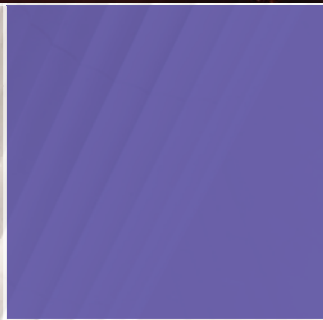
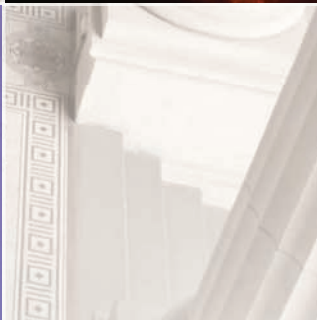
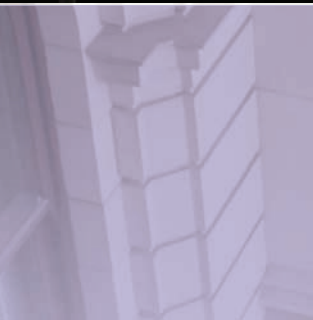


Victorian Auditor-General's Office

# Annual Report

2010–11

## Auditing in the Public Interest



**VAGO**

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

# Auditing in the

# Public Interest

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## Our vision

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

## Our purpose

Providing assurance to Parliament.

## Our objectives

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

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

## Our values

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

## Accountable officer's declaration

In accordance with *Financial Management Act 1994*, I am pleased to present the Report of Operations for the Victorian Auditor General's Office for the year ended 30 June 2011.



D D R Pearson  
Auditor-General  
Melbourne  
24 August 2011

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Melbourne, Vic. 3000  
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Victorian Auditor-General's Office  
Hours of business: 8.30 am–5.00 pm

# Introduction

Established in 1851, the Victorian Auditor-General's Office (VAGO) plays a key role in providing the Victorian Parliament with assurance about the financial integrity of the state.

The Auditor-General is an independent officer of the Victorian Parliament, established by the *Constitution Act 1975* to conduct and report on financial and performance audits in the Victorian public sector. 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.

## 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

Under the *Audit Act 1994*, the Auditor-General has a legislative mandate to:

- audit the Annual Financial Report of the state
- review the Estimated Financial Statements within the State Budget Papers
- conduct financial statement audits for public sector organisations, including government departments, public bodies, educational institutions, public hospitals and local government authorities (551 in 2010–11)
- conduct wide-ranging performance audits focusing on the economic, efficient and effective use of public resources to achieve public program objectives
- investigate instances of waste, probity or lack of financial prudence in the use of public resources
- independently report the results of audits to Parliament in an objective and timely way.

In addition, the Auditor-General conducts audits to determine whether financial benefits that agencies bestow on non-government bodies are applied economically, efficiently and effectively.

## 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.

This annual report presents our achievements against the *Annual Plan 2010–11* which was tabled in Parliament on 5 May 2010. The plan documented our projected key outcomes and outputs, influences on the public sector and major areas of audit interest.

## Available resources

At 30 June 2011, we:

- had 170 in-house staff (173 at 30 June 2010)
- engaged 40 audit service providers (36 during 2009–10)
- received \$36.16 million in funding from Parliament (\$35.07 million in 2009–10).

## Financial management

Our net financial result for the year was a surplus of \$515 847 (surplus of \$782 059 in 2009–10).


Financial audit fee income for the year was \$21.90 million (\$20.83 million in 2009–10).

**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
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Dear Presiding Officers

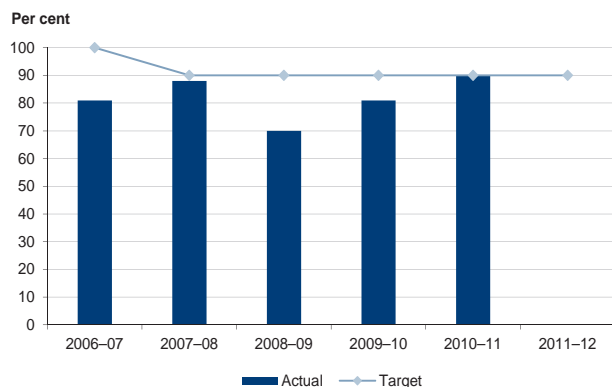
I am pleased to transmit, in accordance with section 7B of the *Audit Act 1994*, my annual report of the Victorian Auditor-General's Office for the year ended 30 June 2011 for presentation to Parliament.



D D R Pearson  
Auditor-General  
24 August 2011

# 2010–11 at a glance

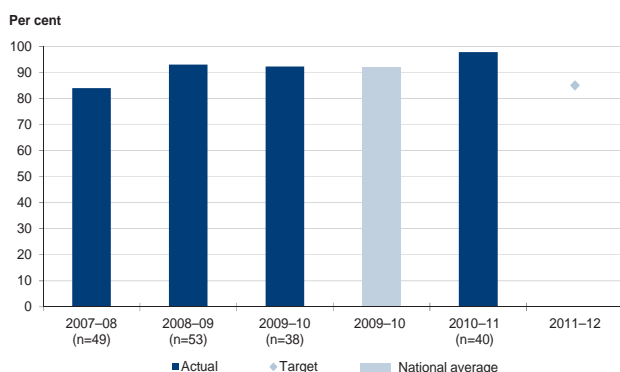
## Timeliness of reports tabled in Parliament



## Reports and advice

39 reports tabled in Parliament (target 37).  
 90 per cent of reports tabled within target time lines.  
 551 financial audit opinions issued.

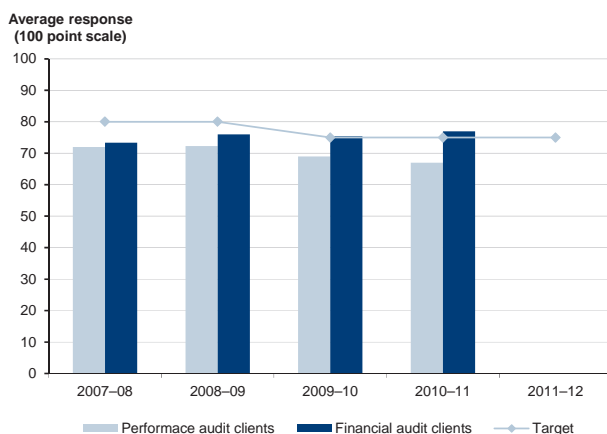
## Parliamentarians' satisfaction levels with the Auditor-General's reports and services



## Parliament

98 per cent of Parliamentarians satisfied with our reports and services.  
 70 per cent agreed that our audits addressed their key areas of interest to a 'high' or 'very high' extent.  
 75 per cent agreed that our reports helped them monitor public sector accountability and financial performance.  
 172 references to our reports during Parliamentary debate.  
 15 briefing sessions held in Parliament House on tabling days.  
*Annual Plan 2011–12* tabled in Parliament 24 May 2011.

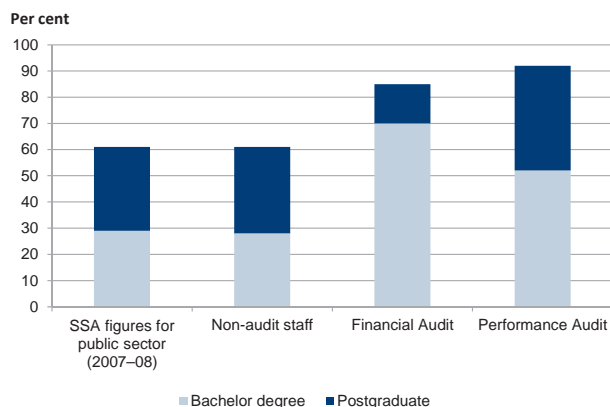
## Overall ratings of audited agency satisfaction with audits



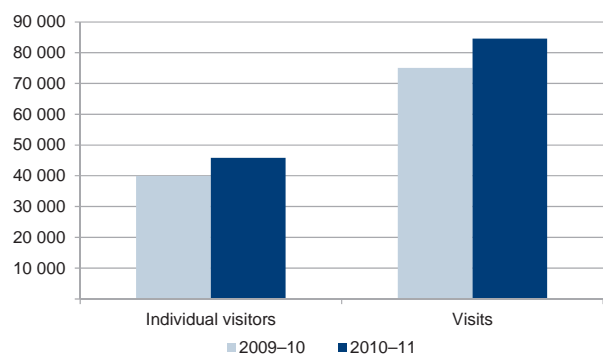
## Agencies

87 per cent of audit recommendations from prior year were fully accepted.  
 99 per cent of audit opinions were issued within statutory deadlines.  
 Overall score of 77 out of 100 on financial audit client survey.  
 Overall score of 67 out of 100 on performance audit client survey.

### Comparison of VAGO staff qualifications to the Victorian public sector as a whole



### Number of visitors and visits to the VAGO website



## People

76 per cent of all VAGO employees have a qualification at bachelor level or higher, with a large proportion having double degrees and 4.7 per cent of staff have, or are studying for, a PhD.

87 per cent of the staff survey questions improved on the 2009 survey outcomes.

Staff have a strong understanding of the long-term goals of their work group and how they fit in with overall strategies.

## Organisation

Addressed all recommendations from triennial performance audit.

Total output cost for OG1 was \$14.7 million (target \$14.1).

Total output cost for OG2 was \$21.2 million (target \$20.3).

VAGO retained its four green star rating and an independent environmental audit confirms VAGO has significantly better than average recycling activity.

[Table 1] Financial summary 2010–11 and 2009–10

Financial summary	2010–11	2009–10	Change
	(\$'000)	(\$'000)	(per cent)
Operating revenue	36 490	35 710	▲ 2.2
Operating expenses	35 974	34 928	▲ 3.0
Total assets	12 712	11 352	▲ 12.0
Total liabilities	6 631	5 787	▲ 14.6
Surplus/(deficit)	516	782	▼ 34.0
Net equity	6 081	5 565	▲ 9.3

[Table 2] Five-year statistics

Five-year statistics		2010–11	2009–10	2008–09	2007–08	2006–07
<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)	6	5	3	3	2
Performance audit reports	(number)	30	26	26	29	13
Audited agency satisfaction with parliamentary reports	(score)	67	69	72	72	71
Parliamentarian satisfaction with parliamentary reports and services	(score)	98	92	92	83	91
<b>Audit reports on financial statements</b>						
Audit responsibilities (entities at 30 June 2011)	(number)	551	557	587	621	631
Unqualified opinions issued during reporting year	(number)	547	553	588	633	604
Qualified opinions issued during reporting year	(number)	5	4	4	7	13
Total opinions issued during reporting year	(number)	551	557	592	640	617
Audit opinions issued within time frame	(per cent)	99	100	98	96	98
Audited agency satisfaction with financial audit services	(score)	77	75	76	73	72
<b>Audit reports on performance statements</b>						
Audit reports on local government performance statements						
Unqualified opinions issued during reporting year	(number)	77	77	78	79	79
Qualified opinions issued during reporting year	(number)	1	1	1	–	–
Total opinions issued during reporting year	(number)	78	78	79	79	79
Audit reports on regional water authority performance statements						
Unqualified opinions issued during reporting year	(number)	15	15	16	15	15
Qualified opinions issued during reporting year	(number)	–	–	–	1	1
Total opinions issued during reporting year	(number)	15	15	16	16	16
Audit reports on technical and further education institute performance statements						
Unqualified opinions issued during reporting year	(number)	20	20	19	19	18
Qualified opinions issued during reporting year	(number)	–	–	–	–	–
Total opinions issued during reporting year	(number)	20	20	19	19	18
<b>Resources</b>						
In-house staff	(number)	170	173	153	153	149
Audit service providers	(number)	40	36	34	36	30
Average days sick leave per employee	(number)	7.2	6.2	7.1	5.6	8.0
Workers compensation claims	(number)	4	4	3	1	–
Injuries reported	(number)	4	4	3	–	3
Grievances lodged	(number)	–	2	2	1	–
Staff training and professional development per employee	(days)	6.7	9.7	6.4	10.1	8.8
<b>Financial management</b>						
Expenditure on audit service providers	(\$million)	10.19	9.45	9.67	8.61	6.91
Revenue from audit fees	(\$million)	21.90	20.83	19.32	17.91	15.75
Operating surplus/(deficit)	(\$million)	0.52	0.78	(1.54)	(1.92)	0.96
Assets	(\$million)	12.71	11.35	10.86	11.29	13.47
Liabilities	(\$million)	6.63	5.79	6.07	4.75	5.01



# Auditor-General's review 2010–11

In my last annual report, I identified persistent weaknesses in the systems our public sector uses to safeguard accountability and drive performance. I cited concerns with controls over services delivered at arm's length to government, and drew attention to the role that central agencies ought to be playing in addressing what I saw as an 'oversight deficit'.

Looking back over this year's audit program I can see some modest improvement and even areas of good practice. But it would be remiss of me not to observe that these weaknesses in the governance, planning, project management and monitoring of many public sector services are still widespread.

Our audits continue to highlight the need to improve the way the public sector reports on performance, uses information to make decisions about public resources, allocates risk and responsibility in shared initiatives and monitors the performance of its private sector contracts.

With the election of the 57th Parliament, the public sector is now under the stewardship of a new government. I have been heartened by the early commitment to accountability and transparency from this fresh leadership. This new energy for accountability will be crucial to drive the reforms needed to address the public sector weaknesses our audits have raised time and again.

Change will not be easy, but it goes to the heart of how the public sector 'does business' in, and for, this state.

One of the most important first steps in this reform will be to embrace the opportunities for improvement that can come with a truly engaged audit relationship. Indeed, the mark of high performing public sector organisations is their ability to use audits as catalysts for improvement, as opposed to ordeals to be endured.

## A new energy for accountability

Accountability is not about always getting it right—none of us can perform at our optimum at all times.

Accountability is about opening up to scrutiny, engaging in a positive dialogue around reform and change, and using audits and reviews to drive real improvements.



While parts of government continue to resist the audit process, I have been pleased to see this year some early signs of a fresh and positively engaged approach by others:

- Some agencies developed new high-level protocols for engaging with VAGO, including a greater engagement by senior management and a tighter focus on monitoring and reporting on audit recommendations.
- The State Services Authority urged newly appointed public sector leaders to familiarise themselves with Auditor-General reports and monitor their agencies' responses.
- Ministers increased their uptake of briefings on audit issues in their portfolios. Fourteen Ministers sought whole-of-portfolio briefings upon taking up their new Cabinet roles.
- Our access to information held by audit clients has improved, delays and obstructions raised by agencies have reduced, and this has contributed to gains in timeliness for our reporting program.

## Parliamentary partnership

Auditors-General have no executive authority—we cannot direct agencies to implement the changes we recommend in our reports. Consequently, it falls to audit clients and executive government generally to act on the challenges to governance, accountability and management which continue to be identified.

However, no matter how authoritative our reports may be, my role as Parliament's Auditor crucially depends on a strong relationship with the Legislature. In this regard the Public Accounts and Estimates Committee (PAEC) is the portal for VAGO's relationship with Parliament.

Importantly, part of PAEC's role in respect to VAGO is that every three years, it recommends and oversees an independent audit of VAGO on our effectiveness, efficiency and economic operation. Twice, over the course of my appointment, these independent audits reported favourably on the operations and delivery of this office to the PAEC of the 56th Parliament. I look forward to delivering even greater improvements over the tenure of the PAEC of the 57th Parliament which already has been working diligently and effectively with my office. Following its thorough consultation on our draft *Annual Plan 2011–12* we have adopted many of the committee's suggestions, both for our overall audit program and for the scope of individual audits.

The Chair, Mr Philip Davis MLC, and members of the committee have also been a well informed and regular presence at the briefing sessions we hold for interested Parliamentarians each day we table a report in Parliament.

These promising beginnings augur well for our relationship across the rest of PAEC's four-year term and I look forward to forging a strong partnership with PAEC in holding the public sector to account.

More generally, I have also been gratified by the high regard in which we are held both by Parliament's other committees, and by its individual Members.

## A strong year for VAGO

By any measure, it has been a strong year for VAGO's key outputs and operations, as you will find throughout this Annual Report.

Rigorous and benchmarked external assessments of our audit reports have again confirmed VAGO's national standing as the producer of high quality audit reports.

We have made significant gains in the timeliness of both our key outputs: our opinions on financial statements were issued in a shorter time frame to meet election year timetables, while more than 90 per cent of our reports to Parliament now meet target time frames, compared to just 70 per cent two years ago.

Linked to the improvements in timeliness, we have also made great strides in 'smoothing' the delivery of our audit program. In 2011 we are generally tabling no more than two reports at a time – a big change from last year, where we tabled 18 reports in four months and, on one occasion, six reports were tabled. This smooth tabling program is allowing Parliament the opportunity to engage more productively with our reports, with all but one report mentioned in Parliamentary debate across the past six months.

These gains in timeliness have occurred in the context of continuing strong performance against our quantity targets. Thirty performance audit reports were tabled against a target of 28, including the two we did not complete last year.

I am particularly pleased with the consistency of the reporting program against our Annual Plan, which is detailed, comprehensive and offers a four-year rolling program of audit topics. Despite the change of government and the shifting of the policy and program landscape, 24 of the 27 performance audits tabled this year were listed in the *Annual Plan 2010–11*. This kind of consistency and transparency from my office underpins our positive audit relationships with the sector and enhances our credibility with Parliament.

## Our people

Our highly qualified, hard-working people are to be commended for a year of achievement. Their diligence, their focus, their agility in the face of change and their integrity are behind VAGO's achievements in 2010–11.

Fortunately, our people remain committed to working with VAGO—we were glad to see staff departures remaining fairly stable this year. Our 19.7 per cent departure rate is in line with the national range for public sector audit.

In the relentless competition for talent, we know we have to work even harder to keep our good people. Accordingly, we launched some new development and retention initiatives including a wellbeing program, opportunities for new training and international secondments. Next year, we are looking at increasing opportunities for volunteering to enhance our corporate citizenship and build even stronger retention strategies for our high performers.



To inform the way we manage our people and our organisation, we again ran our bi-annual office-wide staff survey. The survey results showed steady improvement and highlighted the importance of varied and challenging work to VAGO staff. In fact 87 per cent of the questions returned an improved result. The survey offered particularly positive feedback on employee involvement in planning processes, the support offered by our technology systems and the availability of training and development opportunities. We now have better insights for improving the management of organisational change and maximising the skills and talents of our staff.

## Our external landscape

2010–11 has been a year of change with the audit and accountability policy landscape altering significantly at state and national levels.

In October 2010, PAEC tabled its report on the *Inquiry into the Audit Act 1994*, and the new government responded in April 2011.

This office has long argued that there is an urgent need for Victoria to reform its key accountability legislation. We are falling well behind other national and international jurisdictions, and as it stands, the legislation does not reflect contemporary trends in the audit environment. It is no longer fit-for-purpose. In this regard, and key to our submission to the PAEC inquiry, VAGO argued that an important consequence of the far reaching changes to public sector delivery, has been the erosion of its audit mandate. Consequently a critical test for reforming our legislation will be the extent to which that erosion is arrested.

To date, we have been encouraged by the new government's support in a number of the important areas we proposed for reform. These include extending audit coverage to Parliament, courts, government-controlled companies and overseas entities, introducing some limited new powers to access information held by private sector parties delivering government services, and amending secrecy provisions to enable joint audits with other Australian Auditors-General.

Even so these reforms will not fully address the gaps in accountability and independence in the current legislation. VAGO will continue to vigorously pursue reforms to introduce widespread annual assurance audits of performance statements and controls, the critical capacity to 'follow-the-dollar' when auditing delivery of public services involving

the private sector and the publication of agency comments in our reports to Parliament.

In terms of other key accountability legislation, the government is now proceeding to establish an Independent Broad-based Anti-corruption Commission (IBAC). VAGO has been pleased to meet the IBAC Consultative Panel chaired by the Hon. Stephen Charles, QC, and to provide a written submission.

Aside from providing the panel with responses to its specific questions on the potential remit of IBAC, VAGO's position has been to urge consideration of how such a body will sit within an holistic integrity system. The coherence of such a system will depend on the ability of the other integrity institutions to cooperate and coordinate. We have recommended the panel carefully consider these necessary linkages and operational relationships if Victoria is to have the most coherent and effective integrity system.

Nationally, change is also afoot, with calls by the Commonwealth Government for higher levels of assurance on the financial accountability and value-for-money of state programs funded by Commonwealth grants and also for a new, more coordinated audit approach between VAGO and the Australian National Audit Office. Without amendments to the *Audit Act 1994*, these proposed new Commonwealth-state accountability arrangements will be significantly more complex to implement. Nevertheless, VAGO is working hard to develop innovative workable responses to these changing circumstances, and our strong relationships with other Australian Auditors-General will be vital to the success of any new arrangement.

VAGO finished the year a stronger, better organisation with improved outputs, increased efficiency and closer and more resilient external relationships. Ultimately, it is the community and Parliament that will benefit from this strengthening of the external audit function. Without resting on our laurels, I look forward to beginning the journey next year to move the office from 'good' to 'great'.



D D R Pearson

*Auditor-General*

24 August 2011

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

Through our audits and reports, VAGO provides assurance on public sector accountability and performance.

The role of an auditor, however, comes with limitations. Like all independent external auditors, the Auditor-General cannot direct our audit clients to accept or act on our recommendations. It is up to Parliament and government agencies to make any changes arising from audits.

Despite these limitations, the Auditor-General still aims to be a catalyst for positive change in the public sector. We are always pleased when our audits have an impact on the accountability and performance of the Victorian public sector.

It is a challenging task to measure audit outcomes. Last year, VAGO responded to that challenge with a new feature in our annual report to show our stakeholders where audits have resulted in public sector improvement. After the positive response and critical acclaim from the Australasian Annual Reporting Awards, we again include this feature.

In 2010–11 we measured our impact on public sector accountability and performance using a range of qualitative information, including:

- agency responses to audits
- reports from Parliament and the government on progress against previous audit recommendations
- Public Accounts and Estimates Committee (PAEC) inquiries
- Parliamentary debates and publications
- media and public debate.

## Agency responses to audits

Under section 16 of the *Audit Act 1994*, audited agencies can respond to our recommendations in our reports. In 2010–11, these responses showed agencies' overwhelming acceptance of our recommendations, as well as the government's commitment to immediate action in many of the areas we identified as needing reform.

### *Agency responses to 2010–11 audits: extracts from Auditor-General reports*

#### **Management of Prison Accommodation Using Public Private Partnerships (September 2010)**

*Response provided by the Secretary, Department of Justice*

'The audit process itself is valuable in holding departmental decision-making, record keeping and contract management arrangements up to light, all of which has the potential to provide lasting benefits. I would also acknowledge that, as a result of this process, DOJ has initiated some changes to its contract management practices and its administration of prison public private partnerships.'

#### **Management of the Freight Network (October 2010)**

*Response provided by the Secretary, Department of Transport*

'I accept all 5 of your recommendations. In addition, congratulations to you and your team on a highly professional audit.'

#### **Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10 (October 2010)**

*Response provided by the Treasurer*

'The achievement of a timely Annual Report also reflects the efforts of the Victorian Auditor-General's Office (VAGO) in working collaboratively and constructively with entities and DTF to address any emerging issues arising during the reporting period.'

#### **Revitalising Central Dandenong (May 2011)**

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

'The new processes will be audited in 2011 to ensure that all the issues raised by the Auditor-General have been addressed, and reporting and monitoring requirement improvements are in place. These governance arrangements will be strengthened in light of the Auditor-General's review.'

### **Allocation of Electronic Gaming Machine Entitlements (June 2011)**

*Response provided by the Secretary, Department of Premier and Cabinet*

The audit report 'will provide a useful tool to consider possible improvements in licensing processes for large and complex projects'.

*Response provided by the Acting Secretary, Department of Treasury and Finance*

VAGO's 'advice will be useful for any future modelling exercises that are as significant and complex as the EGM allocation. External peer review is a valuable tool to increase the robustness and contestability of advice'.

Source: VAGO 2010–11 reports.

VAGO also learns of the impact of our audits through confidential surveys conducted after our audits. Although these surveys are designed to provide feedback on areas for improvement, we also learn of positive audit outcomes. In 2010–11, 397 agencies took part in these surveys, several identifying some concrete changes that resulted from their involvement in audits.

### **Agency responses to 2010–11 audits: Extracts from confidential surveys**

The audit identified several key areas for improvement that were overlooked during the agency's internal review.

The agency valued the audit for its ability to identify both systemic and one-off issues.

The annual financial audit results reports to Parliament were useful for providing evidence to show past and present performance and the outcomes of any new directions.

