	4.5	3.8	4.3	3.7

In addition to providing scores for each performance audit report, the assessors provided qualitative feedback on the reports. Extracts from this feedback follow.

#### ***Making Public Transport More Accessible for People Who Face Mobility Challenges***

'Key impacts were well documented and deficiencies in relation to problems exposed, which made for a simple and easily read audit. If acted upon it will change the current attitude of the department.'... 'The audit analysis was penetrating and left the reader with a clear understanding of what was needed to fully implement the *Disability Discrimination Act*.'... 'Use of well constructed tables was good.'

#### ***Tendering and Contracting in Local Government***

'The sample study of five local government areas—all of a diverse nature—gave the audit breadth.'... 'The detail and depth of this report will deliver a message to all local government entities, that tendering procedures must be tightly controlled and improved practices undertaken.'... 'The use of figures/tables provided excellent back-up to the written content. Figures were concise and easily read in the format used in the audit.'... 'The fact that most councils indicated that they intended to follow the audit's recommendations, either during the time of the report or at its completion, gave veracity to an influential performance audit.'

#### ***Management of Concessions by the Department of Human Services***

'The audit gave an excellent overview and provided a clear picture of the role of the department in managing government concessions.'... 'The strength of this audit lies in the positive acceptance by the secretary of the department, who used words such as—appreciated; acknowledges; welcomes; and provided opportunities for further improvement, in the tabled response.'... 'This was a first class report both in content and presentation.'... 'Format of the report made for ease of reading. At a glance boxed format at the start of each chapter with dot points, is to be commended.'... 'The concessions in operation table at Appendix A is very helpful.'



**Performance Reporting by Departments**

'The general thrust of the audit was obviously aimed at improving the level of information available to decision makers, especially in relation to operational efficiencies of government departments. This is to be commended.'... 'Recommendations on how the Departments of Premier and Cabinet and Treasury and Finance should assist departments in coordinating their response in relation to compliance, saw the compilation of a first rate guide.'... 'The report is easy to read. Sentences are punchy with longer paragraphs presented in part by dot point statements.'... 'Diagrams and tables are well spread throughout the audit. They were also meaningful and concise.'... 'The 'At a glance' disclosures are useful features.'... 'the insights into what happens in New Zealand and Canada are very good.'

**Control of Invasive Plants and Animals in Victoria's Parks**

'The background chapter provided an easily understood overview of the administration, organisational and legislative strategies in place dealing with this significant problem.'... 'This is a balanced report, written in a manner so as not to embarrass or ridicule departmental staff.'... 'Recommendations in the main seem to have provided a remedy to the current inadequacies of the agencies in tackling a major problem.'... 'The audit approach was sound and selecting large national parks and one state park for detailed investigation left little room for criticism by the agencies.'

## Agency feedback on performance audits

To measure agency views on our performance audits we ask audited agencies for their feedback through independently conducted surveys and interviews. Feedback from audited agencies is analysed to inform performance audit and report improvements. Throughout the year our Senior Management Group is informed about how we are addressing agency feedback.

We request 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 outlined in *Budget Paper 3*. The target was revised to 75 in 2009–10, from a stretch target of 80 in previous years, to account for the new, more rigorous approach to calculating this index.

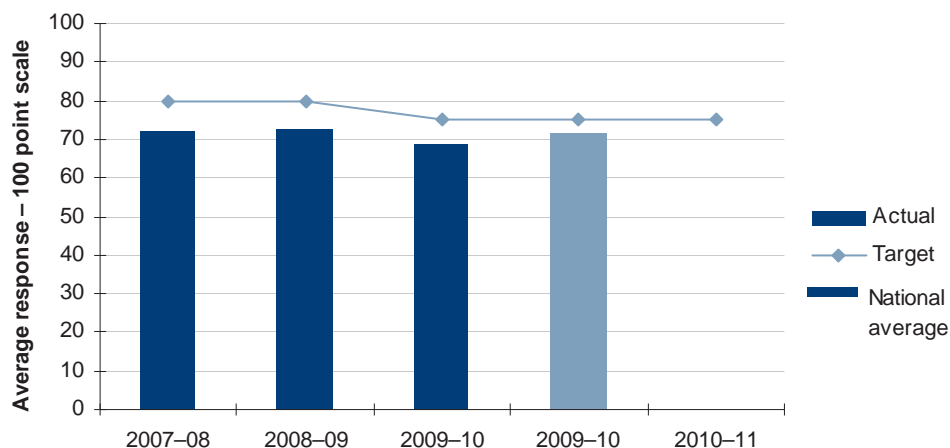
Although most responses were positive, our overall performance audit client survey results for 2009–10 are lower than in 2008–09. We achieved an overall client satisfaction rating of 69, compared with 72 achieved last year.

A drop in client ratings of audit process and reporting, in comparison to the 2008–09 levels, largely drove this. While overall we were still above target for audit process, areas where our process ratings dropped included the degree of involvement of our senior staff, and our engagement at the outset of audits. The areas where we fell significantly below our target were: understanding agencies' operating environments; and agency assessments of the accuracy, balance and fairness of our reporting.

As we place great importance on factual, balanced and fair reporting, we further analysed responses to these questions. This analysis highlighted that lower scores were mainly from a few agencies giving very low scores across a small number of audits. These agencies' scores, however, were in marked contrast to the higher scores other agencies that participated in the same audit gave. We also noted that these very low scores for reporting often came from agencies that were directly criticised in our reports.

By contrast, this year, agencies' overall ratings for the value of our performance audit reports improved to a historic high. We were pleased to see a particularly positive response from agencies on the capacity of our reports to improve their administration.

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



We benchmark our results against other public sector audit offices, and engage with offices that benchmark very well. Based on benchmark results for 2009-10, VAGO’s overall performance index is below the national average.

### Action on survey results

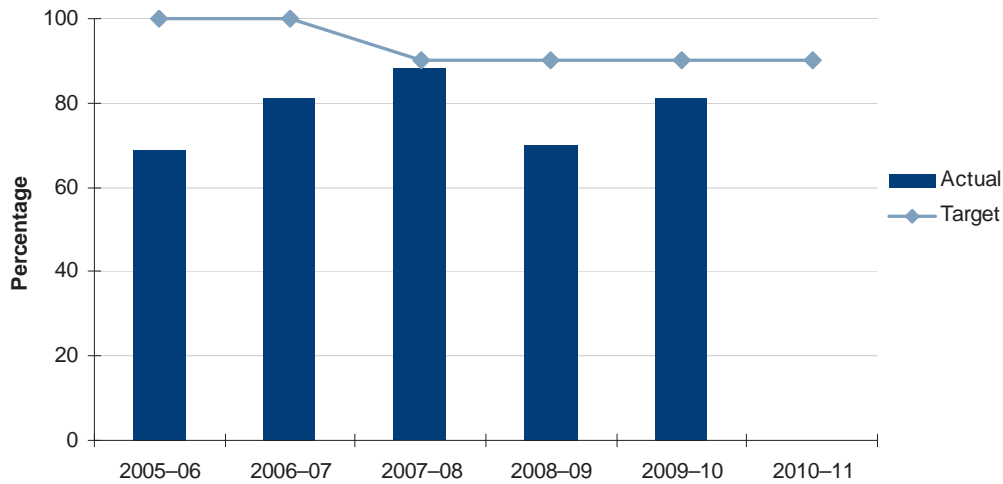
Analysis of the 2008-09 and initial 2009-10 survey results prompted actions to improve audit process, reporting and value of the audit to the agency. In particular, we focused on:

- Final report presented the findings in an accurate manner**  
 VAGO found that client ratings on the accuracy of our performance audit reports declined in 2009-10. To address this, audited agencies were given an opportunity to provide feedback on the proposed findings and recommendations. Despite this survey result, the vast majority of VAGO recommendations were supported when the final reports were tabled. It is reassuring that concerns about the way information is presented in reports has not affected agencies’ responses to our recommendations.
- Adequate understanding of organisations**  
 We scored the lowest on this measure. Efforts to improve this include sector-planning workshops to improve our understanding of the operating environments of sectors.

### Timeliness

Each performance audit is managed as a project with an internal schedule. These time lines are used to set the Parliamentary 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 2009-10, 26 (81 per cent) met this target. This is an improvement on last year. The average time to complete performance audits in 2009-10 was 9.5 months, which compares well with the 2008-09 ACAG averages for Australian audit offices of 6.8 to 13.2 months.

[Figure 3] Timeliness of reports tabled in Parliament



The performance reports that did not meet the target times in 2009–10 were:

- *Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure* (November 2009)
- *Maintaining the Integrity and Confidentiality of Personal Information* (November 2009)
- *The Effectiveness of Student Wellbeing Programs and Services* (February 2010)
- *Performance Reporting by Departments* (May 2010)
- *Irrigation Efficiency Programs* (June 2010)
- *Access to Social Housing* (June 2010).

The late tabling of these reports directly affected the number of reports produced during the year. As various factors pushed the deadlines for some audits, they also prevented audit teams from starting new audits as scheduled. These delays and the withdrawal of the VicForests audit took the same amount of time as it would to complete two audits, which explains why we were behind our target by two audits. For example, the team working on the VicForests audit had already done two months work before it was removed from the program.

Ongoing challenges to the preliminary conclusions and findings from multiple departments in the *Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure* audit pushed the tabling date forward for several months while the issues raised were resolved, ultimately without substantive change to audit conclusions and recommendations. These delays prevented the audit team from starting another major audit, *Biotechnology and the Victorian Public Sector*. In a similar vein, departmental challenges to indicative findings in the *Performance Reporting by Departments* audit also delayed the report, again without substantive change to the audit conclusions and recommendations.

The Auditor-General exercised a rarely used power under section 11 of the *Audit Act 1994* that required the Secretary of the Department of Sustainability and the Environment to appear for examination in the face of his department's persistent delay and obstruction during the *Irrigation Efficiency Programs* audit.

Agency-based delays in 2009–10 cost money and time. We are working to help agencies understand their role and responsibilities under the *Audit Act 1994*. We are also working to improve our relationships with agencies so that we receive full and timely information when requested during an audit.

We have also revised our communication strategies to reduce the likelihood of challenges late in the audit. Now we write to the chief executive of the audited agency as soon as our indicative findings and preliminary conclusions raise major issues.

Although we were two performance audits behind target, we are much further ahead in the planning and timing of the coming year's program, and expect to table more reports in the first quarter of 2010–11 than in previous years.

## Cost

In 2009–10 the cost of delivering our Parliamentary reports and services was \$14.5 million, which is above the target of \$13.9 million. The target for 2010–11 is \$14.1 million.

The average cost per performance audit in 2009–10 was \$348 000 against a target of \$351 000. Although higher than the 2008–09 ACAG national average of \$303 480 (latest available data), VAGO's average cost is below most Australian public sector audit offices that conduct performance audits with similar scopes. This is notwithstanding the unique requirement in Victoria to consult with PAEC when developing the audit specification and the particular role PAEC plays in the preparation of the annual plan.

The average cost per results of financial audit report delivered was \$189 783.

# Parliament

## Parliamentary briefings

Members of Parliament are briefed on our tabled reports. We alert members about upcoming reports by posting details on our website, as well as emailing them at the start of a tabling week.

## Inquiries from members of Parliament and the public

VAGO receives many inquiries from members of Parliament and the public about public sector agencies, government programs and initiatives. The inquiries usually concern the management of public resources and the Auditor-General is often asked to audit the area in question. If these suggested audit topics have a significant impact on public sector accountability they will be considered in our audit topic selection process.

Other inquiries may be referred to other review processes or accountability authorities, such as the Ombudsman or the Local Government Investigations and Compliance Inspectorate.

During 2009–10, we received 130 inquiries, a significant increase on last year, when we received 97.

Significantly, the Auditor-General had 23 inquiries from members of Parliament; up from nine in 2008–09 and eight in 2007–08. The other 107 were from the general public and community groups.

VAGO has established time lines and targets for responding to these inquiries; 95 per cent must be finalised within four weeks. Following a drop in response rate in 2008–09, we are pleased to see our response rate return to 93 per cent, close to our target of 95 per cent.

## Public Accounts and Estimates Committee

The Victorian Parliament is our primary stakeholder, and PAEC is our main point of contact with Parliament. The *Audit Act 1994* requires us to consult with PAEC on our annual plan and budgetary needs and on individual performance audit specifications.

The VAGO *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 2009–10 we worked closely with PAEC in several areas, by:

- consulting extensively on VAGO's *Annual Plan 2010–11*, the Auditor-General liaising with PAEC 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 help with research and its other activities
- maintaining regular contact with PAEC at officer level.

In 2009–10, in line with our strategic plan, we began a program of regular informal contact to exchange information and provide assistance, where possible, to other PAEC inquiries.

## PAEC estimates and outcomes inquiries

PAEC plays a key role in the accountability and transparency of government through its annual review of the government's budget estimates and financial and performance outcomes.

We are pleased to see that PAEC has made good use of the Auditor-General's reports in its 2009–10 Budget Estimates and Financial and Performance Outcomes inquiries.

Throughout the estimates process, PAEC referred to eight Auditor-General reports in 13 different contexts, to support its lines of inquiry and to inform its final reports. In particular, our audit *Performance Reporting by Departments* (May 2010) is mentioned several times.

#### **Audit reports referred to in PAEC's Budget Estimates reports**

- *Performance Reporting by Departments* (May 2010)
- *Irrigation Water Stores: Lake Mokoan and Tarago Reservoir* (March 2010)
- *Managing Offenders on Community Corrections Orders* (November 2009)
- *Management of the Community Support Fund* (November 2009)
- *Local Government: Results of the 2009–09 Financial Audits* (November 2009)
- *Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure* (November 2009)
- *Literacy and Numeracy Achievement* (February 2009)
- *Delivering HealthSMART—Victoria's whole-of-health ICT strategy* (April 2008)

PAEC's report on the *2008–09 Financial and Performance Outcomes* also refers to several of our reports and publications.

#### **Reports and publications referred to in PAEC's Financial and Performance Outcomes report**

- *Annual Plan 2010–11* (May 2010)
- *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–09* (November 2009)
- *Planning for Water Infrastructure in Victoria* (April 2008)
- *Public Sector Procurement: Turning Principles into Practice* (October 2007)

We are pleased that our reports and publications inform the crucial Parliamentary accountability processes and trust that our reports will continue to be useful.

### **PAEC follow-ups of VAGO audits**

PAEC routinely follows up matters that the Auditor-General raises in his reports to Parliament. This process holds Victorian government agencies accountable for responding to our findings and recommendations. When choosing which audits to follow-up, PAEC considers the seriousness of audit findings, public interest, risk, materiality, unresolved disputes and opportunities to improve accountability.

Between July 2009 and June 2010, PAEC reviewed or reported on 17 audit reports, tabled between September 2007 and December 2008 (see Table 9). Six of these were addressed at public hearings, at which public entities gave evidence. PAEC has tabled reports on 11 of these follow-ups so far in September 2009 and May 2010.

PAEC's reports on these inquiries largely supported the direction of our audits. Of its 73 recommendations, only two were directed at the Auditor-General. Common themes in the recommendations include the importance of performance reporting and monitoring and improving governance and operational arrangements.

In its response to the September 2009 report, the government accepted 83 per cent of recommendations and outlined its plans and progress for implementing the recommendations. One recommendation was rejected, one considered not applicable and two are under review. The government is yet to respond to the May 2010 report.

[Table 9] VAGO audits followed up by the Public Accounts and Estimates Committee

**Audits followed up by PAEC during 2009–10**

- *BioSecurity Incidents: Planning and Risk Management for Livestock Disease* (November 2008)
- *Managing Acute Patient Flows* (November 2008)
- *Enforcement of Planning Permits* (November 2008)
- *School Buildings: Planning, Maintenance and Renewal* (November 2008)
- *Private Practice Arrangements in Health Services* (October 2008)
- *Managing Complaints Against Ticket Inspectors* (July 2008)
- *Coordinating Services and Initiatives for Aboriginal People* (June 2008)
- *Implementation of the Criminal Justice Enhancement Program* (June 2008)
- *Patient Safety in Public Hospitals* (May 2008)
- *Victoria's Planning Framework for Land Use and Development* (May 2008)
- *Planning for Water Infrastructure in Victoria* (April 2008)
- *Delivering HealthSMART—Victoria's whole-of-health ICT strategy* (April 2008)
- *Records Management in the Victorian Public Sector* (March 2008)
- *Agriculture Research Investment, Monitoring and Review* (February 2008)
- *Funding and Delivery of Two Freeway Upgrade Projects* (December 2007)
- *Improving our Schools: Monitoring and Support* (October 2007)
- *Program for Students with Disabilities: Program Accountability* (September 2007)

## Survey of Parliamentarians

We request feedback from Parliamentarians annually through a comprehensive and confidential survey. This feedback is an important part of our efforts to improve our services and publicly report on our performance.

We conduct the survey together with four other Australian auditors-general, which allows us to compare and benchmark our results. On average, our results are comparable with the other offices, usually in the mid-range.

Feedback from Parliamentarians in 2009–10 has been largely positive, with most respondents giving encouraging feedback on most aspects of VAGO's reports and services.

Maintaining the strong result from last year, 92 per cent of Parliamentarians were satisfied or very satisfied with our reports and services in 2009–10, compared with 83 per cent in 2007–08 (see Figure 4). This is above our target for 2010–11 of 85 per cent.

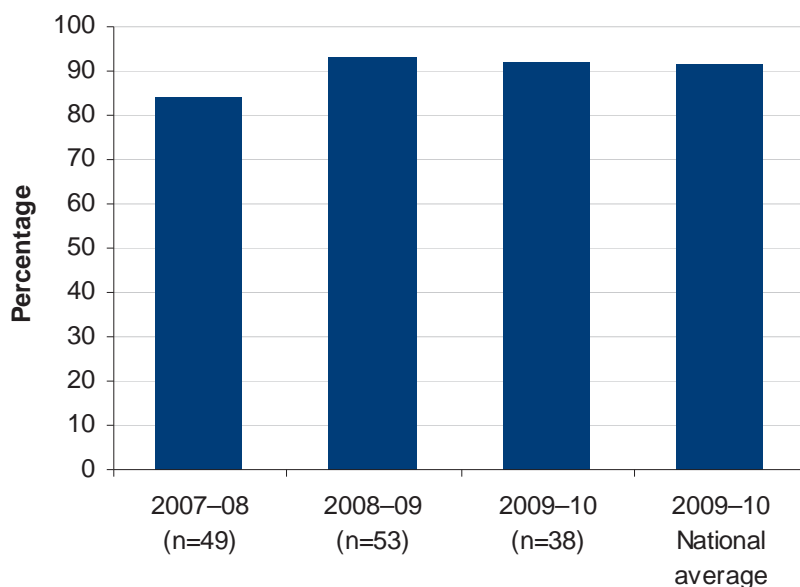
Other highlights from this year's Parliamentary survey include:

- 92 per cent of respondents had referred to a VAGO performance audit report in the past 12 months, with 53 per cent referring to them either often or very often; this is up from 40 per cent in 2008–09
- 100 per cent of respondents indicated that VAGO's performance audits addressed their key areas of interest to some extent, 59 per cent to a high degree
- 89 per cent of respondents had referred to financial statement audit reports in the past 12 months, with 21 per cent referring to them often or very often; this is up from 10 per cent last year
- 91 per cent of respondents agreed that financial audit reports clearly identified significant issues and their implications; this is up from 77 per cent in 2008–09
- all respondents with direct dealings with VAGO in the past 12 months gave positive ratings for responsiveness. The vast majority said our advice addressed their needs. This strong result compares well with other jurisdictions, where some Parliamentarians did not rate the responsiveness of their audit offices well.

The survey feedback gives added impetus to intensifying our Parliamentary liaison, offering an open door to Parliamentarians who have significant matters to raise with their auditor.

We will be sharing survey results in more detail with Parliamentarians and PAEC throughout 2010 in correspondence and briefings.

[Figure 4] Parliamentarians' satisfaction levels with the Auditor-General's reports and services by percentage



Note: n = number of responses.