The agency was grateful for the benchmarking opportunity the audit report provided, and found it useful to learn about the issues experienced by similar organisations.

Source: 2010–11 Client and Parliamentarian Surveys Report.

Agencies don't always wait for formal stakeholder feedback processes to let us know what impact our audits have had. During audit conduct, and in the months after a report is tabled, we often receive informal feedback from agencies about the ongoing impact of our findings and recommendations. Audit teams record this feedback in our internal debriefs.

In 2010–11, audit teams reported that some agencies planned to share our recommendations with an entire sector, while others prompted direct government action.

### **Agency responses to 2010–11 audits: Observations from audit teams**

#### **Security of Infrastructure Control Systems for Water and Transport (October 2010)**

So that the lessons learned from this review could benefit the whole sector, the Department of Sustainability and Environment sought a copy of VAGO's risk assessment model to give to those water authorities not included in the audit. Some water authorities then decided to conduct their own security assessments, to address the risks to their controls systems identified in the audit.

#### **Acquittal Report: Results of the 2009–10 Audits (February 2011)**

After our report was tabled, the Department of Treasury and Finance released its *Annual Financial Report* bulletin, outlining earlier time frames for public sector financial and performance reporting in 2011. These revised time frames are in line with VAGO's longstanding advice that earlier reporting strengthens accountability by improving the relevance of financial and performance information. Moreover our experience has been that, where earlier reporting has been achieved, there has been an improvement in quality as indicated by fewer audit adjustments being required.

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

In response to our report, the government is developing an agenda for sector reform that will address longstanding issues with treatment models, system performance and workforce, and equity in the distribution of alcohol and drug treatment resources.

Source: VAGO audit 2011 debriefs.

## **Progress against past audit recommendations**

Although an analysis of audits tabled in the last year can be a good measure of our impact, real change can take time. To understand the lasting impact of audits on public sector accountability and performance, it is useful to see how agencies are progressing in areas identified for action in prior years' audits.

In 2010–11, Victoria was fortunate to have both a government and a Parliamentary process that tracked agencies responses from audits one, two, or even three years ago.

*The Minister for Finance's Report into the Auditor-General's Reports issued in 2009–10* (October 2010) showed that the government supported, or partially supported, almost 100 per cent of our recommendations. Eighty-seven per cent of recommendations were fully accepted, compared with 68 per cent in 2008–09.

The Public Accounts and Estimates Committee (PAEC) also conducts follow-up inquiries on audits from prior years. These inquiries track agencies' progress in applying our recommendations. In September 2010 PAEC reviewed six VAGO reports tabled in the second half of 2008. The committee identified positive progress against most of our initial recommendations and reinforced the importance of addressing outstanding recommendations to improve agency accountability and performance.

*Agency responses to audits:  
PAEC follow-up inquiries July to  
December 2008*

***Managing Complaints Against Ticket Inspectors  
(July 2008)***

'The committee notes the positive action taken by the Public Transport Ombudsman to monitor and follow up complaints and consider that this recommendation has been effectively implemented by the Public Transport Ombudsman.'

***Enforcement of Planning Permits  
(November 2008)***

'The committee notes the positive and decisive action taken by Ballarat to implement the audit recommendation.'

***Biosecurity Incidents: Planning and Risk  
Management for Livestock Diseases  
(November 2008)***

'...the department has responded positively to the Auditor-General's recommendations to improve its approach to prevention and early detection. A review of the new Biosecurity Strategy for Victoria also indicates that several of the Auditor-General's comments and recommendations have been taken into account and incorporated into some of the actions outlined in the Strategy.'

Source: PAEC's *Review of the Findings and Recommendations of the Auditor-General's Reports July–December 2008*, published in September 2010.

## Impact on Parliament

As well as guiding change at agency level, the Auditor-General's reports also support Parliament's own accountability mechanisms, inquiries and debate.

The 2010–11 surveys of Parliamentarians showed that 75 per cent of members agreed that our reports helped them monitor public sector accountability and financial performance.

Sometimes, our reports are used intensively and in detail, to drive particular Parliamentary accountability processes.

PAEC's Budget Estimates Inquiry is one of Victoria's most significant public sector accountability mechanisms. In 2010–11, PAEC drew heavily on the findings and recommendations from VAGO's *Performance Reporting by Departments* audit (May 2010). During the Estimates process, the committee used our audit findings to inform questioning of departments and encourage the development of better practice performance measurement.

*'Given the concerns raised by the Auditor-General and the committee previously about performance measurement, the committee considers that it would be timely for the new government to conduct a review of Victoria's current performance measures.'*

Source: PAEC 2010–11 Budget Estimates.

Audits also inform broader Parliamentary debate on potential government improvements. Hansard transcripts from the last financial year reflected Parliamentarians' increasing interest in our work.

In 2010–11, members made 172 references to our reports during Parliamentary debate, an increase of more than 50 per cent on the previous year. Many members commended the work of the office as an important catalyst for action.



*Impact on Parliament:  
Extracts from Parliamentary debate*

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

'We are going to do what the Auditor-General asks in his recommendations, including adopting a strategy, having a plan.'  
(Mary Wooldridge, MLA, Liberals)

**Environmental Management of Marine Protected Areas (March 2011)**

'I can inform the house that we intend to implement every single one of the Auditor-General's recommendations.'  
(Lorraine Wreford, MLA, Liberals)

**Managing Student Safety (May 2011)**

'In his report the Auditor-General has provided a list of seven recommendations. They are all worthy of consideration and support...as they are both logical and, importantly, achievable.'  
(Nazih Elasmr, MLC, ALP)

**Tertiary Education and Other Entities; Results of the 2010 Audits (May 2011)**

'Some valuable recommendations have been made by the Auditor-General to improve...a very important source of services for our domestic clients and students, as well as for our international clients.'  
(Inga Peulich, MLC, Liberals)

Source: Victorian Parliament Hansard 2010–11.

## Media and public debate

Our reports regularly feature in national, state, local and regional media in the week they are tabled.

This exposure shows the strong, ongoing public interest in our work. Public debate has created greater transparency around some key accountability and performance issues that our audit program raised, and encouraged the government to act on some critical findings. In 2010–11 VAGO's reports received substantial media coverage. Our audits featured in 415 print, 172 internet and 510 news stories, receiving media coverage for 41 out of 52 weeks of the year. This is a big increase on the previous year. Broadcast coverage alone was up more than 50 per cent on 2009–10.

*At a Staff Communications Meeting the Auditor-General said '...although I am pleased to see the increased coverage of audits by the press, the most important development was the increased quality of reporting and improved understanding of our findings.'*

Several reports sparked particularly intense and ongoing media interest. The *Access to Ambulance Services* report (October 2010) alone accounted for more than a third of the year's total media coverage. *Allocation of Electronic Gaming Machine Entitlements* (June 2011), made front-page headlines across the state and triggered an editorial in *The Age* calling for a judicial inquiry, while the findings in the *Facilitating Renewable Energy Development* (April 2011) report also captured substantial media and public attention.

### *Media coverage highlights 2010–11:*

**Access to Ambulance Services (October 2010)**

The significant media attention the audit received in 2010 reflected strong public interest in this critical community issue.

On 3 May 2011 the government announced \$151 million in funding to employ 340 extra ambulance staff, 240 in various regional areas, over the next five years, announcing several other rural and regional initiatives to provide round-the-clock ambulance cover in remote areas.

**Facilitating Renewable Energy Development (April 2011)**

The report gained a lot of media attention, reflecting the public's concerns about the rising cost of living, including energy costs, and continuing discussions about a federal carbon tax. The media reported that the Minister for Energy and Resources would re-examine the former government's renewable energy programs and targets. Following this review, the Minister announced in May 2011 that the government would contribute a further \$41 million to renewable and low emissions technology through its Energy Technology Innovation Strategy.



# Parliamentary reports and services

The Victorian Government's budget process requires departments and agencies to report against pre-determined 'Output groups', including information on performance measures (quantity, quality, timeliness and cost).

VAGO's 'Output group 1' is the group of outputs in the Victorian State Budget Papers referring to our Parliamentary reports and services provided to Parliament, departments and agencies.

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### 2010–11 at a glance

- We tabled 39 reports in Parliament (target 37).
- We achieved our timeliness targets.
- We maintained our high report quality.
- Ninety-eight per cent of Parliamentarians were satisfied or very satisfied with our reports and services, compared with 92 per cent in 2009–10.

We inform our primary stakeholder, Parliament, about the results of our audits through our reports. These reports provide independent and objective assurance about the adequacy of accountability and resource management practices in the Victorian 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
- reports based on observations from the previous June and December financial statement audit rounds
- an annual assessment of the state's finances.

[Table 3] shows our performance against our output targets.

Performance measures	Unit of measure	Target 2011–12	Actual 2010–11	Target 2010–11	Actual 2009–10
<b>Quantity</b>					
Auditor-General's reports	(number)	36	39	37	32
<b>Quality</b>					
Overall level of external satisfaction with audits (audit clients)	(score) <sup>(a)</sup>	75	67	75	69
Overall level of external satisfaction with audit reports and services (Parliamentarians)	(per cent)	85	98	85	92
<b>Timeliness</b>					
Reports completed on time	(per cent)	90	90	90	81
Inquiries from members of Parliament and the public acknowledged within seven days, and responded to within four weeks	(per cent)	95	99	95	93
<b>Cost</b>					
<b>Total output cost</b>	<b>(\$mil)</b>	<b>14.1</b>	<b>14.7</b>	<b>14.1<sup>(b)</sup></b>	<b>14.5</b>

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

(b) An additional \$200 000 appropriation was carried forward from 2009–10 to take account of unfinished 2009–10 audits, bringing the overall target to \$14.3 million.

# Reports and advice

## Quantity

[Table 4] shows our performance for each report category against our 2010–11 targets.

Product type	Target 2011–12	Actual 2010–11	Target 2010–11
Performance audit reports	28	30	28
Reports on financial audit results	5	6	6
Report on the examination of the state's finances	1	1	1
Annual Plan	1	1	1
Annual Report	1	1	1
<b>Total</b>	<b>36</b>	<b>39</b>	<b>37</b>

## Performance audit reports

Thirty performance audit reports were tabled in 2010–11 against a target of 28. The over-delivery of two performance audit reports compensates for the under-delivery of two in the previous financial year, 2009–10. These 30 reports included:

- 24 of 27 performance audits listed in the 2010–11 annual plan, plus two performance audits carried forward from 2009–10:
  - *Sustainable Management of Victoria's Groundwater Resources*
  - *Construction of Police Stations and Courthouses*
- three newly commissioned performance audits:
  - *Access to Ambulance Services*
  - *Allocation of Electronic Gaming Machine Entitlements*
  - *The Victorian Life Sciences Initiative*
- one performance audit tabled early from the 2011–12 annual plan
  - *Municipal Solid Waste Management*.

The three audits listed in the 2010–11 annual plan that were not tabled in 2010–11 were:

- *Managing the Requirements for Disclosing Private Sector Contracts*, which was tabled early in June 2010
- *Caring for those with Dementia in an Ageing Population*, which was removed because the federal government had commenced a review
- *State Trustees Ltd: Represented Persons*, which VAGO will table in the first quarter of 2011–12.

*Biotechnology and the Victorian Public Sector* was also carried forward from 2009–10 and will be tabled in the first quarter of 2011–12.

## Results of financial audits

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

- *Portfolio Departments: Interim Results of the 2009–10 Audits*
- *Local Government: Interim Results of the 2009–10 Audits*
- *Water Entities: Interim Results of the 2009–10 Audits*
- *Public Hospitals: Interim Results of the 2009–10 Audits*
- *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10*
- *Acquittal Report: Results of the 2009–10 Audits*
- *Tertiary Education and Other Entities: Results of the 2010 Audits*.

Consistent with the approach used in VAGO's *Annual Plan 2010–11*, the reports we tabled in Parliament during 2010–11 are presented against each of the previous government's *Growing Victoria Together* visions and goals.

[Table 5] Reports tabled in Parliament during 2010–11

<b>Thriving economy</b>	<ul style="list-style-type: none"> <li>growing and linking all of Victoria</li> <li>more quality jobs and thriving, innovative industries across Victoria</li> </ul>
<b>Performance audit reports</b>	
<p><i>Effectiveness of Small Business Victoria's Support Programs</i></p> <p><i>Management of Major Road Projects</i></p> <p><i>Management of the Freight Network</i></p> <p><i>Revitalising Central Dandenong</i></p> <p><i>Victorian Life Sciences Computation Initiative</i></p>	
<b>Quality health and education</b>	<ul style="list-style-type: none"> <li>high quality education and training for lifelong learning</li> <li>high quality, accessible health and community services</li> </ul>
<b>Performance audit reports</b>	
<p><i>Access to Ambulance Services</i></p> <p><i>Delivery of NURSE-ON-CALL</i></p> <p><i>Early Childhood Development Services: Access and Quality</i></p> <p><i>Indigenous Education Strategies for Government Schools</i></p> <p><i>Managing Drug and Alcohol Prevention and Treatment Services</i></p> <p><i>Managing Student Safety</i></p> <p><i>The Department of Human Services' Role in Emergency Recovery</i></p> <p><i>Victorian Registration and Qualifications Authority</i></p>	
<b>Healthy environment</b>	<ul style="list-style-type: none"> <li>efficient use of natural resources</li> <li>protecting the environment for future operations</li> </ul>
<b>Performance audit reports</b>	
<p><i>Environmental Management of Marine Protected Areas</i></p> <p><i>Facilitating Renewable Energy Development</i></p> <p><i>Municipal Solid Waste Management</i></p> <p><i>Restricting Environmental Flows during Water Shortages</i></p> <p><i>Soil Health Management</i></p> <p><i>Sustainable Farm Families Program</i></p> <p><i>Sustainable Management of Victoria's Groundwater Resources</i></p>	
<b>Caring communities</b>	<ul style="list-style-type: none"> <li>a fairer society that reduces disadvantage and respects diversity</li> <li>building friendly, confident and safe communities</li> </ul>
<b>Performance audit reports</b>	
<p><i>Construction of Police Stations and Courthouses</i></p> <p><i>Effectiveness of Victims of Crime Programs</i></p> <p><i>Local Community Transport Services: the Transport Connections Program</i></p> <p><i>Management of Prison Accommodation Using Public Private Partnerships</i></p> <p><i>Motorcycle and Scooter Safety Programs</i></p> <p><i>Problem-Solving Approaches to Justice</i></p> <p><i>Security of Infrastructure Control Systems for Water and Transport</i></p> <p><i>Taking Action on Problem Gambling</i></p>	

[Table 5] Reports tabled in Parliament during 2010–11 – *continued*

<b>Vibrant democracy</b>	<ul style="list-style-type: none"> <li>• sound financial management</li> <li>• greater public participation and more accountable government</li> </ul>
<b>Performance audit reports</b>	
<i>Allocation of Electronic Gaming Machine Entitlements</i>	
<i>Business Continuity Management in Local Government</i>	
<b>Reports on financial audit results</b>	
<i>Acquittal Report: Results of the 2009–10 Audits</i>	
<i>Local Government: Interim Results of the 2009–10 Audits</i>	
<i>Portfolio Departments: Interim Results of the 2009–10 Audits</i>	
<i>Public Hospitals: Interim Results of the 2009–10 Audits</i>	
<i>Tertiary Education and Other Entities: Results of the 2010 Audits</i>	
<i>Water Entities: Interim Results of the 2009–10 Audits</i>	
<b>Report on the examination of the state's finances</b>	
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10</i>	

VAGO reports and the annual plan are published on our website: [www.audit.vic.gov.au](http://www.audit.vic.gov.au).

## Quality

The quality of our reports is assessed through internal and external quality assurance reviews and feedback from Parliament and audited agencies. These processes, and the systematic checks and balances throughout the audit, are part of VAGO's quality framework. The quality of VAGO's reports begins with choice of the right audit topic and having qualified, well-trained, competent staff to conduct the audit.

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

VAGO uses a topic selection framework for selecting areas of performance audit focus. Please refer to Appendix D of our *Annual Plan 2011–12* for further information. This framework was aligned with the previous government's *Growing Victoria Together* visions and goals. Following the change of government in November 2010, we adopted the five goals for a stronger, fairer and safer Victoria as outlined by the incoming government in December 2010.

To further assist the annual planning process this year, VAGO organised a series of workshops to engage the following stakeholders:

- departmental secretaries
- agency senior management and line managers
- industry regulators
- other statutory office bearers and commissioners
- sector experts and industry representatives
- community organisations
- academics
- recipients of government services
- Parliamentarians.

Through these workshops we identified emerging issues, performance gaps and risks to efficient, effective and economic service delivery. In addition to the workshops, the annual planning process included extensive consultation with the Public Accounts and Estimates Committee (PAEC), which is managed in accordance with section 7A(1)(b) of the *Audit Act 1994*. The draft annual plan was provided to PAEC on 14 April 2011 with PAEC providing its consultation comment on 14 May 2011.

We evaluated the effectiveness of our selection framework through:

- surveying Parliamentarians to gauge how well our audits address their areas of interest
- tracking consistency between planned and tabled audit topics.



It was gratifying that 70 per cent of surveyed members agreed that our audits addressed their key areas of interest to a 'high' or 'very high' extent. This is an improvement on the 60 per cent result of last year. Our consistency between planned and tabled reports for 2010–11 is 89 per cent.

## Post-audit quality assurance—cold reviews

VAGO engages external parties to review a sample of completed performance audits. These reviews assess whether the audits have been conducted in an effective, efficient and economical way in accordance with VAGO's audit methodology, Australian Auditing and Assurance Standards and legislation, and whether the findings, conclusions and recommendations in our report to Parliament are supported by sufficient and appropriate evidence.

The 2010–11 cold reviews of our performance audits indicated that:

- the audits were conducted in accordance with VAGO's performance audit policies and practices, relevant Australian Auditing and Assurance Standards and legislation
- sufficient appropriate audit evidence was collected to support the audit findings and conclusions
- conclusions were consistent with the findings and analysis.

Some areas for process improvement identified included:

- completeness of audit documentation
- timeliness of finalisation of the audit file.

Findings and issues from the cold reviews were communicated to staff through debriefing 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. The reports are assessed against criteria that have been agreed by the Australian audit offices that participate. In 2010–11, ten representative reports from a range of sectors, and a mix of audits, were submitted for assessment:

- *Access to Ambulance Services* (2010–11:13)
- *Business Continuity Management in Local Government* (2010–11:6)
- *Facilitating Renewable Energy Development* (2010–11:27)
- *Management of Major Rail Projects* (2009–10:31)
- *Managing Drug and Alcohol Prevention and Treatment Services* (2010–11:24)
- *Managing Student Safety* (2010–11:29)
- *Security of Infrastructure Control Systems for Water and Transport* (2010–11:15)
- *Taking Action on Problem Gambling* (2010–11:2)
- *Victorian Life Sciences Computation Initiative* (2010–11:35)
- *Victorian Registration and Qualifications Authority* (2010–11:18).

[Table 6] shows the average ACAG score for VAGO performance audit reports.

ACAG assessments	Score (average)			
	2010–11	2009–10	2008–09	2007–08
Total score (out of 30)	24.1 (80%)	24.3 (81%)	23.6 (79%)	22.7 (76%)

[Table 7] shows the averaged scores out of a possible score of five, against each criterion, for all of the reports assessed in 2010–11.

ACAG criterion	Score (average)	
	2010–11	2009–10
Scope and potential for significant impact	4.3	4.3
Focus on effectiveness and economy	3.7	3.6
Persuasiveness of conclusions	4.2	4.2
Communication (online report)	3.7	3.9
Communication (printed report)	4.0	4.1
Usefulness to the customer	4.2	4.2

In addition to providing scores for each performance audit report, the assessors provided qualitative feedback on the reports. The quotes, below, are extracts from this feedback.

#### ***Access to Ambulance Services***

'The audit summary was balanced, concise and provided an excellent overview of the background to the audit and its findings.' 'This is a first rate audit which provides a benchmark for public servants to aim for.'

#### ***Business Continuity Management in Local Government***

'This report has provided a wake-up call for local government in its internal management planning processes. As a consequence it provides a valuable tool for senior management to implement.' 'The analysis is strong and clear with all parties' views being clearly presented.'

#### ***Facilitating Renewable Energy Development***

'The audit analysis was presented in depth, giving the reader an in depth assessment of some positive actions undertaken by government in this field. This was balanced by the report's penetrating and scathing analysis of the two major projects.'

#### ***Management of Major Rail Projects***

'This audit provided a concise and interesting overview of the role of a major government department.' 'The report's analysis is clear and concise showing potential ways to improve the system.'

#### ***Managing Drug and Alcohol Prevention and Treatment Services***

'This is a clear and concise report that covers all the bases, giving readers a very clear picture of the frustrations and difficulties service providers have working within the muddled world of alcohol and drug treatment funding.'

#### ***Managing Student Safety***

'The report is well written and concise with graphs and tables generally used well throughout.' 'Without this report, few outside the department would have been aware of its deficiencies in recording and acting upon the data it collects.'

**Security of Infrastructure Control Systems for Water and Transport**

‘It is a very important report with clear scope and gives readers an insight into faults within the system.’  
 ‘The recommendations are sensible, achievable and pertinent to a problem which is of recent origin and also worldwide.’

**Taking Action on Problem Gambling**

‘The audit provided a comprehensive research profile, giving both pros and cons for all initiatives studied.’  
 ‘This is a strong and concise report with the impacts clearly explained.’

**Victorian Life Sciences Computation Initiative**

‘The importance of this audit is that it brings home to [the audited agency] and others, the need for more stringent accountability by universities.’

**Victorian Registration and Qualifications Authority**

‘Recommendations are straight and easily flow from the report’s investigations. It is balanced as it gives credit in areas where VRQA has provided a proper service.’ ‘The written aspects of the report were fine, concise and clear.’

**Agency feedback on performance audits**

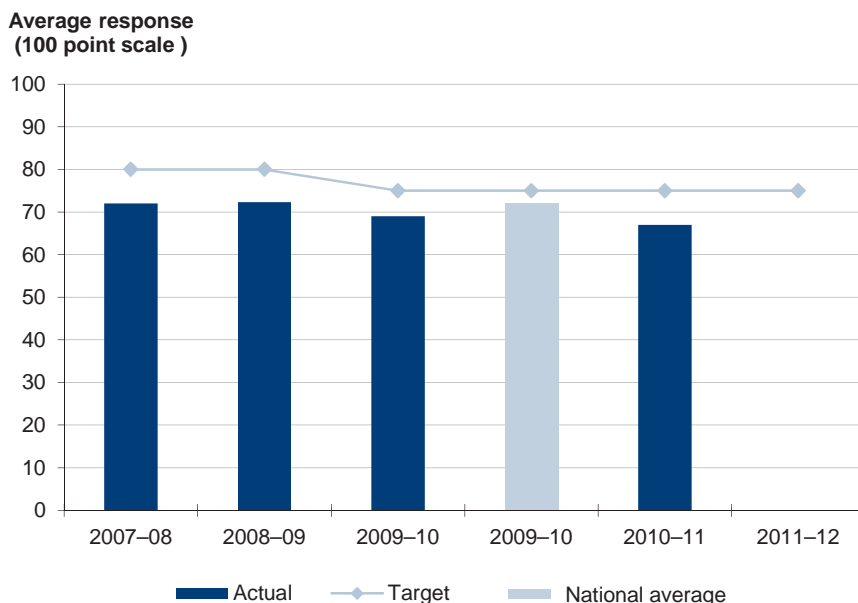
Feedback from agencies involved in audits helps confirm that objectives are being achieved, audits are conducted in line with best practice, the most appropriate subjects have been examined, and findings were reported in a clear and concise way. To measure agency views on VAGO performance audits, audited agencies were asked for their feedback through surveys and interviews.

To ensure the validity of the results an accredited research company, has been commissioned to conduct the survey and analyse the results. The surveys are conducted as part of a joint national Parliamentary and client survey exercise coordinated through Australian member offices of the Australasian Council of Auditors-General. Through this partnership, VAGO benchmarks agreed results with other participating audit offices.

VAGO requests feedback on three key areas: audit process; audit reporting; and the value of the audit to the agency. At year end an overall index is generated based on average ratings across all three areas and expressed as a score out of 100. This figure is used to measure VAGO’s success pursuant to *Budget Paper 3—Service Delivery*. VAGO’s target for 2010–11 was 75 index points.

While a large proportion of responses received were positive, the overall performance audit client satisfaction rating for 2010–11 was 67, slightly down on the satisfaction rating of 69 achieved last year and below target.

[Figure 1] Client satisfaction with performance audits



Despite a drop in overall satisfaction rate, there were a number of positive aspects from the year's feedback. The majority of respondents were satisfied with the explanation of the audit approach, the professionalism of the auditor's interaction, opportunity to comment on the issues and findings, and clarity of the final report. Around two-thirds of respondents agreed that the findings and recommendations had the potential to improve administration of the audited activity and that the audit provided value through its assurance on the performance and accountability of the audited activity.

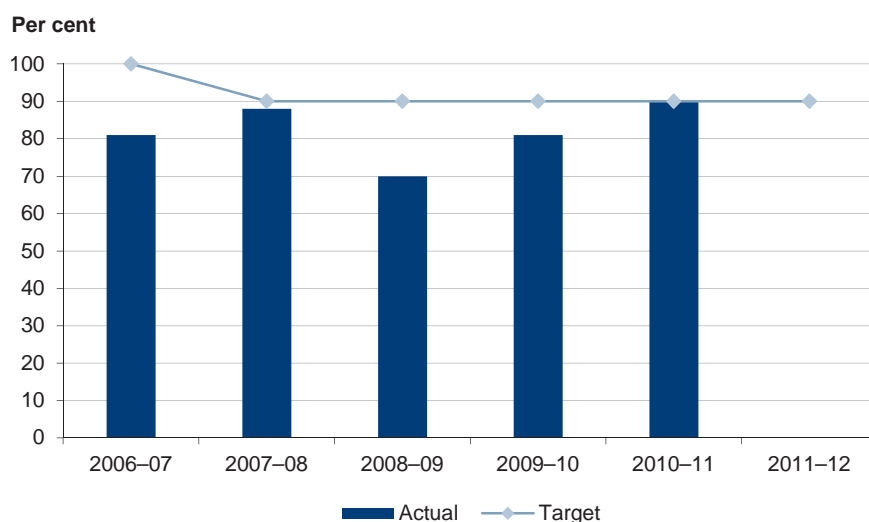
## Action on survey results

Feedback from audited agencies highlighted the need to improve VAGO's understanding of agencies' operating environments and contextual factors. Strategies in place to improve this include annual sector-based workshops and increasing the level of engagement and consultation with public sector agencies. The workshops should also result in the agencies having a better understanding of the role of the Auditor-General. This year VAGO developed a Performance Audit Engagement Strategy that will assist agencies to better understand the audit process and promote more frequent and detailed consultation during the audit process.

## Timeliness

Each performance audit is managed as a project with internal time lines that 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 39 Parliamentary reports tabled during 2010–11, 35 (90 per cent) met this target. This is an improvement on last year. The average time to complete performance audits in 2010–11 was 9.9 months, which compares well with the 2009–10 ACAG averages for Australian audit offices of 7.4 to 11.9 months.

[Figure 2] Timeliness of reports tabled in Parliament



The performance reports that did not meet the target times in 2010–11 were:

- *Construction of Police Stations and Courthouses* (2010–11:22)
- *Sustainable Management of Victoria's Groundwater Resources* (2010–11:11)
- *Managing Student Safety* (2010–11:29)
- *Victorian Life Sciences Computation Initiative* (2010–11:35).

These audits did not meet their time lines due largely to unexpected staff departures.

While our access to information held by audit clients has improved and delays and obstructions raised by agencies have reduced, we continue to experience undue delays in some of our audits in obtaining information from agencies, and particularly where this relates to cabinet-in-confidence material. Our report clearance processes are also protracted in some audits due primarily to late challenges by agencies to audit report findings and conclusions, notwithstanding that they have been progressively briefed. To overcome these issues we now also provide our indicative conclusions and emerging findings more explicitly to agencies at the end of our audit planning processes, and where possible, likely recommendations. We continually update these throughout the audit as part of our 'no surprises' approach, with the expectation that agencies will check that they have provided all relevant evidence and also raise any concerns with us earlier in the audit process.

## Response to inquiries from members of Parliament and the public

Each year, many members of the public and Parliamentarians contact us about issues that concern them. In many cases, these inquiries seek to trigger audit activity under VAGO's mandate. Like most other Australian public sector audit offices, we treat these inquiries as 'requests for audit attention', and assess them thoroughly before responding.

The timeliness of our response to unsolicited inquiries is one of VAGO's overarching output performance measures, as it measures our responsiveness in one of most significant direct interactions with members of Parliament and the general public.

The past year has seen strong improvement in the timeliness of our responses to unsolicited inquiries. In 2010–11, 99 per cent of our responses to inquiries met our timeliness target of four weeks, an improvement on the 93 per cent achieved in 2009–10 and 72 per cent in 2008–09.

The past year has also seen a strong growth in the overall amount of correspondence from the public raising matters for our attention. Some of that was in response to invitations by our office to provide input to our audits:

- In 2010–11, total correspondence increased by 35 per cent to over 235 letters, emails or phone calls. This includes 69 public submissions to inform individual audits.
- The level of unsolicited inquiries received decreased to 96 from 130 received in 2009–10. This is on par with the volume in 2008–09 (97 unsolicited inquiries).

Most inquiries were from the general public, community groups and businesses, with only five received from Members of Parliament. Our strong Parliamentary engagement program in 2010–11, however, gave Parliamentarians many other channels to express their concerns.

## Cost

In 2010–11 the cost of delivering our Parliamentary reports and services was \$14.7 million, which is above the target of \$14.3 million. The \$400 000 overspend in 2010–11 was largely due to the Legislative Council's 26 May 2010 resolution requesting an audit on the allocation of electronic gaming machines. The delivery of this audit cost \$900 000, more than twice the average cost of our audits. This was a high profile, complex audit that required significant external technical expertise. We also delivered two more audits than planned.

The average cost per performance audit tabled in 2010–11 was \$354 000 which is slightly higher than last year's average of \$348 000, and compares well against our internal benchmark target of \$415 000. Although higher than the 2009–10 ACAG national average of \$288 857 (latest available data), our average audit cost remains below most Australian public sector audit offices that conduct performance audits with similar scopes. This is despite the unique requirement in Victoria to specifically consult with PAEC as part of developing the audit specification, and during the preparation of the annual plan.

The average cost per results of financial audit reports delivered was \$207 000 compared to \$180 000 last year, reflecting the additional effort involved in adding specific areas of audit focus to better inform the public about agency operations.



# Parliament

VAGO's purpose is to provide Parliament with assurance on public sector accountability and performance. In doing this, VAGO seeks to be highly regarded by Parliament. In line with our *Strategic Plan 2010–11 to 2014–15*, we measure our success in this by monitoring the use of our reports and services by Parliamentary committees and individual Parliamentarians.

## Parliamentarians

### Parliamentary debate

In the past year Parliament put our audit reports to good use with more than 172 references to our audits in Parliamentary debates, up from 112 in 2009–10. Members used audit reports to support their discussion of:

- new legislation
- Parliamentary inquiries
- questions without notice
- petitions and concerns from the members' electorates.

Parliamentarians also confirmed the value of the VAGO's work through comments during debate:

'I wish to speak about the Auditor-General's report on managing drug and alcohol prevention and treatment services. As usual the Auditor-General's report is clear and useful, and its executive summary sets out exactly what the problem is.' (Colleen Hartland, MLC, Greens)

'It is through [the Auditor-General's] reports to Parliament that executive government is often held to account in a way that does not happen in other ways within our system of government... it is critical that the Auditor-General receives sufficient funding to conduct these very important duties.' (Robin Scott, MLA, ALP)

'[The Victorian Auditor-General's Office] is very important to not only the Parliament but also the community of Victoria in general... It does very useful work in informing the Parliament and the public about the performance of both the budget sector agencies and outer agencies, now including local government.' (David Morris, MLA, Liberals)

### Briefings and engagement

Although VAGO produces around 30 reports to Parliament each year, members tell us that they are sometimes unaware of the services that VAGO offers, and that they appreciate our assistance in helping them to identify audit findings that are relevant to them. In response to this, in 2010–11 we intensified our briefings and engagement activities.

In 2010–11, we conducted 15 briefing sessions in Parliament House, detailing the key findings of VAGO reports tabled earlier that day. These sessions were open to any Member of Parliament to attend. Thirty members came to one or more sessions, with an average attendance of seven at each session. This is an increase on 2009–10, and indicates that members are finding these sessions increasingly valuable.

Members of Cabinet and their Shadow counterparts have a particular interest in VAGO reports with findings that are relevant to their portfolios. In 2010–11, the Auditor-General provided 14 Ministers and 11 Shadow Ministers with whole-of-portfolio briefings at the inception of the 57th Parliament. Across the year, 31 Ministers accepted briefings on individual reports of interest to them, usually meeting with VAGO senior staff on the eve of the tabling day.

## Requests from members of Parliament

Parliamentarians write to the Auditor-General to raise matters of concern and suggest areas for audit attention. In 2010–11 the Auditor-General had five inquiries from Members of Parliament; down from the pre-election spike of 23 in 2009–10 and a return to levels similar to that of previous years (nine in 2008–09 and eight in 2007–08). As with all inquiries, these are considered in VAGO’s annual planning process according to VAGO’s risk and materiality framework. Audits completed in 2010–11 which were the subject of previous inquiries from Parliamentarians (and the Legislative Council) included:

- *Access to Ambulance Services* (October 2010)
- *Allocation of Electronic Gaming Machine Entitlements* (June 2011).

## 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.

To allow VAGO the opportunity to compare itself with other Australian Auditors-General, a number of questions within our survey are consistent with those of three other offices. While VAGO’s results are positive, we are at the mid-lower range when comparing with these other offices.

Feedback from Parliamentarians in 2010–11 has been encouraging. Maintaining the strong result from last year, 98 per cent of Parliamentarians were satisfied or very satisfied with our reports and services, compared with 92 per cent in 2009–10 (see Figure 3). This is above our target of 85 per cent for 2010–11.

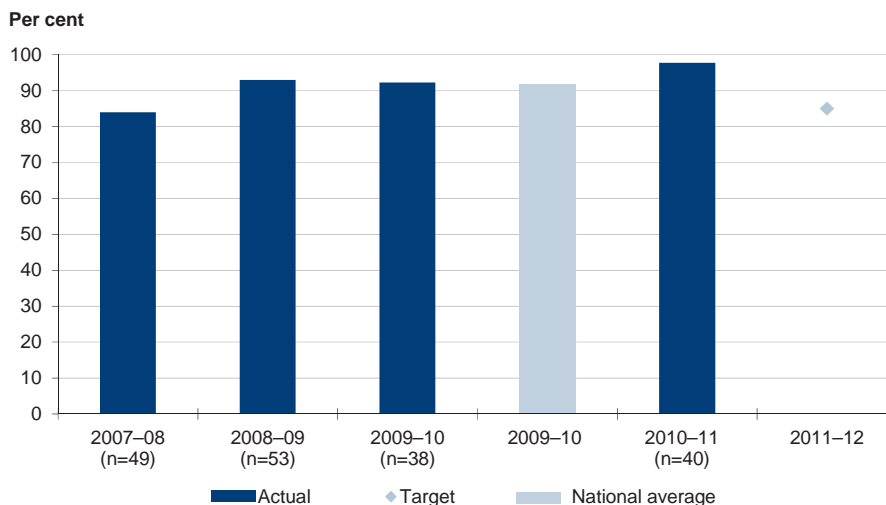
Other highlights from this year’s Parliamentary survey:

- All respondents agreed that generally VAGO’s reports and services provide valuable information on public sector performance.
- Ninety-seven per cent of respondents indicated that VAGO’s performance audits addressed their key areas of interest to some extent, 65 per cent to a high degree.
- Ratings for all aspects of performance audit reporting recorded increased on 2010 results.
- All respondents with direct dealings with VAGO in the past 12 months gave positive ratings for responsiveness. The vast majority (92 per cent) said our advice addressed their needs. This strong result compares well with other jurisdictions.

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.

The survey results will be communicated to Parliamentarians and PAEC in 2011–12 as part of VAGO’s engagement strategy.

[Figure 3] Parliamentarians’ satisfaction levels with the Auditor-General’s reports and services by percentage



Notes: n = number of responses.  
Target introduced for 2011–12.

## Public Accounts and Estimates Committee

PAEC is our key contact point 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. Beyond statutory requirements, in 2010–11 we worked closely with PAEC by:

- presenting evidence and providing information to PAEC inquiries into our audit reports (see below)
- seconding VAGO staff to PAEC to assist with research and other activities
- maintaining regular contact with PAEC at officer level.

### PAEC follow-ups of VAGO audits

Through its inquiry program, PAEC routinely follows up matters and recommendations 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 and the responses of agencies to the audits to date.

In 2010–11, PAEC reported on, or commenced inquiries into, 12 Auditor-General reports tabled between July 2008 and June 2009:

- *Connecting Courts—the Integrated Courts Management System* (June 2009)
- *Implementing Victoria Police’s Code of Practice for the Investigation of Family Violence* (June 2009)
- *Withdrawal of Infringement Notices* (June 2009)
- *Management of School Funds* (May 2009)
- *Access to Public Hospitals: Measuring Performance* (April 2009)
- *Preparedness to Respond To Terrorism Incidents: Essential Services and Critical Infrastructure* (January 2009)
- *Biosecurity Incidents: Planning and Risk Management for Livestock Diseases* (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).

In September 2010 PAEC reported on its follow-up of six of these audits. The committee’s report largely supported the direction of our audits: of the 39 recommendations, only two were directed at the Auditor-General. Further, the government’s response to the PAEC report supported 74 per cent of its recommendations, demonstrating support for the areas for improvement jointly identified by VAGO and PAEC.

## Parliamentary committees

Parliamentary committees are a crucial link in the public accountability framework; many have the powers to undertake inquiries into matters of public interest. When Parliamentary committees use Auditor-General reports and services to inform its inquiries, we know that we have been relevant in informing Parliament on public sector accountability and performance.

As well as maintaining our special relationship with PAEC, in 2010–11 we began regular information sessions for the senior staff of joint investigatory committees of Parliament, to highlight audits in their areas of interest and encourage them to access VAGO resources. These sessions were well attended and received positive feedback from participants. This kind of engagement is an important way to maximise Parliament’s benefit from the public investment in VAGO, since Parliamentarians serving on committees are often unaware of audits that may be of assistance to them.

## Use of audit reports in Committee inquiries

Across 2010–11, Parliamentary committees (including PAEC) referred to 11 Auditor-General reports in reports on their inquiries:

- Public Accounts and Estimates Committee's *Report on the 2011–12 Budget Estimates—Part one* (June 2011) referred to *Environmental Management of Marine Protected Areas* (March 2010)
- Public Accounts and Estimates Committee's *Report on the 2010–11 Budget Estimates—Part three* (September 2010) referred to *Revitalising Central Dandenong* (May 2011), *Management of Concessions by the Department of Human Services* (February 2010), *Management of the Community Support Fund* (November 2009), *The New Royal Children's Hospital—a public private partnership* (May 2009), and *Parliamentary Control and Management of Appropriations* (April 2003)
- Family and Community Development Committee's *Inquiry into the adequacy and future directions of public housing in Victoria* (October 2010) referred to *Access to Social Housing* (June 2010), *Follow-up of Selected Performance Audits Tabled in 2003 and 2004* (June 2007), and *Maintaining Public Housing Stock* (June 2004)
- Rural and Regional Committee's *Inquiry into the extent and nature of disadvantage and inequity in rural and regional Victoria* (October 2010) referred to *Sustainable Farm Families Program* (September 2010)
- Road Safety Committee's *Inquiry into Federal-State Road Funding* (August 2010) referred to *Management of Roads by Local Government* (June 2002).

# Audit reports on financial statements

The Victorian Government's budget process requires departments and agencies to report against pre-determined 'Output groups', including information on performance measures (quantity, quality, timeliness and cost).

VAGO's 'Output group 2' is the group of outputs in the Victorian State Budget Papers referring to our opinions on the annual financial statements and non-financial performance statements prepared by departments and agencies.

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### 2010–11 at a glance

- Ninety-nine per cent of audit opinions were issued within statutory deadlines.
- The overall client satisfaction index was 77, higher than the target of 75.
- With Parliament rising on 7 October 2010 for the 27 November 2010 election, and to promote continuous improvement by audit clients, we produced interim reports on the results of annual financial statement audits of the portfolio departments, local government, water and public hospital sectors in July, August and September 2010 respectively.

The *Audit Act 1994* requires the Auditor-General to audit the annual financial statements of each Victorian public sector entity, and to express an opinion on them. The Auditor-General is also required to provide an opinion on the state's annual financial report and the government's estimated financial statements.

Independent audit opinions add credibility to financial statements by providing reasonable assurance that the information reported is reliable. A 'clear' audit opinion means that the financial statements fairly present the transactions and balances for the reporting period in accordance with the relevant legislative reporting framework.

Consistent with section 3A(2) of the *Audit Act 1994*, our financial audit coverage also considers any wastage of public resources, lack of probity or financial prudence in the management or application of public resources.

Section 16 of the *Audit Act 1994* empowers the Auditor-General to report to Parliament on the results of financial audits and the audit of the state's annual financial report. These reports inform Parliament about significant issues arising from the audits, and augment the assurance provided through audit opinions on financial reports included in public sector entities' annual reports.

When required, the Auditor-General also audits non-financial performance statements prepared by local government, certain water bodies, technical and further education institutes and certain vocational education training providers. The Auditor-General provides an auditor's report that is included in the entities' annual reports.

[Table 8] Auditor-General's financial audit responsibilities for 2009–10 and 2010–11

Type of entity	2010–11	2009–10
<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	152
Public bodies	110	110
Public cemeteries <sup>(a)</sup>	8	14
Public hospitals and ambulance services	85	85
Regional waste management groups	15	15
Superannuation funds	2	2
Universities and other educational institutions	22	22
Water authorities	27	27
<b>Local government entities</b>		
Municipal councils	79	79
Regional library corporations	12	12
Companies, trusts and joint ventures	13	13
<b>Total</b>	<b>551</b>	<b>557</b>

Note: (a) In March 2010, the Southern Metropolitan Cemetery Trust and the Greater Metropolitan Cemetery Trust were established under the *Cemeteries Act 1958*. These entities subsumed two and eight cemetery trusts respectively. The merged Trusts prepared their final reports in 2010.



# Financial audits

[Table 9] shows how we performed against our 2010–11 targets for audit reports on financial and non-financial performance statements (Output group 2).

Performance measures		Target 2011–12	Actual 2010–11	Target 2010–11	Actual 2009–10
<b>Quantity</b>					
Audit opinions issued on entity financial statements	(number)	557	551	541	557
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 statements	(number)	114	113	114	113
<b>Quality</b>					
Overall level of external satisfaction with audits (audit clients)	(score)	75	77	75	75
<b>Timeliness</b>					
Audit opinions issued within statutory deadlines	(per cent)	98	99	98	100
Final management letters to entities within established time frames	(per cent)	90	88	90	94
<b>Cost</b>					
<b>Total output cost</b>	<b>(\$mil)</b>	<b>20.8</b>	<b>21.2</b>	<b>20.3</b>	<b>20.4</b>

## Quantity

### Audit opinions issued to entities

During 2010–11 VAGO issued 551 audit opinions, compared with the target of 541. The net increase of 10 in the total number of entities subject to VAGO's audit in 2010–11 is due to the combined effect of new entities, wound-up entities and amalgamations arising from machinery of government changes.

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

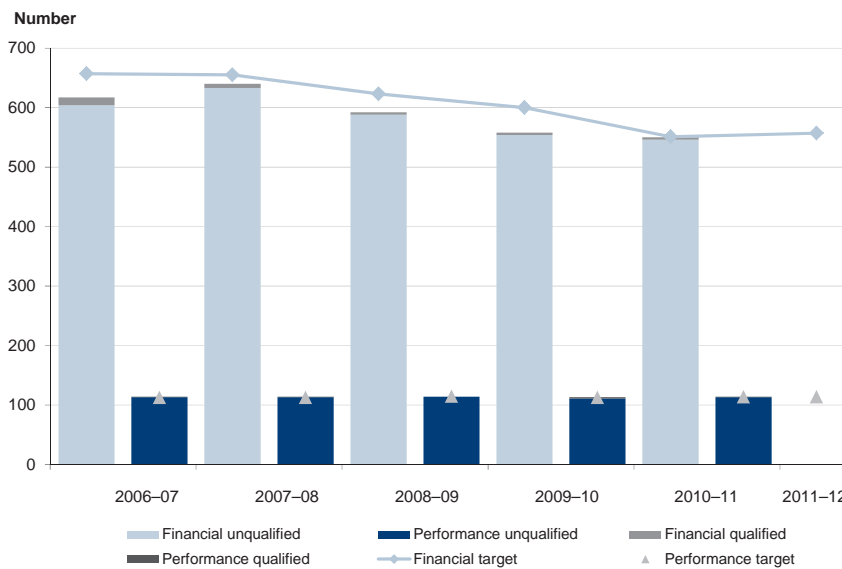
- 78 audit opinions on council statements
- 15 audit opinions on regional and rural water authority statements
- 18 audit opinions on technical and further education (TAFE) institutes
- two audit opinions on the statements of training entities.

Ninety-nine per cent (unchanged from 2009–10) of audit opinions on financial statements were unqualified. The financial statements of five entities (four in 2009–10) were qualified for the following reasons:

- two entities did not comply with accounting standards when accounting for certain non-reciprocal research and capital grants
- one entity was 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 did not present comprehensive income statement in accordance with accounting standards
- one entity did not maintain effective controls over the completeness and accuracy of revenue collections.

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.

[Figure 4] Audit opinions on financial statements and performance statements



## Audit opinion on the *Annual Financial Report of the State of Victoria 2009–10*

The state’s accountability framework requires the government to prepare and present consolidated whole-of-government 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 accounting standards test of control so are not included in the state’s financial report.

On 10 September 2010 the Auditor-General provided an unqualified audit opinion on the state’s annual financial report for 2009–10, which was tabled in Parliament on 15 September 2010.

## The Victorian Government’s Estimated Financial Statements

On 29 April 2011 we completed our review of the Victorian Government’s Estimated Financial Statements for the financial year ending 30 June 2012 and the following three years. The government’s Budget Papers, presented to Parliament on 3 May 2011, included our independent report.

## Quality

### Financial audit methodology

It is important that VAGO's audits are of a high quality. Our financial audit methodology 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 Australian jurisdictions.

VAGO's financial audit approach is designed to enable us to form an audit opinion on agencies' financial statements and non-financial performance statements efficiently and effectively. We also monitor the probity and reasonableness of public resource use and compliance with relevant laws and regulations.

### Financial audit policy manual

To complement the Australian Auditing Standards, the Auditor-General periodically issues 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 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 November 2010. The forum focused on emerging developments across the public sector and in individual sectors. 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

Each year we seek the views of agencies by asking them for feedback on the audit process, audit reporting and the value of the audit to the agency. The feedback is through surveys and interviews that are independently conducted by an accredited research company. VAGO provides a summary of the results to the agencies.

An overall satisfaction index is generated based on average ratings across all three areas, and expressed as a score out of 100. The overall client satisfaction index for 2010–11 was 77, which exceeded both the 2010–11 target of 75 and the 2009–10 result of 75.

This year the majority of ratings for audit process and audit reporting questions showed an improvement compared to last year's results.

Feedback from audited agencies is used to identify areas for improvement. Actions arising from recent surveys focus on:

- the development of staff and systems to strengthen knowledge management and support audit quality
- communication strategies with an emphasis on clear and consistent messages regarding the basis for audit fees
- the quality and timeliness of management letters
- improvements in Parliamentary report writing.

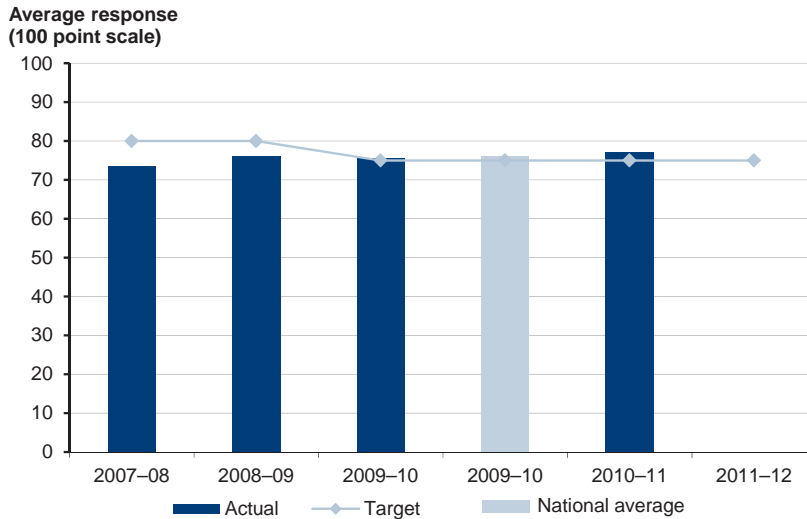
Each year VAGO develops strategies to further enhance and maintain its achievements. The actions arising from last year's survey have seen more positive responses from clients.