## Audit clients

### Fostering productive relationships

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

The conduct of a performance audit involves ongoing discussions and interviews with agency personnel. To achieve this a communication protocol is agreed on at each audited agency during the entry interview.

Any significant findings and emerging issues uncovered during an audit are progressively discussed with each agency's CEO or their nominated contact officer so the agency is fully and properly 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 because it informs our understanding and analysis which underpins our findings and conclusions.



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# Output group 2: Audit reports on financial statements

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In this section we provide details of our output group 2. It describes how we delivered financial statement audit services, together with associated performance indicator information

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

Financial audits give 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* or other relevant legislative reporting requirements as applicable.

These audits must also address any wastage of public resources, lack of probity or financial prudence in the management or application of public resources, consistent with section 3a(2) of the *Audit Act 1994*.

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

Financial audits establish whether entities' financial statements present financial information fairly. Statement credibility is enhanced when 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 publishes the findings and prepares an audit report.

Table 10 summarises the Auditor-General's financial audit responsibilities for 2008–09 and 2009–10 financial years.

[Table 10] Auditor-General's financial audit responsibilities for 2008–09 and 2009–10

Type of entity	2009–10	2008–09
<b>Parliamentary bodies</b>		
Parliament	1	1
<b>State accounts</b>		
Annual financial report	1	1
Estimated financial statements	1	1
<b>State entities</b>		
Departments and other independent budget sector entities	23	23
Companies, trusts and joint ventures	152	176
Public bodies	110	110
Public cemeteries	14	14
Public hospitals and ambulance services	85	94
Regional waste management groups	15	13
Superannuation funds	2	3
Universities and other educational institutions	22	21
Water authorities	27	27
<b>Local government entities</b>		
Municipal councils	79	79
Regional library corporations	12	12
Companies, trusts and joint ventures	13	12
<b>Total</b>	<b>557</b>	<b>587</b>

# Financial audits

The following table shows how we performed against our 2009–10 targets for audit reports on financial and non-financial performance statements (output group 2).

[Table 11] Performance against output targets

Performance measures		Target 2010–11	Actual 2009–10	Target 2009–10	Actual 2008–09
<b>Quantity</b>					
Audit opinions issued on entity financial statements <sup>(a)</sup>	(number)	541	557	600	592
Audit opinion on the <i>Annual Financial Report of the State of Victoria</i>	(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	113	114	114
<b>Quality</b>					
Overall level of external satisfaction with audits (audit clients)	(score)	75	75	75	76
<b>Timeliness</b>					
Audit opinions issued within statutory deadlines	(per cent)	98	100	98	98
Final management letters to entities within established time frames	(per cent)	90	94	90	92
<b>Cost</b>					
<b>Total output cost</b>	<b>(\$mil)</b>	<b>20.3</b>	<b>20.4</b>	<b>19.8</b>	<b>19.8</b>

Note: (a) The 2009–10 actual is lower than target because stand-alone community health centres are no longer subject to our audit.

## Quantity

### Audit opinions issued to entities

During 2009–10 we issued 557 audit opinions, compared with our target of 600. This difference is largely because stand-alone community health centres are not required to be audited following amendments to the *Health Services Act 1988*, which were proclaimed at the end of March 2009.

We also issued 113 opinions on non-financial performance statements, one fewer than planned:

- 78 audit opinions on council statements (79 in 2008–09)
- 15 audit opinions on regional and rural water authority statements (16 in 2008–09)
- 20 audit opinions on 18 technical and further education (TAFE) institutes and two training entities' statements (19 in 2008–09).

Ninety-nine per cent (unchanged from 2008–09) of audit opinions on financial statements were unqualified. The financial statements of four entities (unchanged from 2008–09) were qualified for a variety of reasons. We issued a qualified opinion where entities:

- inappropriately accounted for certain non-reciprocal (typically research) grants (two entities)
- had a limitation of scope audit opinion due to the inability of audit to obtain sufficing appropriate audit evidence for the 2007–08 comparative figures in the 2008–09 financial report (one entity)
- were unable to attest to the completeness of cash donations, as the risks associated with these collections could not be mitigated by internal controls (one entity).

There was only one entity with a qualified audit opinion on performance statements, the rest were unqualified. The one performance statement was qualified because the annual budget did not set targets for inclusion in the performance statement.

## Audit opinion on the *Annual Financial Report of the State of Victoria 2008–09*

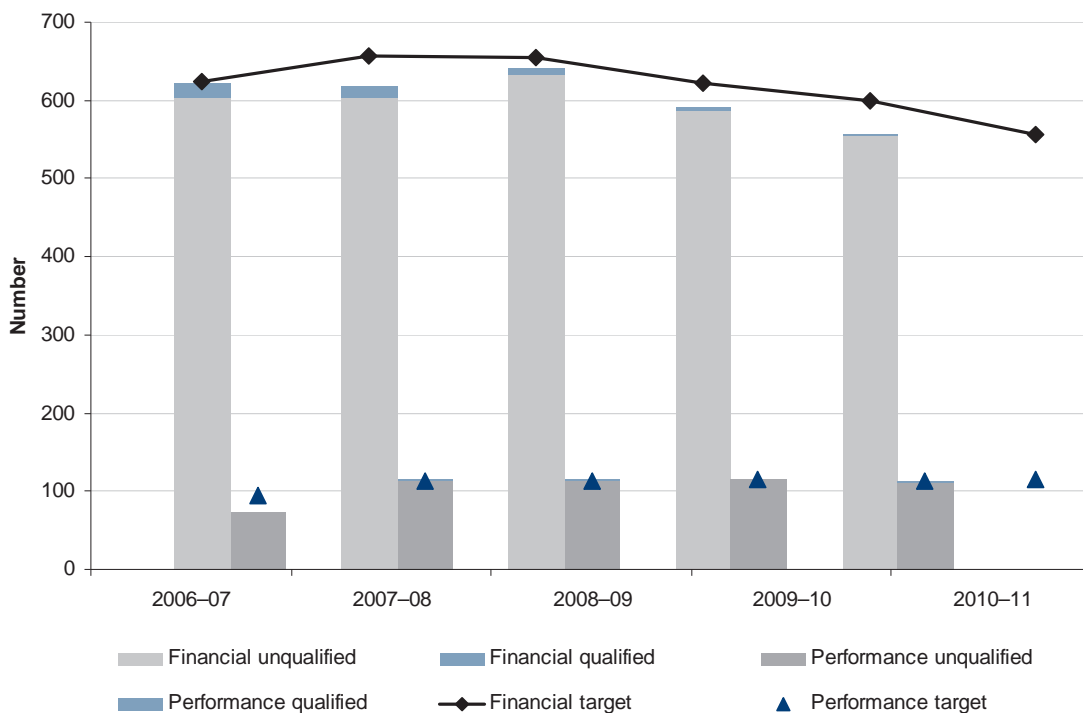
A feature of the state's accountability framework is that the government must prepare and present consolidated financial statements to Parliament annually. The statements include all the public sector entities the government controls. Local government bodies and universities do not meet the test of control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

On 29 September 2009 the Auditor-General provided an unqualified audit opinion on the state's annual financial report for 2008–09, which was tabled in Parliament on 14 October 2009.

## The Victorian Government's Estimated Financial Statements

On 30 April 2010 we completed our review of the Victorian Government's Estimated Financial Statements for the financial year ending 30 June 2011 and the following three years. The government's Budget Papers, presented to Parliament on 4 May 2010, included our independent report.

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



## Quality

### Financial audit method

It is important that our audits are high quality. Our financial audit method is integrated into our electronic audit toolset, known as IPSAM, which was developed in a joint arrangement with the Queensland Audit Office and is either in use, or being implemented, in four other jurisdictions.

Our financial audit approach is designed to help us form an audit opinion on agencies' financial statements and performance statements efficiently and effectively. We also monitor the appropriateness of public resource use and compliance with laws and regulations during our financial audits.

### Financial audit policy manual

To complement the Australian Auditing 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 on financial statement audits.

The manual is updated annually and was re-released at a forum for auditors and our service providers in December 2009. The forum focused on emerging developments across the public sector and in individual sectors.

We issue financial audit policy alerts to auditors on emerging legislative, financial reporting and 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 audits for their feedback through independently conducted surveys 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 75. This target was revised from 80 in 2009–10 to account for a new, more rigorous approach to the calculation of the index.

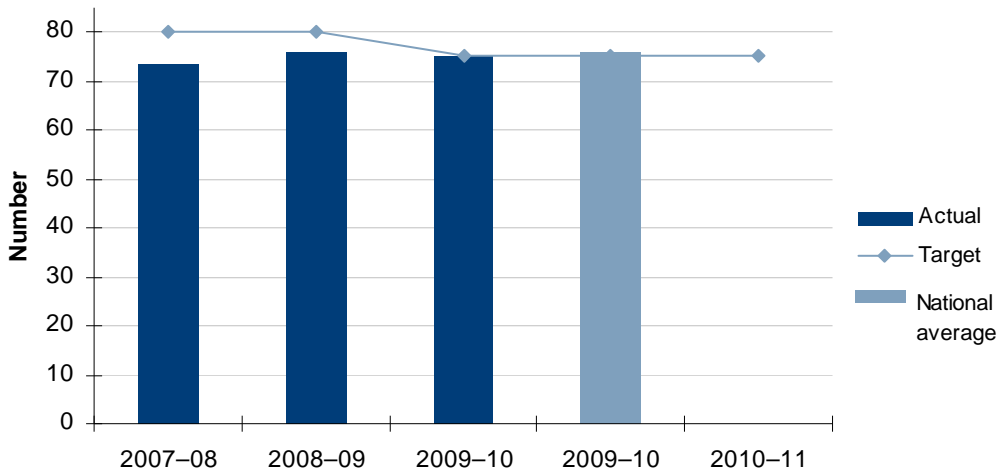
Financial audit client survey results for 2009–10 have met their target, and have marginally declined from last year's strong results. VAGO attained an overall client satisfaction rating of 75, compared with 76 in 2008–09.

This year most ratings for audit processes and reporting dropped slightly; however, they were still higher than 2007–08 and 2006–07 results. There was an increase in satisfaction in areas, including:

- auditor professionalism
- explanation of our audit fees
- management letter quality
- Parliamentary report quality.

We benchmark survey results against other Australian audit offices, and we engage with offices that benchmark well. VAGO's 2009–10 results compare favourably with ratings in other jurisdictions, with most results staying at the higher end of the range. In particular, when compared to the ratings from other audit offices, we ranked significantly higher in our clients' perception of our professional skills, knowledge and understanding of their organisations. This comparative result is especially pleasing given client participation in our surveys is higher than any other jurisdiction.

[Figure 6] Audited agency ratings of quality of financial audit services and reports



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

These survey results help us identify what we are doing right, and where our clients' priorities lie. Looking ahead, we will use this intelligence and try to maintain these high ratings as we strive to further smooth the audit cycle and assist entities in meeting the shortened annual financial reporting deadlines for this year's state election, and in future periods pursuant to proposed time lines in the *Public Finance and Accountability Bill 2009*, currently before Parliament.

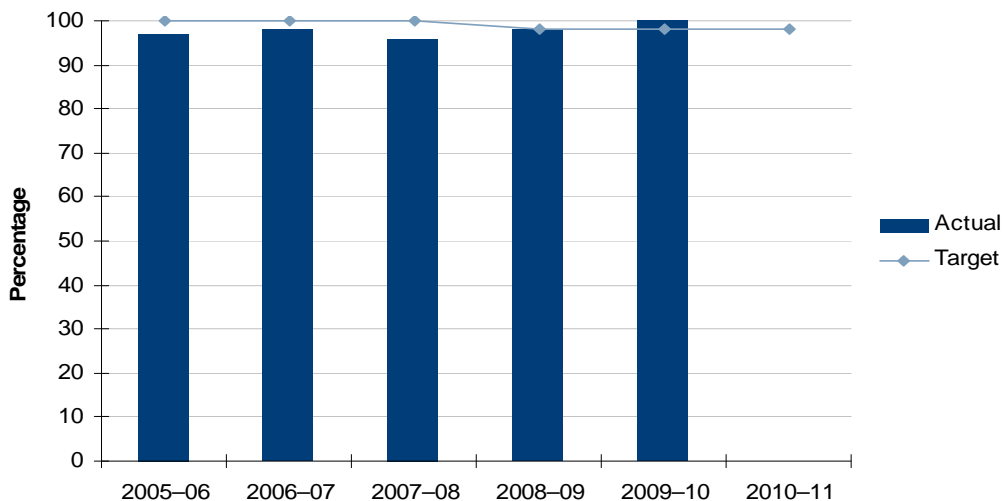
## Timeliness

### 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 2009-10 we issued 100 per cent (98 per cent in 2008-09) of our audit opinions within the statutory deadline.

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



## Timeliness of financial reporting by entities

For the 2009–10 financial year it took an average of slightly less than 11 weeks to finalise financial reports for entities with 30 June balance dates reporting under the *Financial Management Act 1994*. This was the same as last year. Eighty-five per cent of these entities completed their financial reports within 12 weeks of the balance date, which is an improvement of five percentage points from 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. Ninety-one per cent completed their financial statements within the required 12 weeks (81 per cent in 2008–09), with 23 out of 26 tertiary education entities (an increase of two since 2008–09) and all five alpine resort entities completing their financial statements within 12 weeks (same as 2008–09).

## Management letters

We communicate any significant audit or accounting issues we find in a management letter during, and at the completion of, the audit. Before we issue our management letters, we request comments from the management of each entity about our findings and recommendations and incorporate these into our management letters.

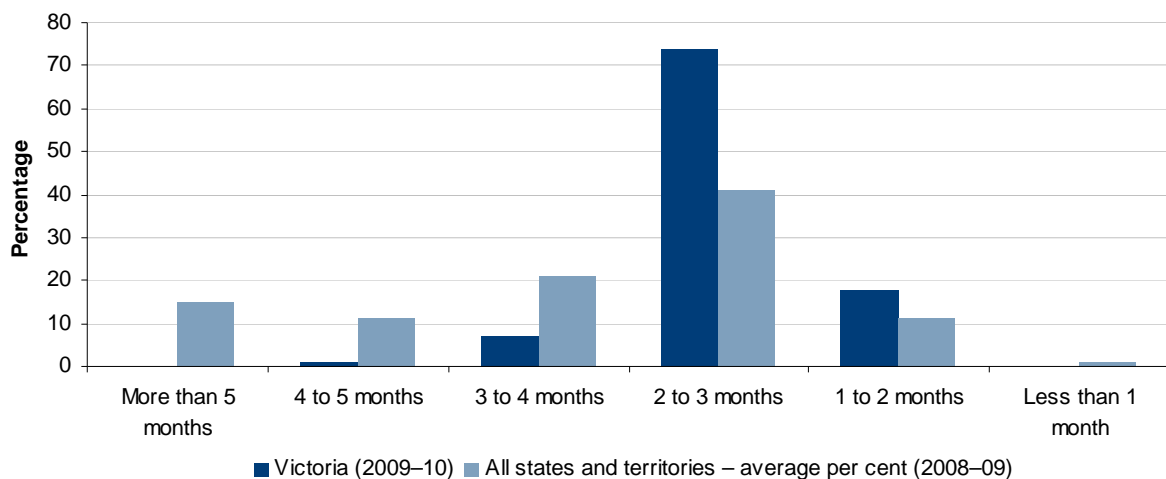
In 2009–10 we issued 94 per cent of management letters within our established time frames (92 per cent in 2008–09).

## Benchmarking the timeliness of audit reporting

We benchmark the timeliness of our financial audits against other Australian state jurisdictions. In 2009–10 we issued 99 per cent of our financial audit opinions within four months of the financial year end. This exceeded the Australian states and territories' average from 2008–09 (latest available data) of 76 per cent.

Ninety-two per cent of VAGO's financial audit opinions for 2009–10 were issued within three months, well above the previous year's state and territory average of 52 per cent.

[Figure 8] Australasian Council of Auditors-General benchmark: time frames for issuing 2008–09 financial audit opinions



## Cost

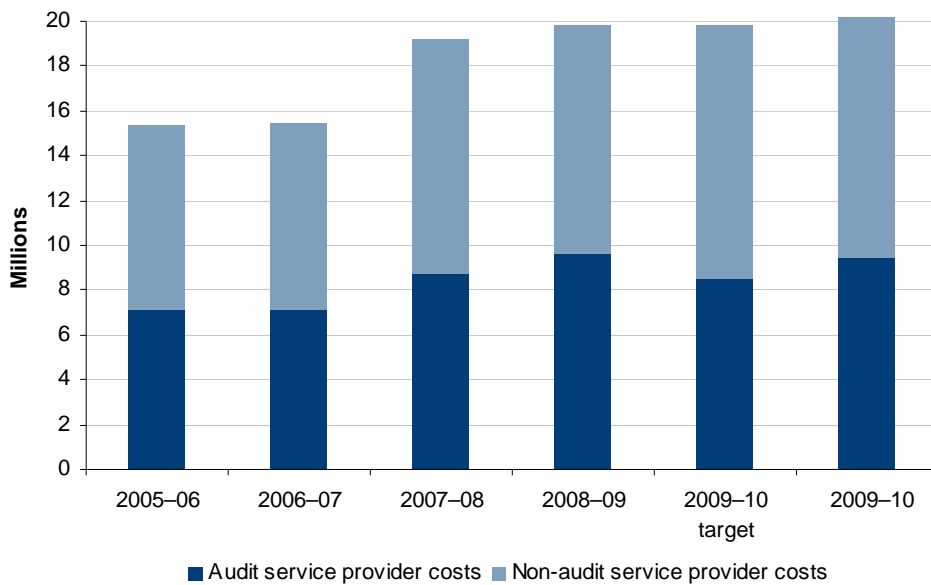
The total actual cost of financial audits increased from \$19.8 million last year to \$20.4 million this year.

The actual 2009–10 cost was 3 per cent above target (actual \$20.4 million against target \$19.8 million). This is mainly because of the tighter timetable to finalise the 2009–10 financial audit cycle due to the 2010 election, which resulted in audit service provider fees exceeding the target. These fees were recovered through audit fee revenue.

[Table 12] Trends in average cost of audit opinions

		Target 2010–11	Actual 2009–10	Actual 2008–09	Actual 2007–08	Actual 2006–07	Actual 2005–06
Audit opinions	(number)	541	557	592	640	617	631
Cost	(\$mil)	20.3	20.4	19.8	19.2	15.4	15.4
Average cost per audit opinion	(\$'000)	38	37	33	30	25	24.4

[Figure 9] Cost of audit reports on financial statements



The average cost per audit opinion was slightly more than the target, and had increased by about 12 per cent this year compared with last year. This is because of the decrease in VAGO's client base, with 39 low-cost community health centres no longer subject to audit, and increases in audit costs due to the bringing forward of the 2009–10 audit work program to meet the earlier tabling of financial statements due to the state's election.



# 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 2009–10, we continued the Regional Client Forum series with events in Bendigo (July 2009), Morwell, (October 2009), Benalla (November 2009) and Ballarat (May 2010). In addition, we did a pilot North and North-East Metropolitan Client Forum at NMIT Preston Campus in June 2010. As in previous years, these were working lunch events held in TAFE training restaurants between 12pm and 2pm.

These events, which have targeted mayors, chairs, audit committee members and CEOs have all been very successful. The Auditor-General's presentations are always well received and the Q&A session that follows produces interesting discussion. In the coming year, the Metropolitan Client Forum concept is likely to be extended further with extra events considered for the east and west of the city.

### Early and consistent engagement

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

- **Bringing forward audit planning**—we issued 47 client strategies (100 per cent) by the end of December 2009 for audit clients, which are material to our audit of the state's annual financial report. Our client strategies set out our audit risk assessment and planned audit approaches, and provided an early indication of audit issues and concerns to the governing body and to executive management.
- **Completion of our reviews of internal controls of entities before balance date**—the more timely conduct of our interim audits meant that management could address internal control issues and other matters that the audit identified earlier.
- **Identification and resolution of prospective financial reporting issues as part of interim audits**—meant that as we began the review of draft financial statements there were fewer issues to be resolved after balance date, as part of the final audit.