This year's surveys show improved satisfaction in the:

- timeliness of audit program
- explanation of audit fees
- responsiveness of audit staff
- senior staff involvement.

Other Australian audit offices conduct similar surveys and we benchmark our results against results from the other offices. VAGO's 2010–11 results compared favourably with other jurisdictions' ratings for the 2009–10 year (the latest available), particularly in clients' perception of the professional skills and knowledge of the auditors, and the communication, in a balanced manner, of issues and findings through the management letter.

[Figure 5] shows audited agency's overall satisfaction with financial audits

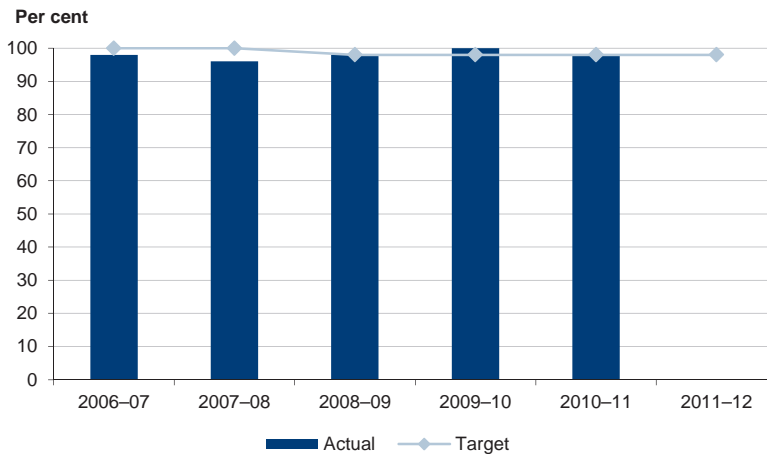


## Timeliness

### 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 2010–11 we issued 99 per cent (100 per cent in 2009–10) of our audit opinions within the statutory deadline as shown in [Figure 6].



### Timeliness of financial reporting by entities

The average time taken to finalise financial statements substantially improved in 2010–11 in portfolio departments, public hospitals and water entities. This improvement has been driven in part by a requirement issued by the then Premier in 2010 that entities reporting under the *Financial Management Act 1994* were to table annual reports in Parliament on or before 16 September 2010.

The most significant improvement occurred in the water sector where corporations took an average of 7.4 weeks to finalise their financial statements compared to 10.2 weeks in the previous year. Portfolio departments took an average of 7.6 weeks compared to 8.6 weeks a year earlier and public hospitals took an average of 7.9 weeks compared to 10.0 weeks in the prior year.

The timeliness of financial report preparation by local councils remained consistent from 2000–10 to 2010–11. The average time taken for a council to prepare its financial report was 11.2 weeks in 2009–10 (for 2008–09 audits) and 11.1 weeks in 2010–11, considerably longer than the other sectors. As local councils report under the *Local Government Act 1989*, there was no imperative on councils to report earlier due to the impending state election.

The average time for tertiary education entities to finalise their financial statements improved slightly from 11.6 weeks in 2009 to 11.4 in 2010. Alpine resort management boards also reduced the average time to finalise their statements from 10.5 weeks in 2009 to 9.8 in 2010. Like local councils, these sectors were not subjected to earlier reporting time lines in 2010–11.

## Management letters

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

In 2010–11 we issued 88 per cent of management letters within our established time frames (94 per cent in 2009–10).

## Cost

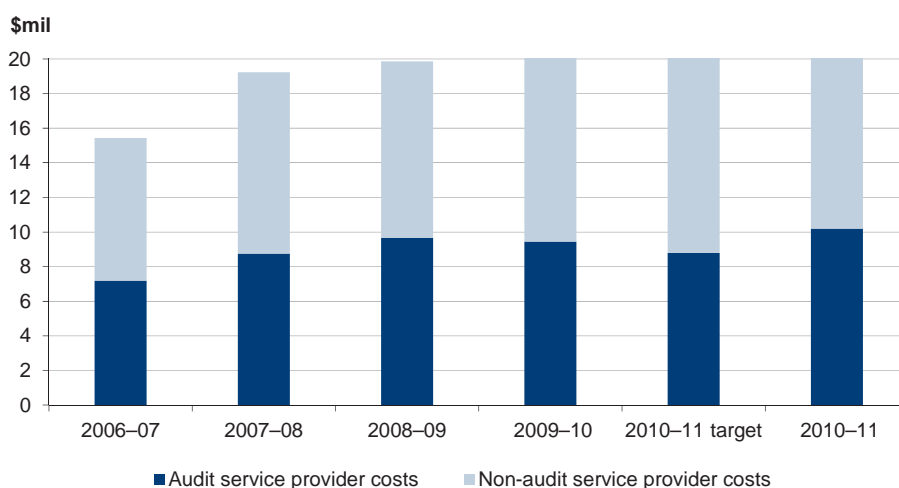
The total actual cost of financial audits increased from \$20.4 million last year to \$21.2 million this year.

The actual 2010–11 cost was 5 per cent above target (\$20.3 million). This is mainly because audit service provider efforts were brought forward to meet earlier 2010–11 financial reporting time lines and to enable earlier completion of interim work. These costs were recovered through audit fee revenue in the usual manner.

[Table 10] Trends in average cost of audit opinions

		Target 2011–12	Actual 2010–11	Actual 2009–10	Actual 2008–09	Actual 2007–08	Actual 2006–07
Audit opinions	(number)	567	551	557	592	640	617
Cost	(\$mil)	20.8	21.2	20.4	19.8	19.2	15.4
Average cost per audit opinion	(\$'000)	37	39	37	33	30	25

[Figure 7] Cost of audit reports on financial statements



The average cost per audit increased by around 5.2 per cent in 2010–11 compared with 2009–10. This was primarily due to the bringing forward of the 2010–11 audit work program to meet the earlier financial reporting time lines.

# 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.

## Early and consistent engagement

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

- **Bringing forward audit planning.** VAGO issued client strategies by the end of December 2010 for the 46 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 to remedy or mitigate prior to finalisation of the audit.
- **Identification and resolution of prospective financial reporting issues as part of interim audits.** This change 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 prepares reports for Parliament that summarise the results of our financial audits. The costs of these reports are measured under Output group 1, Parliamentary reports and services.

With the shortened reporting time lines resulting from Parliament rising on 7 October 2010 for the 27 November 2010 election, we produced interim reports on the results of the annual financial statement audits of the portfolio departments, local government, water and public hospital sectors in July, August and September 2010 respectively. In February 2011, we produced a report to acquit the final results of the 2009–10 audits of all entities with 30 June 2010 balance dates.

The reports focused on the effectiveness of internal controls and covered areas such as procurement, leave management, capital project management, creditor management, declarations of interest, information technology security and information technology change management. They also commented on financial sustainability, the quality of financial reporting and financial reporting developments.



[Table 11] Reports tabled in 2010–11

Report	Description
<i>Portfolio Departments: Interim Results of the 2009–10 Audits</i> (tabled 28 July 2010)	Reported on the interim results of audits of the 11 portfolio departments. It examined the effectiveness of internal controls for IT systems; for identifying, declaring and managing conflicts of interest; and for procurement. It also commented on financial reporting developments.
<i>Local Government: Interim Results of the 2009–10 Audits</i> (tabled 11 August 2010)	Reported on the interim results of audits of 79 local councils, 13 agencies they control and 12 regional library corporations. It examined the effectiveness of internal controls supporting the preparation of the financial reports, controls over conflicts of interest and IT change management.
<i>Water Entities: Interim Results of the 2009–10 Audits</i> (tabled 11 August 2010)	Reported on the interim results of audits of 19 water entities. It examined the effectiveness of internal control supporting the preparation of the financial reports and aspects of how they manage capital projects and creditors.
<i>Public Hospitals: Interim Results of the 2009–10 Audits</i> (tabled 1 September 2010)	Reported on the interim results of audits of approximately 110 agencies in the sector. It examined the effectiveness of internal control supporting the preparation of the financial reports and aspects of how they manage leave and creditors.
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10</i> (tabled 7 October 2010)	Provided the result of the audit of the state's annual financial report. It examined the quality and timeliness of financial reporting, explained significant financial results for the state and made observations on the status and financial implications of the more significant projects and developments.
<i>Acquittal Report: Results of the 2009–10 Audits</i> (tabled 9 February 2011)	Provided the results of the annual financial statement audits of 445 agencies across the portfolio departments and associated entities, and the local government, public hospital and water sectors. The report commented on the quality of financial reporting and financial sustainability.
<i>Tertiary Education and Other Entities: Results of the 2010 Audits</i> (tabled 25 May 2011)	Provided the results of the annual financial statement audits of 113 entities with a financial year end other than 30 June 2010 within the tertiary education and alpine resort sectors. The report commented on the quality of financial reporting, financial sustainability, the effectiveness of internal control supporting the preparation of the financial reports and aspects of how they manage leave and creditors.

## Reports planned for 2011–12

Our 2011–12 reporting program includes:

- the Auditor-General's Report on the Annual Financial Report of the State of Victoria, as required under the *Audit Act 1994*, scheduled for tabling in October 2011
- four reports on the results of the our 2010–11 financial audits covering local government, portfolio departments, public hospitals, and water entities across October and November 2011
- the report on the results of the 2011 audits of the tertiary education sector and other entities, scheduled for tabling in May 2012.

## 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 2010–11, the Auditor-General certified 36 warrants, authorising consolidated fund expenditure of up to \$41.9 billion (43 warrants of up to \$43.6 billion in 2009–10).

# Managing VAGO

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

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## 2010–11 Highlights

- 76 per cent of all VAGO employees have a qualification at bachelor level or higher, with a large proportion having double degrees and 4.7 per cent of staff have, or are studying for, a PhD.
- 87 per cent of the survey questions improved on the 2009 survey outcomes.
- Staff have a strong understanding of the long-term goals of their work group and how they fit in with overall strategies.
- VAGO retained its four green star rating and an independent environmental audit confirms VAGO has significantly better than average recycling activity.

# Future directions

VAGO has now completed the first year of our *Strategic Plan 2010–11 to 2014–15*, which identifies five objectives and related strategies aimed at further improving our operations.

[Table 12] Objectives and strategies

Objectives	Strategies
Being authoritative and relevant	Better targeting topics Directing audit effort to areas of public value Promoting broader access to reports
Being highly regarded by Parliament	Smoothing the flow of reports Better engaging Parliamentary committees and individual Parliamentarians
Fostering productive relationships with audit clients	Appropriately informing audit clients about audit plans, processes and activities Fostering professional relationships
Fostering a stimulating working environment	Conducting rigorous performance planning and management Supporting a safe and healthy workplace
Leveraging our systems and processes to improve organisational performance	Aligning systems and processes Investing in capability for long-term sustainability Being a responsible corporate citizen

Indicators of our success in achieving these objectives include:

- completing audit reports on time
- Parliamentarians satisfaction with our reports, services and performance, which is measured through a survey of Parliamentarians
- client feedback on the audit reporting process and value, which is measured through independently run surveys
- staff responses to an independently run survey include an assessment of the work environment and alignment of our systems and processes
- performance against business plans.

# Governance

## Leadership and stewardship

VAGO is committed to continually improving its service delivery. The 2010–11 year saw Ellen Holland appointed as Assistant Auditor-General for Financial Audit, while John Findlay pursues professional development in a 12-month secondment to the Department of Treasury and Finance. The year has also seen the consolidation of corporate services leadership as Gail Conman completed her first year with VAGO. The senior management structure is outlined in [Figure 8].



## Senior management

### Auditor-General of Victoria

**Des Pearson, BBus, GradDipMgt, Hon D Bus (CQU), 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 was appointed VAGO's Chief Operating Officer in January 2007. He has extensive senior public sector management experience, gained primarily in the Victorian public sector, higher education and international development with the Commonwealth Secretariat, World Bank and Asian Development Bank. Peter reports directly to the Auditor-General on the management and performance of office operations, and oversees our technical and audit operation activities, as well as our business support activities.

### Assistant Auditor-General—Financial Audit Group

**Ellen Holland, BBus (Acc), FCPA, MIPAA**

Ellen was appointed Assistant Auditor-General, Financial Audit in March 2011 after 17 years in the Performance Audit Group, including three years as Senior Director during which she was responsible for developing VAGO's Annual Plan. Before moving to Performance Audit, Ellen held various positions in the Financial Audit Group within VAGO.

## Assistant Auditor-General—Performance Audit Group

### **Andrew Greaves, BEc, CA**

Andrew has led the Performance Audit Group since October 2008. Andrew has over 25 years' experience in public sector audit at the international, national, state and local government levels. Prior to his move to Performance Audit, Andrew led Financial Audit.

## Executive Director—Corporate Services

### **Gail Conman BEng MProjMgt, MAIPM, MIPAA**

Gail joined VAGO in May 2010 to lead the Corporate Services Group. She previously worked for the Department of Premier and Cabinet managing the cultural 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. Gail is currently a mentor in the YIPAA Mentoring Program.

# Managing VAGO

In 2010–11 the Senior Management Group (SMG), informed by five committees, was responsible for managing VAGO.

## Senior Management Group

The Auditor-General, Chief Operating Officer, Assistant Auditors-General and the Executive Director, Corporate Services comprise the 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 as described in the *Audit Act 1994*. Key functions and responsibilities of SMG include:

- overseeing the implementation of strategic directions and objectives
- endorsing major policy, planning and budget initiatives
- monitoring organisational performance, including the achievement of business plans
- monitoring systems of risk management, internal control, codes of conduct and compliance
- keeping abreast of critical whole-of-government issues and developments
- fostering continuous improvement across VAGO.

## Operations Group

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

The Operations Group oversees operational and quality matters and reviews papers including the draft SMG Monthly Management Report. The Operations Group also oversees progress on continuous improvement activities, monitors VAGO's performance, provides advice to SMG on staffing matters and monitors and reviews office-wide projects.

## Executive Remuneration Committee

This committee comprises the Auditor-General, the Manager People and Culture, and an independent member, Mr Patrick O'Grady.

The 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.

## Staff Consultation and Development Group

This nine-member group has a rotating chair and comprises eight representatives from various levels across the four business units, with the Executive Director, Corporate Services representing the SMG.

The primary objective of this group is 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 work to improve our effectiveness and provide a stimulating and rewarding workplace.

## Audit Committee

### Audit Committee Chairman's report (year ended 30 June 2011)

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

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

All committee members are independent, non-executive members who are appointed by the Auditor-General. The members of the Audit Committee, their qualifications and attendance at meetings, are set out in [Table 13].

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 (NZICA), FCA (ICAEW) Professor of Accounting, Australian National University	4	4
Deirdre O'Donnell BA, MBA, MCommLaw Information Commissioner, NSW	4	4
Joanna Perry MNZM, FCA (NZICA), FCA (ICAEW), MA Chair, Financial Reporting Standards Board (New Zealand) and Board Member, Australian Accounting Standards Board	4	4

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

- to review the external auditors' proposed approach and review, assess and recommend to the Auditor-General the adoption of the annual financial report
- to review the policies and procedures in place for the development of VAGO's annual plan, quality assurance processes, and the development of budget estimates
- to determine the scope of the internal audit function and review its effectiveness
- to oversee the effectiveness of the risk management plan
- to review and monitor systems of control for conflicts of interest
- to monitor compliance with relevant legislation, regulations and guidelines
- to review the Audit Committee operations and report to the Auditor-General on its deliberations.

In fulfilling these responsibilities, the work of the Audit Committee has included:

- reviewing the annual financial report and recommended its adoption by the Auditor-General
- reviewing the management response to the external audit management letter
- approving the three year Strategic Internal Audit Plan to June 2013
- reviewing 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 Knowledge Management, Business Continuity Plan / Disaster Recovery Plan, the Information and Communications Technology Internal Controls, Regulatory Compliance
- reviewing the office's risk management reports and noted that risks were being appropriately monitored and addressed by the office



- reviewing the response to the 2010 PAEC Performance Audit, and monitoring progress against actions as part of annual reporting
- reviewing the Audit Committee charter
- conducting a self-assessment which included views of senior management and an externally facilitated discussion of results, and reporting these results to the Auditor-General
- considering whether VAGO has appropriate policies and practices in place to review and implement, where appropriate, recommendations from external reviews, including Parliamentary committee inquiries
- considering whether VAGO has an appropriate system for ensuring compliance with relevant legislation, regulations and guidelines.

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)  
5 August 2011

## 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 and ISO 31000:2009.

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



D D R Pearson  
Auditor-General  
11 August 2011

# Compliance

## Whistleblowers legislation

The *Whistleblowers Protection Act 2001* was introduced in Victoria on 1 January 2002. The legislation protects whistleblowers who disclose improper public officer and public body conduct, and 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. The Auditor-General, however, decides whether or not to investigate, in accordance with powers under the *Audit Act 1994*.

During 2010–11, the Ombudsman referred one matter to the Auditor-General for investigation under the authority of the *Audit Act 1994*. This matter was investigated as an extension of the work of Financial Audit.

### Administrative issues

VAGO has 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 VAGO's protected disclosure coordinator. There were no disclosures on VAGO administrative matters during 2010–11.

## Privacy legislation

VAGO works closely with the office of the Victorian Privacy Commissioner, as required, to make sure that our audits complement information privacy principles and legislation. VAGO continues to be fully compliant with relevant privacy legislation.

## Freedom of information

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

Our administrative processes, however, come under the state's freedom of information legislation. We received no applications under this legislation in 2010–11.

## National Competition Policy

The Victorian Government is part of the inter-governmental Competition Principles Agreement. VAGO is compliant with the National Competition Policy, including compliance with requirements of the Department of Treasury and Finance's Competitive Neutrality Policy.

## Victorian Industry Participation Policy

In October 2003 the Victorian Parliament passed the *Victorian Industry Participation Policy Act 2003* that requires public bodies and departments to report on the application of the Victorian Industry Participation Policy (VIPP). Departments and public bodies are required to apply VIPP in all tenders of more than \$3 million in metropolitan Melbourne and \$1 million in regional Victoria. VAGO did not complete any tenders or contracts that were subject to VIPP during 2010–11.

## Building Act

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

# Quality

## Adhering to auditing standards

VAGO also fulfils its professional and legal obligation to adhere to auditing standards.

Under the *Audit Act 1994*, we must follow the auditing standards that the Australian Auditing and Assurance Standards Board issues. The Audit Act 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 a second senior officer to all high-risk audits to review and confirm the quality of the audit.

These measures guide and inform the identification of key issues and, where necessary, alert Parliament and audited agencies to important financial management and accountability issues and any inconsistencies in financial reporting.

## 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 last audit reported a clear opinion to Parliament in September 2010
- a sample of completed financial and performance audits is independently reviewed routinely to confirm they follow professional auditing standards and the Auditor-General's policies. Audit professionals from other Australian audit offices conduct these audits
- an Australasian Council of Auditors-General (ACAG) coordinated expert panel review of selected Parliamentary reports is undertaken
- surveys of members of Parliament and audited agencies, about the quality of our audits, are carried out by an independent party.

In 2010 VAGO adopted a quality management framework, which brings together 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. This framework covers the requirements of the professional standards and in particular ASQC1/APES 320 (Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements).

The self-assessment, peer review and the external assessment of the maturity of these systems and processes against the framework demonstrate that VAGO has adequate systems of quality control and meets or exceeds legal and legislative requirements and professional standards applicable to public sector audit offices.

VAGO used the Australasian Council of Auditors-General Governance and Audit framework in its preparation for the 2010 independent performance audit.

# Our staff

## Diversity at VAGO

VAGO continued to value diversity in the workplace in 2010–11. 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
- provision of a range of opportunities in relation to flexible work practices, which are taken up by an increasing number of VAGO staff
- incorporating diversity into the review of our policies and procedures
- completing the Disability Action Plan and commencing necessary actions
- introducing a subsidised parenting support package for VAGO staff with small children.

Information collected in VAGO's annual staff review indicated that of employees who responded:

- 28.5 per cent were born outside Australia
- 10.46 per cent have a non-English speaking background
- 18 languages other than English are spoken
- 38.73 per cent speak at least one language other than English.

## Strategic alignment

VAGO'S *Strategic Plan 2010–11 to 2014–15* articulates our purpose, organisational values and vision, as well as priorities and key strategies and initiatives.

We have aligned our Performance Development Planning with the strategies to provide a fuller understanding for staff of their part in VAGO's deliverables. To further support this strategic alignment, VAGO's second Organisational Alignment Survey was conducted in February 2011. Internally, VAGO performed well in most areas, with an increase in performance across 87 per cent of the survey elements since the 2009 survey. The staff survey indicated that VAGO is performing well with regards to:

- IT and telecommunications systems and resources
- availability of training and development opportunities
- benchmarking and monitoring VAGO's performance with that of its peers
- employee involvement in planning processes for their work group.

VAGO has a program in place to build on these strengths, and to address areas where the need for improvement was evident.

The further development of VAGO's Learning and Development framework was designed to better foster VAGO's culture and better focus training and development opportunities for staff to support the organisation's core capabilities. New programs in 2010–11 included:

- Building team effectiveness
- Resilience training.

Overall a greater number of staff were able to access Learning and Development opportunities. Other initiatives identified under the VAGO strategic alignment that have been developed and are due for implementation, include:

- a robust framework and methodology for workforce planning
- a methodology for identifying and training future leaders
- a revised capability model, which is behaviourally based.

## Workforce capacity

### Our staff profile

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

[Table 14] Employee numbers at 30 June 2011

Year	Overall	Ongoing		Fixed-term and casual	
	Total number (headcount)	Ongoing (headcount)	Ongoing FTE	Fixed-term and casual (Headcount)	Fixed-term and casual FTE
2008	153	136	132.8	17	15.7
2009	153	142	139.2	11	10.0
2010	173	142	138.8	31	28.5
2011	170	151	146.1	19	17.3

[Table 15] Employee profile

	30 June 2011				30 June 2010			
	Ongoing		Fixed-term and casual		Ongoing		Fixed-term and casual	
	Number (headcount)	FTE	Number (headcount)	FTE	Number (headcount)	FTE	Number (headcount)	FTE
<b>Gender</b>								
Male	74	73.2	4	3.5	74	73.6	4	3.5
Female	77	72.9	15	13.8	68	65.2	21	20.0
<b>Age</b>								
Under 25	12	12.0	2	1.3	10	10	4	4.5
25–34	55	52.7	12	11.1	54	53.4	12	11.1
35–44	38	36.6	2	2.0	32	30.8	2	2.0
45–54	28	27.2	2	2.0	26	25.2	2	2.0
55–64	18	17.6	1	0.9	19	18.6	1	0.9
Over 64	0	0	0	0	1	0.8	0	0
<b>Classification</b>								
VPS Executives	19	18.8	0	0.0	21	21	2	2.0
VPSG1	0	0	0	0.0	0	0	0	0
VPSG2	14	13.4	3	2.3	15	14.8	3	2.3
VPSG3	26	25.7	2	1.5	26	26	2	1.5
VPSG4	26	25.0	9	8.6	18	17.6	9	8.6
VPSG5	23	22.0	3	3.0	26	25	3	3.0
VPSG6	34	32.6	0	0.0	28	26.4	0	0.0
VPSG7 <sup>(a)</sup>	9	8.6	2	1.9	8	8	2	1.9

Note: (a) The VPSG7 (also known as Senior Technical Specialist) roles at VAGO comprise six specialist senior auditing roles, two senior accounting roles (CFO delivered through a role sharing arrangement) and one senior legal role.

## Employee qualifications

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

Seventy-six per cent of all VAGO employees have a qualification at bachelor level or higher, with a large proportion of double degrees, and 4.7 per cent have or are studying a PhD.

[Table 16] compares the qualifications of VAGO staff with the Victorian public sector as a whole.

	Highest education level achieved		Total staff with a tertiary qualification (per cent)
	Bachelor degree (per cent)	Postgraduate (per cent)	
Performance Audit staff	52	40	92
Financial Audit staff	70	15	85
Other staff	28	33	61
SSA figures for public sector staff (2007–08) <sup>(a)</sup>	29	32	61

Note: (a) State Services Authority Fact Sheet #5 about the Victorian public sector workforce, April 2009.

## Recruitment and retention

The overall voluntary turnover for 2010–11 was 19.7 per cent, compared with 17.3 per cent for 2009–10.

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

[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
2010–11	27	26.4	18.8	19.7

## Executive information

[Table 18] Number of executive officers classified into 'ongoing' and 'special projects' at 30 June 2011

Classification	All		Ongoing	
	Number	Variance	Number	Variance
EO1	1	0	1	0 <sup>(a)</sup>
EO2	4	-1	4	-1
EO3	14	-3	14	-3
<b>Total</b>	<b>19</b>	<b>-4</b>	<b>19</b>	<b>-4</b>

Note: (a) VAGO has no 'special project' executives.



[Table 19] Breakdown of executive officers into gender for 'ongoing' and 'special projects' at 30 June 2011

Classification	Male		Female		Ongoing vacancies
	Number	Variance	Number	Variance	
EO1	1	0	0	0	0 <sup>(a)</sup>
EO2	2	-1	2	0	0
EO3	10	-1	4	-2	4 <sup>(b)</sup>
<b>Total</b>	<b>13</b>	<b>-2</b>	<b>6</b>	<b>-2</b>	<b>4</b>

Note: (a) VAGO has no 'special project' executives.

(b) Three of the four vacancies are filled by senior staff acting in executive office roles receiving higher duties allowance.

[Table 20] Reconciliation with executive numbers at 30 June 2011

	30 June 2011	30 June 2010
Executives employed with total remuneration over \$100 000	20	19
Vacancies	4	1
Executives employed with total remuneration below \$100 000	4	3
Accountable officer <sup>(a)</sup>	1	1
Separations	-6	0
<b>Total executive numbers at 30 June</b>	<b>23<sup>(b)</sup></b>	<b>24</b>

Note: The variance between 2009–10 and 2010–11 of one EO position is accounted for by the crossover of the previous Executive Director, Corporate Services' long service leave and with the appointment of the current Executive Director, Corporate Services.

(a) VAGO's accountable officer is the Auditor-General who is an officer of Parliament and not a VPS executive. The Auditor-General is not included in other executive statistics presented in this report. His inclusion in this table adds one to VAGO's executive totals. The above remuneration figures do not take into account any executive bonuses that may be paid.

(b) Total executive positions at June 30 is 19 filled positions plus four vacancies, i.e. 23.

[Table 21] Exemptions from notification of vacancy, 2010–11

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

During 2010–11, all non-executive employees were employed under the Victorian Public Service Agreement 2006, 2009 Extended and Varied Version. Negotiations for the new VPS agreement—which will apply retrospectively from 1 July 2011—began in May and are expected to be finalised and in place by 1 October 2011.

## Code of conduct

All VAGO staff are required to agree to and abide by the *Code of Conduct for Victorian Public Sector Employees of Special Bodies*.

## Merit and equity

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

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

- a merit and equity policy to promote and support diversity throughout VAGO
- reviewing our actions policy to advise staff on how any issues that arise should be addressed
- training in recruitment, selection and interviewing skills has been conducted to support merit based recruitment practices
- a code of conduct to help staff understand the behavioural standards they must meet as officers of the public service
- information on anti-discrimination laws, expected behaviours and the complaints process which is communicated during staff induction training, and periodically at staff meetings.

## Occupational health and safety

VAGO's occupational health and safety (OH&S) management emphasises individual health, and includes a strategy to identify and manage hazards associated with psychological health. In 2010–11:

- 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
- there has been an increased focus on ergonomics with all staff being offered ergonomic assessments
- free flu vaccinations were once again offered to staff
- staff were able to access free workplace health checks
- a parental support package for VAGO staff who are new parents was offered to staff in conjunction with the existing wide-ranging employee assistance program that offers staff professional confidential counselling, career guidance, coaching and mentoring for supervisors and managers
- an extended Health and Wellbeing program has been available to staff throughout the year including facilitated activities such as Yoga and Pilates
- a new Employee Assistance Program provider was selected following market testing after the end of the contract term for the previous provider.

## VAGO Social Club

VAGO has a vibrant social club that arranges events throughout the year. These social events range from monthly outings to Melbourne's bars and restaurants to organising participation in various sporting events like indoor soccer, Corporate Games and Run Melbourne. The Social Club was involved in a number of fundraising activities for various charities throughout the year, such as the Queensland Flood Relief Appeal, the Australian Red Cross, the Starlight Children's Foundation and the Good Friday Appeal. The Social Club continues to support Denis, our Ugandan sponsor child through World Vision Australia.

# 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.

## 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.

This year, the Auditor-General delivered keynote addresses at national and international events on topics including managing infrastructure assets, trends in public sector audit legislation, the role of audit in Westminster systems and key areas of risk for public sector management.

[Table 22] Auditor-General presentations for 2010–11

Date	Presentation to	Topic
26 May 2011	Parliament of Victoria	Launch of the 2011–12 annual plan
25 May 2011	Australasian Study of Parliament Group	Trends in public sector audit legislation: from Federation to follow-the-dollar
9 May 2011	National Development and Reform Commission of China	Introduction to the Victorian Auditor-General's Office
19 April 2011	Institute of Internal Auditors—Annual General Meeting	Positive Audit Relationships
7 April 2011	Parliament of Victoria	Introduction to the Victorian Auditor-General's Office: the role of Parliament's auditor
22 February 2011	Institute of Public Administration Australia	How government works—Parliament's auditor: roles and perspectives
7 February 2011	Commonwealth Parliamentary Association—Summer School for Public Accounts Committees	The role of Parliament's auditor in Victoria
15 December 2010	Institute of Public Administration Australia	How government works—Parliament's auditor: roles and perspectives
26 November 2010	Audit Service Providers Forum	Overview of 2010–11 VAGO Annual Plan and areas of audit focus
20 October 2010	La Trobe University	Graduation address
19 October 2010	World Congress on Engineering Asset Management	Managing infrastructure assets: lessons from the Australian public sector
8 and 10 October 2010	Australia New Zealand School of Government	Parliament's auditor: roles and perspectives
21 September 2010	KPMG: Public Sector Audit Committees Forum	Parliament's auditor: roles and perspectives
14 September 2010	Institute of Public Administration Australia	How government works—Parliament's auditor: roles and perspectives

Date	Presentation to	Topic
8 September 2010	Local Government Stakeholder Forum	Introduction to sector planning consultations
2 September 2010	Chartered Secretaries Australia	Key audit themes 2009–10
30 August 2010	CPA Australia	Managing infrastructure assets: an audit perspective
4 August 2010	Audit Committee of the Parliament of Victoria	Overview of 2010–11 VAGO Annual Plan and areas of audit focus
14 July 2010	Institute of Public Administration Australia	How government works—Parliament's auditor: roles and perspectives

## Public inquiries, consultations 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 2010–11, we welcomed the opportunity to provide comment to the:

- Independent Review of State Finances
- Victorian Anti-Corruption and Integrity Consultation Panel
- Essential Services Commission—Development of a Local Government Performance Monitoring Framework
- Department of Premier and Cabinet and the Department of Treasury and Finance on the development of the *Public Finance and Accountability Bill 2009*
- Public Accounts and Estimates (PAEC) Committee second inquiry into the *Public Finance and Accountability Bill 2009*
- State Services Authority review of Governance Arrangements for Victoria's Regulators
- Victorian Competition and Efficiency Commission.

### Review of *Audit Act 1994*

Following consultation with VAGO, PAEC conducted an inquiry into the *Audit Act 1994* and tabled its final report in October 2010.

VAGO provided a submission and gave evidence at a committee hearing. Our submission sought to highlight the need to:

- prevent the erosion of the audit mandate flowing from changes to public sector service delivery
- strengthen independence and bring Victorian audit legislation into line with international standards
- update the Act to reflect contemporary trends and the audit environment.

The inquiry also took evidence from professional bodies, government agencies, academics, the State Services Authority and the Australasian Council of Auditors-General (ACAG).

The final report of PAEC's Inquiry made 53 recommendations, many of which supported our suggested changes to the Act. The government response (April 2011) supported some of PAEC's proposed reforms, including:

- extending the audit mandate to the administration of Parliament and courts, all government-controlled companies and overseas entities
- introducing new powers to access information held by private sector parties delivering government services (although as a 'last resort')
- reducing the frequency of external performance audits of VAGO and introducing consultation on the terms of reference
- updating audit powers by introducing the capacity to disclose audit information to enable joint audits with other Australian Auditors-General.

In consultations with government across 2011, VAGO will continue to promote key reforms that have not received support from the government. They include:

- introducing annual assurance audits of performance statements and controls to achieve comprehensive audit coverage

- exemption of VAGO from special reviews by the State Services Authority to avoid scope for executive interference with Parliament's audit function
- safeguarding audit access powers from being overridden by other Acts of Parliament to maintain the integrity of Parliament's audit coverage
- removing the requirement to consult with PAEC on individual audit specifications to avoid undue operational involvement by Parliament
- greater discretion in application of professional auditing standards to recognise the particular context of public sector audit
- discretion on the publication of agency comments in reports to Parliament to maintain the integrity of independent, standards-based audit reports
- requirement to notify the Auditor-General when new entities are created to clearly delineate executive responsibility.

## Australasian Council of Auditors-General

In 2010–11 VAGO continued its active involvement in the national and international development of public sector audit, through our participation in the ACAG.

### Meetings and networks

The Auditor-General attended business meetings of ACAG in Brisbane in November 2010 and in Perth in April 2011. These meetings provide a forum for Auditors-General to exchange information and views on common issues and to oversee ACAG's mutual support activities, and the administration of its affairs.

As part of ACAG, the Auditor-General also attended the biennial Australasian Council of Public Accounts Committees in Perth in April 2011. This international forum provides a valuable opportunity for Parliamentary bodies and Auditors-General to share issues, challenges and good practices relating to public accountability.

As part of CPA Australia's International Public Sector Forum in March 2011, VAGO hosted an ACAG networking event, bringing together attendees from public sector audit across 11 countries. Networking at this event led to the development of programs for staff exchange with Hong Kong, a valuable opportunity to develop talented VAGO staff by broadening their experience base.

VAGO also participates in specialist ACAG networks that provide important opportunities for senior staff to share views, learn from each other and deepen their understanding of our business. In 2010–11, VAGO attended or hosted meetings of the following ACAG sub groups:

- Financial Reporting and Auditing Committee
- Heads of Performance Audit Forum
- Performance Audit Managers Training Network
- Quality Assurance Coordinating Committee
- Practice Management Group Macro-benchmarking Panel.

### Building professional knowledge in public sector auditing

Between ACAG meetings, VAGO exchanged information with ACAG members through 'round-ups' on strategic topics, monthly newsletters and seminars.

Strategic topics discussed through ACAG information exchanges in 2010–11 include:

- audit and accountability provisions in new natural disaster relief recovery arrangements
- auditing standards applying to the audit of local government
- international standard on assurance engagements other than audits (reviews)
- key characteristics of the public sector with potential implications for financial reporting
- annual planning
- support provided to Public Accounts Committees.

In line with our commitment to sustainability, VAGO took a lead role in piloting the first ACAG web seminar, to make greater use of online technologies and minimise travel. At the seminar VAGO presented on our initiative to develop and present the key audit themes from the year's audit program. The web seminar was well attended and attracted strong positive feedback, and has led to an ongoing commitment by ACAG to make greater use of this type of technology.

## Advocacy and engagement

Like other professional networks and peak bodies, ACAG provides submissions to public inquiries on issues of relevance to members. In 2010–11, VAGO actively contributed to or led ACAG submissions to:

- Australian Capital Territory Parliamentary Standing Committee on Administration and Procedure—Inquiry into the Creation of an Officer of the Parliament
- Tasmanian Department of Treasury and Finance—Review of Tasmania's Financial Management Framework
- Joint Committee of Public Accounts and Audit—Inquiry into National Funding Agreements.

## International liaison

VAGO has continued to receive significant interest from international offices seeking to develop their capability and form or strengthen relationships with VAGO. In 2010–11, VAGO had the opportunity to share our insights, systems and practices with delegates from a number of organisations as in [Table 23].

Organisation	Dates	Purpose, interest or theme of visit
<b>Delegations</b>		
China National Audit Office	20 June 2011	Audit standards and quality assurance
New Zealand Audit Office	25 May 2011	Environmental audits, local government and water sector reporting and international relations
Ministry for Finance—Uganda	13 April 2011	Whole-of-government accounts and output-based budgeting and reporting
Bangladesh Auditor-General's Office	24 Feb 2011	Auditing resourcing and quality assurance
Shanghai Municipal Audit Bureau	13 Dec 2010	Performance auditing
Samoa Audit Office	15–19 Nov 2010	Performance and IT auditing
Indonesian Audit Board	27 Oct 2010	Traffic light system of internal reporting
Tonga Audit Office	18–22 Oct 2010	Performance auditing
US Government Accountability Office	24 Sept 2010	Key indicator systems
Vietnam Audit Office	12 July 2010	Auditing scientific research
<b>Placements and secondments</b>		
Secondment to British Columbia Office of the Auditor-General	24 June–22 August 2011	VAGO Performance Audit Director seconded to BC—knowledge transfer and professional development
Secondment from British Columbia Office of the Auditor-General	1 June 2011–30 May 2012	BC Financial Auditor seconded to VAGO—knowledge transfer and professional development
Internship of Indonesian student studying at Victoria University	May 2011	AusAID funded internship in Financial Audit
Secondment to State Audit Institution of the United Arab Emirates	Jan 2010–April 2011	VAGO Computer Resource Manager seconded to UAE—knowledge transfer and professional development
Student internship from Pakistan Office of the Auditor-General	13 Dec 2010–13 Feb 2011	AusAID funded internship in Performance Audit
Secondment to Tonga Audit Office	11 Nov 2010–17 Jan 2011	VAGO Performance Audit Director seconded to Tonga Audit Office for capacity-building—funded by Commonwealth Secretariat

To maximise the value that VAGO and the visiting offices get from this activity, in 2010–11 we began consultations with other Australian public sector audit offices to develop a nationally coordinated approach to requests for placements, secondments and delegations. Looking ahead, we plan to develop an International Strategy to guide our future activity, including provision for a longer-term capacity—building partnership with an audit office in a developing country.

## Overseas travel

As mentioned above, in 2010–11 two VAGO Directors undertook international secondments. One secondment was to provide Commonwealth Secretariat funded assistance to the Tonga Audit Office, from November 2010 to January 2011. The other was to the Office of the Auditor-General of British Columbia, Canada, from June to August 2011, on a staff exchange basis. Apart from these two secondments, there was no other overseas travel by VAGO staff in 2010–11.



# Financial management

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

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### 2010–11 Highlights

- Total output cost for OG1 was \$14.7 million (target \$14.1).
- Total output cost for OG2 was \$21.2 million (target \$20.3).

# Financial performance

Our net financial result for the year was a surplus of \$515 847 (compared with a surplus of \$782 059 in 2009–10). Table 24 shows the movement in both actual revenues and expenses.

[Table 24] VAGO revenues and expenses, 2010–11 and previous four years

Item	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)	2007–08 (\$'000)	2006–07 (\$'000)
Revenue					
Appropriation	13 612	13 433	11 696	12 182	10 942
Section 32 carry forward	200	360	–	338	776
Section 29	21 899	20 829	19 317	17 910	15 749
Special Appropriation	447	445	410	431	410
Other	332	643	222	353	136
<b>Total revenue</b>	<b>36 490</b>	<b>35 710</b>	<b>31 645</b>	<b>31 214</b>	<b>28 013</b>
<b>Total expenses</b>	<b>35 974</b>	<b>34 928</b>	<b>33 186</b>	<b>33 296</b>	<b>27 098</b>
<b>Surplus/(deficit)</b>	<b>516</b>	<b>782</b>	<b>(1 541)</b>	<b>(2 082)</b>	<b>915</b>

## Revenue

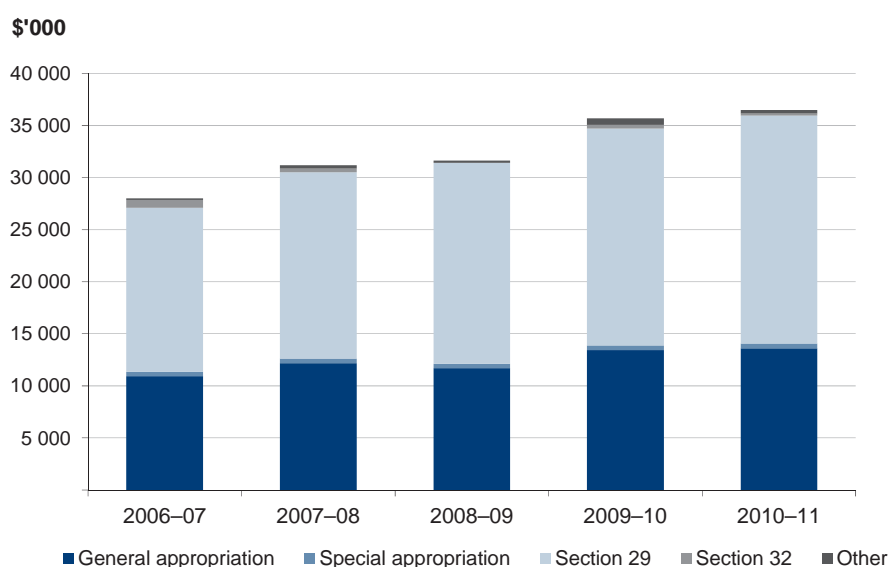
VAGO is funded through Parliamentary appropriations and *Financial Management Act 1994* section 29 revenue.

Total output appropriations increased by \$1.1 million, largely because of:

- Additional section 29 revenue, principally caused by bringing forward work into 2010–11 to enable earlier finalisation of audits. The result was a 7.9 per cent increase in contract audit fees and a 4.6 per cent increase in billable hours, which combined to increase the section 29 revenue by 5.1 per cent.
- Offset by reduction in section 32 carry forward funding of \$0.16 million.

Other non-appropriation revenue decreased by \$0.3 million, as there was less revenue recovered from other entities for outward-bound VAGO secondees (who are paid by VAGO though their salaries are subsequently recovered).

[Figure 9] shows the source of our funding over the past five years.



## Expenses

[Table 25] Expenses from ordinary activities for 2010–11 and previous four years

Item	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)	2007–08 (\$'000)	2006–07 (\$'000)
<b>Expenses</b>					
Depreciation and amortisation	764	801	928	1 028	768
Employee expenses	18 862	17 946	15 829	15 892	14 135
Contract audits services	11 558	10 859	11 220	10 213	7 328
Rental expenses – accommodation	1 475	1 454	1 437	1 425	1 340
Supplies and services	3 060	3 580	3 297	3 788	3 207
Other operating expenses	255	288	475	950	320
<b>Total expenses</b>	<b>35 974</b>	<b>34 928</b>	<b>33 186</b>	<b>33 296</b>	<b>27 098</b>

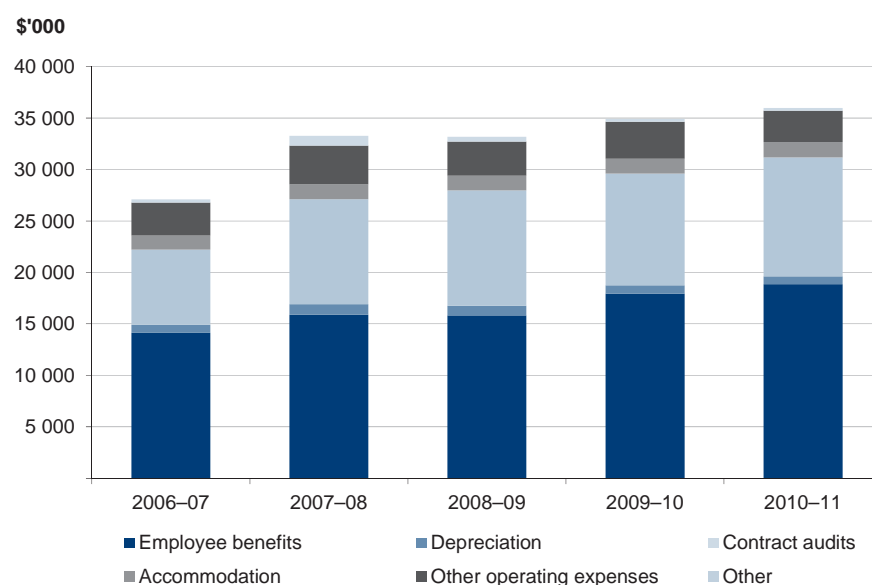
VAGO's expenditure in 2010–11 increased by more than \$1.0 million as result of:

- Increased employee expenses. This was mainly due to a combination of pay increases as determined by the VPS Agreement and Executive Contracts, together with the effect of additional hours worked during the year which includes the increased effort to produce a higher number of performance audit reports.
- Increased contract audit fees in 2010–11 (due to an increased audit service provider costs—see Table 28 for details). These expenses were matched by a corresponding increase in contract audit fee recovery within section 29 revenue.

These were partly offset by:

- Lower depreciation and amortisation from reduced capitalisation of software in HRIS and the absence of IPSAM software development, which now is fully depreciated.
- Lower other operating expenses, such as recruitment, training and consultancies.

[Figure 10] Expenses, 2010–11 and four previous years



## Output results

[Table 26] Total revenues and expenses attributed to outputs for 2010–11

Output group	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)
1. Parliamentary reports and services	14 267	14 728	(461)
2. Audit reports on financial statements	22 223	21 246	977
<b>Total</b>	<b>36 490</b>	<b>35 974</b>	<b>516</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 2011 remained strong, with total assets of \$12.71 million, total liabilities of \$6.63 million and net assets of \$6.08 million.

[Table 27] Asset and liability movement over five years

Item	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)	2007–08 (\$'000)	2006–07 (\$'000)
Financial assets	9 734	8 361	7 933	7 980	9 591
Non-financial assets	2 978	2 991	2 924	3 312	3 878
<b>Total assets</b>	<b>12 712</b>	<b>11 352</b>	<b>10 857</b>	<b>11 292</b>	<b>13 469</b>
<b>Total liabilities</b>	<b>6 631</b>	<b>5 787</b>	<b>6 069</b>	<b>4 596</b>	<b>5 049</b>
<b>Net assets</b>	<b>6 081</b>	<b>5 565</b>	<b>4 788</b>	<b>6 336</b>	<b>8 420</b>

## Other financial matters

### Financial report

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

### Consultancies

VAGO engaged consultants on 35 projects during the year, costing \$205 509, none of which exceeded \$100 000.

## Performance audit contractors

In 2010–11, we paid \$1.36 million (\$1.41 million in 2009–10) to 37 contractors that provided services related to our performance audits.

[Table 28] Performance audits, payments to contractors, 2010–11

Contractor	2010–11 (\$'000)	2009–10 (\$'000)
ACER	16	120
Anne Markiewicz	0	27
Arche Consulting Pty Ltd	0	122
Auctionomics Inc	166	0
Austhink	0	28
Coffey Commercial Advisory Pty Ltd	24	32
Dench McLean Carlson Pty Ltd	0	37
Eggler Enterprises Pty Ltd	0	59
Ernst & Young	170	109
Frontier Economics Pty Ltd	0	46
Gartner Australasia Pty Ltd	40	0
HLB Mann Judd (Vic) Pty Ltd	0	138
Indec Pty Ltd	2	61
O'Connor Marsden & Associates Pty Ltd	49	0
Paradigm Advisory Pty Ltd	23	103
Pitt Group	0	47
Pivotal Point Consulting Services	95	0
Roberts Evaluation Pty Ltd	90	149
Smart Strategic Services Pty Ltd	22	52
Stuart McLennan	30	0
The Allen Consulting Group	122	16
UniQuest Pty Ltd	33	0
University of Melbourne	148	0
Other – 21 contractors (24 in 2009–10)	334	265
<b>Total</b>	<b>1 364</b>	<b>1 411</b>

## Financial audit service providers

In 2010–11, we paid \$10.19 million (\$9.45 million in 2009–10) to 26 audit firms that provided services related to our financial statement audits.