### Promoting continuous improvement

As well as reporting individually to our audit clients through management letters, every year VAGO also prepares reports for Parliament that summarise the results of all our financial audits. The costs of these reports are measured under output group 1, Parliamentary reports and services.

The reports focused on the effectiveness of internal controls and covered other areas, such as internal audit, investment management, business planning, information technology security, and financial sustainability.

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 and compliance with laws and regulations.

Table 13 sets out the reports tabled in 2009–10.

[Table 13] Reports tabled in 2009–10

Report	Description
<i>Local Government: Results of the 2008–09 Audits</i>	Tabled in Parliament on 11 November 2009, contains the results of the annual audit of 79 councils, 12 entities they control and 12 regional library corporations.
<i>Public Hospitals: Results of the 2008–09 Audits</i> (New in 2009–10)	Tabled in Parliament on 11 November 2009, contains the results of the annual audit of 88 public hospitals, 22 entities they control and four associated entities.
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–09</i>	Tabled in Parliament on 24 November 2009, contains the results of the audit of the state's annual financial report.
<i>Water Entities: Results of the 2008–09 Audits</i> (New in 2009–10)	Tabled in Parliament on 25 November 2009, contains the results of the annual audit of 19 entities, comprising 16 water corporations and three retail distribution companies.
<i>Portfolio Departments and Associated Entities: Results of the 2008–09 Audits</i>	Tabled in Parliament on 9 December 2009, provides a summary of the results of the annual audit of financial reports of the 10 portfolio departments and 198 associated entities with 30 June 2009 balance dates.
<i>Tertiary Education and Other Entities: Results of the 2009 Audits</i>	Tabled in Parliament on 26 May 2010, provides the results of the annual audit of financial reports of 116 entities in Victoria's public sector with a financial year end other than 30 June 2009. Tertiary education is the principal sector of this group with 106 entities.

Table 13 includes the Public Hospitals and Water Entities reports, tabled in November 2009, in line with VAGO's plans to provide more relevant and focused reports.

## Reports planned for 2010–11

The state election is scheduled for 27 November 2010, with Parliament rising in early October 2010. This shortens our time lines for reporting on the annual financial statement audit of public sector entities. Accordingly, we are producing interim reports on the annual financial statements audits and have scheduled a final acquittal report for February 2011.

We tabled:

- a new report on the interim results of the 2009–10 financial audits of portfolio departments in July 2010
- reports on the interim results of the 2009–10 financial audits of local government and water entities in August 2010.

Our 2010–11 reporting program will also include:

- a report on the interim results of the 2009–10 financial audits of public hospitals, scheduled for tabling in September 2010
- the *Auditor-General's Report on the Annual Financial Report of the State of Victoria*, as required under the Audit Act, scheduled for tabling in October 2010
- an acquittal report on the timeliness of public sector financial reporting, financial sustainability and the year-end financial reporting process, scheduled for tabling in February 2011
- the report on the results of the 2009–10 audits of the tertiary education sector and other entities, scheduled for tabling in May 2011.

## 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 through warrants that the Auditor-General examines and certifies.

During 2009–10, the Auditor-General certified 43 warrants, authorising consolidated fund expenditure of up to \$43.6 billion (in 2008–09, 36 warrants of \$37.8 billion).

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# Managing VAGO

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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 for the five-year period 2010–11 to 2014–15.

[Table 14] Objectives and strategies

Objectives	Strategies
Being authoritative and relevant	<ul style="list-style-type: none"> <li>• Better targeting topics</li> <li>• Direct audit effort to areas of public value</li> <li>• Promoting broader access to reports</li> </ul>
Being highly regarded by Parliament	<ul style="list-style-type: none"> <li>• Smoothing the flow of reports</li> <li>• Better engaging Parliamentary committees and individual Parliamentarians</li> </ul>
Fostering productive relationships with audit clients	<ul style="list-style-type: none"> <li>• Appropriately informing audit clients about audit plans, processes and activities</li> <li>• Fostering professional relationships</li> </ul>
Fostering a stimulating working environment	<ul style="list-style-type: none"> <li>• Conducting rigorous performance planning and management</li> <li>• Supporting a safe and healthy workplace</li> </ul>
Leveraging our systems and processes to improve organisational performance	<ul style="list-style-type: none"> <li>• Aligning systems and processes</li> <li>• Investing in capability for long-term sustainability</li> <li>• Being a responsible corporate citizen</li> </ul>

Our performance indicators are:

- completing audit reports on time
- assessing Parliamentary engagement
- assessment of impact on accountability and performance
- assessing Parliamentarians' feedback on audit reports and services
- assessing audit client feedback
- assessing perceptions of alignment and assessment of feedback from staff surveys
- performance against business plans.

# Governance

## Leadership and stewardship

VAGO is committed to continually improving its service delivery. 2008–09 was a year of significant structural and leadership changes at VAGO. In 2009–10 VAGO introduced a new office-wide performance and development framework. The leadership team at VAGO remained unchanged for most of the year. Early in 2010 Jenni Lillingston announced she would be leaving VAGO to pursue an advanced degree. Ms Lillingston has continued to assist VAGO during and since the appointment of her successor, Gail Conman.

The senior management structure is outlined in Figure 10.

[Figure 10] VAGO organisation chart



## Senior management

### Auditor-General of Victoria

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

Des Pearson was appointed Auditor-General of Victoria in October 2006. He was previously Auditor-General of Western Australia (1991–2006). He exercises his audit powers and functions under the *Constitution Act 1975* and the *Audit Act 1994* and reports to the Parliament of Victoria.

### Chief Operating Officer

**Peter Frost, BA, BLitt, MPhil (Cambridge), MEd, PhD (Harvard)**

Peter started as VAGO's 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 operation activities, as well as our business support activities.

### Assistant Auditor-General—Financial Audit Group

**John Findlay, BBus (Acc), MBus (Acc), LLB, GradDip CSP, FCPA**

John joined VAGO as Assistant Auditor-General—Policy, Planning and Technical Group in April 2007. 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 responsible for providing a range of financial statement audit services, as well as managing our contractual arrangements with audit service providers.

## Assistant Auditor-General—Performance Audit Group

### Andrew Greaves, BEc, CA

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

## Executive Director—Corporate Services

### Gail Conman BEng MProjMgt, MAIPM

Gail joined VAGO in May 2010 to lead the Corporate Services group. She previously worked for Arts Victoria managing the infrastructure program. Corporate Services is responsible for the delivery of finance, payroll, ICT, human resources, Parliamentary reports, media and communications. The group supports the office's business operations.

## Managing VAGO

In 2009–10 the Senior Management Group (SMG) and five committees were responsible for managing VAGO.

### Senior Management Group

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

SMG's role is to provide advice and counsel to the Auditor-General to assist with the delivery of his statutory objectives 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.

This group's role 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. One of its main tasks is reviewing the draft SMG monthly management report before its submission at the next scheduled SMG monthly meeting.

### Executive Remuneration Committee

This committee includes the Auditor-General, the 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 is consistent with our 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 strategic and operational learning and development to meet VAGO's planned outcomes. This group is chaired by the Manager, People and Culture and has senior representatives from all of VAGO's business groups. Its aim is to provide a coordinated approach to people practices at VAGO.

In 2008–09 the group's brief was broadened to include office-wide consultation to inform the new learning and development framework. The learning and development framework is closely linked to role capabilities and is part of the succession planning and retention policies at VAGO.

## Staff Consultation and Development Group

This group has a rotating chair and includes eight representatives from various levels from each business area, with the Executive Director, Corporate Services representing the SMG.

The primary objectives of this group are to provide a direct channel of communication between management and staff on matters directly affecting the culture and business of VAGO and to promote a spirit of cooperation and understanding as we try to increase operational effectiveness and provide a stimulating and rewarding workplace.

## Audit Committee

The role of the committee is to independently advise the Auditor-General to help him meet his management responsibilities at VAGO as prescribed in the *Financial Management Act 1994*, the *Audit Act 1994* and other relevant legislation and requirements.

All committee members are independent, non-executive members that the Auditor-General appoints.

## Audit Committee Chairman's report (year ended 30 June 2010)

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 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, FAICD Chief Executive Officer, Dousta Galla Aged Services	4	4
Kerry Jacobs BCom, MCom(Hons), PhD, FCPA, FCA Term commenced 1 January 2010	2	2
Keith James BEc, LL.M, FCPA Partner, Hall & Wilcox Lawyers Term finished 31 December 2009	2	2
Deirdre O'Donnell BA, MBA, MCommrclLaw Ombudsman, Telecommunications Industry Ombudsman Ltd	4	4
Joanna Perry MNZM, FCA (NZICA), FCA (ICAEW), MA (Cantab) Chair, Financial Reporting Standards Board (New Zealand) and Board Member, Australian Accounting Standards Board	3	4

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

- review the external auditors' proposed approach and 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 VAGO'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
- monitor compliance with relevant legislation, regulations and guidelines
- review its operations and report to the Auditor-General on its deliberations.

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 reports from the internal auditor, which included management's response to matters raised by internal audit. The internal auditor advised that there were 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 and the preparation for the 2010 PAEC Performance Audit
- reviewed the Audit Committee charter against a selection of better practice criteria. The charter was amended to better reflect the conflict of interest/declarations of interest criteria, to include responsibilities relating to legislative compliance and recommendations from external reviews
- conducted a self-assessment.

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)  
4 August 2010

## 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.

## 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, 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.

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  
10 August 2010



# Compliance

## Whistleblowers legislation

The *Whistleblowers Protection Act 2001* was introduced in Victoria on 1 January 2002. The legislation protects whistleblowers that disclose improper public officer and public body conduct, and it sets up a system to investigate disclosed matters.

### Audit-related issues

The *Whistleblowers Protection Act 2001* expressly excludes the Auditor-General from applying 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 2009–10, the Ombudsman did not refer any matters to the Auditor-General for investigation under the authority of the *Audit Act 1994*.

### Administrative issues

We have developed procedures for handling whistleblower disclosures. 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 2009–10.

## 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 reporting to Parliament. Section 20B of the *Audit Act 1994* also precludes third parties from accessing any information and documents we hold.

Our administrative processes, however, come under the state's freedom of information legislation. We received one application under this legislation in 2009–10.

## 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 application of the Victorian Industry Participation Policy (VIPPP). Departments and public bodies are required to apply VIPPP in all tenders of more than \$3 million in metropolitan Melbourne and \$1 million in regional Victoria. The office did not complete any tenders or contracts that were subject to VIPPP during the reporting period.

## Building Act

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

## Diversity at VAGO

VAGO continued to value diversity in the workplace in 2009–10. 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 of 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 through:

- learning and development opportunities in merit and equity for people with and without people management responsibilities
- incorporating diversity strategies and principles into the strategic alignment project
- collecting diversity information from our staff survey to further inform diversity strategies in 2010–11.

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

- 30.28 per cent were born in countries outside Australia
- 29.58 per cent have a non-English speaking background
- 28 languages other than English are spoken
- 38.73 per cent speak at least one language other than English.

# Quality

## Quality assurance practices

We are committed to best practice when 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:

- a Parliament-appointed auditor does an independent performance audit of VAGO triennially. The latest audit began in May 2010, with a final report scheduled to be transmitted to Parliament by 15 September 2010
- a sample of completed financial and performance audits is independently reviewed to confirm they follow professional auditing standards and the Auditor-General's policies. Audit professionals from other Australian audit offices conduct these audits
- an independent expert review of selected Parliamentary reports
- independent surveys of members of Parliament and audited agencies about the quality of our audits.

In 2010 VAGO adopted a quality management framework, which combines the quality systems and processes VAGO uses. A key component of the framework is an internal assessment of the maturity of these systems and processes against the Australasian Council of Auditors-General Governance and Audit framework, based on APES 320.

When the Australasian Council of Auditors-General developed an approach to assurance based on this Governance and Audit framework the intention was that individual audit offices could use it to show internal and external stakeholders that they are meeting relevant legal and professional requirements. VAGO used the Australasian Council of Auditors-General Governance and Audit framework in its preparation for the 2010 independent performance audit.

## Adhering to auditing standards

As well as following our own quality assurance practices VAGO also fulfils its professional and legal obligation to adhere to auditing standards.

Under the *Audit Act 1994*, we must follow Australian Auditing Standards that the Auditing and Assurance Standards Board issues. The *Audit Act 1994* also enables the Auditor-General to apply additional auditing standards during audit conduct.

We comply with Australian Auditing Standards and policies and safeguard the quality of our audits by:

- involving senior officers at all phases of the audit, including approving the plan and reviewing major issues from each audit
- requiring senior staff to review audit results to confirm that the audit meets professional standards
- assigning external senior officers to all high-risk audits to confirm the quality of the audit.

These measures also help identify key issues and, where necessary, alert Parliament and audited agencies to important financial management and accountability issues and any inconsistencies in financial reporting.

# Our staff

## Strategic alignment

The VAGO Senior Management Group (SMG) developed and published the VAGO strategic plan for the next five years. This included reviewing VAGO's purpose, our organisational values, developing an organisational vision, as well as prioritising VAGO key strategies and initiatives. There is now an ongoing process of organisational alignment with the strategic plan.

An important element to support strategic alignment is creating the right organisational culture, with the aim of building organisational sustainability that supports the five-year strategic plan.

The strategic alignment project plan was developed to build organisational and leadership capability. It is aligned with the people and organisation key result areas in the five-year strategic plan.

## Workforce capacity

### Our staff profile

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

[Table 15] Employee numbers at 30 June 2010

Year	Ongoing employees				Fixed-term and casual
	Number (Headcount)	Full-time (Headcount)	Part-time (Headcount)	FTE	FTE
2008	136	125	11	132.8	15.7
2009	142	132	10	139.2	10.0
2010	142	131	11	138.8	28.5

[Table 16] Employee profile

	30 June 2010			30 June 2009		
	Ongoing		Fixed-term and casual	Ongoing		Fixed-term and casual
	Number (headcount)	FTE	FTE	Number (headcount)	FTE	FTE
<b>Gender</b>						
Male	74	73.6	7	72	71.8	1.0
Female	68	65.2	21.5	70	67.4	9.0
<b>Age</b>						
Under 25	10	10	4.5	7	7	0.0
25–34	54	53.4	10.2	66	65.2	3.0
35–44	32	30.8	8.8	29	27.8	4.0
45–54	26	25.2	3	27	26.4	3.0
55–64	19	18.6	2	13	12.8	0.0
Over 64	1	0.8	0	0	0.0	0.0
<b>Classification</b>						
VPS Executives	21	21	2	18	18.0	0.0
VPSG1	0	0	0	0	0.0	0.0
VPSG2	15	14.8	6.2	24	23.8	2.0
VPSG3	26	26	6	20	19.8	5.0
VPSG4	18	17.6	5.3	24	23.8	0.0
VPSG5	26	25	3	22	20.6	1.0
VPSG6	28	26.4	5	26	25.2	2.0
VPSG7*	8	8	1	8	8.0	0.0

Note: \* The VPSG7 (also known as Senior Technical Specialist) roles at VAGO comprise seven specialist senior auditing roles, one senior accounting role (CFO) and one senior legal role.

## Recruitment and retention

The overall voluntary turnover for 2009–10 was 17.3 per cent, compared with 23.7 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 Per cent
	Employees (headcount)	FTE	FTE	
2007–08	38	37.2	6	27.2
2008–09	33	33	6	23.7
2009–10	14	14	16	17.3

## Executive information

[Table 18] Number of executive officers classified into 'ongoing' and 'special projects' at 30 June 2010

Classification	All		Ongoing	
	Number	Variance	Number	Variance
EO1	1	0	1	0*
EO2	5	1	5	0
EO3	17	3	15	1
<b>Total</b>	<b>23</b>	<b>4</b>	<b>21</b>	<b>1</b>

Note: \* VAGO has no 'special project' executives.

[Table 19] Breakdown of executive officers into gender for 'ongoing' and 'special projects' at 30 June 2010

Classification	Male		Female		Ongoing vacancies
	Number	Variance	Number	Variance	
EO1	1	0	0	0	0*
EO2	3	0	2	1	0
EO3	11	2	6	1	1
<b>Total</b>	<b>15</b>	<b>2</b>	<b>8</b>	<b>2</b>	<b>1</b>

Notes: VAGO has no 'special project' executives.

[Table 20] Reconciliation with executive numbers 30 June 2010

	30 June 2010	30 June 2009
Executives employed with total remuneration over \$100 000	19	16
Vacancies	1	8
Executives employed with total remuneration below \$100 000	3	7
Accountable officers*	1	1
Separations	0	-5
<b>Total executive numbers at June</b>	<b>24</b>	<b>27</b>

Note: \* 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.

[Table 21] Exemptions from notification of vacancy, 2009-10

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 have been incorporated to include 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.

When staff are employed they are given a copy of, and required to sign, an 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 make sure 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 about 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. In 2009–10:

- VAGO continued OH&S workplace inspections of all areas of the workplace in addition to off-site agency workplaces as necessary, to identify hazards and agree on solutions to remove or minimise them
- the free flu vaccination program continued
- a pilot Health and Wellbeing Program commenced in February—the outcomes of the program will be reviewed in 12 months
- the OH&S Committee continued to build on the work commenced in 2009 and health and safety representative training was undertaken for new OH&S Committee members
- an organisation-wide review of OH&S was conducted.

## VAGO Social Club

VAGO's very active social club creates opportunities for staff to socialise both after work and at work. In 2009–10 VAGO staff participated in bike rides, corporate games, indoor cricket and other individual and team sports, as well as social outings at Melbourne's many bars, clubs and restaurants.

Club members are entitled to various discounts, and are involved in a number of fundraising activities. In 2009–10 the social club raised several thousand dollars for CanTeen, Melbourne City Mission, *beyondblue*, the Good Friday Appeal and the Red Cross, among many other charitable organisations and we continued our sponsorship of a Ugandan child.

# Promoting accountability and continuous improvement

As part of our commitment to promoting public sector improvement we look for opportunities to share lessons from our audits with government, peak bodies, individual agencies and the general public. Building on our core audit program, these communication and liaison activities provide us with the opportunity to be a catalyst for improvements in accountability and performance in the Victorian public sector.

## Presentations and addresses

During the year, the Auditor-General and senior staff presented at a range of conferences and to professional and industry groups. These included presentations on specific VAGO audits, as well as on more wide-ranging issues 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.

[Table 22] Auditor-General presentations, 2009–10

Date	Presentation to	Topic
15 July 2009	Institute of Public Administration	'How Government Works'—Introduction to the role of the Auditor-General: Parliament's auditor
21 July 2009	Intergovernmental Relations Conference 2009	Governing councils and government boards: a public sector audit perspective
19 August 2009	CSA Annual Public Sector Update	Shaping the future for the public sector
2 September 2009	Department of Primary Industries, Planning & Strategy Evaluation Conference	Learning lessons from audits: an overview of 2008–09 audit themes
21 September 2009	Kyneton Rotary Club	An auditor's view of public administration
1 October 2009	VAGO Regional Client Forum—Gippsland Region	Key audit issues 2009–10
8 October 2009	VPS Graduates 2009	Introduction to the role of the Auditor-General: Parliament's auditor
9 October 2009	ANZSOG Executive Master of Public Administration program	Parliament's Auditor: Role & Perspectives
15 October 2009	Deakin University	Colloquium in Auditing and Governance—Emerging challenges for auditing and governance in the public sector
15 October 2009	Australian Institute of Company Directors	Governing councils and government boards: a public sector audit perspective
21 October 2009	VMIA Risk Management Conference	Emerging Risk Forum—The icebergs ahead
21 October 2009	Australasian Evaluation Society	Practice and principles: lessons from contemporary public sector audit
29 October 2009	VAGO Regional Client Forum—North East Region	Key audit issues 2009–10
10 November 2009	Institute of Public Administration	'How Government Works'—Introduction to the role of the Auditor-General: Parliament's auditor
25 November 2009	CPA Australia 'Effective Grants Management Conference'	Lessons from audits for the future of grant management
3 December 2009	Department of Justice—Executive Officer Forum	Key Audit Themes 2009–10



[Table 22] Auditor-General presentations, 2009–10 – *continued*

Date	Presentation to	Topic
10 December 2009	Melbourne Institute of Technology, Graduation Ceremony	Occasional address
26 February 2010	Institute of Public Administration	'How Government Works'—Introduction to the role of the Auditor-General: Parliament's auditor
5 March 2010	FinPro National Conference	The role of audit in local government accountability
10 March 2010	Privacy Network Victoria	Maintaining the integrity and confidentiality of personal information
15 March 2010	Canadian Council of Legislative Auditors/Australasian Council of Auditors-General Biennial Forum 2010	Keynote: Review of Victoria's <i>Audit Act 1994</i>
15 March 2010	Canadian Council of Legislative Auditors/Australasian Council of Auditors-General Biennial Forum 2010	Accounting for performance in the health sector: use and misuse of performance information
26 March 2010	University of Melbourne	Accountability and the Auditor-General
30 March 2010	Latrobe University, Public Sector Accounting program	Accounting and Accountability in the Public Sector
6 May 2010	Monash University, Masters of Public Policy program	Parliament's Auditor: Role & Perspectives
12 May 2010	Records Management Network, Public Record Office Victoria	Maintaining the integrity and confidentiality of personal information
13 May 2010	VAGO Regional Client Forum—Ballarat Region	Update to regional clients: Key audit issues 2009–10
14 May 2010	Central Queensland University, Melbourne Graduation Ceremony	Occasional address
18 May 2010	Institute of Public Administration	'How Government Works'—Introduction to the role of the Auditor-General: Parliament's auditor
20 May 2010	Victorian Water Industry Association Inc—Finance Issues Workshop 2010	Financial Audit Update for 2009–10

## Inquiries and reviews

VAGO also seeks to be a catalyst for improvement through our input to Parliamentary and government reviews, sharing relevant audit findings and providing an audit and accountability perspective. During 2009–10, we welcomed the opportunity to provide comment to the:

- Public Sector Standards Commissioner's Review of Victoria's Integrity and Anti-Corruption System
- Essential Services Commission's review of the Performance Reporting Framework for Local Government
- Victorian Competition and Efficiency Commission Inquiry into Streamlining Local Government Regulation
- Parliament of Victoria's Education and Training Committee's Inquiry into the Administration of the Federal Government's Building the Education Revolution (BER) Program
- Department of Treasury and Finance's reform of public finance and accountability legislation.

## Review of *Audit Act 1994*

In June 2009, PAEC undertook an own-motion referral into the *Audit Act 1994*, with the stated aim of reviewing the legislation in its entirety. This followed on from extensive negotiations between VAGO and the Department of Treasury and Finance in 2008 and correspondence from the Auditor-General to the Premier, seeking important changes to the *Audit Act 1994*.

PAEC tabled a discussion paper in Parliament in February 2010, which picked up a large number of issues that VAGO had raised.

PAEC called for submissions by mid-March 2010 and received submissions from ACAG; VAGO; three departments; the Joint Accounting Bodies; Infrastructure Partnerships Australia; Professor Kerry Jacobs (Australian National University) and the Presiding Officers of Parliament.

Following the submissions, there were public hearings in April and May 2010.

Submissions and subsequent consultations that emerged from these hearings are summarised below.

**'Follow the dollar'/access to information**

- VAGO identified private sector partnerships as a key 'gap' in the state's accountability framework, and the audit mandate. Evidence was provided pointing to the need for audit access to assets and information of the state in the hands of private providers.

**Audit of courts and Parliament**

- VAGO's audit mandate does not extend to the administration of the courts or Parliament. This is in contrast to most other Australian jurisdictions, as ACAG noted in its submission.

**Independence of Auditor-General's reports**

- In line with the International Organisation of Supreme Auditor Institutions independence principles, VAGO raised the independence risks under the current requirement to include the entirety of agency rejoinder comment in Auditor-General Parliamentary reports. These agency comments often stray outside the scope of the audit and contain unverifiable assertions, in contrast to the evidentiary requirements of audit reports.

In addition to the headline issues, VAGO identified a range of other amendments associated with general housekeeping or enhancing the Act. These proposed amendments included:

- amendments to enhance the Auditor-General's independence
- technical and clarification amendments.

PAEC is due to report to Parliament by October 2010.

Further details relating to the inquiry can be found at the PAEC's website.

## Contributions to the Australasian Council of Auditors-General

In 2009–10 VAGO had a prominent role in the national and international development of public sector audit, through our participation in the Australasian Council of Auditors-General (ACAG).

The Auditor-General hosted the ACAG meeting in Melbourne on 16 July 2009 and attended the second ACAG meeting in Sydney in November 2009. These meetings provide a forum for Auditors-General to exchange information and views on common issues and to oversee ACAG's activities and the administration of its affairs. In between these meetings, VAGO exchanged information with ACAG members through 'round-ups' on strategic topics and through monthly newsletters.

Issues and initiatives that ACAG covered in 2009–10 included:

- potential for cross-jurisdiction audits
- issues for independence arising from budget and funding frameworks
- challenges for auditing the Commonwealth Government's stimulus programs
- secondment opportunities with national and international peer offices
- impact of developments in audit and accounting standards on the Australian public sector
- application of freedom of information legislation to public sector audit
- accountability arrangements for ministerial offices and courts
- asset valuation and management
- best practice for public sector audit committees
- evaluating public-private partnerships
- development, retention and recruitment strategies for public sector audit staff.

Through ACAG, VAGO contributed to the Queensland Public Works Committee's inquiry into performance reporting and an inquiry into audit legislation in the Australian Capital Territory.

VAGO representatives also participated in a range of subgroups, including:

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

These specialist networks provide important opportunities for senior staff to share views, learn from each other and deepen their understanding of our business.

## International liaison

VAGO has a history of providing support for audit offices and parliaments in countries that want to improve accountability within their jurisdictions.

In August 2009 we again participated in CPA Australia's International Partnership Program, funded through AusAid. VAGO briefed participants from Samoa, Vietnam, Papua New Guinea and Laos on the role of the Auditor-General and our approach to Parliament's audit mandate.

VAGO 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 10 countries across the Asia-Pacific region.

In September and November 2009, we hosted two delegations from provincial Chinese state audit offices. Representatives from Ningbo and Henan spent a day each with us, learning about our approaches to performance and financial audit, and the role and mandate of the Auditor-General of Victoria.

We also worked with the Finance and Development Audit Agency of the Republic of Indonesia (BPKP). In December 2009, we hosted a senior delegation from BPKP, giving them an insight into the key audit issues for our public sector. Through the Indonesian consulate, we facilitated the Indonesian delegation's meeting with key government contacts in the finance, transport and education sectors. During the same period, our Performance Audit group hosted two auditors from BPKP, training in performance audit techniques.

As well as hosting delegations and secondments in 2009–10, VAGO worked with the Pacific Association of Supreme Audit Institutions to share our extensive range of internal guidance materials, training and policies with smaller regional audit offices wanting to increase their reach.

## Overseas travel

From 17–19 March 2010 Des Pearson attended a joint forum between the Canadian Council of Legislative Auditors (CCOLA) and the Australasian Council of Auditors-General (ACAG) in Vancouver, British Columbia. Mr Pearson did the keynote speech about the Victorian review of the *Audit Act 1994*, and presented a paper on performance reporting in the health sector. Jacquie Stepanoff, Manager Policy and Coordination, who coordinated the 2008 ACAG/CCOLA Forum in Melbourne, also attended.

The 2010 ACAG/CCOLA Forum provided an invaluable opportunity to learn about new directions in public sector audit, and allowed Auditors-General to discuss challenges and share approaches to common issues. Forum outcomes included developing an exchange program with the British Columbian Office of the Auditor-General, and the potential to trial Canadian approaches to cooperative audits and community submissions.

Des Pearson, Auditor-General, and Marco Bini, Director Policy and Coordination, also visited peer offices in the United Kingdom in March 2010 to discuss VAGO's contributions to the PAEC Inquiry into *Audit Act 1994* and our new *Strategic Plan 2010–11 to 2014–15*. Mr Pearson and Mr Bini visited the public sector audit offices of Wales and Scotland, and met with the National Audit Office and Audit Commission of the United Kingdom.

Between 31 March and 4 June 2010, Dr. Fei Wang attended and presented at the 12th International Conference on Mobility and Transport for Elderly and Disabled Persons, held in Hong Kong. On 8 July, Dr Wang visited the Beijing Municipal Audit Office to share information on performance audit practices and further strengthen the relationship between VAGO and the Beijing Office.

From 20 to 25 September Ray Winn attended the International Conference on Competition and Ownership in Land Passenger Transport in Delft, the Netherlands and visited the Dutch Court of Audit. Before this conference he met with representatives of the National Audit Office and the Audit Commission in the United Kingdom.

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# Financial management

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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.

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# Financial performance

Our net financial result for the year was a surplus of \$782 059 (compared with a deficit of \$1 540 801 in 2008–09).

Having experienced operating deficits in the past two consecutive financial years, our 2009–10 financial outcome is more sustainable.

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

[Table 23] VAGO revenues and expenses, 2009–10 and previous four years

Item	Actual 2009–10 (\$'000)	Actual 2008–09 (\$'000)*	Actual 2007–08 (\$'000)*	Actual 2006–07 (\$'000)*	Actual 2005–06 (\$'000)
Revenue					
Appropriation	13 433	11 696	12 182	10 942	10 472
Section 32 carry forward	360	–	338	776	760
Section 29	20 829	19 317	17 910	15 749	14 996
Special Appropriation	445	410	431	410	321
Other	643	222	353	136	190
<b>Total revenue</b>	<b>35 710</b>	<b>31 645</b>	<b>31 214</b>	<b>28 013</b>	<b>26 739</b>
<b>Total expenses</b>	<b>34 928</b>	<b>33 186</b>	<b>33 296</b>	<b>27 098</b>	<b>25 830</b>
<b>Surplus/(deficit)</b>	<b>782</b>	<b>(1 541)</b>	<b>(2 082)</b>	<b>915</b>	<b>909</b>

Note: \* Updated to incorporate the prior year adjustment (refer to Note 7 in financial report for details).

## Revenue

VAGO is funded through Parliamentary appropriations and FMA section 29 revenue.

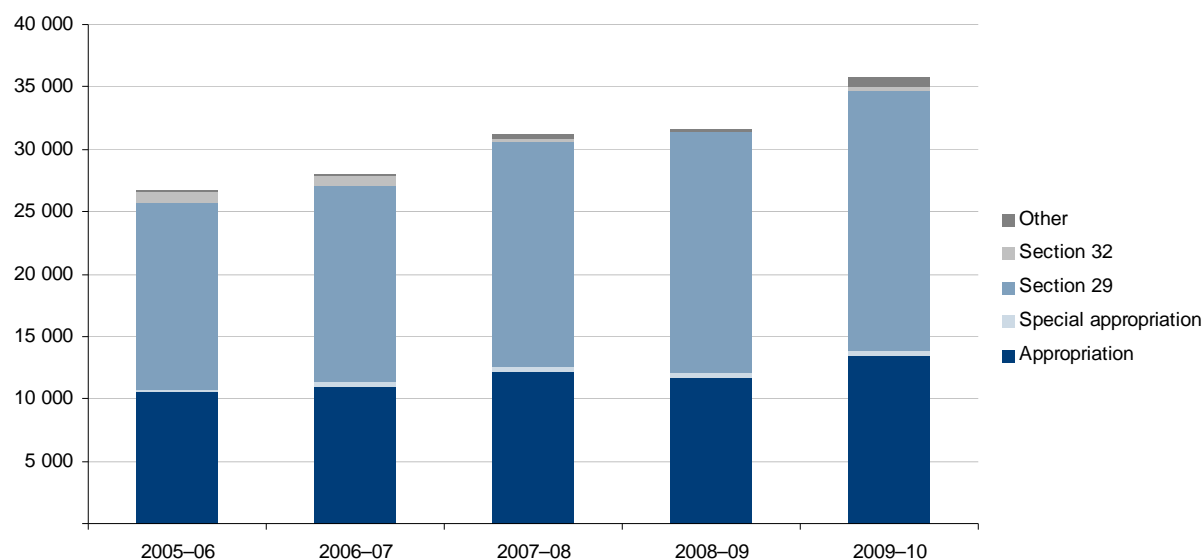
Total output appropriations increased by \$3.64 million, largely because of:

- Additional base funding appropriation.
- Additional section 29 revenue (VAGO received appropriation authority for financial statement audits through an arrangement under section 29 of the *Financial Management Act 1994*. Under this arrangement the appropriation authority allows us to incur expenditure using the revenue collected from financial statement audits. Under section 29, certain receipts can be annotated to the annual appropriation. VAGO receives financial statement audit fee receipts, which form part of a section 29 agreement, and pays them into the consolidated fund as administered revenue. At that point, section 29 allows for an equivalent amount to be added to the annual appropriation authority limit, which the Treasurer can apply back to VAGO).
- An annual CPI increase on base funding.
- Section 32 carry forward appropriation (under the *Financial Management Act 1994*, the office is permitted to either annotate certain receipts or carry them forward to the following financial year. The Treasurer must approve requests 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 during that financial year).

Other non-appropriation revenue increased by \$0.42 million, as revenue was recovered from other entities for outward-bound VAGO secondees (paid by VAGO).

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

[Figure 11] Revenues, 2009–10 and four previous years



## Expenses

[Table 24] Expenses from ordinary activities for 2009–10 and previous four years

Item	Actual 2009–10 (\$'000)	Actual 2008–09 (\$'000)*	Actual 2007–08 (\$'000)*	Actual 2006–07 (\$'000)*	Actual 2005–06 (\$'000)
<b>Expenses</b>					
Depreciation and amortisation	801	928	1 028	768	685
Employee benefits	17 946	15 829	15 892	14 135	13 325
Contract audits	10 859	11 220	10 213	7 328	7 925
Accommodation	1 454	1 437	1 425	1 340	1 168
Supplies and services	3 580	3 297	3 788	3 207	2 485
Other operating expenses	288	475	950	320	242
<b>Total expenses</b>	<b>34 928</b>	<b>33 186</b>	<b>33 296</b>	<b>27 098</b>	<b>25 830</b>

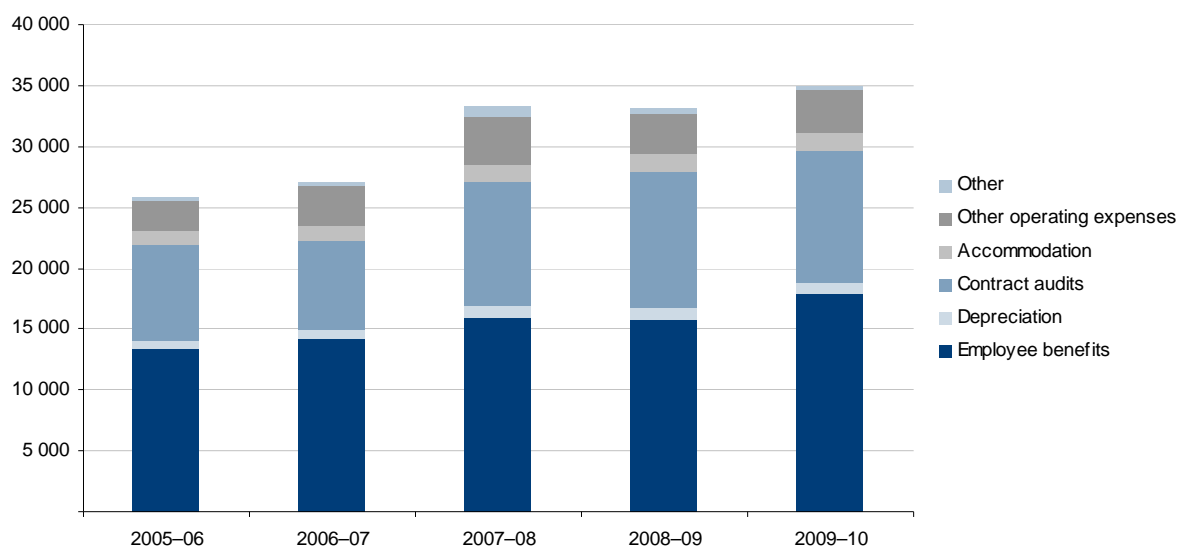
Note: \* Updated to incorporate the prior year adjustment (refer to Note 7 for details).

VAGO's expenditure in 2009–10 increased by \$1.74 million as result of:

- Increased employee expenses from new recruitment and pay increases, as per the VPS agreement (VAGO has enough staff to achieve its mandate and to meet the audit program it developed in consultation with PAEC. VAGO's resource plan includes a mix of fixed-term and ongoing staff, external audit services and contracted specialist providers. Consistent with this, VAGO had an increase in fixed term and casual FTEs in 2009–10. These numbers will be managed down when workloads permit and fixed-term periods end).
- Increased other operating expenses, such as consultants.
- Lower depreciation and amortisation and capital asset charge from reduced capitalisation of software in 2009–10.
- Lower contract audit fees in 2009–10 (fewer audit opinions were issued this year and there was less unscheduled contractor audit fee recovery. The 2008–09 result reflected higher audit fees caused by the increased effort required to meet audit standards and by brought forward work on financial statements to encourage more timely reporting).

Figure 12 shows the source of our expenses over the past five years.

[Figure 12] Expenses, 2009–10 and four previous years



## Output results

[Table 25] Total revenues and expenses attributed to outputs for 2009–10

Output group	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)
1. Parliamentary reports and services	14 528	14 548	(20)
2. Audit reports on financial statements	21 182	20 380	802
<b>Total</b>	<b>35 710</b>	<b>34 928</b>	<b>782</b>

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.



# Financial position

Our financial position at 30 June 2010 remained strong, with total assets of \$11.35 million, total liabilities of \$5.78 million and net assets of \$5.57 million.

[Table 26] Asset and liability movement over five years

Item	Actual 2009–10 (\$'000)	Actual 2008–09 (\$'000)*	Actual 2007–08 (\$'000)*	Actual 2006–07 (\$'000)*	Actual 2005–06 (\$'000)
Financial assets	8 361	7 933	7 980	9 591	10 150
Non-financial assets	2 991	2 924	3 312	3 878	2 027
<b>Total assets</b>	<b>11 352</b>	<b>10 857</b>	<b>11 292</b>	<b>13 469</b>	<b>12 177</b>
<b>Total liabilities</b>	<b>5 787</b>	<b>6 069</b>	<b>4 596</b>	<b>5 049</b>	<b>4 633</b>
<b>Net assets</b>	<b>5 565</b>	<b>4 788</b>	<b>6 336</b>	<b>8 420</b>	<b>7 544</b>

Note \* Updated to incorporate prior year adjustments (refer to Note 7 for details).

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

### Consultancies

VAGO engaged consultants on 17 projects during the year, costing \$570 788, two of which exceeded \$100 000 and are listed in Table 27.

[Table 27] Consultancies over \$100 000, 2009–10

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (excluding GST) \$	Expenditure 2009–10 (excluding GST) \$	Future expenditure (excluding GST) \$
Oakton Services Pty Ltd	Targeted review of the Victorian Auditor-General's Office	11 January 2010	25 May 2010	120 000	120 000	NIL
Alma Talic	Develop change program to support organisational alignment	5 October 2009	5 March 2010	94 500	108 069	NIL

## Financial audit service providers

In 2009–10, we paid \$9.45 million (\$9.67 million in 2008–09) to 23 audit firms that acted as our agents for work on financial statement audits.