[Table 29] Financial statement audits, payments to audit service providers, 2010–11

Audit service provider	2010–11 (\$'000)	2009–10 (\$'000)
Accounting and Audit Solutions	33	0
Coffey Hunt & Co	513	448
Crowe Horwath Melbourne (previously WHK Horwath)	1 096	950
Davidsons	45	99
Deloitte Touche Tohmatsu	722	644
DFK Collins	369	539
Dixon & Associates Pty Ltd	32	0
Ernst & Young	1 035	1 214
HLB Mann Judd (Vic) Pty Ltd	1 905	1 284
Johnsons MME	243	210
KPMG	342	274
LD Assurance	137	0
Mclean Delmo Hall Chadwick	307	281
Mulqueen Griffin Rogers P/L	94	71
Pannell Kerr Forster	31	52
Richmond Sinnott & Delahunty	709	731
RMA Specialists	85	0
RSM Bird Cameron	1 129	1 233
UHY Haines Norton (Vic) Pty Ltd	478	643
University of Melbourne	75	42
WHK Audit (Vic) (previously WHK Armitage Downie Pty Ltd)	495	428
WHK Audit & Risk Assessment (previously KPMG Albury)	254	238
Other – 4 service providers (5 in 2009–10)	65	67
<b>Total</b>	<b>10 194</b>	<b>9 448</b>

# Financial report

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# Declaration

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

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

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2011 and financial position of VAGO at 30 June 2011.

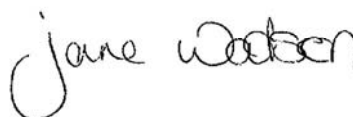
At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 11 August 2011.



**D D R Pearson**  
*Auditor-General*  
*Victorian Auditor-General's Office*

Melbourne  
11 August 2011



**J Watson**  
*Chief Finance and Accounting Officer*  
*Victorian Auditor-General's Office*

Melbourne  
11 August 2011



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

Melbourne  
11 August 2011

# Independent auditor's report



## Report on the financial statements

We have audited the accompanying financial statements of the Victorian Auditor-General's Office, which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Accountable Officer's and Chief Finance and Accounting Officer's declarations.

## The 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 report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

## Independence

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

## 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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations);

**CROWE HORWATH MELBOURNE**

**Peter Sexton**  
Partner  
Melbourne VIC 3000

Dated this 11<sup>th</sup> day of August 2011

Liability limited by a scheme approved under Professional Standards Legislation

Crowe Horwath Melbourne Pty Ltd is a member of Crowe Horwath International, a Swiss Verein. Each member firm of Crowe Horwath is a separate and independent legal entity.

# Comprehensive operating statement

## for the financial year ended 30 June 2011

	Note	2010–11 \$	2009–10 \$
<b>Income from transactions</b>			
Output appropriations	2, 4(a)	35,710,913	34,622,501
Special appropriations	2, 4(b)	446,640	444,723
Sale of goods and services	4(c)	302,125	613,196
Fair value of services received free of charge	4(d)	30,600	29,750
<b>Total income from transactions</b>		<b>36,490,278</b>	<b>35,710,170</b>
<b>Expenses from transactions</b>			
Employee expenses	5(a)	18,861,846	17,945,817
Depreciation and amortisation	5(b)	764,458	801,048
Interest expense	5(c)	30,616	36,821
Capital asset charge		197,000	193,000
Fair value of services provided free of charge		67,377	100,341
Contract audit services		11,558,433	10,859,442
Rental expenses - accommodation		1,474,847	1,454,009
Recruitment and training		709,240	878,215
Other operating expenses	5(d)	2,351,176	2,701,919
<b>Total expenses from transactions</b>		<b>36,014,993</b>	<b>34,970,612</b>
<b>Net result from transactions (net operating balance)</b>		<b>475,285</b>	<b>739,558</b>
<b>Other economic flows included in net result</b>			
Net gain/(loss) on non-financial assets (i)	6(a)	3,984	3,653
Other gains/(losses) from other economic flows	6(b)	36,578	38,848
<b>Total other economic flows included in net result</b>		<b>40,562</b>	<b>42,501</b>
<b>Net result</b>		<b>515,847</b>	<b>782,059</b>
<b>Comprehensive result</b>		<b>515,847</b>	<b>782,059</b>

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

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

# Balance sheet

as at 30 June 2011

	Note	2010–11 \$	2009–10 \$
<b>Assets</b>			
<b>Financial assets</b>			
Cash	18(a)	900	900
Receivables	7	9,733,191	8,360,433
<b>Total financial assets</b>		<b>9,734,091</b>	<b>8,361,333</b>
<b>Non-financial assets</b>			
Property, plant and equipment	8	1,990,518	2,130,967
Intangible assets	9	329,471	388,653
Other non-financial assets	10	657,638	470,801
<b>Total non-financial assets</b>		<b>2,977,627</b>	<b>2,990,421</b>
<b>Total assets</b>		<b>12,711,718</b>	<b>11,351,754</b>
<b>Liabilities</b>			
Payables	11	1,550,001	876,895
Borrowings	12	241,017	301,530
Provisions	13	4,839,870	4,608,251
<b>Total liabilities</b>		<b>6,630,888</b>	<b>5,786,676</b>
<b>Net assets</b>		<b>6,080,830</b>	<b>5,565,078</b>
<b>Equity</b>			
Accumulated surplus		5,783,899	5,268,052
Contributed capital		296,931	297,026
<b>Net worth</b>		<b>6,080,830</b>	<b>5,565,078</b>
Commitments for expenditure	16		
Contingent assets and contingent liabilities	17		

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

# Statement of changes in equity

for the financial year ended 30 June 2011

	Accumulated surplus \$	Contributed capital \$	TOTAL \$
<b>Balance at 1 July 2009</b>	4,485,993	301,530	4,787,523
Net result for the year	782,059	-	782,059
Withdrawal of equity	-	(4,504)	(4,504)
Balance at 30 June 2010	<u>5,268,052</u>	<u>297,026</u>	<u>5,565,078</u>
<b>Net result for the year</b>	<b>515,847</b>	<b>-</b>	<b>515,847</b>
<b>Withdrawal of equity</b>	<b>-</b>	<b>(95)</b>	<b>(95)</b>
<b>Balance at 30 June 2011</b>	<b><u>5,783,899</u></b>	<b><u>296,931</u></b>	<b><u>6,080,830</u></b>

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

# Cash flow statement

for the financial year ended 30 June 2011

	Note	2010–11 \$	2009–10 \$
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from Government		36,791,234	36,713,025
Receipts from other entities		302,125	613,196
<b>Total receipts</b>		<b>37,093,359</b>	<b>37,326,221</b>
<b>Payments</b>			
Payments to suppliers and employees		(35,853,049)	(36,067,198)
Goods and Services Tax paid to the ATO (i)		(404,625)	(311,674)
Capital asset charge payments		(197,000)	(193,000)
Interest and other costs of finance paid		(17,234)	(24,134)
<b>Total payments</b>		<b>(36,471,908)</b>	<b>(36,596,006)</b>
<b>Net cash flows from / (used in) operating activities</b>	19(b)	<b>621,451</b>	<b>730,215</b>
<b>Cash flows from investing activities</b>			
Purchases of non-financial assets		(623,529)	(803,375)
Sales of non-financial assets		62,591	115,091
<b>Net cash flows from / (used in) investing activities</b>		<b>(560,938)</b>	<b>(688,284)</b>
<b>Cash flows from financing activities</b>			
Proceeds from finance leases		77,220	145,796
Repayment of finance leases		(137,733)	(187,727)
<b>Net cash flows from / (used in) financing activities</b>		<b>(60,513)</b>	<b>(41,931)</b>
<b>Net increase / (decrease) in cash held</b>		<b>-</b>	<b>-</b>
Cash at the beginning of the financial year		900	900
<b>Cash at the end of the financial year</b>	19(a)	<b>900</b>	<b>900</b>

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

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

# Notes to the financial statements

for the financial year ended 30 June 2011

## 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).

The purpose of the report is to provide users with information about VAGO's stewardship of resources entrusted to it.

To gain a better understanding of the terminology used in this report, a glossary of terms and style conventions can be found in Note 25.

### (a) Statement of compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards (AAS) which include Interpretations, issued by the Australian Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of the AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Where appropriate, those AAS paragraphs applicable to not-for-profit entities have been applied.

The annual financial statements were authorised for issue by DDR Pearson (Auditor-General), J Watson (Chief Finance and Accounting Officer) and C Yip (Chief Finance and Accounting Officer) on 11 August 2011.

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.

### (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 AAS, judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements made by management in the application of AASs that have significant effects on the financial statements and estimates, with a risk of material adjustments in the next year, are disclosed throughout the notes to the financial statements.

This report has been prepared in accordance with the historical cost convention. Historical cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2011 and the comparative information presented for the year ended 30 June 2010.



**(c) Reporting entity**

The financial statements cover VAGO as an individual reporting entity. Its address is:

Level 24, 35 Collins Street, Melbourne VIC 3000

VAGO is an administrative agency acting on behalf of the Crown.

The financial statements include all the controlled activities of VAGO.

A description of the nature of VAGO's operations and its principal activities is included in the report of operations, which does not form part of these financial statements.

**Objectives and funding**

The primary objectives of VAGO are to 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 output groups:

- Parliamentary reports and services
- Audit reports on financial statements

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

**(d) Administered items**

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

The administered resources of VAGO are primarily audit fees raised from performing financial statement audits and relate to the activities of Output Group 2 (also refer Note 2).

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

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

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

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

'Transactions' and 'other economic flows' are defined by the *Australian system of government finance statistics: concepts, sources and methods* 2005 Cat. No. 5514.0 published by the Australian Bureau of Statistics (see Note 25).

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

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

- gains and losses from disposals and impairments of non-current physical and intangible assets;
- 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, investing or financing activities. This classification is consistent with requirements under AASB 107 *Statement of cash flows*.

**Rounding of amounts**

Amounts in the financial statements (including the notes) have been rounded to the nearest dollar, unless otherwise stated. Figures in the financial statements may not equate due to rounding.

**(f) Income from transactions**

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

**Appropriation income**

Appropriated income becomes controlled and is recognised by VAGO when it is appropriated from the Consolidated Fund by the Victorian Parliament and applied to the purposes defined under the relevant appropriations act. Additionally, VAGO is permitted under section 29 of the *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, duties and taxes. All amounts of income over which VAGO does not have control are disclosed as administered income in the schedule of administered income and expenses (see Note 3). Income is recognised for each of VAGO's major activities as follows:

**Output appropriations**

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

**Special appropriations**

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

**Sale of goods and services**

*Income from the supply of services*

Income from the supply of services is recognised by reference to the stage of completion of the services being performed. The income is recognised when:

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

Under the stage of completion method, income is recognised by reference to labour hours supplied.

*Income from sale of goods*

Income from the sale of goods is recognised when:

- VAGO no longer has any of the significant risks and rewards of ownership of the goods transferred to the buyer;
- VAGO retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of income, and the costs incurred or to be incurred in respect of the transactions, can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to VAGO; and
- Sale of goods and services includes regulatory fees which are recognised at the time the regulatory fee is billed.

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

Contributions of services received free of charge are recognised at fair value when control is obtained over them, irrespective of whether these contributions are subject to restrictions or conditions over their use. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not received as a donation.

**(g) Expenses from transactions**

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

***Employee expenses***

These expenses include all costs related to employment including wages and salaries, superannuation, fringe benefits tax, leave entitlements, redundancy payments and WorkCover premiums.

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

***Depreciation and amortisation***

All plant and equipment and other non-financial physical assets (excluding items under operating leases and assets held-for-sale) that have finite useful lives are depreciated. Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. Refer to Note 1(k) for the depreciation policy for leasehold improvements.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate. Intangible produced assets with finite useful lives are amortised as an expense from transactions on a straight line basis over the asset's useful life.

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

Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Note 8 provides details on the estimated useful lives that are used in the calculation of depreciation and amortisation on property, plant and equipment. Note 9 provides details on the estimated useful lives that are used in the calculation of amortisation on intangible assets.

***Interest expense***

Interest expense is recognised in the period in which it is incurred. Refer to *Glossary of terms and style conventions* in Note 25 for an explanation of interest expense items.

***Capital asset charge***

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

**Other operating expenses**

Other operating expenses generally represent the day-to-day running costs incurred in normal operations. *Contract audit services, rental expenses - accommodation, recruitment and training and other operating expenses*

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

*Fair value of services provided free of charge*

Contributions of resources provided free of charge are recognised at their fair value when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions.

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

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

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

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

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

*Disposal of non-financial assets*

Any gain or loss on the 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 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 recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an other economic flow.

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

Refer to Note 1(k) in relation to the recognition and measurement of non-financial assets.

**Net gain/(loss) on financial instruments**

Net gain/(loss) on financial instruments includes:

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

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

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

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

**(i) Administered income**

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

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

**(j) Financial assets****Cash**

Cash comprises cash on hand.

**Receivables**

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

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

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

**Impairment of financial assets**

At the end of each reporting period, VAGO assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes financial difficulties of the debtor, default payments, debts which are more than 60 days overdue, and changes in debtor credit ratings. All financial assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

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

**(k) Non-financial assets****Property, plant and equipment**

All non-current physical assets are initially measured at cost, and subsequently measured at fair value.

**Leasehold improvements**

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

**Non-current physical assets arising from finance leases**

Refer to Note 1(m) *Leases*

**Intangible assets**

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

When the recognition criteria in AASB138 *Intangible Assets* are met, internally generated intangible assets are recognised and measured at cost less accumulated amortisation and impairment.

**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.

(l) **Liabilities**

**Payables**

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

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

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

**Borrowings**

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

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

**Provisions**

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

**Employee Benefits**

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

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

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

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

*(ii) Long service leave*

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

**Unconditional LSL** is disclosed in the notes to the financial statements as a current liability, even where VAGO does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement 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.

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

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

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

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



*(iii) Termination benefits*

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

*(iv) Performance incentive entitlements*

The Executive Officers' performance incentive entitlements for the performance review period to 30 June 2011 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.

**(m) Leases**

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

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

**Finance leases**

*VAGO as lessee*

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

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

**Operating leases**

*VAGO as lessee*

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

**(n) Equity****Contributions by owners**

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

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

**(o) Commitments**

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



**(p) Contingent assets and contingent liabilities**

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

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

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

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

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

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

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

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

Certain new AASs have been published that are not mandatory for the 30 June 2011 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 2011, all new accounting standards and interpretations that had been issued but classified as not mandatory for the financial year ended 30 June 2011 had been considered, and while the impact of some standards was still to be assessed, the likely impact is not considered to be significant.

## Note 2. Departmental (controlled) outputs

Output groups – VAGO has 2 output groups:

### (1) Parliamentary reports and services

We inform Parliament, our primary client, of the results of our work through our reports. These reports provide Parliament with independent assurance on the adequacy of accountability and resource management practices in the public sector and include:

- performance audits, that focus on the effectiveness, efficiency and economy of publicly funded activities, or probity and compliance;
- an annual assessment of the state's finances;
- reports of observations from the previous June and December financial statement audit rounds.

### (2) Audit reports on financial statements

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

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

- 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
- issuing of management letters to audited agencies conveying the findings of audits.

The major function of VAGO is to provide the organisational framework and resources to enable the Auditor-General to carry out an external audit of public sector agencies on behalf of Parliament.

All resources controlled by VAGO in order to carry out its functions have been included in the financial report.

External contractors are appointed by the Auditor-General, following a process of contestability, to assist in the conduct of performance and 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 2011

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2010–11	2009–10	2010–11	2009–10	2010–11	2009–10
	\$	\$	\$	\$	\$	\$
<b>Income from transactions</b>						
Output appropriations	13,812,000	13,793,000	21,898,913	20,829,501	35,710,913	34,622,501
Special appropriations	238,970	239,128	207,670	205,595	446,640	444,723
Sale of goods and services	199,823	480,277	102,302	132,919	302,125	613,196
Fair value of services received free of charge	15,789	15,143	14,811	14,607	30,600	29,750
<b>Total income from transactions</b>	<b>14,266,582</b>	<b>14,527,548</b>	<b>22,223,696</b>	<b>21,182,622</b>	<b>36,490,278</b>	<b>35,710,170</b>
<b>Expenses from transactions</b>						
Employee expenses	10,482,833	9,950,198	8,379,013	7,995,619	18,861,846	17,945,817
Depreciation and amortisation	316,652	373,529	447,806	427,519	764,458	801,048
Interest expense	17,514	20,103	13,102	16,718	30,616	36,821
Capital asset charge	101,652	98,237	95,348	94,763	197,000	193,000
Fair value of services provided free of charge	67,377	47,545	-	52,796	67,377	100,341
Contract audit services	1,364,669	1,411,044	10,193,764	9,448,398	11,558,433	10,859,442
Rental expenses - accommodation	761,021	740,091	713,826	713,918	1,474,847	1,454,009
Recruitment and training	327,558	493,262	381,682	384,953	709,240	878,215
Other operating expenses	1,312,006	1,403,212	1,039,170	1,298,707	2,351,176	2,701,919
<b>Total expenses from transactions</b>	<b>14,751,282</b>	<b>14,537,221</b>	<b>21,263,711</b>	<b>20,433,391</b>	<b>36,014,993</b>	<b>34,970,612</b>
<b>Net result from transactions (net operating balance)</b>	<b>(484,700)</b>	<b>(9,673)</b>	<b>959,985</b>	<b>749,231</b>	<b>475,285</b>	<b>739,558</b>
<b>Other economic flows included in net result</b>						
Net gain/(loss) on non-financial assets	2,056	1,790	1,928	1,863	3,984	3,653
Other gains/(losses) from other economic flows	21,463	22,584	15,115	16,264	36,578	38,848
<b>Total other economic flows included in net result</b>	<b>23,519</b>	<b>24,374</b>	<b>17,043</b>	<b>18,127</b>	<b>40,562</b>	<b>42,501</b>
<b>Net result</b>	<b>(461,181)</b>	<b>14,701</b>	<b>977,028</b>	<b>767,358</b>	<b>515,847</b>	<b>782,059</b>
<b>Comprehensive result</b>	<b>(461,181)</b>	<b>14,701</b>	<b>977,028</b>	<b>767,358</b>	<b>515,847</b>	<b>782,059</b>

## Controlled assets and liabilities as at 30 June 2011

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2010–11	2009–10	2010–11	2009–10	2010–11	2009–10
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Financial assets	3,985,091	3,482,374	5,749,000	4,878,959	9,734,091	8,361,333
Non-financial assets	1,219,027	1,245,467	1,758,600	1,744,954	2,977,627	2,990,421
<b>Total assets</b>	<b>5,204,118</b>	<b>4,727,841</b>	<b>7,507,600</b>	<b>6,623,913</b>	<b>12,711,718</b>	<b>11,351,754</b>
<b>Liabilities</b>						
<b>Total liabilities</b>	<b>2,714,654</b>	<b>2,410,067</b>	<b>3,916,234</b>	<b>3,376,609</b>	<b>6,630,888</b>	<b>5,786,676</b>
<b>Net assets</b>	<b>2,489,464</b>	<b>2,317,774</b>	<b>3,591,366</b>	<b>3,247,304</b>	<b>6,080,830</b>	<b>5,565,078</b>

### 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 such as income from audit fees raised from performing financial statement audits. The transactions relating to these activities are reported as administered items (refer to note 1 (d) and (i)).

	2010–11	2009–10
	\$	\$
<b>Administered income from transactions</b>		
Sales of services	21,898,913	20,829,502
Miscellaneous income	34,379	20,420
<b>Total administered income from transactions</b>	<u>21,933,292</u>	<u>20,849,922</u>
<b>Administered expenses from transactions</b>		
Payments made on behalf of the State	300	-
Payments into the consolidated fund	21,932,897	20,849,225
<b>Total administered expenses from transactions</b>	<u>21,933,197</u>	<u>20,849,225</u>
<b>Total administered net result from transactions (net operating balance)</b>	<u>95</u>	<u>697</u>
<b>Administered other economic flows included in administered net result</b>		
Net gain/(loss) on non-financial assets	(95)	(697)
<b>Total administered other economic flows</b>	<u>(95)</u>	<u>(697)</u>
<b>Administered net result</b>	<u>-</u>	<u>-</u>
<b>Total administered comprehensive result</b>	<u>-</u>	<u>-</u>
<b>Administered financial assets</b>		
Receivables (i)	2,655,821	2,033,319
<b>Total administered financial assets</b>	<u>2,655,821</u>	<u>2,033,319</u>
<b>Administered non-financial assets</b>		
Work in progress	2,624,129	1,805,791
<b>Total administered non-financial assets</b>	<u>2,624,129</u>	<u>1,805,791</u>
<b>Total administered assets</b>	<u>5,279,950</u>	<u>3,839,110</u>
<b>Administered liabilities</b>		
Amounts owing to the state	5,279,950	3,839,110
<b>Total administered liabilities</b>	<u>5,279,950</u>	<u>3,839,110</u>
<b>Total administered net assets</b>	<u>-</u>	<u>-</u>
<i>(i) Receivables comprise debtors falling due as follows:</i>		
Current	2,568,035	2,025,059
Overdue between 30 to 60 days	87,786	8,260
Overdue beyond 60 days	-	-
	<u>2,655,821</u>	<u>2,033,319</u>

**Note 4. Income from transactions**

	2010–11	2009–10
	\$	\$
<b>(a) Output appropriations (i)</b>		
Annual appropriation for the provision of outputs	13,812,000	13,793,000
Appropriation under s29 <i>FMA 1994</i>	21,898,913	20,829,501
<b>Total output appropriations</b>	<b>35,710,913</b>	<b>34,622,501</b>
<b>(b) Special appropriations (i)</b>		
Appropriation under s94A(6) of the <i>Constitution Act 1975</i>	446,640	444,723
<b>Total special appropriations</b>	<b>446,640</b>	<b>444,723</b>
<b>(c) Sale of goods and services</b>		
Sales of goods (ii)	61,977	47,928
Rendering of services (iii)	240,148	565,268
<b>Total sale of goods and services</b>	<b>302,125</b>	<b>613,196</b>
<b>(d) Fair value of services received free of charge</b>		
Services (iv)	30,600	29,750
<b>Total fair value of services received free of charge</b>	<b>30,600</b>	<b>29,750</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. Refer Note 23.

**Note 5. Expenses from transactions**

	2010–11	2009–10
	\$	\$
<b>(a) Employee expenses</b>		
Post employment benefits:		
Defined contribution superannuation expense	1,164,598	1,089,136
Defined benefit superannuation expense	230,246	216,987
	<u>1,394,844</u>	<u>1,306,123</u>
Termination benefits	219,840	49,935
Salaries, wages and long service leave	17,247,162	16,589,759
<b>Total employee expenses</b>	<u>18,861,846</u>	<u>17,945,817</u>
<b>(b) Depreciation and amortisation</b>		
Depreciation of non-current assets:		
Furniture and fittings	2,008	2,008
Computer software	19,561	4,288
Computer hardware	275,770	240,946
Office equipment	21,002	18,253
Mobile phones	16,498	13,539
<b>Total depreciation of non-current assets</b>	<u>334,839</u>	<u>279,034</u>
Amortisation of non-current assets:		
Leasehold improvements	179,423	178,927
Intangible produced assets	171,910	264,163
Motor vehicles - leased	78,286	78,924
<b>Total amortisation of non-current assets</b>	<u>429,619</u>	<u>522,014</u>
<b>Total depreciation and amortisation</b>	<u>764,458</u>	<u>801,048</u>
<b>(c) Interest expense</b>		
Interest on finance leases	17,234	24,134
Other interest expense	13,382	12,687
<b>Total interest expense</b>	<u>30,616</u>	<u>36,821</u>
<b>(d) Other operating expenses</b>		
Information technology	453,784	475,365
Information management	532,017	510,258
Consultants	205,509	570,788
Legal expenses	6,603	-
Auditors' remuneration	30,600	29,750
Other office expenses	1,122,663	1,115,758
<b>Total other operating expenses</b>	<u>2,351,176</u>	<u>2,701,919</u>

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

	2010–11	2009–10
	\$	\$
<b>(a) Net gain/(loss) on non-financial assets</b>		
Net gain on disposal of property, plant and equipment	3,984	3,653
<b>Total net gain/(loss) on non-financial assets</b>	<b>3,984</b>	<b>3,653</b>
<b>(b) Other gains/(losses) from other economic flows</b>		
Net gain arising from revaluation of long service liability (i)	36,578	38,848
<b>Total other gains/(losses) from other economic flows</b>	<b>36,578</b>	<b>38,848</b>
 (i) <i>Revaluation gain due to changes in bond rates.</i>		

**Note 7. Receivables**

	2010–11	2009–10
	\$	\$
<b>Current receivables</b>		
<b>Contractual</b>		
Sale of goods and services (i)	88	84,274
	<b>88</b>	<b>84,274</b>
<b>Statutory</b>		
Amounts due from Victorian Government (ii) (iii)	5,268,120	4,468,980
GST input tax credit recoverable	-	37,615
<b>Total current receivables</b>	<b>5,268,208</b>	<b>4,590,869</b>
<b>Non-current receivables</b>		
<b>Statutory</b>		
Amounts due from Victorian Government (ii) (iii)	4,464,983	3,769,564
<b>Total non-current receivables</b>	<b>4,464,983</b>	<b>3,769,564</b>
<b>Total receivables</b>	<b>9,733,191</b>	<b>8,360,433</b>

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

(ii) *The total amount recognised as being due from the Victorian Government was \$9,733,103 (2009–10, \$8,238,544) of which \$5,268,120 (2009–10, \$4,468,980) is likely to be drawn down in the next financial year and is reported accordingly as a current receivable.*

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



## Note 8. Property, plant and equipment

### (a) Cost, accumulated amortisation and depreciation (i)

	2010–11	2009–10
	\$	\$
<b>Leasehold improvements</b>		
At cost	1,803,048	1,757,885
Less: Accumulated amortisation	(695,925)	(516,502)
<b>Total leasehold improvements</b>	<u>1,107,123</u>	<u>1,241,383</u>
<b>Furniture and fittings</b>		
At cost	117,027	117,027
Less: Accumulated depreciation	(104,014)	(102,006)
<b>Total furniture and fittings</b>	<u>13,013</u>	<u>15,021</u>
<b>Computer software</b>		
At cost	83,927	31,471
Less: Accumulated depreciation	(25,266)	(5,705)
<b>Total computer software</b>	<u>58,661</u>	<u>25,766</u>
<b>Computer hardware</b>		
At cost	2,427,661	2,094,573
Less: Accumulated depreciation	(1,893,826)	(1,618,056)
<b>Total computer hardware</b>	<u>533,835</u>	<u>476,517</u>
<b>Office equipment</b>		
At cost	170,831	167,957
Less: Accumulated depreciation	(138,725)	(117,723)
<b>Total office equipment</b>	<u>32,106</u>	<u>50,234</u>
<b>Mobile phones</b>		
At cost	63,579	64,334
Less: Accumulated depreciation	(54,649)	(38,810)
<b>Total mobile phones</b>	<u>8,930</u>	<u>25,524</u>
<b>Motor vehicles – leased</b>		
At cost	356,198	384,665
Less: Accumulated amortisation	(119,348)	(88,143)
<b>Total motor vehicles – leased</b>	<u>236,850</u>	<u>296,522</u>
<b>Total property, plant and equipment</b>	<u>1,990,518</u>	<u>2,130,967</u>

- (i) FRD103D requires that property, plant and equipment be classified primarily by the 'purpose' for which the assets are used. These purpose groups are based on government purpose classifications, and comprise: public administration, education, community housing, health, welfare and community, transportation and communications, and public safety and environment. All of VAGO's property, plant and equipment is classified as the purpose group 'public administration'.