[Table 28] Financial statement audits, payments to audit service providers, 2009–10

Audit service provider	2009–10 (\$'000)	2008–09 (\$'000)
Cardell Assurance & Audit	0	5
Coffey Hunt & Co	448	435
Daley & Co	0	9
Davidsons	99	130
Deloitte Touche Tohmatsu	644	694
DFK Collins	539	524
Ernst & Young	1 214	1 081
Evolve Accounting Solutions	14	30
Grant Thornton	15	14
Hayes Knight Audit Pty Ltd	0	15
HLB Mann Judd (Vic) Pty Ltd	1 284	1 150
Johnsons MME	210	204
KPMG	274	398
McClean Delmo Hall Chadwick	281	333
Mulqueen Griffin Rogers P/L	71	131
Pannell Kerr Forster	52	57
PricewaterhouseCoopers	22	26
Richmond Sinnott & Delahunty	731	695
RSM Bird Cameron	1 233	1 266
UHY Haines Norton (Vic) Pty Ltd	643	807
WHK Audit (Vic) (previously WHK Armitage Downie Pty)	428	414
WHK Audit & Risk Assessment (previously KPMG)	238	219
WHK Horwath (previously WHK Day Neilson)	950	945
Other—3 service providers (2 in 2008–09)	58	89
<b>Total</b>	<b>9 448</b>	<b>9 671</b>

# Financial report

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# Independent auditor's report

## Independent Audit Report to the Victorian Auditor-General's Office

### Report on the Financial Statements

We have audited the accompanying financial statements of the Victorian Auditor-General's Office, which comprises the Balance Sheet as at 30 June 2010, and the Comprehensive Operating Statement, the Statement of Changes in Equity and the Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Accountable Officer's and Chief Finance and Accounting Officer's declaration.

### Auditor-General's Responsibility for the Financial Statements

The Auditor-General is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility also includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Victorian Auditor-General's Office's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Victorian Auditor-General's Office's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

### Auditor's Opinion

In our opinion:

- (a) the financial report of the Victorian Auditor-General's Office is in accordance with the *Financial Management Act 1994*, including:
  - (i) giving a true and fair view of the Victorian Auditor-General's Office's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations);

WHK HORWATH MELBOURNE



Peter Sexton  
Partner

Dated 10<sup>th</sup> August 2010



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# Declaration

## 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, including interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and notes forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2010 and financial position of VAGO at 30 June 2010.

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 10 August 2010.



**D D R Pearson**  
*Auditor-General*

Melbourne  
10 August 2010



**C Yip**  
*Chief Finance and Accounting Officer*

Melbourne  
10 August 2010

# Comprehensive operating statement

for the financial year ended 30 June 2010

	Note	2009–10 \$	2008–09 \$
<b>Income from transactions</b>			
Output appropriations	2, 4(a)	34,622,501	31,013,166
Special appropriations	2, 4(b)	444,723	409,707
Sale of goods and services	4(c)	613,196	192,975
Fair value of services received free of charge	4(d)	29,750	29,175
<b>Total income from transactions</b>		<b>35,710,170</b>	<b>31,645,023</b>
<b>Expenses from transactions</b>			
Employee expenses	5(a)	17,945,817	15,828,548
Depreciation and amortisation	5(b)	801,048	927,867
Interest expense	5(c)	36,821	35,889
Capital asset charge		193,000	253,000
Fair value of services provided free of charge		100,341	101,431
Contract audit services		10,859,442	11,219,829
Rental expenses - accommodation (i)		1,454,009	1,437,257
Recruitment and training		878,215	846,759
Other operating expenses	5(d)	2,701,919	2,449,857
<b>Total expenses from transactions</b>		<b>34,970,612</b>	<b>33,100,437</b>
<b>Net result from transactions (net operating balance)</b>		<b>739,558</b>	<b>(1,455,414)</b>
<b>Other economic flows included in net result</b>			
Net gain/(loss) on non-financial assets	6(a)	3,653	(20,455)
Other gains/(losses) from other economic flows	6(b)	38,848	(64,932)
<b>Total other economic flows included in net result</b>		<b>42,501</b>	<b>(85,387)</b>
<b>Net result</b>		<b>782,059</b>	<b>(1,540,801)</b>
<b>Comprehensive result</b>		<b>782,059</b>	<b>(1,540,801)</b>

(i) 2008–09 restated to incorporate prior year adjustment. Refer to Note 7 for details.

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

# Balance sheet

as at 30 June 2010

	Note	2009–10 \$	2008–09 \$	at 1 July 2008 \$
<b>Assets</b>				
<b>Financial assets</b>				
Cash	18(a)	900	900	900
Receivables	8	8,360,433	7,932,229	7,979,300
<b>Total financial assets</b>		<b>8,361,333</b>	<b>7,933,129</b>	<b>7,980,200</b>
<b>Non-financial assets</b>				
Property, plant and equipment (ii)	9	2,130,967	2,367,911	2,378,516
Intangible assets (ii)	10 (a,b)	388,653	265,324	620,928
Other non-financial assets	11	470,801	290,237	312,077
<b>Total non-financial assets</b>		<b>2,990,421</b>	<b>2,923,472</b>	<b>3,311,521</b>
<b>Total assets</b>		<b>11,351,754</b>	<b>10,856,601</b>	<b>11,291,721</b>
<b>Liabilities</b>				
Payables	12	876,895	1,810,511	1,279,022
Borrowings	13	301,530	343,461	318,983
Provisions (i)	14	4,608,251	3,915,106	3,357,528
<b>Total liabilities</b>		<b>5,786,676</b>	<b>6,069,078</b>	<b>4,955,533</b>
<b>Net assets</b>		<b>5,565,078</b>	<b>4,787,523</b>	<b>6,336,188</b>
<b>Equity</b>				
Accumulated surplus (i)		5,268,052	4,485,993	6,026,794
Contributed capital		297,026	301,530	309,394
<b>Net worth</b>		<b>5,565,078</b>	<b>4,787,523</b>	<b>6,336,188</b>
Commitments for expenditure	17			

(i) 2008–09 restated to incorporate prior year adjustment. Refer to Note 7 for details.

(ii) 2008–09 restated to incorporate reclassification. Refer to Note 10 for details.

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 2010

	Equity at 1 July 2009 as reported \$	Prior Year Adjustment (i) \$	Equity at 1 July 2009 as restated \$	Changes due to		Equity at 30 June 2010 \$
				Total comprehensive result \$	Transactions with owner in its capacity as owner \$	
Accumulated surplus / (deficit)	4,823,241	(337,248)	4,485,993	782,059	-	5,268,052
	4,823,241	(337,248)	4,485,993	782,059	-	5,268,052
Contributed capital	301,530	-	301,530	-	-	301,530
Withdrawal of equity	-	-	-	-	(4,504)	(4,504)
	301,530	-	301,530	-	(4,504)	297,026
<b>Total equity</b>	<b>5,124,771</b>	<b>(337,248)</b>	<b>4,787,523</b>	<b>782,059</b>	<b>(4,504)</b>	<b>5,565,078</b>

	Equity at 1 July 2008 as reported \$	Prior Year Adjustment (i) \$	Equity at 1 July 2008 as restated \$	Changes due to		Equity at 30 June 2009 \$
				Total comprehensive result as restated (i) \$	Transactions with owner in its capacity as owner \$	
Accumulated surplus / (deficit)	6,234,621	(207,827)	6,026,794	(1,540,801)	-	4,485,993
	6,234,621	(207,827)	6,026,794	(1,540,801)	-	4,485,993
Contributed capital	309,394	-	309,394	-	-	309,394
Withdrawal of equity	-	-	-	-	(7,864)	(7,864)
	309,394	-	309,394	-	(7,864)	301,530
<b>Total equity</b>	<b>6,544,015</b>	<b>(207,827)</b>	<b>6,336,188</b>	<b>(1,540,801)</b>	<b>(7,864)</b>	<b>4,787,523</b>

(i) The prior year adjustment corrects the amount expensed in prior years in relation to rent paid for VAGO's accommodation at 35 Collins Street, which was based on payments being expensed as invoiced. This adjustment reflects payments based on fixed incremental annual increases as agreed to within the rental contract being spread evenly across the ten year term of occupancy. The correction is required to comply with Australian accounting standard AASB 117 Leases. The correction, which totalled \$337,248, is reflected in the financial statements as follows: the total comprehensive result for the 2008–09 year was adjusted by \$129,421 from a loss of \$1,411,380 to a loss of \$1,540,801 and the amount which related to the period prior to 1 July 2008 of \$207,827 was adjusted against retained earnings as at 1 July 2008. Refer to Note 7 for details.

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 2010

	Note	2009–10 \$	2008–09 \$
<b>Cash flows from operating activities</b>			
<i>Receipts</i>			
Receipts from Government		36,713,025	33,376,455
Receipts from other entities		613,196	192,975
<b>Total receipts</b>		<u>37,326,221</u>	<u>33,569,430</u>
<i>Payments</i>			
Payments to suppliers and employees		(36,067,198)	(32,853,617)
Goods and Services Tax paid to the ATO		(311,674)	(92,936)
Capital asset charge payments		(193,000)	(253,000)
Interest and other costs of finance paid		(24,134)	(23,861)
<b>Total payments</b>		<u>(36,596,006)</u>	<u>(33,223,414)</u>
<b>Net cash flows from / (used in) operating activities</b>	19(b)	<u>730,215</u>	<u>346,016</u>
<b>Cash flows from investing activities</b>			
Payments for non-financial assets		(803,375)	(492,173)
Proceeds from sale of non-financial assets		115,091	121,679
<b>Net cash flows from / (used in) investing activities</b>		<u>(688,284)</u>	<u>(370,494)</u>
<b>Cash flows from financing activities</b>			
Proceeds from finance leases		145,796	238,868
Repayment of finance leases		(187,727)	(214,390)
<b>Net cash flows from / (used in) financing activities</b>		<u>(41,931)</u>	<u>24,478</u>
<b>Net increase / (decrease) in cash held</b>		-	-
Cash at the beginning of the financial year		900	900
<b>Cash at the end of the financial year</b>	19(a)	<u>900</u>	<u>900</u>

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 2010

### Note 1. Summary of significant accounting policies

The annual financial statements represent the audited general purpose financial statements for the Victorian Auditor-General's Office (VAGO).

To gain a better understanding of the terminology used in this report, a glossary of terms can be found in Note 24.

#### (a) Statement of compliance

These financial statements have been prepared 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.

Where applicable, those paragraphs of the AASs applicable to not-for-profit entities have been applied.

The annual financial statements were authorised for issue by DDR Pearson (Auditor-General) and C.Yip (Chief Finance and Accounting Officer) on 10 August 2010.

#### (b) Basis of accounting preparation and measurement

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

These financial statements are presented in Australian dollars, the functional and presentation currency of VAGO.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision, and future periods if the revision affects both current and future periods. Judgements made by management in the application of AASs that have significant effects on the financial statements and estimates, with a risk of material adjustments in the subsequent reporting period, are disclosed throughout the notes to the financial statements.

The report has been prepared in accordance with the historical cost convention.

Historical cost is based on the fair values of the consideration given in exchange for assets.

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 2010 and the comparative information presented for the year ended 30 June 2009.

#### (c) Reporting entity

The financial statements cover VAGO as an individual reporting entity. The financial statements include all the controlled activities of VAGO. Its address is:

Level 24, 35 Collins Street, Melbourne VIC 3000

#### **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's Outputs**

VAGO has 2 major output groups:

- Parliamentary reports and services
- Audit reports on financial statements

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

**(e) Scope and presentation of financial statements*****Comprehensive operating statement***

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

'Transactions' and 'other economic flows' are defined by the *Australian system of government finance statistics: concepts, sources and methods 2005* Cat. No. 5514.0 published by the Australian Bureau of Statistics (see Note 24).

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

'Other economic flows' are changes arising from market re-measurements. They include gains and losses from disposals and impairments of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans; and fair value changes of financial instruments.

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

***Balance sheet***

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

Current and non-current assets and liabilities (those expected to be recovered or settled beyond 12 months) 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 reporting period to the closing balance at the end of the reporting period. It also shows separately changes due to amounts recognised in the comprehensive result and amounts recognised in other comprehensive income related to other non-owner changes in equity.

***Cash flow statement***

Cash flows are classified according to whether or not they arise from operating activities, investing activities, or financing activities. This classification is consistent with requirements under AASB 107 *Statement of cash flows*.

**(f) Correction of error**

Until 30 June 2009, operating lease rentals were charged to the comprehensive operating statement as incurred.

From 1 July 2009, operating lease rentals are spread equally over the lease term, in accordance with AASB 117 *Leases*. The difference in treatment has been applied retrospectively to the inception of the lease for VAGO's accommodation, resulting in a prior year adjustment. This is disclosed in the statement of changes in equity.

For the effect on individual amounts in the comprehensive operating statement and balance sheet, see Note 7.

**(g) Income from transactions**

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the income can be reliably measured.

**Appropriation income**

Appropriated income becomes controlled and is recognised by VAGO when it is appropriated from the Consolidated Fund by the Victorian Parliament and applied to the purposes defined under the relevant Appropriations Act. Additionally, VAGO is permitted under section 29 of the *Financial Management Act 1994* to have certain income annotated to the annual appropriation. The income which forms part of a section 29 agreement is recognised by VAGO and the receipts paid into the Consolidated Fund as an administered item. At the point of income recognition, section 29 provides for an equivalent amount to be added to the annual appropriation, which is then available for application.

Where applicable, amounts disclosed as income are net of returns, allowances 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). Income is recognised for each of VAGO's major activities as follows:

**Output appropriations**

Income from the outputs VAGO provides to Parliament is recognised when those outputs have been delivered and the Minister for Finance and the Treasurer have certified delivery of those outputs in accordance with specified performance criteria.

**Special appropriations**

Under section 94A(6) of the *Constitution Act 1975*, revenue related to costs associated with the Auditor-General is recognised when the amount appropriated for that purpose is due and payable by VAGO.

**Sale of goods and services**

*Income from the provision of services*

Income from the provision of services is recognised by reference to the stage of completion basis. The income is recognised when:

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

*Income from sale of goods*

Income 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 income, and the costs incurred or to be incurred in respect of the transaction can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to VAGO.

**Fair value of services received free of charge**

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

**(h) Expenses from transactions**

Expenses are recognised as they are incurred and reported in the financial year to which they relate.

**Employee expenses**

Employee expenses include superannuation expenses which are reported differently depending upon whether employees are members of defined benefit or defined contribution plans. In relation to defined contribution (i.e. accumulation) superannuation plans, the associated expense is simply the employer contributions that are paid or payable in respect of employees who are members of these plans during the reporting period. Employer superannuation expenses in relation to employees who are members of defined benefit superannuation plans are described below.

**Superannuation - State superannuation defined benefit plans**

The amount recognised in the comprehensive operating statement in relation to employer contributions for members of defined benefit superannuation plans is simply the employer contributions that are paid or payable to these plans during the reporting period. The level of these contributions will vary depending upon the relevant rules of each plan, and is based upon actuarial advice.

The Department of Treasury and Finance (DTF) in their Annual Financial Statements, recognise on behalf of the State as the sponsoring employer, the net defined benefit cost related to the members of these plans. Refer to DTF's Annual Financial Statements for more detailed disclosures in relation to these plans.

**Depreciation and amortisation**

All plant and equipment and other non-current physical assets (excluding items under operating leases and assets held-for-sale) that have a limited useful life are depreciated. Depreciation is generally calculated on a straight line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life.

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. Intangible produced assets with finite useful lives are amortised as an expense from transactions on a straight line basis over the asset's useful life.

Note 9 provides details on the estimated useful lives that are used in the calculation of depreciation and amortisation on property, plant and equipment. Note 10 provides details on the estimated useful lives that are used in the calculation of amortisation on intangible assets.

**Interest expense**

Interest expenses are recognised as expenses in the period in which they are incurred. Refer to glossary of terms in Note 24 for an explanation of interest expense items.

**Capital asset charge**

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

**Other operating expenses**

Other operating expenses generally represent the day to day running costs incurred in normal operations.

*Contract audit services, rental expenses, recruitment and training and other operating expenses*

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

*Fair value of services provided free of charge*

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

**(i) Other economic flows included in net result**

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

**Net gain/(loss) on non-financial assets**

Net gain/(loss) on non-financial assets and liabilities includes realised and unrealised gains and losses as follows:

*Disposal of non-financial assets*

Any gain or loss on the 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 119 *Contributions by Owners*.

*Impairment of non-financial assets*

Assets are assessed annually for indications of impairment, except for:

- financial assets; and
- non-current physical assets held for sale.

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

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

- impairment and reversal of impairment for financial instruments at amortised cost; and
- disposals of financial assets.

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

Other gains/(losses) from other economic flows include the gains or losses from:

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

**(j) 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).

**(k) 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.

*Impairment of financial assets*

VAGO assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

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

**(l) Non-financial assets**

**Property, plant and equipment**

All non-current physical assets are measured at cost.

*Leasehold improvements*

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

*Non-current physical assets arising from finance leases*

Refer to Note 1(n) Leases

**Intangible assets**

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

**Other non-financial assets***Prepayments*

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

**Impairment of non-financial assets**

Refer to Note 1(i) *Other economic flows included in net result*

**(m) Liabilities****Payables**

Payables consist predominantly of accounts payable and other sundry liabilities. Accounts payable represent liabilities for goods and services provided to VAGO prior to the end of the financial year that are unpaid, and arise when VAGO becomes obliged to make future payments in respect of the purchase of those goods and services.

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

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

**Borrowings**

Borrowings are initially measured at fair value, being the cost of the borrowings, net of transaction costs (refer to Note 1(n) *Leases*).

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in net result over the period of the borrowing using the effective interest rate method.

**Provisions**

Provisions are recognised when VAGO has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

**Employee Benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

*(i) Wages and salaries, and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in the provision for employee benefits. These liabilities are classified as current liabilities and measured at their nominal values.

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

*(ii) Long service leave*

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

**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:

nominal value - component that VAGO expects to settle within 12 months; and

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

**Non-current liability - conditional LSL** representing less than seven years of continuous service is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service.

This non-current LSL liability is measured at present value.

Consideration is given to expected future wage and salary levels, experience of employee, departures and periods of service. Expected future payments are discounted using a single weighted average discount rate based on market yields of national government bonds in Australia that reflects the estimated timing and amount of benefit payments.

Any gain or loss following revaluation of the present value of the non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an other economic flow (refer to Note 1(i) *Other economic flows included in net result*).

*(iii) Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. VAGO recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

*(iv) Performance incentive entitlements*

The Executive Officers' performance incentive entitlements for the performance review period to 30 June 2010, payable within the next financial year, are classified as a current liability in the balance sheet.

**Operating lease contracts**

Provision is made for rentals due under operating lease contracts, where the amortised cost of the whole-of-life lease rentals exceeds the rentals due at the end of the reporting period.

**(n) Leases**

A lease is a right to use an asset for an agreed period of time in exchange for payment.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of property, plant and equipment are classified as finance infrastructure leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases

**Finance leases**

*VAGO as lessee*

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The lease asset is depreciated over the shorter of the estimated useful life of the asset or the term of the lease.

Minimum finance lease payments are apportioned between reduction of the outstanding lease liability, and periodic finance expense which is calculated using the interest rate implicit in the lease and charged directly to the comprehensive operating statement. Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

**Operating leases**

*VAGO as lessee*

Operating lease payments, including any contingent rentals, are recognised as an expense in the comprehensive operating statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

**(o) Equity**

**Contributions by owners**

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

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



**(p) Commitments**

Commitments are disclosed at their nominal value and inclusive of the goods and services tax (GST) payable.

**(q) Accounting for the Goods and Services Tax (GST)**

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

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

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

**(r) Events after the reporting period**

Assets, liabilities, income or expenses arise from past transactions or other past events. Where the transactions result from an agreement between VAGO and other parties, the transactions are only recognised when the agreement is irrevocable at or before the end of the reporting period. Adjustments are made to amounts recognised in the financial statements for events which occur after the reporting period and before the date the statements are authorised for issue, where those events provide information about conditions which existed in the reporting period. Note disclosure is made about events between the end of the reporting period and the date the statements are authorised for issue where the events relate to conditions which arose after the end of the reporting period and which may have a material impact on the results of subsequent reporting periods.

**(s) Rounding of amounts**

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

**(t) AASs issued that are not yet effective**

Certain new AASs have been published that are not mandatory for 30 June 2010 reporting period. DTF assesses the impact of these new standards and advises VAGO of their applicability and early adoption where applicable.

As at 30 June 2010, the following standards and interpretations (applicable to VAGO) had been issued but were not mandatory for financial year ending 30 June 2010. VAGO has not early adopted these standards.