**Note 8. Property, plant and equipment (continued)****(b) Movements in property, plant and equipment**

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Mobile phones	Motor vehicles – leased	TOTAL
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Carrying amount</b>								
Balance at 1 July 2009	1,420,310	17,029	1,502	525,920	46,998	15,064	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)	(2,008)	(4,288)	(240,946)	(18,253)	(13,539)	(78,924)	(536,885)
Balance at 30 June 2010	1,241,383	15,021	25,766	476,517	50,234	25,524	296,522	2,130,967
Additions	<b>45,163</b>	-	<b>52,456</b>	<b>333,088</b>	<b>2,874</b>	-	<b>77,220</b>	<b>510,801</b>
Disposals	-	-	-	-	-	(755)	(95,124)	(95,879)
Disposals – Accumulated depreciation	-	-	-	-	-	659	36,518	37,177
Depreciation/amortisation expense	(179,423)	(2,008)	(19,561)	(275,770)	(21,002)	(16,498)	(78,286)	(592,548)
<b>Balance at 30 June 2011</b>	<b>1,107,123</b>	<b>13,013</b>	<b>58,661</b>	<b>533,835</b>	<b>32,106</b>	<b>8,930</b>	<b>236,850</b>	<b>1,990,518</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.

## Note 9. Intangible assets

### (a) Cost and accumulated amortisation

	2010–11	2009–10
	\$	\$
<b>Intangible assets</b>		
At cost	2,847,787	2,735,059
Less: Accumulated amortisation	(2,518,316)	(2,346,406)
<b>Total intangible assets</b>	<b>329,471</b>	<b>388,653</b>

### (b) Movements in intangible assets

	Computer software	TOTAL
	\$	\$
<b>Carrying amount</b>		
Balance at 1 July 2009	265,324	265,324
Additions	387,492	387,492
Amortisation expense (i)	(264,163)	(264,163)
Balance at 30 June 2010	388,653	388,653
Additions	112,728	112,728
Amortisation expense (i)	(171,910)	(171,910)
<b>Balance at 30 June 2011</b>	<b>329,471</b>	<b>329,471</b>

(i) The consumption of intangible produced assets is included in the "Depreciation and amortisation" line item in the comprehensive operating statement.

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

Intangible assets – Computer software 3 years

Aggregate amortisation allocated during the year is recognised as an expense and disclosed in Note 5.

## Note 10. Other non-financial assets

	2010–11	2009–10
	\$	\$
<b>Current other assets</b>		
<b>Prepayments</b>		
Information management	16,843	10,492
Software and hardware maintenance contracts	150,163	169,541
Rental expense – accommodation	120,885	116,016
Other	369,747	174,752
<b>Total current other assets</b>	<b>657,638</b>	<b>470,801</b>
<b>Total other assets</b>	<b>657,638</b>	<b>470,801</b>

**Note 11. Payables**

	2010–11	2009–10
	\$	\$
<b>Current payables</b>		
<b>Contractual</b>		
Amounts payable to government and agencies	21,830	52,223
Supplies and services	1,226,914	569,986
Other payables	170,312	172,085
	<u>1,419,056</u>	<u>794,294</u>
<b>Statutory</b>		
Taxes payable	130,945	82,601
<b>Total current payables</b>	<u>1,550,001</u>	<u>876,895</u>
<b>Total payables</b>	<u>1,550,001</u>	<u>876,895</u>

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

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

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

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

**Note 12. Borrowings**

	2010–11	2009–10
	\$	\$
<b>Current borrowings</b>		
Lease liabilities (i) (Note 15(a))	159,212	79,807
<b>Total current borrowings</b>	<u>159,212</u>	<u>79,807</u>
<b>Non-current borrowings</b>		
Lease liabilities (i) (Note 15(a))	81,805	221,723
<b>Total non-current borrowings</b>	<u>81,805</u>	<u>221,723</u>
<b>Total borrowings</b>	<u>241,017</u>	<u>301,530</u>

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

**(a) Maturity analysis of borrowings**

Please refer to Table 18.4 in Note 18 for the maturity analysis of borrowings.

**(b) Nature and extent of risk arising from borrowings**

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

**(c) Defaults and breaches**

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

## Note 13. Provisions

	2010–11	2009–10	
	\$	\$	
<b>Current provisions</b>			
Employee benefits: (i) (Note 13(a)) – annual leave:			
– Unconditional and expected to settle within 12 months (ii)	1,073,054	1,024,993	
– Unconditional and expected to settle after 12 months (iii)	368,718	357,797	
Employee benefits: (i) (Note 13(a)) – long service leave:			
– Unconditional and expected to settle within 12 months (ii)	357,540	334,439	
– Unconditional and expected to settle after 12 months (iii)	1,610,073	1,554,816	
Employee benefits: (i) (Note 13(a)) – performance incentive entitlements:			
– Unconditional and expected to settle within 12 months (ii)	145,973	240,233	
	<u>3,555,358</u>	<u>3,512,278</u>	
Lease contracts (iv) (Note 15)	3,549	-	
<b>Total current provisions</b>	<u>3,558,907</u>	<u>3,512,278</u>	
<b>Non-current provisions</b>			
Employee benefits: (i) (Note 13(a))	541,464	421,525	
Lease contracts (iv) (Note 15)	481,919	430,250	
Make-good provision (v)	257,580	244,198	
<b>Total non-current provisions</b>	<u>1,280,963</u>	<u>1,095,973</u>	
<b>Total provisions</b>	<u>4,839,870</u>	<u>4,608,251</u>	
<b>(a) Employee benefits (i)</b>			
	2010–11	2009–10	
	\$	\$	
<b>Current employee benefits</b>			
Annual leave entitlements	1,441,772	1,382,790	
Long service leave entitlements	1,967,613	1,889,255	
Performance incentive entitlements	145,973	240,233	
	<u>3,555,358</u>	<u>3,512,278</u>	
<b>Non-current employee benefits</b>			
Long service leave entitlements	541,464	421,525	
<b>Total employee benefits</b>	<u>4,096,822</u>	<u>3,933,803</u>	
<i>(i) Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, including on-costs.</i>			
<i>(ii) The amounts disclosed are nominal amounts.</i>			
<i>(iii) The amounts disclosed are discounted to present values.</i>			
<i>(iv) The provision for lease contracts reflects a requirement to provide for known future increases in operating lease rentals for the lease of VAGO's premises.</i>			
<i>(v) The make-good provision reflects a requirement in the terms of the lease of VAGO's premises to restore the property at the end of the lease term.</i>			
<b>(b) Movement in provisions</b>			
	Lease contracts	Make-good	Total
	2010–11	2010–11	2010–11
	\$	\$	\$
<b>Opening balance</b>	430,250	244,198	674,448
Additional provisions recognised	55,218	13,382	68,600
<b>Closing balance</b>	<u>485,468</u>	<u>257,580</u>	<u>743,048</u>
Current	3,549	-	3,549
Non-current	481,919	257,580	739,499
	<u>485,468</u>	<u>257,580</u>	<u>743,048</u>

## Note 14. Superannuation

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

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

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

The name, details and amounts expensed in relation to the major employee superannuation funds and contributions made by VAGO are as follows:

Fund	Paid contribution for the year		Contribution outstanding at year end	
	2010–11	2009–10	2010–11	2009–10
	\$	\$	\$	\$
<b>Defined benefit plans:</b>				
State Superannuation Fund – revised and new	237,988	215,849	-	7,742
<b>Defined contribution plans:</b>				
VicSuper	945,810	836,842	-	26,111
Other	294,027	279,458	-	7,537
<b>Total</b>	<b>1,477,825</b>	<b>1,332,149</b>	<b>-</b>	<b>41,390</b>

- (i) *The bases for determining the level of contributions are determined by the various actuaries of the superannuation plans.*

## Note 15. Leases

### (a) Finance leases

#### Leasing arrangements

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

	Minimum future lease payments <sup>(i)</sup>		Present value of minimum future lease payments	
	2010–11	2009–10	2010–11	2009–10
	\$	\$	\$	\$
<b>Finance lease liabilities payable;</b>				
Not longer than one year	169,727	98,348	164,283	95,045
Longer than one year and not longer than five years	85,914	232,053	76,637	206,420
Longer than five years	-	-	-	-
<b>Minimum future lease payments</b>	<b>255,641</b>	<b>330,401</b>	<b>240,920</b>	<b>301,465</b>
Less future finance charges	(14,624)	(28,871)	-	-
<b>Present value of minimum lease payments</b>	<b>241,017</b>	<b>301,530</b>	<b>240,920</b>	<b>301,465</b>
Included in the financial statements as:				
Current borrowings lease liabilities (Note 12)	159,212	79,807		
Non-current borrowings lease liabilities (Note 12)	81,805	221,723		
<b>Total interest-bearing liabilities</b>	<b>241,017</b>	<b>301,530</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.

	2010–11	2009–10
	\$	\$
<b>Non-cancellable operating lease payables:</b>		
Not longer than one year	1,618,143	1,551,560
Longer than one year and not longer than five years	7,183,999	6,873,995
Longer than five years	1,478,570	3,384,956
<b>Total</b>	<b>10,280,712</b>	<b>11,810,511</b>



## Note 16. Commitments for expenditure

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

### (a) Contract audits

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

	2010–11	2009–10
	\$	\$
Not longer than one year	4,292,258	5,290,404
Longer than one year and not longer than five years	1,363,093	2,978,943
Longer than five years	-	-
<b>Total commitments for expenditure (inclusive of GST)</b>	<b>5,655,351</b>	<b>8,269,347</b>
Less GST recoverable from the Australian Taxation Office	<b>(514,123)</b>	<b>(751,759)</b>
<b>Total commitments for expenditure (exclusive of GST)</b>	<b>5,141,228</b>	<b>7,517,588</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.

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

(ii) Finance lease and non-cancellable operating lease commitments are disclosed in Note 15.

## Note 17. Contingent assets and contingent liabilities

At the reporting date, VAGO was not aware of any contingent assets or contingent liabilities.

## Note 18. Financial instruments

### (a) Financial risk management objectives and policies

VAGO's principal financial instruments comprise:

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

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, 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 contractual financial assets and financial liabilities by category are in Table 18.1 below.

**Table 18.1 Categorisation of financial instruments**

	2010–11	2009–10
	\$	\$
<b>Contractual financial assets</b>		
Cash	900	900
Receivables: (i)		
Sale of goods and services	88	84,274
<b>Total contractual financial assets</b>	<b>988</b>	<b>85,174</b>
<b>Contractual financial liabilities</b>		
Payables: (i)		
Supplies and services	1,226,914	569,986
Amounts payable to government and agencies	21,830	52,223
Other payables	170,312	172,085
Borrowings:		
Lease liabilities	241,017	301,530
<b>Total contractual financial liabilities</b>	<b>1,660,073</b>	<b>1,095,824</b>

(i) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government (2010–11 - \$9,733,103, 2009–10 - \$8,238,544) and GST input tax credit recoverable (2010–11 - \$nil, 2009–10 - \$37,615), and taxes payable (2010–11 - \$130,945, 2009–10 - \$82,601)). Statutory financial assets will be used to cover payment of contractual financial liabilities.

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

	2010–11	2009–10
	\$	\$
<b>Contractual financial liabilities</b>		
Financial liabilities at amortised cost:		
Interest on finance leases	(17,234)	(24,134)
<b>Total contractual financial liabilities</b>	<b>(17,234)</b>	<b>(24,134)</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.

## Note 18. Financial instruments (continued)

### (b) Credit risk

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

#### **Contractual financial assets that are either past due or impaired**

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

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

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

**Table 18.3 Ageing analysis of contractual financial assets**

	Carrying amount	Not past due and not impaired	Past due but not impaired			
			Less than 1 month	1–3 months	3 months –1 year	1–5 years
	\$	\$	\$	\$	\$	\$
<b>2010–11</b>						
Receivables: (i)						
Sale of goods and services	88	88	-	-	-	-
<b>Total</b>	<b>88</b>	<b>88</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>2009–10</b>						
Receivables: (i)						
Sale of goods and services	84,274	84,256	-	18	-	-
<b>Total</b>	<b>84,274</b>	<b>84,256</b>	<b>-</b>	<b>18</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 contractual financial liabilities:

**Note 18. Financial instruments (continued)****Table 18.4 Maturity analysis of contractual financial liabilities (ii)**

	Carrying amount	Nominal amount	Maturity dates			
			Less than 1 month	1-3 months	3 months -1 year	1-5 years
<b>2010-11</b>						
	\$	\$	\$	\$	\$	\$
<b>Payables: (i)</b>						
Supplies and services	1,226,914	1,226,914	1,223,102	3,812	-	-
Amounts payable to government and agencies	21,830	21,830	21,830	-	-	-
Other payables	170,312	170,312	170,312	-	-	-
<b>Borrowings:</b>						
Lease liabilities	241,017	241,017	21,565	37,634	100,013	81,805
	<b>1,660,073</b>	<b>1,660,073</b>	<b>1,436,809</b>	<b>41,446</b>	<b>100,013</b>	<b>81,805</b>
<b>2009-10</b>						
<b>Payables: (i)</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>

(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>2010–11</b>					
<b>Financial assets</b>					
Cash	-	900	-	-	900
Receivables: (i)					
Sale of goods and services	-	88	-	-	88
<b>Total financial assets</b>		<b>988</b>	<b>-</b>	<b>-</b>	<b>988</b>
<b>Financial liabilities</b>					
Payables: (i)					
Supplies and services	-	1,226,914	-	-	1,226,914
Amounts payable to government and agencies	-	21,830	-	-	21,830
Other payables	-	170,312	-	-	170,312
Borrowings:					
Lease liabilities	6.10%	241,017	214,280	-	26,737
<b>Total financial liabilities</b>		<b>1,660,073</b>	<b>214,280</b>	<b>-</b>	<b>1,445,793</b>
<b>2009–10</b>					
<b>Financial assets</b>					
Cash	-	900	-	-	900
Receivables: (i)					
Sale of goods and services	-	84,274	-	-	84,274
<b>Total financial assets</b>		<b>85,174</b>	<b>-</b>	<b>-</b>	<b>85,174</b>
<b>Financial liabilities</b>					
Payables: (i)					
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>

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

**(e) Fair value**

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

## Note 19. Cash flow information

### (a) Reconciliation of cash and cash equivalents

	2010–11	2009–10
	\$	\$
Total cash and cash equivalents disclosed in the balance sheet (i)	900	900
<b>Balance as per cash flow statement</b>	<b>900</b>	<b>900</b>

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

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

At 30 June 2011, cash at bank included the amount of a notional shortfall for the payment of unrepresented cheques of \$16,242 (2010 \$16,972).

### (b) Reconciliation of net result for the period

	2010–11	2009–10
	\$	\$
<b>Net result for the period</b>	<b>515,847</b>	782,059
<b>Non-cash movements:</b>		
Loss on disposal of non-current assets	(3,984)	(3,653)
Depreciation and amortisation of non-current assets	764,458	801,048
<b>Movements in assets and liabilities:</b>		
(Increase)/decrease in receivables	(1,372,758)	(428,204)
(Increase)/decrease in prepayments	(186,837)	(180,564)
Increase/(decrease) in payables	673,106	(933,616)
Increase/(decrease) in provisions	231,619	693,145
<b>Net cash flows from/(used in) operating activities</b>	<b>621,451</b>	730,215

## 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.

#### 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 3(2)		Section 29		Section 32		Parliamentary authority		Appropriations applied			
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10	2010-11	
<b>Controlled</b>																
Provision for outputs	\$ 13,612,000	\$ 13,433,000	\$ -	\$ -	\$ -	\$ -	\$ 21,898,913	\$ 20,829,501	\$ 200,000	\$ 360,000	\$ 35,710,913	\$ 34,622,501	\$ 35,710,913	\$ 34,622,501	\$ -	
Additions to net assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Total</b>	<b>\$ 13,612,000</b>	<b>\$ 13,433,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,898,913</b>	<b>\$ 20,829,501</b>	<b>\$ 200,000</b>	<b>\$ 360,000</b>	<b>\$ 35,710,913</b>	<b>\$ 34,622,501</b>	<b>\$ 35,710,913</b>	<b>\$ 34,622,501</b>	<b>\$ -</b>	
See Note 2 for the break-up of annual appropriation by output group.																
<b>Parliamentary appropriations</b>																
<b>2010-11</b>																
<b>\$</b>																
<b>Appropriation Act</b>																
Annual appropriation	13,612,000	13,666,000														
Add: Indexation adjustment	-	(33,000)														
Less: Workrate adjustment	-	-														
Less: Carried forward to 2011-12	-	(200,000)														
<b>Financial Management Act 1994</b>	<b>13,612,000</b>	<b>13,433,000</b>														
Section 29 – estimate	19,959,000	19,519,000														
Plus, variance from estimate	1,939,913	1,310,501														
<b>Section 32</b>	<b>200,000</b>	<b>360,000</b>														
Brought forward	200,000	360,000														
Total Parliamentary Authority Appropriations applied	35,710,913	34,622,501														
Variance	-	-														



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

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

Authority	Purpose	Appropriations applied	
		2010–11	2009–10
		\$	\$
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with the Auditor-General	<u>446,640</u>	<u>444,723</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 2010 to 30 June 2011)
- P Frost (Acting, for 42 days during the period 1 July 2010 to 30 June 2011)

### (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:

\$440,000 – \$449,999 (2009–10 \$410,000 – \$419,999)

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

Income band	Total remuneration		Base remuneration	
	2010–11 No.	2009–10 No.	2010–11 No.	2009–10 No.
\$80,000 to \$89,999	-	-	1	-
\$100,000 to \$109,999	1	-	1	-
\$110,000 to \$119,999	2	-	1	-
\$120,000 to \$129,999	1	1	1	1
\$130,000 to \$139,999	-	-	-	4
\$140,000 to \$149,999	-	7	1	6
\$150,000 to \$159,999	2	3	6	4
\$160,000 to \$169,999	4	4	6	1
\$170,000 to \$179,999	5	1	1	-
\$180,000 to \$189,999	3	-	-	-
\$190,000 to \$199,999	-	-	-	1
\$200,000 to \$209,999	-	1	-	-
\$220,000 to \$229,999	-	-	-	1
\$250,000 to \$259,999	-	1	1	-
\$270,000 to \$279,999	1	-	-	1
\$290,000 to \$299,999	-	-	1	-
\$300,000 to \$309,999	1	1	-	-
<b>Total numbers</b>	<b>20</b>	<b>19</b>	<b>20</b>	<b>19</b>
<b>Total amount</b>	<b>\$ 3,448,111</b>	<b>\$ 3,199,900</b>	<b>\$ 3,231,769</b>	<b>\$ 3,035,441</b>

Other than those executive officers whose remuneration is disclosed in the above table, there were also 1 arrival and 3 departures (2009–10: 1 arrival and departure, 2 full-time arrivals, 1 reclassification and 1 payment to 2008–09 departed EO) 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 4 affected executive officers was \$228,646 (2009–10, \$124,107).

## Note 23. Remuneration of auditors

### Crowe Horwath Melbourne (previously WHK Horwath)

	2010–11	2009–10
	\$	\$
Audit of the financial report of VAGO	<b>30,600</b>	29,750
Other services (as contract financial audit service provider to undertake financial audits of VAGO clients)	<b>1,096,162</b>	949,697

The auditor of the Victorian Auditor-General's Office is appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the *Audit Act 1994*. Mr Peter Sexton from Crowe Horwath Melbourne was appointed to this position in 2010.

A condition of his appointment is that he does not provide other services to the office, including contract financial statement audits. VAGO outsources many of its financial statement audits to a range of service providers and Peter Sexton is an employee of WHK Group Ltd. which owns and operates under both the WHK and the Crowe Horwath brands in Australia and is noted as a 'financial audit service provider' on page 58 of the annual report.

In accordance with the terms of his engagement by PAEC, neither Peter Sexton nor his staff involved in the audit of the Victorian Auditor-General's Office are directly or indirectly involved in any other services provided to the Victorian Auditor-General's Office including financial statement audits as a financial audit service provider.

### Related practices

In addition to the amounts disclosed above for Crowe Horwath Melbourne, the following payments were made to their related practices:

WHK Audit (Vic) (previously WHK Armitage Downie Pty Ltd)	\$	\$
Other services (as contract financial audit service provider to undertake financial audits of VAGO clients)	<b>495,178</b>	428,266
WHK Audit & Risk Assessment (previously KPMG Albury)	\$	\$
Other services (as contract financial audit service provider to undertake financial audits of VAGO clients)	<b>254,049</b>	238,453

## Note 24. Subsequent events

VAGO has no subsequent events to report.

## Note 25. Glossary of terms and style conventions

### Glossary

#### Actuarial gains or losses on superannuation defined benefit plans

between the assumptions used to calculate the superannuation expense from transactions and actual experience.

#### Borrowings

Borrowings refers to interest-bearing liabilities raised from finance leases.

#### Comprehensive result

The net result of income and expenditure recognised for the period. It is the aggregate of operating result and other non-owner movements in equity.

#### Capital asset charge

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

#### Commitments

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

#### Depreciation

physical or intangible asset. This expense is classified as a 'transaction' and so reduces the 'net result from transactions'.

#### Employee benefits expenses

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

#### Financial asset

A financial asset is any asset that is:

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

#### Financial instrument

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

**Financial liability**

A financial liability is any liability that is:

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

**Financial statements**

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

**General government sector**

The general government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non-market in nature, those which are largely for collective consumption by the community and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, or other compulsory levies and user charges.

**Intangible produced assets**

Refer to produced assets in this glossary.

**Interest expense**

Costs incurred in connection with the borrowing of funds includes interest on short-term and long-term borrowings, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

**Net acquisition of non-financial assets (from transactions)**

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

**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 income from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

**Net worth**

Assets less liabilities, which is an economic measure of wealth.

**Non-financial assets**

Non-financial assets are all assets that are not 'financial assets'. It includes plant and equipment, intangible assets and prepayments.