<i>Standard / Interpretation</i>	<i>Summary</i>	<i>Applicable for annual reporting periods beginning or ending on</i>	<i>Impact on VAGO's financial statements</i>
AASB 2009-5 Further amendments to Australian Accounting Standards arising from the annual improvements project [AASB 5, 8, 101, 107, 117, 118, 136 and 139]	Some amendments will result in accounting changes for presentation, recognition or measurement purposes, while other amendments will relate to terminology and editorial changes.	Beginning 1/01/2010	Terminology and editorial changes. Impact minor.

<b>Standard / Interpretation</b>	<b>Summary</b>	<b>Applicable for annual reporting periods beginning or ending on</b>	<b>Impact on VAGO's financial statements</b>
Erratum <i>General Terminology changes</i>	Editorial amendments to a range of Australian Accounting Standards and Interpretations	Beginning 1/01/2010	Terminology and editorial changes. Impact minor.
AASB 124 Related party disclosures (Dec 2009)	Government related entities have been granted partial exemption with certain disclosure requirements.	Beginning 1/01/2011	Preliminary assessment suggests that impact is insignificant. However, the Department is still assessing the detailed impact and whether to early adopt.
AASB 2009-12 Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031 and Interpretations 2, 4, 16, 1039 and 1052]	This standard amends AASB 8 to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for purposes of certain operating segment disclosures. This standard also makes numerous editorial amendments to other AASs.	Beginning 1/01/2011	AASB 8 does not apply to VAGO therefore no impact expected.  Only editorial changes arising from amendments to other standards, no major impact. Impacts of editorial amendments are not expected to be significant.
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a minimum funding requirement [AASB Interpretation 14]	Amendment to Interpretation 14 arising from the issuance of <i>Prepayments of a minimum funding requirement</i>	Beginning 1/01/2011	Expected to have no significant impact
AASB 9 Financial instruments	This standard simplifies requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 <i>Financial instruments: recognition and measurement</i> (AASB 139 <i>financial Instruments: recognition and measurement</i> ).	Beginning 1/01/2013	Detail of impact is still being assessed.
AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12]	This gives effect to consequential changes arising from the issuance of AASB 9.	Beginning 1/01/2013	Detail of impact is still being assessed.

## 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

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 2010

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
	\$	\$	\$	\$	\$	\$
<b>Income from transactions</b>						
Output appropriations	13,793,000	11,696,205	20,829,501	19,316,961	34,622,501	31,013,166
Special appropriations	239,128	204,854	205,595	204,853	444,723	409,707
Sale of goods and services	480,277	192,975	132,919	-	613,196	192,975
Fair value of services received free of charge	15,143	29,175	14,607	-	29,750	29,175
<b>Total income from transactions</b>	<b>14,527,548</b>	<b>12,123,209</b>	<b>21,182,622</b>	<b>19,521,814</b>	<b>35,710,170</b>	<b>31,645,023</b>
<b>Expenses from transactions</b>						
Employee expenses	9,950,198	8,661,957	7,995,619	7,166,592	17,945,817	15,828,549
Depreciation and amortisation	407,733	454,655	393,315	473,212	801,048	927,867
Interest expense	20,103	17,387	16,718	18,502	36,821	35,889
Capital asset charge	98,237	123,970	94,763	129,030	193,000	253,000
Fair value of services provided free of charge	47,545	23,626	52,796	77,805	100,341	101,431
Contract audit services	1,411,044	1,548,387	9,448,398	9,671,442	10,859,442	11,219,829
Rental expenses - accommodation (i)	740,091	704,256	713,918	733,001	1,454,009	1,437,257
Recruitment and training	493,262	455,135	384,953	391,624	878,215	846,759
Other operating expenses	1,403,212	1,302,178	1,298,707	1,147,678	2,701,919	2,449,856
<b>Total expenses from transactions</b>	<b>14,571,425</b>	<b>13,291,551</b>	<b>20,399,187</b>	<b>19,808,886</b>	<b>34,970,612</b>	<b>33,100,437</b>
<b>Net result from transactions (net operating balance)</b>	<b>(43,877)</b>	<b>(1,168,342)</b>	<b>783,435</b>	<b>(287,072)</b>	<b>739,558</b>	<b>(1,455,414)</b>
<b>Other economic flows included in net result</b>						
Net gain/(loss) on non-financial assets	1,790	(10,023)	1,863	(10,432)	3,653	(20,455)
Other gains/(losses) from other economic flows	22,584	(36,764)	16,264	(28,168)	38,848	(64,932)
<b>Total other economic flows included in net result</b>	<b>24,374</b>	<b>(46,787)</b>	<b>18,127</b>	<b>(38,600)</b>	<b>42,501</b>	<b>(85,387)</b>
<b>Net result</b>	<b>(19,503)</b>	<b>(1,215,129)</b>	<b>801,562</b>	<b>(325,672)</b>	<b>782,059</b>	<b>(1,540,801)</b>
<b>Comprehensive result</b>	<b>(19,503)</b>	<b>(1,215,129)</b>	<b>801,562</b>	<b>(325,672)</b>	<b>782,059</b>	<b>(1,540,801)</b>

### Controlled assets and liabilities as at 30 June 2010

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Financial assets	3,482,374	3,185,817	4,878,959	4,747,312	8,361,333	7,933,129
Non-financial assets	1,245,467	1,174,020	1,744,954	1,749,452	2,990,421	2,923,472
<b>Total assets</b>	<b>4,727,841</b>	<b>4,359,837</b>	<b>6,623,913</b>	<b>6,496,764</b>	<b>11,351,754</b>	<b>10,856,601</b>
<b>Liabilities</b>						
<b>Total liabilities (i)</b>	<b>2,410,067</b>	<b>2,437,244</b>	<b>3,376,609</b>	<b>3,631,834</b>	<b>5,786,676</b>	<b>6,069,078</b>
<b>Net assets</b>	<b>2,317,774</b>	<b>1,922,593</b>	<b>3,247,304</b>	<b>2,864,930</b>	<b>5,565,078</b>	<b>4,787,523</b>

(i) 2008-09 restated to incorporate prior year adjustment. Refer to Note 7 for details.

### 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.

	2009–10	2008–09
	\$	\$
<b>Administered income from transactions</b>		
Sales of services	20,829,502	19,316,961
Miscellaneous income	20,420	20,394
<b>Total administered income from transactions</b>	<b>20,849,922</b>	<b>19,337,355</b>
<b>Administered expenses from transactions</b>		
Payments into the consolidated fund	20,849,225	19,331,927
<b>Total administered expenses from transactions</b>	<b>20,849,225</b>	<b>19,331,927</b>
<b>Total administered net result from transactions (net operating balance)</b>	<b>697</b>	<b>5,428</b>
<b>Administered other economic flows included in administered net result</b>		
Net gain/(loss) on non-financial assets	(697)	(5,428)
<b>Total administered other economic flows</b>	<b>(697)</b>	<b>(5,428)</b>
<b>Administered net result</b>	<b>-</b>	<b>-</b>
<b>Total administered comprehensive result</b>	<b>-</b>	<b>-</b>
<b>Administered financial assets</b>		
Receivables (i)	2,033,319	3,213,754
<b>Total administered financial assets</b>	<b>2,033,319</b>	<b>3,213,754</b>
<b>Administered non-financial assets</b>		
Work in progress	1,805,791	1,179,180
<b>Total administered non-financial assets</b>	<b>1,805,791</b>	<b>1,179,180</b>
<b>Total administered assets</b>	<b>3,839,110</b>	<b>4,392,934</b>
<b>Administered liabilities</b>		
Amounts owing to the State	3,839,110	4,392,934
<b>Total administered liabilities</b>	<b>3,839,110</b>	<b>4,392,934</b>
<b>Total administered net assets</b>	<b>-</b>	<b>-</b>
<i>(i) Receivables comprise debtors falling due as follows:</i>		
Current	2,025,059	2,461,128
Overdue between 30 to 60 days	8,260	580,921
Overdue beyond 60 days	-	171,705
	<b>2,033,319</b>	<b>3,213,754</b>

**Note 4. Income from transactions**

	2009–10	2008–09
	\$	\$
<b>(a) Output appropriations (i)</b>		
Annual appropriation for the provision of outputs	13,793,000	11,696,205
Appropriation under s29 <i>FMA 1994</i>	20,829,501	19,316,961
<b>Total output appropriations</b>	<b>34,622,501</b>	<b>31,013,166</b>
<b>(b) Special appropriations (i)</b>		
Appropriation under s94A(6) of the <i>Constitution Act 1975</i>	444,723	409,707
<b>Total special appropriations</b>	<b>444,723</b>	<b>409,707</b>
<b>(c) Sale of goods and services</b>		
Sales of goods (ii)	47,928	43,314
Rendering of services (iii)	565,268	149,661
<b>Total sale of goods and services</b>	<b>613,196</b>	<b>192,975</b>
<b>(d) Fair value of services received free of charge</b>		
Services (iv)	29,750	29,175
<b>Total fair value of services received free of charge</b>	<b>29,750</b>	<b>29,175</b>

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

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

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

(iv) This represents the cost of the external audit of VAGO. The financial auditors are appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the Audit Act 1994. Refer to Note 23.

**Note 5. Expenses from transactions**

	2009–10	2008–09
	\$	\$
<b>(a) Employee expenses</b>		
Post employment benefits:		
Defined contribution superannuation expense	1,089,136	904,321
Defined benefit superannuation expense	216,987	210,268
	<u>1,306,123</u>	<u>1,114,589</u>
Termination benefits	49,935	308,417
Salaries, wages and long service leave	16,589,759	14,405,542
<b>Total employee expenses</b>	<u>17,945,817</u>	<u>15,828,548</u>
<b>(b) Depreciation and amortisation</b>		
Depreciation of non-current assets:		
Furniture and fittings	2,008	1,657
Computer software	4,288	973
Computer hardware	240,946	255,042
Office equipment	18,253	18,588
Mobile phones	13,539	14,202
<b>Total depreciation of non-current assets</b>	<u>279,034</u>	<u>290,462</u>
Amortisation of non-current assets:		
Leasehold improvements	178,927	177,178
Intangible Assets - Computer Software	264,163	389,161
Motor vehicles - leased	78,924	71,066
<b>Total amortisation of non-current assets</b>	<u>522,014</u>	<u>637,405</u>
<b>Total depreciation and amortisation</b>	<u>801,048</u>	<u>927,867</u>
<b>(c) Interest expense</b>		
Interest on finance leases	24,134	23,861
Other interest expense	12,687	12,028
<b>Total interest expense</b>	<u>36,821</u>	<u>35,889</u>
<b>(d) Other operating expenses</b>		
Information technology	475,365	618,810
Information management	510,258	529,166
Consultants (i)	570,788	219,090
Legal expenses	-	26,964
Auditors' remuneration	29,750	29,175
Other office expenses (i)	1,115,758	1,026,652
<b>Total other operating expenses</b>	<u>2,701,919</u>	<u>2,449,857</u>

(i) Restated comparatives to better reflect actual expenditure category.

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

	2009–10	2008–09
	\$	\$
<b>(a) Net gain/(loss) on non-financial assets</b>		
Net gain/(loss) on disposal of property, plant and equipment	3,653	(20,455)
<b>Total net gain/(loss) on non-financial assets</b>	<u>3,653</u>	<u>(20,455)</u>
<b>(b) Other gains/(losses) from other economic flows</b>		
Net gain/(loss) arising from revaluation of long service liability (i)	38,848	(64,932)
<b>Total other gains/(losses) from other economic flows</b>	<u>38,848</u>	<u>(64,932)</u>

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

## Note 7. Correction of error

### Correction of error in accounting for operating lease rental expense

The prior year adjustment corrects the amount expensed in prior years in relation to rent paid for VAGO's accommodation at 35 Collins Street, which was based on payments being expensed as invoiced. This adjustment reflects payments based on fixed incremental annual increases as agreed to within the rental contract being spread evenly across the ten year term of occupancy. The correction is required to comply with Australian accounting standard AASB 117 *Leases* and the net financial effect of the correction is as follows:

	Provisions \$	Total equity \$
At 1 July 2008 – as published	3,149,701	6,544,015
Correction	207,827	(207,827)
<b>At 1 July 2008 – as restated</b>	<b>3,357,528</b>	<b>6,336,188</b>
At 1 July 2009 – as published	3,577,858	5,124,771
Correction	337,248	(337,248)
<b>At 1 July 2009 – as restated</b>	<b>3,915,106</b>	<b>4,787,523</b>
	Comprehensive result \$	
2008–2009 – as published	(1,411,380)	
Correction	(129,421)	
<b>2008–2009 – as restated</b>	<b>(1,540,801)</b>	

## Note 8. Receivables

	2009–10 \$	2008–09 \$	at 1 July 2008 \$
<b>Current receivables</b>			
<b>Contractual</b>			
Sale of goods and services	84,274	52,925	78,132
Other receivables	-	-	-
	<b>84,274</b>	<b>52,925</b>	<b>78,132</b>
<b>Statutory</b>			
Amounts due from Victorian Government (i)(ii)	4,468,980	4,915,373	4,178,751
GST input tax credit recoverable	37,615	68,176	1,039
<b>Total current receivables</b>	<b>4,590,869</b>	<b>5,036,474</b>	<b>4,257,922</b>
<b>Non-current receivables</b>			
<b>Statutory</b>			
Amounts due from Victorian Government (i)(ii)	3,769,564	2,895,755	3,721,378
<b>Total non-current receivables</b>	<b>3,769,564</b>	<b>2,895,755</b>	<b>3,721,378</b>
<b>Total receivables</b>	<b>8,360,433</b>	<b>7,932,229</b>	<b>7,979,300</b>

(i) The total amount recognised as being due from the Victorian Government was \$8,238,544 (2008–09, \$7,811,128) of which \$4,468,980 (2008–09, \$4,915,373) is likely to be drawn down in the next financial year and is reported accordingly as a current receivable.

(ii) 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. Property, plant and equipment****(a) Cost, accumulated amortisation and depreciation**

	2009–10	2008–09	at 1 July 2008
	\$	\$	\$
<b>Leasehold improvements</b>			
At cost	1,757,885	1,757,885	1,464,654
Less: Accumulated amortisation	(516,502)	(337,575)	(160,397)
<b>Total leasehold improvements</b>	<b>1,241,383</b>	<b>1,420,310</b>	<b>1,304,257</b>
<b>Furniture and fittings</b>			
At cost	117,027	117,027	109,790
Less: Accumulated depreciation	(102,006)	(99,997)	(98,341)
<b>Total furniture and fittings</b>	<b>15,021</b>	<b>17,030</b>	<b>11,449</b>
<b>Computer software (i)</b>			
At cost	31,471	2,919	2,919
Less: Accumulated depreciation	(5,705)	(1,417)	(444)
<b>Total computer software</b>	<b>25,766</b>	<b>1,502</b>	<b>2,475</b>
<b>Computer hardware</b>			
At cost	2,094,573	2,072,974	2,117,812
Less: Accumulated depreciation	(1,618,056)	(1,547,054)	(1,457,894)
<b>Total computer hardware</b>	<b>476,517</b>	<b>525,920</b>	<b>659,918</b>
<b>Office equipment</b>			
At cost	167,957	146,468	146,339
Less: Accumulated depreciation	(117,723)	(99,470)	(81,554)
<b>Total office equipment</b>	<b>50,234</b>	<b>46,998</b>	<b>64,785</b>
<b>Mobile Phones</b>			
At cost	64,334	40,335	31,281
Less: Accumulated depreciation	(38,810)	(25,272)	(11,069)
<b>Total mobile phones</b>	<b>25,524</b>	<b>15,063</b>	<b>20,212</b>
<b>Motor vehicles – leased</b>			
At cost	384,665	446,948	432,500
Less: Accumulated amortisation	(88,143)	(105,860)	(117,080)
<b>Total motor vehicles – leased</b>	<b>296,522</b>	<b>341,088</b>	<b>315,420</b>
<b>Total property, plant and equipment</b>	<b>2,130,967</b>	<b>2,367,911</b>	<b>2,378,516</b>

(i) The intangible asset category was introduced in 2009–10 and assets have been reclassified from Property, plant and equipment – Computer software. Computer software which is intrinsic to the computer hardware remains classified as Property, plant and equipment. Previous years' balances have been adjusted. Refer to Note 10 for details.

## Note 9. Property, plant and equipment (continued)

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

	Leasehold improvements	Furniture and fittings	Computer software (i)	Computer hardware	Office equipment	Mobile phones	Motor vehicles – leased	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Carrying amount</b>								
Balance at 1 July 2008	1,304,257	11,449	2,475	659,918	64,785	20,212	315,420	2,378,516
Additions	293,231	7,238	-	128,908	801	9,053	238,868	678,099
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)	(973)	(255,042)	(18,588)	(14,202)	(71,066)	(538,706)
Balance at 30 June 2009	1,420,310	17,030	1,502	525,920	46,998	15,063	341,088	2,367,911
Additions	-	-	28,552	196,047	21,489	23,999	145,796	415,883
Disposals	-	-	-	(174,448)	-	-	(208,079)	(382,527)
Disposals – Accumulated depreciation	-	-	-	169,944	-	-	96,641	266,585
Depreciation/amortisation expense	(178,927)	(2,009)	(4,288)	(240,946)	(18,253)	(13,538)	(78,924)	(536,885)
<b>Balance at 30 June 2010</b>	<b>1,241,383</b>	<b>15,021</b>	<b>25,766</b>	<b>476,517</b>	<b>50,234</b>	<b>25,524</b>	<b>296,522</b>	<b>2,130,967</b>

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.

(i) The intangible asset category was introduced in 2009–10 and assets have been reclassified from Property, plant and equipment – Computer software. Computer software which is intrinsic to the computer hardware remains classified as Property, plant and equipment. Previous years' balances have been adjusted. Refer to Note 10 for details.



## Note 11. Other non-financial assets

	2009–10	2008–09	at 1 July 2008
	\$	\$	\$
<b>Current other assets</b>			
<b>Prepayments</b>			
Information management	10,492	7,558	11,977
Software and hardware maintenance contracts	169,541	122,249	138,576
Rental expense – accommodation	116,016	111,584	107,819
Other	174,752	48,846	53,705
<b>Total current other assets</b>	<b>470,801</b>	<b>290,237</b>	<b>312,077</b>
<b>Total other assets</b>	<b>470,801</b>	<b>290,237</b>	<b>312,077</b>

## Note 12. Payables

	2009–10	2008–09	at 1 July 2008
	\$	\$	\$
<b>Current payables</b>			
<b>Contractual</b>			
Amounts payable to government and agencies	52,223	138,035	94,038
Supplies and services	569,986	1,187,701	854,128
Other payables	172,085	407,564	340,129
	<b>794,294</b>	<b>1,733,300</b>	<b>1,288,295</b>
<b>Statutory</b>			
Taxes payable	82,601	77,211	(9,273)
<b>Total current payables</b>	<b>876,895</b>	<b>1,810,511</b>	<b>1,279,022</b>
<b>Total payables</b>	<b>876,895</b>	<b>1,810,511</b>	<b>1,279,022</b>

(a) **Maturity analysis of contractual payables**

Please refer to Table 18.4 in note 18 for the maturity analysis of contractual payables.

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

Please refer to Note 18 for the nature and extent of risks arising from contractual payables.

## Note 13. Borrowings

	2009–10	2008–09	at 1 July 2008
	\$	\$	\$
<b>Current borrowings</b>			
Lease liabilities (i) (note 16(a))	79,807	145,610	151,700
<b>Total current borrowings</b>	<b>79,807</b>	<b>145,610</b>	<b>151,700</b>
<b>Non-current borrowings</b>			
Lease liabilities (i) (note 16(a))	221,723	197,851	167,283
<b>Total non-current borrowings</b>	<b>221,723</b>	<b>197,851</b>	<b>167,283</b>
<b>Total borrowings</b>	<b>301,530</b>	<b>343,461</b>	<b>318,983</b>

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

(a) **Maturity analysis of interest bearing liabilities**

Please refer to Table 18.4 in note 18 for the maturity analysis of interest bearing liabilities.