**Other economic flows**

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. It includes gains and losses from disposals and impairments of non-current physical and intangible assets, and gains and losses arising from the revaluation of the long service leave liability. In simple terms, other economic flows are changes arising from market re-measurements.

**Payables**

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

**Produced assets**

Produced assets include plant and equipment and certain intangible assets. Intangible produced assets include computer software.

**Receivables**

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

**Sales of goods and services**

Refers to income from the direct provision of goods and services and includes fees and charges for services rendered and sales of goods and services.

**Supplies and services**

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

**Transactions**

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

**Style conventions**

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

- zero, or rounded to zero
- (xxx,x) negative numbers
- 200x year period
- 200x-0x year period

The financial statements and notes are presented based on the illustration for a government department in the 2010–11 *Model Report for Victorian Government departments*. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of the VAGO's annual reports.

# 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. The results of the audit were tabled in Parliament in September 2010.

The report made 20 recommendations and VAGO accepted ten of them. A recommendation was not accepted where:

- it was not consistent with legislation or
- it was not consistent with the role of the Auditor-General or
- the current policy met or exceeded professional requirements or
- the implementation would result in duplication of processes or
- the implementation could impact negatively on the quality of the reports.

The following table outlines the status of VAGO's implementation of the ten accepted recommendations as at 30 June 2011.

Recommendation	Status and comment as at 30 June 2011
<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>Completed.</b> Appropriate disclosure has continued to be considered where material and substantive change occurs. Significant changes in name or scope are rare and most changes to audit titles are inconsequential. Regular briefings with agency heads are held, any changes are discussed at these meetings and PAEC is advised at the earliest opportunity.</p>
<p><b>5. Fostering productive relationships with audit clients.</b> Consider strategies to further improve relationships with auditees.</p>	<p><b>Completed.</b> Fostering of productive relationships with clients has been central to successive VAGO Strategic Plans and is one of the objectives in the Strategic Plan 2010–2015 and strategies and measures are in place. Sector based engagement strategy workshops have been held throughout 2010–11 will continue in 2011–12 and at an individual audit level an Audit Engagement Plan has been introduced.</p>
<p><b>9. Application of AmP.</b> Consider further refinement of VAGO's performance audit methodology.</p>	<p><b>Completed.</b> VAGO's continuous improvement process on at least an annual basis adopts refinements in light of the business need and risk. The refinements recommended in the PAEC Performance Audit report were considered and a number of the recommendations will be reflected in the updated version of AmP (VAGO's performance audit methodology to be released in July 2011).</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>Completed.</b> VAGO's continuous improvement process adopts refinements in light of experience and post audit reviews, business need and risk. The accuracy of the estimation of performance audit cost has been steadily improving.</p>
<p><b>13. Comparability of costs between performance audits.</b> Consider implementing a consistent approach to measuring performance audits.</p>	<p><b>Completed.</b> This recommendation suggested developing a common yardstick to measure the comparability of time costs incurred for similar performance audits through each phase with a view to further strengthen cost management initiatives. As noted in the comments to recommendation 9 VAGO's continuous improvement process adopts refinements in light of experience and post audit reviews.</p>

Recommendation	Status and comment as at 30 June 2011
<p><b>14. Performance audit: cold reviews.</b> Consider further refining the process for undertaking cold reviews.</p>	<p><b>Completed.</b> VAGO's continuous improvement process adopts refinements in light of experience, business need and risk. The Post Audit Quality Assurance process is reviewed every two years and the current process meets and in many respects exceeds the relevant standards.</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>Completed.</b> All staff have signed or otherwise agreed to abide by the Code of Conduct.</p>
<p><b>17. IT Audits.</b> Consider measures to improve computerised audit techniques.</p>	<p><b>Completed.</b> A business improvement project to expand our IT capacity and the tools applied is included in VAGO's Business Plan and is scheduled for implementation in the 2011–12 financial year.</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>Completed.</b> VAGO has a continuous improvement process and particular attention will be paid to more comprehensively documenting the rationale for decisions. When the tender evaluation process was reviewed the recommended refinements were considered and minor amendments to procedures will be implemented.</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>Completed.</b> Rationale behind any future decisions to exclude 'high' risks from internal audit will be fully documented. There have been no 'high' risks excluded in the last 12 months.</p>

The following table provides VAGO's response to the recommendations that were not accepted.

Recommendation	VAGO response to the recommendations in the draft report dated 30 August 2010
<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>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>



Recommendation	VAGO response to the recommendations in the draft report dated 30 August 2010
<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>
<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 declarations 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>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>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>16. Expanding quality review of completed financial audits.</b> Consider expanding quality reviews for financial audits.</p>	<p><b>Not accepted.</b> VAGO's current level of quality review is significantly in excess of professional requirements and is rigorously monitored. Results do not warrant expansion.</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 AAGs' approval to purchase is limited by the tender approval.</p>

# Appendix 2: Reports to Parliament

Date report was tabled	VAGO report number	Report title	Pages
28 July 2010	2010–11:1	Portfolio Departments: Interim Results of the 2009–10 Audits	68
28 July 2010	2010–11:2	Taking Action on Problem Gambling	60
11 August 2010	2010–11:3	Local Government: Interim Results of the 2009–10 Audits	44
11 August 2010	2010–11:4	Water Entities: Interim Results of the 2009–10 Audits	56
1 September 2010	2010–11:5	Public Hospitals: Interim Results of the 2009–10 Audits	80
1 September 2010	2010–11:6	Business Continuity Management in Local Government	56
1 September 2010	2010–11:7	Sustainable Farm Families Program	44
15 September 2010	2010–11:8	Delivery of NURSE-ON-CALL	52
15 September 2010	2010–11:9	Management of Prison Accommodation Using Public Private Partnerships	60
5 October 2010	2010–11:10	Soil Health Management	40
5 October 2010	2010–11:11	Sustainable Management of Victoria's Groundwater Resources	48
5 October 2010	2010–11:12	The Department of Human Services' Role in Emergency Recovery	48
6 October 2010	2010–11:13	Access to Ambulance Services	104
6 October 2010	2010–11:14	Management of the Freight Network	44
6 October 2010	2010–11:15	Security of Infrastructure Control Systems for Water and Transport	56
7 October 2010	2010–11:16	Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2009–10	96
7 October 2010	2010–11:17	Restricting Environmental Flows during Water Shortages	64
7 October 2010	2010–11:18	Victorian Registration and Qualifications Authority	84
2 February 2011	2010–11:19	Acquittal Report: Results of the 2009–10 Audits	352
2 February 2011	2010–11:20	Effectiveness of Victims of Crime Programs	44
2 February 2011	2010–11:21	Motorcycle and Scooter Safety Programs	56
2 February 2011	2010–11:22	Construction of Police Stations and Courthouses	52
2 March 2011	2010–11:23	Environmental Management of Marine Protected Areas	44
2 March 2011	2010–11:24	Managing Drug and Alcohol Prevention and Treatment Services	88
23 March 2011	2010–11:25	Local Community Transport Services: the Transport Connections program	64
23 March 2011	2010–11:26	Effectiveness of Small Business Victoria's Support Programs	48
6 April 2011	2010–11:27	Facilitating Renewable Energy Development	48
6 April 2011	2010–11:28	Problem-Solving Approaches to Justice	60
4 May 2011	2010–11:29	Managing Student Safety	56
4 May 2011	2010–11:30	Revitalising Central Dandenong	48
25 May 2011	2010–11:31	Tertiary Education and Other Entities: Results of the 2010 Audits	52
25 May 2011	2010–11:32	Early Childhood Development Services: Access and Quality	152
1 June 2011	2010–11:33	Indigenous Education Strategies for Government Schools	60
1 June 2011	2010–11:34	Management of Major Road Projects	52
15 June 2011	2010–11:35	Victorian Life Sciences Computation Initiative	60
29 June 2011	2010–11:36	Allocation of Electronic Gaming Machine Entitlements	112
29 June 2011	2010–11:37	Municipal Solid Waste Management	56

# Appendix 3: Office-based environmental impacts

VAGO voluntarily joined the *ResourceSmart* program in 2007 to better understand, monitor and improve our environmental impacts. The Auditor-General has endorsed 'VAGO's Environmental Statement of Intent', which says:

*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

VAGO formed the Environment Management Committee (EMC) whose aims are to improve, monitor and report the environmental performance of the office. We held regular meetings throughout 2010–11 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 2010–11, which was also part of VAGO's commitment to the *ResourceSmart* program, was finalising implementation of the 2009–11 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 2010–11 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 of hiring more economical models and hybrids, energy reduction strategies, better waste management, etc.
- participation in sustainable events, such as Earth Hour
- providing environmental awareness messages around the office.

The main tasks for the EMC in 2011–12 will be renewing and updating our EAP to include new opportunities that we had not identified or included in our previous plan.

## AUDIT CERTIFICATE



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### INDEPENDENT VERIFICATION STATEMENT

To the Auditor-General, the Executive, and Stakeholders of the Victorian Auditor-General's Office:

The Victorian Auditor-General's Office (VAGO) commissioned Net Balance Management Group Pty Ltd (Net Balance) to provide independent verification of the organisation's Greenhouse Gas (GHG) Inventory for the period 1 July 2010 to 30 June 2011, as presented within VAGO's 2010-2011 Annual Report. VAGO was responsible for the preparation of the GHG inventory and this statement represents the verification provider's independent opinion. Net Balance's responsibility in performing our verification activities is to the Auditor-General and Executive of VAGO alone and in accordance with the terms of reference agreed with them. Other stakeholders should perform their own due diligence before taking any action as a result of this statement.

#### Verification Objectives

The objective of the verification process is to provide the Auditor-General and Executive of VAGO, as well as its stakeholders, with an independent opinion on the accuracy of the GHG inventory. This is achieved through a review of the underlying systems, information and calculations supporting the GHG inventory.

#### Verification Scope and Methodology

The verification scope covered VAGO's complete GHG inventory, including Scope 1, 2 and 3 emissions as presented in the Environmental Performance table in Appendix 3. The engagement was undertaken between June and July 2011, and the process involved:

- reviewing internal systems and processes used to manage the GHG inventory
- conducting interviews with key personnel responsible for preparation of the GHG inventory
- analytical and other review procedures to detect misstatements in the GHG inventory
- collecting and evaluating evidence to support the verification work undertaken.

#### Our Competency and Independence

The verification process was carried out by a team of greenhouse and energy technical specialists.

Net Balance was not responsible for preparation of any part of the GHG inventory. Net Balance confirms that we are not aware of any issue that could impair our objectivity in relation to this engagement.

#### Our Opinion

Based on the scope of the verification process, the following represents the verification provider's opinion:

- The findings of the verification engagement provide confidence in the systems and processes used for managing and reporting GHG emissions.
- The level of accuracy of GHG emission information was found to be within acceptable limits.
- Data trails selected were easily identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin(s) and interpretation of data.
- VAGO's inventory is a fair and accurate representation of the organisation's GHG emissions during the period.
- Any errors identified during the verification process were corrected prior to the GHG inventory being published.

On behalf of the verification team  
27 July 2011  
Melbourne, Australia

Terence Jeyaretnam, FIEAust  
Director, Net Balance & Lead CSAP (IRCA UK)

## Environmental performance

Energy consumption <sup>(a)</sup>		2010–11	2009–10	
Quantity (MJ)	Non Green	0	733 473	
	Green	951 004	244 491	
	Total	951 004	977 964	
Measure (MJ)	per FTE	5 976	5 845	
	per m2	338.4	348	
Greenhouse gas emissions (tonnes CO2-e) Scope 2	Total	356.6	366.7	
	Offset	356.6	91.7	
	Total after Offset	0	275.0	
Waste <sup>(b)</sup>		2010–11	2009–10	
Quantity (kg)	Waste (landfill)	3 128.5	Not measured	
	Recycling	11 770.5	Not measured	
	Compost	511.5	Not measured	
Measure (kg/FTE)	Waste (landfill)	20	Not measured	
	Recycling	74	Not measured	
	Compost	3	Not measured	
Greenhouse gas emissions (GHG) (tonnes CO2-e)	Waste to landfill (Scope 3)	5.2	Not measured	
Paper purchased <sup>(c)</sup>		2010–11	2009–10	
Quantity (reams A4 equivalent)	Copy paper	2 068	2 465	
	Publications	1 435	1 204	
Measure (reams A4 per FTE)	Copy paper	13.0	14.7	
	Publications	9.0	7.2	
Greenhouse gas emissions (tonnes CO2-e) Scope 3	Total (copy paper and publications)	16.5	16.8	
Water <sup>(d)</sup>		2010–11	2009–10	
Quantity (kL)		878	Not measured	
Measure (kL/FTE)		5.5	Not measured	
Measure (kL/m2)		0.3	Not measured	
Greenhouse gas emissions (tonnes CO2-e) Scope 3		2.1	Not measured	
Fuel use <sup>(e)</sup>		2010–11	2009–10	
Quantity (MJ)	VAGO Vehicles	348 368	370 614	
	Hire Vehicles	462 803	794 603	
Quantity (business related km travelled)	VAGO Vehicles	77 247	83 818	
	Hire Vehicles	150 991	198 973	
Measure (GHG tonnes CO2-e/1000kms)	VAGO Vehicles	0.325	0.332	
	Hire Vehicles	0.221	0.299	
GHG (tonnes CO2-e)	VAGO Vehicles	Scope 1	23.3	25.8
		Scope 3	1.8	2.0
	Hire Vehicles	Scope 3	33.4	59.5

## Environmental performance – continued

Flights (Short/Medium/Long haul) <sup>(f)</sup>		2010–11	2009–10
Quantity	Short	24	18
	Medium	40	29
	Long	1	5
Quantity (kms travelled)	Short	21 852	16 860
	Medium	96 211	66 602
	Long	23 699	150 255
Greenhouse gas emission (tonnes CO <sub>2</sub> -e) Scope 3	Short	20.5	5.5
	Medium	51.0	21.6
	Long	14.7	44.6
Taxi trips <sup>(g)</sup>		2010–11	2009–10
Quantity (trips)		802	Not measured
Greenhouse gas emission (tonnes CO <sub>2</sub> -e) Scope 3		2.8	Not measured
Fridges <sup>(h)</sup>		2010–11	2009–10
Number of fridges		6	6
Greenhouse gas emission (tonnes CO <sub>2</sub> -e) Scope 3		25.7	25.7
Total greenhouse gas emissions (of above measures) <sup>(i)</sup>		2010–11	2009–10
Quantity (tonnes CO <sub>2</sub> -e)	Scope 1	49.0	51.5
	Scope 2	0	275
	Scope 3	148.1	150
	Total	197.1	476.5
Quantity (tonnes CO <sub>2</sub> -e/FTE)	Total	1.2	2.8

Notes: (a) Includes electricity at VAGO premises (Levels 23 and 24, 35 Collins Street). 100 per cent Green power purchased in 2010–11.

(b) Includes waste at VAGO premises (five day audit of waste production). Recycling rate of 80 per cent.

(c) Includes paper purchased for printing/copying at VAGO premises and also paper used to print our reports to Parliament and other publications. 100 per cent of VAGO 2010–11 reports available electronically via website (2009–10: 100 per cent). 2010–11, VAGO used 80 per cent recycled paper as our standard office stock (2009–10: 80 per cent standard office stock).

(d) Includes water use at VAGO premises (measured for part year and extrapolated).

(e) Includes both executive fleet vehicles (All VAGO vehicles (ten) are in the six-cylinder sedans and wagons class) and hire vehicles. Comparatives for 2009–10 have been restated to align with current year methodology.

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

(g) Includes all taxi trips invoiced to and paid for by VAGO.

(h) Number of fridges at VAGO premises (GHG measured as global warming potential of hydro fluorocarbons in the fridges). Comparatives for 2009–10 have been added to align with current year methodology.

(i) Addition of the above measurements (if measured—energy, waste, paper, water, fuel, flights, taxi trips, fridges), rounded to one decimal place. FTE calculated at year end, 2010–11: 159.14 (2009–10: 167.3).

## 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.

VAGO switched to 100 per cent green power from 1 July 2010, which has reduced 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.

While overall energy consumption in 2010–11 has gone down compared with 2009–10, the MJ per FTE has increased slightly due to FTE figure being measured at year end, not as an average.

## Waste

### Target

The target set in VAGO's EAP is to establish a method to measure our waste.

### Explanatory notes

VAGO commissioned a waste audit of the office, which was completed in February 2011. This data allows us to benchmark ourselves against total waste production, contamination rates and recycling rates and allows us to compare this data against future year data.

VAGO's challenge for the future is to reduce the amount of waste generated and at the same time maintain the impressive recycling rate (80 per cent).

## Paper

### Target

The target set in VAGO's EAP was 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 the amount of reams used at VAGO has decreased by 19 per cent in 2010–11, the amount of paper used for printing Parliamentary reports and other publications has increased 19 per cent due to the increased number of audits delivered and the one off printing of the History of VAGO. 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 finalised the transfer of its catalogue of audit reports into an electronic format, and posted them on our website and added metadata which should encourage the use of the electronic version. This should also prevent significant reprints of old reports and reduce printing in the future. 100 per cent of VAGO's 2010–11 reports are available electronically (2009–10: 100 per cent).

VAGO now uses more 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 2010–11, we used 80 per cent recycled paper 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 had been unable to accurately measure its water usage as our tenancy is not separately metered. VAGO commissioned the installation of water meters in 2010–11 and has incorporated this data into our report.



## Transport

### Target

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

### Explanatory notes

Our fleet comprises 10 executive vehicles. We also use hire cars to travel to client premises in non-metropolitan locations.

VAGO has measured the fuel use of its executive fleet and all hire cars, which was comparable with previous years. VAGO has encouraged, through its vehicle policy (implemented in 2009–10), 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 vehicle 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 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 reduced by 58.6 per cent mainly due to the increase in Green power purchased (100 per cent 2010–11, 25 per cent 2009–10) and reduction in total fuel usage, offset by the increase in emissions due to flights and the incorporating of new categories not measured in 2009–10.

## Other information

VAGO has integrated environmental specifications into its purchasing policy, in compliance with the Government's Environmental Purchasing Policy.



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

## Appendix 1. Extract of whole of government financial statements – Non-audited

The following table provides a comparison between the actual financial statements of VAGO and the forecast financial information published in the *Budget Papers No. 4 Statement of Finances 2010–11* (BP4), for the portfolio of Parliament. The table comprises the comprehensive operating statement. The table has been prepared on a consolidated basis and includes all general government sector entities within the portfolio. Financial transactions and balances are classified into either controlled or administered categories as agreed with the Treasurer in the context of the published statements in BP4. The following statements are not subject to audit and are not prepared on the same basis as VAGO's financial statements as they include the consolidated financial information of the Parliament entity.

	2010–11				
	Budget			Actual	Variance (ii)
	Parliament		Controlled	VAGO	VAGO
	\$'000	VAGO	Parliament (i)	\$'000	\$'000
<b>Income from transactions</b>					
Output appropriations	91,881.6	33,571.0	125,452.6	35,710.9	2,139.9
Special appropriations	39,674.0	461.0	40,135.0	446.6	(14.4)
Sale of goods and services	0.0	0.0	0.0	302.1	302.1
Grants	53.0	0.0	53.0	0.0	0.0
Fair value of services received free of charge	0.0	290.0	290.0	30.6	(259.4)
<b>Total income from transactions</b>	<b>131,608.6</b>	<b>34,322.0</b>	<b>165,930.6</b>	<b>36,490.2</b>	<b>2,168.2</b>
<b>Expenses from transactions</b>					
Employee benefits	77,154.0	18,028.0	95,182.0	18,861.8	(833.8)
Depreciation and amortisation	5,738.0	850.0	6,588.0	764.5	85.5
Interest expense	282.0	22.0	304.0	30.6	(8.6)
Capital asset charge	1,669.1	197.0	1,866.1	197.0	0.0
Other operating expenses	46,765.5	15,225.0	61,990.5	16,161.1	(936.1)
<b>Total expenses from transactions</b>	<b>131,608.6</b>	<b>34,322.0</b>	<b>165,930.6</b>	<b>36,015.0</b>	<b>(1,693.0)</b>
<b>Net result from transactions (net operating balance)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>475.2</b>	<b>475.2</b>

(i) Budget figures are as published in 2010–11 Statement of Finances: Budget Paper No. 4, page 197 (shown in \$millions).

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

# Appendix 5: Disclosure index

Legislation	Requirement	Page reference
<b>Ministerial directions</b>		
<b>Report of operations—FRD guidance</b>		
<b><i>Charter and purpose</i></b>		
FRD 22B	Manner of establishment and the relevant ministers	1
FRD 22B	Objectives, functions, powers and duties	Inside cover, 1
FRD 22B	Nature and range of services provided	1
<b><i>Management and structure</i></b>		
FRD 22B	Organisational structure	37
<b><i>Financial and other information</i></b>		
FRD 8B	Budget portfolio outcomes	111
FRD 10	Disclosure index	112
FRD 12A	Disclosure of major contracts	57–58
FRD 15B	Executive officer disclosures	45–46
FRD 22B, SD 4.2(k)	Operational and budgetary objectives and performance against objectives	12–34
FRD 22B	Employment and conduct principles	46–47
FRD 22B	Occupational health and safety policy	47
FRD 22B	Summary of the financial results for the year	54–56
FRD 22B	Significant changes in financial position during the year	56
FRD 22B	Major changes or factors affecting performance	54–56
FRD 22B	Subsequent events	97
FRD 22B	Application and operation of <i>Freedom of Information Act 1982</i>	41
FRD 22B	Compliance with building and maintenance provisions of <i>Building Act</i>	41
FRD 22B	Statement on National Competition Policy	41
FRD 22B	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	41
FRD 22B	Details of consultancies over \$100 000	56
FRD 22B	Details of consultancies under \$100 000	56
FRD 22B	Statement of availability of other information	114
FRD 24C	Reporting of office based environmental impacts	107–110
FRD 25	Victorian Industry Participation Policy disclosures	41
FRD 29	Workforce Data disclosures	44–46
SD 4.5.5	Risk management compliance attestation	40
SD 4.2(g)	General information requirements	5–11
SD 4.2(j)	Sign-off requirements	Inside cover, 1

Legislation	Requirement	Page reference
<b>Financial report</b>		
<b><i>Financial statements required under Part 7 of the FMA</i></b>		
SD4.2(a)	Statement of Changes in Equity	64
SD4.2(b)	Operating Statement	62
SD4.2(b)	Balance Sheet	63
SD4.2(b)	Cash flow Statement	65
<b><i>Other requirements under Standing Directions 4.2</i></b>		
SD4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	66
SD4.2(c)	Compliance with Ministerial Directions	66
SD4.2(d)	Rounding of amounts	68
SD4.2(c)	Accountable officer's declaration	Inside cover
SD4.2(f)	Compliance with Model Financial Report	56
<b><i>Other disclosures as required by FRDs in notes to the financial statements</i></b>		
FRD 9A	Departmental disclosure of administered assets and liabilities	77
FRD 11	Disclosure of ex-gratia payments	Not applicable
FRD 13	Disclosure of parliamentary appropriations	94–95
FRD 21A	Responsible person and executive officer disclosures	95–96
FRD 102	Inventories	Not applicable
FRD 103D	Non-current physical assets	81–82
FRD 104	Foreign currency	Not applicable
FRD 106	Impairment of assets	70–71
FRD 109	Intangible assets	83
FRD 107	Investments properties	Not applicable
FRD 110	Cash flow statements	65
FRD 112B	Defined benefit superannuation obligations	69
FRD 113	Investments in subsidiaries, jointly controlled entities and associates	Not applicable
FRD 114A	Financial Instruments—General Government Entities and public non-financial corporations	70
FRD 119	Contributions by owners	73
<b>Legislation</b>		
	<i>Freedom of Information Act 1982</i>	41
	<i>Building Act 1993</i>	41
	<i>Whistleblowers Protection Act 2001</i>	41
	<i>Victorian Industry Participation Policy Act 2003</i>	41
	<i>Financial Management Act 1994</i>	66

# Appendix 6: Additional information available on request

This report and the VAGO website publish all of the required information in compliance with 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 40)
- audit fees, which are revised annually (see page 32)
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit (see page 52)
- details of assessments and measures undertaken to improve the occupational health and safety of employees (see page 47)
- a general statement on industrial relations within the office and details of time lost through industrial accidents and disputes (see page 46)
- a list of major committees sponsored by VAGO, and the purposes of each (see pages 38–40)
- 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 1956
- a list of all entities currently audited by VAGO.

[www.audit.vic.gov.au](http://www.audit.vic.gov.au)