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

Please refer to Note 18 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 14. Provisions

	2009–10	2008–09 at 1 July 2008	
	\$	\$	\$
<b>Current provisions</b>			
Employee benefits: (i) (Note 14(a)) – annual leave:			
– Unconditional and expected to settle within 12 months (ii)	1,024,993	835,725	786,752
– Unconditional and expected to settle after 12 months (iii)	357,797	327,577	288,945
Employee benefits: (i) (Note 14(a)) – long service leave:			
– Unconditional and expected to settle within 12 months (ii)	334,439	341,013	1,060,612
– Unconditional and expected to settle after 12 months (iii)	1,554,816	1,273,687	451,311
Employee benefits: (i) (Note 14(a)) – performance incentive entitlements:			
– Unconditional and expected to settle within 12 months (ii)	240,233	181,250	160,409
<b>Total current provisions</b>	<b>3,512,278</b>	<b>2,959,252</b>	<b>2,748,029</b>
<b>Non-current provisions</b>			
Employee benefits: (i) (Note 14(a))	421,525	387,095	401,672
Lease contracts (iv) (Note 16)	430,250	337,248	207,827
Restoration of property, plant and equipment (v)	244,198	231,511	-
<b>Total non-current provisions</b>	<b>1,095,973</b>	<b>955,854</b>	<b>609,499</b>
<b>Total provisions</b>	<b>4,608,251</b>	<b>3,915,106</b>	<b>3,357,528</b>
<b>(a) Employee benefits (i)</b>			
	2009–10	2008–09 at 1 July 2008	
	\$	\$	\$
<b>Current employee benefits</b>			
Annual leave entitlements	1,382,790	1,163,303	1,075,697
Long service leave entitlements	1,889,255	1,614,699	1,511,923
Performance incentive entitlements	240,233	181,250	160,409
	<b>3,512,278</b>	<b>2,959,252</b>	<b>2,748,029</b>
<b>Non-current employee benefits</b>			
Long service leave entitlements	421,525	387,095	401,672
<b>Total employee benefits</b>	<b>3,933,803</b>	<b>3,346,347</b>	<b>3,149,701</b>
(i)	<i>Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, including on-costs.</i>		
(ii)	<i>The amounts disclosed are nominal amounts.</i>		
(iii)	<i>The amounts disclosed are discounted to present values.</i>		
(iv)	<i>The provision for lease contracts reflects a requirement to provide for known future increases in operating lease rentals for the lease of VAGO's premises. The provision was introduced in 2009–10, and previous years' balances have been adjusted to reflect a prior year adjustment. Refer to Note 7 for details.</i>		
(v)	<i>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.</i>		

## Note 15. 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, details and amounts expensed in relation to the major employee superannuation funds and contributions made by VAGO are as follows:

Fund	Paid contribution for the		Contribution outstanding	
	year		at year end	
	2009–10	2008–09	2009–10	2008–09
	\$	\$	\$	\$
<b>Defined benefit plans:</b>				
State Superannuation Fund - revised and new	215,849	210,186	7,742	6,604
<b>Defined contribution plans:</b>				
VicSuper	836,842	707,415	26,111	19,733
Other	279,458	226,928	7,537	6,900
<b>Total</b>	<b>1,332,149</b>	<b>1,144,529</b>	<b>41,390</b>	<b>33,237</b>

- (i) *The bases for determining the level of contributions are determined by the various actuaries of the superannuation plans.*
- (ii) *The above amounts were measured as at 30 June of each year, or in the case of employer contribution plans they relate to the years ended 30 June.*

## Note 16. Leases

### (a) Finance leases

#### Leasing arrangements

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

	Minimum future lease payments (i)		Present value of minimum future lease payments	
	2009–10	2008–09	2009–10	2008–09
	\$	\$	\$	\$
<b>Finance lease liabilities payable:</b>				
Not longer than one year	98,348	164,255	95,045	159,331
Longer than one year and not longer than five years	232,053	215,174	206,420	184,462
Longer than five years	-	-	-	-
<b>Minimum future lease payments</b>	<b>330,401</b>	<b>379,429</b>	<b>301,465</b>	<b>343,793</b>
Less future finance charges	(28,871)	(35,968)	-	-
<b>Present value of minimum lease payments</b>	<b>301,530</b>	<b>343,461</b>	<b>301,465</b>	<b>343,793</b>
Included in the financial statements as:				
Current borrowings lease liabilities (Note 13)	79,807	145,610		
Non-current borrowings lease liabilities (Note 13)	221,723	197,851		
<b>Total interest-bearing liabilities</b>	<b>301,530</b>	<b>343,461</b>		

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

### (b) Operating leases

#### Leasing arrangements

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

	2009–10	2008–09
	\$	\$
<b>Non-cancellable operating lease payables:</b>		
Not longer than one year	1,551,560	1,488,680
Longer than one year and not longer than five years	6,873,995	6,514,379
Longer than five years	3,384,956	5,071,572
<b>Total</b>	<b>11,810,511</b>	<b>13,074,631</b>

### (c) Maturity analysis of finance lease liabilities

Please refer to Table 18.4 in Note 18 for the ageing analysis of finance lease liabilities.

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

Please refer to Note 18 for the nature and extent of risks arising from finance lease liabilities.

## Note 17. 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:

	2009–10	2008–09
	\$	\$
Not longer than one year	5,290,404	2,805,963
Longer than one year and not longer than five years	2,978,943	2,629,127
Longer than five years	-	-
<b>Total commitments for expenditure (inclusive of GST)</b>	<b>8,269,347</b>	<b>5,435,090</b>
Less GST recoverable from the Australian Taxation Office	(751,759)	(494,099)
<b>Total commitments for expenditure (exclusive of GST)</b>	<b>7,517,588</b>	<b>4,940,991</b>

### (b) Printing contract

VAGO has a 3-year printing contract with Blue Star Group (Pty) Limited to undertake printing services. There is no amount to disclose as the price schedules are on a per page basis without base spending levels.

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

## Note 18. 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 prudently manage VAGO's business.

The carrying amounts of VAGO's financial assets and financial liabilities by category are in Table 18.1 below.

**Table 18.1 Categorisation of financial instruments**

	2009–10	2008–09
	\$	\$
<b>Contractual financial assets</b>		
Cash	900	900
Receivables:		
Sale of goods and services	84,274	52,925
<b>Total contractual financial assets (i)</b>	<b>85,174</b>	<b>53,825</b>
<b>Contractual financial liabilities</b>		
Payables:		
Supplies and services	569,986	1,187,701
Amounts payable to government and agencies	52,223	138,035
Other payables	172,085	407,564
Borrowings:		
Lease liabilities	301,530	343,461
<b>Total contractual financial liabilities (i)</b>	<b>1,095,824</b>	<b>2,076,761</b>

(i) The total amounts disclosed here exclude statutory amounts which will be used to cover payment of contractual financial liabilities (e.g. amounts owing from Victorian Government (2009–10 – \$8,238,544, 2008–09 – \$7,811,128) and GST input tax credit recoverable, and taxes payable (2009–10 – \$37,615, 2008–09 – \$68,176)).

**Table 18.2 Net holding gain/(loss) on financial instruments by category**

	2009–10	2008–09
	\$	\$
<b>Contractual financial liabilities</b>		
Financial liabilities at amortised cost:		
Interest on finance leases	(24,134)	(23,861)
<b>Total contractual financial liabilities</b>	<b>(24,134)</b>	<b>(23,861)</b>

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

- For financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost.

There have been no net holding gains or losses in respect of contractual financial assets.

### (b) Credit risk

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

#### **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 18. Financial instruments (continued)****Table 18.3 Ageing analysis of financial assets (i)**

	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	
<b>2009–10</b>	\$	\$	\$	\$	\$	\$	\$
<b>Receivables:</b>							
Sale of goods and services	84,274	84,256	-	18	-	-	-
Other receivables	-	-	-	-	-	-	-
	<b>84,274</b>	<b>84,256</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2008–09</b>							
<b>Receivables:</b>							
Sale of goods and services	52,925	38,654	14,271	-	-	-	-
	<b>52,925</b>	<b>38,654</b>	<b>14,271</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**(c) Liquidity risk**

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

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

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

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

**Table 18.4 Maturity analysis of financial liabilities (ii)**

	Carrying amount	Nominal amount	Maturity dates (i)			
			Less than 1 month	1–3 months	3 months – 1 year	1–5 years
<b>2009–10</b>	\$	\$	\$	\$	\$	\$
<b>Payables:</b>						
Supplies and services	569,986	569,986	550,949	9,487	9,550	-
Amounts payable to government and agencies	52,223	52,223	52,223	-	-	-
Other payables	172,085	172,085	172,085	-	-	-
<b>Borrowings:</b>						
Lease liabilities	301,530	301,530	6,823	13,646	59,338	221,723
	<b>1,095,824</b>	<b>1,095,824</b>	<b>782,080</b>	<b>23,133</b>	<b>68,888</b>	<b>221,723</b>
<b>2008–09</b>						
<b>Payables:</b>						
Supplies and services	1,187,701	1,187,701	776,721	410,980	-	-
Amounts payable to government and agencies	138,035	138,035	122,119	15,916	-	-
Other payables	407,564	407,564	407,564	-	-	-
<b>Borrowings:</b>						
Lease liabilities	343,461	343,461	38,488	12,594	94,528	197,851
	<b>2,076,761</b>	<b>2,076,761</b>	<b>1,344,892</b>	<b>439,490</b>	<b>94,528</b>	<b>197,851</b>

(i) The carrying amounts disclosed exclude statutory amounts (e.g. GST payables).

(ii) Maturity analysis is presented using the contractual undiscounted cash flows.

**(d) Market risk**

VAGO has no sensitivity to interest rate risk, as all its interest bearing liabilities are fixed rate.

**Note 18. Financial instruments (continued)****Table 18.5 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
<b>2009–10</b>					
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash	-	900	-	-	900
Receivables:					
Sale of goods and services	-	84,274	-	-	84,274
Other receivables	-	-	-	-	-
<b>Total financial assets</b>		<b>85,174</b>	<b>-</b>	<b>-</b>	<b>85,174</b>
<b>Financial liabilities</b>					
Payables:					
Supplies and services	-	569,986	-	-	569,986
Amounts payable to government and agencies	-	52,223	-	-	52,223
Other payables	-	172,085	-	-	172,085
Borrowings:					
Lease liabilities	6.98%	301,530	301,530	-	-
<b>Total financial liabilities</b>		<b>1,095,824</b>	<b>301,530</b>	<b>-</b>	<b>794,294</b>
<b>2008–09</b>					
<b>Financial assets</b>					
Cash	-	900	-	-	900
Receivables:					
Sale of goods and services	-	52,925	-	-	52,925
<b>Total financial assets</b>		<b>53,825</b>	<b>-</b>	<b>-</b>	<b>53,825</b>
Payables:					
Supplies and services	-	1,187,701	-	-	1,187,701
Amounts payable to government and agencies	-	138,035	-	-	138,035
Other payables	-	407,564	-	-	407,564
Borrowings:					
Lease liabilities	7.22%	343,461	343,461	-	-
<b>Total financial liabilities</b>		<b>2,076,761</b>	<b>343,461</b>	<b>-</b>	<b>1,733,300</b>

**(e) Fair value**

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

**Note 19. Cash flow information****(a) Reconciliation of cash and cash equivalents**

	<b>2009–10</b>	2008–09
	\$	\$
Total cash and cash equivalents (i) disclosed in the balance sheet	<b>900</b>	900
<b>Balance as per cash flow statement</b>	<b>900</b>	<b>900</b>

(i) 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 income is paid into the State's bank account, known as the Public Account. Similarly, any office 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**

	<b>2009–10</b>	2008–09
	\$	\$
<b>Net result for the period (ii)</b>	<b>782,059</b>	(1,540,801)
<b>Non-cash movements:</b>		
Loss on disposal of non-current assets	<b>(3,653)</b>	20,455
Depreciation and amortisation of non-current assets	<b>801,048</b>	927,867
<b>Items classified as financing and investing activities:</b>		
Additions to non-current assets accounted for via an increase in provision for restoration of property, plant and equipment	-	(219,483)
<b>Movements in assets and liabilities:</b>		
(Increase)/decrease in receivables	<b>(428,204)</b>	47,071
(Increase)/decrease in prepayments	<b>(180,564)</b>	21,840
Increase/(decrease) in payables	<b>(933,616)</b>	531,489
Increase/ (decrease) in provisions (ii)	<b>693,145</b>	557,578
<b>Net cash flows from/(used in) operating activities</b>	<b>730,215</b>	<b>346,016</b>

(ii) Restated to incorporate prior year adjustment. Refer to Note 7 for details.

**Note 20. Summary of compliance with annual parliamentary and special appropriations**

**(a) Summary of compliance with annual parliamentary appropriations**

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

	Appropriation Act				Financial Management Act 1994				Total		Variance	
	Annual appropriation		Advance from Treasurer		Section 29		Section 32		Parliamentary authority		Appropriations applied	
	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	2009-10
<b>Controlled</b>												
Provision for outputs	\$ 11,696,205	\$ -	\$ -	\$ -	\$ 19,316,961	\$ -	\$ 360,000	\$ -	\$ 31,013,166	\$ -	\$ 31,013,166	\$ -
Additions to net assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 11,696,205</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,316,961</b>	<b>\$ -</b>	<b>\$ 360,000</b>	<b>\$ -</b>	<b>\$ 31,013,166</b>	<b>\$ -</b>	<b>\$ 31,013,166</b>	<b>\$ -</b>

	2009-10	2008-09	\$
<b>Parliamentary appropriations</b>			
<b>Appropriation Act</b>			
Annual appropriation	13,666,000	12,003,000	
Add: Indexation adjustment	(33,000)	55,205	
Less: Workcare adjustment	-	(2,000)	
Less: Carried forward to 2010-11	(200,000)	(360,000)	
	<u>13,433,000</u>	<u>11,696,205</u>	
<b>Financial Management Act 1994</b>			
Section 29 - estimate	19,519,000	15,517,000	
Plus: variance from estimate	1,310,501	3,799,961	
	<u>20,829,501</u>	<u>19,316,961</u>	
<b>Section 32</b>			
Brought forward	360,000	-	
	<u>360,000</u>	<u>-</u>	
Total Parliamentary Authority	<u>34,622,501</u>	<u>31,013,166</u>	
Appropriations applied	34,622,501	31,013,166	
Variance	-	-	

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

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

### (b) Summary of compliance with special appropriations

Authority	Purpose	Appropriations applied	
		2009–10	2008–09
		\$	\$
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with the Auditor-General	<u>444,723</u>	<u>409,707</u>

## Note 21. Responsible persons

Given the independent relationship of the Auditor-General with the Parliament, no Government Minister has any direct responsibility for the operations of VAGO. The following disclosures are made relating to the Accountable Officer in accordance with the Directions of the Minister for Finance under the *Financial Management Act 1994*:

### (a) Names

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

- D D R Pearson, Auditor-General (1 July 2009 to 30 June 2010)
- P Frost (Acting, for 31 days during the period 1 July 2009 to 30 June 2010)

### (b) 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:

\$410,000 – \$419,999 (2008–09 \$400,000 – \$409,999)

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

### (c) Other transactions

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

## Note 22. Remuneration of executives

The numbers of executive officers, other than Accountable Officers, whose total remuneration exceeded \$100,000 during the reporting period are shown in the first two columns in the table below in their relevant income bands. The base remuneration of executive officers receiving more than \$100,000 in total remuneration is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits.

Income band	Total remuneration		Base remuneration	
	2009–10 No.	2008–09 No.	2009–10 No.	2008–09 No.
\$80,000 to \$89,999	-	-	-	1
\$100,000 to \$109,999	-	2	-	2
\$110,000 to \$119,999	-	1	-	2
\$120,000 to \$129,999	1	1	1	-
\$130,000 to \$139,999	-	-	4	-
\$140,000 to \$149,999	7	3	6	4
\$150,000 to \$159,999	3	2	4	3
\$160,000 to \$169,999	4	3	1	1
\$170,000 to \$179,999	1	1	-	1
\$180,000 to \$189,999	-	2	-	1
\$190,000 to \$199,999	-	-	1	-
\$200,000 to \$209,999	1	-	-	-
\$220,000 to \$229,999	-	-	1	1
\$240,000 to \$249,999	-	1	-	-
\$250,000 to \$259,999	1	-	-	-
\$260,000 to \$269,999	-	-	-	1
\$270,000 to \$279,999	-	-	1	-
\$280,000 to \$289,999	-	1	-	-
\$300,000 to \$309,999	1	-	-	-
<b>Total numbers</b>	<b>19</b>	<b>17</b>	<b>19</b>	<b>17</b>
<b>Total amount</b>	<b>\$ 3,199,900</b>	<b>\$ 2,780,052</b>	<b>\$ 3,035,441</b>	<b>\$ 2,568,756</b>

Other than those executive officers whose remuneration is disclosed in the above table, there were also 1 arrival and departure, 2 full-time arrivals, 1 reclassification and 1 payment to 2008–09 departed EO (2008–09: 5 departures, 2 arrivals and 4 reclassifications) 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 5 affected executive officers was \$124,107 (2008–09, \$687,377).

## Note 23. Remuneration of auditors

	2009–10 \$	2008–09 \$
Financial statement audit	29,750	29,175
Performance audit	-	-

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 24. 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, defined benefits superannuation plans, and defined contribution superannuation plans.

### Financial asset

A financial asset is any asset that is:

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

### Financial instrument

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

### Financial liability

A financial liability is any liability that is:

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

### Financial statements

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

## Note 24. Glossary of Terms (continued)

### **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.

### **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.

### **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 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 income 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 and 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.



# Appendix 1: Report of independent performance auditor

Pursuant to the requirements of the *Audit Act 1994*, an independent performance audit of VAGO was conducted during 2010 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 2007 was also considered as part of the 2010 performance audit. The results of the audit were tabled in Parliament in September 2010.

The table below outlines VAGO's response, made on 31 August 2010, to the recommendations contained in the draft report. The status of VAGO's implementation of the recommendations will be included in the 2010–11 Annual Report.

Recommendation	VAGO's response to recommendation
<p><b>1. External service providers for performance audits</b> Consider alternative funding arrangements for performance audits and also consider utilising external service delivery model.</p>	<p><b>NOT ACCEPTED</b> VAGO's funding is determined by the <i>Audit Act 1994</i>, alternative funding regimes would require legislative change.  Further performance auditing is an evolving discipline and the limited market expertise available is being utilised and nurtured to the extent possible.</p>
<p><b>2. Reporting frequency for annual plan acquittals / progress by VAGO to PAEC/Parliament</b> Consider improving the frequency of reporting to Parliament/PAEC.</p>	<p><b>NOT ACCEPTED</b> The Auditor-General is the accountable officer and responsible for the management of the office.</p>
<p><b>3. Disclosure of name and scope changes for performance audits</b> Consider disclosure of name and scope changes in performance audit reports.</p>	<p><b>ACCEPTED</b> Appropriate disclosure will continue to be considered where material and substantive change occurs.</p>
<p><b>4. Implementation of past recommendations</b> Consider performing follow-up reviews on the implementation of recommendations raised by VAGO and to monitor auditees' progress in addressing agreed findings.</p>	<p><b>NOT ACCEPTED</b> As part of the annual planning process, the annual Minister for Finance's Report and ensuing PAEC enquiries are considered in selecting audit topics.</p>
<p><b>5. Fostering productive relationships with audit clients</b> Consider strategies to further improve relationships with auditees.</p>	<p><b>ACCEPTED</b> Fostering of productive relationships with clients has been central to successive VAGO Strategic Plans.</p>
<p><b>6. Measuring adequacy and effectiveness of VAGO's audits</b> Consider reporting quantifiable measures relating to recommendations raised by VAGO.</p>	<p><b>NOT ACCEPTED</b> Priority is accorded to the statutory mandate and a comprehensive suite of performance indicators, including a core developed in conjunction with ACAG, already exists.</p>

Recommendation	VAGO's response to recommendation
<p><b>7. Independence declaration for staff</b> Consider completing independence declarations of all staff for each assignment, including the Victorian Auditor-General, and other executive staff.</p>	<p><b>NOT ACCEPTED</b> Existing annual declaration of interests are complemented by the Code of Conduct for Victorian Public Sector Employees of Special Bodies and audit standards and methodology are considered adequate for the public sector context in which VAGO operates.</p>
<p><b>8. Audit Method Performance (Performance Audit Methodology—AmP) library and checklists</b> Consider developing a process to enable VAGO's performance audit practitioners to better comply with relevant Auditing Standards.</p>	<p><b>NOT ACCEPTED</b> Involves duplication as AmP is already designed to acquit these requirements.</p>
<p><b>9. Application of AmP</b> Consider further refinement of VAGO's performance audit methodology.</p>	<p><b>ACCEPTED</b> VAGO's continuous improvement process on at least an annual basis adopts refinements in light of the business need and risk.</p>
<p><b>10. Structure of performance audit reports tabled at Parliament</b> Consider introduction of consistent performance audit reports.</p>	<p><b>NOT ACCEPTED</b> The diversity of audit topics and the nature of audit findings render a formulaic approach inappropriate.</p>
<p><b>11. Performance audits: Budgeted costs vs. published costs</b> Consider strategies for containing budget overruns and setting accurate budgets relating to VAGO's performance audit division.</p>	<p><b>ACCEPTED</b> VAGO's continuous improvement process adopts refinements in light of experience and post audit reviews, business need and risk.</p>
<p><b>12. Time costs for performance audit</b> Consider allocating time relating to familiarisation of performance audit assignments to internal VAGO cost centres.</p>	<p><b>NOT ACCEPTED</b> Incidence does not warrant a change in audit costing policy.</p>
<p><b>13. Comparability of costs between performance audits</b> Consider implementing a consistent approach to measuring performance audits.</p>	<p><b>ACCEPTED</b> VAGO's continuous improvement process adopts refinements in light of experience and post audit reviews.</p>
<p><b>14. Performance audit: cold reviews</b> Consider further refining the process for undertaking cold reviews.</p>	<p><b>ACCEPTED</b> VAGO's continuous improvement process adopts refinements in light of experience, business need and risk.</p>
<p><b>15. Signature of employees agreeing to abide by VAGO's Code of Conduct</b> Consider implementing further measures to enhance the process to maintain confidentiality of information.</p>	<p><b>ACCEPTED</b> Long serving employees whose commencement was prior to the May 2008 revised induction procedure have been requested to sign an agreement to abide by the Code of Conduct. By 27 August 2010 all staff, except those who were absent on leave, have signed an agreement that they understand their statutory and professional obligations.</p>
<p><b>16. Expanding quality review of completed financial audits</b> Consider expanding quality reviews for financial audits.</p>	<p><b>NOT ACCEPTED</b> Our current level of quality review is significantly in excess of professional requirements and is rigorously monitored. Results do not warrant expansion.</p>

Recommendation	VAGO's response to recommendation
<p><b>17. IT Audits</b> Consider measures to improve computerised audit techniques.</p>	<p><b>ACCEPTED</b> A business improvement project to expand our IT capacity and the tools applied was included in the 2010–11 Financial Audit Group Business Plan.</p>
<p><b>18. Evaluation of Private Audit Contractors and Consultants</b> Consider refining the process for evaluation of private audit contractors and consultants.</p>	<p><b>ACCEPTED</b> VAGO has a continuous improvement process and particular attention will be paid to more comprehensively documenting rationale for decisions.</p>
<p><b>19. Delegations of Authority: Threshold Limits</b> Consider reviewing delegations of authority limits provided to VAGO personnel.</p>	<p><b>NOT ACCEPTED</b> The delegations of authority specifically separate out the approval to tender and the approval to purchase—the AAG's approval to purchase is limited by the tender approval.</p>
<p><b>20. Exclusion of High Risk from Internal Audit Activity</b> Consider full documentation for exclusion of 'high' risk from internal audit activity and possible inclusion in future audit activities.</p>	<p><b>ACCEPTED</b> VAGO has a continuous improvement process and particular attention will be paid to more comprehensively documenting rationale for decisions</p>



# Appendix 2: Auditor-General reports to Parliament 2009–10

Date report was tabled	VAGO report number	Report title	Pages
11 November 09	2009–10:1	Local Government: Results of the 2008–09 Audits	116
11 November 09	2009–10:2	Public Hospitals: Results of the 2008–09 Financial Audits	116
11 November 09	2009–10:3	Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure	68
11 November 09	2009–10:4	Responding to Mental Health Crises in the Community	72
11 November 09	2009–10:5	Management of the Community Support Fund	36
24 November 09	2009–10:6	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–2009	88
25 November 09	2009–10:7	Water Entities: Results of the 2008–09 Audits	96
25 November 09	2009–10:8	Maintaining the Integrity and Confidentiality of Personal Information	44
25 November 09	2009–10:9	Vehicle Fleet Management	64
25 November 09	2009–10:10	Managing Offenders on Community Corrections Orders	32
09 December 09	2009–10:11	Portfolio Departments and Associated Entities: Results of the 2008–09 Audits	172
09 December 09	2009–10:12	Making Public Transport More Accessible for People Who Face Mobility Challenges	36
09 December 09	2009–10:13	Use of Development Contributions by Local Government	36
03 February 10	2009–10:14	The Effectiveness of Student Wellbeing Programs and Services	56
24 February 10	2009–10:15	Tendering and Contracting in Local Government	52
24 February 10	2009–10:16	Management of Concessions by the Department of Human Services	60
10 March 10	2009–10:17	Irrigation Water Stores: Lake Mokoan and Tarago Reservoir	72
24 March 10	2009–10:18	Management of Safety Risks at Level Crossings	52
14 April 10	2009–10:19	Fees and Charges—cost recovery by local government	64
05 May 10	2009–10:20	Performance Reporting by Departments	60
26 May 10	2009–10:21	Tertiary Education and Other Entities: Results of the 2009 Audits	108
26 May 10	2009–10:22	Managing Teacher Performance in Government Schools	76
26 May 10	2009–10:23	Control of Invasive Plants and Animals in Victoria's Parks	52
26 May 10	2009–10:24	Partnering with the Community Sector in Human Services and Health	64
26 May 10	2009–10:25	The Community Building Initiative	52
09 June 10	2009–10:26	Administration of the Victorian Certificate of Education	44
09 June 10	2009–10:27	Hazardous Waste Management	48
09 June 10	2009–10:28	Personal Safety and Security on the Metropolitan Train System	40
09 June 10	2009–10:29	Irrigation Efficiency Programs	64
23 June 10	2009–10:30	Access to Social Housing	72
23 June 10	2009–10:31	Management of Major Rail Projects	44
23 June 10	2009–10:32	Managing the Requirements for Disclosing Private Sector Contracts	44



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# Appendix 3: Office-based environmental impacts

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VAGO voluntarily joined the *ResourceSmart* program in 2007 to better understand, monitor and improve its environmental impacts. We have identified areas of improvement in the office and promote better practice for work done outside the office. Our initial focus has been on monitoring and improving our performance of our office-based environmental impacts.

VAGO has adopted a holistic approach to environmental management and is committed to leading by example. We aim to minimise our:

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

## Environment Management Committee

The Environment Management Committee (EMC) aims to improve, monitor and report the environmental performance of the office. We held regular meetings throughout 2009–10 and committee members have worked diligently, both in these meetings and individually, to achieve the aims of the EMC and VAGO.

The main activity of the EMC in 2009–10, which was also part of VAGO's commitment to the *ResourceSmart* program, was implementing the environmental action plan (EAP), to help us meet VAGO's environmental targets and whole-of-government environmental goals, targets and objectives. This document is a blueprint that breaks down the targets into manageable steps and assigns responsibility, resources (both staff and financial) and a time line to achieve each step.

Throughout 2009–10 the EMC engaged in several activities to promote environmental awareness and empower staff members to help us meet VAGO's environmental targets. These included:

- regular presentations at the monthly staff communications meetings, such as, introducing our new car hire policy (including hybrids), energy reduction strategies, etc.
- participation in sustainable events, such as Earth Hour
- promoting environmental awareness messages around the office
- providing sustainable procurement training for procurement officers and some EMC members.

The main tasks for the EMC in 2010–11 will be reviewing and addressing the items in our EAP to include new opportunities that we have not identified or included in our current plan.

## Environmental performance

Energy consumption <sup>(a)</sup>						
	Quantity (kWh)			Measure (kWh)		Greenhouse gas emissions (tonnes CO2-e)
	Non Green	Green	Total	per FTE	per m2	
2007–08	212 805	70 935	283 740	1 910	101	282
2008–09	203 765	67 922	271 687	1 821	96.7	275
2009–10	203 742	67 914	271 656	1 624	96.7	275
Fuel use <sup>(b)</sup>						
	Quantity (kL)		Measure (L per vehicle)		Greenhouse gas emissions (tonnes CO2-e)	
2007–08	46		264		119.9	
2008–09	46		214		119.9	
2009–10	55		200		142.8	
Paper purchased <sup>(c)</sup>						
	Quantity (reams A4)		Measure (reams A4 per FTE)		Greenhouse gas emissions (tonnes CO2-e)	
2007–08	4 177		27.3		19.4	
2008–09	3 478		23.3		16.1	
2009–10	3 669		21.9		16.8	
Flights (international/domestic) <sup>(d)</sup>						
	Quantity		Measure (kms travelled)		Greenhouse gas emission (tonnes)	
	International	Domestic	International	Domestic	CO2-e int	CO2-e dom
2007–08	2	41	30 694	80 692	9.11	26.14
2008–09	2	67	39 734	133 482	11.8	43.25
2009–10	5	47	150 255	83 462	44.62	27.04
Total greenhouse gas emissions (of key measures) <sup>(e)</sup>						
	Quantity (tonnes CO2-e)			Quantity (tonnes CO2-e/FTE)		
2007–08	456			3.07		
2008–09	466			3.12		
2009–10	506			3.02		

Note: (a) Includes electricity at VAGO premises (Levels 23 and 24, 35 Collins Street).

(b) Includes both executive fleet vehicles and hire vehicles.

(c) Includes paper purchased for printing/copying at VAGO premises and also paper used to print our reports to Parliament and other publications.

(d) Includes all flights invoiced to and paid for by VAGO.

(e) Addition of the four (energy, fuel, paper, flights) measurements, rounded to the nearest whole number.



## Energy

### Target

The target set in VAGO's EAP is to increase our current renewable energy use from 25 per cent green power.

### Explanatory notes

VAGO consumes energy through the use of office equipment and facilities. We cannot collect data on the energy our staff members consume at client premises.

We are in the process of switching to 100 per cent green power, which will reduce our greenhouse gas emissions. We are also trying to reduce overall energy use through smarter use of technology (e.g. energy efficient screen savers, less colour printing etc) and staff education about energy conservation.

## Paper

### Target

The target set in VAGO's EAP is to investigate 100 per cent recycled paper options for internal printing and printing of Parliamentary reports by November 2009.

### Explanatory notes

VAGO is becoming more efficient in its paper use. Although we recognise that the amount of reams used has increased by 5.5 per cent in 2009–10, the amount of paper consumption per FTE has decreased by 6 per cent. VAGO considered all paper used, including Parliamentary report production, before making its final purchasing decisions. As our major Parliamentary output, VAGO must provide printed copies of all tabled reports to every MP.

During the year VAGO transferred its catalogue of audit reports into an electronic format and posted them on our website. This should prevent significant reprints of old reports and reduce printing in the future.

We also investigated the most sustainable paper stock options for our Parliamentary reports and have included details about this and the environmental credentials of our printer in the preliminary pages of our audit reports.

In 2009–10, we also started using 80 per cent recycled paper, instead of 50 per cent as our standard office stock.

## Water

### Target

The target in VAGO's EAP is to investigate installing check meters where possible to enable accurate monitoring.

### Explanatory notes

VAGO has been unable to accurately measure its water usage as our tenancy is not separately metered. We are talking to building management to see whether it is possible to install meters that will measure our water use.

## Transport

### Target

The target set in VAGO's EAP is to encourage executives to purchase LPG or low emission vehicles.

### Explanatory notes

Our fleet comprises 11 executive vehicles. We also use hire cars to travel to client premises.

VAGO has measured the fuel use of its executive fleet and all hire cars, which was comparable with previous years. VAGO has implemented a new vehicle policy, which encourages the use of hybrid hire vehicles and cars with low fuel consumption. Our standard hire car policy has changed from a six-cylinder to a four-cylinder vehicle. The new policy also encourages the use of sustainable travel options.

## Greenhouse gas emissions

The emissions listed in the previous table measure our combined use of energy, fuel, paper and flights so we can calculate the VAGO's footprint.

### Target

The target set in VAGO's EAP is to lead by example by reducing greenhouse gas emissions in our operations.

### Explanatory notes

VAGO's greenhouse footprint has increased by 8.6 per cent because of greater fuel usage, the amount of paper purchased and more international flights. This is due to an increase in FTE staff this year; however, our total emissions per FTE have gone down 3 per cent.

There was more overseas travel this year, compared with last year. VAGO officers travelled to the United Kingdom, Canada, Beijing, Netherlands and Hong Kong to attend various conferences (please refer to page 57 for details).

This has been offset by a reduction in energy use and domestic flights. Although the total amount of greenhouse gas emissions has increased marginally, the amount per FTE was lower.

## Other information

- VAGO has integrated environmental specifications into its purchasing policy, in compliance with the Government's Environmental Purchasing Policy.
- VAGO is planning to accurately measure its recycling and waste to landfill generation activities. We are in discussing the possibilities with building management.

# Appendix 4: Extract of whole-of-government financial statements – Non-audited

	2009–10				
	Budget (i)			Actual VAGO	Variance (ii) VAGO
	Parliament	VAGO	Controlled Parliament		
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Income from transactions</b>					
Output appropriations	88,207.1	33,185.0	121,392.1	34,622.5	1,437.5
Special appropriations	38,506.0	451.0	38,957.0	444.7	(6.3)
Sale of goods and services	0.0	0.0	0.0	613.2	613.2
Fair value of services received free of charge	0.0	37.0	37.0	29.8	(7.2)
<b>Total income from transactions</b>	<b>126,713.1</b>	<b>33,673.0</b>	<b>160,386.1</b>	<b>35,710.2</b>	<b>2,037.2</b>
<b>Expenses from transactions</b>					
Employee benefits	64,243.0	17,287.0	81,530.0	17,945.8	(658.8)
Depreciation and amortisation	5,511.0	1,065.0	6,576.0	801.0	264.0
Interest expense	0.0	29.0	29.0	36.8	(7.8)
Grants and other transfers	486.0	0.0	486.0	0.0	0.0
Capital asset charge	1,487.1	193.0	1,680.1	193.0	0.0
Other operating expenses	54,986.0	15,099.0	70,085.0	15,993.9	(894.9)
<b>Total expenses from transactions</b>	<b>126,713.1</b>	<b>33,673.0</b>	<b>160,386.1</b>	<b>34,970.5</b>	<b>(1,297.5)</b>
<b>Net result from transactions (net operating balance)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>739.7</b>	<b>739.7</b>

(i) Budget figures are as published in 2009–10 Statement of Finances: Budget Paper No. 4.

(ii) For income items, the variance is positive if actual exceeds budget. For expense items, the variance is positive if budget exceeds actual.



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# Appendix 5: Additional information available on request

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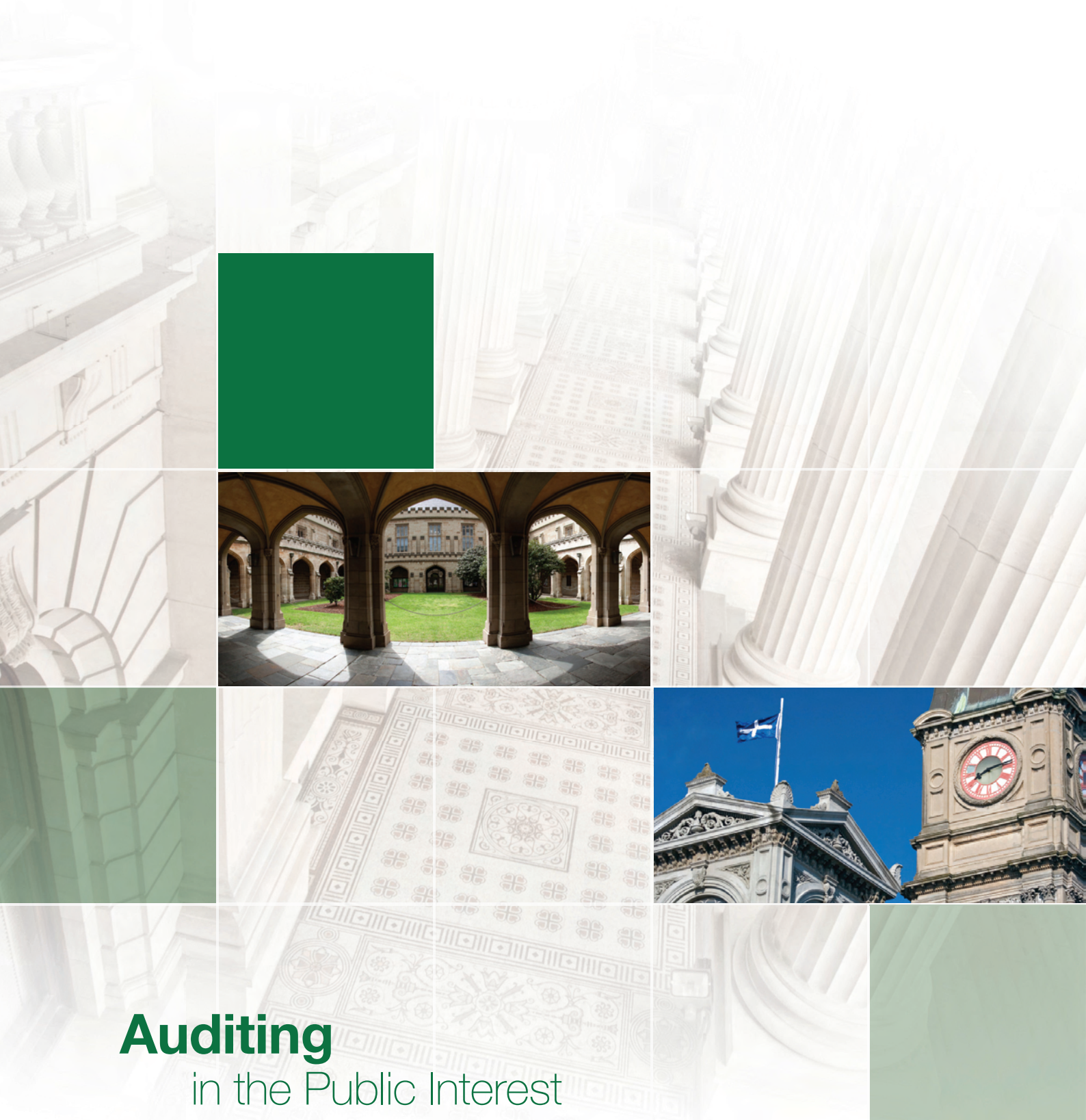
This report and the VAGO website publish all of the information in compliance with the requirements of the ministerial directions of the Minister for Finance. Further details in respect of the information items below have been retained by VAGO and are available if requested (subject to the Freedom of Information requirements, if applicable):

- a statement that pecuniary interests have been duly completed by all relevant staff of the office (see page 48)
- audit fees, which are revised annually (see pages 38–39)
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit (see page 59)
- details of assessments and measures undertaken to improve the occupational health and safety of employees (see page 55)
- a general statement on industrial relations within the office and details of time lost through industrial accidents and disputes (see page 54)
- a list of major committees sponsored by VAGO, and the purposes of each (see pages 46–48)
- in respect of the following areas there were no relevant activities undertaken by VAGO:
  - 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.vic.gov.au](http://www.audit.vic.gov.au)



# Auditing in the Public Interest

**VAGO**

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